



OUTLOOK REPORT CORPORATE BONDS MARKET 2021

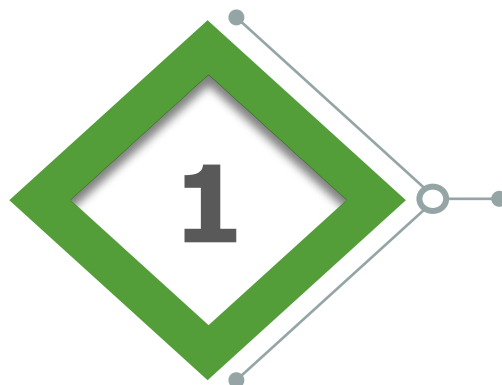
RESEARCH DEPARTMENT - VCBS

Updates 1H.2021

- ♥ In 1H.2021, there was a total corporate bond issuance value of VND 186.683 billion.
- ♥ In 1Q.2021, the bond market is inactive. Many legal documents coming into effect at the beginning of 2021 require a transition period for market members to adapt.
- ♥ In 2Q.2021, the bond market gradually became active again with a large issuance volume and investment demand in the context of a slight decrease in deposit yields.
- ♥ Banking and real estate industries account for a large proportion in the successfully issued volume of corporate bonds.
- ♥ The corporate bond market is gradually forming a medium and long-term capital supply channel for businesses, reducing the lending pressure of commercial banks.

Outlook 2H.2021

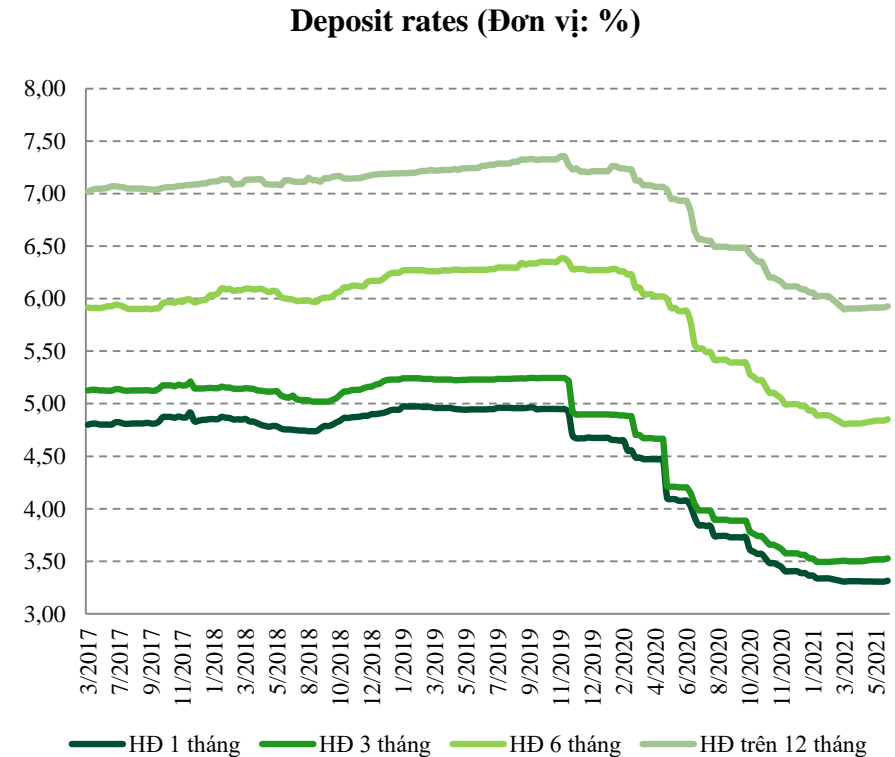
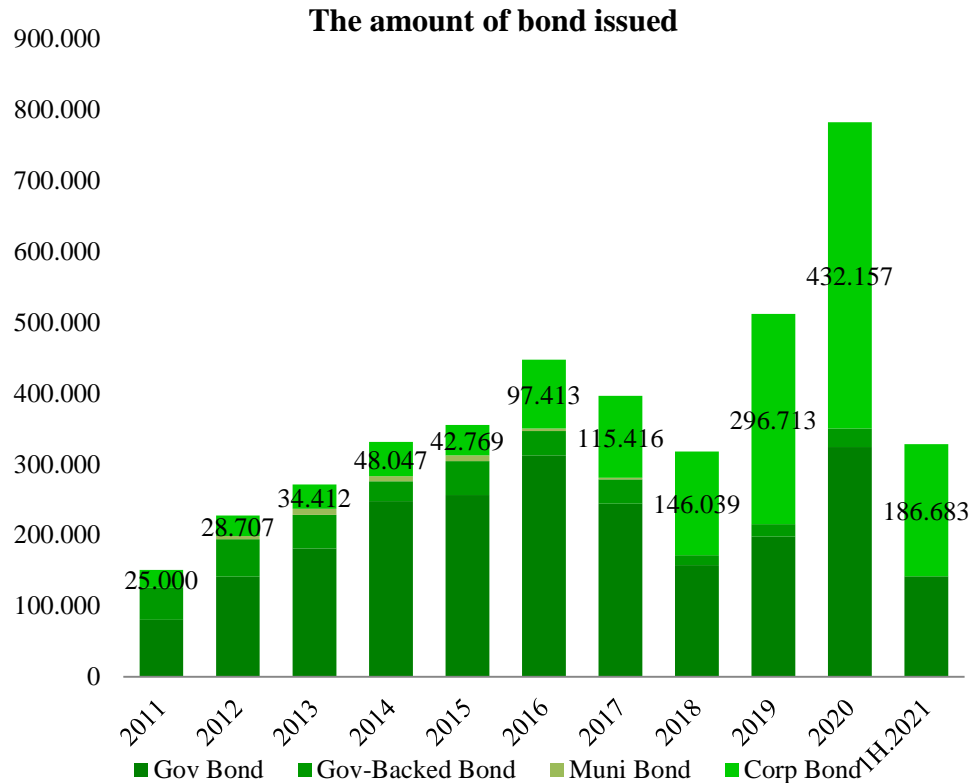
- ♥ The growth potential exists in the long term while the growth of the economy is accompanied by the need to expand the business which leads to the need for capital.
- ♥ VCBS assesses that the favorable factor for the corporate bond market in 2021 is the lower rate, which makes many projects more feasible in terms of the correlation between the cost of capital and the internal rate of return.
- ♥ However, challenges and opportunities also go hand in hand when:
 - Increased competition comes from bank credit channels.
 - Legal documents will require market participants to comply. In the long term, this is an important factor to ensure the sustainable development of the market.
- ♥ Demand for corporate bonds is still high.
- ♥ Corporate bond yields are likely to move in sync with the downtrend.



