Navigating New Horizons: Vietnam's M&A Market Gears for Strategic Growth

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2023 Vietnam M&A Highlights

4.4 US$ billion

10M2023 M&A transaction value

80%

of deal value contributed by Financials Services, Real Estate, and Health Care

BUY
SELL

260+

number of closed M&A deals in 10M2023

54.5 US$ million

average M&A deal value on disclosed transactions in 10M2023

10.3%

CAGR from 2008 to 10M2023

1.45 US$ billion

largest deal closed in 10M2023

A decade and a half of dealmaking: Vietnam's M&A market reflects a resilient rise

Last year marked 15 years since Vietnam joined the World Trade Organization (WTO). As we head to 2024 with fresh challenges, it's important to put Vietnam's current M&A market into perspective and reflect on its progress.

In the late 2000s, Vietnam's M&A market was relatively nascent, with deal values and volumes being modest. The average deal size was relatively small with no deal crossing the billion-dollar mark. As the government implemented reforms to attract foreign investment and integrate with the global economy, the environment for M&A transactions began to flourish.

In the early 2010s, Vietnam saw an uptick in M&A activities with increasing deal volumes and values. This growth was spurred by the government's continued efforts to privatize state-owned enterprises (SOEs) and liberalize key sectors of the economy. Average deal size during this time rose steadily until 2012 when the country faced an economic slowdown as a result of the global 2007 crisis aftermath.

Between 2015 and 2020, bolstered by sustained GDP growth and stable fundamentals, Vietnam's M&A market accelerated toward maturity. Foreign investors moved beyond exploratory investments and sought long-term strategic positions. Deal values reached record highs, with megadeals closing across sectors.

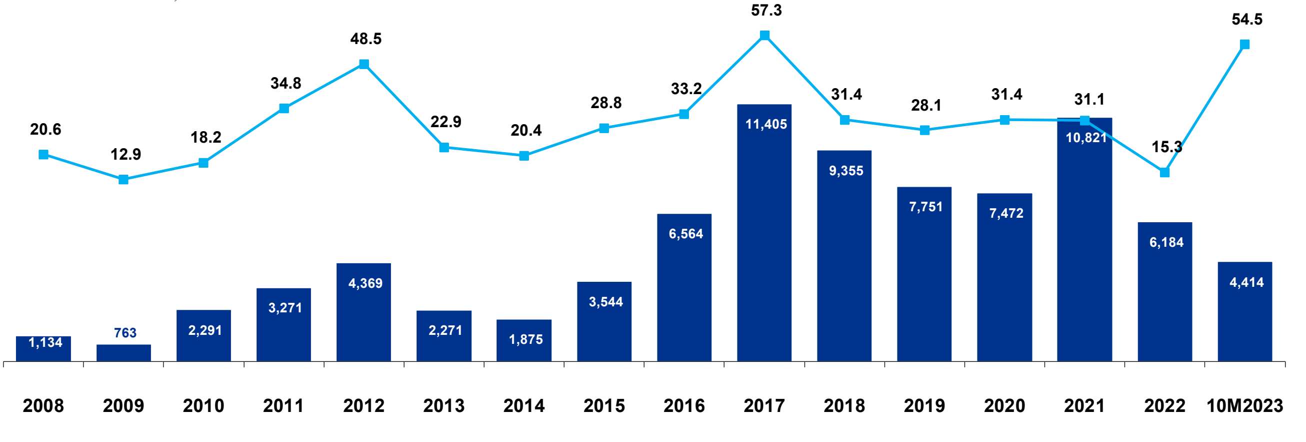
Many billion-dollar deals took place during this period such as Thai-based Central Group's $1.14-billion acquisition of Big C Supermarket (2016), Thai Beverage's $4.8-billion acquisition of Sabeco (2017), and South Korea SK's Group's $1-billion investment in Vingroup (2019). As a result, the M&A market reached its peak at over $11 billion total deal value in 2017, with average deal size also peaking at $57.3 million per deal.

Since 2021, Vietnam's economic resilience in the face of global uncertainties, including trade wars and the COVID-19 pandemic, has kept foreign and domestic investors interested in the market. Investors have now moved towards consolidation and strategic investments. For instance, Japan-based Sumitomo Mitsui Banking Corporation (SMBC)'s continued investments totaling $2.82 billion in two landmark deals in 2021 and 2023 indicate investor confidence and commitment to Vietnam's current market and prospects. The average deal size crossing the $50 million threshold perhaps most clearly signals investors' shift towards strategic investments, which usually command larger ticket sizes.

Vietnam's M&A market has evolved significantly with domestic firms becoming more assertive and sophisticated. In addition, foreign investors increasingly view Vietnam as a key strategic market in Southeast Asia. Ongoing resilience and momentum are expected, spurred by worldwide economic changes, supply chain modifications, and Vietnam's development. Ongoing regulatory enhancements and free trade agreements will likely maintain Vietnam's M&A activity.

Total disclosed deal value and average deal size since 2008

2008 – 10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

Vietnam's 2023 M&A Overview

Vietnam's M&A scene reflects global downtrends despite a stable economy

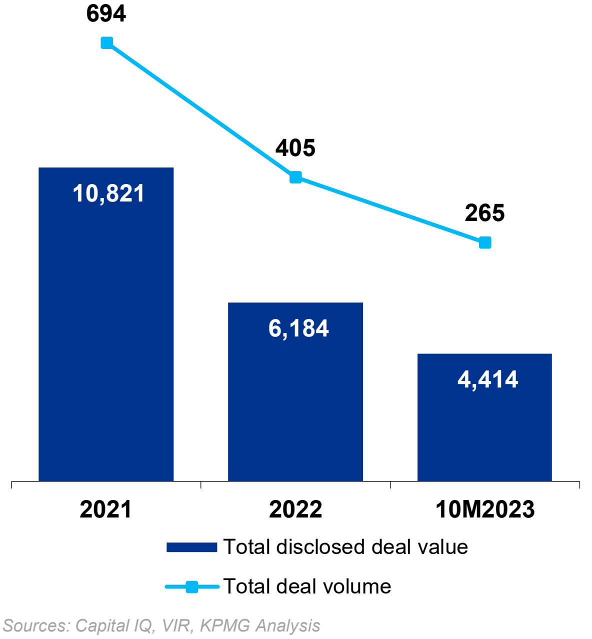
In 2023, global deal activity and value halted as dealmakers face worldwide geopolitical and macroeconomic uncertainties.

