

Vietnam Corporate Bond Market: The Need for “A Visible and Strong Hand”

Presented by: Nguyen Quang Thuan, CEO, FiinRatings

Hanoi | 22 November 2022

Integrated provider of financial data, industry research and credit rating services



Credit Ratings & Capital Market Development

About FiinRatings

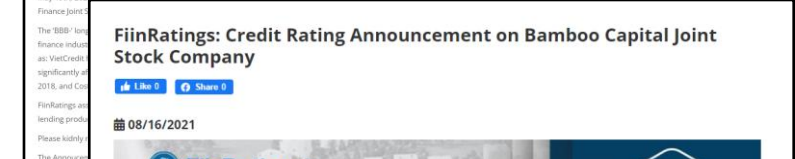
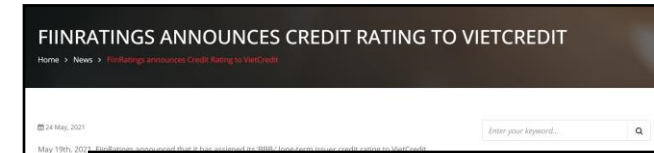
The second licensed credit rating agency in Vietnam


Main services offered by FiinRatings:

- Issuer Credit Ratings
- Issue Credit Ratings
- Credit Assessment
- Independent Credit Evaluation

Partners

S&P Global
Ratings





Rating Announcement:

FiinRatings First Rated F88 Business Joint Stock Company ("F88")

Long-term Issuer Credit Rating (ICR*): BBB- Outlook: Stable

Hanoi, 12 October 2021

Primary Analysts:
 Le Hong Khang, Lead Analyst; email: khang.le@fiingroup.vn
 Nguyen Nhat Hoang, CFA; Analyst; email: hoang.nguyennhat@fiingroup.vn
 Prachi Gupta, MMS; Financial Advisor; email: prachi.gupta@fiingroup.vn

Rating Committee Members:
 Paul Coughlin, Committee Chairman; email: paul.coughlin@fiingroup.vn
 Le Xuan Dong, CFA, Committee Member; email: dong.le@fiingroup.vn
 Khong Van Minh, Committee Member; email: minh.khongvan@fiingroup.vn

* This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to a debt instrument such as bond that it may issue.
 The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Published Issuer Credit Ratings (ICR):



