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## Indochina Capital seeks London listing for Vietnam vehicle



**Indochina Capital Vietnam Holdings aims to raise at least \$325 million, but may increase the offering to \$500 million.**

One might question whether there will ever be a wrong time to launch a Vietnamese investment opportunity, given how "hot" the country currently is in the eyes of international investors.

Still, a new investment company focused on Vietnam to be listed by Indochina Capital Corporation in London on March 2 has timed its public debut well.

Having started marketing this week, the offering comes just weeks after Vietnam entered the World Trade Organization and at a time when the economy continues to fire on all cylinders - economists are forecasting 8% GDP growth both this year and next.

Add to this a wave of expected equitization of major state-owned enterprises this year, and the limited investment opportunities available, and it's not hard to imagine a flurry of investor demand.

The Vietnamese stock market was already the best performer in Asia last year with a 144 percent gain and it has added another 44% so far this year.

At \$10 billion, its total market capitalization is still tiny so the growth comes from a low base, but many market participants project the market will again double in size during the course of this year.

Indochina Capital Vietnam Holdings will be structured as a closed-end investment company and will invest in equities listed on the Ho Chi Minh Stock Exchange, over-the-counter stocks, private equity and potentially some derivatives and debt securities.

It can also invest in non-Vietnamese companies which have a material portion of their business or assets in Vietnam.

There are already eight other Vietnam-focused funds or investment

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companies listed on London's Alternative Investment Market or in Dublin, but this will be the first to list on London's main board.

That should be an advantage given that it is a much more liquid market, allowing investors greater possibilities to trade in and out.

"There still are restrictions on foreigners going into Vietnam directly so these vehicles do provide access and if you consider the expected economic growth and the equitization program, the country can clearly absorb the \$1 billion to 2 billion that has been raised so far through various opportunity funds," one observer says with regard to the potential interest.

Indochina Capital Vietnam, which is marketing itself as a growth play, intends to raise \$325 million to \$350 million through a share offer arranged by Credit Suisse.

According to an announcement published on the London Stock Exchange Web site, a majority of this will go to cornerstone investors which have already committed to buying a combined \$225 million, meaning as little as \$100 million may be available to other investors.

A source familiar with the offering notes, however, that the board has the ability to increase the size of the IPO to a maximum \$500 million, which could increase the portion available to non-cornerstone investors to as much as \$275 million.

And in case of very strong demand, one or two of the up to seven cornerstones may also see their allocations scaled back somewhat, the source says.

Still, a key risk with an investment company like this that has committed none of its money at the time of listing is that it will take time to put the whole cash pool to work.

This is especially true for a small and illiquid market like Vietnam and investors will be keenly aware that the longer the a portion of the cash stays idle, the lower the potential return on equity is likely to be.

Consequently, Indochina Capital wouldn't want to raise "too much" in one go, the source says, adding: "You cannot put it all to work over night and you can always come back to the market."

The shares will be offered at a fixed price of \$10 apiece and as the company will have no debt at the time of listing, the offer price will also be equal to the net asset value.

In turn this means the vehicle will be sold at par, which makes it looks cheap compared with some of the other listed Vietnam funds that tend to trade at premiums to NAV of between 35% and as much as 50%.

Investors who have met with the sponsors in the first few days of the roadshow also like the fee structure, which they say is slightly lower than for the major comps, and the experience of the management team.

The latter includes Chairman Miles Morland, the founder of Blakeney Management which is one of the pioneers of investing in Africa and the Middle East and specializes in investments into "inefficient" stock markets.

Indochina Capital, which will be the manager of the investment company through its wholly-owned subsidiary Indochina Capital Advisers, has a seven-year track record of investing in Vietnam on a proprietary basis and its two founding principles have been active in the Vietnamese market for 14 years. The company also has a private equity fund focused on Vietnamese real estate.

Marc Faber, a Hong Kong-based investor known as much for his investment prowess as for his Gloom, Boom & Doom Report, is a member of the firm's advisory committee.

The strong interest in Vietnam and other "new" growth markets was evident when Merrill Lynch organized its second annual conference focused on Pakistan, Vietnam, Sri Lanka and Mongolia – or the New Frontier markets, as the bank calls them.

The three-day conference, which was held in Singapore just before the Chinese New Year holidays attracted more than 100 investors and saw more than 700 one-on-one meetings.

In a note summing up its views on these markets, Merrill argues that Vietnam's key selling argument is its large population of close to 90 million.

The bank also likes the country's ability to compete against China in manufacturing and its strong government and free market policies.

However, the hefty rise in the past year has left the Vietnam stock market almost three times as expensive as Pakistan, which leads its strategist team to project that among the four, Pakistan will be the outperformer this year.

Source: *FinanceAsia.com*

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