

EVALUATION OF STOCK LISTING IMPACT ON CORPORATE
PERFORMANCE OF AGRO-FOOD COMPANIES IN VIETNAM

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A Thesis Submitted to Asia e University in Fulfilment of the
Requirements for the Degree of Doctor of Philosophy

July 2019

ABSTRACT

This thesis investigates the effect of the stock market listing on corporate performance of agricultural and food processing (agro-food) companies listed in the Vietnamese stock market. Most important data is extracted from published annual report of agro-food companies listed on the stock exchange of Vietnam. We also use data and information from a survey carried out by the Ministry of Agriculture and Rural development of Vietnam on activities of 200 agricultural companies in 10 provinces of the country and data from annual surveys by the Vietnam General Office of Statistics. While the descriptive statistics serve to compare corporate performance before and after the stock market listing, regression models are used to determine the relationships between independent variables and dependent variables. A total factor productivity (TFP) model is modified for the case of Vietnam in order to examine the impact of the stock market listing on the value added, which is a proxy of corporate performance of these companies. The results show that in general, being listed in the stock market has positive effect on corporate performance, but the effect on ROC and EPS is clearer than on other performance proxies. The review and analysis of policies affecting agro-food corporate performance in Vietnam is also carried out for analyzing impact factors and for providing recommendations. Main findings lead to different groups of recommendations for Vietnamese Government and companies in this sector. In general, the Vietnamese Government should push up the equitization of SOEs in the agro-food sector and encourage them to improve corporate performance by different ways, of which, being listed in the stock market is an important one.

APPROVAL PAGE

I certify that I have supervised /read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfilment of the requirements for the degree of Doctor of Philosophy.

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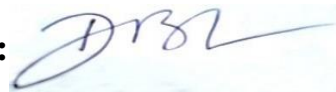
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DECLARATION

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ACKNOWLEDGMENTS

The completion of this thesis is attributed to not only my effort, but also to the great support of my supervisor, the Asia e University, concerned agencies, authorities and several individuals. My foremost thanks go to my supervisor, Associate Professor Dr. Junaid M. Shaikh School of Business, Curtin Sarawak for always encouraging me to be more creative and giving me timely comments, suggestions and guidance .

I am also intensely indebted to my teachers in the AeU University, especially Professor Chua, Prof. Dr. Mohammad Adam Bakar, Prof. Dr. Siow Heng Loke, Dr. Oo Yu Hock who gave me and my colleagues valuable lessons and motivation to do the Ph.D thesis.

My gratitude is for Dr. Dang Kim Son- former director, Dr. Tran Cong Thang-deputy director of the Institute of Policy and Strategy of Agriculture and Rural development of Vietnam (IPSARD) and other colleagues in this institute for advices in research methodology and data access. I would like also to thank my colleagues in the Ministry of Industry and Trade of Vietnam as well as several agro-food companies, who gave me useful information and data.

I gratefully acknowledge the role of staffs in the AeU University including Ms Swa Lee Lee, Siti Habsah Mat Diah, Hamizi Hafeza, Budiman Hairuddin and Arif Fahmi bin Adnan for all their support during our Ph.D working programs.

Last but not least, my heartiest thanks are to my family. Encouragement from my grand parents, direct support from my parents and my husband contributed a lot to the completion of this thesis.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
FTA	Free Trade Agreement
GDP	Gross domestic product
GSO	Vietnam General statistics office
HNX	Hanoi Stock exchange
HOSE/HSX	Ho Chi Minh stock exchange
IPO	Initial public offering
IPSARD	Institute of policy and strategy for agriculture and rural development
ITC	International Trade center
MARD	Ministry of Agriculture and Rural development of Vietnam
MOF	Ministry of Finance of Vietnam
SMEs	Small and medium enterprises
SOEs	Stated owned enterprises
TFP	Total factor productivity
TPP	Transpacific partnership
USD	United States dollar
VAMC	The state-owned Vietnam Asset Management Company Vietnam
VND	Vietnam Dong
WB	World Bank
WTO	World Trade Organization

CHAPTER

1. INTRODUCTION

Overview

This chapter works on the research background and major problems of agro-food sector as well as agro-food companies in Vietnam. Research questions, objectives, key definitions and significance of the study are also mentioned. At the end of the chapter, we present in detail the thesis structure.

