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VIETNAM BOND MARKET IN THE READINESS FOR FURTHER GROWTH



NATIONAL
FINANCE
ASSOCIATION

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SECTION 1: MARKET OVERVIEW

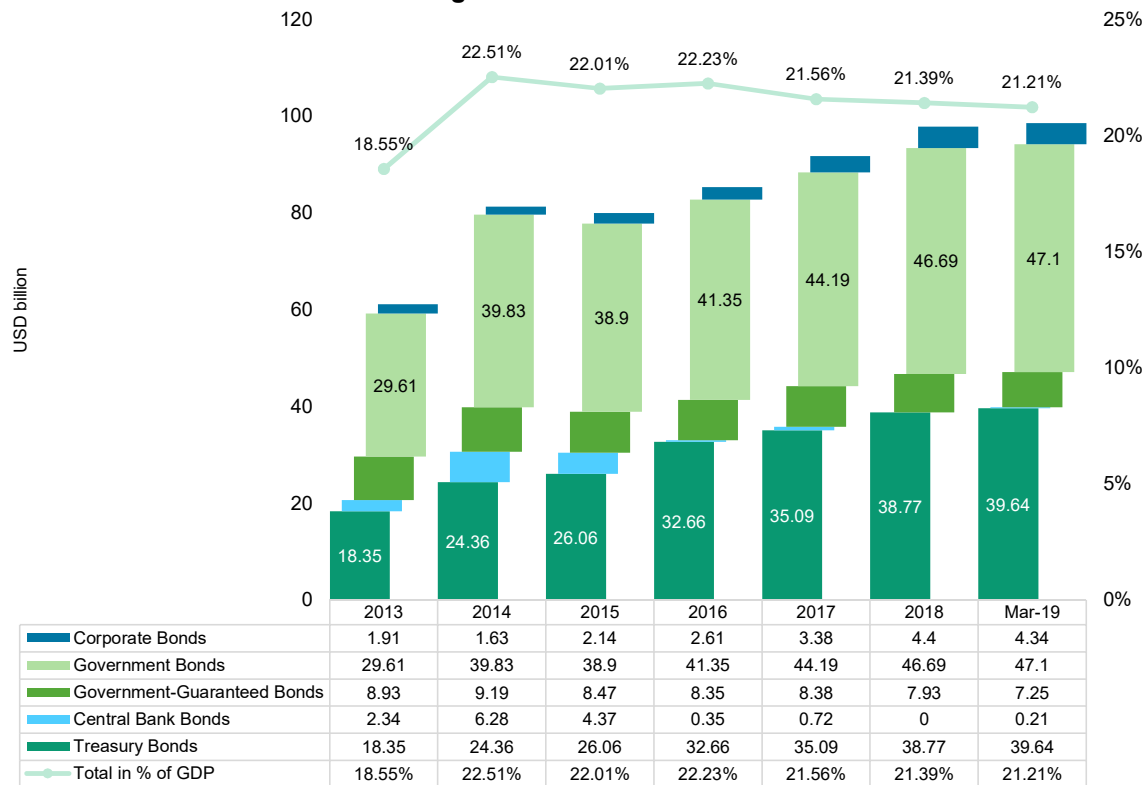
- 1.1 Market Statistics
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1.1 Market statistics (1/5)

Since the early establishment, the domestic bond market has been promoted significantly in both market structure, product diversification and value. The country's government is moving towards building a private bond market as well as a corporate bond market to promote the mobilization of medium and long-term capital.

Total listed LCY Bond Outstanding value over 2013-2019

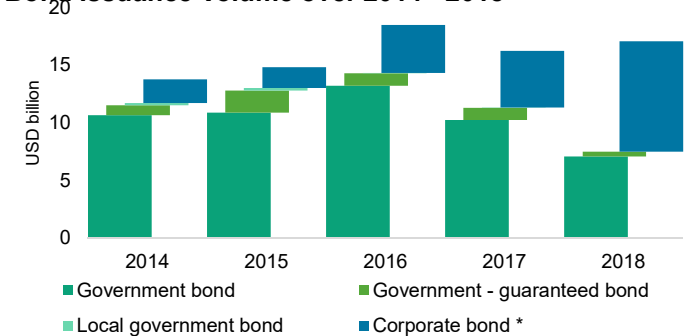


Source: ADB

- Over 29 years of development since 1990, Vietnam bond market witnessed a significant improvement in both volume and value. There was a rise in total listed LCY Bond value by CAGR of 42.3%, being in line with the proportion of GDP (from 0.29% to 21.39% during 2000-2018).
- The local listed bond market is dominated by government and government-linked issuers with total outstanding value standing at 19.5% of GDP in 2018, attributed to (i) high demand on public projects and (ii) requirement of having all LCY government bonds listed in HNX after auctions.
- Most of corporate bonds are traded via private placement. Total registered issuance value stood USD 18.2 billion in 2018 with successful transaction value of ~ USD 9.5 billion, a 94.5% YoY increase. As a result, total corporate bond outstanding value reached USD 20.2 billion, accounting for 8.6% of GDP.

