

# Silverhorn Perspective



## Vietnam: The Time for Venture is Now

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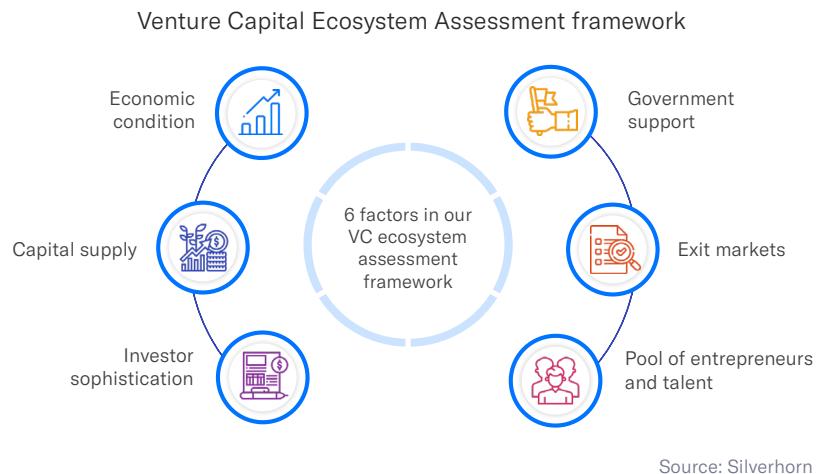
The economic development of Vietnam is closely following China's playbook, where three decades of manufacturing and infrastructure-driven economic growth led to significant increases in consumption and labour productivity, and steadily increasing incomes.

Silverhorn has been active in Vietnam since 2015 and has witnessed the country transform into a "China + 1" manufacturing hub for global tech giants such as Samsung, Intel, LG, and Apple. Coupled with an expanding middle class and an education system with globally-recognised strengths in math, engineering, and science, Vietnam has become fertile territory for domestic entrepreneurs and the investors who back them.

Recently, we delved into the [ASEAN secular growth story](#) and the [fast-developing Venture Capital \(VC\) ecosystem](#). We described how ASEAN's VC ecosystems are entering a virtuous cycle where success is breeding success: significant exits produce wealthy entrepreneurs who recycle their financial and human capital into the VC space, thereby increasing the pool of capital, talent, entrepreneurs, and ideas.

In this Perspective, we analyse one of ASEAN's new tiger economies: Vietnam (the others being Indonesia and the Philippines) using our Venture Capital Ecosystem Assessment framework based on six systematic factors to demonstrate why VC investing in Vietnam is poised to offer highly compelling risk-adjusted returns.

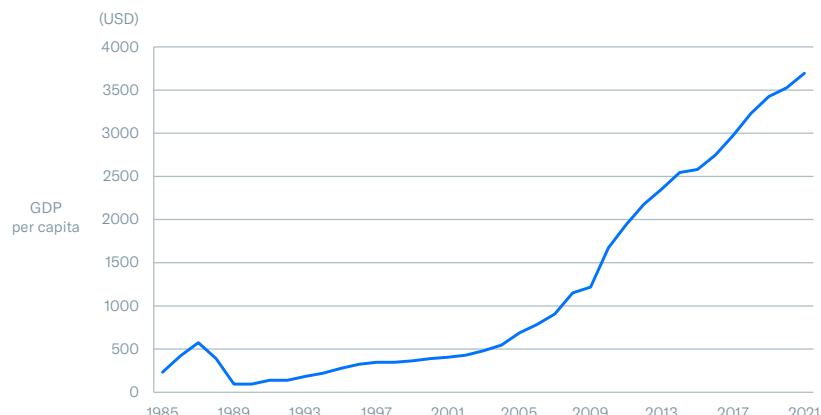
\*Our Head of Private Equity, Bert Kwan, has led USD 300mn of private equity investments in Vietnam since 2013, including early institutional investments in MoMo, Tiki, and Golden Gate Group. He is available to speak further about the opportunities in Vietnam with interested clients.



