

REDUCING THE PRESSURE FOR MORE CAPITAL IN COMPANIES LISTED ON THE HOSE

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The year 2008 with its financial crisis leads to different predictions of the Vietnamese economy in 2009. In 2008, Vietnam's macroeconomic indicators were acceptable (for example, the balance of payments is rather good and foreign exchange reserve is kept at a safe level) when the world economy experienced recession. In the first quarter of 2009, the GDP rose by 3.1%, industrial output value by 2.1%, and retail sales of goods and services by 21.9%. The Government kept stimulating the economy with the second interest supporting package and we hope that the economic growth will be better along with the global trend of economic recovery.

1. Pressure for more capital in 2009

The Vietnamese stock exchange experienced severe effects of the international financial crisis in 2008 along with disappearance of trillions of VND in capitalized values of listed companies, with the result that falls in the VN-Index and HASTC Index caused huge damage for investors. The VN-Index fell by 66% from 927.02 in December 28, 2007 to 315.62 in Dec. 31, 2008 (its lowest level was 286.5 in Dec. 10, 2008) while the HASTC-Index fell by 67.5% from 323.55 to 105.12 in the same period. This was the biggest fall in recent years, which made the capitalized values of shares on the market fall VND270,000 billion (US\$16 billion) – VND194,719 billion on the HOSE and 75,317 billion on the HASTC.

In addition, record falls in international indexes, such as Dow Jones, FTSE 100, Nikkei 225, and Shanghai Composite, also caused great damage for the world stock market. Up to the second quarter of 2009, the most remarkable recovery of Vietnamese stock exchanges took place in mid-April, 2009 when the VN-Index rose from 235.5 (Feb. 24) to 347.07 (April 14) and came to 321.63 on April 29. the HASTC-Index also rose to 115.

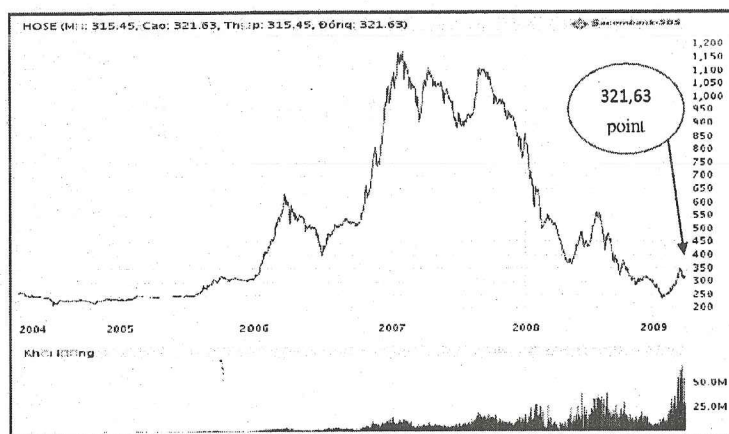
Facing the economic recession and continuous

falls in the stock market, local companies found it difficult to deal with shortage of capital. At the same time, the Securities Law and Decree 14/2007/NĐ-CP, and Official Letter 163/UBCK_PTTT require companies listed in the HOSE to secure a minimum legal capital of VND80 billion (book value) before listing (Section 1, Article 8). Companies listed in the HOSE can be divided into two groups:

- Companies with capital lower than VND80 million that are trying to increase their legal capital (by increasing the owner's capital or issuing more shares) should register with the State Securities Commission and the HOSE. In six months as of Feb. 8, 2009, if they fail to increase their legal capital as registered, they should move to the HASTC.

- Companies with legal capital smaller than VND80 billion have no plan to increase their capital should move to the HASTC in three month as from Feb. 8, 2009.

Article 8 of Decree 14/2007/NĐ-CP set higher standards for the HOSE in comparison with the HASTC so the companies listed there should show bigger financial strength. That is why liquidity in the HOSE is higher and listed companies could easily attract capital from investors in HCMC. The shift to the HASTC will cause difficulties for companies because HCMC investors tend to sell the shares they hold when the companies move to the HASTC floor causing the prices to fall. This shift may affect recovery of the market in 2009. In addition, the personal income tax imposed on transfer of shares as required by Official Letter 42/BTC – TCT makes it difficult for the VN-Index and HASTC-Index to raise back to the 2007 levels. According to a rough estimate by the HOSE Commission, there are some 40 listed companies, or 20% of the total listed companies, with legal capital lower than VND80 billion, and they should issue more shares to increase their capital to the required level. This is no easy task because in-



vestors feel cautious when the world economy is in recession.

