VIETNAM INVESTORS SERVICE

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Credit conditions

Continued policy support and improving business conditions will drive stable credit conditions in 2025

In 2025, we expect the credit conditions for Vietnam will stabilize after improving substantially over the past year. Supportive policies aimed to achieve Vietnam's 2021-2025 socio-economic development plan objectives and targets will drive improving domestic business conditions. Corporate bond default rates will continue to decline as corporate cash flows improve to support debt servicing, and stronger market confidence provides issuers with greater ease to refinance. Nonetheless, corporate leverage remains high, and it would require a long period of cash flow recovery to strengthen corporate balance sheets meaningfully.

Policy focus and measures to support economic activity will drive domestic business activity and consumption. Public spending, FDI, and exports are key to maintaining Vietnam's robust economic outlook and momentum to achieve its 2025 GDP growth target of 7.0-7.5%. With foreign reserves at a five-year low in 2024, the State Bank of Vietnam has limited room to manage currency volatility. If foreign currency outflows increase and trigger further devaluation in VND, we expect to see higher interest rates, which will, in turn, dampen growth for domestic businesses.

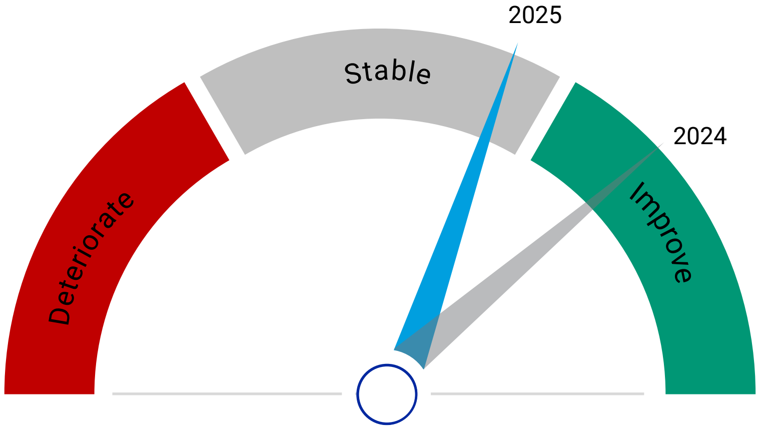
Business conditions will improve gradually in 2025, supported by improvements in public spending and real estate market sentiment. More investments in public infrastructure will boost business activities for businesses in the construction, materials, and transportation sectors. New policies resolving legal roadblocks and improving land-use plans will spur new real estate development and boost homebuyer sentiment. We expect retail sales to improve 10-12% year-on-year (yoy) in 2025 as public wages increase and business and employment incomes stabilize. Improving business and consumer confidence will drive robust credit demand. A key uncertainty to our baseline expectation is the direction of U.S. policies under the new Trump administration, which may hurt exporting nations, including Vietnam.

Financing conditions will remain stable in 2025. The banking sector has stable funding and liquidity to support new lending to domestic businesses and individuals. Following a series of regulatory reforms and the roll-out of the new securities law, the corporate bond market is getting back on track, marked by steadily increasing new issuances in the public and private placement bond markets. We expect investor confidence to continue improving from more stringent issuance requirements and greater information disclosures. Bond issuers seeking refinancing will likely face fewer difficulties than in previous years, even as market interest rates adjust upwards due to increased competition for bank deposits.

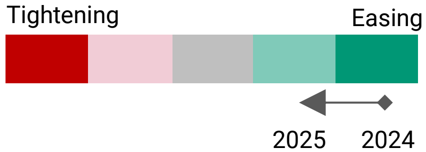
Corporate cash flows will continue to recover, but high leverage and weak liquidity remain key obstacles to strengthening debt repayment capabilities. Listed corporates' EBITDA grew 2% yoy in 9M2024, reversing its 9% yoy contraction in 2023. We expect corporate cash flow and earnings growth will continue in 2025. However, companies in real estate, construction, and construction materials sectors still have high debt levels. The average Debt/EBITDA for listed companies in these sectors is almost 9 times, higher than the all sector-average of 3.6x. The high reliance on short-term debt among corporations for longer-term capital expenditures had led to the surge in corporate bond defaults in 2022-2023 when issuers without business cash flows were unable to refinance their maturing bonds as market liquidity plummeted. Even as cash flow improves, leverage will remain high as businesses borrow more to restart expansion plans. Until corporates improve their debt management, liquidity risks will remain a key risk to watch for. In the above-mentioned sectors with high debt levels, companies have short-term debt exceeding operating cash flows by 7-11x, compared with all sector-average of 3x.

