

# CORPORATE Governance Project

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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 Ha Noi 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



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## 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), Ha Noi 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.

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## 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%).

Table 1: State Ownership Distribution (June 2014)

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%

### OVERALL

For the overall market since December 2008, evidence shows a light State ownership effect. In average:

- Firstly, firms with higher state participation over-perform than those with lower participation.
- Secondly, firms without state ownership underperform with average abnormal performance of -1.63% per year and firms with high state ownership over-perform with average abnormal performance of 3.89% per year at a 95% confidence interval.

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## By Market

- The firms in Ho Chi Minh Stock Exchange follow a linear relationship from the Low Group to the High Group.
- High and Low groups in the Ha Noi Stock Exchange tend to perform better than these ones in the Ho Chi Minh Stock Exchange.

Table 2: Viet Nam State Ownership Excedent Performance by market (2009 - 2014)

Market	LOW		MEDIUM		HIGH		LONG-SHORT STRATEGY	
	Nb	% Perf	Nb	% Perf	Nb	% Perf	Nb	% Perf
Ha Noi	13044	-1	4466	-1.53	5236	3.89	68	3.96
Ho chi Minh	10297	-2.35	4157	3.07	3418	3.53	68	5.55
All	23341	-1.63	8623	0.60	8654	3.89 *	68	4.41

Nb : Number of observations

% Perf : Abnormal performance over the periode

\*\* p\_value = 1% ; \* p\_value = 5%

## By Size

- In Mid and Small Caps firms, the state ownership helps improve firm performance. Moreover, among Small Caps firms, High group has the highest abnormal performance at 5.53% at a 95% confidence interval.
- We find an inverted U-shaped relationship between firms performance and the percentage of equity owned by State for the Large Caps. In this case, the overall performance increases with the percentage of state ownership before reaching a turning point then decreases.

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

Size	LOW		MEDIUM		HIGH		LONG-SHORT STRATEGY	
	Nb	% Perf	Nb	% Perf	Nb	% Perf	Nb	% Perf
Large	1724	1.08	536	2.27	925	-3.26	68	0.49
Mid	5851	-0.36	2423	0.34	2392	0.54	68	2.13
Small	15766	-1.72	5664	-0.25	5337	5.53 *	68	4.44
All	23341	-1.63	8623	0.60	8654	3.89 *	68	4.41

Nb : Number of observations

% Perf : Abnormal performance over the periode

\*\* p\_value = 1% ; \* p\_value = 5%

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## By Sector

- The non-state ownership Oil & Gas firms has the best performance with 7.76% per year. It is clearly that oil-price movements and Government's oil-price controls affect investment in oil and gas firms.
- In basic materials sector, consumer goods sector and banking sector, firms with higher state participation over-perform than those with lower participation. It may be that Viet Nam government focuses on these sectors and is willing to support them as well.

Table 4: Viet Nam State Ownership Excedent Performance by sector (2009 - 2014)

	LOW		MEDIUM		HIGH		LONG-SHORT STRATEGY	
Size	Nb	% Perf	Nb	% Perf	Nb	% Perf	Nb	% Perf
Basic Material	3379	-2.31	423	4.26	1004	6.26	68	11.21
Bank	267	-3.37	138	1.18	76	10.37	68	8.03
Consumer Goods	3397	-2.48	1275	-0.71	856	11.6	68	7.95
Consumer Services	1098	0.81	821	-0.53	793	-0.56	68	1.84
Finance	3825	-0.26	832	0.04	635	1.55	68	1.19
Healthcare	513	-6.53	402	10.04	152	-2.63	68	13.92
Industrials	8945	-0.76	4187	-1.31	4157	3.01	68	2.03
Oil & Gas	20	7.76	102	-2.16	150	0.48	12	-17.67
Technology	1091	-0.16	191	0.98	124	-0.13	68	-4.23
Utilities	806	-0.35	252	-0.68	707	0.64	68	-1.13
All	23341	-1.63	8623	0.60	8654	3.89 *	68	4.41

Nb : Number of observations

% Perf : Abnormal performance over the periode

\*\* p\_value = 1% ; \* p\_value = 5%

## CONCLUSION

This analysis presents information about the relationship between the state ownership and the firms' performance in Vietnam. We find only two portfolios created based on degree of state ownership that have significant abnormal performance. The other results found are insignificant. That is in line with those found by Zuobao Wei and Oscar Varela. They examine the relation between state equity ownership and firm market performance for China's newly privatized firms in 1994, 1995 and 1996 using Tobin's Q and monthly stock returns (MSR). The finding shows that the coefficient for State is insignificant, such that State is not a determinant of stock returns.

In addition to better understand the Vietnamese Stock Market and the influence of ownership on listed firms, we conduct "Long-short strategies" defined as the difference in terms of performance between firms in the High group and firms in the Low group that have better performance

However, this study is the pioneer in researching the relationship between Viet Nam State-owners and stock performance in Viet Nam while previous studies focused on relationship between State ownership and firm performance (accounting-based returns).

Further studies will help finding relationship between the state ownership and the fundamental ratio and more appropriate rate for division groups by state ownership.



*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.