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On January 14th, Rose Rock Group - an investment company backed by the famous Rockefeller family – announced a \$2.5 billion USD investment in the Vung Ro Bay development project near Tuy Hoa, Phu Yen Province, Vietnam. According to Bloomberg, “The new development comes amid a growing interest among overseas investors in Vietnam’s potential as a tourism and gambling destination”.

Those familiar with our reports know that we are extremely bullish on Vietnam coastal property. Our position has been that Vietnam will be to China what Mexico is to the USA; the primary all-year warm weather destination of the middle class.

That being said, we didn’t like this project when the master plan was released 8 months ago. The reason is that we looked at it just like the media is now; as a tourism project. But that is not what this investment is about.

Understanding The Vung Ro Bay Development Project

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Quantify Your Strategy

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The Vietnam Resort Report

MGT Management and its employees have no affiliation with Rose Rock Group, Vung Ro Petroleum, or any other company involved in the project described in this paper. Additionally MGT Management has not received any inside information nor talked with anyone involved. All opinions are ours.

Introduction

We pride ourselves in our accurate forecasts and predictions in *The Vietnam Resort Report*. Two years ago we began forecasting rising occupancy rates in coastal resorts beginning in 2014, the huge influx of Chinese tourists, and warning of titanium mines polluting the Binh Thuan coastline. Our ten-year forecast of incoming visitors to Vietnam – also made two years ago - is still tracking very closely to actuals. So when we miss a prediction badly, we want to understand why. Especially if it is big news in not only Vietnam, but throughout the region. Vung Ro Petroleum announcing a \$2.5 billion in financing deal for their Vung Ro Development was big news.

In the August 2013 issue we commented on the Vung Ro Bay master plan ([seen here¹](#)) from Atkins.

“This is a perfect example of the problem with investing in Vietnam for investors unfamiliar with the country: A beautifully produced video of a master plan designed by a world-famous design firm for a project that has no chance of being constructed and if it were constructed within the next 10 years, it would be a complete disaster.”

Eight months later the owners, Vung Ro Petroleum, found their financing when Rose Rock Group (affiliated with the famous Rockefeller family) pledged \$2.5 billion USD to the project. Marketwired.com reported it with the following:

“ Vung Ro Petroleum, an independent petroleum company based in Vietnam, and Rose Rock Group, boutique alternatives investment management and real estate development firm founded by members of the Rockefeller family, have entered into an agreement to cooperate on the development of a **resort community** in Vung Ro Bay, on the south central coast of Vietnam.”²

The local news agencies followed a similar thread. Vietnam News wrote the headline “US Firm to Help Build Vung Ro Resort”³ (evidently ignoring the fact Rose Rock Group is a Hong Kong company).

This announcement was surprising to us. As far as very large investments into tourism projects, we could name five off the top of our head that would make a lot more sense for an investor. Large projects

¹ <https://www.youtube.com/watch?v=XY9xtFymAeo>

² <http://www.marketwired.com/press-release/vung-ro-petroleum-rose-rock-group-sign-cooperation-agreement-on-us-25-billion-development-1868617.htm> (emphasis is ours)

³ <http://vietnamnews.vn/economy/250187/us-firm-to-help-build-vung-ro-resort.html>

in Phu Quoc, Ninh Thuan, Danang, and Cam Ranh are all looking for capital. All have better access and are established as tourist locations. Assuming the people at Rose Rock Group are smart (which we do), then what did we miss?

Background

To really understand our skepticism of the project, you must see the video. Produced by Atkins Design Team, it describes a “world-class, whole life destination”, and “a new global destination”. Marinas, world-class dining, resorts, hotels, luxury condominiums, a new lakeside village with high-end retail, spas, and 3,000 apartments, and a “lively resort” that “will be a key draw for tourists”. Guests “can arrive either by helicopter or the beautiful coastal road”. This all sounds wonderful without an understanding of the location.

The Location

Phu Yen Province is located just north of Khanh Hoa (Nha Trang). It has many beautiful beaches and is the easternmost Vietnamese Province. One of those beautiful spots on the coast is Vung Ro Bay



It is about a five hour (deadly) drive from the Cam Ranh International Airport and nearly an hour drive south of the Tuy Hoa Airport. The Tuy Hoa Airport receives two domestic flights per day and does not have any facilities for international arrivals. Tuy Hoa does have a train station which is a nine hour journey from Saigon.

The limited access and long travel times have stunted the area's tourism development. It receives about 500,000 tourists a year, nearly all who are Vietnamese.



Vung Ro Bay, Phu Yen

The Phu Yen Provincial Government seems to understand that the area has significant competitive disadvantages attracting tourists, so instead they have focused on industries where they have an advantage. One of those advantages is Vung Ro Bay's eastern location and natural deep water harbor.

