

Corporate Bond Report

Annual Report 2016

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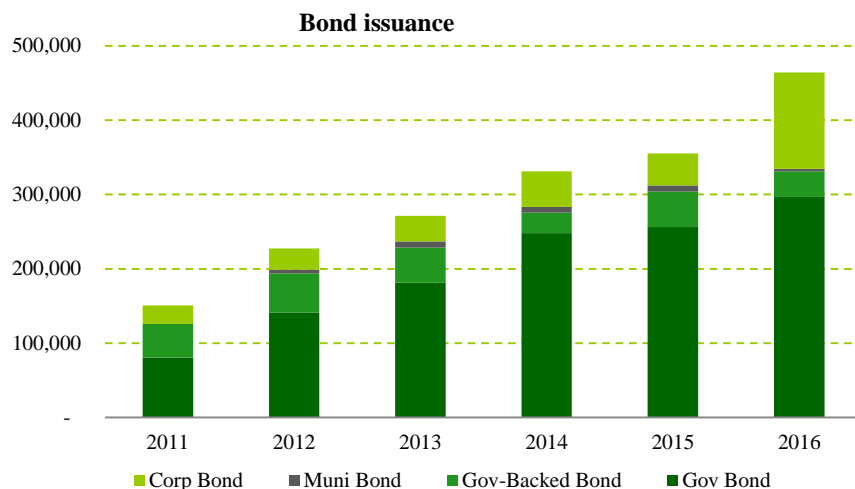
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Round-up

The amount of corporate bond issued in 2016 increased phenomenally. The amount of bond issued in 2017 is expected to tick down slightly. Floated rates were used more popular.

Bond Issuance



Source: MOF, VCBS

■ According to the Ministry of Finance (MOF), VND129,636 bn (+203% yoy) corporate bonds was issued in 2016. The outstanding of corporate bond grew strongly both in absolute numbers and in relative numbers (compared to economy GDP's scale).

■ Bond tenors are shifted and headed to a more balanced status among short, medium and long-term.

■ Banking, Real estate and Securities sectors accounted for a large proportion of total corporate bond volume issued in 2016.

■ Floated-rate was applied more frequent. Most of bond issuers were listed firms.

■ The amount of bond issued in 2017 is projected to decrease slightly instead of increased phenomenally as it did in 2016.

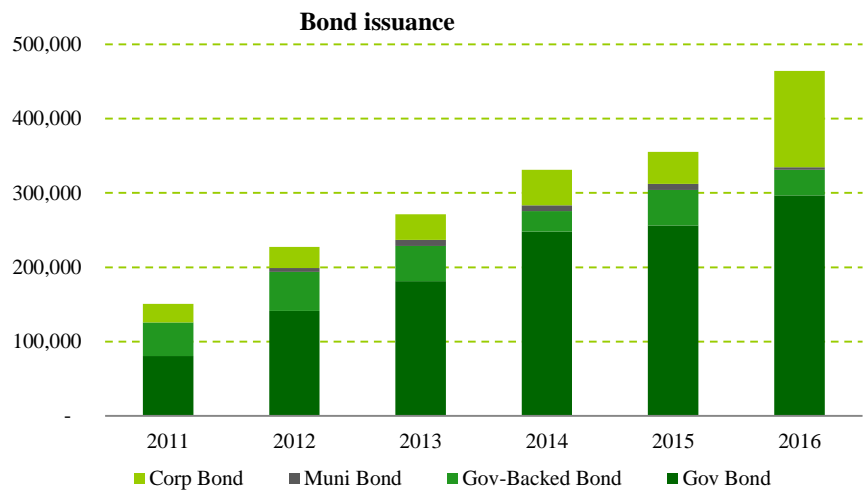
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Corporate Bond market Highlights 2016

The amount of corporate bond issued in 2016 increased phenomenally.