Default rates will stabilize at a new normal level in 2025, reflecting robust macroeconomic and business conditions and new developments in the legal and market infrastructure to manage default risks. The robust economy will support stronger cash flow and debt repayment capabilities, and refinancing needs. Stricter regulatory requirements for new bond issuances and investments, coupled with greater information transparency and use of credit ratings to inform investment risks will help to deepen the corporate bond market in this new development phase. Corporate bond issuers and investors will grow increasingly confident in utilizing new market tools and mechanisms to restructure debt and/or avoid potential bond defaults.

Exhibit 1: 2025 Credit Outlook

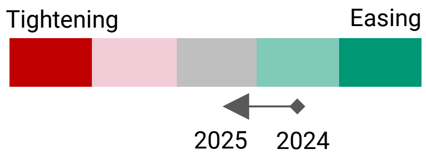


Policy measures



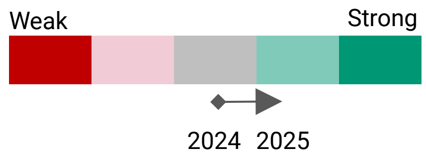
- Pro-growth stance with the key driver of public investment.
- Less room for SBV to manage macroeconomic uncertainties.

Financing conditions



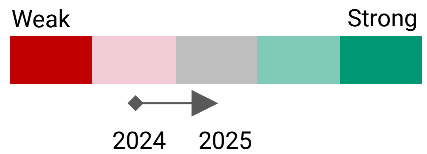
- Banking sector liquidity stable and ready to support lending.
- Corporate bond market sentiment to improve.
- Uncertainties from FX risk.
- Interest rate slowly increase.

Business conditions



- More government investment in public infrastructure.
- Resolved legal issues and better land-use plans.
- Stronger domestic consumption.
- Uncertainties of key export markets.

Financial strength

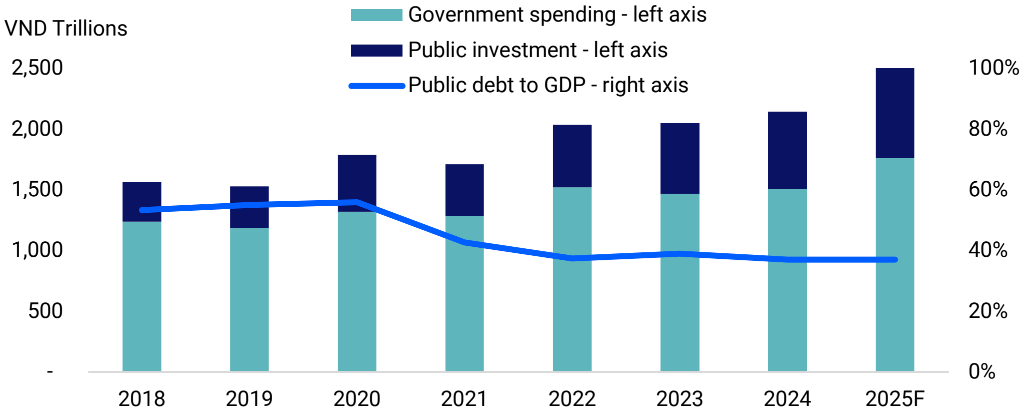


- Business cash flow improving.
- High CAPEX and debt mature leading to high funding needs.
- Timing mismatches between operating cash flows and maturing debt repayments.
- Lower new bond defaults, loan delinquencies.

Source: VIS Rating

Policy focus and measures to support economic activity will drive domestic business activity and consumption