UPDATES 1H.2021

- *High demand for investment channels from investors in the context of low deposit rate.*
- *The market was inactive when the legal documents took effect at the beginning. By the second quarter, market members have gradually gotten used to and adapted.*
- *In general, average yield tends to decrease.*

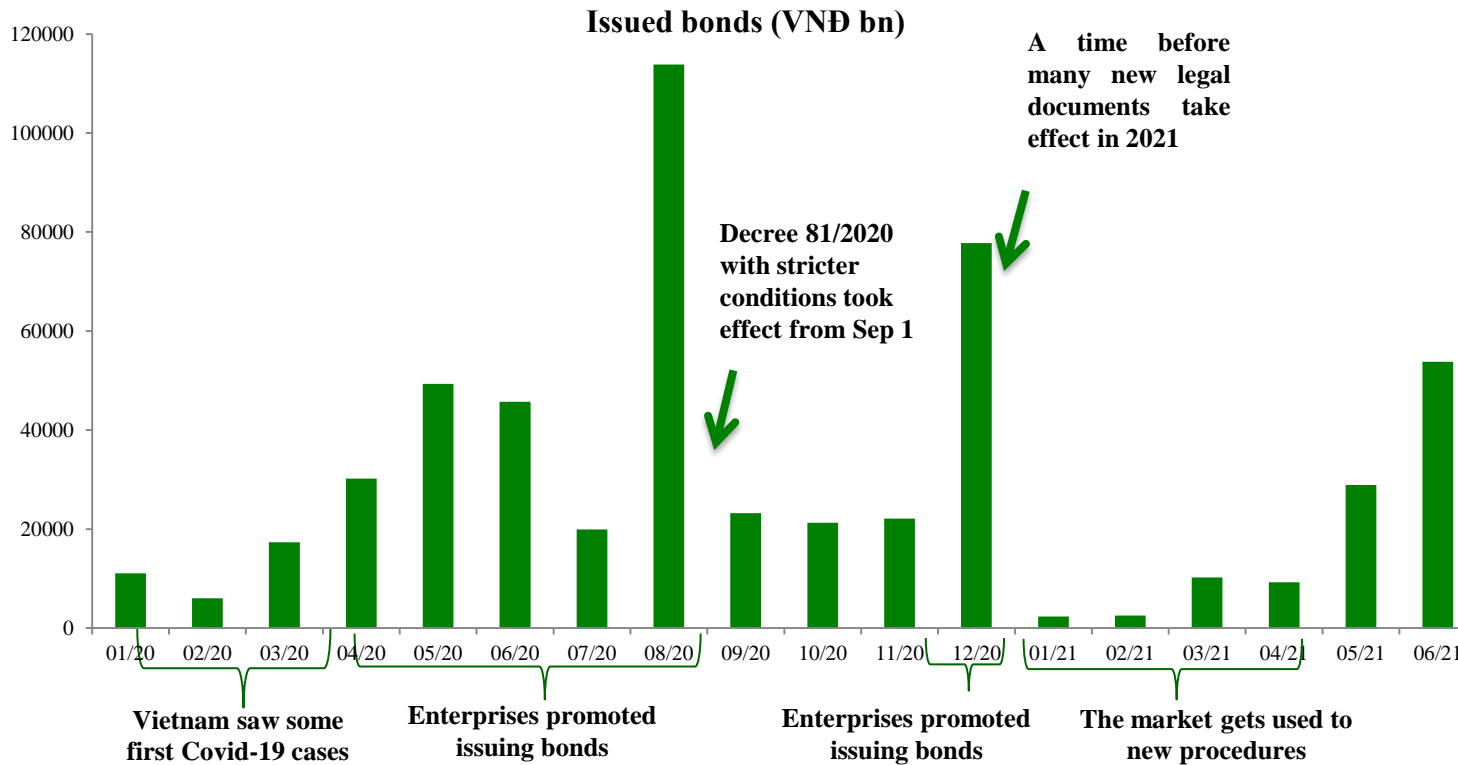
Issued volume in 1H.2021 is moderate, demand is always present in the context of a slight decrease in deposit rate



Source: HNX, VCBS

- ♦ According to HNX and SSC, in the first 6 months of 2021, there were 306 domestic corporate bond issuances with a total issuance value of VND 186.683 billion:
 - 293 private issuances with a total value of VND 177,098 billion
 - 13 public issuances worth VND 9,584 billion
- ♦ In the first 6 months of the year, there were 2 issuances of bonds to the international market, including: Vingroup (USD 500 million) and green bonds of BIM Real Estate Joint Stock Company (USD 200 million).