A tempering of global economic growth, with the IMF's GDP projections revised down to around 3% from earlier estimates of 3.5%, alongside rising global inflation rates affecting investor sentiment, has contributed to a more cautious investment approach. The tightening of monetary policy across major economies, leading to higher interest rates, has also reverberated through emerging markets. This has made financing of deals more expensive and adversely impacting deal flow. Additionally, currency volatility, particularly in emerging market currencies, may have posed challenges in deal valuations and cross-border investment decisions.

Despite well-controlled inflation below 4% thus far and moderate expected GDP growth at 4.7% in 2023 by the World Bank, Vietnam has been no exception to the global slowdown in deal activity. Deal value in the first 10 months of 2023 (10M2023) falling behind 23% yoy. The number of deals also came short of the previous two years.

Total deal value and volume

2021 – 10M2023, USDmm

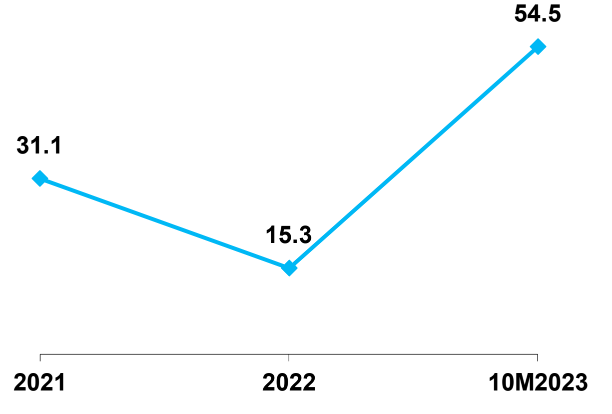


Sources: Capital IQ, VIR, KPMG Analysis

Nonetheless, Vietnam's underlying economic fundamentals remain robust, with FDI still flowing in at a healthy rate—albeit slightly reduced from the previous year's high—and the government's commitment to infrastructure and economic reforms continuing unabated. This temporary dip in M&A activity is viewed within the broader context of cyclical economic patterns. While 2023 has been a year of recalibration, market fundamentals suggest a resilient outlook.

Average value on disclosed deals

2021 – 10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

A significant uptick in average deal size on disclosed deals reaching an average of $54.5 million per disclosed transaction in 10M2023 compared to the last two years. This suggests that investors remain active in strategic dealmaking.

Overall, we see a diverse range of positive and negative external factors that have impacted businesses in 2023. Since there may be little businesses can do to influence these larger trends, it's now more imperative than ever for businesses to focus internally to navigate current turbulences. This will enable them to position themselves in the best possible stage to capitalize on opportunities as we emerge out of the storm. We will explore critical steps businesses can take.

Navigating market challenges: Repairing the balance sheet to return to profitable growth

Amidst the complexities of Vietnam's market in 2023, where sectors such as manufacturing and exports are expected to grow significantly over the next five to ten years, the economic landscape is a mosaic of opportunities. These medium-term prospects, however, coexist with a prevailing air of uncertainty and even financial distress. This is driven by global events such as high US interest rates, the ongoing Russia-Ukraine conflict, recent Israel-Hamas tensions, and challenges in Vietnam's real estate and funding market. As a result, many businesses in Vietnam, particularly in sectors such as real estate, consumer manufacturing and hospitality, face liquidity challenges and unsustainable capital structures.

Businesses must now act decisively to recover, creating adaptive strategies that protect operations and forge pathways back to sustainable growth. One such strategy involves adept working capital management, an approach that offers substantial benefits at minimal funding costs. At its core, optimizing working capital leads to cash release and more streamlined operations. Especially in the current economic downturn, businesses desperately need additional liquidity to fund daily operations, debt repayments and internal reorganizations.

Working capital optimization involves improving receivables, payables and inventories management. Standardizing procurement processes, for instance, could lead to cash release in the payables cycle. Similarly, accounts receivable optimization could include minimizing overdue receivables and improving billing processes.

Yet, the key lies not just in the implementation of these strategies but also in their constant vigilance and re-assessment. Regular, detailed monitoring of individual working capital components is paramount. Implementing SKU-level reporting, for instance, facilitates the rapid identification of slow-moving inventory items, enabling timely adjustments and informed procurement plans. Even without a dedicated management system, businesses can harness available office software or deploy reporting platforms through Business Intelligence tools. These practices, however, necessitate a corporate culture that places liquidity at its core.

In tandem with getting a grip on working capital, companies need to carefully reconsider their long-terms assets and liabilities, including restructuring debts to ensure the capital structure is supported by expected future cash flows and refocusing investment into core business segments.

In this dynamic landscape, businesses do not merely confront challenges; they encounter opportunities for growth and enhanced resilience. Proactively addressing challenges allows businesses to navigate uncertainties, secure market positions, and foster transformation to thrive in a changing environment.

KPMG Turnaround & Restructuring is committed to providing expert guidance in working capital optimization, cash flow improvement, and turnaround/restructuring advisory. As a result of our focus on innovative strategies and tailored solutions, we assist businesses in addressing their liquidity and funding challenges and navigating the current market's complexities.

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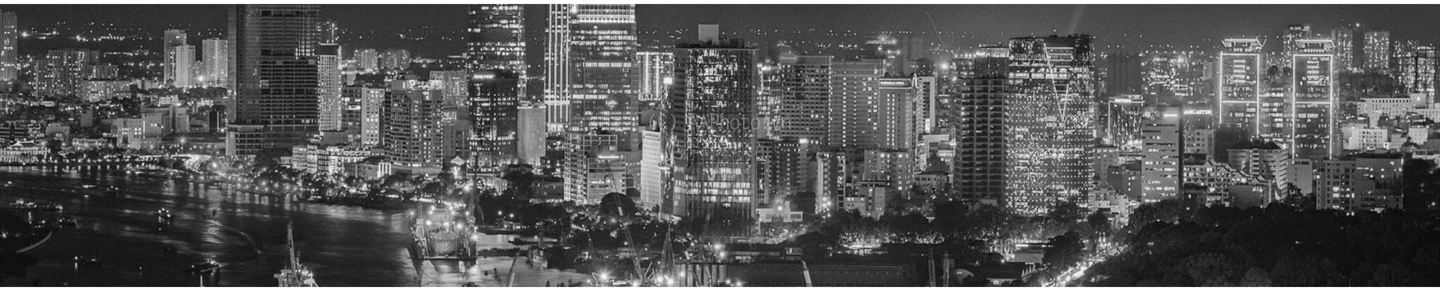
Vietnam sees M&A pivot: Domestic investment slows, foreign capital flows