1.1 Introduction

1.1.1 The role of agro-food sector and companies in Vietnamese economy and influence at regional level

Being one of the world's leading producers and exporters of different agricultural products, Vietnam is playing an increasing role in the agricultural-related, economic, and geographic political issues of Asia. The country's experiences and its perspective in agro-food sector attract not only investors around the world, but also researchers.

The transformation from a totally public-owned economy to a socialist-oriented market economy with the increasing private ownership through the securitization of resources is significantly impacting on Vietnamese social and economic life. In addition to neighbors in ASEAN, big countries like the United States, Japan, and India have considered Vietnam a key partner in their new Asia strategies.

Along with the economic integration and trade liberalization, Vietnam is opening its market with 100 million consumers and various export opportunities to international business and investors. But how could they gain from these

opportunities? That depends not only on the legal framework, but also on the performance of Vietnamese companies that may become their partners or rivals.

Thanks to remarkable reforms in the economy as a whole and in the agro-food sector since 1986, from a country suffering hunger after the war, Vietnam has become one of the world largest exporters of farm products. In 2016, for the first time, the export value of fruit and vegetable has exceeded the turnover from rice export, bringing the country into the global map of fruit and vegetable trade.

Agriculture plays the key role in ensuring national food security and has remarkable contribution to the exports of Vietnam (exports of agro - forestry - fishery products reached USD 30.45 billion in 2015, accounting for 18.8 percent of total exports). During the global economic crisis (2008 - 2013), agriculture was an important pillar of Vietnam's economy, helping ensuring the political - economic stability in rural area. It covers now about 50 percent of the national workforce and contributes to about 15 percent of GDP of Vietnam (Vietnam GSO, 2019).

Along with the urbanization and modernization, the country witnessed an increasing transfer of land from agriculture to industrial or residential use. However, in comparison to most TPP comparison, the proportion of agricultural value in the economy of Vietnam is 10 times greater (Shawn and John, 2014).

Since the economic reform which began in 1986, the role of the private sector in the Vietnamese economy has been officially recognized by both the Government and the public, which has led to a number of reform measures to promote the private sector. The state's monopoly in trade was removed while the participation of the private sector in trade has been encouraged. Investment incentives have been initiated in order to attract domestic and foreign investment. The recognition of the private sector development in the 1992 Constitution and a series of legislation

reforms with the implementation of the Enterprise Law have allowed the private sector to gradually grow and to contribute more and more to the development of agro-sector of the country. It has enhanced also the attraction of foreign investment into this sector, as well as the international and regional integration of Vietnam agriculture and food processing.

1.1.2 Overview of companies in the agro-food sector as a whole

According to a survey carried out by the Vietnam Ministry of agriculture and rural development (MARD) in 2015 on processing activities of 12 agricultural commodities including rice, coffee, rubber, tea, cashew, sugar cane, vegetables, pepper, meat, seafood, animal feed and wood processing, there were about 6,610 businesses and thousands of families working in the agro-food sector. Of which, there were 582 rice processing enterprises, accounting for 8.8 percent of total companies number in this sector; 239 coffee processing enterprises (3.6 percent); 147 rubber processing business (2.2 percent); 257 tea processing enterprises (3.9 percent) and 328 cashew nut processing enterprises (5.0 percent).

Food processing sector is concentrating in four localities including Ho Chi Minh City and Nghe An, Dong Nai and Binh Duong provinces.

There were 18 provinces and cities having more than 100 processing enterprises of agriculture, forestry, fisheries. About 15 provinces and cities have the number agro-processing enterprises between 50 and 99 units. Some provinces even have only around 10 agro-food companies. It is worth mentioning that 88.89 percent of localities having more than 100 agro-food companies concentrate in the southern region of the country (the Mekong river delta and most developed food processing area in Binh Duong and Dong Nai province).

