

THE NEXT FRONTIER?

As China market Crowds, Some Investors Look to Vietnam

By Max Frumes

China, with the world's fastest growing economy, has proven attractive to PIPE investors. So what of the world's second fastest growing economy?

Vietnam's gross domestic product grew by 8.5% in 2007, just one year after the U.S. trade embargo was lifted. At least three Vietnamese companies have listed on U.S. stock markets and some PIPE market players say they're excited about the country's potential.

"China's saturated. You're already late to the game if you're getting into China, but you're not late in the game if you're just getting into Vietnam," said Greg Sichenzia, the founding partner of New York securities law firm **Sichenzia Ross Friedman Ference**, and a frequent legal advisors to PIPE-issuing companies.

Cavico Corp., a Vietnamese builder of infrastructure projects, listed on the Bulletin Board in April after completing financials under U.S. GAAP accounting standards and filing a Form 10 with the Securities and Exchange Commission.

The company's path to the U.S. market was rocky. It had first attempted a reverse merger with a U.S. shell, in what some investors said might have been a first by a Vietnamese company. But the shell turned out to be problematic.

The driving investment bank behind Cavico's listing, **Providential Capital Management**, has also brought a second company onto the Pink Sheets and has five more in the pipeline to get U.S. tickers, according to a director at Providential.

Not waiting for an immediate deluge of U.S. Listings, however, investment manager **Hathaway-Nguyen Capital Management** has set up a U.S. -based fund, which will invest in some of the 300 companies listed on Vietnam's two exchanges in Ho Chi Minh City (formerly known as Saigon) and Hanoi. This strategy will serve to get Hathaway-Nguyen into the public equities early that will alter serve as the folder for dual listings, according to the firm's president.

These actions could pave the way to more direct or dual listings, which are already occurring in markets closer to Vietnam. In December alone, the Singapore Stock Exchange approved its first Vietnamese listing, and a leading moped maker in Vietnam became the first Vietnamese company listed on the Hong Kong exchange.

There are plenty of reasons for American investors to hesitate, however.

In communist-run Vietnam there is still red tape and restrictions to foreign ownership. The U.S.-Vietnam bilateral trade agreement sets a 49% cap on most U.S. ownership of Vietnamese companies. It is also not permitted to short stocks on the Vietnamese exchanges. What's more, experts looking to invest report that there are not yet any real discounts offered in Vietnam for purchasing bulks of stock as in a PIPE transaction.

To make matters worse, the exchanges are unstable. After two years of being amongst the world's best performing markets, Vietnam's two exchanges were the worst performing markets in the world through March 31 of this year, down 44%.

This inspired the State Securities Commission to in March implement a 1% trading band, which is the maximum that a stock can fluctuate in one day, on the Ho Chi Minh City exchange and a 2% band in the Hanoi exchange. Ho Chi Minh City had previously had a 5% band and Hanoi restricted daily stock movements to 10%. As of April, the trading band was back to 2% in Ho Chi Minh City and 3% in Hanoi.

U.S. audits of Vietnamese companies are difficult to complete because of the differences between the countries' accounting systems.

And inflation in Vietnam was about 20% in April after averaging more than 16% in the first quarter, according to the General Statistics Office of Vietnam. The April inflation rate was the highest in 13 years.

The Wild East

The Ho Chi Minh City exchange has 150 companies listed and 320,000 local accounts, while there are 7,000 accounts and 133 listings on the Hanoi exchange.

Foreign investors are already active in the country. Vietnam was admitted to the World Trade Organization in 2007. That year alone, there was \$40.3 billion in foreign direct investment, according to statistics published in March by OCO Global, which tracks foreign investment worldwide. That compared with \$90.4 billion in foreign direct investment in China. There are only 86.1 million people in Vietnam, however, compared with 1.34 billion in China, according to the latest statistics from the CIA World Factbook. That means there was nearly half the foreign direct investment in Vietnam as there was in China, even though Vietnam has only one-twelfth the population.

Sichenzia noticed the evidence of another jaw-dropping statistic about Vietnam when he visited the country in 2007.

He was struck when he went to Ho Chi Minh City at how young the population is. With generations of population thinned out by war, Vietnam now has a median age of 26.4 years and 75% of the population is under the age of 35, according to the Government Statistics Office.

"While Vietnam's got all these challenges and has all these issues, it's normal for a developing country to go through this," said Sichenzia. "They're tough. They've fought off the Chinese, the

Americans, the French. They have that brash aggressiveness that New Yorkers have, that Londoners have.”

Sichenzia was the main counsel working on Cavico’s U.S. listing. He met up with Tim Pham in Vietnam to tour Cavico in its country of operation. Pham is a native of Vietnam, now residing in Huntington Beach, Calif. He is the U.S. –based point man for Cavico.

Pham told TPR that Cavico, with 3,000 employees and offices around the country, was founded in the year 2000 for both re- and new construction. The intention with going public was to take advantage of foreign investors’ interest in Vietnam, Pham said. With Western capital, Cavico would like to not only build, but also own the power plants or coal mines that it helps construct. The company is also looking to take on projects in neighboring countries, such as Laos and Cambodia.

Cavico’s projects include hydropower and mining facilities, and high-speed highways. It is one of the largest companies in Vietnam that provides this infrastructure building capability.

On the Frontier

Some U.S. investors are going to Vietnam to find other companies that may be positioned for the country’s economic growth.

