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Financial Performance of State - Owned Economic Groups: The Case of Vietnam Coal and Mineral Industries Group

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Abstract:

The characteristic of state economic groups in Vietnam is that they operate in strategic economic sectors that are difficult for the private sector and other economic sectors to do due to limited financial capacity or management experience. Therefore, economic groups have played an active role in the economic development of the country. Specifically, economic groups have made an important contribution to the growth and development of the country's economy, creating a large source of foreign currency and revenue for the state budget, limiting trade deficit, accelerating the pace of industrial development, industrialization and modernization of the country. At the same time, performing the dominant role, ensuring the production and supply of essential goods and services for the economy; is an important material force for the State to orient and regulate the economy to ensure the balance of supply - demand and to stabilize the prices of essential goods and services for the economy (petroleum, electricity, nitrogen, liquefied petroleum gas, coal, etc.) to stabilize the market, control inflation and fight deflation. In particular, the state-owned economic group plays the role of a locomotive to go ahead, initiate and create a favorable environment for businesses of all economic sectors to develop.

This article analyzes the current situation and proposes solutions to improve the efficiency of the financial situation, improve the safety and efficiency in business activities of Vietnam Coal and Mineral Industries Group.

Keywords: Financial; Financial performance; TKV; Vietnam national Coal - Mineral industries holding corporation limited, Vinacomin

1. Introduction

Viet Nam National Coal-Mineral Industries Holding Corporation Limited (Vinacomin) is one of the biggest state-owned economic corporations of the country. It operates in the coal, minerals and energy sector, and is one of three main pillars to ensure the national energy security. Since its establishment in 2007, Vinacomin has achieved tremendous results and plays an important role in meeting the demand of Viet Nam's energy. By 2020, the total assets of Vinacomin reached 138,709 billion VND, an increase of 6.4 times compared to 2011. The equity level of Vinacomin is not only preserved but also increased, reaching 38,573 billion VND. Some indicators of production and business results are shown in Table 1 and Table 2.

No	Indicators	2015	2016	2017	2018	2019	2020
1	Total assets	82,787	103,423	117,198	125,909	133,754	138,709
2	Total net revenue	66,771	82,202	71,430	67,727	78,710	80,440
3	Earnings before income tax	8,466	8,632	3,470	2,872	2,816	895
4	Pay for taxes	11,552	16,150	13,880	11,955	12,909	13,767

Table 1: Some Business Indicators in 2015-2020 of Vinacomin

Unit: Billion VND

Source: Report on General Economic Subjects of Vinacomin, 2021

No	Indicators	2015	2016	2017	2018	2019	2020
1	The debts / Total assets	0.69	0.69	0.7	0.71	0.72	0.72
2	Liabilities / Owner's equity	2.17	2.20	2.43	2.77	2.67	2.73
3	Current ratio	1.02	1.09	0.93	1.10	0.98	0.88
4	Quick ratio	0.88	0.72	0.51	0.46	0.44	0.37
5	Inventory turnover	8.08	9.13	6.31	3.38	3.77	3.75
6	Rate of return on assets	12.0%	9.3%	2.2%	1.7%	1.6%	1.0%
7	Rate of return on owner equity	40.3%	31.5%	7.5%	6.9%	6.4%	2.73%

Table 2: Some Financial Indicators from 2015 - 2020 of Vinacomin

Source: Report on General Economic Subjects of Vinacomin, 2021

The data in Table 2 shows that the financial situation Vinacomin is still relatively healthy, but some financial indicators have dropped sharply in recent years, especially the indicators reflecting business performance. The debt/owners' equity has increased but still within the limits of financial security (3 times lower than the advisory level). Situation and solvency review of Vinacomin is positive. In particular, Vinacomin has no overdue debts.