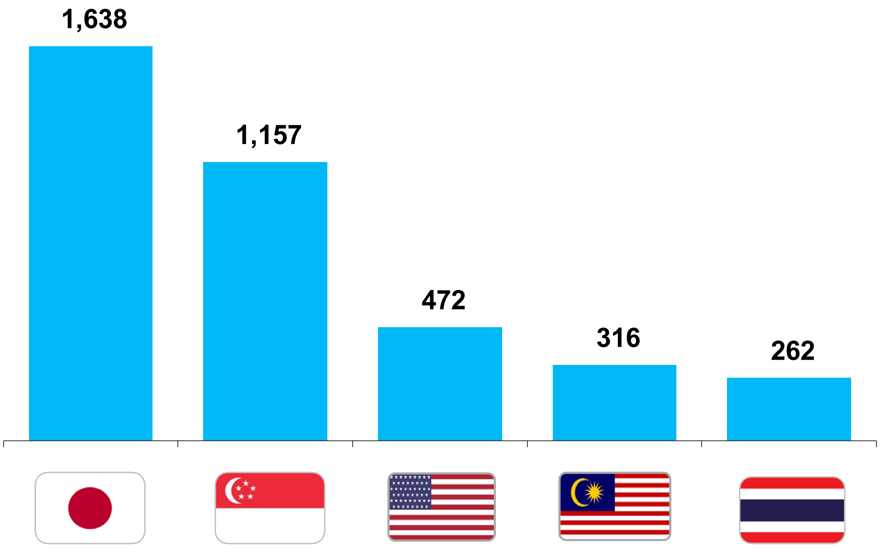
The market experienced a frenzy in value and volume led by domestic investors starting in 2020 as many strengthened their market share and vertical integration. However, such unprecedented capital mobilization among domestic investors ended last year with their total share claiming the first spot and peaking at over $1.3 billion in deal value at the end of 2022. In 10M2023, as domestic investors turned defensive and reassessed their strategies, their share in M&A value now felt to $161.6 million, or around 4% of the total reported deal value.

Unlike the prior two years when domestic investors dominated Vietnam's M&A market, foreign investors took up all the top 5 spots by deal value in 10M2023. Japan, Singapore, and the US continued to be among the most active foreign investors. Together they accounted for more than 70% of the total reported deal value.

Foreign investors' dominance in 2023 likely signals the market shift from opportunistic to more strategic long-term investments in strong and selected sectors. Assets that promise scalability and integration into broader regional trends as well as capitalizing on the country's rising fundamental demands and changing global supply chains will likely continue to attract foreign investors' interests.

Ranking of top 5 investors by value in 10M2023

10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

Notable megadeals in 2023

Strategic foreign investors spearheaded megadeals during the year

Foreign investors made the majority of megadeals in 2023. The largest deal of the year thus far was Japan-based SMBC's $1.45-billion acquisition of a significant minority stake in Vietnam Prosperity Joint Stock Commercial Bank (VPBank) after it purchased FE Credit, a consumer finance company, from the same bank in 2021. The VPBank transaction was also the largest-ever deal recorded in Vietnam's banking industry.

Health Care also had its largest-ever deal transaction take place in 2023 as Thomson Medical Group, one of Singapore's largest medical private healthcare providers, spent over $380 million to buy a controlling stake in FV Hospital. This also marked Thomson Medical Group's entry into Vietnam, which has a promising healthcare market full of growth opportunity with aging demographics and rising income.

Even as the overall consumer sector's M&A activity slowed due to adverse macroeconomic conditions, Consumer Discretionary still saw a significant deal reported at $200 million. In this deal, the prominent US-based Bain Capital invested in Masan Group as its first move in Vietnam. This marked a major milestone for the country's consumer industry and showcased its promising prospects.

Legal prudence paves the way for successful real estate deals

Despite a challenging regulatory environment with increased scrutiny on projects' legal requirements in 2023, strategic investors remain active in pursuing high-quality and legally sound real estate assets. As a result, the Real Estate sector saw two megadeals during the year with deal value on track to surpass last year's billion-dollar level.

The largest deal in this sector was a returning Singapore-based investor's $450 million acquisition of a strategic equity stake in BW Industrial, one of Vietnam's largest and fastest-growing logistics and industrial developers. BW Industrial plans to use the fresh funding to further their leading position in critical infrastructure development for the new economy. In addition, they will benefit from the manufacturing shift to Vietnam.

On the non-industrial front, Malaysia-based Gamuda Land acquired a 100% stake at $316 million in Tam Luc Real Estate Corporation to expand its lank bank in Vietnam. The investor is planning a $1.1-billion premium mixed-use project on the acquired land located in Thu Duc City's center.

Besides commercial viability, real estate assets often have solid legal ground with adequate regulatory clearances. Our report further explores this key issue from a legal perspective in its Real Estate sector section.

Top 5 largest deals in 10M2023

Name of deals	Sector	Buyers/Investors	Sellers	Value (USDmm)
VPBank	Financials	*Sumitomo Mitsui Banking Corp., Investment Arm*	*Vietnam Prosperity Joint Stock Commercial Bank*	1,454
BW Industrial	Real Estate	*ESR V Investor 5 Pte. Ltd.*	*BW Industrial Development JSC*	450
FV Hospital	Health Care	*Thomson Medical Group Limited (SGX:A50)*	*Quadria Capital Investment Management Pte Ltd.*	381
Tam Luc Projects	Real Estate	*Gamuda Land*	*Tam Luc Real Estate Corporation*	316
Masan Group	Consumer Discretionary	*Bain Capital*	*Masan Group Corporation*	200

Sources: Capital IQ, VIR, KPMG Analysis

Sector breakdown and 2024 M&A outlook

Health Care, Financial Services, Real Estate dominate deal value

Deal activity remained robust in Financial Services (47%), Real Estate (23), and Health Care (10%), which together accounted for 80% of deal value in 10M2023 and claimed four out of five largest transactions in 10M2023. Compared to last year, Financial Services and Health Care replaced Consumer Discretionary/Staples and Industrial in terms of deal value.

In spite of the current challenging economic environment, such activity in the most sought-after sectors demonstrates the opportunities Vietnam's M&A market can offer to strategic investors. Meanwhile, major developments during the year in Consumer Discretionary/Staples, Information Technology, and Energy & Utilities sectors could signal potential future growth and opportunities.

