Corporate Bond Market Perspective

Proactive negotiations will slow down bond defaults in 2024, marking the start of a new development phase and recovery of bond issuance

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We expect credit conditions to stabilize in 2024, aided by easing bank liquidity and policy support coming into effect. Proactive negotiations have effectively mitigated new defaults, with maturity extension emerging as the most viable resolution option. As defaults moderate and new bond market regulations enforcing stronger market discipline kick in, we expect market sentiment to improve and new bond issuances to recover.

Credit conditions will stabilize in 2024 from easing bank liquidity and policy support. In 2024, most sectors will remain challenged by the slowing economy, high leverage, and significant refinancing needs. We expect recent policy measures to lower interest rates and support the financing needs of corporates will gradually come into effect and help to ease the liquidity stress faced by bond issuers, especially those in the property, construction, and utilities sectors.

New bond defaults peaked in Q1 2023 and will decrease in 2024 mainly due to Decree No. 8/2023 measures allowing debt workout mechanisms to resolve or avoid bond defaults. We expect the total value of defaulted bonds will reach VND195 trillion by 2023 year-end. The majority of the defaulted bonds are from the troubled property, construction, and renewable energy sectors, and are related to a handful of large corporate groups in the property sector. By the end of September 2023, close to 60% of defaulted bond issuers and bondholders negotiated on resolution schemes allowed under Decree No. 8. We expect more troubled issuers to take proactive steps to negotiate with bondholders ahead of maturity to avoid defaults.

Maturity extension will continue to be the most viable way to avoid and resolve defaults. We view this mechanism to resolve bond defaults to be less complex and subject to fewer legal challenges than asset swaps and in-court settlements. We also observe an increasing number of negotiations resulting in higher coupon rates, stricter covenants, and additional collateral pledges, which in our view, is credit positive for bondholders.

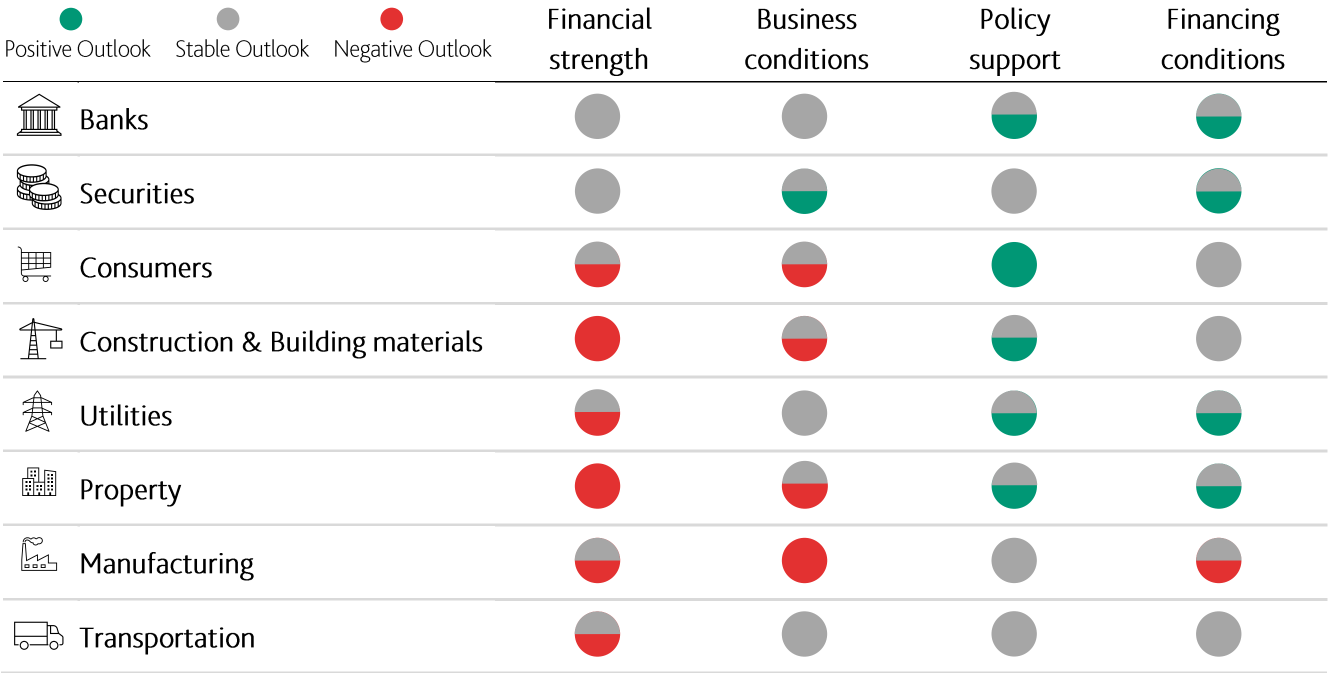
Looking ahead to 2024, we expect the corporate bond market to enter a new development phase with stronger market discipline as more stringent requirements for all stakeholders come into effect and lead to a recovery in new bond issuances. In January 2024, the stricter eligibility criteria for individual bond investors and the adoption of mandatory credit ratings under Decree No. 65 will take effect. As credit conditions stabilize, we expect market liquidity to remain robust and refinancing risks to ease considerably. Banks will drive new bond issuance activity in line with their plans to support their funding and capital needs.

