

CORPORATE Governance Project

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VIETNAM FOREIGN OWNERSHIP



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STATE OWNERSHIP DATA is provided by



OBJECTIVES

While the relationship between foreign ownership and firm performance has been widely researched, the empirical evidence has provided mixed results over the world for the past few years. For the Vietnamese market, the research on the subject are still few and cover a short period.

After the official establishment of Ho Chi Minh Securities Trading Center (HOSE) on July 20th 2000 and Hanoi Securities Trading Center (HNX) in 2005, the Vietnamese market seems to be an attracting investment destination for foreign companies. Among the corporate governance, foreign ownership impact the economic performance of firms by providing more resources and skills to monitor the internal structure (Xiaming Liu, 2009). Phan Huu Viet (2009) mentions an inverted U-shaped relationship between foreign ownership and firm performance measured by Tobin's Q and ROA criteria. However after a certain point, firm performance tends to decrease according to the level of foreign ownership. This curvilinear relation was also shown in Ferris and Park study (2005) for the Japanese market. Since the Securities Law in Vietnam only allows foreign investors to retain up to 49% of shares in a non-financial field and 30% in financial firms, it is relevant to analyze the proportion of shares a foreign company can hold to optimize its performance.

Our study examines the relationship between foreign ownership and firm performance based on stock market performance and fundamental ratios of about 600 companies listed on Ho Chi Minh and Hanoi Stock Exchanges since 2008. By controlling different factors such as the market (exchange), the size (capitalization) and the sector, we will be able to provide a more fine-grained understanding of this growing emerging market. The next step will extend the study period to 2000.

This paper is structured as follows: first, we introduce the data description, the research method then we report empirical results to finally conclude this paper.

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METHODOLOGY AND TESTS

DATA

- The ownership data are provided by STOXPLUS for all listed securities (Ho Chi Minh and Hanoi stock exchanges) since 2008
- Stock market and fundamental data are those of Intelligent Financial Research & Consulting (IFRC) of which history dates back to 2005. Another initiative will be to cover up data since the creation of the Vietnamese Stock Exchange in 2000.

CONTROLLING FACTORS

The objective is to measure the firm performance depending on the market by using fundamentals such as the percentage of shares held by foreign investors and by comparing with other companies with similar criteria (market, size in terms of market capitalization, 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 Foreign Ownership, we define 3 distinct groups : Low, Medium and High. Firms in the "Low" group are the non-foreign-owned firms. The remaining companies are sorted into two quantiles; either they belong to the "Medium" group or "High" group.

ABNORMAL PERFORMANCE

To verify the foreign ownership effect on the Vietnamese stock market, we use abnormal performance. For each month over the study period (December 2008 to July 2014), we calculate monthly returns of each company and control their portfolio factor (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 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%.

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EMPIRICAL RESULTS

Ownership distribution

The foreign ownership in Vietnam is distributed between 0 and 20% for 83.89% of listed companies (552 companies), less than one-sixth of these firms have between 20% and 50% of foreign investors (217 companies) then 25 firms have between 48% and 49% reaching the Full Foreign Ownership.

Finally, none of them have more than 50% of foreign ownership since the Securities Law only allows up to 49% in non-financial firms and 30% in financial firms.

Table 1 : Foreign Ownership Distribution (July 2014)

Interval	Nb	%	Cumulative %
0	26	3.95%	3.95%
0%-10%	433	65.81%	69.76%
10%-20%	93	14.13%	83.89%
20%-30%	45	6.84%	90.73%
30%-40%	19	2.89%	93.62%
40%-45%	10	1.52%	95.14%
45%-46%	2	0.30%	95.44%
46%-47%	2	0.30%	95.74%
47%-48%	3	0.46%	96.20%
48%-49%	25	3.80%	100.00%
49%-50%	0	0.00%	100.00%
50%	0	0.00%	100.00%
>50%	0	0.00%	100.00%

Abnormal Performance by market

The results show significant relationship between foreign ownership and stock performance. Firms with a higher foreign ownership outperform in average at 3.40% while the medium at 0.57% and the non-foreign ones underperform at -12.85%.