**VND129,636 bn (+203% yoy)
corporate bonds was issued in 2016.**

According to the Ministry of Finance (MOF), VND129,636 bn (+203% yoy) corporate bonds was issued in 2016. The total bond outstanding value (Gov Bond, Gov-backed bond, Municipal bond and corporate bond) surged by 30.74% in 2016. The scale of the bond market grew sharply in comparison with the general bond market. It referred that the corporate bond market has made significant progress during 2016. The main reasons are: (1) There is an increase in capital demand, which served for business activities and M&A activities; (2) Firms experienced favorable conditions to issue corporate bonds.



Source: MOF, VCBS summarizes

In particular, some main factors determined the core activities of corporate bond as well as the status quo, which favor issuing corporate bond: (i) Commodities price rebounded in 2016. Consequently, revenue and profit of some firms boosted compared to the same period last year. (ii) 2016 recorded a recovering signal and entering a new business cycle. Some specific sectors represent this trend shall be construction materials, real estate or consumer foods. (iii) Many companies decidedly plan strategic core activities for medium and long-term vision and called for resources to support these plans through Corporate bond channel.

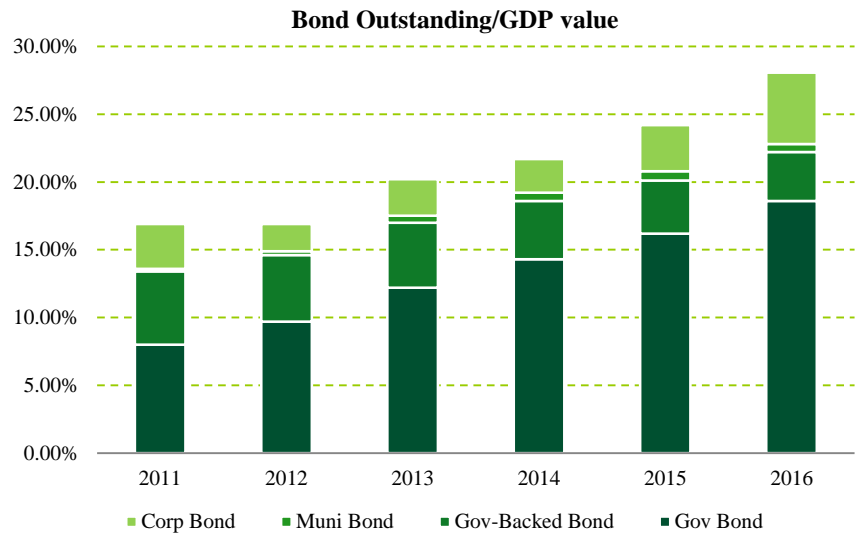
Taking the condition of newly issuing corporate bonds into consideration, VCBS found that inflows from regional countries such as Japan, Korea and China kept making for Vietnamese market. The emergence of this inflow can be put down to the relatively attractive yields of corporate bonds in Vietnam compared to the low input cost of capital of other markets in the context that except for FED, other state banks such as the ECB or the BOJ still maintained loosen monetary policy. In addition, the abundant liquidity from the banking system, noticeably during the third quarter, created favorable conditions for firms to issue bonds successfully at lower interest rates.

Nevertheless, the growth of the corporate bond market is still limited as the main beneficiaries are still commercial banks instead of other financial institutions such as insurance companies or investment funds. We expect this trend to improve gradually over the next few years as the market is witnessing a gradual change because securities companies or insurance companies appear to be more open to corporate bond when it comes to managing their portfolios.

The outstanding value of corporate bond in 2016 jumped to nearly VND 245 trillion, which equivalent to a surge of 71.7% compared to 2015's figure. This fact refers that the influence of the corporate bond market has increased significantly in 2016.