Exhibit 2: The 2025 government spending plan increases 20.3% compared to 2024's



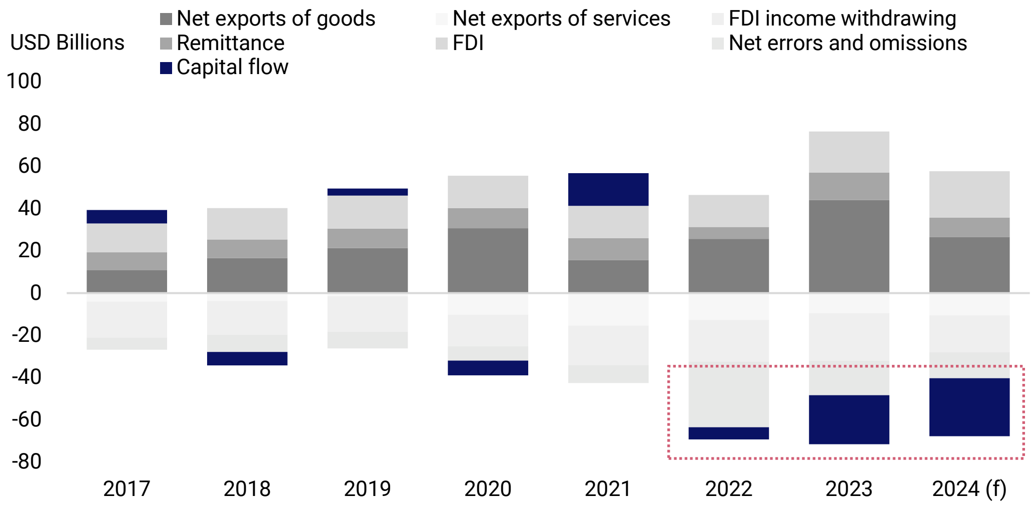
Source: General Statistics Office (GSO), VIS Rating

Exhibit 3: No new major changes in supportive policy measures in 2025.

Key support policy measures in 2025	Status
Focus government's spending on infrastructure	Same as 2024
Easing fiscal policy of tax, fee, and land rent exemptions, reductions, and deferrals	Maintain the same policy as 2024 in the first half of 2025
Strengthen the implementation of laws and regulations	Same as 2024
Easing monetary policy	Same as 2024

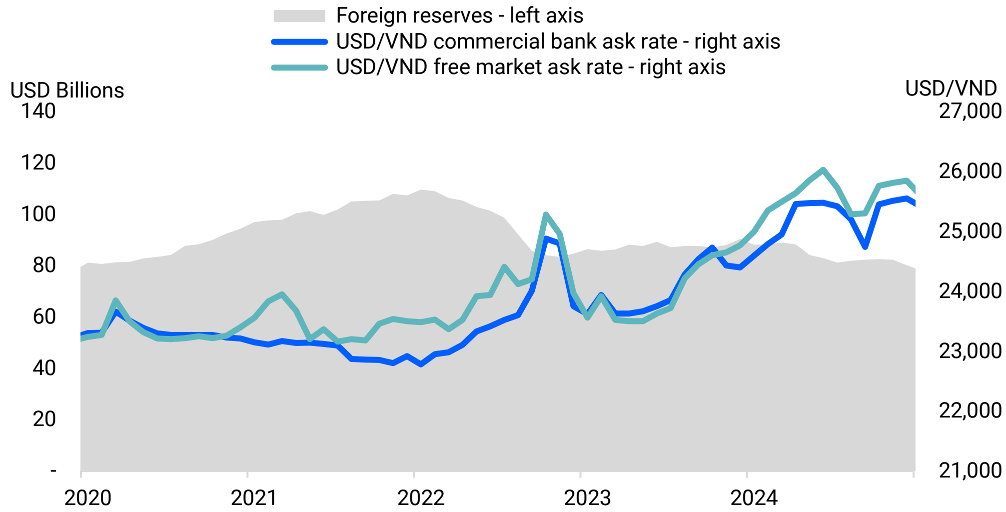
Source: VIS Rating

Exhibit 4: Outflow by financial investment in the overall balance of payment increasing in 2024



Source: State Bank of Vietnam (SBV), VIS Rating

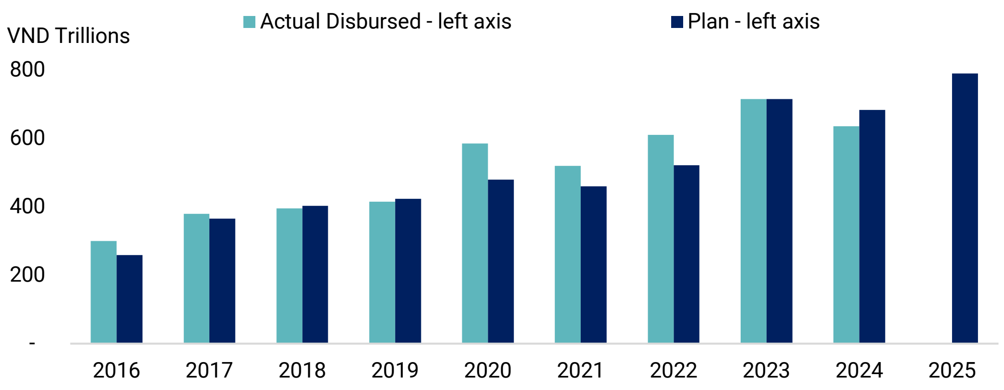
Exhibit 5: Foreign reserves decreased in 2024 to the lowest level in the past 5 years



