The Economist

Privatisation in Vietnam

Cream of the crop

Vinamilk is one of the attractive firms on sale from Vietnam's government

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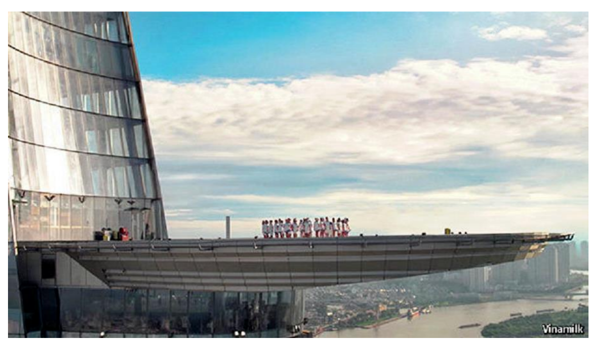

TO CELEBRATE its 40th birthday, Vinamilk, a big Vietnamese dairy firm, filmed a children's choir crooning adorably from the helipad of one of the country's tallest towers. In truth the company hardly needs to sing its own praises. Vinamilk is probably Vietnam's most familiar consumer brand, and it is widely considered to be the country's best-run firm. Over a decade its profits have grown by close to one-third each year.

Hence the interest among foreigners in a 9% share to be sold by the government this year—the first tranche in a disposal which should eventually see Vietnam's communist government give up its entire 45% stake in the firm. It is one of several big companies which the ruling party now promises to part with; two others are the Hanoi and Saigon beer companies, known as Habeco and Sabeco. After years of divesting mainly small slivers of unappealing enterprises, Vietnam is at last offering foreigners a slice of its best assets.

Vinamilk meets much of Vietnam's daily demand for dairy products, including four-fifths of its condensed milk (most often found lurking sweetly at the bottom of the country's famous coffees). Last year it earned pre-tax profits of around $420m on revenues of $1.8 billion, and has plenty of further room to grow. Vietnam's economy is expanding at more than 6% annually. For now, its 93m people drink far less milk than their neighbours.

Foreign investors already own about half of the firm (an unusually high share), which has a market valuation of more than $9 billion. They praise the steady hand of Mai Kieu Lien, its boss for 23 years, who has kept Vinamilk closely focused on its core business while many other large Vietnamese companies have sprawled. It now wants to invest in more foreign ventures, beyond its present outposts in America, Poland, Cambodia and New Zealand. But it also aims to get more raw milk from within Vietnam itself, where dairy farming remains a fairly small business.

One keen bidder may be ThaiBev, a food-and-drink conglomerate attracted in part by Vinamilk's enormous distribution network. It already owns 11% of the dairy firm through a subsidiary, Fraser and Neave, and has cash to spend. Thai companies are piling into Vietnam, driven both by their neighbour's zingy consumer markets and by fears of stagnation at home. In December Singha, another Thai brewer, said it was pumping more than $1 billion into Masan Group, a conglomerate with operations in food, mining and banking.

ThaiBev is also thought to be among a half-dozen brewers eyeing the government's stakes in Sabeco and Habeco, which bureaucrats talk of selling by the end of next year. Vietnam's boozers drink almost solely beer. A big swig of it is still home-brewed and served in salty roadside pubs. The industry says production among corporate brewers has been growing by about 7% annually and could jump another quarter by 2020. Sabeco and Habeco hold around three-fifths of the local beer market; the sale of the government's 90% and 82% stakes, respectively, in the two firms should raise more than $2 billion.

The government's pledges are a relief to investors who worried that after the Communist Party's five-yearly congress back in January, a conservative faction had gained in influence. The new leadership has tightened its grip on civil society, but appears ready to tackle vested interests which have previously held up sales of state-owned firms. It needs cash to fund new infrastructure and to rein in the national debt, which is nearing its legal limit of 65%.

Hiccups are inevitable. Many consumers worry that the impending sales to foreigners will kill off well-loved local brands (though that seems unlikely). There is some ominous talk of creating “golden shares” which could help the party’s bigwigs retain influence over firms even when their stakes are depleted. The schedules will doubtless slip. But in contrast to previous sales, the government has made its plans for the country’s leading companies surprisingly explicit and its timetables unusually clear.

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