BBB-/ Stable

First-time ICR: 19/05/2021
Surveillance #1: 26/01/2022



BB/ Stable

First-time ICR: 16/08/2021
Surveillance #1: 28/06/2022



BBB-/ Stable

First-time ICR: 12/10/2021
Surveillance #1: 21/06/2022



BBB-/ Stable

First-time ICR: 29/03/2022



BBB+/ Stable

First-time ICR: 04/04/2022



BB+/ Stable

First-time ICR: 20/04/2022



A-/ Stable

First-time ICR: 25/04/2022



A-/ Stable

First-time ICR: 19/09/2022

1. Market Updates

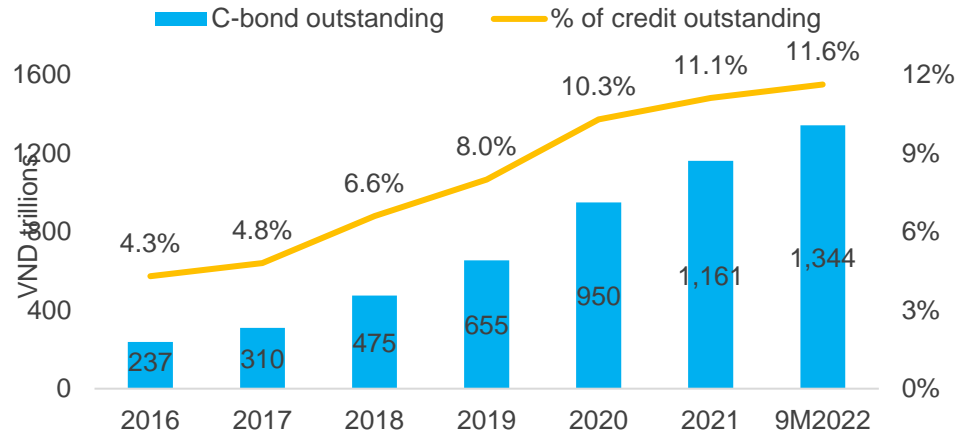
2. Key Risks

3. Policy Recommendations



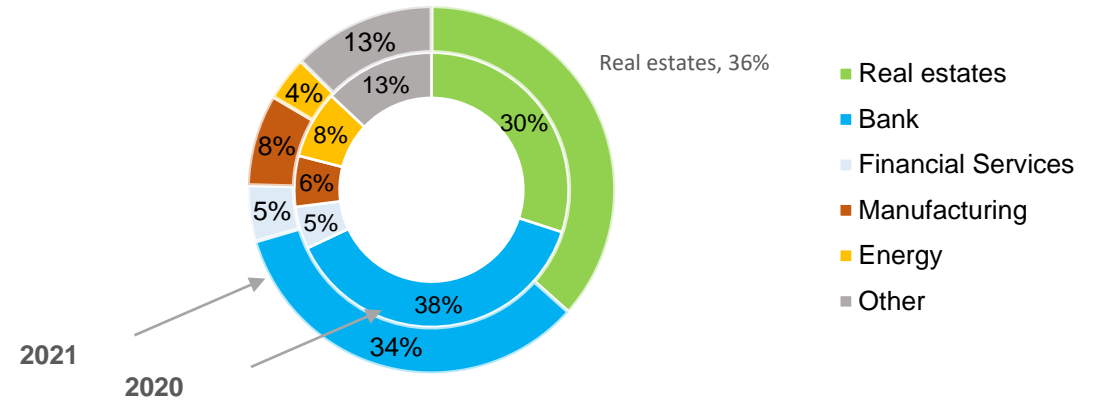
Market Snapshot

Figure 1: Growth of Vietnam Onshore Corporate Bonds



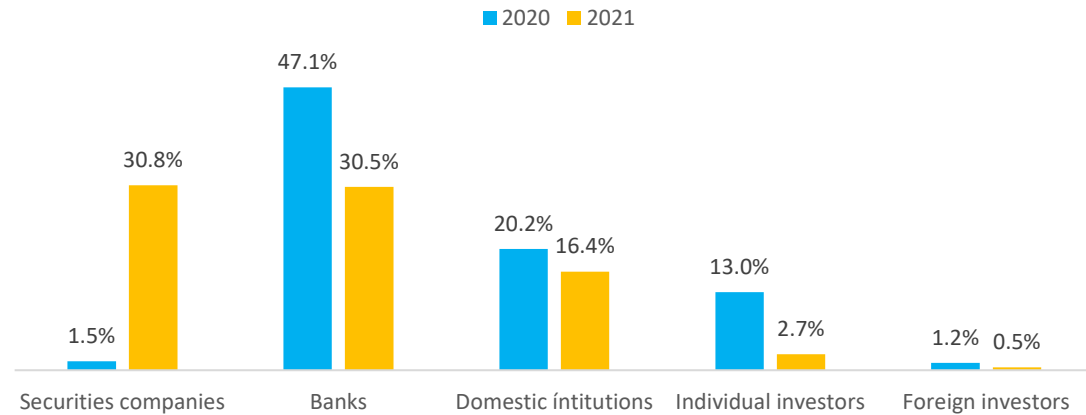
Source: FiinRatings, HNX. Offshore or FC bonds not included

Figure 2: Real estate developers as prominent issuers



Source: FiinRatings. Note: Foreign currency bonds not included

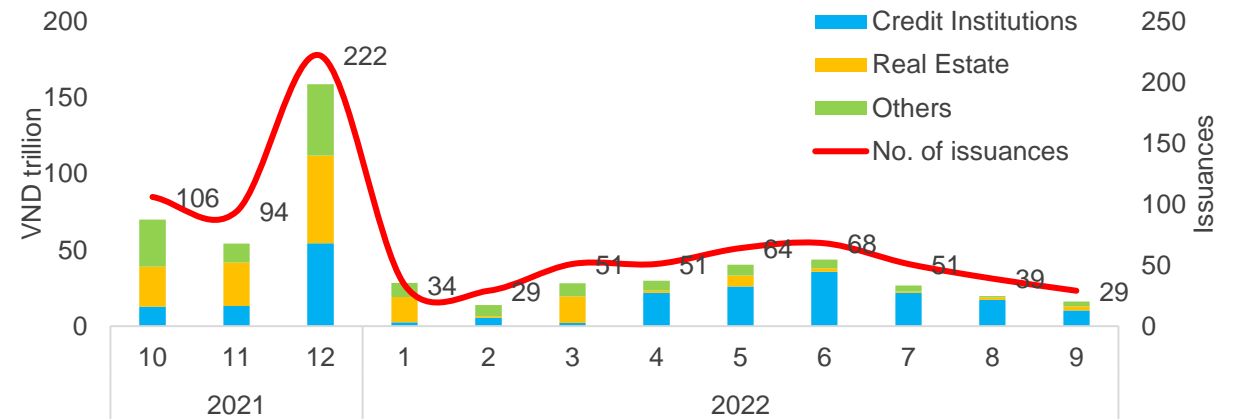
Figure 3: Investor-base at primary issuance (only)



