Vietnam corporate debt market – fast growing & promising

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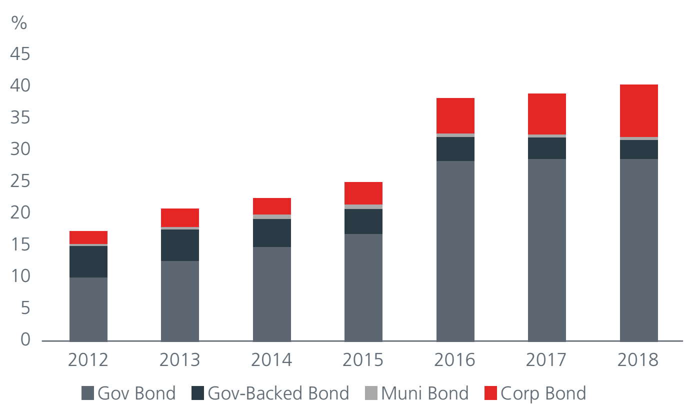
Vietnam's domestic bond market has grown substantially since 2012. By 2018, its size had more than doubled, equaling 39% of the country's GDP. The corporate bond market has also expanded almost fivefold in this time, hitting US$6.2 billion by 2018. This expansion has not only been driven by Vietnam's growth, economic stability, low inflation, and accommodative policies but also a growing awareness by domestic issuers to diversify their funding sources.

In our previous write up (https://www.eastspring.com/insights/vietnam-one-of-asia-s-best-proxies-to-emerging-market-growth), we stated that Vietnam has made huge strides in its development and that its transformation had not gone unnoticed. In 2017, Vietnam was Asia's top performing stock market. In 2018, it was one of the only two stock markets (besides China) in Asia to enjoy net foreign portfolio inflows[1]. And the equity market is not the only evidence of this transformation. Vietnam's corporate dong-denominated debt market is one of the fastest growing amongst Asean's six[2] corporate bond markets peers, albeit the smallest[3] (see Fig 1).

The roadmap to broaden and deepen the bond market further was set out in 2017; one of the goals is to increase the market's size to 45% and 60% of GDP by 2020 and 2030 respectively[4]. Priority will also be given to developing the government bond market which in turn will underpin the growth in the corporate segment. Although government bonds already have the dominant share of the total debt market (see Fig 2),

Fig. 1. Vietnam's bond market as a % of GDP[5]



the corporate debt market is expected to become an important channel to fund the economy, supplementing the traditional bank loans.

CORPORATE BONDS GAIN MOMENTUM

The corporate debt market has continued expanding, the 1H2019 has thus far seen an increase of 34% compared to the same period last year. Apart from historically stable low government bond yields which encourage investors to search for higher yield instruments, new policies set out by the State Bank of Vietnam also force issuers to raise capital from the corporate bond market. The new minimum capital safety and capital adequacy ratios rules have forced banks to issue bonds to meet these new requirements. Equally, real estate companies have switched to raising funds from the corporate debt market instead of borrowing from banks; two thirds of all the corporate bonds are issued by banks and real estate companies.

The statistics of primary issuance show that the top two investors are securities firms and banks. But estimates indicate banks are still the main bondholders. Securities firms function as a warehouse and redistribute bonds to other investors like banks, retailers, corporates (see Fig 3). Insurance companies only hold a small portion of corporate bonds as they prefer high quality long-term corporate bonds or long-term corporate bonds that are guaranteed by credit rating guarantors.

The popular tenors for corporate bonds are still 2-3 years while the longer tenor is usually seen for bank bonds. Nevertheless, the availability of longer tenor has opened up opportunities for more insurance monies.

More recently, individual investors have been making a presence and sharing an important part of the total corporate bond market; estimates indicate they may account for 10-15% or more of the total corporate debt market. The lure has been the significant yield enhancement as many bonds are issued with put options; in such instances, retail investors can sell back the bonds to the issuer after a few months and still earn the original bond coupon. This is a much more attractive option than a savings deposit scheme (see Fig 4).

Fig. 2. Composition of bonds across Asean[6]

