WALL STREET JOURNAL
9-11-16

Vietnamese Tycoon Gets Caught Up in Nation's Debt Boom

Doan Nguyen Duc's company is hurt by property slump, collapse in commodity prices

By James Hookway and Vu Trong Khanh

HANOIð A decade ago, Doan Nguyen Duc was the poster child for the new, capitalist Vietnam. Today his holding company is scrambling to rearrange some $1.2 billion in debt after being hit by a property slump and a collapse in commodity prices.

A stocky man with a thick mustache, Mr. Duc was the first Vietnamese tycoon to buy a private plane. He nurtured rubber plantations across the border in Laos and Cambodia and bought stud farms. His furniture factories filled the condominiums his property business was building. One morning while slurping noodles in Ho Chi Minh City in 2009, he told a visiting reporter he was eyeing a 20% stake in famous English soccer club Arsenal FC.

That purchase never happened, and now Mr. Duc is tearing up many of his other plans as he spins off businesses to salvage his firm, Hoang Anh Gia Lai.

Economists say HAGLôs problems are like those of many other companies struggling with the consequences of Vietnamôs debt boom in recent years. How Mr. Duc and his lenders handle the crunch could be an indicator of how quickly Vietnam might become the next breakout global growth story.

Policy makers and government advisers say restructuring of the debt will be a difficult process, due in part to the range of HAGLôs interests.

Mr. Duc got his start building furniture in the 1990s and has repeatedly denied allegations from environmental groups that he skirted regulations to build his timber empire before moving into rubber and his other businesses. The allegations are related to the way he acquired land and the way he allegedly harvested timber and developed palm oil plantations; he has never faced litigation over these issues.

Today, the company is one of Vietnamôs largest, with total assets of $2.27 billion at the end of June. Its revenue reached $163 million in the first half of the year, up a fifth from the same period in 2015.

ñEverybody wanted to lend to HAGL. Its businesses were good and Mr. Duc had good relationships with the banks and government officials. He seemed like a star,ò said Cao Si Kiem, a former governor of Vietnamôs central bank who now advises the government on economic policy. ñBut the company moved too quickly into too many businesses it didnôt know anything about.ò

The companyǿs stock price is down some 60% so far this year, and Mr. Duc has sold off businesses ranging from a cattle farm to a soccer academy that groomed players for his own professional team.

People familiar with the matter say he is trying to line up other sales, including a shopping and hotel complex in Myanmar.

In September, Mr. Duc told a meeting of the companyǿs shareholders that he intends to sell 80,000 hectares, or more than 300 square miles, of rubber plantations in Laos to a Chinese investor for $355 million. That proposal has in some quarters has been interpreted as a slap at Vietnamǿs government, which is competing with Beijing for influence in Laos.

Mr. Duc declined to be interviewed for this article.

Vietnam generally prefers to project an image of being a high-tech production site for the likes of Samsung Electronics Co. and a stylish tourism hub for visitors from around the world.

The government also is inviting companies to register an interest in buying its majority stakes in Vietnamǿs two largest breweries, which it hopes will raise more than $2 billion. Potential bidders include Anheuser-Busch InBev NV and Heineken NV as well as Japanese and Thai brewers.

But the horse-trading and score-settling accompanying HAGLǿs financial healing are threatening to sully this image of Vietnam by drawing attention to the countryǿs debt problems.

It is a persistent issue across the countryǿs economy, which last year grew 6.7% to $194 billion. Many of the nationǿs problems are focused on large conglomerates, including state-owned enterprises. In one of the best-known debt cases, state-owned shipbuilder Vinashin racked up debts of over $4 billion and its chairman was fired and convicted of economic mismanagement in 2012, after which the government stepped in to restructure its business.

Since then, a flurry of corporate borrowing has led to rising delinquency rates, which in turn have forced banks to jack up lending ratesð still at around 11%ð throttling growth at many private businesses. Meanwhile, nonperforming ratios continue to rise.

Moodyǿs Investors Service warns that if the government replicates its rescue of Vinashin in the case of HAGL, then a too-big-to-fail mind-set might encourage banks to lend more than they should and companies to borrow more than they can afford.

ñTo be fair, Vietnam has a long history where the central bank relaxes rules for banks. This allows the banks to digest problems over a long period, instead of recognizing the problem in line with best practices,ò said Eugene Tarzimanov, a credit analyst with Moodyǿs in Singapore, in September. ñBut there is an element of moral hazard for the banks, because if you are underwriting loans you shouldnǿt consider a government bailout of or support for your borrower.ò

Some of the companyǿs creditors say it is precisely this kind of government backing that is needed to put the company back on its feetð and to present a model for how to mop up the debts plaguing Vietnamǿs economy.

ñItǿs going to be difficult to unravel all of the problems and get everybody to agree on a course of action,ò said Can Van Luc, special adviser to HAGLǿs biggest creditor, the Bank for Investment and Development of Vietnam, to which HAGL owes $324 million.

ñBut if we can do it, it could create a new framework for resolving all the debt problems which remain in the private sector,ò Mr. Luc said

Tycoon's Rise and Decline

Doan Nguyen Duc was once one of Vietnamôs brightest stars but is now fighting to save his business after it racked up over $1.2 billion in debts.

- **1990**

Doan Nguyen Duc starts a furniture business in Pleiku, southern Vietnam, which he calls Hoang Anh Gia Lai after his daughter.

- **1993**

Mr. Duc branches out, building a timber processing plant before diversifying into rubber plantations in Vietnam, Laos and Cambodia.

- **2002**

Hoang Anh Gia Lai, or HAGL, starts buying lots of land in Ho Chi Minh City and becomes one of the countryôs largest property developers.

- **2008**

Mr. Duc becomes the first Vietnamese to own a private plane.

- **2011**

The company becomes the first Vietnamese firm to list shares on the London Stock Exchange.

- **2012**

HAGL begins work on constructing a $400 million shopping mall and hotel complex in Yangon, Myammar.

- **2015**

Slumping rubber prices and a troubled property market begin to chip away at HAGLôs revenue as many of the companyôs debts come due.

- **2016**

Mr. Duc negotiates to restructure $1.2 billion-worth of loans with creditors, who in turn support state permission to suspend interest payments to keep HAGL solvent