Source: SBV, VIS Rating

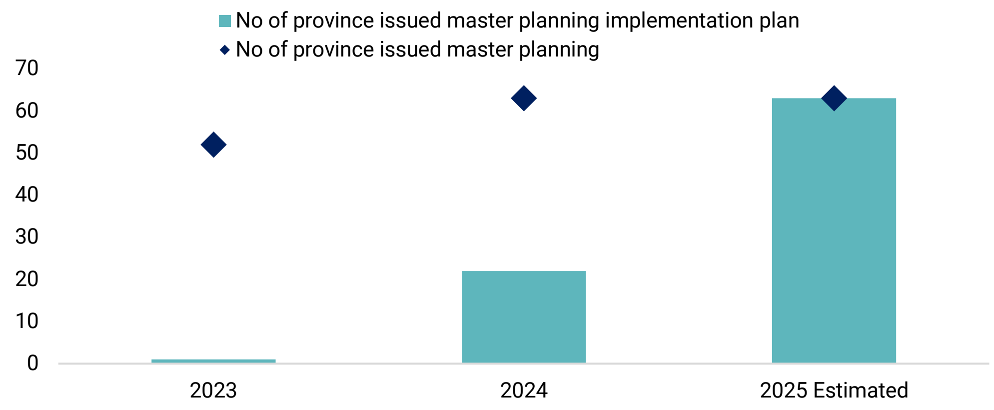
Business conditions will improve gradually in 2025, supported by improvements in public spending and real estate market sentiment

Exhibit 6: More government investment in public infrastructure



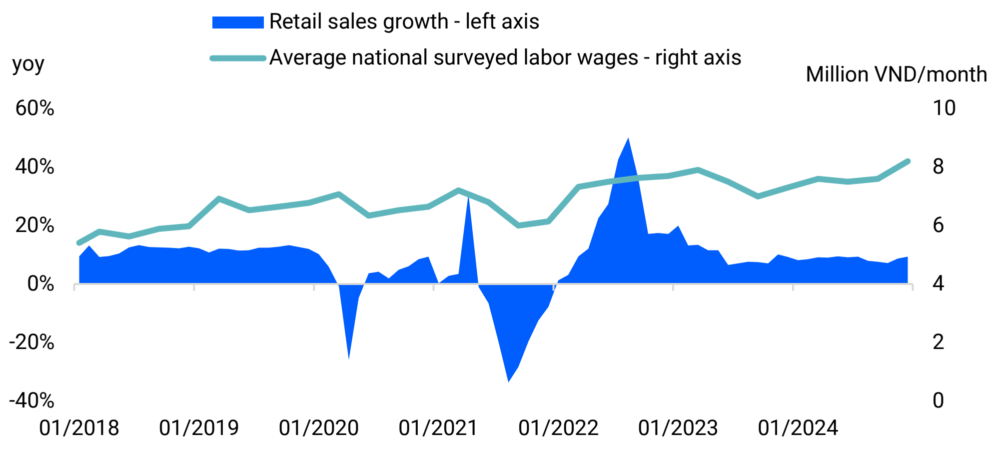
Source: Ministry of Finance (MoF), VIS Rating

Exhibit 7: Advances in master planning execution and better land-use plans [1]