Source: FiinRatings.

Note: The figures were estimated based on issuance value, except bank bonds. Banks and credit institutions are not included in the Domestic institutions.

Figure 4: New issuance being contracted and suspended



Source: FiinRatings

1. Market Updates

2. Key Risks

3. Policy Recommendations

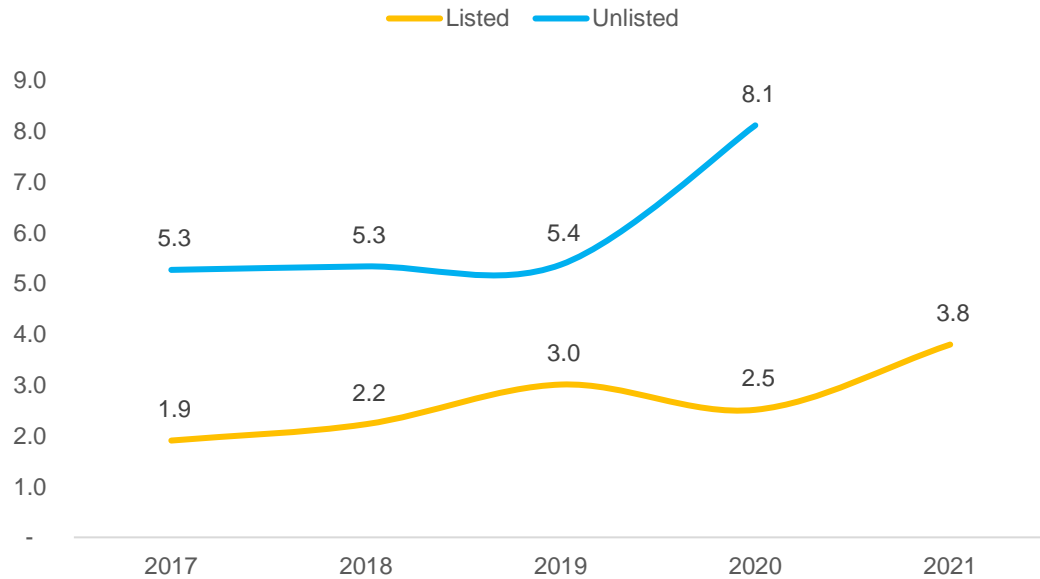


What are the Key Risks to the Economy as a whole?

No.	Key Risks	Key Contribution Factors	Risk Score	Impacts
1	Social Unrest expanding	<ul style="list-style-type: none"> Private bonds but held by bondholders as individuals at large scale (33% of outstanding value and 300K holders estimated) Weak financial transparency/ product information Mis-selling by intermediary institutions 	High	<ul style="list-style-type: none"> Result in public confidence in financial system, not only new bonds issuance, in banking sector and equity market Refinancing cannot be made under public offerings even good credit performance issuers
2	Bond Defaults and Cross-Defaults	<ul style="list-style-type: none"> Weakening earnings and deteriorating credit quality for prominent issuers New issuance suspended at high pressure from debt coming due Duration mismatch 	High	<ul style="list-style-type: none"> Cross-defaults to banks as investors: banking asset quality (although exposure is still very insignificant: < 3% Interest Earnings Assets) Impacts to banks as bond issuers and interbank market
3	Corporate Debt Liquidity Crunch	<ul style="list-style-type: none"> Not only official bank loans but shadow banking in Vietnam is at large and trade insolvency 	High	<ul style="list-style-type: none"> Corporate insolvency Deterioration in banking NPL
4	Foreign Capital Flight	<ul style="list-style-type: none"> Combined with FX risk/ VND devaluation Confidence in banking sector/ financial system 	Medium	<ul style="list-style-type: none"> FC bonds and portfolio/equity money flows FC remittance/ repatriation (indirect/ portfolio capital and direct capital accounts like FDI)
5	Missing the Economic Growth Target 2023	<ul style="list-style-type: none"> The large contribution of real estates investment to GDP growth (around 20% contribution) Corporate insolvency 	Medium	<ul style="list-style-type: none"> Economic downturn Unemployment

