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KB Securities VIETNAM

Corporate bonds

Maturity pressure plagues real estate sector in 2023-2024

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August 8, 2022

The scale of the market currently soared by 140 times to VND 1,6 quadrillion compared to that of 2005, equivalent to 18.3% of GDP or 14.2% of the national outstanding credit. More importantly, the corporate bond market grew rapidly with an abrupt rise in the number of issuers in the 2019-2021 period.

The scale of Vietnam's corporate bond market is relatively low in the region, hence, the default risk posing to the whole economy is not too significant. However, bond default risk for some real estate businesses is present.

End-2022 and 2023-2024 will be a tough time in terms of cash flows for real estate companies with heavy mature bond burdens, especially for small and medium-sized enterprises with poor asset quality. They will face many difficulties in finding additional capital to rotate.

Regarding the large real estate enterprises, the level of difficulty will be at a low level thanks to better quality projects and their exceptional ability to raise capital. However, due to the need for new cash flows to implement the maturity obligations of the bonds issued from previous years, these companies had to constantly develop new projects despite the rapid growth of the market. It will also cause an imbalance in cash flows and deteriorate operational efficiency in the coming years.

1. The scale of Vietnam's corporate bond market

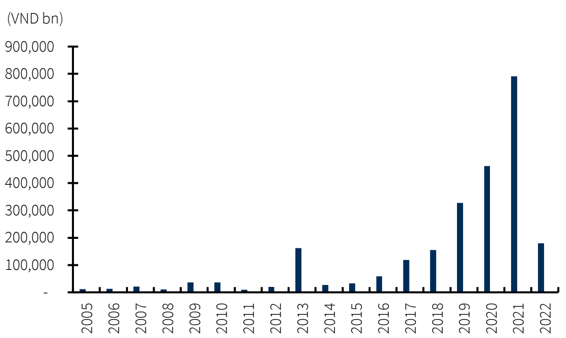
The scale of the corporate bond market reached VND 1.6 quadrillion, equivalent to nearly 18.7% of GDP or 14.5% of national outstanding credit

Since the commencement of Vietnamese corporate bond market, the total corporate bond issued value has reached VND 2.5 quadrillion over 5,000 placements, playing a critical role in mobilizing capital for the economy (value recorded between 2005 and early 3Q2022). The scale of the market currently soared by 140 times to VND 1.6 quadrillion compared to that of 2005, equivalent to 18.3% of GDP or 14.2% of the national outstanding credit.

The corporate bond market grew exponentially during 2019-2021 period

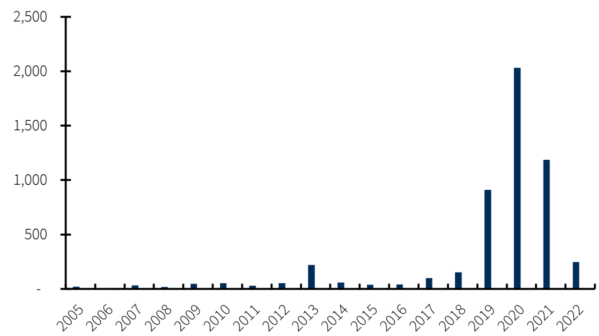
More importantly, the corporate bond market grew rapidly with an abrupt rise in the number of issuers in the 2019-2021 period. During these 3 years alone, the total issued value reached 1.6 quadrillion, equaling to 64% of the 2005-2022 total value (the reasons are noted in the following section). The market value increased from 7.3% of GDP in 2018 to 18.9% of GDP in 2021.

Fig 1. Vietnam – The total issued value of corporate bonds in the 2005-1H2022 period (VNDbn)



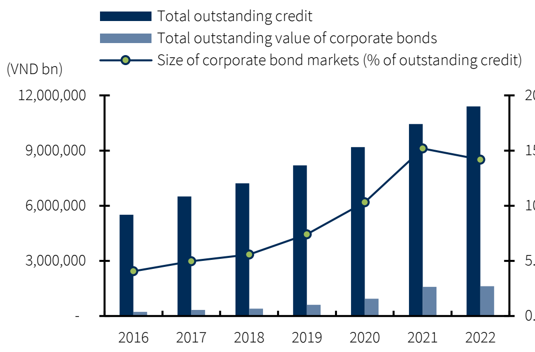
Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 2. Vietnam – The amount of placement in the 2005-1H2022 period