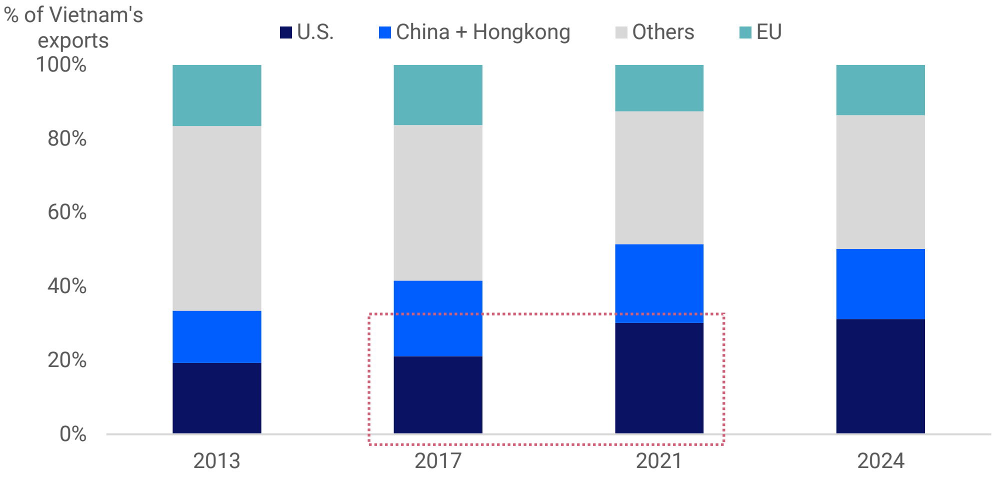
Source: Ministry of Construction, VIS Rating

Exhibit 8: Retail sales growth will increase from 8% yoy in 2024 to 10-12% in 2025



Source: GSO, VIS Rating

Exhibit 9: The percentage of the U.S. market in Vietnam's total exports increased by 10% from 2017 to 2021 during the first Trump administration.

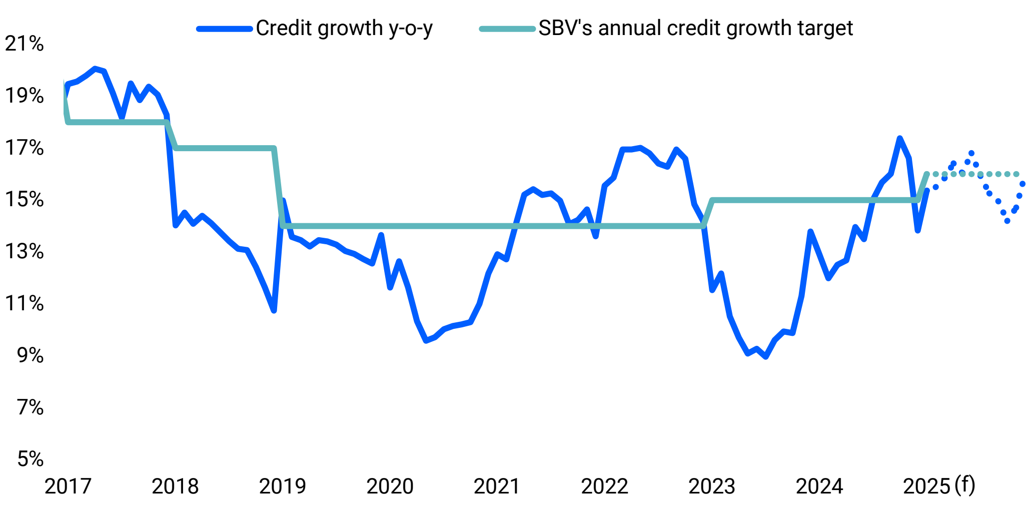


Source: GSO, VIS Rating

[1] Refer to our: [Residential Property Sector - 2025 Outlook: Outlook improving from stronger housing supply and sales; leverage and refinancing difficulties to ease as cash flows return (20 Jan 2025)]

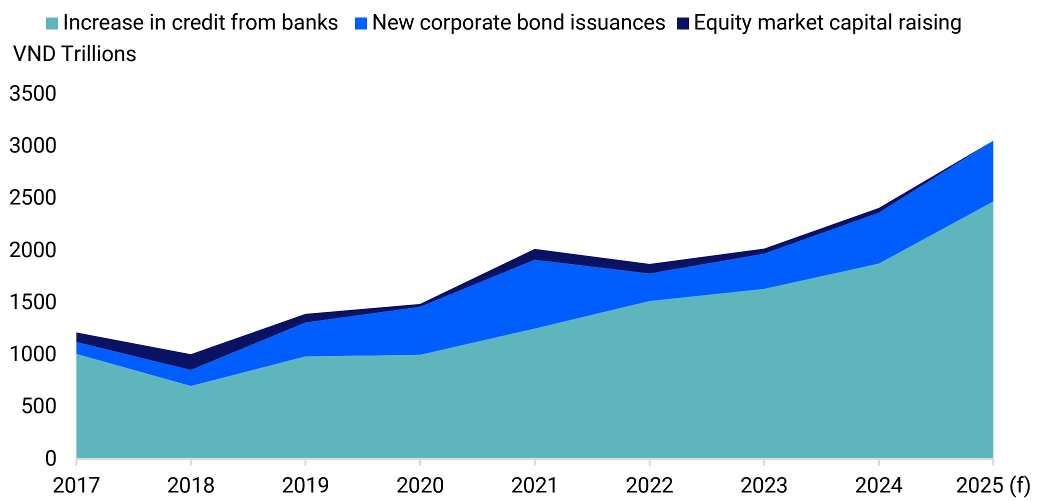
Financing conditions will remain stable in 2025