Already Weak and Weakening Credit Quality would result in corporate defaults in coming time under the current headwinds

Figure 5: Net Debt/EBITDA of Bond Issuers



Source: FiinRatings. Total debt = Short-term debt + Long-term debt – Cash – Short-term financial investment

- The credit capacity of private issuers has been assessed by FiinRatings since early 2021 as alarmingly weak even before the recent headwinds.

Exhibit 6: Earnings outlook for Real Estates and Related Sectors

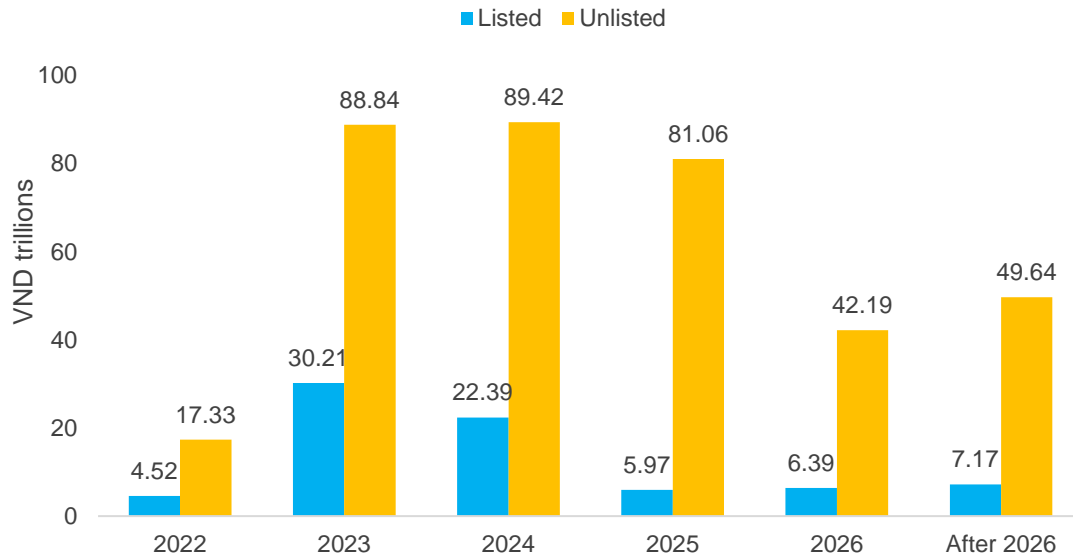
	Profit After Taxes Growth					
	2017	2018	2019	2020	2021	2022F
		%	%	%	%	%
Real Estates and Construction Materials						
Residential Properties	24.5%	152.4%	38.1%	2.8%	33.0%	-25.2%
Industrial Zones	24.5%	10.4%	15.3%	21.1%	-3.5%	35.6%
Retailer Properties	-17.4%	21.6%	19.1%	-16.2%	-42.5%	73.5%
Rental Properties	-1321.3%	117.2%	176.4%	392.7%	-1.4%	-51.1%
Construction	30.0%	-32.7%	-2.7%	-4.9%	34.2%	-3.7%
Steel	12.8%	-19.1%	-20.6%	97.4%	164.6%	-71.2%
Construction Materials	-11.2%	-2.6%	11.8%	1.8%	-11.4%	-14.0%

Source: FiinPro Platform. 2022F is forecasted figure by FiinGroup

- But not every segments of “real estates” will be the same. Any policy design for interventions should factor this.