Table 2: Viet Nam Foreign Ownership Excedent Performance by market (2008 - 2014)

Market	LOW		MEDIUM		HIGH		HIGH-LOW	
	Nb	% Perf	Nb	% Perf	Nb	% Perf	Nb	% Perf
Ha Noi	3,926	-12.81 *	11,783	2.30	7,037	3.86	68	18.30 *
Ho chi Minh	1,169	-11.54 *	5,942	-3.18	10,761	3.15 *	68	14.17 *
All	5,095	-12.85 *	17,725	0.57	17,798	3.40 *	68	17.44 *

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

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Abnormal Performance by size

We find an inverted U-shaped relationship between firms performance and the percentage of equity owned by foreigners for the Large, Medium and Small Caps. In this case, the overall performance increases with the percentage of foreign ownership before reaching a turning point then decreases.

Table 3: Viet Nam Foreign Ownership Excedent Performance by size (2009 - 2014)

Size	LOW			MEDIUM			HIGH			HIGH-LOW	
	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Large	128	-8.08		244	0.54		2,813	0.34		57	20.73
Mid	580	3.25		3,585	3.64		6,501	-2.24		68	-11.16
Small	4,387	-12.02	*	13,896	1.84		8,484	3.65	*	68	16.49 *
All	5,095	-12.85	*	17,725	0.57		17,798	3.40	*	68	17.44 *

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

Abnormal Performance by sector

While comparing firm performance according to the different sectors, we can only observe this inverted U-shaped relationship for the Oil & Gas Industry. By having the lowest performance in the Low group with -44.80%, the industry sector reaches the highest one in the Medium group at 46.07% then the lowest one in the High group at -2.15%.

The long-short strategy defined as the difference in terms of performance between firms in the High group and firms in the Low group offers significant evidence that firms with a higher foreign ownership perform 17.44% better than the ones with a lower foreign ownership at a 95% confidence level. If we look at these overall results and the market trends, investors would probably benefit from having some exposure to firms in High group.

Table 4: Viet Nam Foreign Ownership Excedent Performance by sector (2008 - 2014)

Size	LOW			MEDIUM			HIGH			HIGH-LOW	
	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Basic Material	578	-15.20		2,175	0.28		2,053	4.40		68	19.79
Bank	39	-22.89		73	-1.95		369	3.15		37	45.26*
Consumer Goods	567	-17.45		1,630	-0.04		3,331	3.31		66	22.70
Consumer Services	473	-4.73		1,337	-1.07		902	4.21		68	3.59
Finance	485	-3.49		2,233	-2.86		2,574	3.23		68	1.82
Healthcare	70	-22.23		340	4.36		657	0.44		39	26.97
Industrials	2,529	-11.79	*	8,531	2.30		6,229	1.97		68	14.54*
Oil & Gas	4	-44.80	*	20	46.07		248	-2.15		3	112.98
Technology	194	-9.20		501	0.65		711	2.19		63	16.60
Utilities	156	-12.05		885	3.79		724	-1.79		67	19.83
All	5,095	-12.85	*	17,725	0.57		17,798	3.40	*	68	17.44 *

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

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FULL FOREIGN OWNERSHIP

In addition to these results, the identification of the firms reaching the maximum percentage of foreign ownership allowed in Vietnam is evaluated by the "Full Foreign Ownership". Concerning this new study, we define 3 groups : Low, Medium and High.

The "Low" group consists of the non-foreign owned companies. The "High" group consists of Banking companies with more than 29.75% foreign ownership and companies in others sectors with more than 48.50% foreign ownership. The remaining companies belong to the "Medium" group.

Abnormal Performance by market

The relationship between full room foreign ownership and firm performance according to the market supports the trend observed in the foreign ownership. Firms in the High group reach a performance of 7.11%, the Medium perform at 1.86% while the Low group stand at -12.85%.