In the first months of 2021, the market is inactive as it takes time to get used to the new procedures



Notes and main points relevant to corporate bond. Effective date: 01/01/2021

Law of securities 2019

Law on Enterprises in Vietnam

Decree 153/2020/ ND-CP

Decree 155/2020/ND-CP

Source: Fiinpro, VCBS estimates

- ♥ The 1Q.2021 is the period when a series of new legal documents related to private placement and public offering of securities come into effect. Market need a period to understand and implement a new legal framework.
- The market needs time for issuers and advisory organizations to get used to and start implementing new procedures, resulting in a significantly slower process of bond offering than in the past.
- The end of the second quarter saw the volume of bond issuance increase again.

Updated legal framework shall secure a sustainable growth of corporate bond market

Law/ By-law document	Notes and main points relevant to corporate bond. Effective date: 01/01/2021
1. Law of securities 2019	This law has standardized the conditions, order and procedures for offering securities suitable for each type of securities; amending and separating the provisions on the conditions for a public offering of securities in the previous version of Law on Securities into an initial public offering and an additional public offering to suit the nature of each batch offering; At the same time, it includes stricter regulations in case of an initial public offering, which are in line with international practices; Supplementing the regulations aimed at associating the public offering of securities with listing and trading registration on the Stock Exchange (SE)
2. Law on Enterprises in Vietnam	Regulations on transaction, document and other procedure of corporate bonds private offering (articles 128-130) applied to non- public companies.
3. Decree 153/2020/ ND-CP	Regulations on private offering and trading of corporate bonds in the domestic market and on corporate bonds' offering to the international market. (i) The private placement of bonds will only be conducted within professional investors and strategic investors. (ii) Secondary transactions will only be conducted between professional investors, except for convertible bonds and warrant- linked bonds as transaction objects are extended to strategic investors. (iii) Eliminate limit on ration of total offering bond volume/ charter capital.
4. Decree 155/2020/ND-CP	Details into provision and implementation articles for Law on securities. Therein, we draw attention to articles regulating public offering of corporate bonds.

Individual investors participating in the corporate bond market must be professional investors

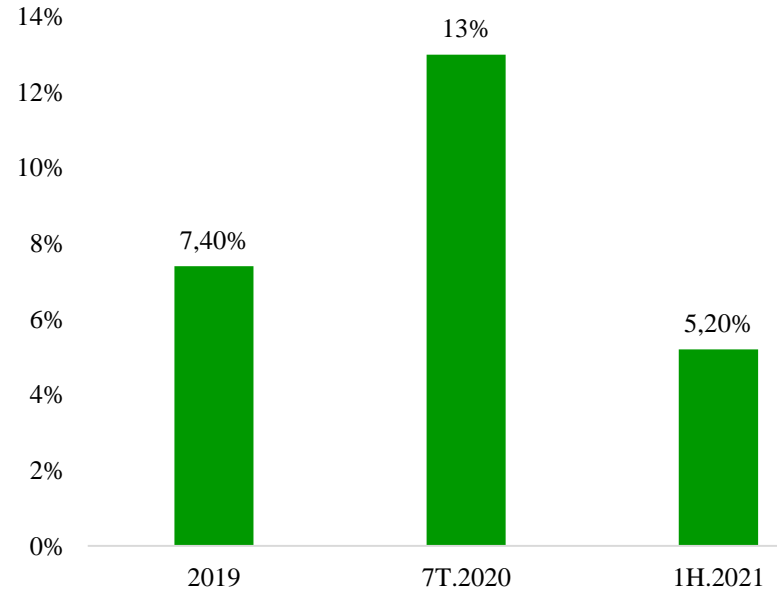
According to Decree 153CP/2020/ND-CP, investors buy bonds

- Professional securities investor.
- Professional investors, strategic investors, in which the number of strategic investors less than 100 investors.

According to Article 11 of the Securities Law 2019: Professional securities investors are investors with financial capacity or professional qualifications in securities:

- Commercial banks, foreign bank branches, financial companies, insurance business organizations, securities companies, securities investment fund management companies, securities investment companies, securities investment funds securities, international financial institutions, off-budget state financial funds and state financial institutions may purchase securities in accordance with relevant laws;
- The company has contributed charter capital of over 100 billion VND or listed or registered for transactions;
- Holders of securities practice certificates;
- An individual holding a list of listed or registered securities with a value of at least VND 2 billion as certified by a securities company at the time that individual is identified as a specialized securities investor. Karma;
- An individual with a taxable income of at least VND 01 billion in the latest year by the time that individual is determined to be a professional securities investor according to the tax return submitted to the tax authority or other documents. withholding tax of paying organizations and individuals.

Individual investors



Source: Fiingroup, VCBS estimates

→ → We observe that, even in the first months of the year, a number of organizations have assisted investors in verifying their professional investor status. Accordingly, the regulations will not create barriers for investors to leave the market.

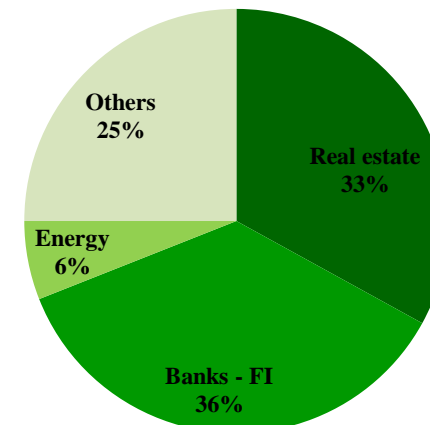
→ Instead, these legal documents aim to orient the market towards sustainable development.

Banking and real estate industries account for a large proportion in the volume of corporate bonds issued.

