



Cash & working capital trends in Vietnam

Recent performance, current challenges and potential options to improve cash across industries in Vietnam

July 2021



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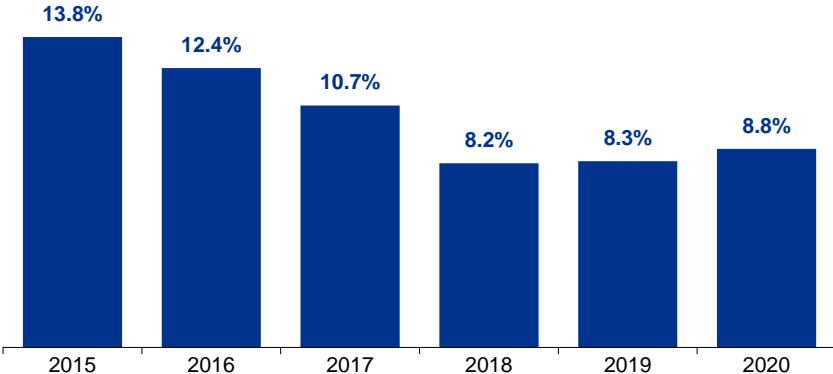
The pandemic has reinforced the importance of cash

Cash determines business success or failure. Companies running on tight liquidity before the pandemic may have had to make drastic changes to their working capital management as the pandemic has disrupted supply chains.

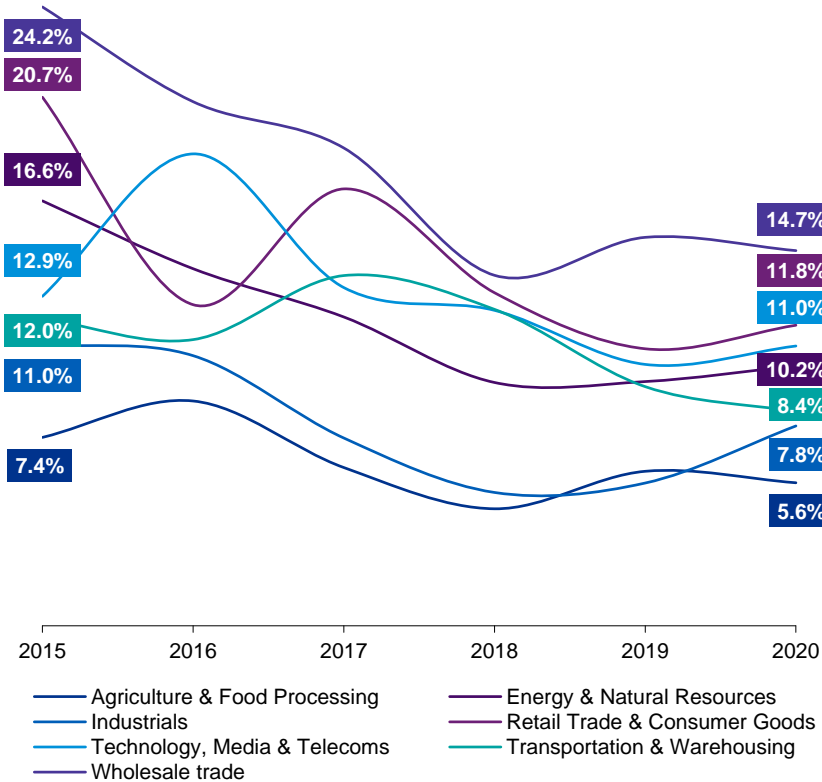
Companies have increased liquidity on the balance sheet in recent years, although cash remains below 2015 levels.

- Cash & cash equivalents represent **8.8%** of Vietnamese balance sheets in 2020, an increase of **0.6ppt** versus 2018.
- Yet, balance sheet liquidity remains below 2015 levels of **13.8%**. Significant dispersion is observed across industries.
- **Strategic deployment of cash** is key as the pandemic continues. Companies need to balance investing for returns with preserving liquidity for potential financial shocks.