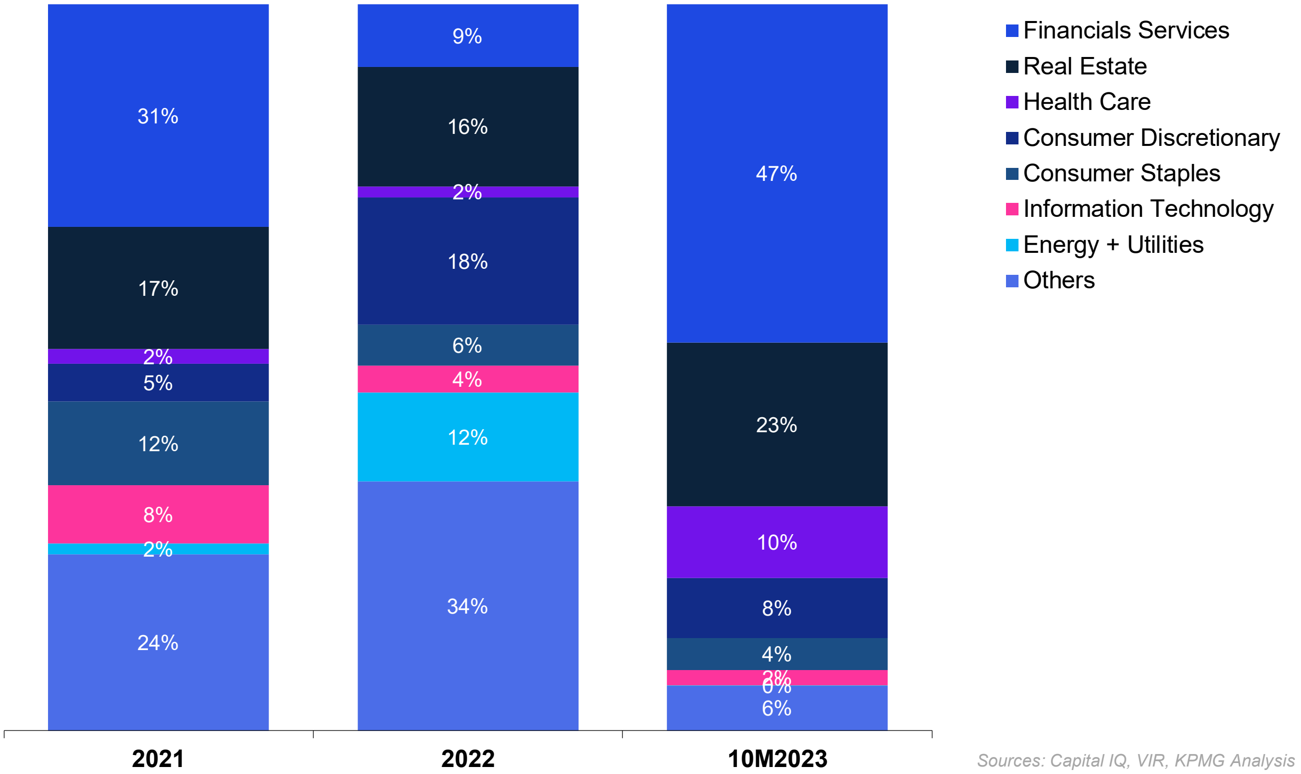
Prudent growth ahead, driven by strategic sector investments in 2024

Looking ahead, Vietnam’s M&A market is poised for growth in 2024, supported by economic gains and reforms aimed at attracting FDI, with rising deals in key sectors like green energy, tech, real estate, and health care, which are set to expand due to policy support and rising demand. Investment trends may shift towards these industries, with particular growth in renewable infrastructure and tech driven by digitalization. Health care is expected to grow, propelled by demographic changes. Real estate will remain active, driven by demand for high quality assets. We will provide further insights into these key sectors in this report’s subsequent sections.

Drivers for 2024 include robust FDI inflows, thanks to a stable political environment and key trade agreements. Moreover, with inflation controlled under the 4% target, IMF’s projected GDP growth bouncing back to 5.8% in 2024 and 6.9% in 2025, and public debt remaining within the legislative ceiling of 60% of GDP, the fundamentals indicate a favorable year for investors targeting strategic opportunities in Vietnam’s dynamic market.

M&A value breakdown by key sectors

2021 – 10M2023



Sources: Capital IQ, VIR, KPMG Analysis

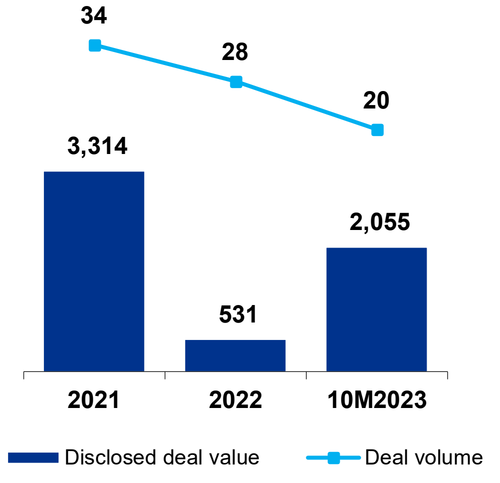
Financial Services / Consumer:
2023 Sector Highlights

Banking on growth, foreign investors piled into Vietnam's financial M&A

Thanks to the country's rising consumption and low consumer credit penetration, foreign investors' deep interest in Vietnam's growing consumer finance and banking market continues to intensify.

Financial Services' deal value and volume

2021 – 10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

As a result, Financial Services took the top spot in deal value in 10M2023, totaling over $2 billion compared to $531 million in 2022. Such strong M&A activity in the sector was largely fueled by the Vietnamese banking system's largest-ever M&A deal. In this deal, the Japanese SMBC Investment Arm acquired a 15% stake in VPBank for over $1.45 billion. SMBC is no stranger to the sector. It also spent $1.37 billion to acquire a 49% stake in VPBank's consumer finance subsidiary FE Credit in late 2021. This was the largest consumer finance deal ever.

Overall, Financial Services' average deal size of disclosed transactions took the first spot of all sectors in 10M2023 and reached its highest ever level at $228 million. Even without the landmark VPBank deal, the sector's average deal size would remain robust at $75 million. This is compared to $52.5 million and $32.3 million in 2022 and 2021, respectively. This is as Thai, Japanese, and South Korean large financial institutions have rushed to capture market shares in recent years.

