

# CORPORATE Governance Project

August 2014

Intelligent Financial Research & Consulting

## VIETNAM STATE OWNERSHIP



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### OBJECTIVES

Nowadays, state ownership in business firms tend to change in Vietnam due to the powerful influence of the State on the country's market. On March 6th 2014, after the official proclamation of Resolution No. 15/NQ-CP by the government, some solutions such as the state-owned Enterprises Restructuring Project (2011-2015) seem to emerge to accelerate the equalization process and reduce the State's control on these companies. However the enterprises that have a 100% state control contribute to the main sectors of the economy and still create value according to the State Budget Law (Law on Enterprises of 2005 and Law on State Enterprises of 2013). Since there is no official and special regulation for Investment and Management of Invested State Capital in Business, the government encourages and gives favorable conditions for foreign investors according to the Foreign Investment Law (2005) to invest in Vietnam.

While the relationship between state ownership and firm performance has been widely researched, the empirical evidence has provided mixed results over the world. For Vietnam, the research on the subject is still few and covers a short period.

This study examines the relationship between state ownership and firm performance (stock market performance and fundamental ratios) of about 600 companies listed on Ho chi Minh and Hanoi stock exchanges since December 2008 in controlling different factors such as market (exchange), size (capitalization) and sector. The next step will extend the study period to 2000.

### DATA

The data are from two sources.

- **The ownership data** are provided by STOXPLUS for all listed securities (Ho chi Minh and Hanoi stock exchanges) since December 2008.
- **Stock market and fundamental data** are those of Intelligent Financial Research & Consulting (IFRC), of which history dates back to 2005. IFRC is going back in time to the creation of the stock exchange in Vietnam in 2000 shortly.

STATE OWNERSHIP DATA is provided by



# METHODOLOGY AND TESTS

## CONTROLLING FACTORS

The objective is to measure the performance of the firm (market and fundamental) in the percentage of shares held by the state and to compare to companies in the same market, size in terms of market capitalization, or activity sector.

- **Market:** Ho chi Minh Stock Exchange (HOSE), Hanoi Stock Exchange (HNX).
- **Size:** Large, Medium, Small. Firms are ranked by market capitalization in a decreasing order. For example, Large Caps are those that accumulate a capitalization percentage of 80%, Mid-Caps are the ones between 80 -95% and the remaining are Small Caps. Size groups are reviewed every year.
- **Sector:** Companies are classified into 10 sectors (Bank, Basic Material, Consumer Goods, Consumer Services, Finance, Healthcare, Industrials, Oil & Gas, Technology, Utilities).

Concerning the Vietnam state ownership, we define 3 groups: Low, Medium and High.

Firms in the "Low" group are the non-state-owned firms. The remaining companies sorted into two quantiles; either they belong to the "Medium" group or "High" group.

## ABNORMAL PERFORMANCE

To verify the state ownership effect in Vietnam stock market, we use abnormal performance.

For each month over the study period (December 2008 to June 2014), we calculate monthly returns of each company and controlling factor portfolio (market, size, sector and overall market).

Then, abnormal returns are calculated following each factor to measure the out (or under) performance to comparable companies. We define abnormal performances by analyzing the difference between the firm's performance and the average group performance. If the abnormal performance is positive (negative), the company outperforms (underperforms) this group.

# RESULTS

Difference between groups is tested by Student statistics. In the following tables, results are reported with different confidence interval (1-a) : \* for a = 5% and \*\* for a = 1%.

## OWNERSHIP DISTRIBUTION

At the end of June 2014, companies listed on HSX and HNX fall into three main groups. One third (235 companies, 36%) is companies with no involvement of the state, another third those having less than 50% and last one third of those over 50% state participation (180 companies, 27%).

Three highest state ownership companies, i.e. more than 90% are PetroVietnam Gas (96.72%), Commercial Bank For Investment And Development Of Vietnam (95.76%), Underground Works Construction (91.00%).