However, the analysis of financial situation and business performance of Vinacomin shows that there are some problems as follows:

1.1. Investment Capital Needs for the Group

If business efficiency of Vinacomin significantly reduced, it will lead to financial balance problems including lack of investment capital to expand production and technological innovation. According to Coal Planning Adjusted (2015) of Vinacomin, in the periods 2015-2020, the investment capital of Vinacomin will be approximately 80,924 billion VND for coal production in which capital for expansion and renovation is 73,672 billion VND of investment and capital for maintaining capacity is 7,252 billion VND, investment capital for auxiliary systems coal production is about 29,140 billion VND. In the periods 2021-2030, investment capital for coal production needs about 121,036 billion VND, including capital for new construction; and renovation, expansion needs about 185,645 billion VND, investment capital for maintain capacity needs about 16,315 billion VND, investment capital for auxiliary systems coal production needs about 45,856 billion VND. The total investment capital of the periods 2015-2020, that Vinacomin needs, is about 110,064 billion VND, while the periods 2021-2030 the company needs 137,75 billion VND. Thus, the demand for investment capital to expand production, technological innovation is huge. However, the business efficiency declined sharply (profits of Vinacomin decreased from 8,632 billion VND in 2015 to only 2,816 billion VND in 2018 and 895 billion VND in 2019) would limit the possibility of accumulating capital, while the conditions of small owner's capital will create huge pressure on the financial balance of Vinacomin.

1.2. Raising Capital for Investment

Business and production lacks diversification of forms and sources, and are incompatible with market economy; mining conditions are more volatile leading to unreasonable capital structure. To meet the demand for development investment, in the past, the mobilization of Vinacomin mainly through the following channels:

- Raising capital through bank credit.
- Raising capital through state credit state (VDB).
- Raising capital in the form of export credits (ECA).
- Raising capital with domestic and international bonds.
- Raising capital from equalizations.
- Raising capital from social investors.

However, until now raising capital is mainly from commercial loans by local commercial banks and from abroad, and forms of mobilization by issuing bonds and outsource is limited, socialization investment only initial implement (only 2 conveyor projects implemented by socialized investment, which are (1) Coal conveyor project from Mao Khe coal mining to Dong Trieu thermal power Plant - total investment capital of 180 billion VND and (2) Coal conveyor line project from Mong Duong coal mining to Mong Duong thermal power Plant 2. Total capital investment of 184 billion VND). Moreover, raising capital has not diversified and is heavily dependent on commercial loans that made capital's structure less flexible, ignoring the advantages of each capital fund as well as various raising capital methods and unreasonable cost. In particular, raising capital investment is not consistent with the characteristics of the coal mining sector, such as: (1) High capital investments, primarily create fixed assets, especially passive fixed assets (buildings, architectures, roads, factories, etc.) should be of high fixed costs and slow capital recovery; (2) Mine construction volumes are seasonal fluctuations during the year and for each period in the mine life, leading to the production capacity is created sometimes missing or redundant, low efficiency, including labor's performance utilization. It is also one of the causes affecting the missing demands of capital and business performance is unsatisfactory.

1.3. Inventories Increased Highly, High Receivable Debts in Some Units of Vinacomin

By the end of 2020, the value of inventories of Vinacomin was 16,998 billion VND, up 6.5% comparable the beginning of year, which mainly coal inventories did not consume (about 8.75 million tonnes respectively 10,517 billion VND); even in the first 7 months of 2020 coal inventories amounted to 11 million tonnes, mostly good quality coal with a total value of about 17 trillion VND. Although Vinacomin had implemented regulations to limit inventory to units in

Vinacomin (maximum 6% demand for the whole year). There was high inventory to units such as Ha Long coal company, Nam Mau coal company, Cao Son coal JSC, HonGai coal, etc. Besides, the management of receivables that had not been done thoroughly led to receivables of whole Vinacomin at the end of 2020 up to 23.1% in comparison with the beginning, while receivables amount of coal increased from 4,404 billion VND (early 2020) to 5,636 billion VND (end of 2019), increased by 27.97%, mainly due to sale for EVN power plants but did not receive money.

The increase in inventories and receivables showed that the difficulties of selling coal as well as clearing debts have become more apparent. Consequently, it led to the fact that working capital was slow-moving and cash flow decreased sharply (from 5,178 billion VND to 2,123 billion VND). Company needs to use more commercial loans to balance the payment. Therefore, the interest cost is getting higher. Imbalanced cash flow often occurs and negatively affects the financial situation of companies in Vinacomin. These are major challenges for the financial situation of Vinacomin at present.