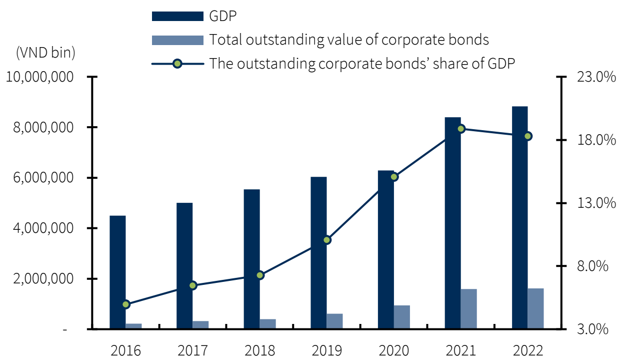
Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 3. Vietnam – Total outstanding corporate bond value compared to outstanding credit (VNDbn, %)



Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 4. Vietnam – The outstanding corporate bonds' share of GDP (VNDbn)

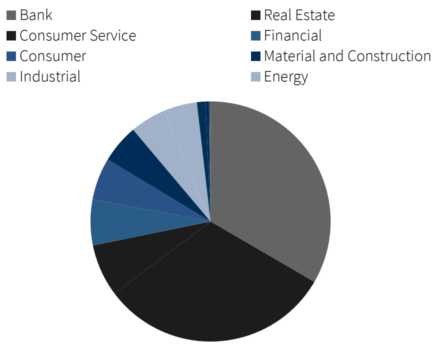


Source: VBMA, Fiinpro, KB Securities Vietnam

The real estate and banking sector accounted for the majority of issued corporate bond

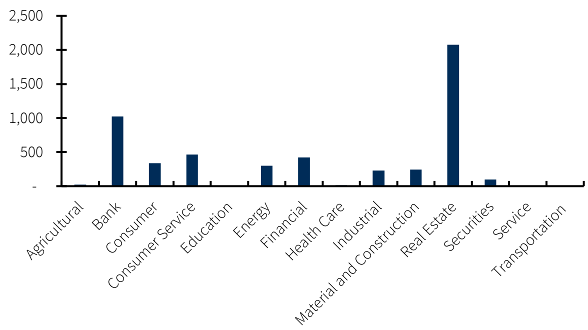
Regarding to the component of issuers, the real estate and banking sectors accounted for the majority of the total corporate bonds, proportionated to 65% of total value and 60% of total amount of placement between 2005-2022 due to the high capital demand and large market capitalization. The consumer service, other financials and consumer goods sector are the next big three, accounted for 7%, 6.2% and 5.5% of the total issued value, respectively.

Fig 5. Vietnam – Issued value by sectors



Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 6. Vietnam – Amount of placement by sectors



Source: VBMA, Fiinpro, KB Securities Vietnam

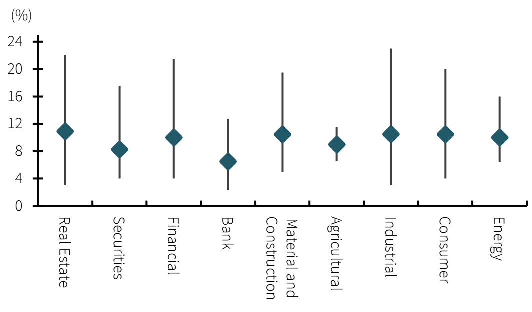
The average interest rate fluctuates around 10%, in which the real estate sector pays the highest

The average interest rate of the corporate bond fluctuates between 2.3% to 23%, depending on the characteristics of the business and the structure of the placement. The real estate sector with the high-risk characteristics pays the highest interest rate among other sectors (around 10.9%), in contrast to the banking sector with relatively low interest rate, roughly 6.5%.