Consumer M&A slows but quality stays solid with strategic moves from KKR and Bain Capital

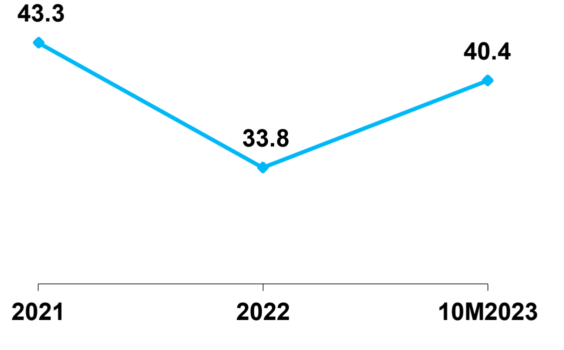
After a record-breaking 2022 for Consumer Discretionary supported by strong economic rebounds in consumer confidence post-pandemic as the sector reached over $1 billion in deal value thanks to megadeals in the F&B space, the sector saw a drop during the first 10M2023 in both value and volume. At a total of $364 million, deal value still lagged far behind its previous record level of $1.09 billion in 2022 as rising inflation pressure continues to challenge consumer confidence.

However, the average deal size of $40.4 million in disclosed transactions remained strong compared to $33.8 million in 2022 and $43.1 million in 2021. This was thanks to several notable strategic transactions. For instance, EQuest Education Group, an established private education provider in Vietnam, raised $120 million in the latest round of funding led by its returning investor, KKR.

Another prominent US-based investor, Bain Capital, also made its debut in Vietnam with a $200 million equity investment in Masan Group. This is a dominant conglomerate in the Vietnamese consumer market. Meanwhile, Consumer Staples' deal activity has trended downward since its $1.25 billion high in 2021. The sector's deal value in 10M2023 was down 19% yoy with only $197 million in total value as there were no major reported deals during the period.

Consumer Discretionary's average value on disclosed deals

2021 – 10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

Health Care: Historic hospital deal signals high hope for sector prospects

A look back at 2023 deal landscape

Despite dimmed investor sentiment and ongoing economic uncertainties around the world, Health Care remains one of the most active dealmaking industries in Vietnam in 2023, driven by transactions that encompassed the buying and selling of multi-disciplinary hospitals and high-quality clinics.

Most recently, the country witnessed the largest hospital deal to date with Thomson Medical Group acquiring FV Hospital for over $380 million. Other notable deals that occurred in 2023 include the acquisition of a majority interest in American International Hospital by Raffles Medical Group, the investment into Xuyen A by Warburg Pincus as well as the participation of GIC into Nhi Dong 315's Series B round.

Elsewhere, the pharmaceutical sector has also left its mark with major deals such as the private placement of Hataphar by ASKA or the Donghwa's investment in Trung Son Pharma. And as the year 2023 draws to an end, the market is keeping a close eye on the divestment of Tam Tri Hospital by VinaCapital.

Health Care: Historic hospital deal signals high hope for sector prospects

Vietnam’s healthcare services poised for sustainable growth

The recent robustness of deal activities reflects the huge market potential and the structural factors that underpin its growth over the coming years.

Indeed, while on a “percentage of GDP” basis, Vietnam ranks relatively low compared to the other emerging markets, healthcare expenditure in the country is forecast to expand at a 10-year compound annual growth rate of 8.1% to reach $36.7 billion by 2030. For starters, GPD per capita rising 6.3% annually to approximate $5,000 by 2030 at the end of the 10-year period will make healthcare more affordable and accessible to Vietnamese people.

Additionally, the growing prevalence of non-communicable diseases as a result of poor lifestyle choices – coupled with the country’s rapidly aging demographics – will necessitate a stronger demand for healthcare services for a foreseeable future.

On the other side of the equation, the sector will continue to see the role of private providers becoming more and more indispensable, with the number of private hospital beds rising to account for 10-15% of the total beds (compared to the current level of 5%). Finally, favorable government’s directive to provide social health insurance coverage to 95% of the population by 2025 will further boost healthcare consumption among Vietnamese people.

As the main beneficiary of these secular trends, healthcare is expected to continue seeing robust deal activity over the coming years. In fact, investors' interest in the sector remains high despite a difficult geopolitical environment and ongoing macro uncertainties.

Healthcare services will still be the focal point of investors' interest, with specialty assets gaining popularity. Indeed, providers whose specialty has strong scalability potential and high per-patient bill size appeal most to investors. Meanwhile in the general asset subsegment, there is a discernable preference for established hospitals or clinics with multiple locations and whose business model builds upon the philosophy to provide patients with the highest possible service quality.

It isn't one-sided; investors' interest and enthusiasm are welcomed while sellers' intentions to transact are welcomed.

Specifically, in addition to ongoing deals, some owners or investors in certain primary care clinics and specialty hospitals are also in the market looking to do deals. Their motivations, evidently, vary from case to case: While some are in the market raising new capital to accelerate their growth plan, others look to exit completely or carve out certain individual assets in their portfolio.

Real Estate: 2023 Sector Highlights

Foreign investors' strategic shift supports Real Estate's resilience

Real Estate's transaction volume in 10M2023 fell by 56% yoy. It remained at about half of its level in 2021 and a third of 2022. Yet, after a record-breaking 2021, Real Estate's deal value in just 10M2023 persisted to stay around the 2022 level at ~$1 billion, as foreign investors hunt for quality long-term assets in promising industries.

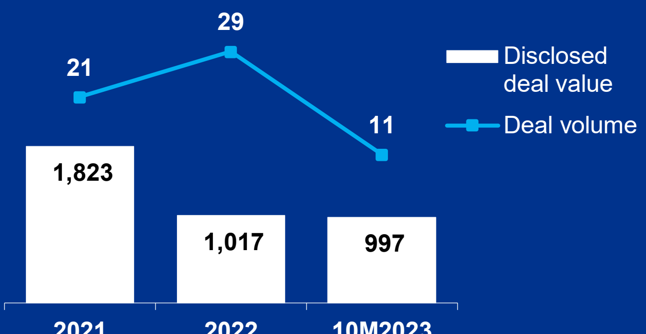
For example, in the industrial logistic space where strong growth is expected due to increasing trades, manufacturing shift to Vietnam, and rising consumption via e-commerce, BW Industrial Development JSC, a major industrial real estate developer and operator, closed a $450 million megadeal led by a Singapore-based investor.

The average deal size of disclosed transactions in this sector has seen an upward trend from $56 million in 2019 to its highest ever level at $166 million in 10M2023. There was a drop to $51.8 million in 2022 as the real estate market steered for correction. However, the average deal size rebounded strongly in 10M2023 with several large deals from notable foreign strategic investors. These included Singapore-based Keppel and Malaysia-based Gamuda Land. These investors acquired major residential and mixed-use projects from local developers looking to diversify or deleverage.