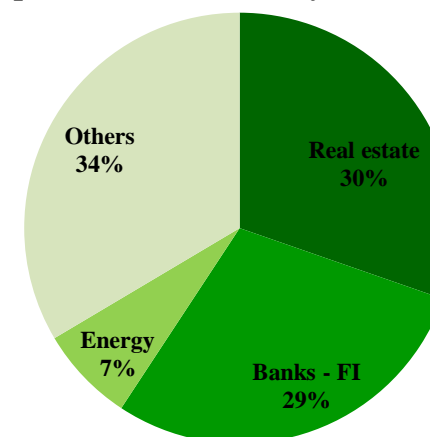
Some businesses issue large volumes in 1H.2021

Enterprises	Industry	Value (VNĐ bn)
Vingroup Joint Stock Company	Group	15,966
Vietnam Prosperity Joint Stock Commercial Bank	Bank	9,900
Asia Commercial Joint Stock Bank	Bank	6,200
Golden Hill Investment Corporation	Real estate	5,760
Orient Commercial Joint Stock Bank	Bank	5,000
Tien Phong Commercial Joint Stock Bank	Bank	5,000
BIM Land Joint Stock Company	Real estate	4,635
Viet Nam International Commercial Joint Stock Bank	Bank	4,070
Vietnam Maritime Commercial Joint Stock Bank	Bank	4,000
Trung Nam Dak Lak 1 Wind Power Joint Stock Company	Energy	3,900
Bank For Investment And Development Of Vietnam JSC	Bank	3,800
Lienviet Post Joint Stock Commercial Bank	Bank	3,750

Corporate bonds issued by sector 1H.2021



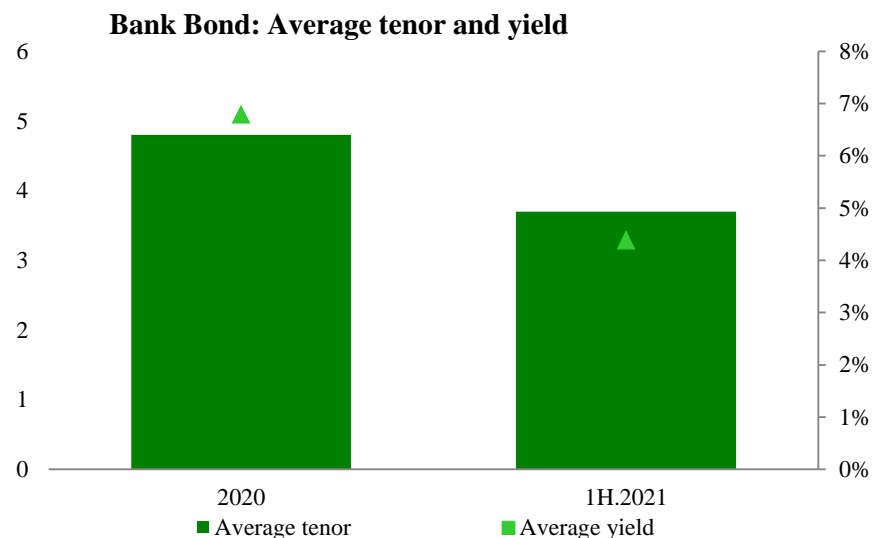
Corporate bonds issued by sector 2020



Source: Fiinpro, VCBS estimates

Banks promote the issuance of bonds under 5 years, leading to a downward trend of average tenor and yield

- ♥ The trend of bond issuance in order to meet and prepare according to the roadmap of safety ratios will continue to be observed in 1H.2021.
- ♥ Circular No. 08/2020/TT-NHNN: banks, foreign bank branches must comply with the maximum ratio of short-term capital used for medium and long-term loans.
- In 1H.2021, especially in the second quarter, banks have accelerated the issuance of bonds with a term of 2-3 years, in order to prepare resources.
- ♥ Circular 01/2021/TT-NHNN was issued on March 31, 2021, removing the regulation that the object of buying bonds of primary does not include other credit institutions.
- Other financial institutions can buy credit institutions' bonds on the primary market



Bank	Value (VNĐ bn)	Average tenor (years)	Average yield (%)
VPB	9,900	3.,0	4.0
ACB	6,200	3.0	3.7
OCB	5,000	3.0	3.7
TPB	5,000	3.0	3.5
VIB	4,070	3.4	4.3
MSB	4,000	3.0	4.0
BID	3,800	8.6	6.4

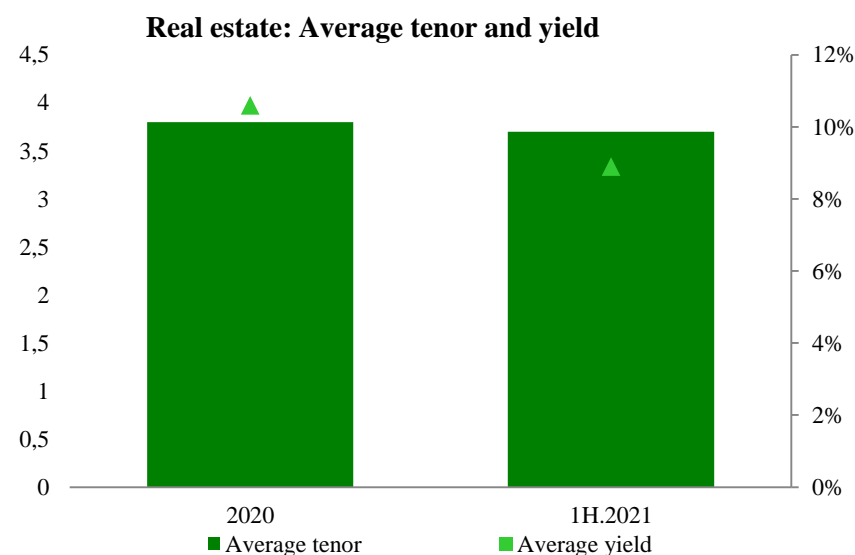
The roadmap to apply the maximum ratio of short-term capital for medium and long-term loans

