

A Two Factor Model Influences the Risk Level of Viet Nam Commercial Electric Companies

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Abstract

This research shows marketing factors such as business competitors could affect business market risk, from a quantitative point of view. Using a two (2) factors model, this research paper estimates the impacts of not only the size of firms' competitors, but also leverage in the commercial electric industry, on the market risk of 99 listed companies in this category.

This paper finds out that the risk dispersion level in this sample study could be minimized in case the competitor size doubles (measured by equity beta var of 0,157) and leverage down to 20% or remaining as current.

Beside, the empirical research findings show us that when financial leverage increases up to 30%, max asset beta value decreases from 0,240 to 0,229 in case the size of competitor doubles.

Last but not least, this paper illustrates calculated results that might give proper recommendations to relevant governments and institutions in re-evaluating their policies during and after the financial crisis 2007-2011.

Keywords : risk management, competitive firm size, market risk, asset and equity beta, commercial electric industry

JEL classification : M00, G3, M3

1. Introduction

In marketing and business, choosing competitors might affect business strategies, esp., during the crisis period 2007-2009 in which commercial electric firms experience many risks, although Viet Nam commercial electric industry is considered as one of active economic sectors, which has some positive effects for the economy.

This paper is organized as follow. The research issues and literature review will be covered in next sessions 2 and 3, for a short summary. Then, methodology and conceptual theories are introduced in session 4 and 5. Session 6 describes the data in empirical analysis. Session 7 presents empirical results and findings. Next, session 8 covers the analytical results. Then, session 9 presents analysis of industry. Lastly, session 10 will conclude with some policy suggestions. This paper also supports readers with references, exhibits and relevant web sources.

2. Research Issues

For the estimating of impacts of the selection of different industrial competitors on the risk measured by beta for listed commercial electric companies in Viet Nam stock exchange, research issues will be mentioned as following:

Issue 1: Whether the selection of different competitors makes the risk level of commercial electric industry firms under the different changing scenarios of leverage increase or decrease so much.

Issue 2: Whether the selection of doubling size competitor makes the dispersion of beta values become large in the different changing scenarios of leverage in this industry.

3. Literature review

Goldsmith (1969), Mc Kinnon (1973) and Shaw (1973) pointed a large and active theoretical and empirical literature has related financial development to the economic growth process.

Last but not least, Ana and John (2013) Binomial Leverage – Volatility theorem provides a precise link between leverage and volatility. Chen et al (2013) supports suspicions that over-reliance on short-term funding and insufficient collateral compounded the effects of dangerously high leverage and resulted in undercapitalization and excessive risk exposure for Lehman Brothers.

4. Conceptual theories

Industrial competitor theories

There are many competitive advantages which are owned by industrial competitors. These advantages can be attributes such as access to natural resources or highly trained personnel human resources or capital or leverage. Using leverage can help firms to obtain new technologies which are another competitive advantage.

5. Methodology

In this research, analytical research method is used, philosophical method is used and specially, scenario analysis method is used. Analytical data is from the situation of listed commercial electric industry firms in VN stock exchange and applied current tax rate is 25%. The below table 1 shows us three cases of choosing different competitors.

Finally, we use the results to suggest policy for both these enterprises, relevant organizations and government.

Table 1 – Analyzing market risk under three (3) scenarios of changing competitors (Made by Author)

Order No.	Company Stock code	Competitor size as current	Competitor size slightly smaller	Competitor size double
1	TSB			
2	BTH			
3	DZM			
4	DVH	TSB as comparable	DZM as comparable	VHG as comparable
5	LGC			
6	CJC			
7	TYA			
8	PPS	CMG as comparable	CMG as comparable	HVG as comparable
9	GLT			
10	NAG			
11	NHW			
12	FBA	BTH as comparable	VBH as comparable	SRB as comparable
13	SMA	NHW as comparable	NHW as comparable	CMG as comparable
14	TIE			
15	TGP			
16	VHG			
17	VBH			
18	CSG			

6. General Data Analysis

The research sample has total 18 listed firms in the commercial electric industry market with the live data from the stock exchange.