Credit conditions will stabilize in 2024 from easing bank liquidity and policy support

We expect the credit environment will stabilize in 2024 as financing conditions improve from the easing monetary policy stance and as recent government policies implemented to support various industry sectors take effect (Exhibit 1).

Exhibit 1

Stronger financing conditions and policy support in 2024 will help to alleviate refinancing difficulties among corporates in Vietnam



Note: Colored circles denote our view on the outlook of respective considerations over the next 12 months
Source: Vietnam Investors Service

Recent rate cuts by the State Bank of Vietnam (SBV) have lowered bank deposit costs and helped to stabilize banking sector liquidity[1]. Lower policy rates will gradually transmit to lower lending rates and interest rates for floating-rate bonds, and alleviate the debt servicing burden of borrowers and bond issuers, particularly those with weak financial strength and are highly-leveraged.

Firms in the property and construction sectors have weak financial strength in general, characterized by high leverage and weak cash resources. On average, construction and property issuers' debt-to-equity ratios as of Q2 2023 are 3.3 times and 2.5 times, respectively. These sectors have faced significant debt repayment and refinancing difficulties over the past year.

While credit demand has been suppressed by weak business conditions for the most part of 2023, a lower-rate environment will incentivize businesses to actively take advantage of lower rates to secure new financing for future needs.

Multiple policy measures were introduced since March 2023, aimed to support the slowing economy amid persistently weak external demand[2] and address the negative sentiment in the property sector. For example, the Ministry of Finance (MoF) implemented a 30% cut in the land rental fees for the year 2023 and extended the payment period for various taxes and fees including Value Added Tax (VAT), Corporate Income Tax, Personal Income Tax, Automobile Special Consumption Tax, and Land Rental Fees. MoF also cut VAT by 2% for the year 2023 and reduced registration fees for domestically produced and assembled automobiles to stimulate domestic demand.

In addition, we expect the upcoming changes to the legal framework for the property sector will help to accelerate property project development work and property sales, and in turn, support developer cash flows.[3] Over the course of 2022-2023, much of the property development was halted as a result of legal delays. Going forward, we expect multiple

[1] Refer to Credit Insights: Banks and borrowers will benefit from lower funding costs (28 March 2023)
[2] Refer to Credit Insights: Weak external demand will weigh on Vietnam's exports (19 April 2023)
[3] Refer to Credit Insights: Resolution No.33/NQ-CP on Solutions for Property Sector (23 March 2023)

amendments in several laws governing the property market such as Land Law, Housing Law, and Real Estate Business Law, which will be passed in upcoming National Assembly meetings in the coming months. These legal framework revisions are crucial to resolve key procedure obstacles in real estate project approval and to revive the market sentiment in the property market.

