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Corporate Bond Market Perspective

New regulations will guide stable growth of corporate bonds, but keep new issuances subdued until 2H 2023

Key Takeaways



Decree No. 65 is a big and critical stride to instill greater market discipline, improve the quality of bond issuances and restore investor confidence in the fast-growing private placement market.



In addition to more information disclosures, bondholders will benefit from greater clarity on their legal rights and deeper understanding of investment risks.



Market adjustment to new regulation and tighter financing conditions will defer any meaningful recovery in new bond issuances to 2H 2023. Public bond markets remain intact and can serve to connect corporate bond issuers to a wider pool of investors.



VND 62 trillion worth of corporate bonds will mature over the last two months of 2022 and mostly in December. Compared with financial institutions, non-financial corporates with high leverage will face greater need to refinance maturing debt.

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Implications of Decree No. 65

More issuer disclosures throughout bond duration

Key enhancements under Decree No. 65

Transparency

Accountability



Issuers

- » To specify purpose of bond, details of issuer's investment program/project/debt to be restructured
 - » For secured bonds: To provide details of collateral assets (asset type, valuation, legal status, registration of security interest, priority of claim of bondholders, etc.)
 - » To disclose an expanded list of financial indicators on issuer's capital structure, outstanding debt and bonds, liquidity and profitability ratios
 - » To disclose any regulatory violation prior to bond issuance; administrative penalties for violating relevant laws
 - » To disclose changes to bond terms, bondholder representative; compulsory redemption of bonds
 - » To provide plan, schedule for use of idle bond proceeds
 - » To disclose offering results to bondholders and Stock Exchange within 5 days (from 10 days); updates on issuer's financial status between offering waves
- » Documentary evidence of no prior default of bond repayment
 - » Provide an assessment of own financial status and solvency to repay debts
 - » Half-year and annual audited reports on use of bond proceeds from outstanding bonds
 - » Report on fulfillment of commitments to bondholders
 - » Obtain bank confirmation of account opening and receipt of adequate funds from bond issue; underwriting and brokerage firms' written confirmation of transfer of bond proceeds to issuer account
 - » Obtain credit rating and disclose credit rating results (if applicable); requirements are same as public bond issuance

Greater discipline expected of service providers

Key enhancements under Decree No. 65

Transparency

Accountability



Service Providers

- » Bondholders' representative to report to State Securities Commission (SSC) and Stock Exchange on a quarterly and annual basis, and whenever the issuer is found to have committed violations
- » Banks licensed to provide brokerage services to report to State Bank of Vietnam
- » Vietnam Securities Depository Corporation (VSDC) to report to SSC on registration, depositing, ownership transfer, and structure of bondholders

- » Must not be related persons of the issuer
- » Must assume legal responsibility for services provided; in case of violations, liable to administrative penalties or criminal prosecution
- » Bondholder representatives must have service contracts with issuers for bonds sold to individual investors
- » Counseling on bond offering dossiers: certify that bond offering and offering dossier fulfill all relevant legal requirements prior to bond offering; do not include false or misleading information
- » Bidding, underwriting, brokerage service providers: only distribute bonds to eligible professional investors that are certified; do not confuse and mislead investors; to confirm transfer of bond proceeds to issuer's account

Reinforcing supervisory framework

Key enhancements under Decree No. 65

Transparency

Accountability



State and Regulatory agencies

Stock exchange

- » Ensure the adequate and timely disclosure of information and reporting by issuers, bidding, underwriting and brokerage service providers
- » Publish more information on corporate bonds issuance, including financial indicators of bond issuers, ad hoc information updates, credit ratings of issuers, issuers that fail to fulfill bond repayment obligations or other commitments to bond holders such as use of bond proceeds for prescribed purposes, compulsory bond redemptions

State Securities Commission

- » Regulate receipt, reporting and disclosure of information on Stock Exchange, trading of corporate bonds
- » Supervise VSDC's registration, depositing, payment and transfer of ownership
- » Supervise services provided by securities companies
- » Conduct inspection of the Stock Exchange, VSDC, service providers and issuers in case of violations to the relevant laws

State Bank of Vietnam

- » Supervise banks licensed to provide brokerage service

Ministry of Finance

- » Supervise audit and valuation service providers involved in privately placed corporate bond issuances

Relevant Ministries and Regulatory Authorities

- » To inspect and supervise offering, trading and provision of related services on corporate bonds.