## Economic Condition

Over the last 20+ years, Vietnam has experienced highly consistent economic growth with an average annual real GDP growth of above 6% and no annual print below 5% until 2020. Even in 2020 – when COVID-19 brought a large part of the global economy to a standstill – Vietnam managed to grow at 2.9% for the year in real GDP terms.

Consistent economic growth plus its respective power of compounding is reflected in Vietnam's GDP per capita.



Source: The World Bank

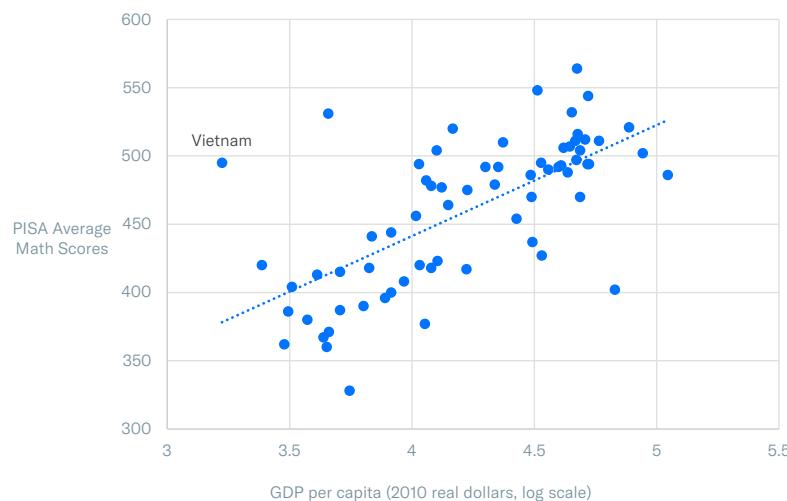
Long-term economic growth is primarily driven by two factors: growth of labour force (more workers) and increase in productivity (more output per worker).

Over the three last decades, Vietnam benefitted from a strong demographic dividend. In 1990, the country was home to a population of 68mn people. Today, that number stands at 99mn (+46%). During the same time, the labour force increased from 33mn to 56mn (+70%), with an exceptionally high participation rate of ~77%. Vietnam's demographics remain attractive in the short-term but the country's population growth is slowing and will reach a peak of 110mn approximately mid-century. Meanwhile, the population is aging, which is reflected in a comparatively fast-increasing old-age dependency ratio. Vietnam – its people and government – is fully aware of this trend and is, therefore, focused strongly on improving economic productivity via three key levers: education, industrial policy, and infrastructure. It is beyond this Perspective to go into the details of each of these factors. Instead, we will outline a few highlights that are a testimony to the positive development in these areas.

<sup>1</sup> This figure has dropped since COVID-19.

- I. **Education:** In the latest 2015 OECD Programme for International Student Assessment (PISA) — which tests high school students in math, science, and other disciplines — Vietnam ranked 8<sup>th</sup> among 72 participating countries, ahead of OECD countries such as Germany and the Netherlands, and far ahead of countries with similar levels of development. Further below we discuss Vietnam's pool of talent in more detail.

Students in Vietnam are among the best in the world and stand out among their peers in other developing countries.



Source: OECD

- II. **Industrial Policy:** Vietnam is successfully following a version of the East Asian economic development model by creating jobs in manufacturing which entice people to shift from the paddy fields to cities and factories. This is evidenced by a strong increase in manufacturing employment from 14% of total employment in 2010 to 23% in 2021, and by a rapid urbanisation rate that reached 38% in 2021 — which is still very low, however, on an absolute basis.

Vietnam's trade policy has been a key component of its industrial policy. Along with Singapore, it shares the top spot in Asia for being a member of numerous bilateral and multilateral free trade agreements. A signatory to 16 of these trade agreements, Vietnam is a member of the World Trade Organization, ASEAN, and has concluded bilateral agreements with the US, Japan, South Korea, the EU, and the Eurasian Customs Union. These trade agreements dramatically reduced tariffs, anchored difficult domestic reforms, and opened much of the economy to foreign investment. It is estimated that more than 10k foreign companies — including major global players such as Samsung, Intel, and LG — operate in Vietnam today, mostly in export-oriented, labour-intensive manufacturing. Moreover, Vietnam is the key beneficiary of manufacturing companies diversifying away from China.

