

Highway to Hanoi

On a whistlestop tour, a senior investment analyst visits new companies in Vietnam's main cities, discovering growth from the ground and a unique soft drink



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With so many new companies to meet, I was excited to embark upon my second visit of the year to Vietnam. My visit focused on companies we have not met before, as well as carrying out site visits to ports and factories of the fund's existing holdings.

I started my trip in Hanoi. The infrastructure travelling from the airport to the city has improved tremendously since my first visit almost three years ago.

My first day was full of company visits: a toll way operator and real estate developer; a consumer company; and a company that manufactures glass, ceramic floor tiles and sanitary ware.

The next day I travelled to Hai Duong – a 90 minute drive from Hanoi – to visit the factory of one of the fund's existing holdings, an industrial pump manufacturing company.

The pump company is small so there is room for improvement in manufacturing capability and efficiency. Management are keen to see this happen in the coming years.

After this, the local analyst and I got straight onto the new highway for 45 minutes. The new highway opened recently and connects Hanoi to Haiphong. I was told the fare to use it is quite high so a lot of traffic still uses the older highway. But the quality of the new road made it worth the fare.

PORTS AND IMPORTS

Haiphong is located about 120km east of Hanoi. It's smaller and quieter than Hanoi, but it is the leading port area in north Vietnam. It's home to more than a dozen port companies, some of which are listed. Understanding the location of these ports is important as this affects their throughput as well as the size of ships that they can berth.

The ports are currently all river ports located next to the sea, so they cannot accommodate vessels of the size you see in Hong Kong and Singapore.

To the east of Haiphong, on Cát Hai Island, a new deep water port is under construction. This will be connected to the mainland by a bridge and is expected to have a capacity of 1.1 million 20-foot-equivalent units in its first phase. It will accommodate much larger vessels and is expected to begin operations in 2019.

The development of this port could be a threat to the ports along the river. As their utilisation levels fall, consolidation among the smaller ports can't be ruled out.

Since I was going to be spending most of the day in Haiphong I decided to fly to Ho Chi Minh City (HCMC). It's refreshing to visit HCMC, it has a good buzz to it.

My meetings in HCMC kicked off with a large fertiliser company, a ferry company and a tyre manufacturer. Commodity-focused industries in Vietnam are facing the threat of cheaper imports from China and this has depressed prices over the past year.

PROPERTY AND DR PEPPER

The next day I went to Binh Duong province, which is about an hour's drive from HCMC. There I visited a real estate company that develops residential projects primarily in Binh Duong.

Although it has a toll way project and some commercial real estate, its main business is constructing residential real estate. This company is benefitting from industrial activity and economic development in Binh Duong and the surrounding areas.

I then visited the factory of a local cold drinks manufacturer in District 1 – a prime location in HCMC. By manufacturing a local brand, the company doesn't compete with Coke and Pepsi. Even the flavour is different; it tastes like Dr Pepper.

The next day I went to Dong Nai Province, about an hour and a half north of HCMC. I drove parallel to the metro project, which is under construction.

In Dong Nai I stopped by an infrastructure company, a detergent company and the factory of an automotive battery company. The fund holds the automotive battery company and after seeing the factory, we continue to be positive, given their expansion plans at the existing factory location.

Being on the ground is the best way to get a feel of what is going on in a company or a country and what direction it is heading in the long term. I had a very informative, educational and positive time in Vietnam.