The maturity of most bonds is 3 years

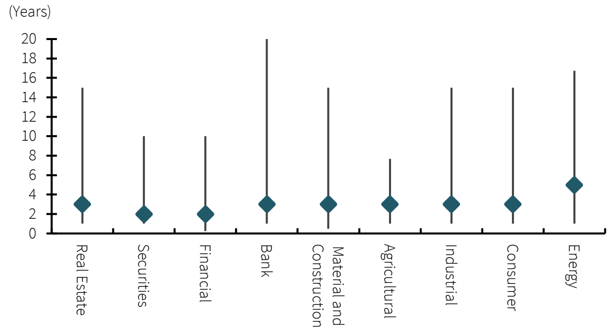
The majority of the corporate bond has the maturity of 3 years on average, in order to raise capital for mid to long-term purposes. With the characteristics of high capital intensity and long depreciation period, most of the corporate bond of the energy sector has maturity longer than 5 years.

Fig 7. Vietnam – The interest rate of the corporate bond (%)



Source: VBMA, Fiinpro, KB Securities Vietnam
Note: The diamond symbol represents for the median interest of each sector.

Fig 8. Vietnam – The maturity of the corporate bond



Source: VBMA, Fiinpro, KB Securities Vietnam
Note: The diamond symbol represents for the median maturity of each sector.

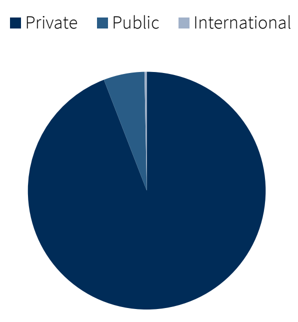
Privately placed bond accounted for 90% of the placement and offering

Most of the enterprises chose the private placement to issue corporate bond (accounted for 90% of total placement and offering) because of strict requirements on public and international offering. The enterprises choosing public placement are banks while those who offered bond internationally are conglomerate firms such as Vingroup, Novaland.

Financial institutions accounted for the majority of bond investors in primary market

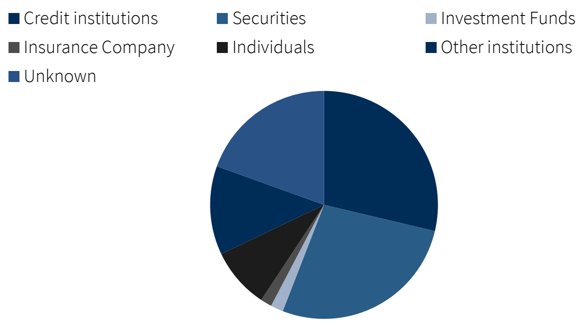
According to the public statistics, credit institutions, securities companies, investment fund and insurance companies are the main buyers of initial bond offering (Chart 9) while retail investors only accounted for 10% due to restriction on resources and approaching barriers. Credit institutions and securities companies play the role of both issuer and bond holders.

Fig 9. Vietnam – Types of placement



Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 10. Vietnam – The Ownership Structure of Corporate Bonds

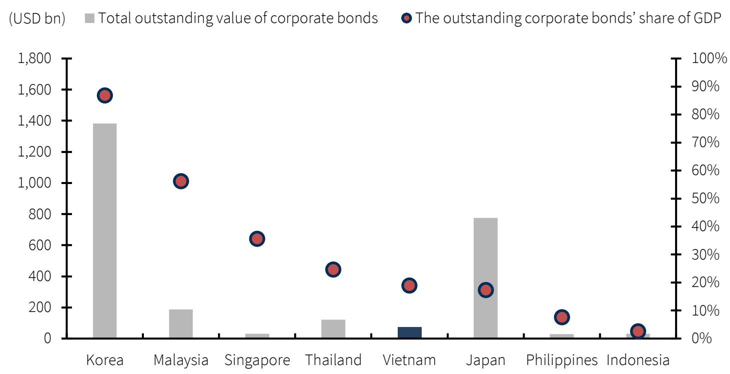


Source: VBMA, Fiinpro, KB Securities Vietnam

The scale of corporate bond market in Vietnam is relatively modest in the region

Despite increasing significantly during the past few years, Vietnam corporate bond market scale is still relatively small in term of outstanding credit balance/GDP in comparison to that of Thailand, Malaysia or Singapore and well below the current target of the Government. In general, the default risk posing to the economy is still not imminently troubling.