Cross-defaults and Corporate Insolvency Risk

Figure 7: Debt Coming Due by Real Estate Issuers



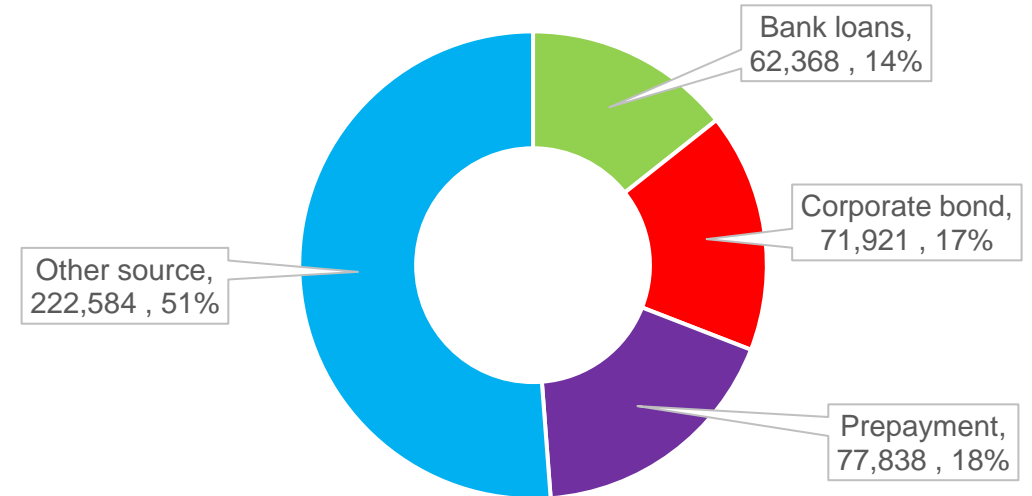
Source: FiiRatings, HNX.

Note: Data compiled from 1557 bonds on issue of 323 real estate issuers

- Debt coming due has reduced significantly following recent early redemptions (by Bondholders) and repurchases (by Issuers).
- But pressure remains very Significant from early 2023 so policy intervention should be acted from NOW!

Figure 8: Financing sources for developers not just bonds and bank loans

Debt structure of listed residential real estate developers (Unit: VND billion)



Note: Data analysed from 54 listed residential RE companies with the total market capitalization of VND 910 billion. These companies have a total debt of VND 435 billion which is appr. 60% of total banking credit to developers in Vietnam. Other sources include foreign currency borrowing, BCC and other sources.

- For a sample of review, corporate bonds and bank loans are just a part of the story. Policy design for interventions should consider the different sources of funds.
- For example, streamlining the legal process approval for developers would help them have presales which is an important source of funds as well.

1. Market Updates

2. Key Risks

3. Policy Recommendations



Policy Recommendations

Short-term/ Immediate Actions:

Introducing Selected Liquidity Facility

- 1. Special review on major issuers with large exposure to individual bondholders**
 - Provide a clear guidance for debt restructuring
 - Assess the risk to banks and to economy as a whole
 - Balance between public disclosure and privately restructuring
- 2. Real estate credit program**
 - Introducing housing credit program for home buyers and for real estates under “One Cycle Credit Control” (Bank => Home Buyers => Developers => Bank)
 - Set an additional credit room for via qualified banks as implementing agencies
- 3. Stimulating the public offering bonds**
 - Ease of approval
 - Enhanced disclosure including public ratings
- 4. Stronger messages from the Government to restore debt market confidence**
 - With specific action plan
 - Progress updates