By the end of 2008, inflation and trade gap was reduced remarkably and the liquidity of the banking system was improved, with the result that the growth rate reached 6.23%. The world financial crisis and economic recession affected unfavorably the Vietnamese economy. Its stock market also fell causing bad effects on investors' mentality. The flow of capital to the stock market reduced after the Directive 03/2007/CT-NHNN came into effect. Vietcombank IPO in late 2007 withdrew a large sum of capital (some VND10,000 billion) from the market. High inflation rate made the SBV reluctant to buy the dollar, which prevents foreign investors from getting easy access to the market.

The American financial crisis developed into a global one and recession spread to many countries. To deal with the economic recession, many governments have decided to inject more money to the market and cut the interest rate in the hope that the world economy will soon recover, which has great effects on investors' mentality but most of them haven't felt sure about financial investment. Auction of shares issued by the Bank for Industry and Commerce collected VND1,086 billion with an average bid of VND20,265 for a share (its face value is VND20,000) while the Vietcombank could sell its share at a price that was nine times higher than the face value. This fact shows that mobilization of capital in the stock market is not as easy as in 2007, and listed companies can't easily increase their legal capital as required by Decree 14/2007/NĐ-CP. The State Securities Commission had better work out an appropriate track to IPOs and new issues of shares by listed

companies. Increasing the capital to operate in the HOSE is still a task for listed companies in an effort to beef up their business performance and win trust from investors.

2. Pressure from international integration

In the summit of English companies in London on Sep. 23 and 24, 2008, the UKTI published its report on Tomorrow's Markets in which Vietnam is seen as the most attractive new emerging market, topping a list of 10 tomorrow's high growth markets, said a United Kingdom

Trade & Investment (UKTI)'s report. According to the UKTI, the priority markets for future expansion are Vietnam, Mexico, the United Arab Emirates, Ukraine, Indonesia, Singapore, Poland, South Africa, Argentina and Saudi Arabia.

To integrate the Vietnamese stock exchanges into the world market, the commodities must reach standards high enough to be listed in foreign markets. Securing a minimum capital of VND80 billion is an initial step toward internationally-accepted standards. Legal basis for listing on foreign stock exchanges is still Decree 14/2007/NĐ-CP (Section 2, Article 5) and criteria set by foreign exchanges. Local companies, when seeking listing on foreign stock exchange, usually meet with obstacles from legal and policy issues. At present, authorities are considering the case of Vinamilk that wants to issue its shares in Singapore and list the shares on the Singaporean stock exchange. If Vinamilk succeed in doing so, its public image in the world market will be improved remarkably.

The Singapore Stock Exchange (SGX), or Catalyst, is a sponsor - supervised platform for fast-growing companies from Singapore and foreign countries. Catalyst is developed from its predecessor SESDAQ. Companies on Catalyst are brought to list by approved Sponsors. There are no quantitative entry criteria required by SGX. Instead, Sponsors decide if the listing applicant is suitable to be listed. Regulations and processes of increases in the capital and scope of business are adjusted regularly to meet demand of fast-growing companies. The Catalyst aims at serving as a springboard for fast-growing companies to regional and international markets, and developing into an

Asian leading fund raising platform for fast-growing companies.

As Hsieh Fu Hua, CEO of the SGX, put it, system of Catalist regulations created favorable conditions for increase in the capital by making it easier and quicker. Stress is put in the quality of the platform in order to maintain safety for investors and ensure strict selection by sponsors. Close cooperation with investors and sponsors ensures success of the Catalist.

To join the Catalist, local listed companies should meet requirements posed by both the HOSE and Catalist because they can only enter into foreign market when they obtain financial strength and business performance. The following table presents regulations of issue of shares on the HOSE and Catalist platforms.

Regulations	HOSE	Catalist
Scope of issue	- A minimum of 20% of voting shares is in hands of a minimum of 100 shareholders.	- 15% of issued capital, or 500,000 shares in public hands with a minimum of 200 shareholders at the time of IPO. - After IPO, 10% of equity capital is in public hands.
Quantitative standard	- The company should make profit in two successive years before applying for listing and has no aggregate loss up to the year of applying for listing.	- No requirements of minimum profit or business performance.
Limit on shares offered for sale by founder-shareholder	- Shareholders as members of the board of directors, supervising commission, director, director – general, or vice-director; vice-director-general, and chief accountant of the company should promise to keep 100% of their shares in six months after the listing and 50% of their shares in the next six months.	- Founder-shareholder is not allowed to sell their shares when: (i) he/she holds less than 50% of issued capital at the IPO time; or (ii) after selling, value of shares he/she holds is smaller than 50% of the issued capital at the time of listing.