Fig 11. Vietnam – The outstanding corporate bonds' share of GDP in Asian markets



Source: ADB, KB Securities Vietnam

2. The causes of rapid growth of the corporate bond market during 2019 – 2021

The Government oriented the scale of the corporate bond market to reach 20% of GDP by 2025, and 30% of GDP by 2030

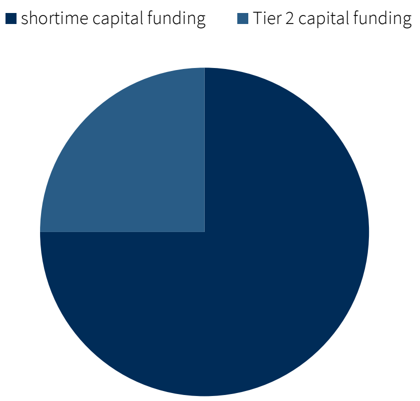
With an annual average growth rate of 30% in the period of 2005 – 2021, the corporate bond market is set to become the medium and long-term capital mobilization channel for businesses under the Government scheme and hence, reduce the dependence on the banking system. Specifically, the Government set a target for corporate bond market scale to be equivalent to 20% of GDP by 2025 and 30% of GDP by 2030. Currently, the 2Q2022 scale of Vietnam's corporate bond market is only equivalent to 18.3% of GDP.

Issuing corporate bonds brings numeral benefits to banks: (1) Raising medium and long-term capital, helping to balance sources; (2) Increasing Tier 2 capital and ensuring the fulfillment of CAR requirement

The state and commercial banks are the largest bond issuers of the market (as analyzed above), as the corporate bond brings about the following benefits: (1), Mobilizing medium to long-term capital, helping balance sources for lending to businesses and retail customers more conveniently; (2), Increasing Tier 2 capital, facilitating the growth of financial capacity, improving capital adequacy ratio, increasing medium to long-term credit capacity for the economy.

Apart from being the issuer, banks also participate in the market as investors – actively operating in the market, increasing liquidity and promoting the development of the corporate bond market. Another noteworthy factor is that the corporate bonds are accounted for in the form of ready-to-sell (with ability to sell before maturity). So, there is a potential risk that corporate bonds could be used for businesses to refinance in short term.

Fig 12. Vietnam – Using capital for fundraising through bonds by commercial bank



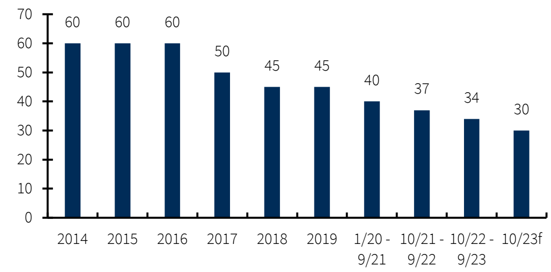
Source: KB Securities Vietnam

Real estate enterprises promoted the issuance of corporate bonds actively due to difficulty in accessing capital from the commercial banking system under new policies and circulars from the SBV

Real estate enterprises also actively issued corporate bonds in the 2018-2021 period due to difficulty in accessing loans from the banking system as the SBV clearly stated strict supervision of real estate credit via the promulgation of new policies and circulars. Specifically, regulations on the risk factor of account receivable for real estate businesses has increased to 200% since January 1, 2017 (from 150% stated in Circular 06/2016/ TT-NHNN). Circular 08/2020/TT-NHNN also required the banks to reduce the proportion of short-term funds being used for medium and long-term loans. Therefore, the real estate credit growth rate gradually decreased from over 26% in 2018 to about 12% in 2021.

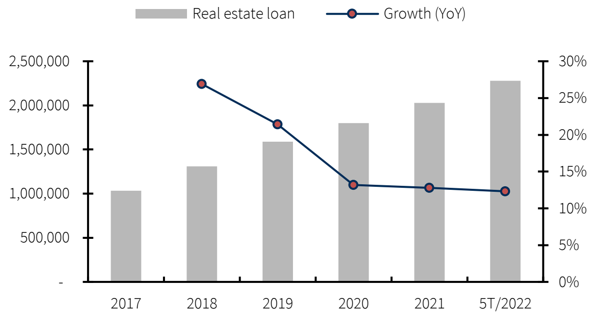
In addition, many real estate businesses that did not meet the conditions to borrow capital from banks have switched to issuing corporate bonds with higher interest rates. Some bonds did not include collateral assets and were not under surveillance of the settlement activities like a normal bank loan.