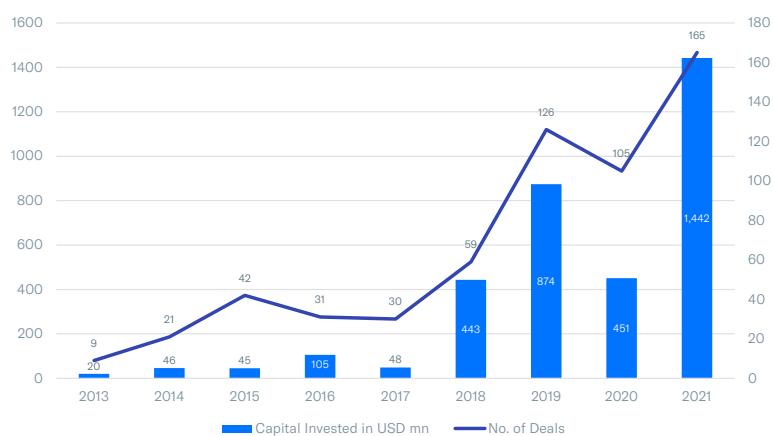
- III. **Infrastructure:** Vietnam spends ~6% of its GDP on infrastructure every year. The majority of planned infrastructure spending is earmarked for improving the country's transportation network and boosting its electricity generation and distribution capacity. For example, electricity generation capacity is planned to double between 2020 and 2030 (from 70GW to 140GW). Meanwhile, large-scale road and public transportation projects are being executed, including the 1,800km North-South highway.

As a result of these developments, Vietnam's overall macroeconomic stability has significantly improved over the last decade with low and steady inflation rates, very high foreign exchange reserves (approximately USD 110bn), a steady inflow of FDIs, and a stable currency. This positive macroeconomic backdrop provides an excellent basis for the development of a vibrant VC ecosystem.

### Capital Supply

Aggregate VC funding reached a record high of USD 1.4bn in 2021 (a 60% increase over 2019), COVID-19 notwithstanding. Meanwhile, the total number of investments also markedly increased to 165 in 2021, up 57% compared to 2020.

Capital invested in venture deals in Vietnam reached record highs in 2021



Source: Do Ventures and Vietnam National Innovation Center

There has also been a marked increase in late-stage investments, with the total amount of deals greater than USD 10mn exceeding USD 1.2bn in 2021, which implies a 255% increase YoY. We believe that this increase in late-stage investments is emblematic of a more developed private equity landscape.

It is useful to put this renewed enthusiasm for private equity investment in Vietnam into context. Between 2010 and 2012, Vietnam suffered from a major capital crisis, which saw relatively ample (and exuberant) foreign and domestic private capital disappear in the wake of a real estate bubble bursting and the high-profile default by a state-owned shipbuilder on its overseas loans. Entrepreneurs whose businesses survived had to operate through a long period of capital scarcity. As such, between 2013 and 2017, the demand for growth equity and VC financing from this “survivor” class of entrepreneurs far outstripped the supply. Institutional investors’ memories of the 2010-2012 period faded by 2018, and the increased flow of private capital found its way to these entrepreneurs, who finally had the resources to unbridle the underlying growth in their companies.

Today, Vietnam is home to at least 5 unicorns and a large number of venture- and private equity-backed enterprises, including flagships such as [Masan Group](#), [VNG](#), [Vingroup](#), [MoMo](#), [Tiki](#), [Seedcom](#), [Scommerce](#), [Galaxy](#), [VNPay](#), and [Golden Gate Group](#), many of which are led by entrepreneurs who operated through the challenges of the post-2010 period and who raised landscape-changing growth capital after 2017.

