



## Vietnam corporate debt market – fast growing & promising

**Tran Thap Kieu Quan, CFA** Head of Fixed Income, Eastspring Vietnam

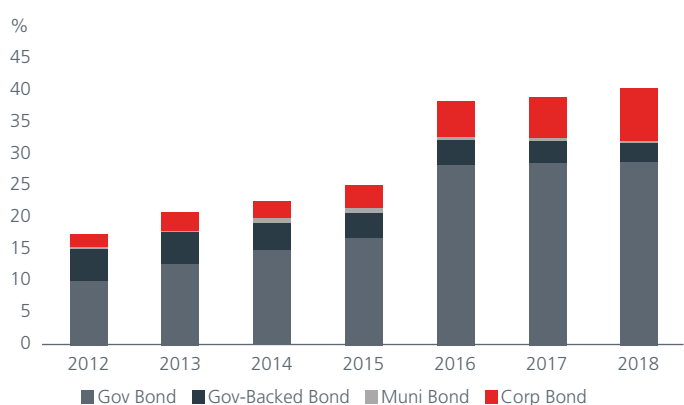
**Vietnam's domestic bond market has grown substantially since 2012. By 2018, its size had more than doubled, equaling 39% of the country's GDP. The corporate bond market has also expanded almost fivefold in this time, hitting US\$6.2 billion by 2018. This expansion has not only been driven by Vietnam's 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<sup>1</sup>. 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<sup>2</sup> corporate bond

markets peers, albeit the smallest<sup>3</sup> (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<sup>4</sup>. 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<sup>5</sup>**



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

## CORPORATE BONDS GAIN MOMENTUM

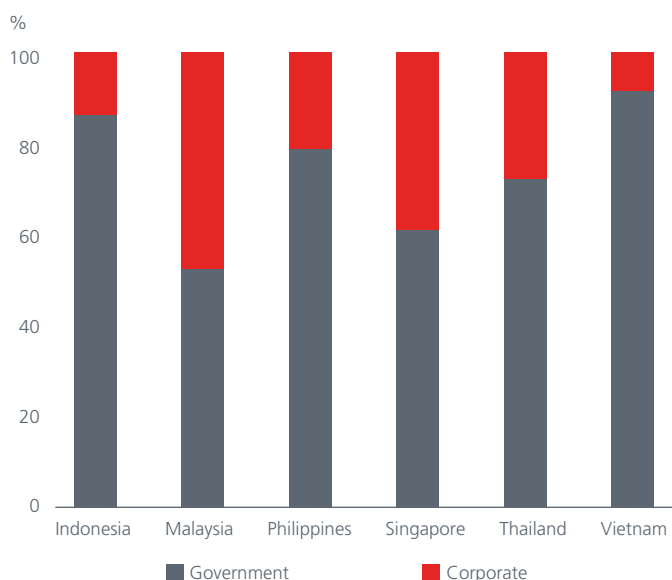
The corporate debt market has continued expanding, the 1H2019 has thus far seen an increase of 34% compared to the same period last year. Apart from historically stable low government bond yields which encourage investors to search for higher yield instruments, new policies set out by the State Bank 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.

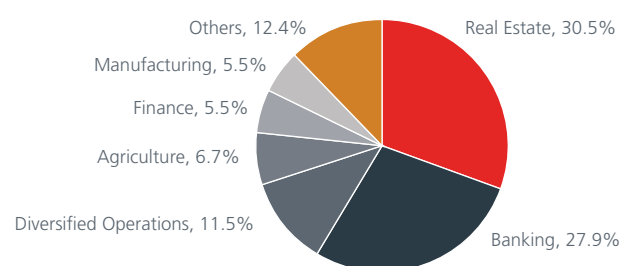
More recently, individual investors have been making a presence and sharing an important part of the total corporate bond market; estimates indicate they may account for 10-15% or more of the total corporate debt market. The lure has been the significant yield enhancement as many bonds are issued with 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<sup>6</sup>**

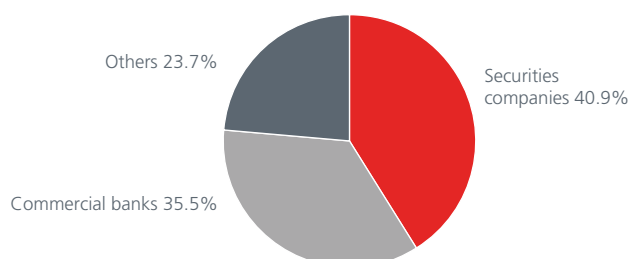


**Fig. 3. Vietnam's corporate bond issuers and investors**

### Top 30 issuers<sup>7</sup>



### Key investors<sup>8</sup>



## 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<sup>9</sup>**

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: <sup>1</sup> Bloomberg, Dec 2018 <sup>2</sup>Asean's six refers to Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam <sup>3</sup><https://www.euromoney.com/article/b1dm7zsq3tx3v0/vietnams-bond-market-poised-for-growth> <sup>4</sup>Asean + 3 Bond Market Guide by Asian Development Bank, Oct 2018 <sup>5</sup>Vietcombank Securities, Ministry of Finance <sup>6</sup>[https://asianbondsonline.adb.org/documents/abm\\_jun\\_2019.pdf](https://asianbondsonline.adb.org/documents/abm_jun_2019.pdf) <sup>7</sup>[https://asianbondsonline.adb.org/documents/abm\\_jun\\_2019.pdf](https://asianbondsonline.adb.org/documents/abm_jun_2019.pdf) <sup>8</sup>Ministry of Finance and VCBS Research, 2018 data <sup>9</sup>Average deposit rates quoted by ACB Bank, VP Bank and TCB Bank. Bond coupon rates are based on TCBS and VCBS Research reports

## Disclaimer

**This document is produced by Eastspring Investments (Singapore) Limited and issued in:**

**Singapore and Australia (for wholesale clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

**Hong Kong** by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

**Indonesia** by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

**Malaysia** by Eastspring Investments Berhad (531241-U).

**United States of America (for institutional clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

**European Economic Area (for professional clients only) and Switzerland (for qualified investors only)** by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

**United Kingdom (for professional clients only)** by Eastspring Investments (Luxembourg) S.A. - UK Branch, 125 Old Broad Street, London EC2N 1AR.

**Chile (for institutional clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as **Eastspring Investments**.

The views and opinions contained herein are those of the author on this page, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this posting is at the sole discretion of the reader. Please consult your own professional adviser before investing.

Investment involves risk. Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.



A member of Prudential plc (UK) 