Cash & cash equivalents as % of total assets for Vietnamese companies



Cash & cash equivalents as % of total assets by industry in Vietnam



Source: Financial statement data for 339 public companies in Vietnam (excl. financial services), sourced from CapitalIQ.

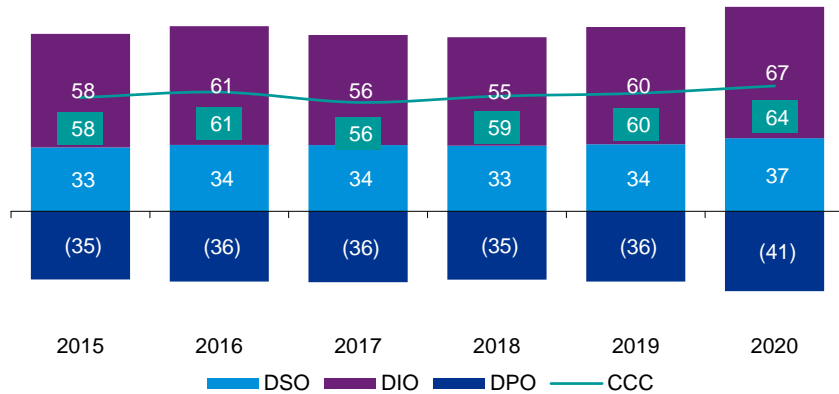


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Working capital management is essential to protect liquidity

Having clear terms, processes and policies in place with key business partners is now more important than ever. Growing imbalances between the timing of cash in and cash out can pose risks to business continuity.

Working capital days for Vietnamese companies



Working capital days across industries in Vietnam in 2020



Source: Financial statement data for 339 public companies in Vietnam (excl. financial services), sourced from CapitalIQ.

Working capital metrics have worsened over the past years, mainly driven by receivables and inventories.

- Despite more liquidity on the balance sheet, Vietnamese companies have seen a deterioration in their cash conversion cycle (“CCC”) by **5 days** since 2018.
- Increasing **Days Sales Outstanding** (“DSO”) and **Days Inventories Outstanding** (“DIO”) indicate potential slowing customer collections and higher inventory balances.
- **Days Payables Outstanding** (“DPO”) movements indicate that companies seem to take longer to pay their suppliers.
- Working capital practices **differ by industry**. Companies should assess their performance relative to industry norms.

Companies should monitor and address warning signs early

The COVID-19 pandemic may mean that common working capital warnings signs flare up earlier. Companies should monitor internal metrics and business partner performance for red flags, and prepare a list of contingency options.

There are various warning signs that may indicate the need for rapid cash & working capital improvement.

| | |
|--|---|
| Worsening DSO, DIO or DPO | Increasing customer overdues and deteriorating aging profiles |
| Significant early and late payments to suppliers | High numbers of stock-keeping units and increasing obsolescence |

Such signs may be more prevalent in the pandemic due to changes in demand and impacts on business partners.

Receipts may slow down as customers tactically manage their cash

| | |
|--|--|
| Suppliers may request advance payments or deposits | Certain products may not sell during social distancing periods |
|--|--|

Companies should consider 5 key actions to rapidly enhance cash & working capital performance and visibility.

- 1 Ensure there is a robust short-term cash flow forecast in place, using the direct “receipts and payments” method.
- 2 Install a strong reporting suite, capturing cash & working capital key performance indicators over time and by business segment.
- 3 Review working capital performance at transactional data level to identify recent deteriorations and signs of inconsistency.
- 4 Establish a Cash Committee to monitor and manage cash inflows and outflows to ensure sufficient liquidity at all times.
- 5 Prepare a list of operational and financial contingency options which can be deployed in case of a cash shortfall.

Key contacts

Please feel free to contact our specialists to discuss cash & working capital optimization and forecasting.



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