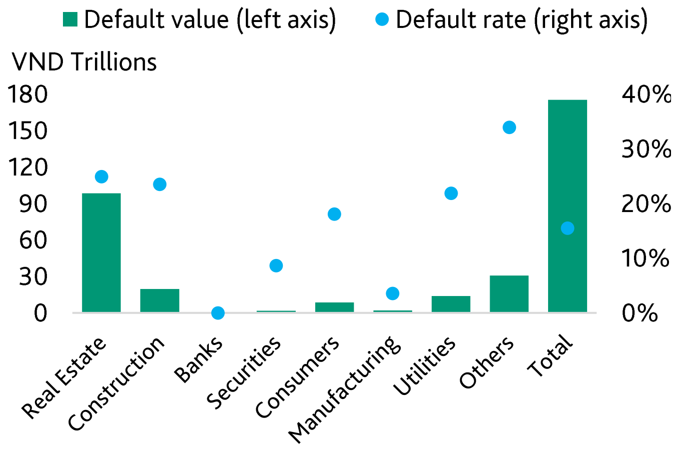
We expect much of the policy support will take time to implement and benefits to the broader economy will be more pronounced in 2024. Unlike many domestically-focused sectors that will benefit from the recovery in domestic sentiment and spending, the business conditions for the manufacturing sector will remain challenging, as Vietnam's exports to its key markets remain sluggish.

New bond defaults peaked at Q1 2023 and will decrease in 2024 mainly due to Decree No. 8 measures allowing debt workout mechanisms to resolve or avoid bond defaults

Defaults will continue to rise in 2023, mostly related to bonds at risk from property, construction, and utility sectors.

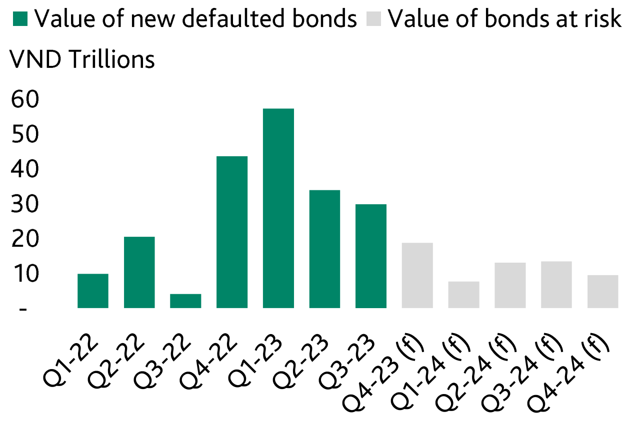
The total value of default bonds as of September 2023 was VND175 trillion, with the majority coming from the troubled property, construction, and renewable energy sectors (Exhibit 2). We also observe a significant concentration in defaults; 74% value of default bonds in the property sector were related to a handful of large corporate groups either directly or indirectly via bond issuing entities. We estimate that an additional VND20 trillion value of bonds is at risk of default[4] in October-December 2023. For 2024, we estimate around VND 66 trillion of bonds are at risk of default, much lower than that in 2023 (Exhibit 3).

Exhibit 2
Real estate, construction, and utilities continue as the highest default sectors as of September 2023