Source: www.sgxcatalist.com; hsx.vn

List companies should pay the listing fee required by the Catalist platform

	Initial Listing Fee	Annual Listing Fee
Minimum fee	S\$30,000	S\$15,000
Maximum fee	S\$100,000	S\$50,000
Variable Rate (per S\$ million of the listed company's market capitalization)	S\$100	S\$25
Fees for Additional Securities Listings (per exercise)		S\$8,000

Source: www.sgxcatalist.com

Catalist Regulations are designed to facilitate

development of listed companies and their effort to gain better performance.

Thus, listing on the Catalist presents a chance for local companies to enter into the Asian market and get access to the world market. These companies, however, should deal with many problems and meet requirements and observe regulations set by the two markets.

3. Problems to solve with a view to developing the Vietnamese stock market in a sustainable manner in 2009

To achieve targets set for 2009, the Government and specialized authorities must work out appropriate measures and solutions that are flexible enough to manage the economy effectively, especially in employing macroeconomic instruments.

The following are some suggestions on the increase in legal capital and listing on foreign stock exchanges for Vietnamese listed companies.

a. The Vietnamese stock market in early 2009 showed encouraging signs: the VN-Index surpassed the 300-point mark but it is still difficult to attract investment through the market. If all listed companies issue more shares as required by the HOSE they can hardly succeed because the supply of commodities exceed the demand. In addition, most of them usually distribute dividend and offer shares as bonuses in the first quarter of the year, which encourages investors to put their money in the secondary market to get some profit quickly instead of buying newly issued shares.

Buying shares when they are issued is usually considered as making long-term investment and it takes time to produce some profit, therefore only companies with good public image and performance can carry out successful issues.

In such a situation, Ministry of Finance, State Securities Commission and HOSE authority had better prolong the process of increasing the legal capital in the second and third quarters of the year. Listed companies able to issue their share successfully can be provided with licenses to issue share but they should be under strict supervision, and their issues must be based on business plans that ensure high efficiency.

As for listed companies that want to mobilize the capital through the stock exchange, they should maintain high performance, ensure financial disclosure, improve their management and publicize their business plans based on issued capital in order to protect interests of investors. Plans to issue shares and employ issued capital in 2009 must be discussed in the meeting of shareholders. In addition, they should have their books audited by prestigious auditing companies in an effort to make their financial statements more transparent and persuasive.

Basically, the increase in capital on the HOSE must be carried out in order to meet requirement posed by the Securities Law and ensure quality of commodities offered. The right to allow a longer period for this task, however, belongs to the central government, the State Securities Commission had better submit its petition for a prolonged period in order to help listed companies get enough time to work out their plans appropriate to their need for capital and changes in the market.

b. Listing on foreign stock exchanges is really a need and a must when integrating into the world market, which forces local listed companies to strive for international standards and better competitiveness in terms of capital, managerial skills and technology. Present bulk of subordinate legislation only mentions listing criteria, obligations and responsibility imposed by foreign stock exchanges on listed companies. To help local companies list on foreign stock exchanges, Ministry of Finance, State Securities Commission and SBV should provide detailed guidelines on issuing shares and listing on foreign stock exchanges, registration, custody and clearing services, member-

ship of foreign securities depositories; regulations on percentage of shares held by foreign investors (Decision 238/2005/QĐ-TTg made by the PM only stipulates the degree of foreign participation in Vietnamese stock exchanges); and regulations on transfer of dividend and investment between foreign investors and local companies.

c. The Government should create a good investment climate for companies and determine target policies. During the global economic recession and financial crisis, the Vietnamese macroeconomic situation is improved to a certain extent but is still implied complexities. Wise target is not so much a high growth rate at any price as a low unemployment rate and degree of social issues. Full attention must be paid to a stable macroeconomic life, especially the state control over inflation, balance of payments, and the banking system.

The most appropriate policy for the time being is to liberate the finance market carefully because it is related to interest rate, exchange rate and monetary instruments. This is also a favorable time to employ monetary instruments. In addition, certain solutions can be adopted to support the business circles, such as giving incentives to small and medium enterprises, carrying out effectively infrastructure projects, and restructuring the realty market, etc. to facilitate the economic recovery and growth.

To make good progress in 2009, many concerted measures should be taken to beef up the financial and banking sector, which requires great efforts from the central government and financial authorities. We hope that listed companies and investors can have much success in doing their business■

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