Exhibit 10: Bank's credit growth rate target increases to 16% in 2025



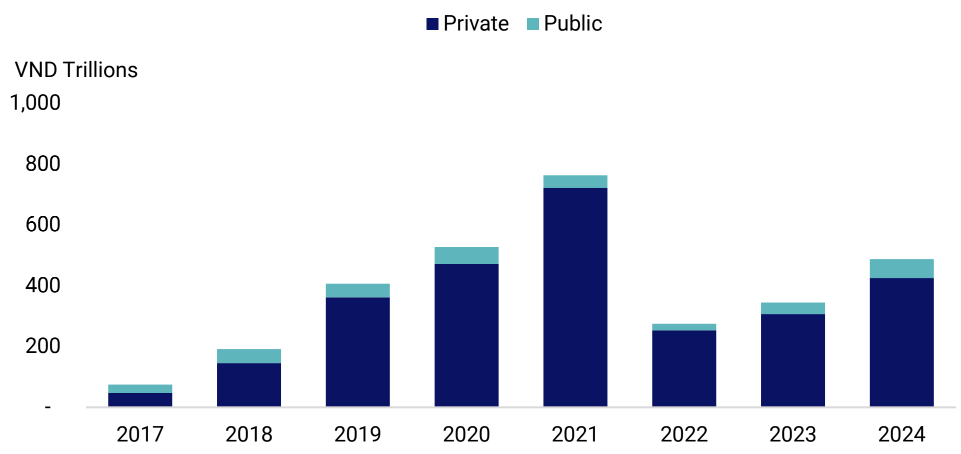
Source: SBV, VIS Rating

Exhibit 11: Bank loans contributed the main funding to Vietnam's economy



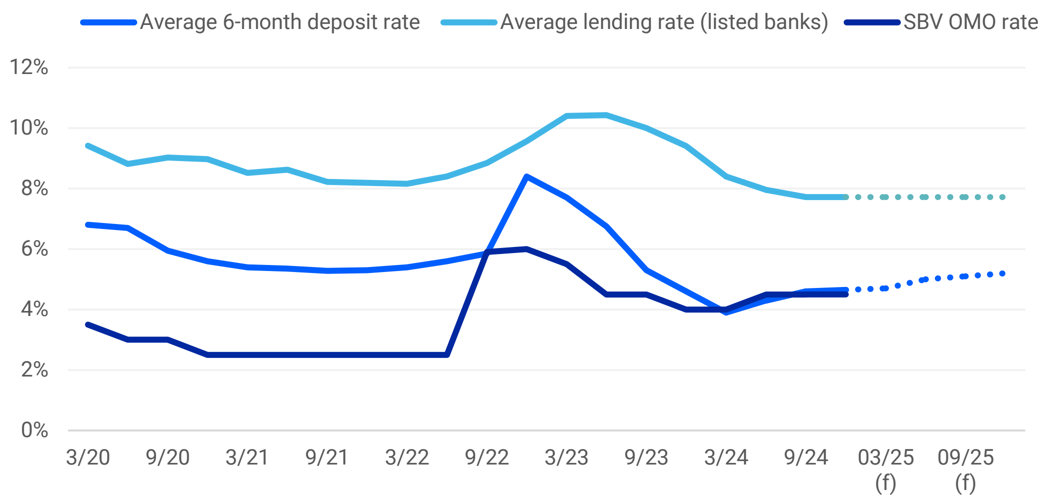
Source: SBV, Hanoi Stock Exchange (HNX), State Securities Commission of Vietnam (SSC), VIS Rating