Source: MOF

Bond Issuance Volume over 2014 - 2018

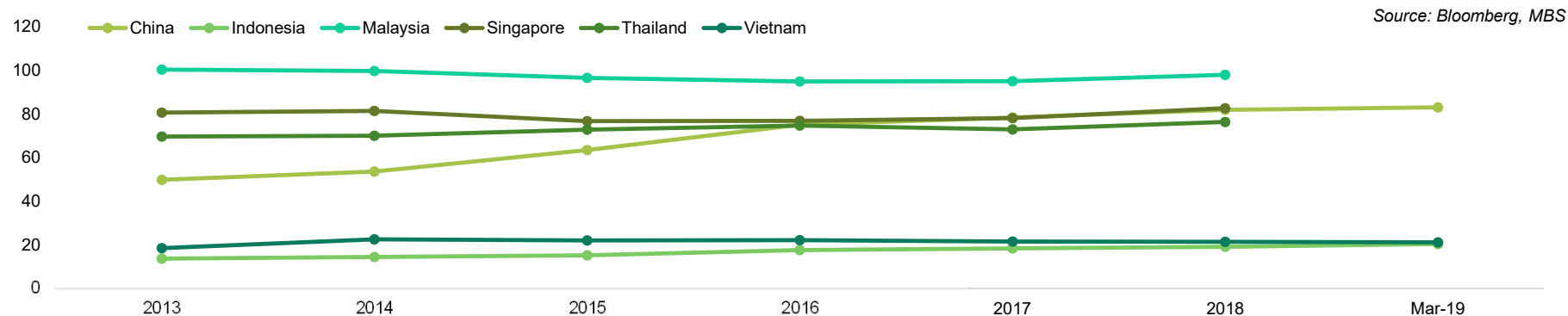


*: Corporate bond issuance value in private placement

1.1 Market statistics (2/5)

The scale of Vietnam Bond Market is relatively smaller compared to potential of the domestic economy and to other markets in the region. The scale of Malaysia's bond market is 95% of GDP, Singapore is 81.1% of GDP, Thailand 73% of GDP, South Korea 124.7% of GDP and China 68.9% of GDP. The average trading value per session in Vietnam bond market reached VND10.4 trillion, still much lower than those of Singapore or South Korea.

Size of Listed LCY Bond Market in % of GDP over 2013 - 2019



10-Year Local Currency Government Bond Yields



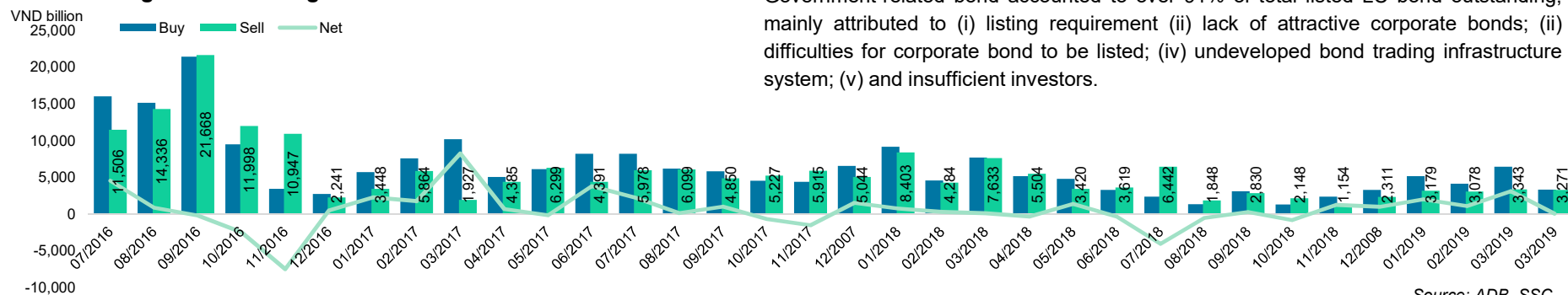
- Despite a significant growth in recent years, the market size of Vietnam bond market is much lower than other countries in the region (Thailand – 76.27%, Malaysia – 97.97% at the end of 2018). The less development of the bond market has resulted in higher LCY Government Bond Yields. Given the recent upgrade of the country's credit rating, it is expected that capital raising interest rates of both Vietnam Government and Enterprises would reduce to more reasonable levels.

Agency	Rating	Outlook
Fitch	BB	Positive
S&P	BB	Stable

1.1 Market statistics (3/5)

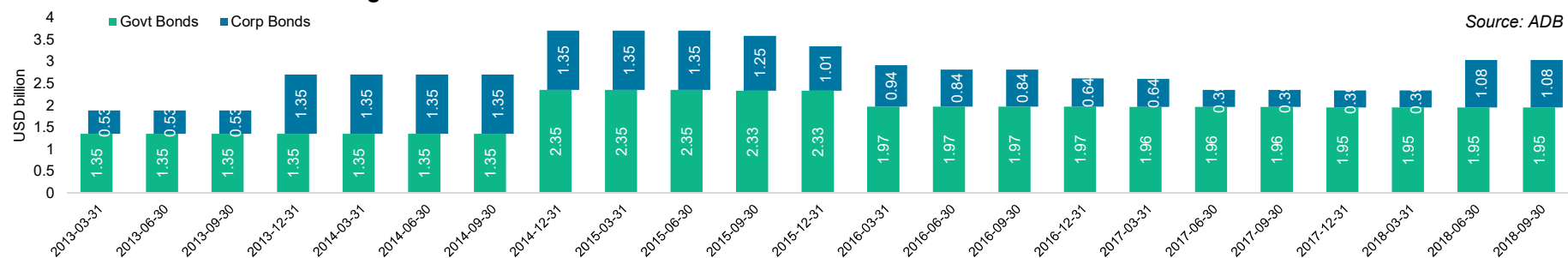
The structure of investors in the domestic bond market has changed thanks to an increase in the number of investors and diversified kinds of investors. Besides, the holding rate of commercial banks has reduced to a similar rate in many countries but other institutional investors, including insurance companies, pension funds and mutual funds, is still inadequate.

Bond Trading Value of Foreign Investors in Stock Market



- Government-related bond accounted to over 91% of total listed LC bond outstanding, mainly attributed to (i) listing requirement (ii) lack of attractive corporate bonds; (ii) difficulties for corporate bond to be listed; (iv) undeveloped bond trading infrastructure system; (v) and insufficient investors.

