CONTACTS

Bach Hoang Anh, CPA (Aust.)
Associate Analyst
hoanganh.bach@visrating.com

Nguyen Dinh Duy, CFA
Director – Senior Analyst
duy.nguyen@visrating.com

Simon Chen, CFA
Head of Ratings & Research
simon.chen@visrating.com

https://visrating.com

Corporate Bond Market Essentials: Part 1

From Crisis to Reform: A New Era Demands Sharper Vigilance from Bond Investors

Vietnam's corporate bond market is undergoing reform, but risks remain elevated. The recent default wave exposed deep structural flaws—mispricing, weak disclosure, and misuse of bond proceeds. Regulations are evolving, but investors cannot afford to let their guard down. Navigating Vietnam's evolving bond market will demand sharp vigilance, rigorous credit risk assessment, and broader use of credit ratings to unlock long-term value.

Corporate bonds carry meaningful risks that demand investor scrutiny.

While they offer more stable valuations and recurring income than equities, they are far from risk-free. Higher yields reflect higher risk—particularly the potential for missed coupon payments or principal losses.

Vietnam's bond market illustrates this clearly: nearly 15% of outstanding bonds defaulted in late 2022 and 2023 (Exhibit 1). Our analysis of 182 defaulted issuers shows weak cash flow and poor liquidity management are the primary drivers of bond defaults (Exhibit 2). Recovery rates remain below 40%, with many investors losing over half of their principal - excluding unpaid interest and opportunity costs.

Bond structures vary in complexity and require rigorous due diligence. For example, secured bonds may appear safer, but recovery hinges on enforceability and asset value. Investors must evaluate each bond's structure, terms, and risk mitigants—such as collateral quality or guarantees—and align them with their risk appetite and investment goals.

Regulatory reforms are improving transparency and investor safeguards – but investor vigilance remains essential.

The 2022-2023 wave of bond defaults exposed deep-rooted issues – limited information disclosure by bond issuers, issuer misuse of bond proceeds, inadequate risk assessment by investors, etc. – despite a regulation-heavy framework.

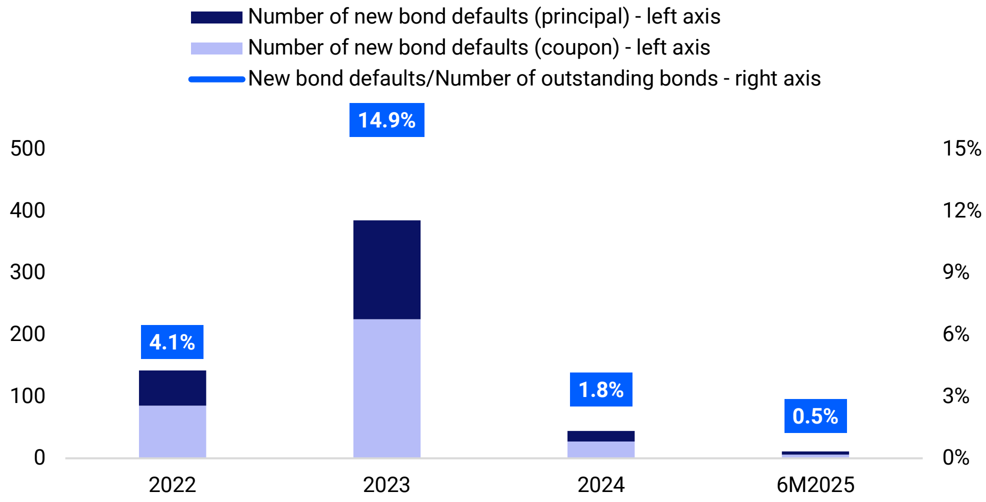
Recent reforms aim to close these gaps by tightening issuance standards, boosting market discipline, and mandating greater accountability by issuers and intermediaries. For example, bondholder representatives will now have to play a more active role to monitor issuer conduct and enforce bond terms on behalf of bondholders.

Nonetheless, investors should not assume that regulatory changes alone will eliminate risk. Enforcement mechanisms may take time to catch up, and bad actors can still exploit gaps in oversight. As such, it is essential for investors to conduct thorough due diligence, remain vigilant, and not rely solely on regulatory protections when assessing investment opportunities in Vietnam's corporate bond market.