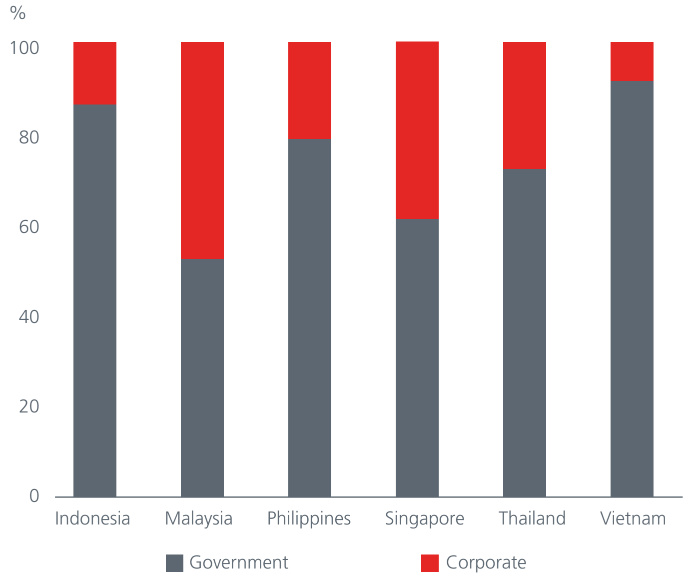
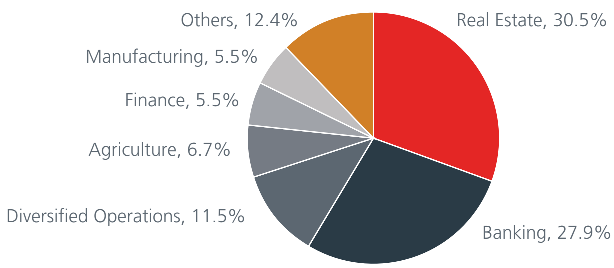
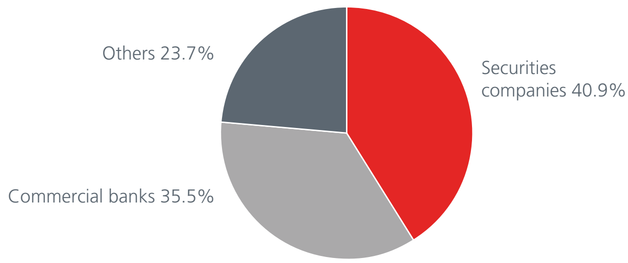


Fig. 3. Vietnam's corporate bond issuers and investors

Top 30 issuers[7]



Key investors[8]



ONGOING CHALLENGES

Liquidity is a key risk. There is limited liquidity in the secondary market trading for corporate bonds. To improve the liquidity for bondholders especially retail investors, there are more corporate bonds issued with put option as a proxy for the liquidity for bondholders. Retail investors can sell back the bond to the issuer when they need liquidity. However, for those corporate bonds with longer tenors, the put option is often not available.

Default risk is another. Lack of a proper risk assessment framework could lead to potential defaults. Typically, problems arise if the market infrastructure development does not keep pace with the rapid growth. For a start, there is no local credit rating agency. Further, the credit ratings by international rating agencies are not available for most corporate bond issuers in Vietnam, except for local banks which have ratings by Moody's. Moreover, most corporate bonds are unsecured, except for corporate bonds with collaterals issued to the local banks.

The credit rating of an issuer is also a relatively new concept with most investors placing more importance on the coupon rate and familiarity with the issuer name. Hence there is no available benchmark for investors to consider.

PROMISING OUTLOOK

Despite the above concerns, the corporate debt market is expected to continue expanding strongly this year on the back of the low inflation, economic stability and accommodative growth policies. The yield enhancement over deposit rates makes it attractive for retail investors while the low government bond yields will keep institutional demand intact. The high volatility in equity markets is another reason some investors prefer bonds.

Vietnam is not immune to trade war issues, being one of the most open economies in the region. The effects are being seen in the lower growth numbers; 1H2019 growth was 6.6% versus 1H2018's 7.1%. Still, the full year GDP estimated at 6.7-6.8% is relatively high compared to the region. The long-term outlook remains positive, underpinned by resilient domestic demand, robust foreign direct investment growth and stable inflation.

In April 2019, Standard & Poor's raised Vietnam's long-term sovereign credit rating to BB from BB– with a stable outlook. The rating agency cited the country's strong economic growth and improved government institutional environment as the reason for the upgrade. This should further underpin investor confidence in the country's corporate debt market.

Fig. 4: Bond coupon rates versus bank deposit rates[9]

Rate	Issuer type	3 months	6 months	1 year	2 years	3 years
Deposit rate	Top commercial banks	5.30%	6.60%	6.88%	7.47%	7.23%
Bond coupon rate	Perceived low risk corporates	9.50%/10.50%	9.50%/10.50%	9.50%/10.50%	9.50%	10.50%
		Most recent corporate bonds have put options. E.g. If bondholders execute put options after 3 months holding, they still earn the original coupon rates of 9.5% (for 2-year bond) or 10.5% (for 3-year bond). This is key motivation from retail investors to buy corporate bonds.				

Sources: [1] Bloomberg, Dec 2018 [2]Asean's six refers to Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam [3]https://www.euromoney.com/article/b1dm7zsq3tx3v0/vietnams-bond-market-poised-for-growth [4]Asean + 3 Bond Market Guide by Asian Development Bank, Oct 2018 [5]Vietcombank Securities, Ministry of Finance [6]https://asianbondsonline.adb.org/documents/abm_jun_2019.pdf [7]https://asianbondsonline.adb.org/documents/abm_jun_2019.pdf [8]Ministry of Finance and VCBS Research, 2018 data [9]Average deposit rates quoted by ACB Bank, VP Bank and TCB Bank. Bond coupon rates are based on TCBS and VCBS Research reports

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