1.4. The Financial Situation

The financial situation in some aspects tend to deteriorate because of a big integrated liability of all companies under Vinacomin; and the ratio Liabilities/Owner's equity of many subsidiaries exceed the advisory limitation. By the end of 2020, total liabilities of Vinacomin were 100,136 billion VND, increasing 3,354 billion VND (by 3.46%) from year beginning, while the average of short-term debts accounted for nearly 30%, the average long-term debts accounted for 37% of the total capital of Vinacomin.

In year 2020 the ratio Liabilities/Owner's equity of Vinacomin was 2.73; the parent company (Vinacomin): 1.97; One-member limited liability companies: 3.25; Joint stock companies: 2.67. Generally, this ratio of Vinacomin remained safety but in many units, this ratio exceeded limitation under the provisions (3 times). In particular, a number of subsidiaries that ratio exceeded highly the permitted level such as Manufacturing engineering JSC., (12.27), Ha Lam coal JSC., (11.39), Northern area coal Trading JSC., (10.61), Quang Hanh coal company (8.05), Tay Nam Da Mai coal JSC., (9.83), etc., and even some units in special supervision (such as Ninh River shipbuilding JSC., Waterway transport JSC.). Many subsidiaries of Vinacomin had to borrow huge commercial loans in conditions limited financial resources, which then led to the potential of loss financial security, unbalanced capital and bared interest burden to pay.

1.5. Conditions of Coal Mines

The condition for mining coal is increasingly difficult and complex. However, coal companies have to deal with changes in new tax policies, which regulate higher royalties and fees. Besides, sales volume and prices are falling sharply. The capital efficiency tends to decline, especially in many subsidiaries under Vinacomin. Activities in the field of minerals - energy, financial performance of Vinacomin depends heavily on mining geological conditions and the market situation. In the past few years, the world's coal market has been declining both in demand and selling price due to the sharp fall in oil prices and the impact of measures to respond to climate change. Meanwhile, competitive pressures in the domestic market have been rising, especially coal market by rival domestic and imported coal from overseas. By increasingly deep exploitation in Vinacomin, long-distance transport costs make the investment and rising prices (cost of coal consumption in 2019 and 2020 at more than 1,440 thousand VND/ton, in which taxes and fees accounted for over 20%). The cost prices increased in difficult conditions have negative impacts on business efficiency, and capital efficiency of Vinacomin significantly reduced; driving the whole Vinacomin and its subsidiaries to difficulty in accumulating raising capital as well as financial resources.

2. Solutions to Improve the Financial Situation and Business Efficiency of Vinacomin

To improve the situation and enhance the level of financial security as well as business efficiency, the author proposes a number of solutions for Vinacomin as follows:

2.1. Ensuring Raising Capitals with Reasonable Structure to Meet the Demand of Investment and Improve Financial Security

To perform the business development objectives set out by 2025, with a vision to 2030 (especially for coal, electricity, minerals, metallurgy projects), the company has to increase the owner's equity on the basis of improving business efficiency to accumulate necessary capital and implement strategies to mobilize and to diversify funding. To diversify capital mobilization, the company should:

Promote implementation of socialized investment, especially from public-private partnership (PPP), choose the appropriate financial structure for each period of investment. For instance, in the production stage, financial structure can be different in stages of initial investment, operating and mine closure. The company might strive to attract investment through social forms of investment of at least 30% of the new capital requirements. It can help to meet the demands of development investment capital of Vinacomin simultaneously. Consequently, it also reduces the pressure to increase owner's equity in accordance with the provisions of the Minerals Law, as well as pressures on recruitment of employees, and improve the ratio liabilities/owner's equity with high level of financial security and business efficiency.

Enhance capital mobilization forms by issuing bonds in domestic and international capital market in order to reduce commercial loans from banks with higher interest rates. The bond issue could help mobilize funds from a transparent, highly competitive market. Non-bank financial institutions such organizations as financial companies, asset management companies, insurance companies and fund management companies are also inclusive.