Source: HNX, Vietnam Investors Service

Exhibit 3
Bonds at risk will decrease in 2024

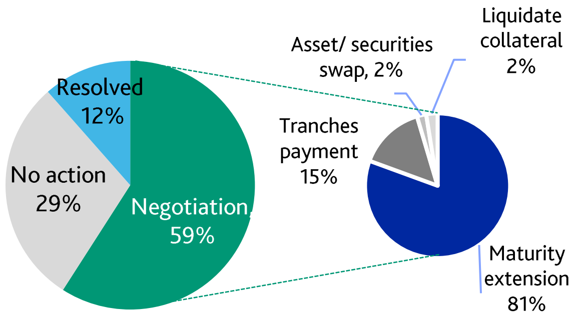


Source: Vietnam Investors Service

Decree No. 8 has allowed bond issuers and bondholders to negotiate and utilize various mechanisms to tackle bond defaults such as maturity extension, asset swap, and collateral liquidation. Among the ongoing negotiation cases, over 80% of issuers have chosen the option of maturity extensions (Exhibit 4). Based on the available disclosures, we note that bond maturity dates were extended by an average of 20 months, close to the maximum of 2 years allowed under Decree No. 8 (Exhibit 5).

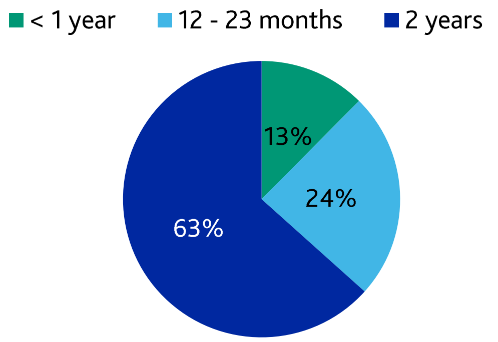
[4] We assessed issuers at risk of default based on the leverage, profitability, and cash resources of the companies. For more details please refer to the report: Corporate Bond Market Perspective: Real estate-related liquidity issues will drive up corporate bond defaults in 2023, new regulation to provide some relief for VND 113 trillion bond at risk (6 April 2023)

Exhibit 4
Maturity extension is the preferred way to resolve defaults



Source: HNX, Vietnam Investors service

Exhibit 5
The majority of the maturity extensions were for periods of over one year



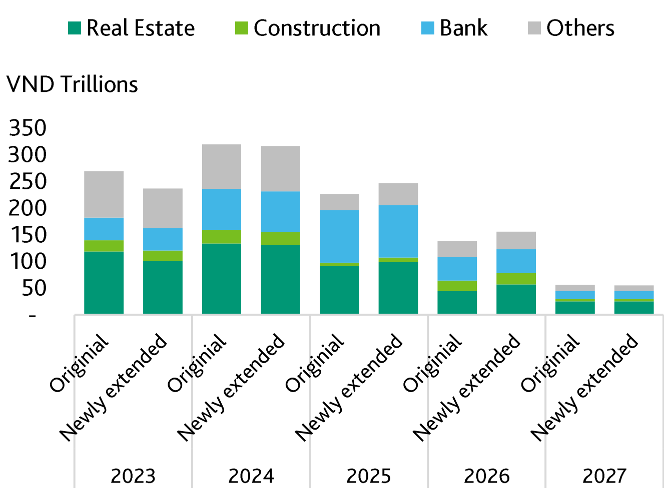
Source: HNX, Vietnam Investors Service

Decree No. 8 measures will help to slow down new default values in 2024.

We expect more troubled issuers to take proactive steps to negotiate with bondholders ahead of maturity to avoid defaults and the new default value will decrease in 2024.

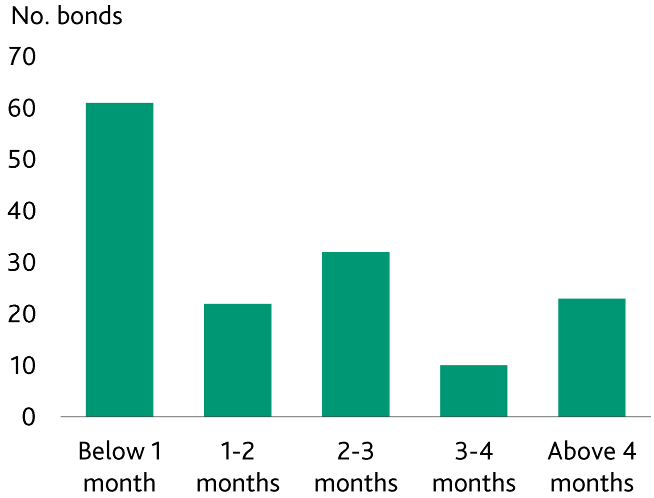
We observed that over January-September 2023, 148 bonds totaling VND36 trillion extended the maturity dates of the bond principal (Exhibit 6) and 75% of these maturity extensions were approved by bondholders just two months before the maturity date or less (Exhibit 7). In our view, this is a clear indication that maturity extensions were executed to primarily avoid defaults. That being said, we view this mechanism allows issuers with additional time to restructure their business and cash flow.