Robert Haag had worked in the finance business for years, including on the buy side for Zubair Kazi, a wealthy businessman and owner of **Kazi Management**. Haag left the U.S. in July and traveled to Southeast Asia looking for new investment opportunities. After getting invited to a shareholder meeting for Cavico, he joined up with **Anpha Capital Management**, which has \$125 million invested in two Vietnamese funds.

Haag had just left Anpha when TPR contacted him in Ho Chi Minh City home in mid-April.

Vietnam is probably about eight to 12 years behind China developmentally, according to Haag, and investment funds, which were probably non-existent 10 years ago, are sprouting, he said. Vietnamese funds include **Dragon Capital, VinaCapital Group** and Anpha.

Though there are limits on foreign ownership, Haag says that government officials are frequently likely to signing off on foreign investments and that they encourage financial innovation.

“It’s the Wild West here,” he said. “A lot of times you’ll try and do something and it’s never been done.”

Cavico is a case in point.

Its California-based investment banking advisor Providential formed in August with the purpose of working with Vietnamese companies. Its first client was Cavico.

Pham's brother, Henry Fahman, is a director of Providential and the driving force behind Cavico's listing. Fahman got the local authorities in Hanoi to sign off on a structure that had never been attempted before. The structure gave a U.S.-based Cavico parent company more than 49% ownership of the Cavico subsidiary in Vietnam.

Cavico originally bought a shell to get listed on the Pink Sheets in early 2007. The Pink Sheets symbol was CAVN.PK, which is no longer trading. It was an all-equity deal, according to Fahman, but turned out to be more costly than anticipated.

Between January and April 2007, the company issued 32.6 million shares of its restricted common stock for \$8.1 million to staff and employees of Cavico Vietnam and some partners of Cavico Vietnam under Regulation S of the Securities Act, according to Cavico's Form 10 filing with the SEC. Regulation S governs sales of unregistered securities outside the U.S. The filing also discloses that Cavico issued 2.1 million common shares for an additional \$969,000.

Then in June, the SEC suspended trading in Cavico's stock because the shell had not filed the required reports with the commission for eight years prior. This had been news to Cavico, which thought that it had purchased a current shell. Then the SEC revoked Cavico's ability to register shares, rendering the shell useless.

Cavico then retained Sichenzia and began the process of filing a Form 10. Cavico began trading again this April under CVIC.OB.

The company is still having difficulty meeting its reporting obligations, however. Cavico will be late filing its latest quarterly report, the company said in a May 15 filing with the SEC>

Fahman is now working on getting **DDC Industries**, an internet company based out of Ho Chi Minh City, completely audited to be current in its filings. DDC is said to be the second Vietnamese company to get a U.S. ticker. It's listed on the Pink Sheets as DDCI.PK.

Another firm focused on Vietnam has gone public in the U.S. as a blank check company. **BBV Vietnam S.E.A. Acquisition Corp.** raised about \$36 million in its initial public offering in February, underwritten by **Ladenburg Thalmann & Co. Inc.** and Chardan Capital Markets. BV's units, offered for \$8 each, have since traded up to \$8.49 as of May 16.

Fahman said that it has gotten easier to get a Vietnamese company's financials audited under U.S. GAAP since Providential started on Cavico's listing. At that time, only **PriceWaterhouseCoopers** was registered in Vietnam with the Public Company Account Oversight Board. Now **Ernst & Young** is also registered, according to the PCAOB's website.

PIPE Potential

Pham said that Vietnam is changing at a much quicker pace than China. The government is more flexible, and more people in company management speak English in Vietnam, he said.

Fahman and Sichenzia said that many investment banks have shown interest in the country, including active PIPE agents like Roth Capital.

Bob Stephenson, a director of foreign investment at Roth, said the Newport Beach, Calif.-based firm is looking at Vietnam through Roth's presence in China. Though Roth has not made any commitments in an investment banking capacity so far, Stephenson said Vietnam is on investors' short list for the next investment, in terms of GDP growth, low labor costs, and the fact that it's a coastal country.

He said that companies like companies like **Nike, Intel, and Canon** are already moving in on the country. Cavico as an infrastructure play, he calls "interest." Roth is also interested in Vietnam's agriculture and textiles industries, Stephenson said.

"If we run across the right company and right opportunity, then we can move on it," he said. "I think that most people are trying to figure out the market still, and then the best way to try and do transactions there."

Right now, the fluctuation in the capital markets point to inefficiencies, Stephenson said.

That has not deterred Rodney Hathaway, president of Hathaway-Nguyen.

Hathaway spent 10 years at one of the funds managed by mutual fund investor **Heartland Advisors**. Heartland has invested \$115.2 million in 37 PIPEs since 2001, according to information provider PrivateRaise.

Hathaway recently teamed up with Terence Pavlic, a Milwaukee-based money manager to put together a \$35 million to \$50 million fund looking at about 30 stocks that are Vietnam-related.

He anticipates down the road there's going to be more PIPE investment into Vietnamese equities, but U.S. listing will be slower.

"Keep in mind the burgeoning stock market in Vietnam is very exciting and a source of national pride, so don't expect all the sudden scores of Vietnamese companies bypassing the Vietnamese exchanges to list in the U.S. and China," said Hathaway.

Slow as it may be, Sichenzia says that it is better bet than China right now, and now is the time to enter.