The success of these homegrown enterprises has underscored Vietnam’s standing as an entrepreneurial hub in Southeast Asia. Perhaps a more nuanced point is that the management culture at many of Vietnam’s entrepreneur-backed enterprises is often characterised by a more conservative capital budgeting practices than their counterparts elsewhere in the region. We believe that this is an

important point to note as we potentially move forward into another period of acute capital scarcity.

### Investor Sophistication

Booming investor enthusiasm and sophistication in Vietnam are engendered not only by the global and regional VC investors who have started to deploy in Vietnam, but also by the increasing number of relatively new, homegrown VC firms (such as [Do Ventures](#), [Touchstone Ventures](#), and [Ascend Vietnam Ventures](#)) that have successfully raised institutional capital for a Vietnam-centric investment strategy.

There are more than 200 active VC firms investing in Vietnam. Singapore-based funds across Southeast Asia continue to be the most active, noting that a number of well-known regional players such as Golden Gate Ventures and Monk's Hill Ventures recently established local offices in Vietnam.

Some of the notable investments over the past 12 months include [MoMo](#) (Mizuho, Warburg Pincus), [VN LIFE](#) (GIC, SoftBank, General Atlantic), [Tiki](#) (AIA, Northstar, Mirae Asset), [Golden Gate Group](#) (Temasek), and [Timo](#) (backed by Square Peg and Jungle Ventures). Furthermore, top-tier investors from Silicon Valley, such as Andreessen Horowitz, Y Combinator, and Altos have actively deployed capital to the Vietnam market in the past year.

While investor enthusiasm persists, we have not seen a commensurate increase in entry valuations, as the demand for VC financing, particularly for smaller enterprises, continues to outpace supply. Successful, repeatable VC investment in Vietnam requires a level of commitment, institutional dynamism, and deployment of local resources that continue to evade most large regional and global VC investors.

Top active investors in 2021, by number of deals



Source: Do Ventures and Vietnam National Innovation Center

### Exit Markets

With robust demographics and a compelling domestic consumption story, Vietnam has become the target of regional strategists eager to penetrate the market. Sea Group acquired [Foody](#) (foodtech leader in Vietnam) and PropertyGuru acquired [Batdongsan](#) (the largest domestic real estate marketplace) in 2018. More recently, [GoTo](#), Indonesia's leading on-demand, multi-service tech platform, acquired the Hanoi-based e-wallet [WePay](#) to secure the local licence to operate in the country.

In addition, Vietnam's conglomerates such as Masan Group and Vingroup have emerged as active participants in the domestic M&A market, with a particular interest in acquisitions in technology-related franchises, providing additional paths to exit for private equity investors.

#### Recent M&A deals in Vietnam

Company	Sector	Acquirer	Year
Nhanh.vn	Enterprise SaaS	MoMo	2022
Base.vn	Enterprise SaaS	FPT Corp	2021
Pique AI	AI	MoMo	2021
Hocmai	Education	Galaxy	2021
Leflair	E-commerce	Society Pass	2021
Phuc Long	Food & Beverage	Masan Group	2021
1MG	Fintech	Vingroup & Techcombank	2020

While the Ho Chi Minh City stock exchange in Vietnam is still developing institutional depth with international equity investors, an increasing number of sizable digital companies are pursuing offshore IPOs. For instance, one of Vietnam's earliest domestic technology success stories, VNG Corporation, is targeting a Nasdaq debut in the next year. The leading Vietnamese game publisher is backed by Tencent, GIC, Temasek, and B Capital. Meanwhile, both Tiki and Loship are eyeing listings in the US within the next two years.

#### Government Support

The Vietnamese government actively supports the country's tech ecosystem now more than ever, making Vietnam one of the most accessible markets in the region. Tech is being recognised as a key driver for the economy, with the government aiming to have 20% of the nation's GDP derived from the digital economy by 2025.

In line with this plan, there are considerable tax incentives offered to tech companies (4 years of tax exemption and 9 years of 50% tax reduction) in sectors such as e-commerce, ride hailing, and social commerce, and there are fewer limitations on foreign ownership, unlike in other Southeast Asian markets.