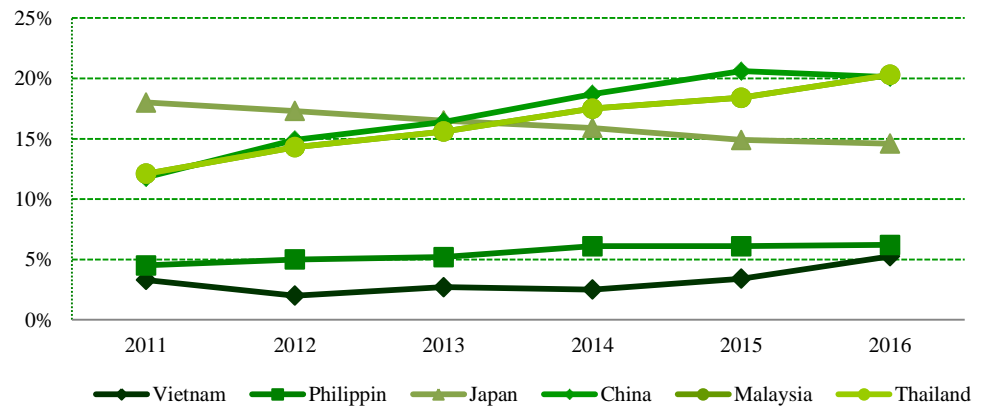
The outstanding of corporate bond grew strongly both in absolute numbers and in relative numbers (compared to economy GDP's scale).

The outstanding of corporate bond grew strongly both in absolute numbers and in relative numbers (compared to economy GDP's scale). In terms of the size of the economy, the size of corporate bonds currently risen sharply from 3.24% in 2014 and 3.39% in 2015 to 5.25% of GDP in 2016. The main reason was a huge amount of corporate bond was successfully issue in 2016.



Source: MOF, VCBS summarizes

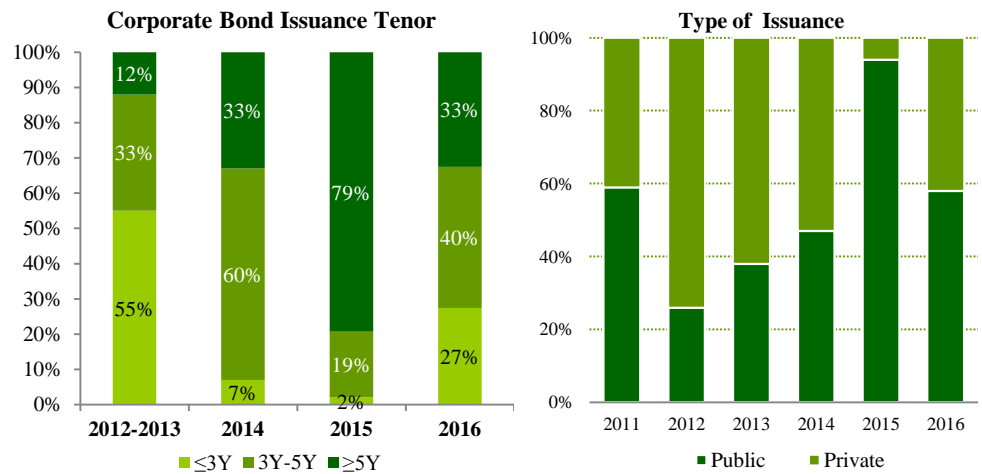
Except for Japan, the growth in size of the corporate bond compared to economy's scale is also a common trend in many Asian countries. Regardless of an upward trend in recent years, the scale of corporate bond market in Vietnam is relatively modest compared to other countries in the region. We put this fact down to some reasons: Restricted information on issuers available for investors; The credit rating system has yet to develop, which makes it impossible for investors to have a reasonable valuation for corporate bond of a certain firm.



Source: Bloomberg, VCBS summarizes.

Bond tenors are shifted and headed to a more balanced status among short, medium and long-term.

Bond tenors are shifted and headed to a more balanced status among short, medium and long-term. In 2015, a phenomenal volume in long-term corporate bond from big issuers such as VIC, Masan resulted in long-term bonds overwhelm compared to other tenors. Nevertheless, the large volume of bonds issued in the period of less than 3 years (mainly for 2-year term) in 2016 helps the structure of bonds more balanced. Therein, we observe a large amount of short-term bond issued by securities companies.