Interval	Nb	%	Cumulative %
0	235	35.82%	35.82%
0%-10%	50	7.62%	43.45%
10%-20%	53	8.08%	51.52%
20%-30%	46	7.01%	58.54%
30%-40%	50	7.62%	66.16%
40%-50%	42	6.40%	72.56%
50%-60%	140	21.34%	93.90%
60%-70%	20	3.05%	96.95%
70%-80%	15	2.29%	99.24%
80%-90%	2	0.30%	99.54%
90%-100%	3	0.46%	100.00%
100%	0	0.00%	100.00%

Table: State ownership distribution (June 2014)

## OVERALL

For the overall market since December 2008, evidence show a light State ownership effect. In average: Firstly, companies without state ownership under-perform (-1.51% per year) and companies with state ownership over-perform, and these results are significant with 95% of confidence, Secondly, companies with higher state participation over-perform better (6.82% per year) than those with lower participation (4.20%)

# VIETNAM STATE OWNERSHIP

	LOW			MEDIUM			HIGH			LONG-SHORT STRATEGY	
Market	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Ha Noi	12875	-0.80		4437	-1.92		5272	4.31		68	2.64
Ho chi Minh	10112	-2.28		4199	3.18		3393	3.34		68	4.98
All	23317	-1.47		8636	0.52		8665	4.03 *		68	3.50

	LOW			MEDIUM			HIGH			LONG-SHORT STRATEGY	
Size	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Large	1673	1.83		541	2.03		934	-3.08		68	1.22
Mid	5749	-0.06		2424	0.59		2391	0.68		68	1.97
Small	15565	-1.70		5671	-0.44		5340	5.67 *		68	2.81
All	23317	-1.47		8636	0.52		8665	4.03 *		68	3.50

	LOW			MEDIUM			HIGH			LONG-SHORT STRATEGY	
Size	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Basic Material	3341	-2.06		429	4.47		998	6.30		68	8.72
Bank	260	-1.98		138	1.63		81	8.14		68	6.15
Consumer Goods	3343	-2.27		1276	-0.45		855	11.58		68	7.01
Consumer Services	1075	0.70		789	-0.73		825	-0.42		68	0.86
Finance	3803	-0.20		839	-0.26		630	1.60		68	2.13
Healthcare	506	-6.33		413	10.03		141	-2.44		68	15.17
Industrials	8784	-0.67		4190	-1.32		4160	3.10		68	1.11
Oil & Gas	16	7.76		104	-4.78		148	2.45		12	-17.63
Technology	1075	-0.65		203	1.58		114	-2.76		68	-6.55
Utilities	784	-0.26		255	-2.13		713	0.81		68	-1.60
All	23317	-1.47		8636	0.52		8665	4.03 *		68	3.50

Nb : Number of companies

% Perf : Abnormal performance over the periode

\*\* p\_value = 1%

\* p\_value = 5%



*IFRC is a dynamic company specialized in the development of new indexes and in the customized indexes services. Officially present in Vietnam in 2010, we aim to approach the Viet Nam stock market by creating a VNX Indexes Series that supplies to investors a trusting performance measure for this lively emerging stock market. This family covers 400 indexes including Benchmark, Size, Sectors, Blue Chips, Strategy and Theme indexes. They provide full and transparent information on indicators, follow the standards of international investment, and are potential underlying of funds and structured products.*

### **IFRC & Index** (International [www.ifrcindex.com](http://www.ifrcindex.com) and Vietnam [www.vnxindex.com](http://www.vnxindex.com))

Our experienced professional team, trained and supervised by Dr. Huu Minh MAI with 15 experience years working for New York Stock Exchange Euronext in Index department, expect to enrich continuously the index family by exploiting different social/economic trends while working in collaboration with Vietnamese and global partners.

First index provider of full 400 VNX indexes for the whole Viet Nam market

Provide full and transparent information on indicators (calculation method and data of companies in the index) to help monitoring and analyzing the situation of investors.

Ability to create indexes that meet the standards of international investment (UCITS III)

Relations in the extensive expertise, international financial institutions that use and commercialize indices (NYSE - New York Stock Exchange, Lyxor, Société Générale, Calyon, BNP Parisbas, Deutsch Bank...).

### **IFRC & Research** ([www.ifrcresearch.com](http://www.ifrcresearch.com))

Index activity which requires an important data resource, also creates a rich database in return. Our ambition is to exploit this available database and our know-how to contribute for research activity.

### **Women CEO Project** ([www.globalwomenceo.com](http://www.globalwomenceo.com))

This project is the first step of a larger project on the relationship between corporate performance and governance which is covered both academic and financial approaches. Other topics will be the presence of women on boards, capital held by the state, capital held by foreign investors, or family businesses. This project is carried out in the different geographical areas as Vietnam, Southeast Asian and Asian Nations, Eurozone and European Markets and all over the world.

### **Vietnam Financial Database** ([www.vnfdb.com](http://www.vnfdb.com))

We are willing to support and foster empirical researches in Vietnam by implementation of Vietnam Financial Database, an academic cooperative project that centralizes in a single point of access to different sources and types of data and documentation useful for research in Finance.