Table 1.1 Distribution of agricultural companies by sub-sectors in Vietnam

Sector	2007		2013		Annual growth (percent/year)
	Number (unit)	Share (percent)	Number (unit)	Share (percent)	
I. Narrow agriculture (cultivation and livestock)	787	32.8	1.707	46.9	13.8
1. Annual crops	159	20.2	406	23.9	16.9
2. Perennial crops	194	24.7	425	25.0	14.0
3. Seedlings	57	7.2	151	8.9	17.6
4. Livestock breeding	177	22.5	393	23.1	14.2
5. Mixed farming and livestock	14	1.8	48	2.8	22.8
6. Agricultural Services	186	23.6	278	16.3	6.9
II. Forestry	328	13.7	632	17.4	11.6
1. Hunting, trapping and related service activities		0.0	6	0.9	
2. Planting and tending	262	79.9	492	77.1	11.1
3. Logging and other forest products	45	13.7	101	15.8	14.4
4. Collecting forest products and timber forest products are not different	1	0.3	9	1.4	44.2
5. Forestry services	20	6.1	30	4.7	7.0
III. Fishery and aquaculture	1.282	53.5	1.296	35.7	0.2
1. Fishing	926	72.2	668	51.5	-5.3
2. Aquaculture	356	27.8	628	48.5	9.9

Source: Annual report on Vietnamese companies (VCCI, 2014)

According to reports from the Vietnam Chamber of Commerce and Industry (VCCI, 2014), 95 percent of agricultural investors are small organizations, while large enterprises account for only 3.7 percent and medium-sized enterprises only

1.32 percent. Agricultural enterprises are concentrated in two largest regions (the Red River Delta and the Mekong River Delta), which account for nearly 60% of the total number of enterprises in the sector, of which 36.66% are the highest in the country. Nearly half of the exporting enterprises are located in Ho Chi Minh City and Hanoi city. North Central and Central Coast and Central Highlands are the most concentrated locations of forestry enterprises, accounting for over 50% of total forestry enterprises of the whole country.

Table 1.2 Number of agricultural processing companies by sub-sectors

No	Sub-sector	Number of companies	
		Number (Unit)	Share (percent)
1	Rice	582	8.80
2	Coffee	239	3.62
3	Rubber	147	2.22
4	Tea	257	3.89
5	Cashew nut	328	4.96
6	Sugar cane	38	0.57
7	Vegetable	145	2.19
8	Pepper	17	0.26
9	Animal feed	338	5.11
8	Livestock	51	0.77
12	Aquacultural product	864	13.07
13	Forestry products	3604	54.52

Source: Annual report on Vietnamese companies (VCCI, 2014)

Thanks to its advantages for agriculture, forestry and fishery, the Mekong River Delta has attracted the most agro-food enterprises. While this area accounts for only 7.8% of total enterprises in Vietnam, it is the location of 25% of total agro-food companies of Vietnam. With about 4 million hectares of natural land, of which 3.8

million hectares are using for agricultural production, it is a key agricultural economic area. 40% of GDP and 52% of the workforce of this Delta come from the agricultural sector. It is also the highest agricultural productivity area in the country. In fact, while accounting for only 27% of the agricultural land of Vietnam, this area contributes to 70% of farm products of the country, with more than 25 million tons of rice, millions of tons of seafood, millions of tons of fruits and many other agricultural products, annual agricultural export turnover of this delta is more than U\$10 billion. International experts acknowledge that the Mekong River Delta is not only a food crop of Vietnam, but also of Southeast Asia, contributing significantly to the food security of the region. In addition to advantages in important inputs for agro-food production including land, water and abundant labor resources, this delta has also planned more than 50 industrial parks and 200 industrial clusters to provide clean land funds to attract local investors.

The South East region is the home of 23% of companies operating in agriculture, forestry and fisheries. The region has tremendous potential in terms of aquaculture, fisheries, animal husbandry, especially dairy cattle. Perennial crops including rubber, coffee, tea, cashew and mulberry, make up 36% of the perennial area of Vietnam. The advantages of an agricultural economy surrounding big cities with high concentration of industrial production, commerce, service, have pushed up the food processing in the region.