Strengthening bondholder rights and safeguards

Key enhancements under Decree No. 65

Category	Details
 Legal Rights	<ul style="list-style-type: none">➤ Bond buyers have legal right to obtain adequate information from issuers and bond sellers prior to investment➤ Bondholder resolutions to be approved by at least 65% of votes, including for changes to bond terms➤ Bondholders' representative must be appointed to represent rights and interests of bondholders; may be replaced if approved by $\geq 65\%$ of bondholders➤ Compulsory redemption by bondholders if issuer commits violation or fails to commit to issuance plan, and violations cannot be remedied; or $\geq 65\%$ of bondholders do not approve of remedial measures
 Bond settlement	<ul style="list-style-type: none">➤ Bond issued to be distributed to investors within 30 days (from 90 days) from date of information disclosure➤ Total duration for bonds issued in multiple waves to not exceed 6 months (from 12 months)➤ Bonds must be registered and deposited at Vietnam Securities Depository Corporation before being traded or transferring ownership
 Risk awareness	<ul style="list-style-type: none">➤ Higher qualification criteria for professional individual investors: Investment holding \geqVND2 billion over 6-month period➤ Investor to sign self-certification of compliance with Decree requirements, assume responsibility of own investment➤ Par value of bond increased to VND100 million, from VND100,000➤ Bond buyers not allowed to sell bonds or make joint investment in bonds with investors that are not professional investors

Source: Ministry of Finance, Vietnam Investors Service

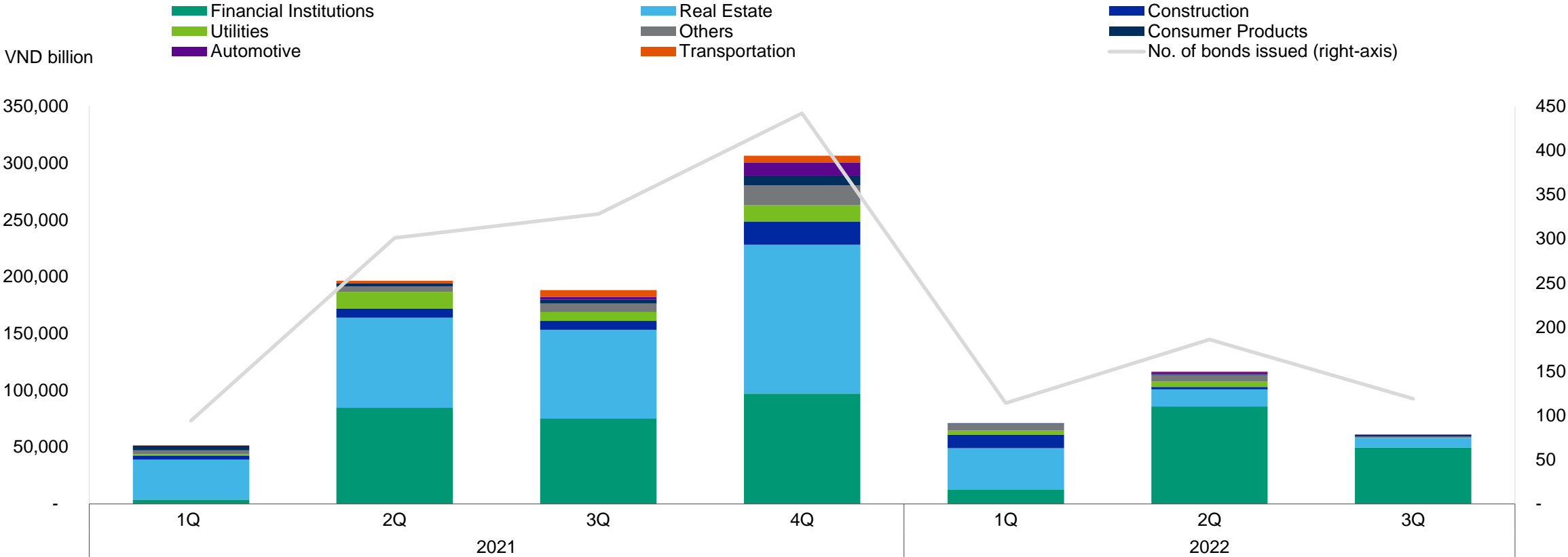
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Corporate bond issuance outlook