Exhibit 6
Maturity dates were extended for a total of VND36 trillion of bonds in 2023



Note: Estimated maturity values presented based on the bonds' original and newly extended maturity dates
Source: HNX, Vietnam Investors Service

Exhibit 7
Most bonds extended maturity dates within two months before principal repayment dates



Source: HNX, Vietnam Investors Service

Maturity extension will continue to be the most viable way to avoid and resolve defaults

In 2024, we expect maturity extension will remain the preferred way to resolve defaults among issuers and bondholders, as the process is less complex involving only the issuer and bondholders, and subject to fewer legal challenges than other mechanisms allowed under Decree No.8. Other mechanisms such as asset swaps and collateral liquidation will require third-parties to undertake various complex procedures, for example, asset valuation, collateral management, transfer of asset ownership and rights, etc (Exhibit 8).

Exhibit 8
The maturity extension makes it easier to reach an agreement than other options

	Maturity extension	Asset swaps	Collateral liquidation
Number of parties involved	Only between bondholders/trustees and issuers.	Multiple 3rd parties such as asset appraisers, transaction intermediaries	Multiple 3rd parties such as collateral management parties, transaction intermediaries
Subject to market conditions	Not likely	Hard to reach an agreement on the price of swapped assets	Liquidity of asset will affect its net realizable value
Subject to legal challenges	No legal obstacles	Difficulty in dividing assets among bondholders in lieu of bond repayment	The collateral assets may be pledged for other debt obligations, making it difficult to determine payment priorities

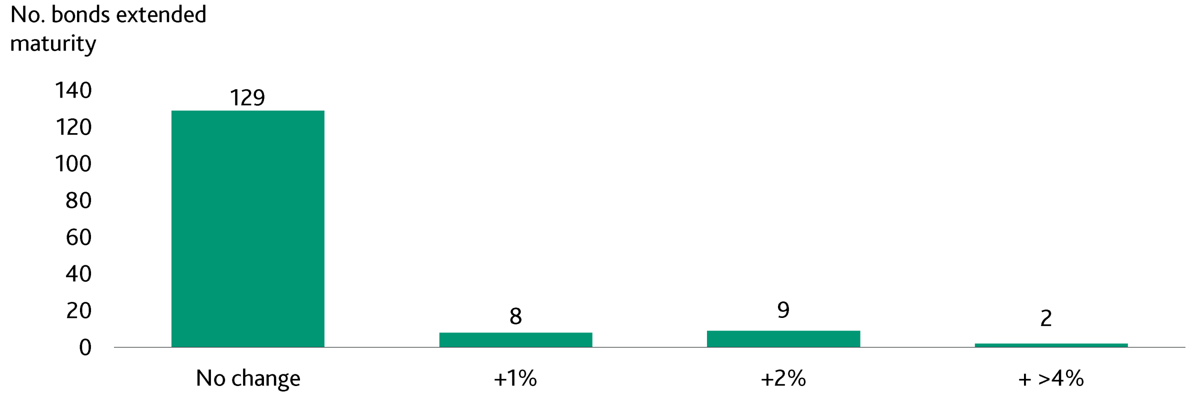
Source: Vietnam Investors Service

It is noteworthy that maturity extension is also a preferred way of resolving corporate bond defaults in China. According to Moody's research, 16 out of 37 issuers that defaulted since early 2021 completed debt exchanges that helped issuers extend bond maturities and avoid payment defaults[5]. This preference is likely to be driven by issuers and investors opting to avoid a lengthy and costly court process to seek resolution and accelerate debt settlements outside court. According to our knowledge, out-of-court resolutions in emerging markets typically take more than 9 months after default, while in-court resolutions may take three times longer.