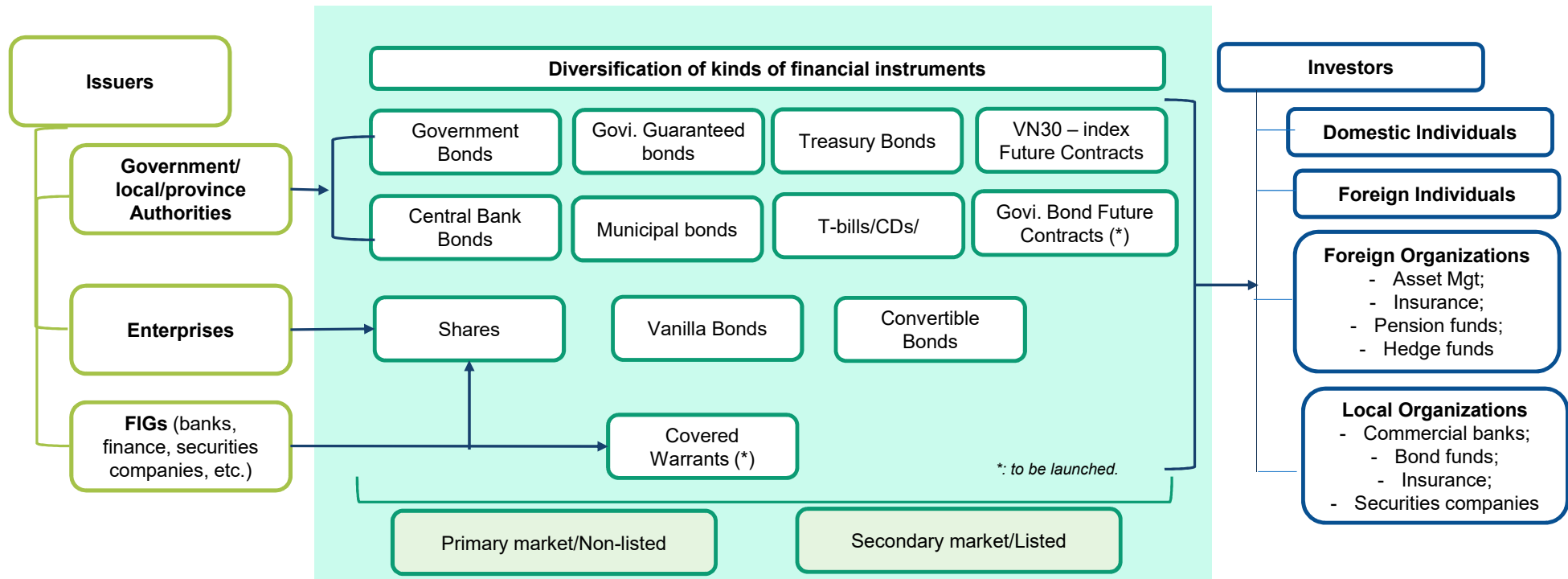
Total listed FCY Bond Outstanding value over 2013 - 2018



- The bond trading value of foreign investors in stock market as well as FCY bond outstanding value show strong attentions of foreign investors in Vietnamese bonds. The net bond purchase value of foreign investors increased from about VND 13 trillion in 2016 to roughly VND 19 trillion in 2017. In 2018, they bought total bond value of VND 48.3 trillion in stock market but there was a withdrawal of ~VND 1.2 trillion in 2018 as an overestimation of the interest rate has led investors to choose long-term bond while the outstanding number of long tenor bonds is limited.

1.1 Market statistics (4/5)

Viet Nam's bond market participants include issuers from the government and corporate sectors. Major bond investors include commercial banks and domestic life insurance companies. A number of authorized securities companies and a few market associations also participate in the market.



- Government and SOEs are large bond issuers in Viet Nam.
- A number of licensed securities companies are authorized to offer a full range of securities services including underwriting, brokerage, advisory, portfolio management, and trading. A list of securities companies can be found in the MOF website. Foreign banks are also licensed as custodian banks for foreign individual and institutional investors on the exchanges.
- Commercial banks and domestic life insurance companies are the major bond investors in Viet Nam, while off-shore investors are still limited regardless of no limitations on overseas bondholders.

1.1 Market statistics (5/5)

The upgrades in regulations and changes in capital markets and corporate structures are shaping typical characteristics of bond instruments in Vietnam varying between issuers and in methods of issuance.

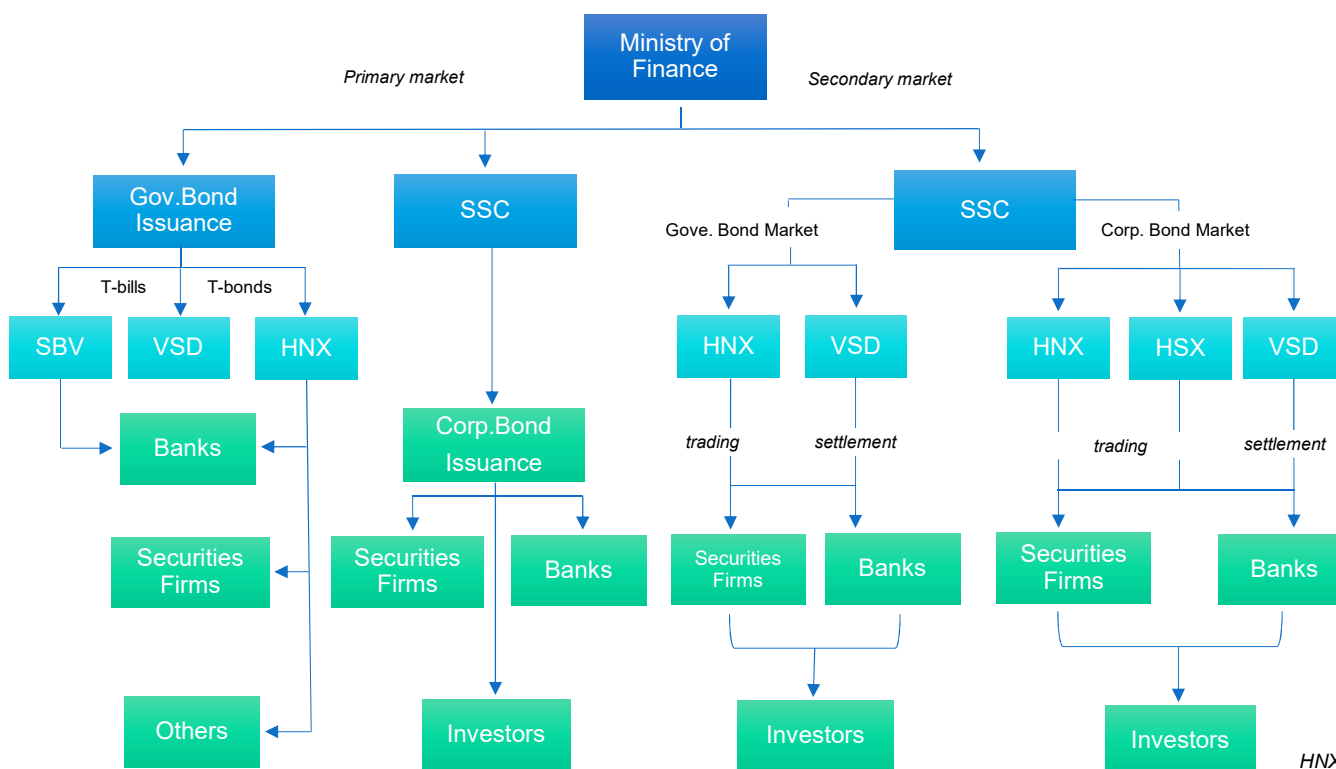
➤ Typical Characteristics of Government and Corporate Bonds in Vietnam Market