Persistent mispricing in Vietnam's corporate bond market remains a critical concern. Investors are often not adequately compensated for the risks they bear, largely due to limited access to reliable pricing tools and mechanisms. Credit ratings—essential for assessing risk in the region (Exhibit 3) —are not widely used in Vietnam and are rarely factored into bond pricing. This gap has led to distorted risk-reward dynamics. From 2020 to 2022, high-risk issuers, including opaque special-purpose entities, issued bonds at yields comparable to those of financially sound corporations. Many of these bonds later defaulted, resulting in significant investor losses.

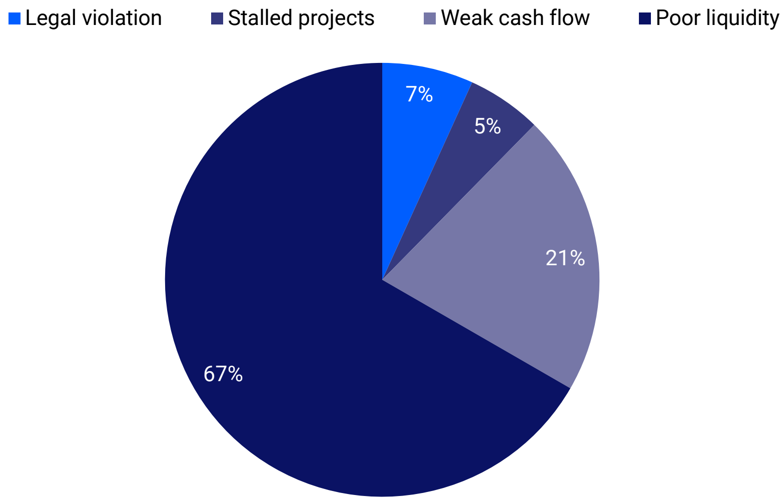
Wider use of credit ratings is critical to improving bond pricing and market resilience. Ratings enable investors to assess credit risk, compare deals, and demand appropriate returns. For instance, subordinated bank bonds—lower in repayment priority—can be more accurately priced with a rating. Beyond pricing, ratings drive issuer discipline, improve transparency, and communicate risk more clearly to investors. Broader adoption can expand the investor base, boost confidence, and reduce funding costs. Addressing this gap is essential to support Vietnam's evolving capital market.

Exhibit 1: Number of new bond defaults and default rate each year



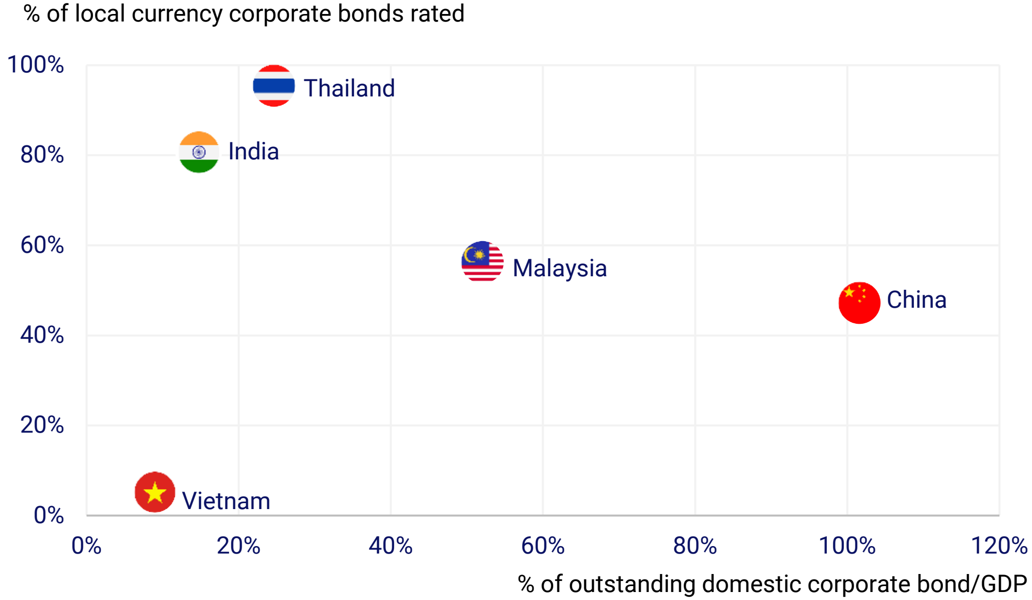
Source: Hanoi Stock Exchange (HNX), VIS Rating

Exhibit 2: Nearly 90% of the defaulters had weak cash flows to cover coupon payments or insufficient liquidity to meet substantial principal maturities