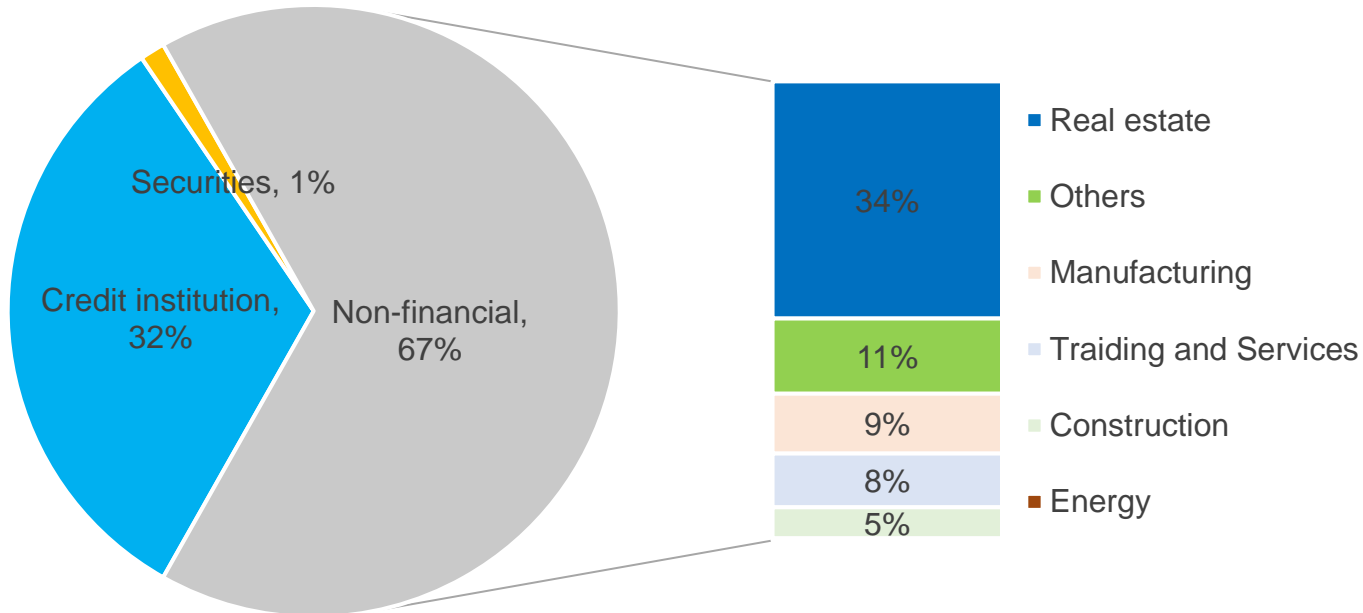
Medium-term:

Accomplish the planned activities

- 1. Enhancing information transparency:** disclosure regime for debtholders; bond sales process, further enforcing Credit Ratings and establishing bond pricing agency model
- 2. Launching a centralized secondary market by June 2023 as required under Decree 65:** for disclosure, pricing and liquidity
- 3. Market education:** general public, qualified investors and institutional
- 4. Expanding investor-base:** currently only banks and bond funds faced a strict restrictions.
- 5. Green credits** including bonds: taxonomies and incentives

Why Focus on Real Estate Bonds

Figure 9: Breakdown of LC bond outstanding as at 30 Sep 2022:

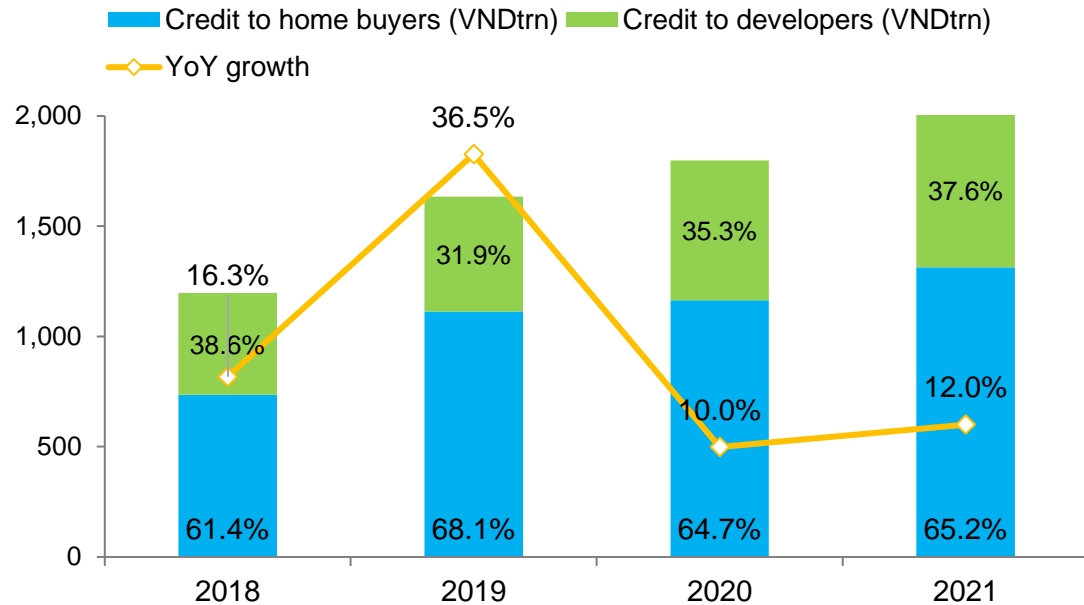


Source: FiiRatings, HNX. Onshore/ domestic bonds in LC only.