	Government Bonds	Corporate Bonds
Purpose of Debt	<ul style="list-style-type: none"> (i) Investment for socio-economic development (ii) Offsetting temporary deficit of the state budget from borrowing of short-term bonds (iii) Structuring the Governmental debt and debt list. (iv) Re-lending to the enterprises, credit and financial institutions and local government (v) Investing in program and investment projects in encourage fields decided by Prime Minister 	<ul style="list-style-type: none"> (i) implement investment programs and projects (ii) serve the purpose of increasing operating capital amount (iii) restructuring debts of their own
Type of Debt	Vanilla Bonds	Vanilla Bonds Convertible Bonds
Typical Duration	Long-term: 5-30 years	3-5 years
Coupon/YTD	2018 – 2019: 4-6%/year depends on durations and auctions.	Deposit Interest Rate of Big 4 Commercial Banks +/- 4% depend on projects and durations
Coupon Payment form	Annual	Semi-annual and Annual
Capital Raising Channel	Auction Guarantee Private Offering	Private Placement Public Offering
Biggest Investors	Commercial Banks, Insurance Companies	Commercial Banks Retail distribution to individual investors

1.2 Regulatory framework (1/5)

The Ministry of Finance (MOF) and the State Bank of Vietnam (SBV) jointly regulate the capital markets. SBV administers monetary, credit and banking regulations, and issues regulations on matters such as exchange controls, interest rates and banking license application procedures. The State Securities Commission (SSC) regulates the securities market. HSX, HNX, and VSD are under SSC jurisdiction, and are required to adhere to regulations relating to accounting, auditing, and statistical reporting.

The structure of Vietnam Debt Capital Market



Procedures to corporate bond issuance:

- **Domestic Private Placement:** issuers provide information to HNX (published in corporate bond website) and investors register to purchase corporate bond 10 working days before issuance date.
 - Issuers operating in conditional businesses will seek approval of specified managing authorities.
- **Domestic Public Offering:** Issuers are required to apply to State Securities Commission of Vietnam.
 - Within 07 working days upon the effectiveness of the certificate of public offering registration, the issuer shall publish a notice of public offering.
- **In Foreign Currency**
 - Issuers need to ensure the transaction volume to be issued is below the national commercial lending limit from SBV.
 - Disclose issuance information 10 working days prior to expected issuance date.

HNX=Hanoi Stock Exchange SSC=State Securities Commission
 HSX=Hochiminh Stock Exchange VSD=Vietnam Securities
 SBV=State Bank of Vietnam Depository

Source: VBMA

1.2 Regulatory framework (2/5)

There are hierarchy of local regulations on bond market regulating all market participants and creating transparent environment to promote further development of domestic bond market in particular and capital market in general

Legal Documents		Keys Bond-regulated Regulations
CONSTITUTION	The Constitution, 2013	Political System, Rights and Duties
LAW	Law on Enterprise – No 68/2014/QH13	deals with the establishment, organization, restructuring, dissolution, and relevant activities of enterprises. Authorization to issue corporate bonds.
	Law on Securities and amending, supplementing – No. 70/2016/QH11 and No. 62/2010/QH12	Regulations on public offering of corporate bonds
	No 58/2012/ND-CP and No. 60/2015/ND-CP Stipulating in Detail and Guiding the Implementation of a no. of Articles of the Securities Law and the Law Amending and Supplementing a no. of Articles of Securities Law	Conditions to offer corporate bonds in domestic and international markets.
DECREE	No 01/2011/ND-CP on issuance of government bond, government-guaranteed bonds and local government bonds	The issuing entity, purpose, principle, term & conditions of domestic and international government bonds.
	No. 91/20018/ND-CP on Government Guarantee Issuance and Management	Appraisal, approval and issuance, Management of government guarantees, Responsibility of authorities, organizations and individuals involved in issuing and managing government guarantees
	No. 95/2018/ND-CP providing for issuance, registration, depositing listing and trading of government debt instrument on securities market	Terms and conditions, registrations, depositing and listing, trading of government bonds. Market makers has been regulated in the 1 st time in the decree.
	No. 163/20018/ND-CP issuance of corporate bonds	Regulations of corporate bonds issuance in private placement
	No. 108/2013/ND-CP providing for the sanctioning of administrative violation in the domains of securities and securities market	acts of administrative violations, sanctioning forms and levels, remedial measures; sanctioning competence and application of the additional sanction forms and remedial measures in the domains of securities and securities market

1.2 Regulatory framework (3/5)

The hierarchy of local regulations on bond market accounts multi-level legislative and regulatory system regulating all market participants and creating transparent environment to promote further development of domestic bond market in particular and capital market in general