Overall, economic fundamentals such as rising housing demand, booming e-commerce business, expanding infrastructures, increasingly favorable regulatory reforms, and political stability will continue to sustain M&A activity in this sector. We will dive deeper into the outlook for 2024 from both a seller's and investor's perspective. This is especially from a legal and regulatory standpoint which have become even more crucial in the current climate.

Real Estate's deal value and volume

2021 – 10M2023, USDmm



Sources: Capital IQ, VIR, KPMG Analysis

Real Estate: Navigating new norms in 2024

In the waning days of 2023, the world contends with two wars, elevated interest rates, and increasing energy and food costs (even in the face of a sputtering global economy) that allow the specter of inflation to haunt the majority of the world's population. It is in this context of global uncertainty and upheaval that we gaze into the proverbial crystal ball. We try to discern what 2024, and beyond, might hold for Vietnam's real estate sector.

Real Estate: Navigating new norms in 2024

Seller's perspective

Since the middle of 2022, Vietnam has witnessed some high-profile cases in the sector that have increased wariness among investors, a difficult bond market and an illiquidity crisis dragging down real estate transactions, and overall depressed demand from consumers for residential properties, which make up approximately 60% of the market, have led to mass layoffs in the sector. While the general sentiment is that Vietnam's real estate market will recover in 2024, the question of whether that will occur in Q1 or Q4 and how deep the improvements will be remain unanswerable questions for now.

The theme that will likely carry over into 2024 will be a focus on strengthening balance sheets to weather the continuing storm. In that vein, the lull in deal-making is an opportunity for real-estate developers to restructure this business to focus on core competencies, which includes cost containment and legal review to ensure that licenses for projects are up-to-date and compliant to avoid issues with the authorities, and ultimately customers if there are delays with the issuance of the associated title documents (i.e., the pink or red book).Since it is a buyer's market, sellers, or those looking for a foreign joint venture partner, must reinforce their fundamentals to attract investors or partners. To that end, our recommendation for any party considering the above is to retain professional advisors to conduct vendor due diligence to understand its current position and adjust its practices to enhance compliance and efficiencies before going to market.

Too often, when we interact with the vendor's inexperienced finance or admin team directly as part of the due diligence process without the benefit of professional sell-side advisors, the process is often drawn out and not meaningful since these individuals are not deal-oriented and lack the requisite competencies to move the transaction forward, mostly because they are overly defensive in their approach. We have seen deals fall over firsthand because the team tasked with working with the investor and its advisors lack both the competence, or motivation. This is to get the parties across the line.

Real Estate: Navigating new norms in 2024

Investor's perspective

Regardless of global headwinds, Vietnam's real estate market remains one of the most dynamic in Southeast Asia. Vietnam's economy is expected to grow by 5.8% in 2024, above the global average. This will contribute to strong demand from both domestic and foreign investors. Vietnam's expected GDP growth is due to Vietnam's increasing attractiveness to foreign corporates de-risking from China. Coupled with this, Vietnam's growing (and relatively young) population and rapid urbanization will remain the key drivers of real estate demand.

Notwithstanding the above, the cost of capital due to higher interest rates will remain a persistent challenge for the foreseeable future. This will require investors to be more discerning about prospective projects and business partners. One of the benefits of the recent downturn is that valuations have been brought down to a more reasonable level. This allows for more dealmaking opportunities.2024 will focus on green buildings. Developers are becoming more aware of sustainability and incorporate green features into their projects. This is not only because end-customers demand it, but global investors require this green-focused approach as part of their ESG-investment requirements.

Along those lines, on 13 December 2022, the European Parliament and the Council of Europe reached a political agreement on the adoption and forthcoming implementation of the European Union's Carbon Border Adjustment Mechanism ("CBAM"). CBAM will have a significant impact on Vietnam's manufacturing sector, particularly in industries that emit greenhouse gases. These industries include iron and steel, cement, aluminum, and fertilizer to name a few. This means that how and where they operate – for example if they operate within a green and eco-friendly industrial park - will contribute to these industries' competitiveness when importing products into the EU.

Data centers should be attractive to investors who have successfully developed similar projects in other jurisdictions. The various data security and data privacy laws and regulations that have recently come into effect are driving demand for the development of data centers, which are power hungry projects. Foreign investors looking to develop such projects would have to partner with an established telecom operator with access to the required land. KPMG helps foreign investors do just that.

Outlook for 2024

Despite the challenges, overall, the outlook for the Vietnamese real estate market in 2024 is cautiously optimistic. First and foremost, the Vietnamese government is acutely aware of the challenges facing the real estate sector and has taken a number of steps to support the market, such as reducing interest rates and relaxing lending restrictions and simplifying land acquisition procedures. In certain instances, it has removed legal bottlenecks to ensure that certain major real estate projects are able to move forward.

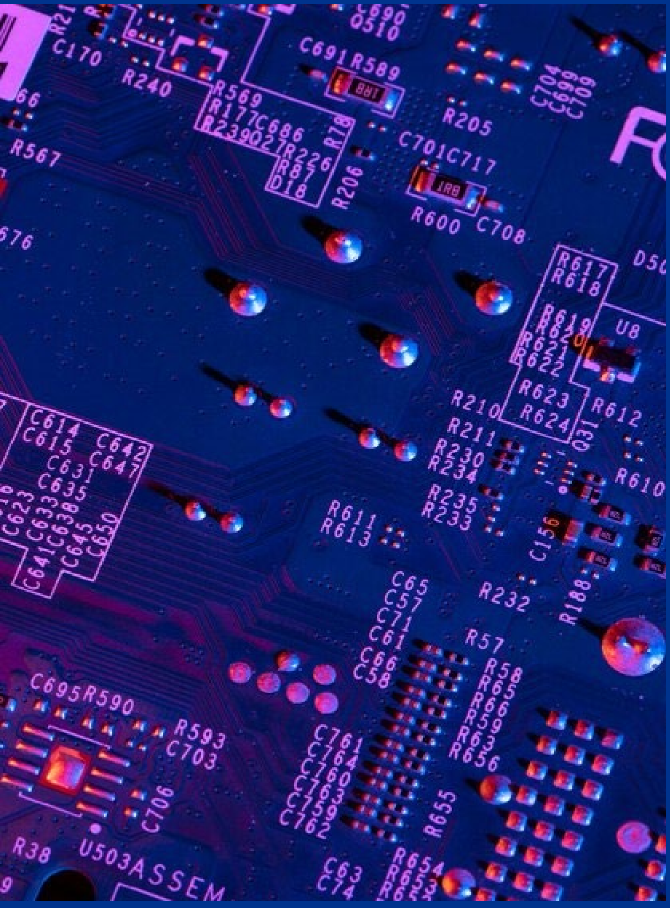
Vietnam's strong economic fundamentals are another reason to be bullish about its real estate market. As mentioned, Vietnam's economy is expected to grow by a robust 5.8% in 2024, which is above the global average. Last but certainly not least, Vietnam and the United States' elevated ties to a comprehensive strategic partnership will certainly drive investments into Vietnam, generally, and its real estate sector, specifically. Only time will tell how this will unravel.