Fig 13. Vietnam – Ratio of short-term funding to be used for medium- and long-term loans



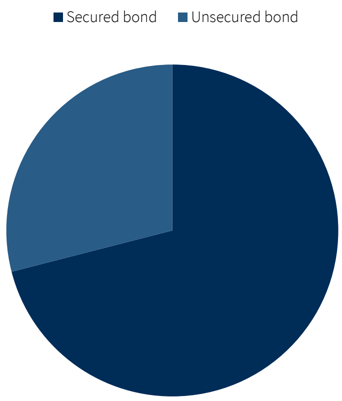
Source: State Bank, KB Securities Vietnam

Fig 14. Vietnam – Real estate loan 2017 – 5M/2022



Source: State Bank, KB Securities Vietnam

Fig 15. Vietnam – Unsecured bond or secured bond in 2021



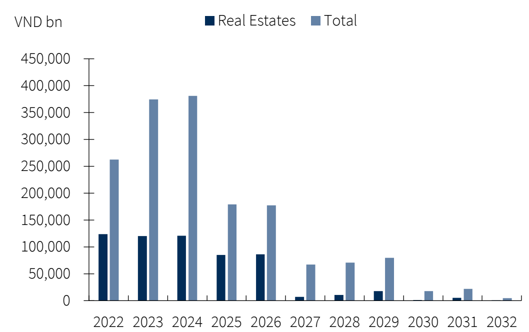
Source: KB Securities Vietnam

3. The maturity pressure in 2022-2024

Bond maturity value will cause burdens in 2022-2024 with real estate as main factor

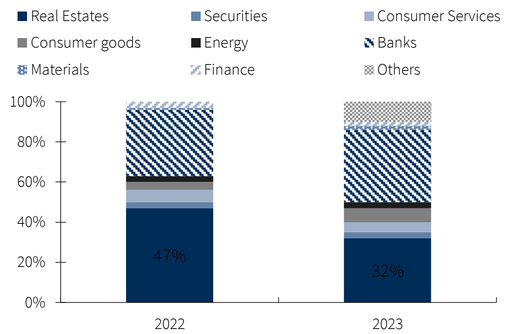
Enterprises promoted bond issuance in the period of 2019-2021, which increases the pressure of maturity in 2022-2026. In 2023 and 2024, the total bond maturity value reaches VND 374.3 trillion and VND 381.2 trillion, respectively. Real estate group accounted for the second largest proportion, reaching VND 120.4 trillion (32.1%) and VND 121.1 trillion (32.0%), respectively. We will focus on data analysis of listed real estate companies, which are easier to collect data and more transparent. For the unlisted group, the transparency and data availability are quite limited.

Fig 16. Vietnam – Bond maturity value in 2022-2032 (Estimated basing on current outstanding bonds)



Source: VBMA, KB Securities Vietnam

Fig 17. Vietnam – Structure of mature bonds by industry group



Source: VBMA, KB Securities Vietnam

Groups of enterprises with total equity lower than VND 20,000 Bn have more potential risks

In the 2020 – 2021 period, real estate enterprises having total equity lower than VND 20,000 Bn had an unimpressive positive CFO while the group with equity from VND 1000-5000 Bn had negative CFO in 2021 and 1Q2022 (Table 18). This group boosted investment activities, buying new high value projects funded by cash flow from debt and issuing shares. Meanwhile, enterprises with total equity over VND 20,000 Bn had much more impressive business results with a high positive CFO in the 2019-2021 period although this group also maintained high new project investment. In our point of view, in the period of market instability, the risk is higher in the small and medium-sized group due to the high leverage and lower quality of projects along with poor sale performance.