Recovery in bond issuances expected in 2H 2023

Pace of issuance will remain slow and dampened by higher financing costs and longer roadmap to issue under new regulations

Corporate bonds issued by industry sector



Source: Hanoi Stock Exchange, Vietnam Investors Service

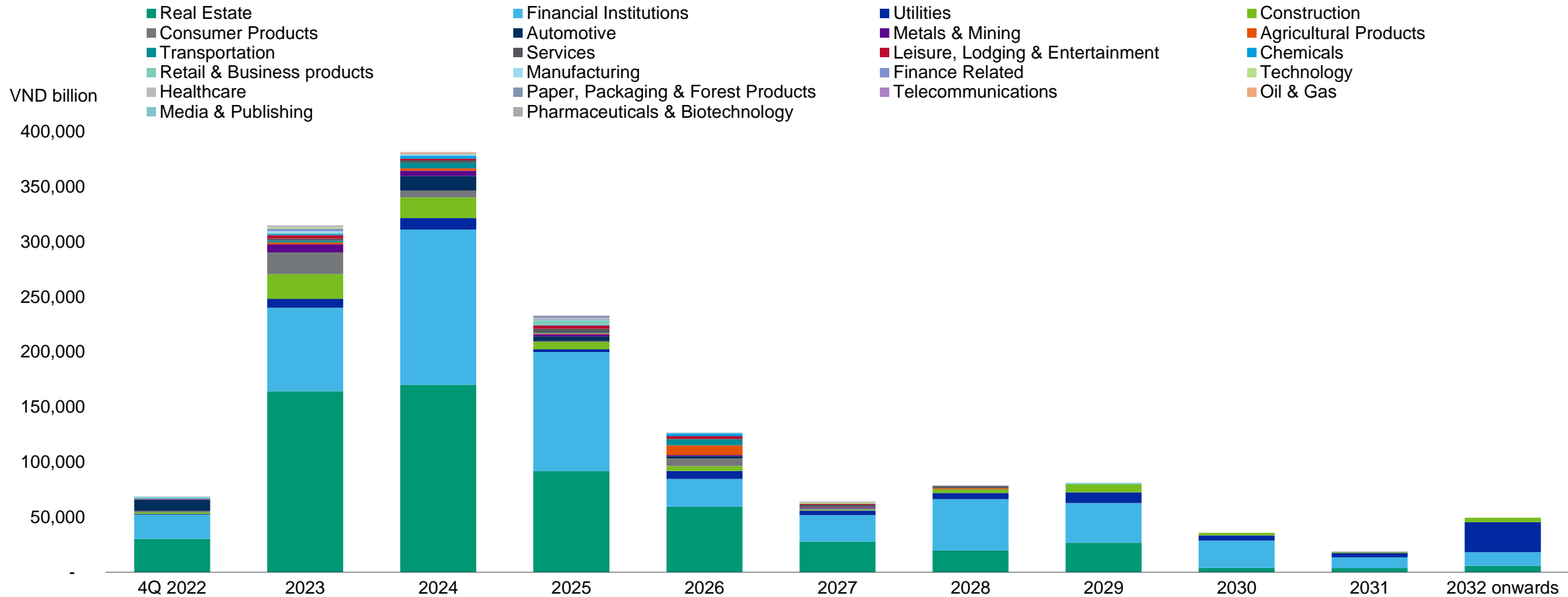
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Refinancing risks will
remain elevated