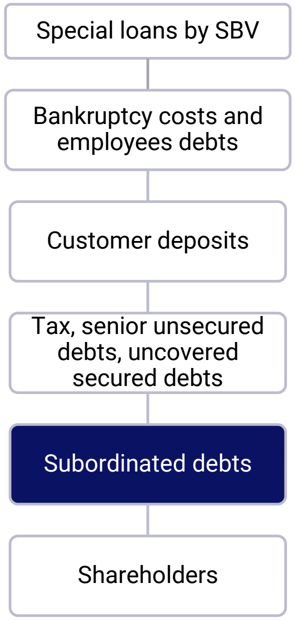
Source: Company data, VIS Rating

Exhibit 3: Vietnam's corporate bond market lags behind regional peers in terms of credit rating coverage



Note: Data as of the end of 2024 or the latest available
Source: ThaiBMA, Asianbondsonline, India BondInfo, VIS Rating

Exhibit 4: Subordinated bondholders rank below all senior creditors in the creditor hierarchy during liquidation



Source: Bankruptcy Law, Circular 41/2016/TT-NHNN, VIS Rating

Moody's holds a 49% ownership stake in VIS Rating. A Technical Services Agreement is in place between the two companies, under which Moody's provides certain services, including technical assistance, to VIS Rating. However, Moody's is not involved in any particular VIS Rating credit rating or research processes. This report and the opinions expressed herein represent the independent views of VIS Rating and should not be attributed to any Moody's entities, directors, officers, or employees.

DISCLAIMER

CREDIT RATINGS ISSUED BY VIS RATING ARE OUR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, DEBT OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS OR OF ISSUER OF SUCH DEBTS OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS IN VIETNAM AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY VIS RATING (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. VIS RATING DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE VIS RATING'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY VIS RATING'S CREDIT RATINGS. APART FROM FUNDAMENTAL RISKS NEEDED TO BE ASSESSED AS REQUIRED UNDER THE VIETNAMESE LAW (INCLUDING DECREE 88/2014 DATED 26 SEPTEMBER 2014 OF THE GOVERNMENT) ON CREDIT RATING SERVICES FROM TIME TO TIME, CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN VIS RATING'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE FOR REFERENCES ONLY AND DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO INVEST INTO, CONTRIBUTE CAPITAL, PURCHASE, SELL, OR HOLD PARTICULAR DEBT INSTRUMENTS OR FINANCIAL INSTRUMENTS. VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. VIS RATING ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY OR DEBT INSTRUMENTS THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY NON-PROFESSIONAL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR NON-PROFESSIONAL INVESTORS TO USE VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN (INCLUDING INFORMATION OF VIS RATING AND/OR THIRD PARTIES WHO LICENSE VIS RATING TO INCORPORATE THE INFORMATION HEREIN ("VIS RATING'S LICENSORS")) IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT PRIOR WRITTEN CONSENT OF VIS RATING OR VIS RATING'S LICENSORS.

VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by VIS Rating from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. VIS Rating adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources VIS Rating considers to be reliable including, when appropriate, independent third-party sources. However, VIS Rating is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by VIS Rating.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY VIS RATING IN ANY FORM OR MANNER WHATSOEVER.

VIS RATING MAY MAKE MODIFICATIONS AND/OR CHANGES TO ITS PUBLICATION AT ANY TIME, FOR ANY REASON. HOWEVER, VIS RATING UNDERTAKES NO OBLIGATION (NOR DOES IT INTEND) TO PUBLICLY SUPPLEMENT, UPDATE OR REVISE ITS PUBLICATION ON A GOING-FORWARD BASIS. YOU ASSUME THE SOLE RISK OF MAKING USE OF AND/OR RELYING ON VIS RATING's ASSESSMENTS, OTHER OPINIONS AND PUBLICATION.

VIS Rating maintains policies and procedures to address the independence of VIS Rating's credit ratings and credit rating processes. Information regarding, among others, entities holding more than 5% of the contributed charter capital of VIS Rating, any change to the shareholding ratios of entities holding more than 5% of the contributed charter capital of VIS Rating and a list of rated entities with a credit rating service charge accounting for over 5% of VIS Rating's total revenue from credit rating activities in the fiscal year prior to the time of information disclosure, are posted at https://visrating.com/ under the heading "Corporate Disclosure".

VIETNAM INVESTORS SERVICE

Empowering Better Decisions