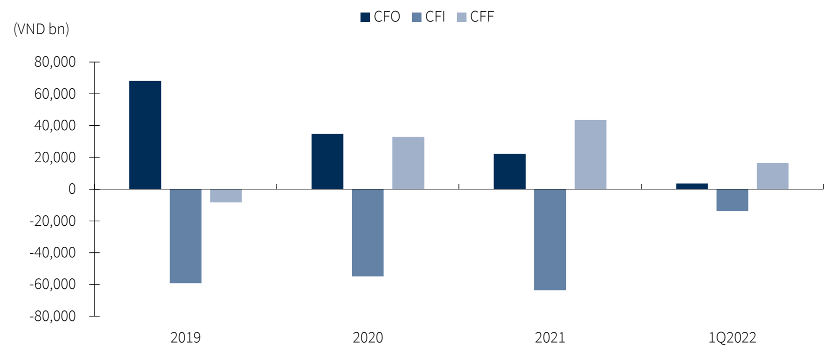
Table 18. Movement of cash flow of real estate enterprises by size of equity

Total Equity	Operating Cash flow				Investing Cash Flow				Financing Cash Flow			
	2019	2020	2021	1Q2022	2019	2020	2021	1Q2022	2019	2020	2021	1Q2022
<1,000 Billion VND	3,984	998	-1,689	119	-2,494	-2,527	815	-11	-987	1,327	293	469
<5,000 Billion VND	1,989	4,170	-2,894	-3,459	-6,819	-7,362	-9,292	-3,587	3,655	6,399	12,322	7,437
<20,000 Billion VND	3,981	4,239	4,187	2,101	-9,446	-12,525	-21,137	-1,367	3,737	11,020	22,752	2,369
>20,000 Billion VND	58,152	25,419	22,620	4,699	-40,491	-32,590	-33,969	-8,776	-14,720	14,308	8,197	6,146

Source: Company reports, KB Securities Vietnam

Real estate enterprises continued to promote investment in new projects that mainly funded by financing cash flow while the CFO showed a decreasing momentum in the period of 2020–2021

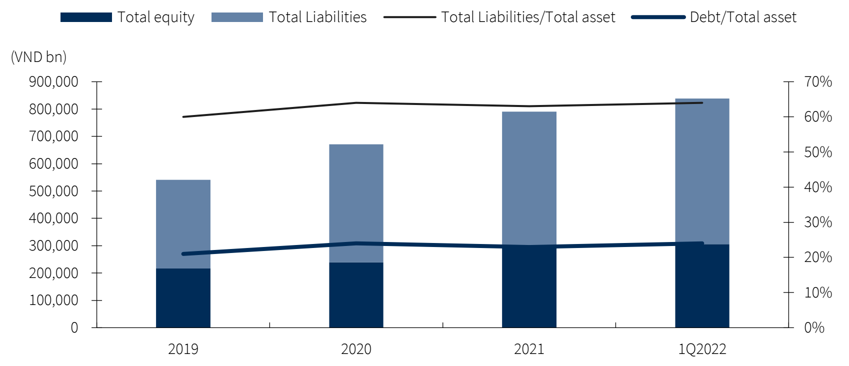
Fig 19. Vietnam – Cash flow of real estate enterprises in the period of 2019–2022



Source: Company reports, KB Securities Vietnam

Despite good sales in the period of 2019-2021, in general, real estate businesses could not deleverage. They still had to accumulate and implement new projects to be able to raise more debts to pay the maturity obligations of the bonds issued from previous years

Fig 20. Vietnam – Capital structure of Real Estate enterprises in 2019–2022 (exclude VHM, VRE)



Source: Company reports, KB Securities Vietnam

4. Real estate corporate bond solvency

Room for credit growth is expected to be opened at the end of the year, which will support the real estate market in the short term

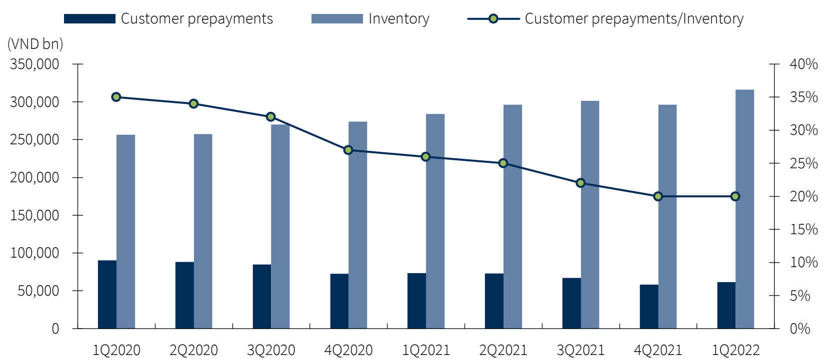
It is expected that at the end of August – early September, the SBV will expand the credit room for the banking system to fulfill the target of 14% credit growth in 2022. This event will partly have a positive impact on the cash flow of real estate businesses (1) Enterprises have new sources for borrowing in order to meet their bond obligation. However, this option is only suitable for enterprises that have new projects and still have good quality assets; (2) The real estate market is expected to warm up again in the last months of the year when credit flows return. Enterprises can release inventories and have more money to pay debts.