Corporate bond maturities will peak in 2024

80% of maturing bonds issued by financial institutions and real-estate companies

Corporate bonds maturing over next ten years by industry sector

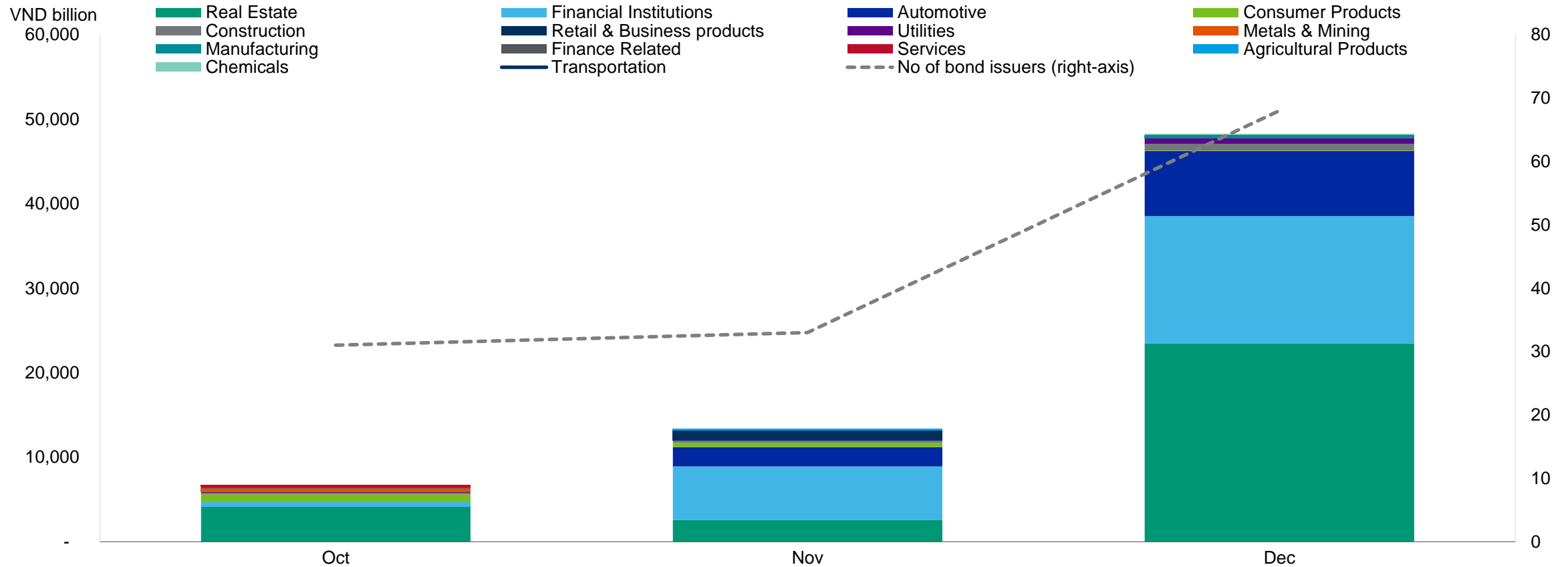


Source: Hanoi Stock Exchange, Vietnam Investors Service

Q4 maturities concentrated in December

VND 62 trillion worth of corporate bonds issued by over 70 companies maturing in Nov-Dec 2022