Circular 08/2020/TT-NHNN	Ratio
01/01/2020 – 30/09/2021	40%
01/10/2021 – 30/09/2022	37%
01/10/2022 – 30/09/2023	34%
From 01/10/2023	30%

Source Fiinpro, VCBS estimates

Yields for real estate corporate bonds ticked down in 1H.2021

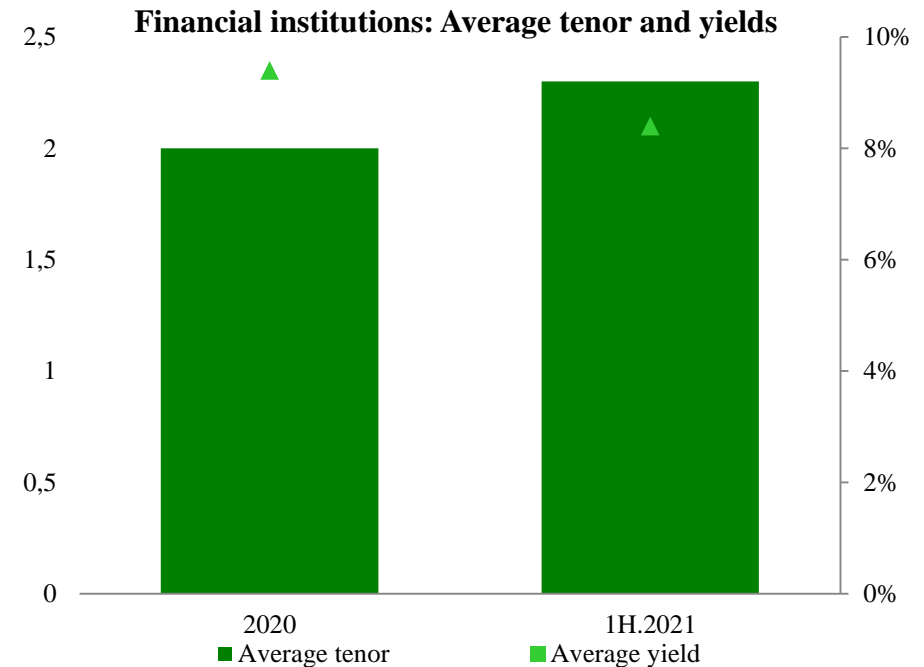
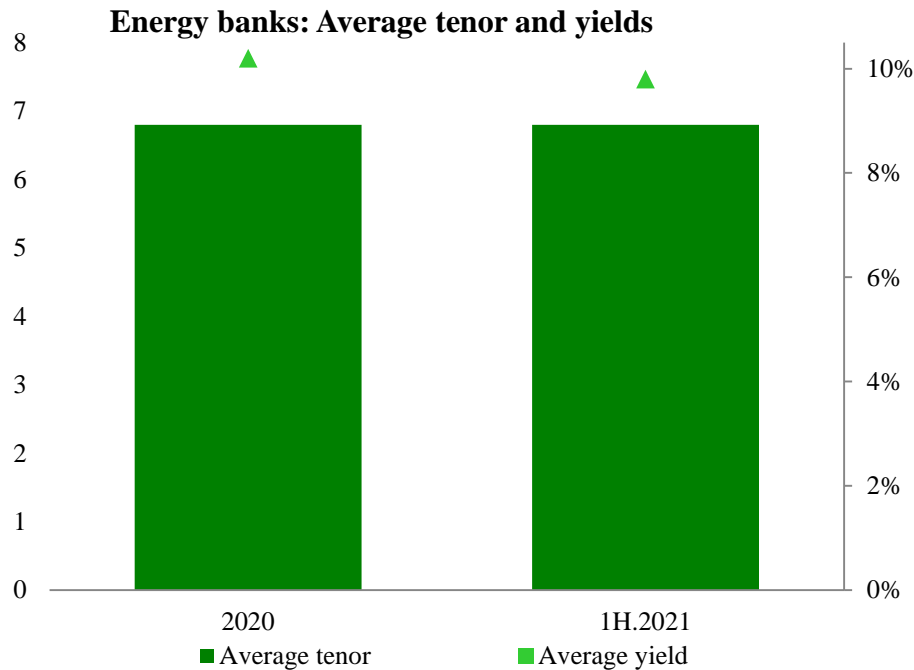
- ♥ 1H.2021 witnessed the need to issue bonds of real estate businesses:
 - The orientation of the State Bank in keeping a moderate proportion in credit for the real estate sector.
 - Real estate businesses want to increase their autonomy in capital sources through bond issuance. At the same time, mobilization through bonds is highly concentrated and is not dependent on project progress.
- ♥ In the first half of 2021, real estate companies named Vingroup and BIM issue bonds in the international market with low interest rates, dragging down the industry average yield compared to the previous year.