Firstly, we estimate equity beta values of these firms and use financial leverage to estimate asset beta values of them. Secondly, we change the competitors from what reported in F.S 2011 to those with size doubling and reducing slightly to see the sensitivity of beta values. We found out that in both cases of smaller competitors and double size competitors, asset beta mean values are reduced to 0,229 from 0,240 if the leverage up to 30%. Also in 3 scenarios of different competitors, we find out equity beta mean values are moving in the opposite direction with the leverage. Leverage degree changes definitely has certain effects on asset and equity beta values.

7. Empirical Research Findings and Discussion

In the below section, data used are from total 18 listed commercial electric industry companies on VN stock exchange (HOSE and HNX mainly). In the scenario 1, current financial leverage degree is kept as in the 2011 financial statements which is used to calculate market risk (beta) whereas competitor size is kept as current, then changed from double size to slightly smaller size. Then, two (2) FL scenarios are changed up to 30% and down to 20%, compared to the current FL degree. In short, the below table 1 shows three scenarios used for analyzing the risk level of these listed firms.

Market risk (beta) under the impact of tax rate, includes: 1) equity beta; and 2) asset beta.

Table 1 – Analyzing market risk under three (3) scenarios (Made by Author)

	FL as current	FL up 30%	FL down 20%
Competitor size as current	Scenario 1	Scenario 2	Scenario 3
Competitor size slightly smaller			
Competitor size double			

7.1 Scenario 1: current financial leverage (FL) as in financial reports 2011 and competitor size kept as current, slightly smaller and double

In this case, all beta values of 18 listed firms on VN commercial electric industry market as following:

Table 2 – Market risk of listed companies on VN commercial electric industry market under a two factors model (case 1) (source: VN stock exchange 2012)

Order No.	Company stock code	Competitor size as current		Competitor size slightly smaller		Competitor size double	
		Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)
1	TSB	0,376	0,102	0,376	0,102	0,376	0,102
2	BTH	0,701	0,465	0,701	0,465	0,701	0,465
3	DZM	1,372	0,551	1,372	0,551	1,372	0,551
4	DVH	0,136	0,041	0,511	0,153	0,449	0,135
5	LGC	0,890	0,361	0,890	0,361	0,890	0,361
6	CJC	0,587	0,091	0,587	0,091	0,587	0,091
7	TYA	1,145	0,359	1,145	0,359	1,145	0,359
8	PPS	0,092	0,007	0,095	0,007	0,063	0,005
9	GLT	0,687	0,482	0,687	0,482	0,687	0,482
10	NAG	1,220	0,472	1,220	0,472	1,220	0,472
11	NHW	0,225	0,087	0,225	0,087	0,225	0,087
12	FBA	0,543	0,390	0,187	0,134	0,820	0,590
13	SMA	0,039	0,005	0,040	0,005	0,168	0,023
14	TIE	0,620	0,489	0,620	0,489	0,620	0,489
15	TGP	0,349	0,121	0,349	0,121	0,349	0,121
16	VHG	1,206	0,953	1,206	0,953	1,206	0,953
17	VBH	0,239	0,206	0,239	0,206	0,239	0,206
18	CSG	0,851	0,706	0,851	0,706	0,851	0,706

7.2. Scenario 2: financial leverage increases up to 30% and competitor size kept as current, slightly smaller and double

If leverage increases up to 30%, all beta values of total 18 listed firms on VN commercial electric industry market as below:

Table 3 – Market risks of listed commercial electric industry firms under a two factors model (case 2)
(source: VN stock exchange 2012)

Order No.	Company stock code	Competitor size as current		Competitor size slightly smaller		Competitor size double	
		Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)
1	TSB	0,376	0,020	0,376	0,020	0,376	0,020
2	BTH	0,701	0,394	0,701	0,394	0,701	0,394
3	DZM	1,372	0,305	1,372	0,305	1,372	0,305
4	DVH	0,045	0,004	0,165	0,015	0,145	0,013
5	LGC	0,890	0,202	0,890	0,202	0,890	0,202
6	CJC	0,587	-0,057	0,587	-0,057	0,587	-0,057
7	TYA	1,145	0,123	1,145	0,123	1,145	0,123
8	PPS	-0,291	0,059	-0,291	0,059	-0,192	0,039
9	GLT	0,687	0,420	0,687	0,420	0,687	0,420
10	NAG	1,220	0,247	1,220	0,247	1,220	0,247
11	NHW	0,225	0,046	0,225	0,046	0,225	0,046
12	FBA	0,496	0,315	0,169	0,108	0,744	0,472
13	SMA	-0,041	0,005	-0,041	0,005	-0,173	0,022
14	TIE	0,620	0,449	0,620	0,449	0,620	0,449
15	TGP	0,349	0,052	0,349	0,052	0,349	0,052
16	VHG	1,206	0,877	1,206	0,877	1,206	0,877
17	VBH	0,239	0,196	0,239	0,196	0,239	0,196
18	CSG	0,851	0,663	0,851	0,663	0,851	0,663