	Legal Documents	Keys Bond-regulated Regulations
CIRCULAR	No 111/2018/TT-BTC	Providing guidelines on Issuance and Settlement of Government Debt Instruments in Domestic Market
	No. 99/2015/TT-BTC	Providing Guidelines on Issuance of Government- Guaranteed Bonds
	No. 100/2015/TT-BTC	Providing Guidelines on Issuance of Municipal Bonds in Domestic Market
	No. 234/2012/TT-BTC and No. 10/2017/TT-BTC	Providing Guidelines on the Trading of Government Bonds, Government-Guaranteed Bonds and Municipal Bonds
	No. 123/2015/TT-BTC	Guiding Operation of Foreign Investors on Vietnamese Securities Market
	No. 202/2015/TT-BTC	Guiding in Details a Number of Articles about Securities Listing on the Decree No. 58/2012/ND-CP and No. 60/2015/ND-CP
	No. 155/2015/TT-BTC	On guidelines for information disclosure on securities market
	No. 162/2015/TT-BTC	Guidelines on public offering, stock swap, issuance of additional stocks, repurchase of stocks, sale of treasury stocks and tender offer
DECISION	No. 203/2015/TT-BTC)	Providing Guidelines for Trading on Securities Market
	No. 252/2012/QD-TTg	Approving the Strategy for Development of Vietnam's Securities Market During 2011–2020
	No. 1191/2017/QD TTg	Approving the Roadmap for Developing the Bond Market, 2017–2020 and Vision Toward 2030
Rules of Stock Exchange	No. 47/2013/QD-VSD	Promulgating the Regulation on Registration of Securities Trading Codes of Foreign Investors at the Vietnam Securities Depository Center
	No. 606/QD-SGDHN and No.639/QD-SGDHN No.340/QD-SGDHCM and No.85/2018/QD-SGDHCM	Regulation on Listing and Information Disclosure of HNX and HSX

1.2 Regulatory framework (4/5)

Potential new regulations and evaluations on its impacts on different aspects of the bond market. In order to promote further development of the corporate bond market in Vietnam, the Vietnamese government issued Decree 163/ND-CP, dated December 4th, 2018, governing the private issuance of enterprise bonds.

Changes in new Decree 163			Impacts
1	Requirements on issuers	<ul style="list-style-type: none"> No need to be profitable in the year preceding the issuance. Must not have defaulted on payment of any principal or payment of interest due on any previously issued bond in the three-year period prior to a proposed new issuance. 	Favorable for companies to raise capital in an early stage of development.
2	Restriction on secondary sales	Limited to 100 in the first year of issuance	To protect non-professional investors
3	Requirement on bonds' deposit	Must register with VSD within 10 days since the issuance completion	Need further guidance from authorities
4	No cap on equity paid-up	No requirement of 20% equity in total financing	Less hurdle for issuers in financing equity
5	New Green Bonds introduced	Bonds to be issued for purposes of environmental protection related	More diversified products
6	Early redemption of bonds	Issuers are permitted to redeem bonds prior to maturity or to conduct bond swaps in order to reduce or restructure its debts	More flexible for corporate to structure its capital structure
7	Tranches issuance	Multiple tranches are allowable provided that all tranches must be issued within 12 months from the date of the first tranche and each tranche must be fully issued within 90 days	More flexible in line with tranches of project financing
8	Offshore issuance	No need: a credit rating report or to have a legal opinion regarding the bond issuance, no need three years of operations, three years of profitability or an adequate international market credit rating	Less restrictive to encourage
9	Direct sales to private investors	No need a private placement agent if issuers are not credit institutions	No need extra cost for agents

1.2 Regulatory framework (5/5)

Potential new regulations and evaluations on its impacts on different aspects of the bond market

Potential New regulations/Government actions	Improved investor base	Enhanced liquidity	Increased transparency	Strengthened role of Corporate bonds
Allow Vietnam Social Security Authority to invest in high-graded corporate bonds	✓	✓		
Require that buyers of corporate bonds issued through private placement must be professional investors .			✓	
Require that corporate bonds issued through public offering must have credit ratings			✓	
Require corporates to raise medium- and long-term finance by corporate bonds				✓
Promote the establishment of voluntary pension schemes	✓	✓		
Require separate investment policies for bonds issued by rated enterprises and those issued by unrated enterprises			✓	
Set up a system to disclose information on issuance and trading of corporate bonds listed and unlisted at the Stock Exchanges		✓	✓	
Develop specialized website on corporate bonds at the Stock Exchanges			✓	
Increase the minimum charter capital requirement for issuers of public offering bonds to VND30b (~USD1.3m) (the current minimum requirement is VND10b)			✓	
Gradually change the role of banks into main provider of working capital Lower banks' ratio of short-term funds for medium and long-term loans to 30% in 2021 (the current figure: 40%)				✓

Source: Revised Law on securities (draft version), Decision No.1191/QĐ-TTg

1.3 Challenges in the domestic bond market

The domestic market undeniably is facing uphill challenges for growing up further in both comprehensive market structure perfection and market size, reaching and following international standards and best-common-practices

4 biggest risks facing the Corporate bond market



Lack of information & transparency

Lack of transparency is considered **the most problematic challenge** of the Vietnamese corporate bond market, mainly due to:

- No corporate bond market information centers, while it is a common practice in neighboring countries
- No official translated version of legal documents: Vietnamese legal documents are not required by law to be translated into English, and unofficial translated version may lead to misunderstanding.
- Majority of bonds (~99%) are issued in the form of private placement, which is contrary to common practice in developed markets, where public issuance accounts for the majority of issuance (private placement accounts for 12% in USA, 10% in Germany, and 0.4% - 15% in South Korea)



Lack of credit rating system

The vast majority of corporate bonds are issued without credit rating

- Currently, it is not compulsory for newly issued domestic bond to be rated by a credit rating agency.
- The lack of credit rating system in Vietnam makes it more challenged for investors to assess bond issuers.
- Only by 2017, the Sai Gon Phat Thinh Joint Stock Company became the first firm to be licensed by the Ministry of Finance to provide credit rating services in Vietnam, however the credit rating business still has a long way to thrive.



Gaps in Financial reporting standards & Corporate Governance

Financial information of Vietnamese companies is reported in Vietnamese Accounting Standards (VAS)

- 131 countries have already adopted IFRS
- Despite minor gaps between VAS and IFRS, foreign investors might still find difficult to fully understand and assess thoroughly the local company's financial reports.

Weak Corporate governance poses another headwind

- According to IFC, under OECD standards for corporate governance practice, Vietnamese's corporate governance score is quite low compared to other ASEAN countries.