Table 5: Viet Nam Full Foreign Ownership Excedent Performance by market (2008 - 2014)

	LOW			MEDIUM			HIGH			HIGH-LOW	
Market	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Ha Noi	3926	-12.81	*	18663	2.87	*	157	4.36		68	4.48
Ho chi Minh	1169	-11.54	*	16028	0.59		675	7.42		68	4.57
All	5,095	-12.85	*	34, 691	1.86	*	832	7.11		68	5.90

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

Abnormal Performance by size

The empirical findings in this segment are consistent with the Foreign Ownership. The inverted U-shaped is only significant for the Large Caps while the Mid Caps follow a U-shape relationship. By investing in the Mid Caps firms with a High foreign ownership, the outperformance return is 6.21% more than the overall Mid Caps firms. The Small Caps follow a linear relationship.

Table 6: Viet Nam Full Foreign Ownership Excedent Performance by size (2008 - 2014)

	LOW			MEDIUM			HIGH			HIGH-LOW	
Size	Nb	% Perf		Nb	% Perf		Nb	% Perf		Nb	% Perf
Large	128	-8.08		2742	1.18		315	-6.56		68	-4.62
Mid	580	3.25		9699	-0.43		387	6.21		68	-9.43
Small	4387	-12.02	*	22250	2.52	*	130	4.24		68	7.68
All	5,095	-12.85	*	34, 691	1.86	*	832	7.11		68	5.90

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

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Abnormal Performance by sector

From the results, Basic Materials and Oil & Gas are the only sectors do not reach the Full Ownership Limit for the High Group. Since the Oil & Gas industry has the worst performance in the Low Group with -44.80%, we might consider this as the results of state control on this capital intensive sector. The absence of Full Foreign Ownership in the High Group can be justified by the regulatory regimes applied to this industry.

The significant results in the Full Foreign Ownership confirm our previous findings.

Table 7: Viet Nam Full Foreign Ownership Excedent Performance by sector (2008 - 2014)

	LOW		MEDIUM		HIGH		HIGH-LOW	
Size	Nb	% Perf	Nb	% Perf	Nb	% Perf	Nb	% Perf
Basic Material	578	-15.20	4,228	2.26	-	-	-	-
Bank	39	-22.89	321	3.92	121	-1.92	67	-1.43
Consumer Goods	567	-17.45	4,795	2.06	166	6.14	68	-6.91
Consumer Services	473	-4.73	2,203	0.80	36	15.68	68	4.86
Finance	485	-3.49	4,712	0.20	95	8.28	68	-8.27
Healthcare	70	-22.23	886	2.44	111	-3.53	68	-2.88
Industrials	2,529	-11.79 *	14,556	1.89	204	22.95	68	9.08
Oil & Gas	4	-44.80 *	268	0.87	-	-	-	-
Technology	194	-9.20	1,117	1.72	95	-0.41	68	-1.08
Utilities	156	-12.05	1,605	1.47	4	-60.18	68	-18.88
All	5,095	-12.85 *	34,691	1.86 *	832	7.11	68	5.90

Nb : Number of companies

% Perf : Abnormal performance over the period

** p_value = 1% ; * p_value = 5%

CONCLUSION

This study has examined the effect of foreign ownership on firms performance in Vietnam between 2008 and 2014. The overall results indicate that foreign ownership improves firm financial performance in Vietnam up to a certain level, beyond which additional ownership isn't allowed according to the Securities Law. These foreign-owned firms outperform the market because of an easier access to managerial know-how, external source of capital and transparency of information (Mariya Hake, 2008). According to Yla-Anttila, P., A. Jyrki, and N. Martti (2005), since the foreign-owned companies already have the technology, they don't need to invest as much as the domestic ones so the rate of return is higher. Finally, investing in the High group will lead to an overall outperformance return on the market.

Further studies will be required to measure this effect. By other performance measures with financial ratios (Price Earning Ratio, Return on Assets, Return on Equity, ...) we will be able to initiate further investigation. Because of the data limitations, it will be valuable to broaden our range of data back to 2000 to get more accurate results. In future work, it would be of interest to strengthen our study to offer portfolio strategies to help foreign investors in their decision process.

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 and Vietnam 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)

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)

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)

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.