Bond maturities concentrated in December 2022

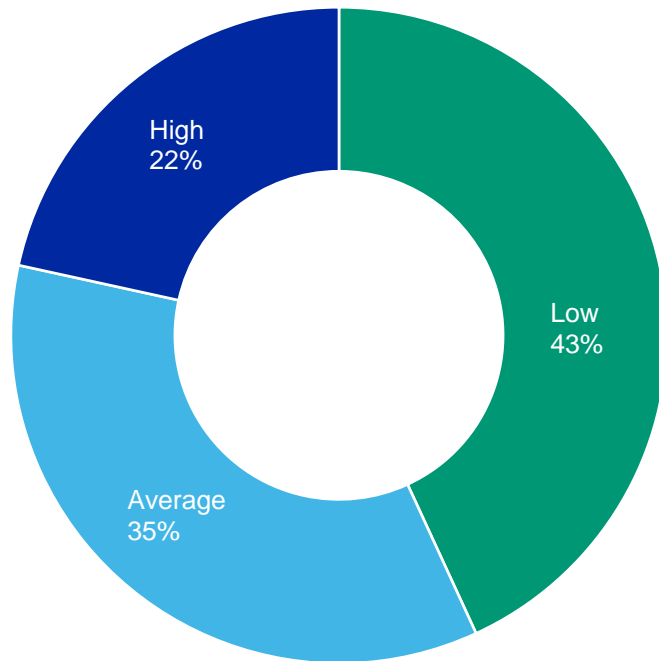


Source: Hanoi Stock Exchange, Vietnam Investors Service

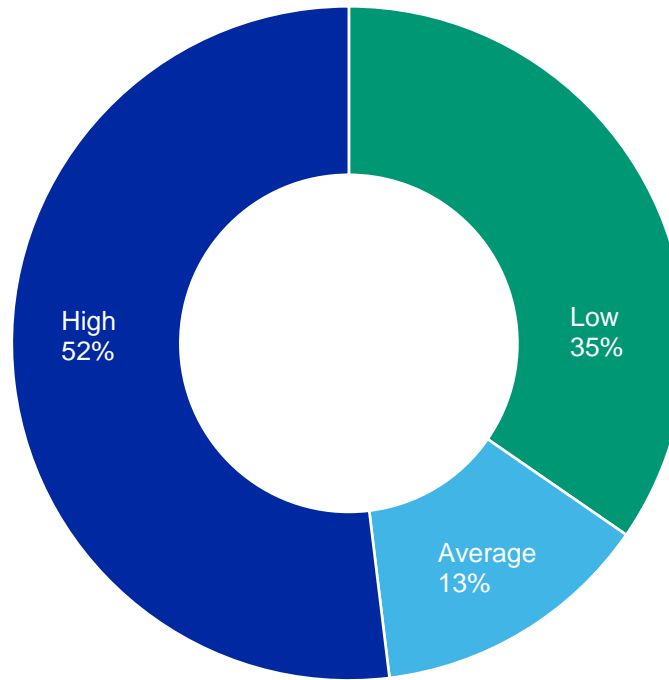
Substantial portion of corporates with high leverage

Much of the high leverage - Debt/Equity \geq 4x and/or Debt/EBITDA \geq 7x – due to bonds issued over the past 3Y