2.2. Strengthening Business Administration

Enhancement of business administration with regard to finding suppliers might include importing a reasonable amount of coal from foreign countries. Vinacomin should do better cost management to improve business performance, and make efficient use of funds to increase owner's equity accumulation:

Focusing on reasonable consumption and a smooth, coordinated production process. In particular, for the coal production, it is better to match the market's quality requirement with the capacity of each coal mines. It also helps to meet the market demand, avoid overstocked inventories, which might cause capital loss. New sales channels should be established and empowered regularly, assuring a reasonable cost to improve competitiveness to boost coal sales. The progress of receipt, delivery and payment of coal is examined as commitments in signed contracts. There should be a mechanism to encourage customers to pay in advance, for traditional customers and buying coal as schedule commitments.

There might be a lot of disadvantages in the period when coal prices decline. It requires the company to have suitable strategies and solutions to the import of coal.

Solutions to reduce costs, control costs from at all stages in the production process, should be adequate. Regulatory mechanisms, self-management of costs, enhance operating discipline and effective monitoring should be continued. Companies of Vinacomin need to build plans to manage costs in line with their appropriate situation and the market conditions at each stage of production to ensure financial balance.

2.3. Settling Debts

- *For receivables:* companies should conduct a review with regard to which customers have large receivables, receivables fall into outstanding debts, and doubtful debts. Solutions to take back receivables should be performed regularly to avoid slow-moving capital. If companies have doubtful debts, not claiming, they need to actively handle under current regulations as to make provision base on delinquency debt's age or expense to clear inability recovery debts. Accordingly, the doubtful debts have been made provision, these companies cannot afford to withdraw, shall be settled by the provision, the deficit shall be charged to the expense of company. Vinacomin may sell receivables/debts under law regulation including debts in terms, doubtful debts, and inability recovery debts to payback capital. The prices of sold debts based on agreements of the parties and take responsibility by themselves for the decision to sell the receivables.
- *For liabilities:* Due to huge liabilities of Vinacomin, many companies have loans that are much larger than owner's equity. Therefore, to avoid imbalances capital and reduce financial risk, companies need to be proactive in making source of payment such as debts collection and selling surplus assets; seeking appropriate solution to reduce difficulties for companies on cash flow to pay debt. While making investment decisions, companies should research to adjust loan maturity date in line with life cycle of an investment project in order to avoid the inability to pay debts, contributing to a healthy financial situation. They should also improve the management efficiency, using of trading capital; ensuring appropriate capital structure in line with industry and business sector; using capital to ensure principles and effects, as well as stable cash needed for balance of payments; and ensuring balance on the ratio loan/owner's equity.

2.4. Intensifying to Sold Out Inventories to Improve Capital Efficiency and Cash Flow

To improve the financial situation as well as the efficiency of using capital, Vinacomin actively promote the consumption of inventories at companies. On the basis of the plan of consumption in the coming years, the corporation should closely follow market movements to direct timely production operation, keeping inventories at a reasonable level; focusing on improving the quality of coal, and maintaining a flexible product's structure to meet the rising domestic and export demand of coal. In the trading, to keep abreast of market requirements, keeping good relationships with clients, strictly controlling the quality of coal and delivery schedule for stable production of manufacturing companies.

For materials and commodities, Vinacomin should settle commodities, which have low quality, technical backwardness, stagnation, slow rotation to payback capital. Examining, checking and reducing materials reserves have dropped to a reasonable level to reduce capital stagnation, reduce the damage caused by excessive materials storage. Intensifying sold out inventories will help Vinacomin improve capital using efficiency, solve financial difficulties, and improve cash flow for production and business of its subsidiaries.

3. Conclusion

The paper aims to analyze and assess some financial issues of Vinacomin at the moment and give some solutions to overcome disadvantages in finance management, assuring safety of financial system, improving cashflow of Vinacomin. These solutions can support Vinacomin to better the business results in globalization and climate changes.

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