- Total LC bonds outstanding: VND1.300 trn (appr. US\$52bn), accounting for 13% GDP.
 - Bank bond: VND391trn (US\$16bn) – 32%
 - Non-financial bond: VND908trn (US\$37bn) – 67%, in which banks hold around US\$12bn as of 30 June 22.
- Key attention should be paid to real estate bonds which is estimated at VND455trn (US\$18.5bn) :
 - Real estates represents around 4% only of the country's banking credit
 - But cross-defaults is worth to watch: around 50% by banking loans and 50% via corporate bonds.
 - Again, poor credit performance (credit tightening, high rates/ inflation, low presales but the most critical is the suspended legal/ project licensing).

Real Estate Credit in Vietnam: still room for home buyers

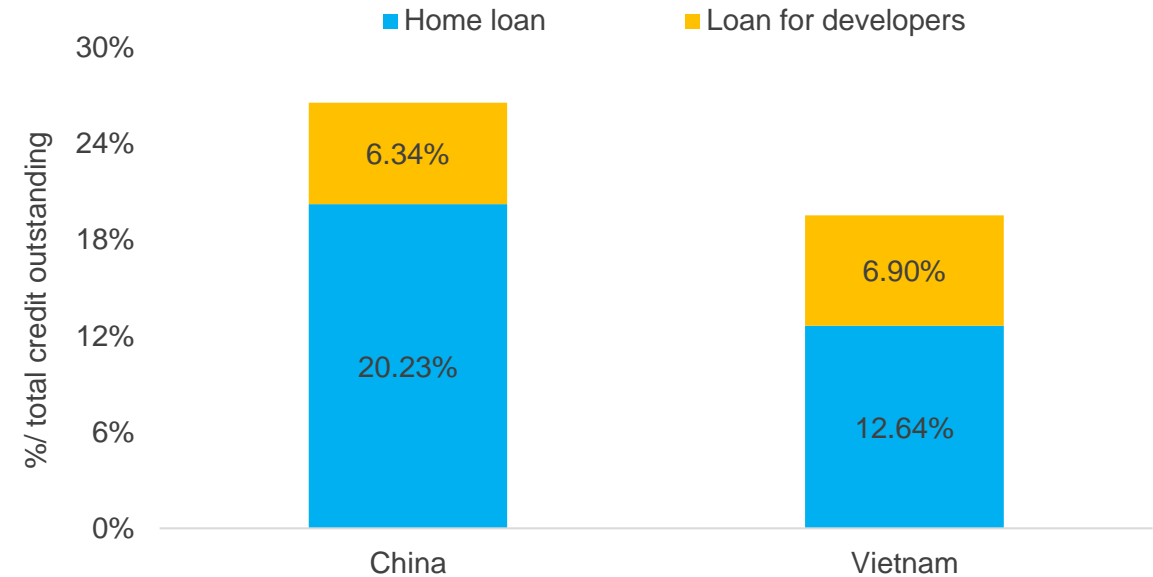
Figure 10: Banking credit to homebuyers and developers



Source: FiinRatings

- Main real estate exposure attributed by housing loans.
- But shadow banking is very significant at credits for developers