In addition, according to the Ministry of Planning and Investment, Vietnam aims to have at least 10 unicorns by 2030. As a result, the Vietnam National Innovation Center has been set up specifically as one of the key ecosystem builders to provide resources to facilitate the growth of the tech startup landscape and develop high quality human resources to promote innovation and digital transformation.

#### Pool of Entrepreneurs and Talent

According to [the World Bank](#), the country ranks only second to Singapore in the ASEAN region in terms of the Human Capital Index, which suggests relatively high productivity and workforce quality in the country.

As the third largest software outsourcing country in the world, Vietnam has one of the biggest pools of affordable and talented software engineers in the region, making the country an ideal "test bed" for tech companies building for the broader Emerging Asia market. Currently, Vietnam has 400k engineers and 80k new IT graduates annually, thus producing a cohort of skilled workers to support entrepreneur-backed enterprises.

Moreover, over the past decade, a large number of [Việt Kiều](#) (or overseas returnees) have returned to Vietnam armed with degrees and work experience from abroad. This phenomenon potentially heralds an era of “reverse brain drain”, where those who fled a war-torn and impoverished country during the 1960s and 1970s as infants or children are returning as adults, bringing significant overseas connections and technical know-how — often honed at Microsoft, Amazon, Google, and other tech and engineering giants in the West.

### In Conclusion

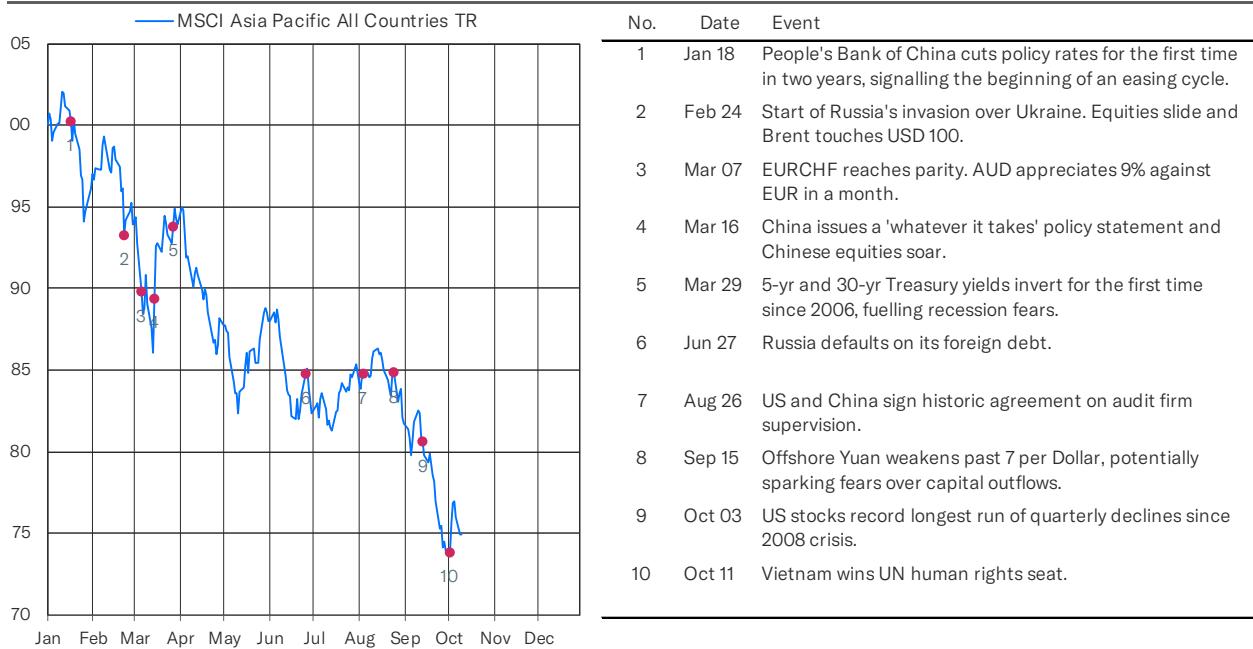
It is still early days for VC in Vietnam, but we believe that the VC ecosystem and broader environment present a profile that is fundamentally conducive to profitable investment:

- I. Favourable secular, demographic, and regulatory tailwinds, particularly in relation to other emerging markets
- II. A large and growing cohort of experienced entrepreneurs, buttressed by a strong pipeline of both domestically-educated workers in technology and returning overseas talent
- III. A favourable balance between supply and demand of VC financing, coupled with broadening avenues for exit

# Market Dashboard

as of 13/10/2022

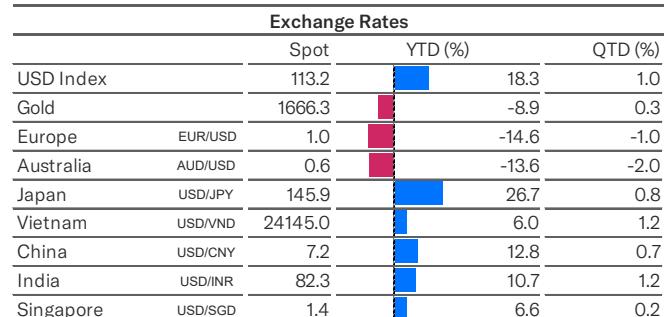
## Major Events 2022



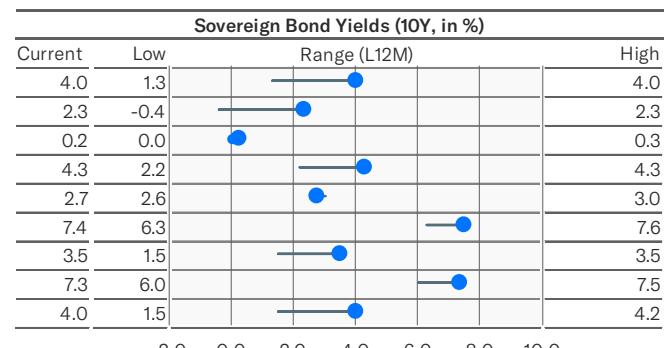
Stock Market Returns (in %)			
	YTD (LC)	YTD (USD)	QTD (USD)
USA S&P 500	-23.8	-23.8	0.1
EURO Stoxx 50	-19.8	-31.3	0.4
JPY TOPIX	-3.9	-23.9	1.3
KOSPI	-26.0	-38.2	2.4
CSI 300	-23.0	-31.7	-2.8
MSCI China	-33.5	-33.9	-4.1
TAIEX	-24.9	-34.8	-2.8
Sensex	-0.8	-10.1	-1.5
SET	-3.3	-15.1	-2.1
PSEi	-16.5	-27.7	1.5
VNI	-32.1	-35.2	-11.3
KLCI	-8.3	-18.4	-1.3
STI	2.9	-3.3	-0.7
JCI	7.9	0.5	-1.9
ASX 200	-5.9	-18.1	1.1
NZX 50	-15.9	-30.7	-0.8

Bond Market Returns (in %)			
	Yield (YTW)	YTD (LC)	QTD (LC)
Asia High Yield Bonds*	18.4	-27.2	-1.4
China High Yield Bonds	26.4	-37.0	-3.0
Asia IG Bonds*	5.8	-14.1	-0.7
China IG Bonds	3.0	3.5	0.1

\*in USD unhedged



Sovereign Bond Returns (Composites, in %)			
	YTD (LC)	YTD (USD)	QTD (USD)
USA US	-13.7	-13.7	-0.7
Germany	-17.3	-29.1	-1.6
Japan	-3.7	-23.9	-0.7
South Korea	-10.6	-25.5	-0.3
China	3.6	-8.2	-0.5
India	0.4	-9.0	-1.4
Singapore	-4.3	-10.0	0.3
Indonesia	-0.2	-7.2	-0.1
Australia	-14.6	-25.7	-2.2



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