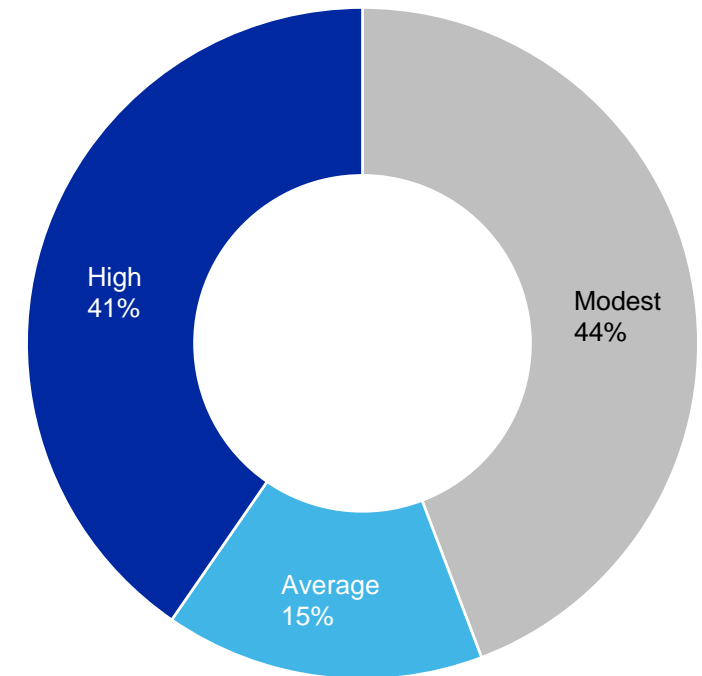
Debt/Equity profile



Debt/EBITDA profile



Sufficiency of cash resources for bond repayment in Nov-Dec 2022



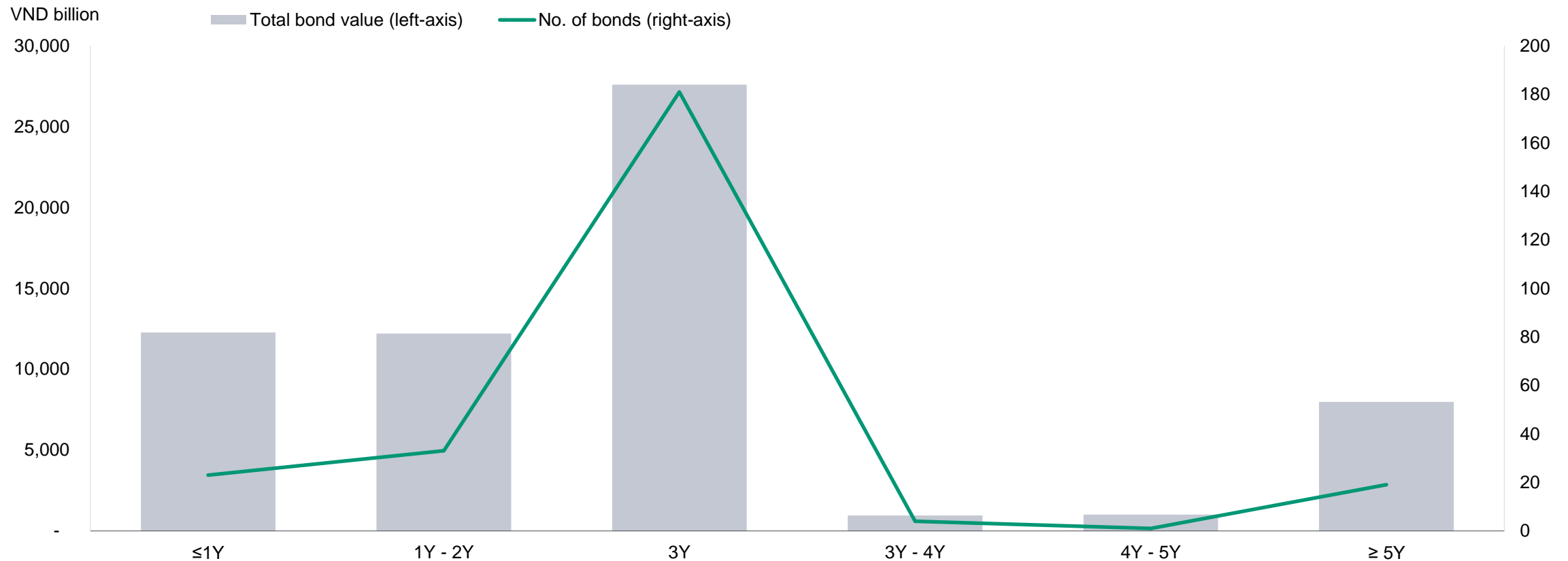
Source: Vietnam Investors Service

Note: Cash resources refer to estimated cash balance and cash flow from operations

Most maturing bonds with tenors of 3Y or less

Issuers may need to refinance with alternative sources to fund long-term projects