Figure 11: Real Estate Credit/Total Banking Credit: Vietnam vs. China, 2021

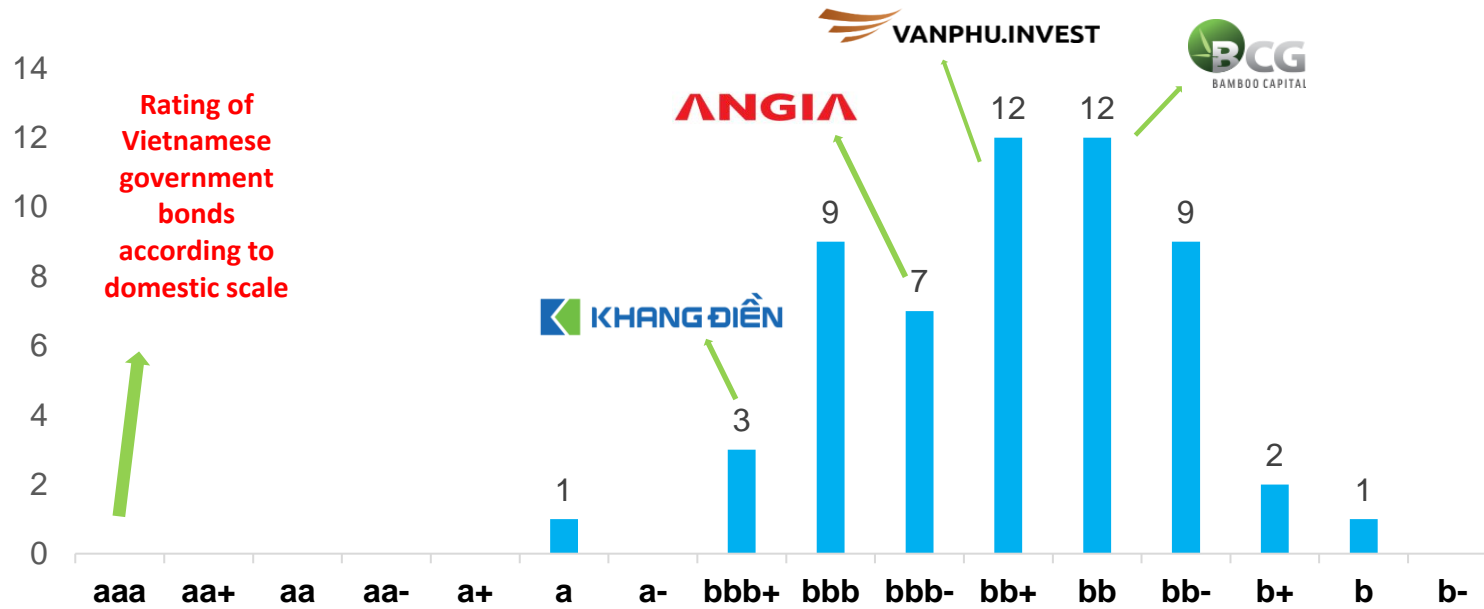


Source: FiinRatings, SBVN, PBOC, NBS

- Credit to developers are at similar penetration to China's. But the high concentration to large issuers like VinGroup, Novaland, VTP, etc.
- Financial leverage of Top 20 developers in Vietnam much lower than that in China.

Ratings can be a good reference in the policy designs

Figure 12: Relative ranking of listed Real Estate Developers



Source: FiinRatings

Important Note: Except for issuers with names and logo shown on the Exhibit, this is not the final results of FiinRatings. To carry out rating actions, we would need to perform qualitative analysis, including interviews with the companies' management, due diligence and assess characteristics of each particular business model.

- The promotion of credit rating will help not only individual investors but also commercial banks in selecting, evaluating and lending credit in line with risk appetite and the State Bank's directive: strictly control real estate credit risks.
- Help "synchronize" information on bond credit quality and bank credit, thereby supporting cross-default risk monitoring of the credit market in general.

Figure 13: Characteristics of different credit rating categories

Credit quality	Description	Business Risk Profile	Financial Risk Profile
[a]	<ul style="list-style-type: none"> • Large and clean land bank in several cities and central areas, with diversified products and sources of income. • Strong reputation and proven project implementation capability. • Good funding capability and low financial leverage. 	Strong and above	Intermediate to Modest
[bbb]	<ul style="list-style-type: none"> • Above average scale with central city land bank. The implementation capability and feasibility is proven. • Below average financial leverage. 	Adequate to Strong	Intermediate to Modest
[bb]	<ul style="list-style-type: none"> • Land bank in cities, vicinity or others. • Higher financial leverage. 	Moderate to Adequate	Significant to Aggressive
[b]	<ul style="list-style-type: none"> • Small to average size. • Higher risks regarding the implementation capability. • Higher financial leverage. 	Below Moderate	Aggressive to Highly Leverage

Source: FiinRatings



FiinRatings®

ENLIGHTEN THE MARKET

This document is prepared by FiinRatings Joint Stock Company for reference purposes only. This is not a Credit Rating Report and does not recommend buying, selling, or holding any stock or any other particular transaction. The information contained in this Report, including FiinRatings' data, figures, tables, analysis, and comments, is used for reference only at your own discretion and risk appetite. FiinGroup will not be responsible for any loss or consequences that may result from the use of the information contained in this report.

FiinRatings Joint Stock Company holds the copyright on this report and all the content in this Report. This report is copyright protected under the law on copyright in Vietnam and other countries under international copyright conventions and treaties that Vietnam is a member.