In 2004, Vung Ro port started operations with a very limited number of cargo ships accessing it. However, in the last ten years the port has grown along with Vietnam's exports and the last three years it has been at maximum capacity. The type 2 port is a gateway to Vietnam's central region and the wide variety of agricultural exports including coffee. Expansion plans are in place to increase capacity to 1 million tons annually.⁴

More significantly, the province and Vietnam's central government approved plans and issued an investment certificate in 2007 for an oil refinery with capacity of 4 million tons.¹ The refinery was initially allocated 185 hectares of land and a port. The provincial government is counting on the refinery attracting many other companies to the Hoa Tam Industrial Zone, particularly those related to the petrochemical and oil refinery support industries.⁵

The Refinery

First approved in 2007, construction of the refinery has not been started yet. In fact, the province has just recently(?) finished compensation and is in the process of handing over the land to Vung Ro Petroleum.⁶ However, on July 1st of 2013, the Chairman of Phu Yen Province agreed to issue a new investment certificate allowing the company to double capacity to 8 million tons and increase investment from \$1.7 billion to \$3.18 billion. By doing so, the province increased the land allocated from 185 hectares to 538

⁴ <http://phuyenews.vn/economy-investment/9905805706006306064>

⁵ <http://vietnamnews.vn/economy/244653/phu-yen-province-vows-space-for-new-refinery.html>

⁶ Ibid

hectares. Not being oil refinery experts, it is unclear to us why doubling capacity requires nearly three times the area, but most likely it has to do with the province giving the Vung Ro peninsula to the company for the building of a “resort community”.

The Vung Ro Bay Master Plan

Looking closer at the master plan from Atkins and it becomes obvious; the project has very little to do with tourism and almost everything to do with developing a small city for the refinery and construction workers.



Tuy Hoa, Phu Yen

Tuy Hoa and the surrounding area has one hotel (The CenDuluxe Hotel) designed with foreign guests in mind. When the Dung Quat Refinery was constructed in Vung Tau, between 14,000 and 15,000 workers from 30 countries were involved. Twenty five percent (about 3,500) came from outside Vietnam⁷ and they worked several years in Vung Tau. After the refinery is in operations, it is likely that between 3,000 and 6,000 people will be working at the refinery. Add families, supporting industries, and supporting retail and services and it becomes obvious the master plan was designed as a city for industrial workers and not some type of eco-friendly resort community. The Atkins’ master plan accounts for these workers; over 5,000 apartments and villas are planned compared to 769 hotel rooms.⁸

⁷ http://english.pvn.vn/?portal=news&page=detail&category_id=95&id=3294

⁸ <http://www.vungrobay.com/wp-content/uploads/2013/12/Vung-Ro-Bay-MP-Brochure2.pdf>

Conclusion

Rose Rock Group did not invest in a “resort destination” or “tourism development” as reported in many media outlets; this is a corporate housing project. Rose Rock Group invested in an oil project and a community that will support a huge refinery and the businesses which grow around it. Vung Ro Petroleum got a very large area of land cleared of local residents by the government in exchange for investing in Vietnam’s oil and gas industry. But without even beginning construction Vung Ro Petroleum converted the land acquisition into \$2.5 billion of financingⁱⁱ.

Phu Yen’s provincial government made a decision that the province will forego tourism for industry. The 8 million ton processing refinery, a 1 million ton cargo port, and all the associated satellite businesses surrounding the plant are simply not compatible with a high-end tourism destination. This is an understandable decision. The province and neighboring Quy Nhon Province have issued several investment licenses for high-end resort projects with famous brands attached, that have not found investors and thus never started⁹. Movenpick¹⁰, Outrigger¹¹, Ritz Carlton, and JW Marriott¹² were just some of the management companies reported to be opening a hotel along the 150km coast from Tuy Hoa to Quy Nhon. All of those projects have been cancelled or delayed indefinitely. The reason is pretty clear- despite being beautiful - there just isn’t any easy access to this coastline yet. That is too much of a competitive disadvantage when so many other locations in Vietnam – which are just as beautiful but also near an international airport or large city – are still not fully developed. Instead of waiting ten years for tourism projects to start, Phu Yen has decided to pursue oil and logistics investments.

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ⁱⁱ For comparison purposes, Dung Quat Refinery in Vung Tau can process 6.5 million tons.

ⁱⁱ Imagine if you were a poor fisherman living near Vung Ro. Suddenly your land would be worth a lot of money due to a sudden increase in demand. However, the government moves you off your land first-presumably well below the new market price- effectively transferring all the increased value to a company that will already be receiving many government incentives for the oil refinery. Welcome to Vietnam.

⁹ <http://yourviet.blogspot.com/2012/10/vietnam-43bn-new-city-to-dig-itself-out.html>

¹⁰ http://www.vir.com.vn/news/en/investing/m%C3%B6venpick-resort_-spa-quy-nhon-deal-inked.html

¹¹ <https://www.outrigger.com/hotels-resorts/vietnam/south-central-coast/outrigger-vinh-hoi-resort-and-spa>

¹² <http://news.marriott.com/2010/08/marriott-international-plans-two-luxury-hotel-brands-in-quy-nhon-area-binh-dinh-province-vietnam-in-.html>