**Limited investors universe
Undiversified instruments
with imbalance in durations**

Non-significant investors base with actively involvement and undiversified instruments lead to undeveloped secondary market for domestic bonds

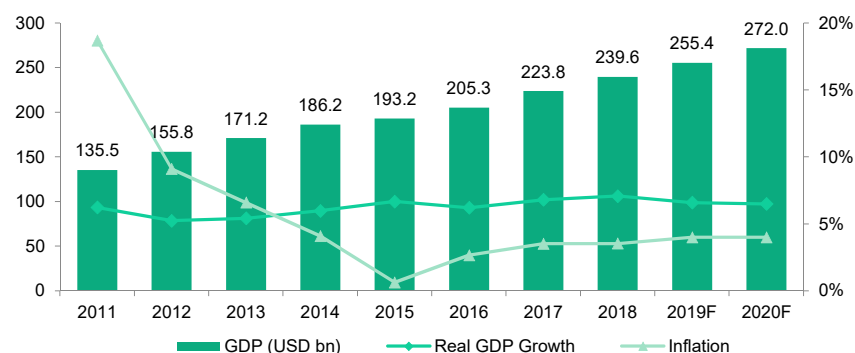
- The structure of investors in the domestic bond market has relatively stable with commercial banks and insurance companies being the major institutional investors.
- Non-proactive market makers on secondary market.

1.4 Potential for reaching further (1/3)

Vietnam bond market is expected to benefit greatly from a developing economy and the rise of private sector...

A strong economy is closely related to a healthy capital market

Vietnam's Economic growth and inflation, 2011 – 2020F



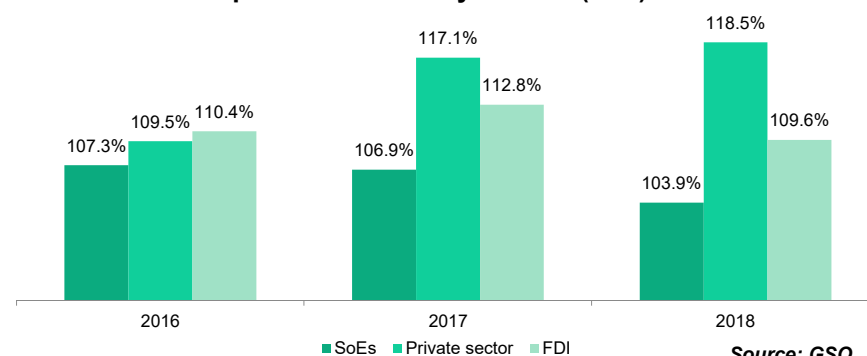
Sources: GSO, World bank, SBV and National Financial supervisory commission

- Vietnam's economy in 2018 has witnessed another strong year with estimated real GDP growth at **7.08%**.
- The inflation rate in the post-crisis period, after the tremendous fluctuation during the period 2011 - 2014, has remained low **under 4%** in five consecutive years
- Private sector continue to achieve remarkable growth. In 2018, private sector contribute USD9.4b to the State Budget, while the respective figure of SoE is USD 7.2b. Moreover, private sector also has the highest capital investment growth rate

Capital injection is critical to the future growth of private sector, and corporate bond is predicted to be a key source of financing

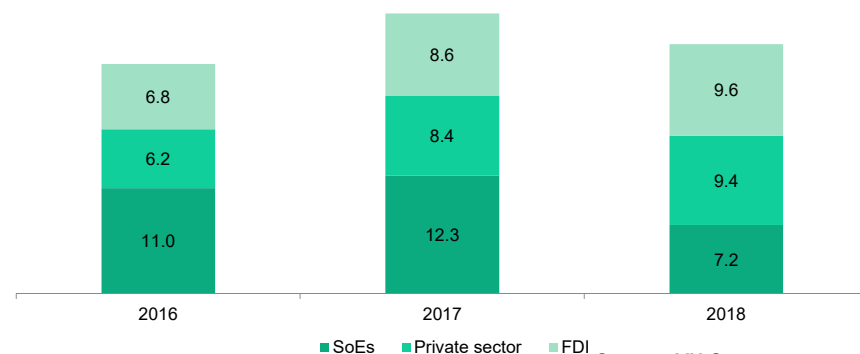
The role of private sector is becoming more and more vital

Growth rate of capital investment by sectors (YoY)



Source: GSO

Contribution to State Budget (USDb)



Source: VN Government portal

1.4 Potential for reaching further (2/3)

... and all other favorable factors...



INCREASED INVESTOR BASE

- MoF is trying to encourage the **participation of long-term institutional investors** (insurance firms, voluntary pension funds, etc.) in the corporate bond market.



RELAXED REGULATIONS ON ISSUANCE

- The **requirement of being profitable in the year preceding** the issuance has been **eliminated**.
- In addition, **unqualified audited opinion** on financial report is **no longer a compulsory condition** for companies to be eligible to issue bond.



MORE TRANSPARENCY

- Vietnam is expected to **adopt IFRS** by **2025**.
- MoF plans to develop a sustainable **credit rating system** and a **corporate bond market information center**.



DIVERSITY OF PRODUCTS

- Some new terms and expressions are also interpreted well in the decree, such as: **“green bond”**, **“warrant bond”**; **“repurchase bond before maturity”**, making it clearer for market participants to approach these products.



REDUCE THE ROLE OF BANKS

- The SBV is in the process to gradually change the role of **banks** to make them fund only **short-term capital and working capital**.
- Recently, the SBV required banks to **lower the ratio of short-term funds used for medium and long-term loans**, from 45 per cent in 2018 to 40 per cent in 2019.

1.4 Potential for reaching further (3/3)

... to reach targets set forth under the Development Roadmap of Vietnamese Government during period 2020 and 2030.