The North Central Coast and the Central Coast regions have relatively high rate of agriculture, forestry and fishery companies' number (18%), higher than the rate of 13.2% of the whole business sector. The North Central region includes six provinces: Thanh Hoa, Nghe An, Ha Tinh, Quang Tri, Quang Binh, and Thua Thien Hue, with relatively favorable socio-economic status on the north-south axis. Main

routes linking Laos and the North-Eastern of Thailand with the East Sea, as well as airports including Vinh, Dong Hoi and Phu Bai and important sea ports including Nghi Son, Cua Lo, Hon La and Thuan An are among advantages of this region. Agro-food sector of this region consists in cultivation and exploitation of aquatic products including shrimp, crab and clam farms. However, investment in agro-food production in these provinces is still not commensurate with the potential.

The allocation of agro-forestry and aquacultural enterprises by sub-sector depends on the advantages of each region. The difference is most clearly in the field of fisheries with the prominence of the Mekong river delta. Particularly, this region accounts for 62% of total seafood enterprises, of which the location of large fisheries enterprises includes Kien Giang, Ben Tre and Tien Giang provinces. The Mekong river delta does not have advantage over other regions in term of forestry. Therefore, the number of forestry enterprises in this area is very small.

Regarding fisheries, the Mekong river delta, the North Central Coast and the Central Coast are the homes of 21.4% of the total number of enterprises in the sector. Fishing enterprises in the Central Coast mainly situates on three provinces including Khanh Hoa, Ninh Thuan and Binh Thuan.

In general, agricultural companies in Vietnam in the study period have following characteristics:

- + Most of companies are small and focus on cultivation and livestock production, which are two main sub-sectors of agriculture in Vietnam.

- + Agro-food companies in Vietnam are diverse in size but most of them are small and medium (SMEs). Statistics from the Vietnam GSO shows that up to 2012,

there were about 3,407 SMEs, accounting for 96.5 percent of all agricultural enterprises in the country.

According to the criteria specified in the Decree No. 56/2009/ND-CP issued by the Vietnamese Government, the classification of firm's level by capital criteria is as follows: small enterprises (less than VND 20 billion), medium enterprises (VND 20-100 billions). Basing on number of labors, micro firm has got less than 10 employees, small enterprises from 10 to 50 employees and medium enterprises from 50 to 300 employees.

The number and proportion of SMEs in the agriculture is as follows:

- (i) *Basing on the criteria of total capital*, there were 3,369 SMEs in agriculture of which micro-sized enterprises accounted for 57.05 percent; 1,199 small enterprises (35.59 percent) and 248 medium enterprises (7.36 percent);
- (ii) *Basing on the criteria of number labor*, the proportion of small enterprises increased from 33.2 percent in 2007 to 51.2 percent in 2013. Meanwhile, the proportion of small enterprise fell from 59.1 percent in 2007 to only 43.9 percent 2013. The share of large and medium enterprises decreased, respectively from 5.5 percent and 2.3 percent in 2007 to 3.7 percent and 1.2 percent in 2013. This trend may be explained by difficulties in the agricultural sector in that period, which pushed up agro-food companies to narrow their activities. In some cases, application of machines and mechanization decreased also labor's number (GSO, 2014).

The study period witnessed also a big structural change in the agriculture, forestry and fishery sector. Accordingly, the share of the fisheries increased from

16.2% in 2000 to 21% in 2010 and 30% in 2013. The share of the cultivation decreased from 61.8% to 56.4% in 2010 and 52% in 2013 while the proportion of livestock breeding increased from 15.25% to 18.7% in 2010 and 20%.

The number of enterprises in cultivation and livestock was highest (1,707 companies in 2013), representing 47 percent of all enterprises of agriculture, forestry and fisheries. The seafood with 1,296 enterprises, accounted for 35.7 percent. The share of 632 enterprises in the forestry sector in the total number of agricultural companies was about 17.3 percent. However, after a boom in both production and exportation, the enterprises number in the seafood sector were barely growing, only at 0.2 percent per year in the period of 2007-2013 due to the crisis of catfish export in two years 2012 and 2013. In this period, catfish exports of Vietnam faced with higher technical barriers and anti-dumping policies in export markets.