Source: VCBS summarizes and estimates

Liquidity of corporate bond was better-off step by step.

Besides the issuing agent, many securities companies make commitments to buy bonds with certain level to create liquidity for bonds. These are initial efforts to improve the inherent weaknesses of corporate bonds which is low liquidity. However, it will take time before more significant steps are taken in the bond market.

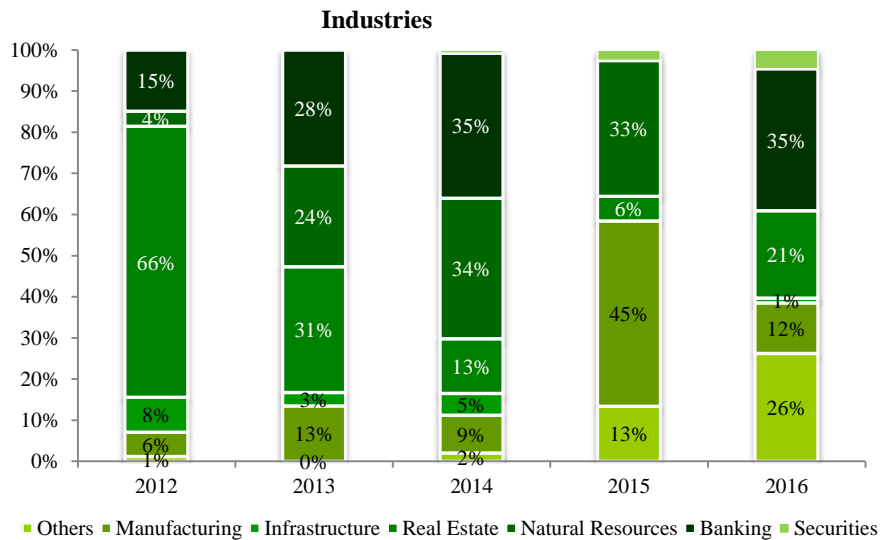
Floated-rate was applied more frequent. Most of bond issuers were listed firms.

In many cases, bond yields were quoted at a fixed rate for the first 12 months and then floated at a reference rate plus a margin of about 2% -4%. In particular, the reference interest rates are calculated based on the average interest rates for time deposit at some commercial banks such as Vietcombank, Vietinbank, BIDV or Agribank. However, there are some special cases such as CTG successfully issued VND2,000 bn worth of five-year bonds with a fixed interest rate of 5.8%, or VNT gave their beneficiaries 2 options of floating rate or fixed interest rate of 8% within 2Y bond duration. The size of VNT deal was VND 72 bn.

Corporate bond issuers are mainly listed companies. According to VCBS's estimation, only about 15% of issuers, which accounted for 10% of total amount issued, were unlisted firms. In particular, the largest value deals belonged to Techcombank, Masan subsidiaries (Anco, Proconco) or ACBS, etc.

From sector's perspective, Banking, Real estate and Securities sectors accounted for a large proportion of total corporate bond volume issued in 2016.

From sector's perspective, Banking, Real estate and Securities sectors accounted for a large proportion of total corporate bond volume issued in 2016 with 34.5%; 21.2% and 4.6% respectively.



Source: VCBS summarizes and estimates

For banking sector, many banks issue bonds on either publicly or privately in 2016. The demand of issuing bond resulted from the implementation plan of Basel II by SBV. Specifically, in 2016, the SBV set out the Basel II implementation schedule in the draft Circular 41- with the duration of application in 10 pilot banks, which enforced from September 2017. Meanwhile, at that time, the average CAR ratio of banking sector had already settled at a low level. (Please take a look a table below). Meanwhile, most of the pilot banks faced difficulties in increasing Tier 1 capital (especially the group of 3 state owned commercial banks VCB, BIDV and CTG)