Information Technology: Rebounds in sight with strategic shift

2023 Sector Highlights

As the global tech world entered significant corrections due to tightening money supply and macroeconomic uncertainties, the Information Technology sector in Vietnam also experienced one of the biggest sector slowdowns in 10M2023, with both deal value and volume receding by 57% yoy. Deal value felt to $93 million in 10M2023, compared to its record level of $867 million in 2021. Consequently, the average deal size of disclosed transactions dropped from $23.7 million to $7.1 million in 10M2023. These trends most likely reflect the larger global 'wait-and-see' approach from investors in this sector.

However, as demonstrated in the next case study, with the right approach and assistance, strong companies in this space can still score successful deals from strategic investors who are committed and confident about the sector's rebound..



A case study: Software company scores significant strategic deal despite sector slowdown

In the rapidly evolving technology landscape, strategic partnerships and acquisitions play a pivotal role in driving companies towards growth and innovation. Recently, KPMG acted as the exclusive advisor to Boost, a dynamic player in the software-as-a-service (SaaS) industry, in the sale of their entire 100% equity stake. AppHub, a U.S.-based e-commerce enablement platform serving merchants across various e-commerce platforms, emerged as the acquiring entity in this substantial deal.

Boost's journey began as an add-in search tool for Shopify, offering AI-powered solutions customized for merchants. These solutions encompass Site Search, Recommendations, Merchandising, and Navigation improvements. Amid the prolonged tech winter of 2022, which exceeded expectations, and in the face of more intensified competition, Boost made a strategic alliance with AppHub. This partnership opened doors for Boost to harness the wealth of knowledge, expertise, and resources available through AppHub and its network of partners. This collaboration facilitated accelerated progress and seamless enhancement implementation to benefit merchants.

Given the funding challenges in the market, the company also needed a trusted advisor to get the deal across the finish line. KPMG's global network offered multidisciplinary assistance for Boost's intricate cross-border transaction, encompassing due diligence, deal structuring, and fiscal advisory which contributed to the orderly conclusion of the business transfer.

As a result, Boost's founders achieved a highly favorable outcome that aligned with their desired deal economics. This transaction transcended beyond being a mere business deal; it stood as a testament to the transformative potential of strategic collaboration and a shared commitment to excellence.

Energy & Utilities: 2023 Sector Highlights

The Energy & Utilities sector experienced a strong 2022, peaking at $758 million in deal value. This was mainly driven by government green initiatives and expected rising energy demand. After a busy 2022 fueled by several large foreign acquisitions of local green projects, Energy & Utilities experienced the most notable decline in deal value and volume out of all sectors in 10M2023, with deal activity shrinking almost entirely compared to the last two years.

Nevertheless, Vietnam's aggressive transition towards renewable energy, decentralization of power generation, expanding infrastructure developments, and increasing energy demand to meet its economic growth will likely provide a dynamic and active M&A market in the coming years.

In the next section, we will further explore in more detail Vietnam's Power Development Plan (PDP), a key component in the engine that will likely drive growth in this sector.

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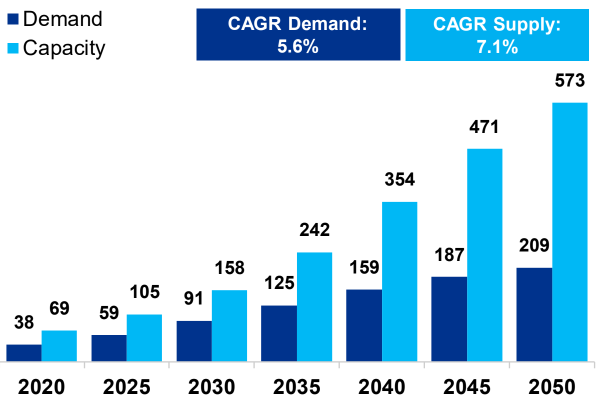
The Power Development Plan (PDP) stands out as a pivotal document guiding Vietnam's long-term capacity planning in the power sector. Functioning as a cornerstone, the Power Development Plan meticulously outlines the nation's power sector development trajectory. It serves as a guiding beacon, directing the expansion and modernization of the country's electricity generation, transmission, and distribution infrastructure. This strategic approach is essential for effectively meeting energy demand and supporting the nation's socio-economic development.

The most recent iteration of the Power Development Plan, known as PDP-8, embodies the strategic vision and national aspiration to achieve carbon neutrality in the coming decades. PDP-8 places significant emphasis on enhancing power generation capacity to accommodate planned economic expansion and population growth.

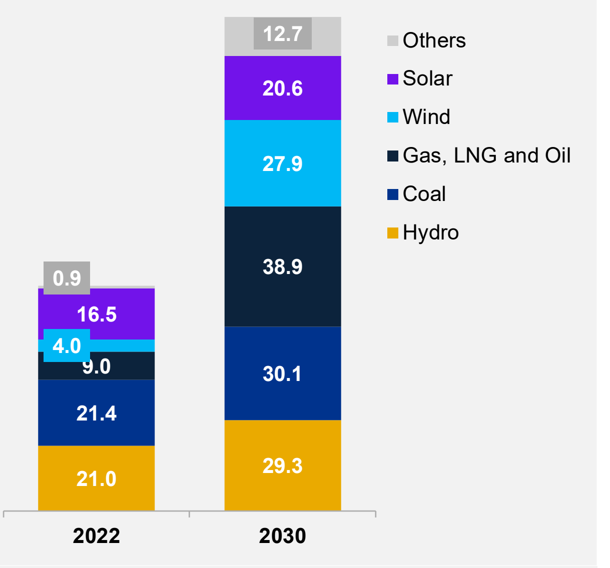
Below is a chart enumerating the projected demand and estimated capacity for meeting the planned socio-economic development objectives:



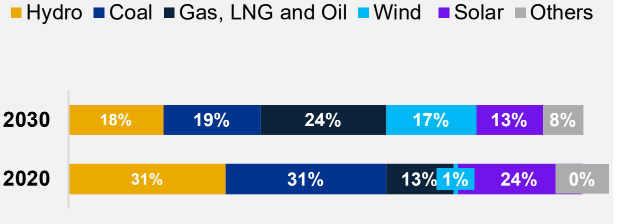
PDP-8 articulates the government's strategic vision for decarbonizing the electricity sector. It aligns with its COP 26 commitment to reach Net Zero by 2050. Notably, Vietnam is among the three nations that have acceded to JET-P (Just Energy Partnership), a pact aimed at accelerating the transition to green energy.