Enterprises	Value (VND bn)	Average tenor (year)	Average yield (%)
Vingroup Joint Stock Company	15,966	4.5	4.8
Golden Hill Investment Corporation	5,760	3.0	9.7
BIM Land Joint Stock Company	4,635	5.0	7.4
Hung Thinh Land Joint Stock Company	3,550	1.9	10.5
Sunshine Housing Joint Stock Company	3,300	4.5	11.0
Wonderland Real Estate Joint Stock Company.	3,000	4.7	11.0
No Va Land Investment Group Corporation	2,600	1.4	9.9

Source: Fiinpro, VCBS estimates

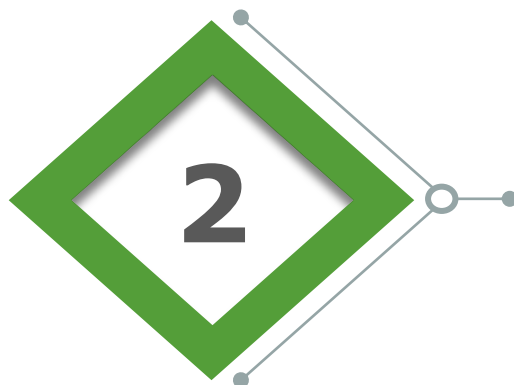
Bond yields in other sectors generally decreased in the context of lower deposit rates



Source: Fiinpro, VCBS estimates

- Enterprises in the energy sector increasingly prefer to raise capital through corporate bonds. Long term Energy Bonds (>7 years) due to the long payback period.
- In the condition that deposit rates drop to low levels, businesses take advantage of promoting bond issuance with lower yields compared to 2020.

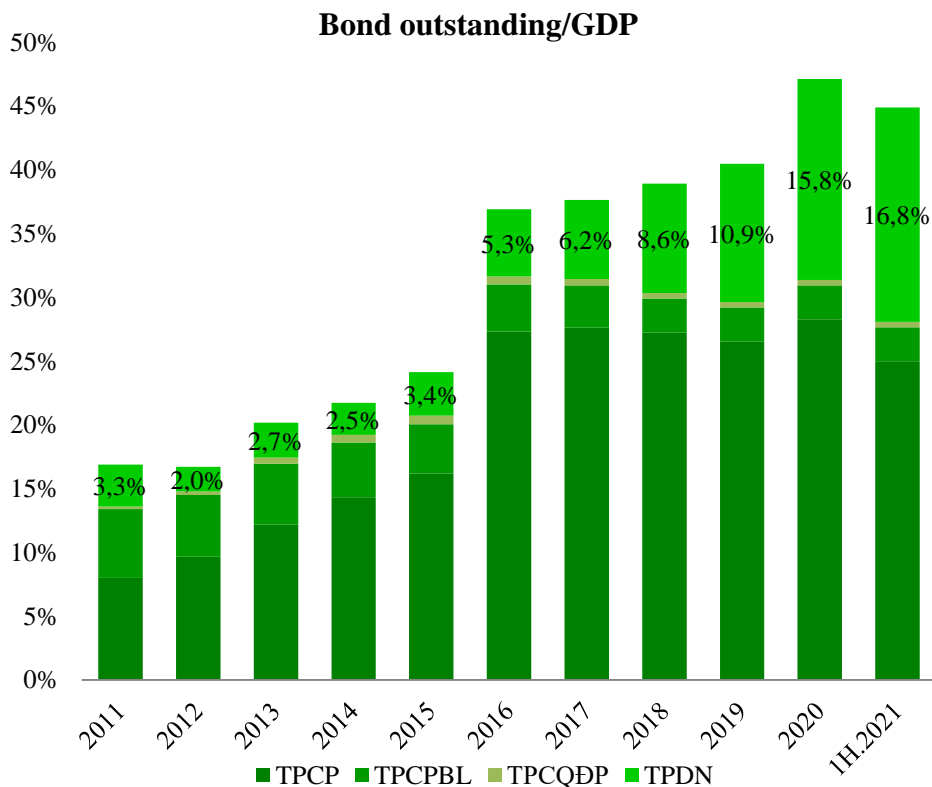
- Securities companies issued bonds in the context of securities becoming an active investment channel.
- The average tenor increased slightly while the average yields decreased compared to 2020.



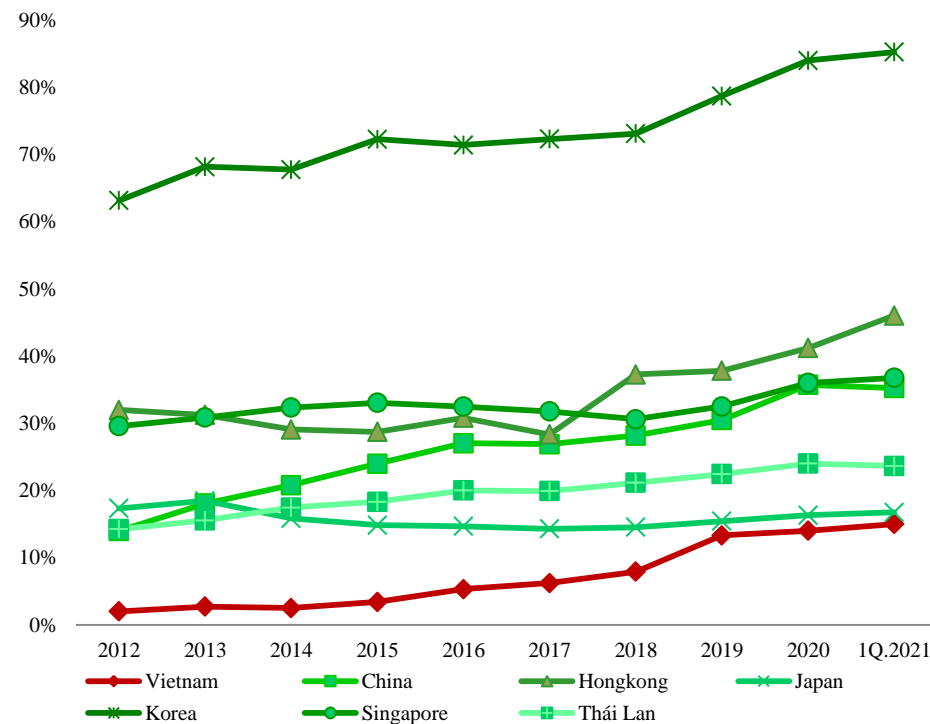
2H.2021 OUTLOOK

- *Potential growth in the long term.*
- *Corporate bond yields may decrease.*
- *There is still high demand for corporate bonds.*

Corporate bond market growth in scale.