Table. CAR ratio of some banks in pilot phase for Basel II implementation

| | 2013 | 2014 | 2015 | 2016 |
|------------|--------|--------|--------|--------|
| VCB | 13.13% | 11.61% | 11.04% | 10.26% |
| CTG | 13.20% | 10.40% | 10.60% | N/A |
| ACB | 14.70% | 14.80% | 12.80% | 13.19% |
| VPB | 12.50% | 11.30% | 12.20% | N/A |
| VIB | 18.00% | 17.71% | 18.40% | N/A |
| BID | >9% | >9% | >9% | 9.x% |

Source: Banks' annual report, shareholder's meeting document, VCBS summarizes.

Accordingly, many banks have chosen to increase their tier 2 capitals by issuing bonds as a short-term solution. Consequently, newly issued bond in banking sector boosted in 2016. It can be seen that VCB, CTG and BIDV are banks who actively issued bonds in the past year.

Table. Some corporate bond issuances of banks in 2017.

| Bank | Total volume issued (VND bn) | No of issuances | Type of issuances | Tenor |
|-------------|------------------------------|-----------------|-------------------|----------|
| Vietinbank | 4,900 | 2 | Public | 5Y & 10Y |
| Techcombank | 3,738 | 1 | Public | 3 |
| BIDV | 1,500 | 3 | Public | 10 |

| | | | | |
|-----------------------|-------|---|---------|------------------------|
| Vietcombank | 8,000 | 2 | Public | 5Y & 10Y |
| Asia Commercial Bank | 3,054 | 2 | Public | 5Y, 1 day & 10Y, 1 day |
| National Citizen Bank | 500 | 1 | Private | 7 |
| Bac A Bank | 500 | 1 | Private | N/A |

Source: VCBS summarizes and estimates.

Regarding the target beneficiaries, both individual and institutions were brought in. However, the volume issued to the organization still prevails, as individual investors do not prefer corporate bond due to low liquidity and lack of information transparency.

We believe that in 2017, the bond issuance pressure on banks will not be great when the SBV pushes back on the pilot implementation of Circular No. 41. In detail, the Basel II standard shall take effect from 2020 instead of applying pilot phase at 10 banks in September 2017 as previous plan. Therefore, the pressure to raise charter capital will partially release.

Real estate sector accounted for 21.2% of bond issue in 2016, which is approximately 27,400 billion VND. Noticeably, VIC's bond issue amounted to VND13,000 billion (accounting for over 40% of real estate issues and more than 10% of total bond issuance).

Securities firm keep using corporate bond channel to mobilize fund, which serve for their core activities.

In securities firms, the Circular No. 36/2014 of the SBV took effect, stated that: total credit outstanding balance of commercial banks, foreign bank branches allowed for stock trading applied to all customers shall not exceed 5% of charter capital. Therefore many securities firms decided to issue short-term corporate bond to mobilize fund for margin activities in 2014. When the amount of bonds is due in 2016 securities companies continued to renew these short-term bonds as demand for funds continued to grow, especially in favorable market conditions. According to the Ministry of Finance, the volume of corporate bonds issued by securities companies in 2016 accounts for 4.6% of the total issued amount, equivalent to over VND 6,000 billion. According to VCBS's estimation, the interest rate applied to these bonds volatiled between 8% and 9.5%. Notably, some companies offer bonus terms to buy back bonds after a certain period of time (normally at least after 6 months) in order to improve bond liquidity. Besides attractive yields and low minimum require for investment, this is one of the factors that made the issuance of the securities company quite successful. Among them, the number of issuances at the following securities companies:

Table. Some issuance of stock companies in 2016.

| Stock company | Issuance volume (VND bn) | Number of Issuance | Type of issuance | Tenor |
|---------------|--------------------------|--------------------|------------------|-------|
| SHS | 700 | 1 | Public | 2 |
| VCSC | 600 | 2 | Public | 2 |
| SSI | 1,000 | 3 | Public | 2 |
| VDSC | 823 | 4 | Public | 2 |
| BMSC | 100 | 1 | Public | 5 |
| MBS | 500 | 1 | Private | 3 |
| ACBS | 500 | 1 | Private | 1 |

Source: VCBS summarizes and estimates.

