

M&A in the Vietnamese Telecom Industry: EVN Telecom - Viettel Deal Report

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Abstracts

Executive summary

You are going to read a strategic investment report, the first one in the Vietnamese mobile telecommunications industry. The report not only provides you with background of deal parties and deal structure and relevant managerial issues but also supply readers with thoughtful analyses on strategic scenarios. Corporate executives, deal makers, institutional investors, fund managers, equipment vendors, telecommunications operators, strategic planners, marketing and sales executives, policy makers, regulators, researchers, and other stakeholders can always benefit themselves with such a comprehensive market intelligent report.

The telecommunication development in Vietnam follows a leap-frog strategy of renovation in phases: (1) Acceleration and modernization (1990-2000), (2) No corporate monopoly and approaching competition (1995-2003), (3) Integration, development, and ownership diversification (2000-2020), and (4) Achievement of the telecommunication roadmap of a developed country (from 2020 onward).

Despite differences in political systems and socioeconomical situations, we found out that telecommunication industries across countries are betting a similar theme. Starting from a natural stronghold monopoly and then booming with several new entrants to create a competitive market, telecommunications sectors require industry consolidations later on at a certain point in time when market is matured enough. That phenomenon has happened everywhere.

What would happen happened. The miracle cycle of telecommunications has proved its exist in Vietnam. The mobile telecommunications in Vietnam has gone through

monopoly, duopoly, competition, and now consolidation. Market effectiveness and scarce resources has required industry consolidation and restructuring. NNMT ADVISOR's founder, Bien Nguyen, has forecasted this trend in his speech at Carrier World Asia in Hong Kong in 2010. Within two-year time, the number of mobile telecommunications operators has reduced to six. Market is now clearly defined as the top three Viettel, MobiFone, and VinaPhone are together holding about 92% market share while the smaller "fishes" VietnamMobile (Hanoi Telecom), S-Fone, and Beeline (Gtel Mobile) painfully share the rest and are struggling to survive after EVN Telecom was merged into Viettel in late 2011. Generally, we believe that window opportunities for the mobile telecommunications market in Vietnam is very narrow at this point in time since mobile penetration ratio already surpassed 130%. We are supported by the fact that neither of two MVNO licensees could launch their services. We also expect that there would be another consolidated action among small operators since no company can afford to run a losing money business longer than a certain period of time. We are in the opinion that investment opportunities in the mobile telecommunication are still there and eventually more attractive since the Vietnamese government is being forced to privatize both MobiFone and Viettel very soon. In fact, no business owners would want to sell their cash cows but if there is a long queue of debt to be due, there is no other choice. Among state-owned conglomerates, VNPT and Viettel are making money while the majority is losing and incurring huge debts. We foresee that this trend will soon happen in 2012 or early 2013.

We find it very interesting obtaining a detailed understanding about the first M&A deal which accelerates the whole Vietnamese telecommunications industry towards consolidation in response to the maturity of the market. That is not because the deal is perfect or without governments intervene. That is because we believe that a new wave of opportunities is now coming. Only firms that are capable to go beyond competition and capture opportunities can survive and grow in the long-run.

We first look at EVN Group and EVN Telecom to have a big picture and build strong foundation for what we can come up with later on. We then examine EVN Telecom's business performance lately to see what was going wrong with this operator. We also review several negotiations between EVN Telecom and potential buyers, especially the winning acquirer Viettel. Details on relevant regulations and debates are also provided. We of course touch base on assets and debts of EVN Telecom prior to the merger to see how attractive the deal seemed to be. We also foresee the merging process and possible outcomes.

Contents

1 EXECUTIVE SUMMARY

2 OBJECTIVES AND APPROACHES OF THE STUDY

- 2.1 Objectives
- 2.2 Primary Research
- 2.3 Secondary Research
- 2.4 Experts' Opinions

3 OVERVIEW OF EVN GROUP AND EVN TELECOM

- 3.1 EVN GROUP
- 3.2 EVN TELECOM

4 BUSINESS PERFORMANCE OF EVN TELECOM

5 SUMMARY OF POTENTIAL BUYERS AND PROPOSALS

- 5.1 SK Telecom
- 5.2 ST Telemedia (Singapore)
- 5.3 FPT and FPT Telecom
- 5.4 VTC
- 5.5 Hanoi Telecom
- 5.6 Viettel

6 BRIEF OF RELEVANT REGULATORY AND LEGAL ISSUES

- 6.1 Relevant M&A regulations
- 6.2 Issues to be regulated concerning the EVN Telecom deal

7 ASSETS AND DEBT OF EVN TELECOM PRIOR TO THE MERGER

- 7.1 CDMA 450MHz Spectrum and Network
- 7.2 3G Spectrum and Network
- 7.3 Investment in Intra-Asia submarine cable project
- 7.4 International Gateways and National Fiber Optic Network
- 7.5 Other facilities

7.6 Debt

8 MERGING PROCESS AND POSSIBLE OUTCOMES

Table Of Figures

TABLE OF FIGURES

Figure 1: Electricity capacity and supply shortage in Vietnam

Figure 2: Average selling prices of electricity in Vietnam
Average selling prices of electricity in Vietnam

Figure 3: Revenues of EVN from selling electricity
Revenues of EVN from selling electricity

Figure 4: Overview of EVN Group's Human Resources

Figure 5: Overview of EVN Telecom's CDMA network's operating expenses

Figure 6: Cross comparison on 3G investments among Vietnamese operators

Figure 7: Vietnam Mobile ARPU (US\$)

Figure 8: Business performance of EVN Telecom since 2008

Figure 9: Fixed line market share among Vietnamese operators (mid 2010)

Figure 10: Allocation of 2G+3G subscribers generating traffic by end of 2010

Figure 11: Mobile market share among Vietnamese operators (mid 2011)

Figure 12: Viettel's mobile subscriber growth (2004-2011)

Figure 13: Viettel's mobile subscriber forecast (2010 – 2015)

Figure 14: Viettel's annual revenues

Figure 15: Historical development of the Vietnamese mobile telecommunications industry

Figure 16: Spectrum allocation for Vietnamese operators

Figure 17: 3G Spectrums awarded by the Vietnamese government

Figure 18: 3G applicants and their commitments

Figure 19: TGN Intra-Asia submarine cable map

Figure 20: Quick assessment of EVN Telecom's debt items

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