7.3. Scenario 3: leverage decreases down to 20% and competitor size kept as current, slightly smaller and double

If leverage decreases down to 20%, all beta values of total 18 listed firms on the commercial electric industry market in VN as following:

Table 4 – Market risk of listed commercial electric industry firms under a two factors model (case 3)
(source: VN stock exchange 2012)

Order No.	Company stock code	Competitor size as current		Competitor size slightly smaller		Competitor size double	
		Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)	Equity beta	Asset beta (assume debt beta = 0)
1	TSB	0,376	0,157	0,376	0,157	0,376	0,157
2	BTH	0,701	0,512	0,701	0,512	0,701	0,512
3	DZM	1,372	0,716	1,372	0,716	1,372	0,716
4	DVH	0,196	0,086	0,715	0,315	0,629	0,276
5	LGC	0,890	0,467	0,890	0,467	0,890	0,467
6	CJC	0,587	0,190	0,587	0,190	0,587	0,190
7	TYA	1,145	0,516	1,145	0,516	1,145	0,516
8	PPS	0,311	0,081	0,311	0,081	0,205	0,053
9	GLT	0,687	0,523	0,687	0,523	0,687	0,523
10	NAG	1,220	0,622	1,220	0,622	1,220	0,622
11	NHW	0,225	0,115	0,225	0,115	0,225	0,115

12	FBA	0,580	0,450	0,198	0,154	0,870	0,675
13	SMA	0,086	0,026	0,086	0,026	0,362	0,111
14	TIE	0,620	0,515	0,620	0,515	0,620	0,515
15	TGP	0,349	0,166	0,349	0,166	0,349	0,166
16	VHG	1,206	1,003	1,206	1,003	1,206	1,003
17	VBH	0,239	0,213	0,239	0,213	0,239	0,213
18	CSG	0,851	0,735	0,851	0,735	0,851	0,735

All three above tables and data show that values of equity and asset beta in the case of increasing leverage up to 30% or decreasing leverage degree down to 20% have certain fluctuation.

8. Comparing statistical results in 3 scenarios of changing leverage:

Table 5 - Statistical results (FL in case 1) (source: VN stock exchange 2012)

Statistic results	Competitor size as current			Competitor size slightly smaller			Competitor size double		
	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,372	0,953	0,419	1,372	0,953	0,419	1,372	0,953	0,419
MIN	0,039	0,005	0,033	0,040	0,005	0,035	0,063	0,005	0,058
MEAN	0,626	0,327	0,299	0,628	0,319	0,309	0,665	0,344	0,321
VAR	0,1749	0,0700	0,105	0,1722	0,0689	0,103	0,1567	0,0704	0,086

Note: Sample size : 18 firms

Table 6 – Statistical results (FL in case 2) (source: VN stock exchange 2012)

Statistic results	Competitor size as current			Competitor size slightly smaller			Competitor size double		
	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,372	0,877	0,495	1,372	0,877	0,495	1,372	0,877	0,495
MIN	-0,291	-0,057	-0,233	-0,291	-0,057	-0,233	-0,192	-0,057	-0,134
MEAN	0,593	0,240	0,353	0,582	0,229	0,353	0,611	0,229	0,381
VAR	0,2186	0,0626	0,156	0,2216	0,0629	0,159	0,2144	0,0652	0,149

Note: Sample size : 18 firms

Table 7- Statistical results (FL in case 3) (source: VN stock exchange 2012)