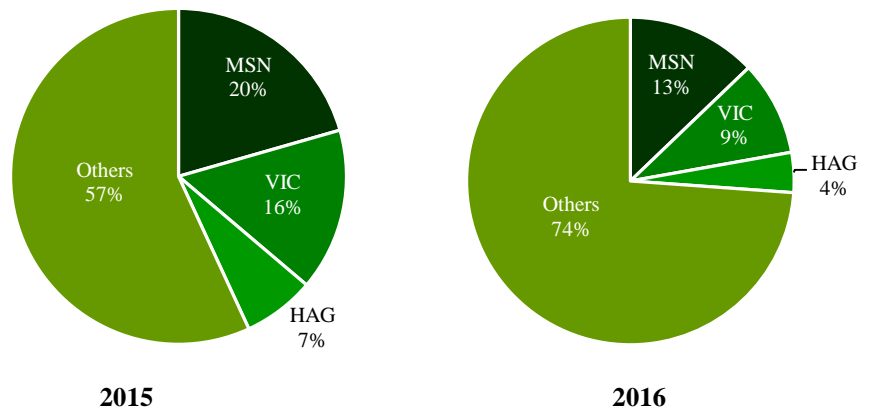
In 2017, demand for capital mobilization of securities companies still exist. However, according to the rule of two-year lasting bonds. The amount of bonds matured in 2017 shall decline compared to 2016. Therefore, the demand for bond issuance of securities companies

will tend to decrease in 2017.

The volume of corporate bond issuance still focused on a number of large enterprises, such as Masan Group, VIC, HAG, etc. However, corporate rate bond seemed to be more dispersed this year.

The volume of corporate bond issuance still focused on a number of large enterprises, such as Masan Group, Vingroup (VIC), Hoang Anh Gia Lai Group (HAG). However, corporate rate bond seemed to be more dispersed this year. In detail, the total outstanding bond proportion of these three firms declined from 43% in 2015 to 26% in 2016.

Proportion of some firm in Corporate bond outstanding



Source: Finance statement, VCBS summarizes and estimates

In 2016, Masan Group and its member companies issued VND3,000 billion of bonds. In detail, the volume issued in Anco, Proconco and MSR was VND1,300 billion, VND700 billion and VND1,000 billion, respectively. Therein, except for MSR bonds matured in 2 years, the remaining bonds tenor were 5 years. The newly issued bond value, after subtracting bonds due in 2016, raised MSN's total bond outstanding value to VND 31,485 bn (+9.5% yoy, accounting for 12.84% of total corporate bond outstanding in the market).

For VinGroup, VND13,761 billion worth of bonds was issued in 2016. Notably, VND12,712 billion was used to renew bond matured. Thus, the actual volume of the issue is more than 1,000 billion, representing 7.6% of the actual issue. Note that, VIC's VND2,382 billion worth of convertible bond was fully converted to 71,666,764 common shares at the price of VND31,000 per share.

HAG Group successfully renewed VND1,760 billion of bonds, whose beneficiaries was ACBS Securities Company in the first half of 2016. By the end of 2016, HAG successfully issued VND930 billion of bonds to a credit institution. Previously, BIDV and BSC were the bond holders of that amount. Notably, the yields quoted for HAG's bonds was high, settled roughly at 18%. The high rate indicated the high risk that bondholders shall bear. However, as global rubber prices rebounded significantly in Q1, we do not exclude the possibility that HAG will manage to renew bond at a lower interest rate so as to reduce the cost of capital.