But in general, the sales progress will decrease in the environment of rising interest rates

With high inflation, raising interest rates are becoming popular in countries around the world and Vietnam is expected to follow the trend in order to ease pressure on exchange rate. Rising interest rates will directly affect the cost of capital of businesses as well as individuals in coming time, causing the market's absorption capacity decrease while the accumulated inventory is still very large

Sales progress has slowed down significantly since mid-2021 while inventories continue to increase. It is expected that the sales progress will continue to slow down in the period of 2023-2024 due to impacts from rising interest rates

Fig 21. Vietnam – Total prepayment from customer and inventory



Source: Fiinpro, KB Securities Vietnam

Issuing new bonds is difficult in terms of tighten policy

Issuing new bonds will face many difficulties in the coming time because of new policy and lower demand. In terms of policy, recently the 5th draft amendment to Decree No. 153/2020/ND-CP regulating the offering of corporate bonds was announced with changes in the direction of further tightening for Issuers and investors include:

(1) Prohibiting enterprises from issuing bonds for the purpose of contributing capital or buying shares in other enterprises or lending capital to others.
(2) Total outstanding balance of bonds does not exceed 3 times of total equity. In addition, the last consecutive year has positive profit and no accumulated loss.
(3) Professional investors who are individuals can only buy bonds with collateral or payment guarantees issued by public companies.

If this draft is approved, it will make enterprises which have financial difficulties, limited access to bank credits cannot be able to issue bonds.

Meanwhile, the demand of individual investors will also decrease in the coming period due to: (1) Loss of reliance in the bond market after the incident of Tan Hoang Minh Group; (2) The increase in bank deposit interest rates along with economic risks makes risk-adverse investors transferring money to the banking channel.

The volume of bond placement in 1H2022 fell drastically, especially real estate sector while bond buyback before maturity soared

In fact, during 1H2022, the total value of corporate bond placement only reached VND 180 trillion (-31.5% YoY) due to government intervention and the aftermath of Tan Hoang Minh scandal that negatively affect the real estate market. Specifically, the total value of placement in 2Q2022 was VND 119 trillion (-45% YoY) in which 70% of the amount belongs to the banks with the purpose of raising capital to ensure capital adequacy ratio (CAR). The real estate sector ranked 2nd in terms of value despite experiencing a sharp drop due to aforementioned factors. Apart from Vingroup's USD 500 million international bond offering, the placement value in 2Q is equal to only 16% of that during the same period. The total corporate bond value over total outstanding credit balance fell from 15.2% by the end of 2021 to 14.2% by the end of 2Q2022, equivalent to the drop of total corporate bond value over GDP from 18.9% to 18.3%. According to the Ministry of Finance, many enterprises exercised bond buyback prior to maturity with the value amounted to VND 62 trillion. In details, the 1Q bond buyback value stood at VND 12.8 trillion while that of 2Q rose sharply to VND 49.1 trillion after Tan Hoang Minh scandal.

In conclusion, the end of 2022 and 2023-2024 will be a difficult period in terms of cash flow for real estate companies with heavy mature bonds burdens. Especially for small and medium-sized enterprises with low asset quality, they will face many difficulties in finding capital to rotate when: (1) Bank loans are difficult to access; (2) Capital from bond issuance is tightened; (3) The absorption of the real estate market in 2023-2024 is not high due to the environment of rising interest rates and the risk of the economic recession. Regarding large real estate enterprises, we suppose that the level of difficulty will be at a lower level thanks to having better quality projects and higher ability to raise capital. However, due to the need of raising new money flows to pay the maturity obligations of the bonds issued from previous years, these companies have also had to constantly accumulate and implement new projects to be able to raise more debts despite the periods that the market grew too rapidly. This will also cause an imbalance in cash flows and deteriorate the operational efficiency in the coming years.

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Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market