+ State owned enterprises (SOEs) played the most important role in the past, but their proportion has decreased in recent years. Thanks to big efforts of the Vietnamese Government in the equatization of SOEs, the proportion of SOEs decreased, from 80.83 percent in 2007 to 71.48 percent in 2013 in term of labor number and from 82.1 percent to 58.5 percent in term of capital. The number of SOEs and foreign capital enterprises was low, 4.1 percent and 10.6 percent respectively. Rubber processing industry has more SOEs than other sub-sectors. SOEs accounted for 21.77 percent of the total number of processing enterprises in this sub-sector. This proportion was 10.88 percent and 10.51 percent for the case of coffee processing and tea processing sub-sector respectively.

Private and foreign investors have invested more in the fruit and vegetable processing, pepper processing and animal feed production; the number of FDI companies in these sub-sectors is much higher than in others. The share of FDI to

total processing enterprises in fruit and vegetable processing, pepper processing and animal feed production was 26.21 percent, 23.53 percent and 19.53 percent respectively. The proportion ranges from 10 percent to 13.18 percent for the cases of coffee, tea, sugar cane and wood processing, respectively.

Rice and fish processing have received more investment incentives from the Government, but it does not mean that these sub-sectors are prioritized to SOEs. Nearly 94 percent of companies operating in rice processing and 92.13 percent seafood processing business are now private. This proportion is even higher in case of cashew and meat processing sub-sectors, with 97.26 percent and 90.2 percent, respectively. This is an inevitable trend of agro-food sector in Vietnam, all in parallel with the market oriented economy and economic integration.

Table 1.3 Proportion of agricultural companies by ownership

No	Sub-sector	Proportion of agricultural companies by ownership (percent)		
		SOEs	FDI companies	Private companies
1	Rice	3.61	2.41	93.99
2	Coffee	10.88	10.04	79.08
3	Rubber	21.77	2.72	75.51
4	Tea	10.51	11.67	77.82
5	Cashew nut	1.52	1.2	97.26
6	Sugar cane	2.63	13.16	84.21
7	Vegetable	4.14	26.21	69.66
8	Pepper	0	25.53	76.47
9	Feed	4.14	19.53	76.33
8	Livestock	5.88	3.92	90.20
12	Aquacultural product	3.70	4.17	92.13
13	Forestry products	2.91	13.18	85.3

Source: MARD (2013)

Table 1.4 Share of types of enterprises in term of labor and capital

Types of enterprises	Share of number of enterprises (percent)		Share of number of labors (percent)		Share of capital (percent)	
	2007	2013	2007	2013	2007	2013
1. SOEs	19.11	11.00	80.83	71.48	82.1	58.5
2. Non stated enterprises	77.39	86.00	15.88	24.80	12.6	36.3
3. FDI enterprises	3.50	3.00	3.28	3.72	5.3	5.2
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Annual report on Vietnamese companies (VCCI, 2014)

Table 1.5 Distribution of agricultural enterprises by types

Types of enterprises	Share of number of enterprises (percent)		Share of number of labors (percent)		Share of capital (percent)	
	2007	2013	2007	2013	2007	2013
1. SOEs	19.11	11.00	80.83	71.48	82.08	58.52
2. Private companies	51.48	27.76	9.78	10.77	3.90	3.23
3. Limited companies	17.86	41.40	3.13	8.25	5.14	11.86
4. Joint stock companies	8.05	16.84	2.98	5.78	3.57	21.20
4. 100 percent foreign capital companies	3.21	2.61	2.87	3.08	4.71	4.67
5. Joint venture companies	0.29	0.39	0.41	0.64	0.61	0.52
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Annual report on Vietnamese companies (VCCI, 2014)

1.1.3 Key issues and challenges of agro-food companies in Vietnam

1.1.3.1 Agricultural companies

Beside remarkable successes in production and exportation, Vietnam's agro-food sector has shown serious structured problems including low added value and