CORPORATE BOND IN 2017: The amount of Bond issued is unlikely to boost as it was in 2016

2017 outlook

Economy

As mentioned in previous [2017 Outlook report](#), the GDP's growing target of 6.7% run into difficulties. **GDP growth in Q1.2017 only reached 5.1% yoy, the lowest number in 3 years.** The recovery in agriculture, forestry, fisheries and services was not able to compensate for the slow growth of the industry area with decline in the mining industry and the deceleration of the manufacturing. Although the market did not react negatively to this

information, we believe the slowdown of GDP growth is a potential risk for the market in the latter part of 2017. In addition, this fact may be unfavorable factor to issuing corporate bond procedure.

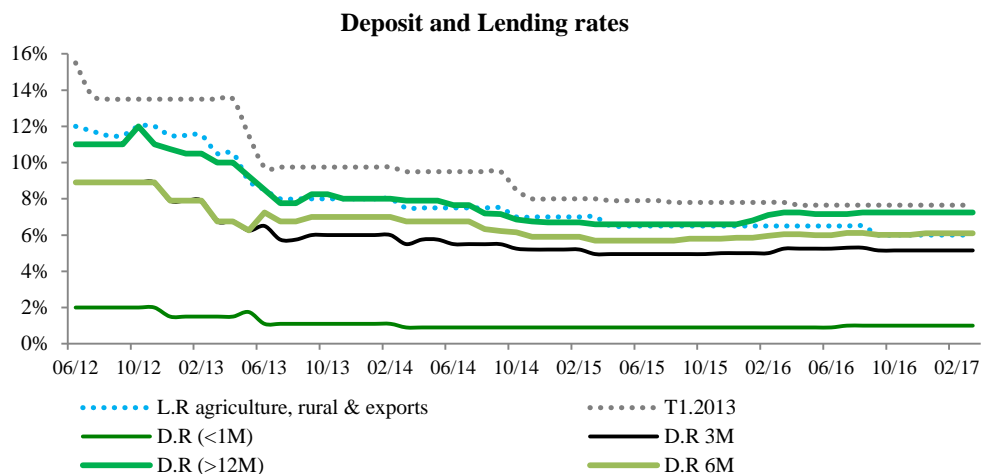
Interest rate

Expected interest rate in 2017 is relatively stable and only slightly fluctuate around level at the end of 2016. The increase, if any, will not exceed 50 basis points (0.5%).

In 2017, the interest rates will still be under pressure due to (1) the existing problems in the banking system as described above and consequence of competition in mobilization and (2) fluctuations in worldwide market, especially FED’s interest rate hike, which accompanies the exchange rate risk. Therefore, we assess that interest rates will be very difficult to further reduce.

On the opposite side, amid (1) inflation is under control as analyzed above; (2) the foreign exchange market’s volatility and the devaluation of VND remain at reasonable levels as expected and (3) stable and abundant supply of foreign currencies continue to support the system liquidity, we believe that there is space for SBV to regulate the market and relieve the pressure on interest rates.

Accordingly, we believe that, the government’s aim of maintaining low interest rates level to support the growth is achievable. **We expect that interest rates in 2017 will be relatively stable and only slightly fluctuate around the current level. The increase, if any, will not exceed 50 basis points (0.5%) and ceiling interest rate 5.5%/year for less than 6M tenor is likely to be ensured.**



Source: CEIC, VCBS

Nevertheless, we believe that pressure on exchange rate will be huge at 2H.2017. The reason to support is that the 2 latest two FED’s lifting interest rate in the last 4 months indicating a probability of a more frequent hiking interest rate.

The amount of bond issued in 2017 is projected to decrease slightly instead of increased phenomenally as it did in 2016.

The phenomenal corporate bond issuance can be put down to the contribution of some sectors: Banking, Real Estate and Securities etc. However, we have not seen the actual need to increase bond issuance further in 2017. Meanwhile, the economic slowdown will also raise concerns about unfavorable macroeconomic conditions. In addition, the fact that interest rates under upward pressure especially in the second half of 2017 will make firms find it harder to issue bonds. However, we still believe that in the medium to long term that businesses will take full use of capital market through corporate bond issuance.