Statistic results	Competitor size as current			Competitor size slightly smaller			Competitor size double		
	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,372	1,003	0,369	1,372	1,372	0,000	1,372	1,003	0,369
MIN	0,086	0,026	0,059	0,040	0,005	0,035	0,205	0,053	0,152
MEAN	0,647	0,394	0,253	0,596	0,373	0,222	0,696	0,319	0,377
VAR	0,1569	0,0765	0,080	0,1640	0,0948	0,069	0,1361	0,0732	0,063

Note: Sample size : 18 firms

Based on the calculated results, we find out:

First of all, if competitor size is kept as current, both max and min values of asset beta vary in 3 cases (max values decreasing to 0,877 and increasing to 1,003 when leverage up 30% and down 20%). Secondly, if competitor size is chosen with total asset doubling, max and min values of asset beta vary in all 3 scenarios. Thirdly, if competitor is chosen with total asset slightly smaller, there is tiny change in min values of equity and asset beta in the case of leverage down 20% (for example, min asst beta increasing to 0,053 from 0,005).

Additionally, the below chart 1 shows us : in the case of doubling competitor size, the risk is less dispersed in case current leverage or Fl down 20%. Especially, if leverage down to 20%, equity beta var maintains at 0,172. On the contrary, in the case of slightly smaller size competitors, if leverage up to 30%, equity beta var increases to 0,222.

Last but not least, from chart 2, we could note that in the case of slightly smaller size competitors, keeping the current leverage degree, asset beta mean value reduces to 0,319 from 0,327 (approximate size competitors). On the other hand, in the case of doubling size competitors, asset beta mean value goes up to 0,344.

Chart 1 – Comparing statistical results of equity beta var and mean in three (3) scenarios of changing FL and competitor size (source: VN stock exchange 2012)

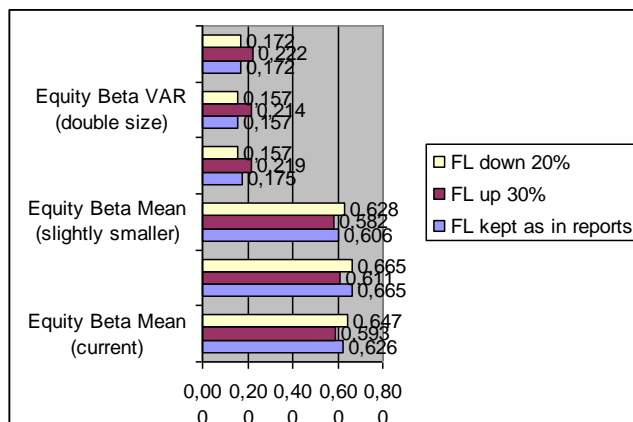
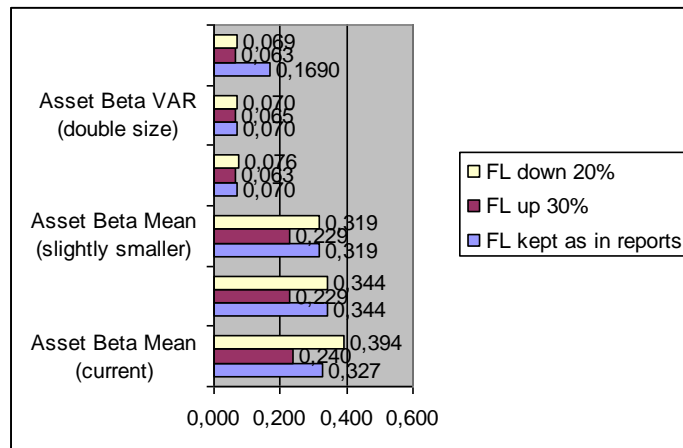


Chart 2 – Comparing statistical results of asset beta var and mean in three (3) scenarios of changing FL and competitor size (source: VN stock exchange 2012)



9. Conclusion and Policy suggestion

In general, the government has to consider the impacts on the mobility of capital in the markets when it changes the macro policies and the legal system and regulation for developing the wholesale and retail market. The Ministry of Finance continues to increase the effectiveness of fiscal policies and tax policies which are needed to combine with other macro policies at the same time. The State Bank of Viet Nam continues to increase the effectiveness of capital providing channels for commercial electric companies. Furthermore, the entire efforts among many different government bodies need to be coordinated.