	2020	2030
BOND OUTSTANDING <i>Government/Government-guaranteed/Municipal bond</i> <i>Corporate bond</i>	45% of GDP 38% 7%	65% of GDP 45% 20%
AVERAGE TERM (of government bond portfolio)	6 – 7 years	7 – 8 years
AVERAGE TRADING VOLUME (of Government/Government-guaranteed/Municipal bond)	1% listed bonds outstanding value	2% listed bonds outstanding value
PORTION OF GOVERNMENT BOND (held by insurance companies, social insurance agencies, pension funds, investment funds and non-bank financial institutions)	50%	60%
NUMBER OF CREDIT RATING AGENCIES		05 (vs. 01 in YE2018)

Source: Decision 242/QĐ-Ttđ

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- ★ Kỳ hạn linh hoạt
- ★ Đa dạng danh mục
- ★ Miễn phí giao dịch
- ★ Thủ tục nhanh gọn

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SECTION 2: CORPORATE BOND MARKET

- 2.1 Domestic corporate bond market
- 2.2 Cross-border issuance
- 2.3 Corporate Bond Potentials in RE* projects

2

**RE: Real Estate & Renewable Energy*

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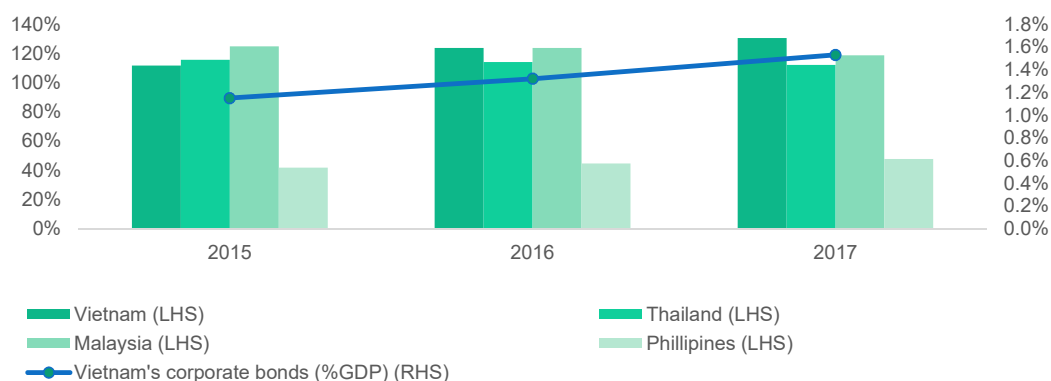
Vietnam Bond Market – In the readiness for further growth

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2.1 Domestic corporate bond market (1/3)

Bond issuance keeps growing strongly in a dominant bank loan backdrop

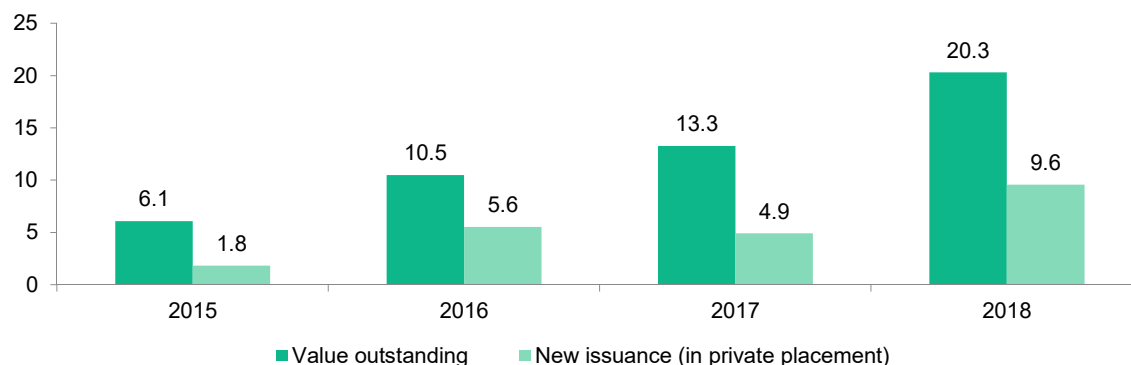
Domestic credit to private sector by banks (% GDP)



While the corporate bond markets witnessed significant growth in recent years, bank loan is still the dominant method of raising capital

- Compared to the 70-year establishment of Vietnamese banking system, the corporate bonds market is quite young with the initial foundation being developed ~10 years ago.
- In fact, bank loan is still the main method of raising capital for corporates. The ratio of private sector's bank loans/GDP in Vietnam was about **130.7%** in 2017 (while the ratio of listed corporate bond/GDP was **1.5%** in the same period). The reliance on banking is less seen in neighboring countries: Thailand - **112%**, Malaysia – **118%**, and Philippines – **47%**

Value outstanding & New issuance (private placement)



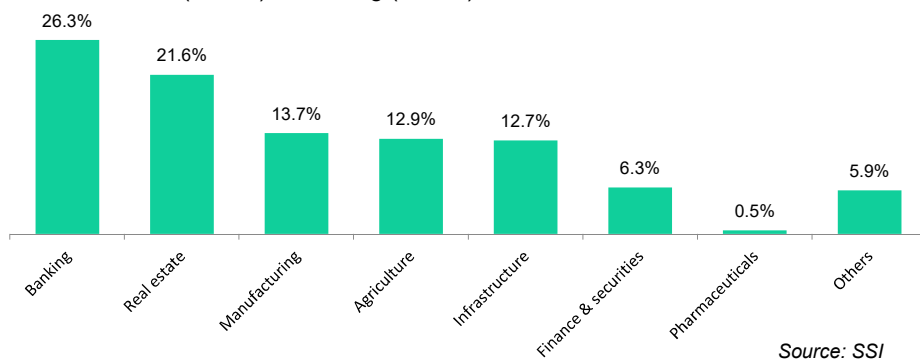
Nonetheless, in the period 2015 – 2018, the domestic corporate bond market experienced spectacular growth:

- In 2018, corporate bond outstanding amounted to **USD20.3 bn (+94% YoY)**, equivalent to **8.5% GDP**, indicating impressive **CAGR of 49.5%** in the 2015-2018 period.
- In terms of new issuance in private placement form, the amount of issuance jumped from just over **USD1.8b in 2015** to **USD9.6b in 2018**, equivalent to a **CAGR of 73.7%**.