Corporate bonds maturing in Nov-Dec 2022 by issuing tenors

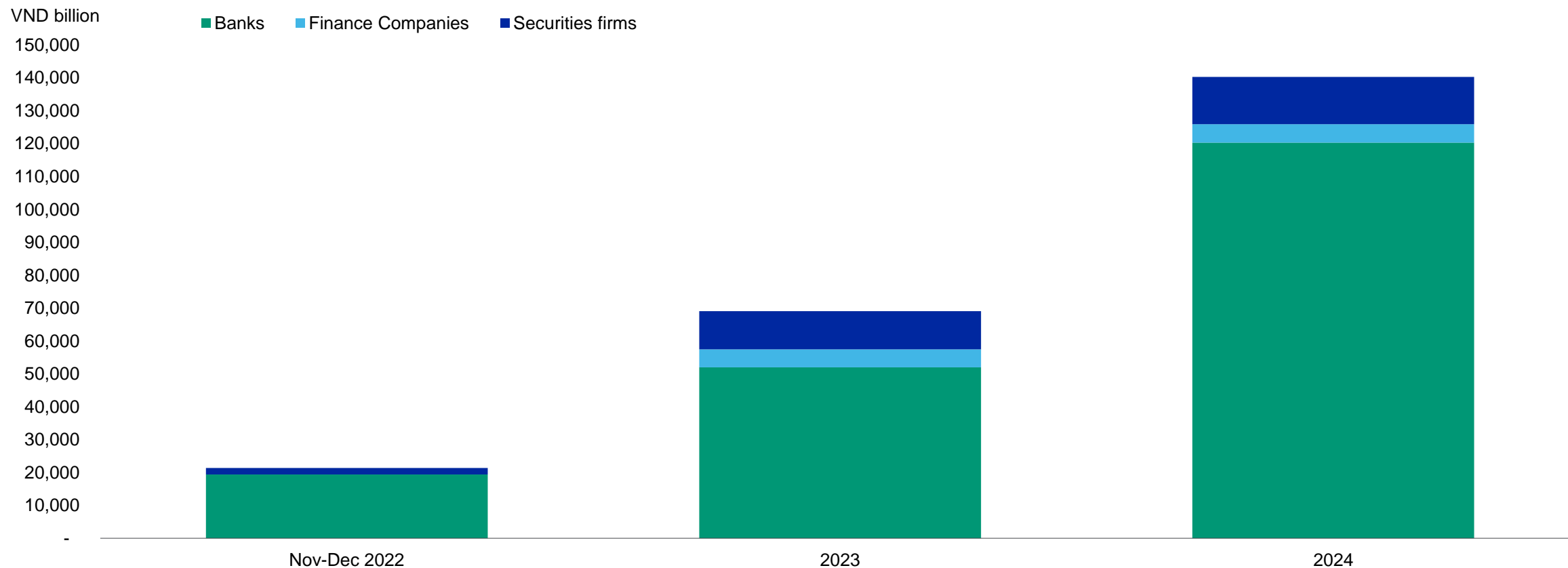


Source: Hanoi Stock Exchange, Vietnam Investors Service

Banks will face increasing need to refinance

Outstanding bonds maturing to increase and peak in 2024

Total value of maturing bonds

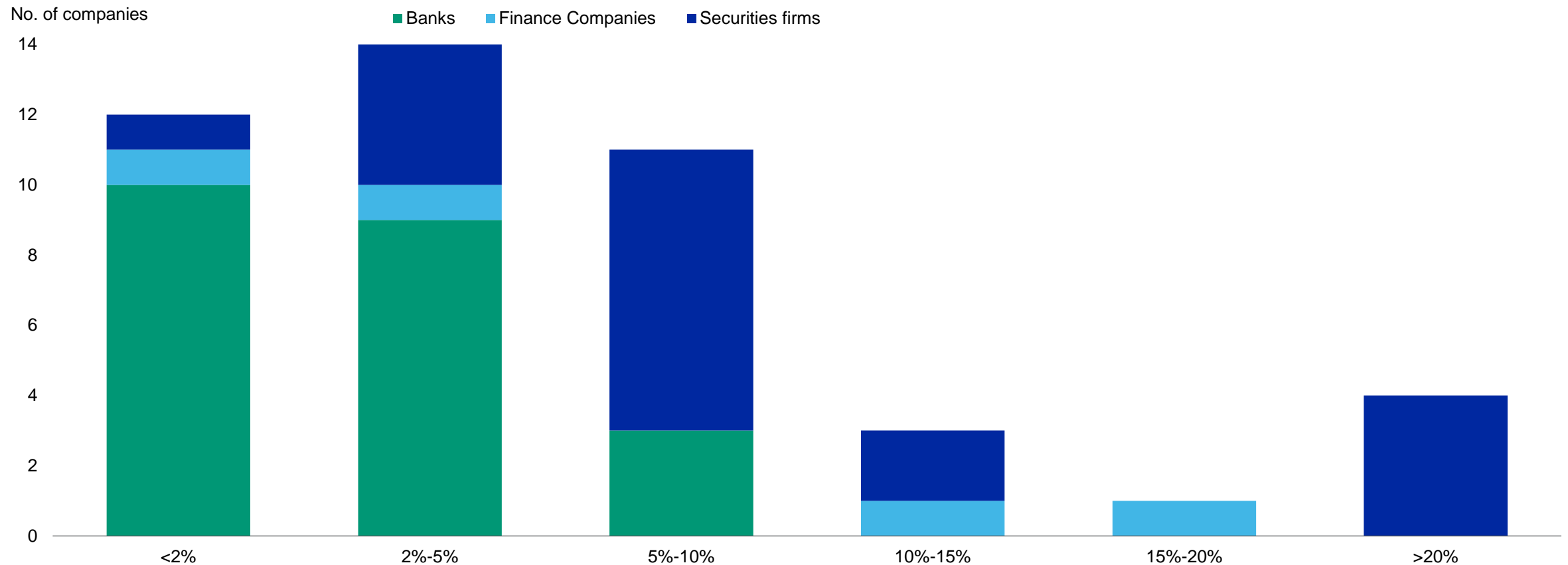


Source: Hanoi Stock Exchange, Vietnam Investors Service

Liquidity and refinancing risks will be manageable

Maturing bonds over next 3Y account for $\leq 10\%$ of total assets for most financial institutions

Total value of maturing bonds (up to 2024) as a percentage of total assets



Source: Company data, Vietnam Investors Service



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