Last but not least, these companies might be aware of a minimum value of asset beta mean of 0,229 with either

doubling size competitors or smaller competitors (leverage up 30%) and a maximum value of asset beta mean of 0,394 with approximate size competitors if leverage down 20%. In this case, the statement “the riskier the marketing strategy, the lower the market risk” is not totally correct.

Finally, this paper suggests implications for further research and policy suggestion for the Viet Nam government and relevant organizations, economists and investors from current market conditions.

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my warm thanks to Board of Editors and Colleagues at Citibank –HCMC, SCB and BIDV-HCMC, Dr. Chen and Dr. Yu Hai-Chin at Chung Yuan Christian University for class lectures, also Dr Chet Borucki, Dr Jay and my ex-Corporate Governance sensei, Dr. Shingo Takahashi at International University of Japan. My sincere thanks are for the editorial office, for their work during my research. Also, my warm thanks are for Dr. Ngo Huong, Dr. Ho Dieu, Dr. Ly H. Anh, Dr Nguyen V. Phuc and my lecturers at Banking University – HCMC, Viet Nam for their help.

Lastly, thank you very much for my family, colleagues, and brother in assisting convenient conditions for my research paper.

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www.tuotire.com.vn;

www.saijointimes.com.vn;

Exhibit

Exhibit 1- VNI Index and other stock market index during crisis 2006-2010
(source: global stock exchange 2012)

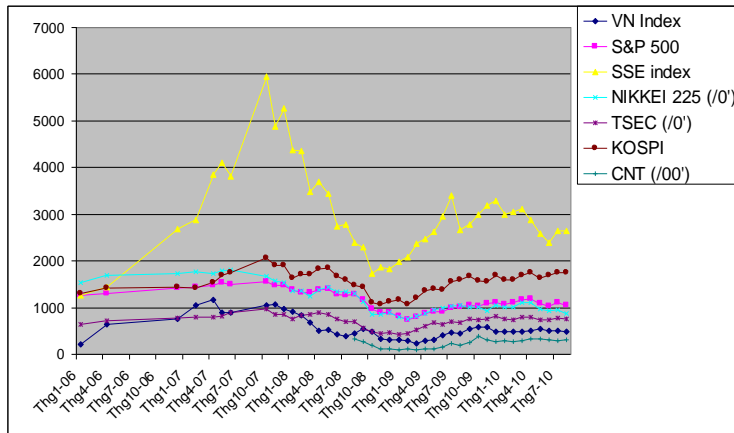


Exhibit 2 – Inflation, GDP growth and macroeconomics factors
(source: Viet Nam commercial banks and economic statistical bureau)

Year	Inflation	GDP	USD/VND rate
2011	18%	5,89%	20.670
2010	11,75%	6,5%	19.495
	(Estimated at Dec 2010)	(expected)	
2009	6,88%	5,2%	17.000
2008	22%	6,23%	17.700
2007	12,63%	8,44%	16.132
2006	6,6%	8,17%	
2005	8,4%		
Note		approximately	

Exhibit 3 – Financial leverage degree of listed commercial electric firms in three (3) scenarios with different competitors
(source: Viet Nam commercial banks and economic statistical bureau)

Order No.	Company Stock code	FL as current	FL up 30%	FL down 20%
1	TSB	72,9%	94,8%	58,3%
2	BTH	33,7%	43,8%	26,9%
3	DZM	59,8%	77,7%	47,8%
4	DVH	70,0%	91,0%	56,0%
5	LGC	59,4%	77,3%	47,5%
6	CJC	84,4%	109,8%	67,5%
7	TYA	68,7%	89,3%	54,9%
8	PPS	92,5%	120,3%	74,0%
9	GLT	29,9%	38,8%	23,9%
10	NAG	61,3%	79,7%	49,1%
11	NHW	61,3%	79,7%	49,0%
12	FBA	28,0%	36,5%	22,4%

13	SMA	86,6%	112,5%	69,2%
14	TIE	21,3%	27,6%	17,0%
15	TGP	65,4%	85,0%	52,3%
16	VHG	21,0%	27,3%	16,8%
17	VBH	14,0%	18,1%	11,2%
18	CSG	17,0%	22,1%	13,6%
	Average	52,6%	68,4%	42,1%