Corporate bonds market size in some countries (%GDP)



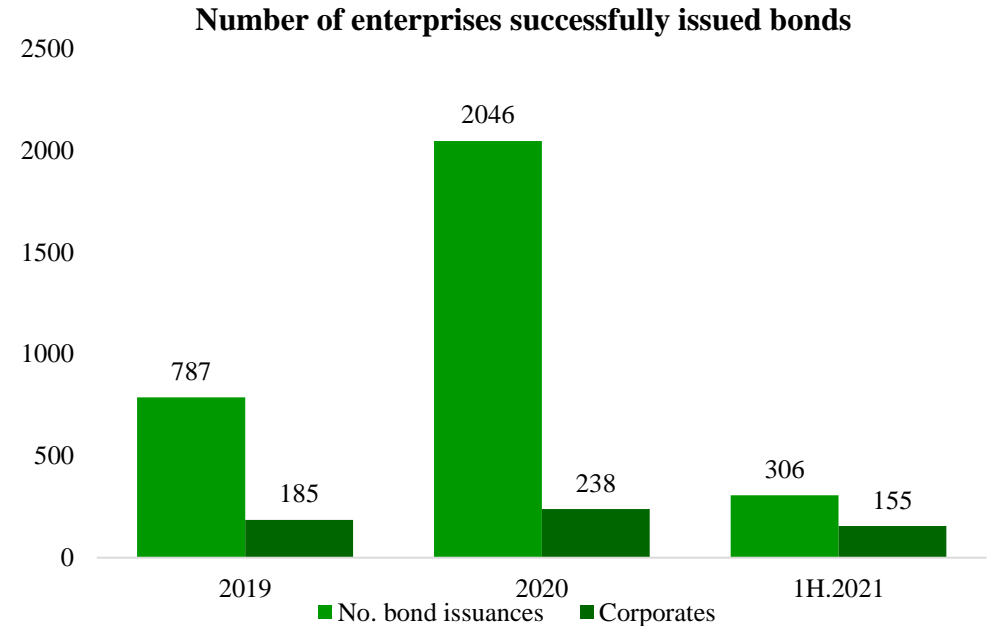
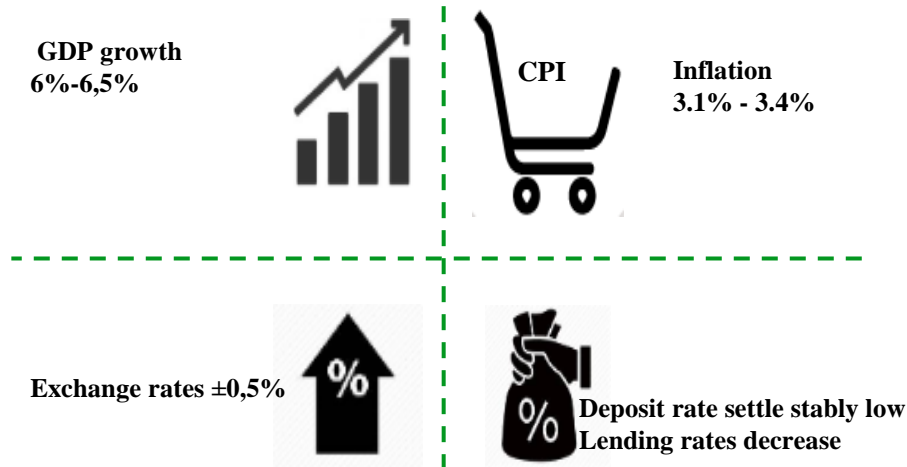
Source: HNX, ABO, VCBS compiles and estimates

♥ The market scale of corporate bond boosts to answer an increasing funding demand from firms and financial institutions.

♥ However, compared to other countries, the size of the corporate bond market in Vietnam is relatively small.

→ In the future, we believe that corporate bond market shall expand more and step by step become a long-term funding channel for corporate. This shall ease the pressure previously put on the banking system.

Expectation of higher funding demands in the context of growing economy & low interest rates.



Source: Fiinpro, VCBS compiles

- ✔ With the assumption that, economy growth shall retain, we believe that there shall be an increase in funding demand from firms. (More detail at Macroeconomic report – Outlook 2H.2021)
 - ✔ Note that in recent years, there is a surge in the number bond issues and the number of corporate. We expect that many firms will decide to get external funding through corporate bond.
- VCBS believes that corporate bonds are still a favor option when it comes to funding enterprises in the near future.**

Deposit rates

We expect the deposit rate shall stabilize at the low levels:

- There is still not much room for deposit rates to decrease more. Note that administrative bodies always bear in mind the benefit of the depositors.
- From worldwide 's viewpoint, it seems that big central banks do not rush to put an end to expansionary monetary policy.
- The increasing trend of deposit rates in the previous years mainly came from mobilizing to meet safety ratios, attracting customers, as well as having resources for credit loans. By 2021, under the management of the State Bank, with credit targets focusing on quality, the trend of increasing interest rates is unlikely to return.

→ VCBS expect people shift to investment channels like corporate bonds in order to seek better profits. This is considered as the driving force for the growth of corporate bond demand for individual investors.