Based on market conditions, we think next year volume is likely to fall slightly instead of booming in 2016. The arguments to support this idea are: (1) Interest rate formed it trough in 2016. Therefore, it is unlikely that firm will successfully issue bond at attractive interest rate level as they did in 2016. (2) There are no new businesses with the need to issue large bonds. The main bond issuers next year shall be the ones with popular name such as VIC, Masan and its subsidiaries, etc. We will keep track closely to some newly listed firms especially the ones in large caps group as they may become potential issuers in the next two or three years. However, after the State made a successful divestment in these enterprises, the demand capital of these enterprises shall not huge.

Legislative body newly proposes reformation procedure. This resulted in positive expectation of future corporate bond market.

Plan for development of Corporate Bond market in the period of 2017-2020 and outlook for 2030.

On September 26, 2016, the Government issued a draft decree on the issuance of corporate bonds, which will replace Decree No. 90/2011/ND-CP. In particular, the most noteworthy article was the proposal to remove the article that issuer had to make profit in the year prior to issuance time, which shall applied for both domestic and international bonds. This reformation will make more firms eligible to issue corporate bond. However, we believe that the real amount of corporate bond issued would only be improved when the rating agency system is fully launched.

In addition, some new renovations were added in Plan for development of Corporate Bond market in the period of 2017-2020 and outlook for 2030. These are some remarkable points:

- (1) Using tax policy and credit guarantee policy with the banking system to encourage enterprises to mobilize medium and long-term capital via the corporate bond issuance channel.
- (2) Minimum require for corporate bond issuer: having credit rating prior to nay bond or share issuance at the time when at least 02 credit rating agencies works on domestic market.
- (3) Develop a system of disclosure of information on issuance and trading of corporate bonds with a view to enhancing the development of the corporate bond market.
- (4) Encourage firms to diversified types of corporate bond when market evolves to a new level. The recommend for future types are valuable papers with floating rates, medium and long-term bond issuance, product of securitization based on mortgage and collateral.
- (5) Research on possibility that the National social welfare of Vietnam may invest in corporate bonds of high credit rating (apart from depositing and buying certificates of deposits and bonds of top banks).
- (6) Change the regulations and hold corporate bonds of credit institutions in a way that suits the characteristic of valuable papers.

...

The above orientation creates legislative function and support an expectation of a fully-functioned corporate bond market, which shall be formed in the future. Nevertheless, it will take a long time before these orientations are effectively implemented. Consequently, we do not expect an outstanding growth or breakout of corporate bond market in 2017.

Appendix

Corporate Bond

| Year | Issued (VND bn) | Outstanding (VND bn) |
|-------------|-----------------|----------------------|
| 2010 | 30,000 | 109,941 |
| 2011 | 25,000 | 83,962 |
| 2012 | 28,707 | 63,286 |
| 2013 | 34,412 | 94,983 |
| 2014 | 48,047 | 127,980 |
| 2015 | 42,769 | 142,138 |
| 2016 | 129,636 | 244,923 |

Large Issuance in 2016

| Date | Firm | Volume (VND bn) | Tenor (year) | Type |
|-----------------|-------------------|-----------------|----------------------|---------------|
| Feb, March/2016 | VIC | 5,000 | 5Y & 10Y | No asset-back |
| Apr-16 | MSR | 1,000 | 2 | Asset-back |
| Jun-16 | ACB | 3,054 | 5Y 1 day & 10Y 1 day | Straight |
| Nov-16 | ANCO | 1,300 | 5 | Asset-back |
| Aug-16 | CTG | 4,900 | 5Y & 10Y | Straight |
| Sep-16 | TCB (Techcombank) | 3,738 | 3 | Straight |
| Aug-16 | BID | 1,500 | 10 | N/A |
| Dec-16 | VCB | 8,000 | 5Y & 10Y | Straight |
| Aug-16 | GEX | 1,800 | 3 | Straight |

DISCLAIMER

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