Exhibit 12: New corporate bond issuances increased during 2023-2024



Source: HNX, SSC, VIS Rating

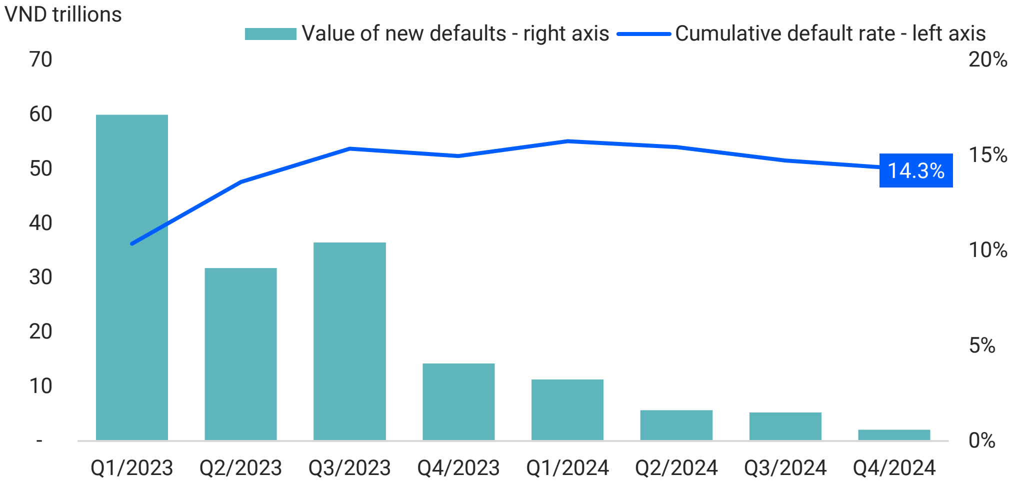
Exhibit 13: Interest rates will be higher amid increased competition for deposits



Source: SBV, VIS Rating

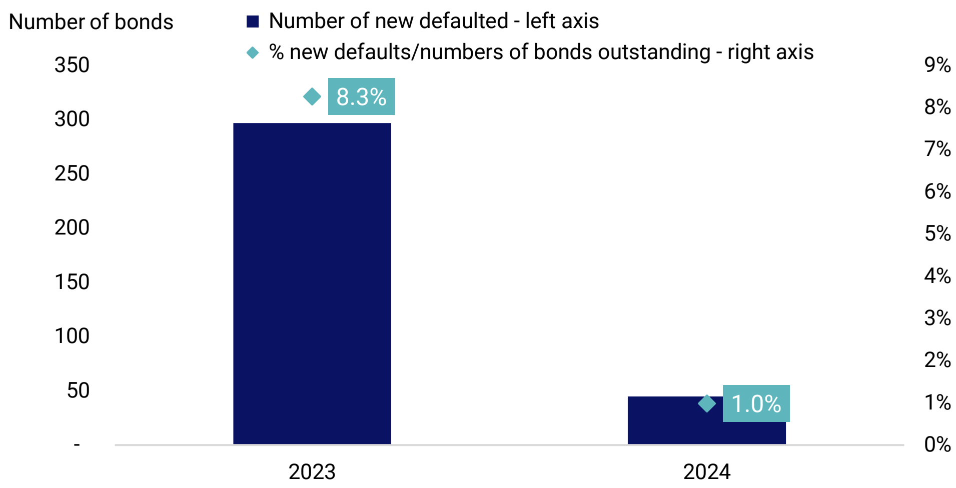
Default rates will stabilize at a new normal level in 2025