We view the issuer's efforts to compensate bondholders as a credit positive for bondholders.

We observed an increasing number of negotiations resulting in higher bond coupon rates (Exhibit 9), stricter covenants, and additional collateral pledges, which in our view, is credit positive for bondholders. In Vietnam where many bondholders are individual investors and have limited recourse to bond issuers, reaching an agreement with issuers to postpone debt repayments and getting compensated with higher returns may be the most cost-efficient way to pursue recoveries.

Exhibit 9
A total of 19 bonds extended maturity dates with higher coupon rates in 2023, up from none in prior years



Source: HNX, Vietnam Investors Service

[5] Refer to Moody's report "Property-China: Fewer defaults expected among rated developers in the next 12 months (27 June 2023)"

Looking ahead to 2024, we expect the corporate bond market to enter a new development phase with stronger market discipline as more stringent requirements for all stakeholders come into effect and lead to a recovery in new bond issuances

Many key requirements of Decree No. 65/2022 will come into effect in 2024 and drive stronger discipline for all stakeholders and help regain market confidence.

From January 2024, the last provisions on private bond issuance under Decree No. 65 will come into effect, such as the stricter eligibility criteria for professional bond investors and the adoption of mandatory credit ratings[6]. Previously, the Government issued Decree No. 8 in March 2023 to postpone the implementation of these provisions by a year[7].

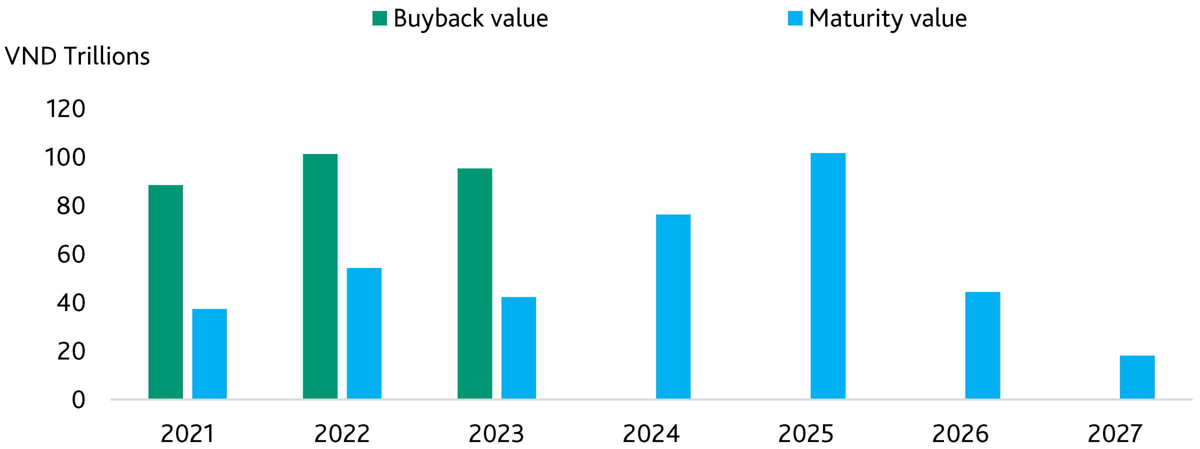
We expect these new requirements will help establish a stronger framework to guide the behaviour and practices of issuers, services providers, and investors in the corporate bond market, which will, in turn over time, raise the quality of corporate bond issuances and boost market confidence and liquidity.

As credit conditions stabilize in 2024, we expect refinancing risks for corporate bond issuers to ease considerably.

Banks will drive new corporate bond issuance activity in 2024, in line with plans to support funding and capital needs.