The below charts illustrate the envisaged capacity mix of the country in 2030:

Envisaged capacity mix in MW



Envisaged capacity mix in 2030 in %



As evident from the above charts, a deliberate choice has been made to systematically reduce carbon emissions throughout the energy value chain.

PDP-8 also underscores the significance of grid modernization, advocating for the integration of smart technologies and distributed energy resources. These advancements are poised to enhance grid stability but also to minimize losses and bolster resilience. This will facilitate the seamless integration of variable renewable energy into the grid.

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Dissecting PDP-8:

Vietnam anticipates a substantial increase in power generation capacity. It projects a rise to over 158 GW by 2030 from the 69 GW recorded at 2020. Within this expansion, power plants utilizing domestic gas and imported LNG are earmarked to contribute 37 GW. Wind capacity is set to soar to 28 GW by 2030, including 6 GW from offshore wind sources. LNG, positioned as a transitional fuel, plays a crucial role until more economically viable options for clean energy become available on the market. The focal point of capacity planning centers on the development of onshore and offshore wind, accompanied by the necessary grid infrastructure.

For the 2020-2030 period, the estimated capital requirement to advance power sources and transmission grids stands at nearly $135 billion. Approximately $120 billion is earmarked for the development of power generation sources. An additional $15 billion is allocated for transmission grid development and strengthening.

PDP-8 envisions an overall generation capacity of 573 GW by 2050, with renewable energy constituting approximately 70%-80% of the nation's total installed capacity. To contextualize this, PDP-8 foresees an eightfold increase in the nation's total installed capacity over the next 30 years. The total capital requirement to develop generation resources and associated infrastructure, in line with carbon neutrality by 2050, is estimated at $658 billion.

Green hydrogen/ammonia and biomass are key lynchpins to the Government's decarbonization roadmap. PDP-8 envisages gradual cofiring of mature coal-fired assets with green ammonia and/or biomass for reducing the carbon footprint. As per the current NetZero transition trajectory, the entire coal-fired fleet of 26-32 GW is expected to operate completely on biomass and/or green ammonia by 2050.While PDP-8 lays out a meticulously crafted strategic vision for Vietnam's energy sector, it is not immune to challenges and potential considerations that demand careful attention..

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Key considerations and next steps

Consideration-1: Robust commercial and market framework

The capital requirement to realize the capacity addition is humongous, ~$135 billion, over the next 10 years. Vietnam is a developing economy and has modest capital access. The capital available with the state has often competing priorities. The state alone cannot contribute to any meaningful capital requirements for PDP-8 capacity additions.

Private sector participation becomes paramount in developing new greenfield capacities. Vietnam has expanded renewable generation in the past, primarily due to a robust Feed-in Tariff (FiT) regime. Under this regime, the private sector plays a pivotal role in developing renewable capacity.

The planned capacity additions in PDP-8 and the corresponding financial requirements far exceed what has been accomplished previously. Hence, in addition to broadening private sector participation, unlocking offshore debt financing becomes crucial for translating the plan into reality.

Given Vietnam's impressive track record of rapidly deploying renewable capacities and the relative maturity of its market, there is a justified expectation of optimizing future electricity procurement costs. Establishing a transparent framework for project allocation to investors, fostering a balanced commercial framework for power procurement, and creating regulations that allow flexibility in financial structuring are critical components for attracting the right kind of capital. These measures are essential for delivering planned capacity additions at an optimal cost to consumers.

Consideration 2: Harnessing offshore wind potential

Offshore wind potential in Vietnam is staggering, standing at around 600 GW. PDP-8 aims to establish 6 GW of offshore wind capacity by 2030. It's crucial to recognize that offshore wind projects differ significantly in size and scope from other clean energy projects previously undertaken in the country.

Offshore wind projects are multibillion-dollar enterprises, carrying a distinct risk profile than onshore projects. Attracting capital for offshore wind projects necessitates a carefully tailored commercial framework aligned with the sector's risk-reward dynamics. An objective and streamlined approval process will instill investor confidence to deploy the necessary capital on the scale required for the sector's development.

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Consideration 3: Strengthening grid infrastructure

Despite the rapid expansion of generation capacity, previous efforts have not adequately increased evacuation capacity or invested in grid infrastructure. This has led to challenges in integrating a growing share of variable renewable energy into the grid. Addressing these infrastructure challenges remains a cornerstone of Vietnam's energy strategy. Significant investments have been directed towards strengthening transmission and distribution networks, enhancing interregional power connections, and improving energy transfer across regions.

Vietnam's curtailment issue is not unique; major world economies, both developed and developing, have encountered this challenge during the integration of an increasing share of variable renewable energy into the grid. In fact, China experienced an average curtailment of renewable energy of 16% in 2011. Through substantial investments in the grid and improvements in system planning, China successfully reduced the curtailment of Variable Renewable Energy (VRE) to 3% in 2022.

Curtailment can impede renewable energy growth in the nation. Curtailment is an issue that cannot be solved by physical infrastructure alone. Resolving curtailment requires a multi-pronged approach. In addition to investments in the grid, resolving curtailment would need developing a robust system planning framework for permitting future development of generation projects, developing regulation around demand side management and ancillary services to enhance grid resilience, tweaking market design and technical regulations for creating adequate flexibility in the network and facilitating enhanced VRE integration to the grid.

Conclusion

PDP-8 outlines a comprehensive energy blueprint for Vietnam. The plan effectively aligns national priorities with international commitments, fostering responsible power sector development.

A meticulously crafted and diversified energy portfolio, complemented by a robust supporting infrastructure, will be paramount in achieving the delicate equilibrium between fulfilling environmental obligations and ensuring energy security.

Vietnam has a remarkable track record of energy transition. With the right policy prescriptions, well calibrated risk reward framework and targeted investments Vietnam possesses the potential to emerge as a trailblazer in Southeast Asia's transformative journey in the energy sector.

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