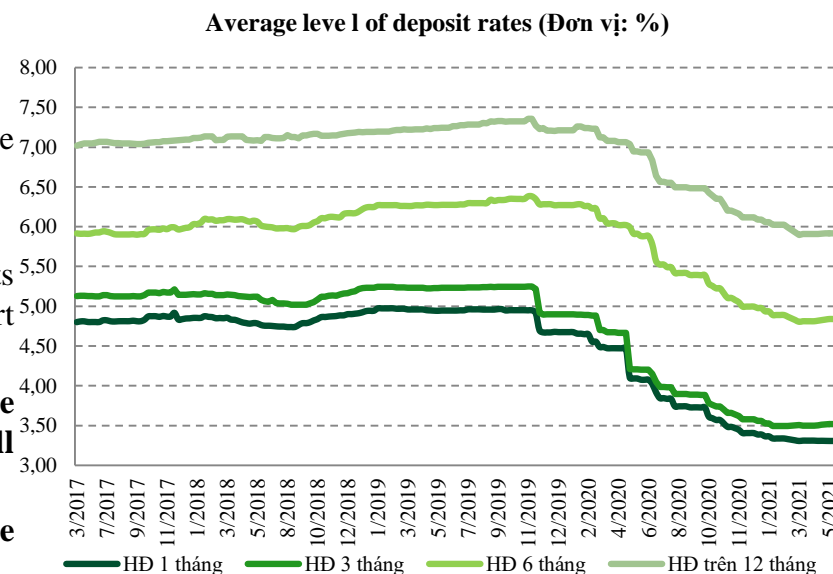
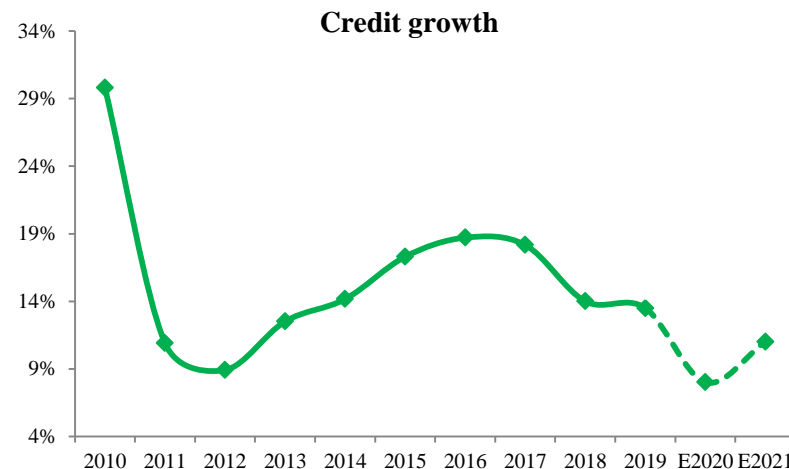
Lending rates

The target of reducing lending rates (for the whole year) to support growth can be achieved thanks to the following factors:

- Foreign inflow creates favorable conditions for liquidity
- By 2021, under the management of the State Bank, with credit targets focusing on quality Also, State Bank aim to decrease lending rates to support firms to get over the pandemic.

→ Lending rates shall tick down further. However, the decrease level and the scale of loans outstanding applied lower rates will not be the same for all banks

→ Thus, from the perspective of corporate bond issuers, lower interest rate level is a plus point as issuers can mobilize funds with lower yields.



Source: GSO, Commercial banks

Updates on credit rating agencies

Note that from 01/01/2023, all corporate bonds issued through public offering must acquire ratings from credit rating agencies, which are approved by Ministry of Finance.

- ♥ On September 26, 2014, the Government issued Decree 88/2014/ND-CP regulating credit rating services; conditions on the operations of credit rating agencies established and operating in Vietnam. Besides, in Decision 507/QĐ-TTg dated April 17, 2015, the government approved the plan to build up credit rating services till 2020 and vision to 2030, which grant a maximum of 5 credit rating agent licenses by 2030.
- ♥ According to our latest update, till 2020 2 organizations successfully acquire this license including:
 - (1) Sai Gon Phat Think credit rating JSC.
 - (2) Fiin Ratings (part of FiinGroup JSC).
- ♥ In Decree 155/2020/ND-CP, there is an implementation article, states that from 2023, all corporate bonds issued through public offering must acquire ratings from credit rating agencies. We believe that this roadmap is reasonable as far as all factors are concerned. Note that it will take time for market participants to accredit the immature service properly.
- ♥ Overall, issuers still prefer public offerings than public offerings when it comes to mobilize funds. The fact that the issuance volume skyrocketed in the last months of Q2 showed that market participants are getting on well the new regulatory framework.
- ♥ The HNX launching corporate bond's information website is also a bright spot in improving market information transparency. .

Updates on credit rating agencies

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- ❖ Lately, there is an argument about the preference of public offering over private offering. However, after considering all factors, we believe that corporates will still prefer private offerings to public offerings. It will only be a matter of time when **market participants get along with the new legal framework and consequently newly bond issued in 2021 shall decrease in the first half of 2021 compared to the same period last year.**

Investment demand exceed bond supply. Corporates bond yields tend to decrease.

- ✔ To sum up, VCBS assesses that the market will continue to grow in 2021 with the fact that investment demand exceeds bond supply. The new legal documents will contribute to creating the framework foundation for the sustainable development of the market. In the short term, it means that in 2021 the market will not skyrocket like 2020 and instead it shall gradually move forward with a stable growth rate.
- ✔ **As for credit growth, VCBS maintains its credit growth expectation in 2021 at 11%-13%. Lending rates shall tick down further. However, the decrease level and the scale of loans outstanding applied lower rates will not be the same for all banks**
- ✔ In terms of interest rates, based on the expectation of lending interest rates in 2021, corporate bond yields are likely to record a downward trend same as the lending rates.
- ✔ It can be seen that Real Estate Bonds, Financial Institutions Bonds or Energy Bonds all have their own segments, which answer the special needs and tastes suitable for each group of investors. Therefore, VCBS believes that these will be groups will continue to have a high statistic of successful issuance in the next period.

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