We expect banks to take advantage of the low-rate environment to speed up their plans to raise longer-term funding to support their lending activities[8] and capital management[9]. In view of the recent policy rate cuts that have led to lower deposit and lending rates in the banking sector, banks will be able to issue new bonds with lower coupon rates to secure lower-cost funding and redeem existing bonds (Exhibit 10). Barring any material changes in the inflation outlook and stability of the Vietnamese currency, we expect the regulatory stance on interest rates will remain dovish, and in turn, support bond issuance activity.

Exhibit 10
Increasing buyback and maturity value incentives bank bond re-issuance



Source: HNX, SSC, Vietnam Investors Service

In addition, many banks have already completed the audited reports on bond proceeds, which was a key obstacle to launching new bond issuances in H1 2023. We note that banks have been swiftly executing their bond issuance plans disclosed in Q2 2023 (Exhibit 11). As of report date, all 14 banks have already issued new bonds.

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[6] Refer to Corporate Bond Market Perspective: New regulations guide stable growth of corporate bonds, but keep new issuances subdued until 2H 2023 (11 Nov 2022)
[7] Refer to Corporate Bond Market Perspective: Real estate-related liquidity issues will drive up corporate bond defaults in 2023, new regulation to provide some relief for VND 113 trillion bond at risk (6 April 2023)
[8] Refer to Circular 22/2019/TT-NHNN regulating Banking safety ratios and Circular 08/2020/TT-NHNN extending the deadlines for applying the Short-term funding to medium and long-term loans ratio in Circular 22/2019
[9] Refer to Circular 41/2016/TT-NHNN regulating banking capital adequacy ratio

Exhibit 11

List of recently disclosed new bank's bond issuance plans in H2 2023 and 2024

Banks	Timing issuance	Issuance plans	Already issued value
ABB - An Binh Joint Stock Commercial Bank	H2 2023	VND 6 trillion	VND 3 trillion
ACB - Asia Commercial Joint-Stock Bank	H2 2023	VND 20 trillion	VND 15 trillion
BAB - Bac A Commercial Joint Stock Bank	H2 2023 - 2024	Not disclosure	VND 1.3 trillion
BID - Bank for Investment and Development of Vietnam	Q3 – Q4 2023	VND 8.1 trillion	VND 3.7 trillion
BVB - Viet Capital Bank	H2 2023	Not disclosure	VND 0.38 trillion
CTG - Vietnam Joint-Stock Commercial Bank for Industry and Trade	H2 2023	VND 25 trillion	VND 9.4 trillion
HDB - Ho Chi Minh City Development Joint Stock Commercial Bank	H2 2023 - 2024	VND 7 trillion	VND 3 trillion
LPB - Lien Viet Post Joint Stock Commercial Bank	2024	VND 13 trillion	VND 9.4 trillion
MBB - Military Commercial Joint Stock Bank	H2 2023 - 2024	Not disclosure	VND 0.35 trillion
MSB - Vietnam Maritime Commercial Joint Stock Bank	Not disclosure	Not disclosure	VND 2 trillion
NAB - Nam A Commercial Joint Stock Bank	2023	VND 2 trillion	VND 1.1 trillion
OCB - Orient Commercial Joint Stock Bank	2024	VND 26 trillion	VND 11.2 trillion
PGB - Petrolimex Group Commercial Joint Stock Bank	Not disclosure	Not disclosure	VND 0.5 trillion
VBB - Vietnam Thuong Tin Joint Stock Commercial Bank	Q3 2023	VND 2 trillion	VND 1.9 trillion
VIB - Vietnam International Commercial Joint Stock Bank	H2 2023	VND 20 trillion	VND 2 trillion
TCB - Vietnam Technological and Commercial Joint-Stock Bank	Not disclosure	Not disclosure	VND 14 trillion
TPB - Tien Phong Commercial Joint Stock Bank	H2 2023 - 2024	Not disclosure	VND 3.8 trillion

Source: Banks' public announcements, HNX, SSC, Vietnam Investors Service

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