Exhibit 14: Default rate peaked in Q1 2024 and continue to decline



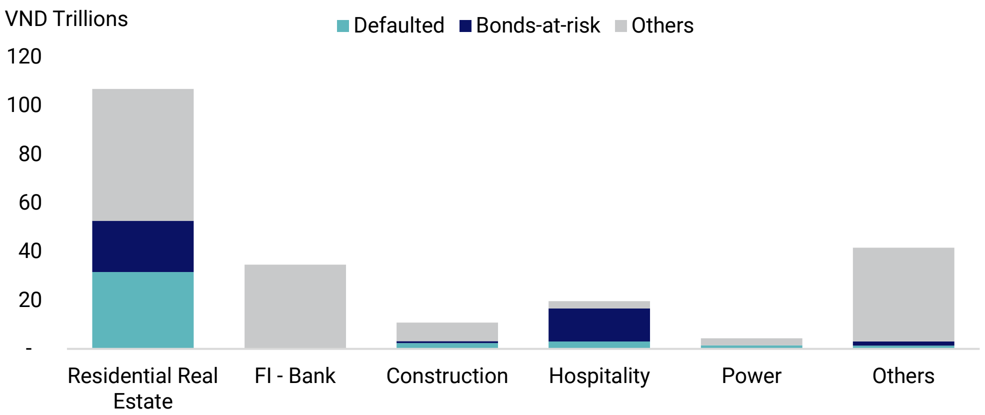
Source: HNX, VIS Rating

Exhibit 15: The number of new bond defaults in 2024 decreased



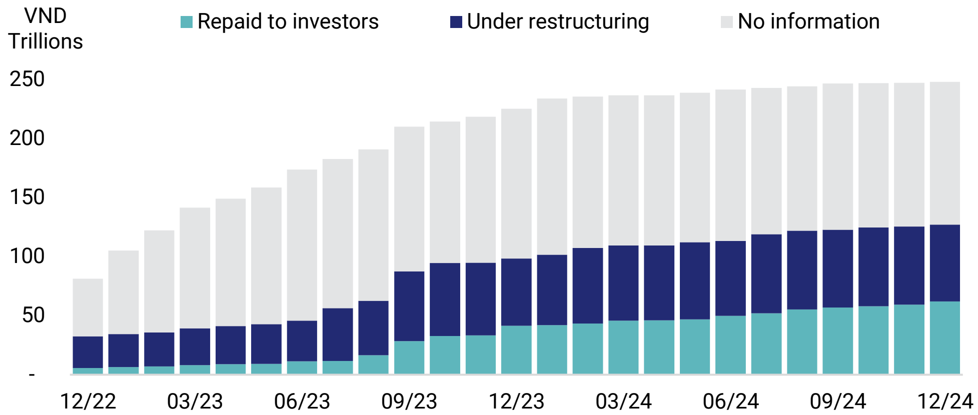
Source: HNX, VIS Rating

Exhibit 16: VND 217 trillion principal of corporate bonds will mature in 2025



Source: HNX, Company data, VIS Rating

Exhibit 17: Debt restructuring actions of defaulted bonds



Source: HNX, VIS Rating

APPENDIX

Credit Outlook: Definition and Assessment Framework

Our Credit Outlook reflects our view of credit conditions in Vietnam over the next 12 months. It captures our view of credit trends and the direction of expected changes in creditworthiness or credit quality of corporate businesses operating in key industry sectors in Vietnam. It also reflects our forward-looking assessment of the abilities of corporate businesses in Vietnam to service and meet their debt obligations.

We denote our credit outlook using three distinct categories, namely ‘Deteriorate’, ‘Improve’ and ‘Stable’.

Our assessment framework is centered around the four key pillars as explained below.

Financial Strength: This aspect is critical to determine the ability of a company to service its debts. Financial strength is typically measured by financial ratios, which can include metrics on leverage and coverage, profitability, liquidity, etc.

A strong financial strength profile is characterized by low leverage, strong and stable profitability, well-matched asset and liability structure, and sufficient cash resources to cover maturing debt repayments.

Business Conditions: We assess business conditions by considering multiple factors that will impact a company’s ability to conduct its business activities, generate sales and cash flow and stay viable.

The factors include the economic outlook, supply and demand dynamics of a company’s product and services, external competition, market sentiment, etc. Strong business conditions will likely enhance the operating prospects of a company, which will bode well on its ability to generate cash flow to meet debt obligations on time.

Policy Measures: We consider how companies will be affected by the government’s policy measures, for example monetary easing, fiscal spending, changes in laws and regulations, etc. We analyze the policy intention and direction, as well as the extent of aid and/or disruption to industry sectors and companies.

Policy measures tend to have a strong influence on both business and financing conditions. Policy measures that are easing in nature are generally positive for business growth. For example, the roll-out of fiscal stimulus, subsidies, changes in laws and regulations may promote business activity.

Financing Conditions: This relates to a company’s ability to access and secure new financing for its business needs or to refinance its outstanding debt. We assess the availability and accessibility of financing, focusing on factors such as overall market cash flow movement, interest rate trends, credit availability, and borrowing conditions.

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Empowering Better Decisions