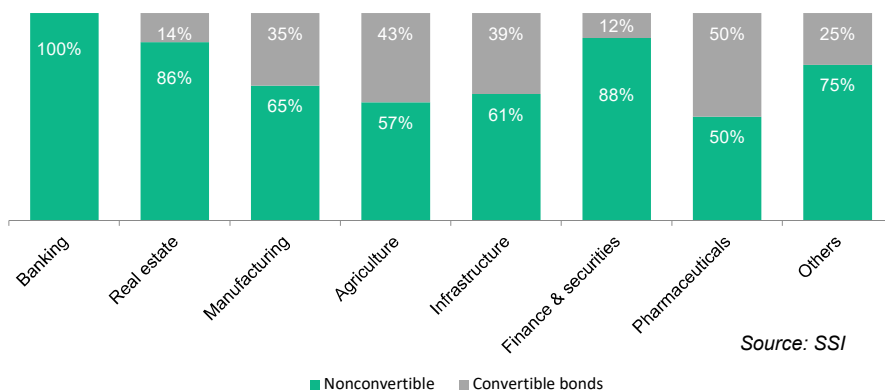
2.1 Domestic corporate bond market (2/3)

Straight bonds with medium term are mostly common in the private sector

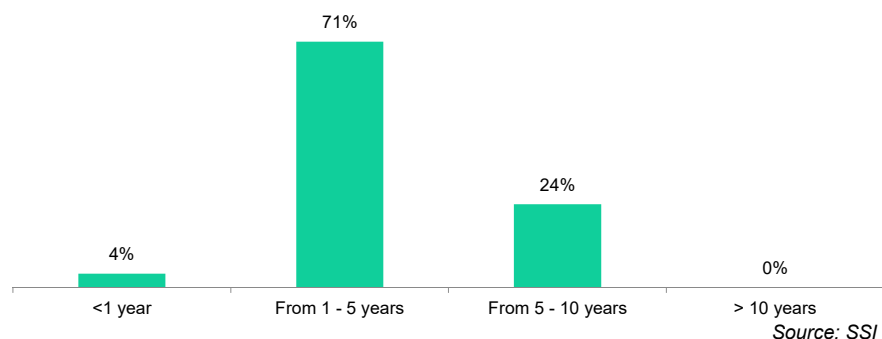
- ✓ Out of total value, Domestic corporate bonds are concentrated in 2 industries: Real Estate (26.3%) & Banking (21.6%).



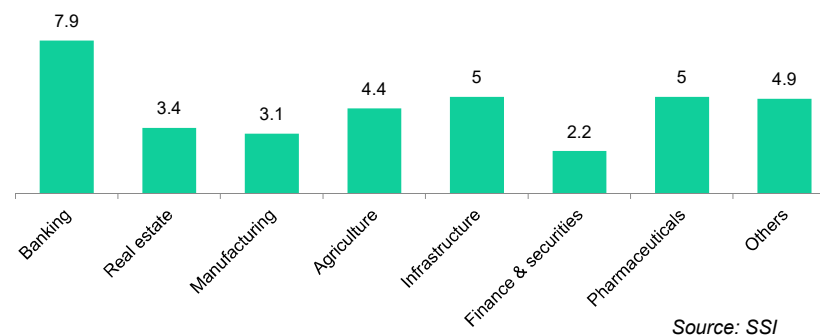
- ✓ All bonds issued by banks are nonconvertible. For real estate bonds, only 14% are embedded with convertible option.



- ✓ Considered as medium-and-long-term sources of fund, the typical duration of bond in Vietnam is below 5 years (75% in total).



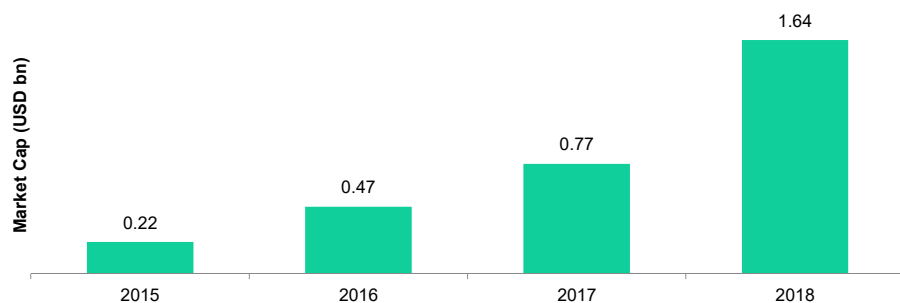
- ✓ Bonds issued by banks have the highest maturity (7.9 years on average), followed by infrastructure and pharmaceuticals (averages of 5 years each).



2.1 Domestic corporate bond market (3/3)

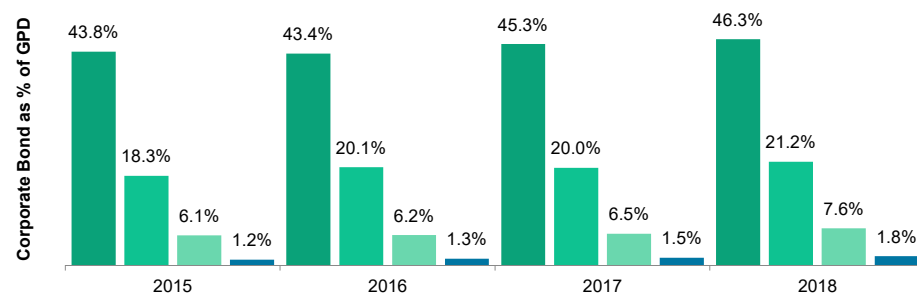
In comparison with neighboring countries, the development of local secondary bond market is still stagnant

- Until now, all corporate bonds are listed on HSX via put-through transactions, accounting for only 4.19% of total market cap of all listed stocks in HSX regardless of a substantial growth of more than 7 times in the 2015-2018 period.



- At the end of April 2019, out of 1,566 listed companies, there are only 47 having bonds listed on HSX and HNX, justifying why Vietnam's listed corporate bond market is still small compared to other neighboring countries.

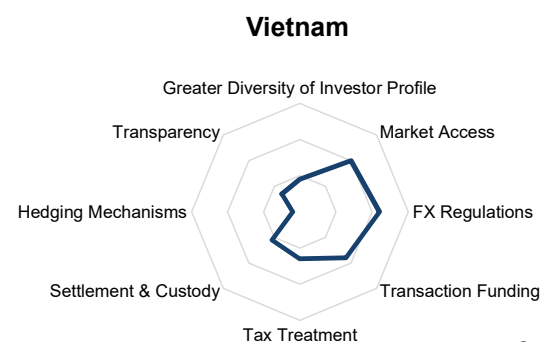
Source: SSC



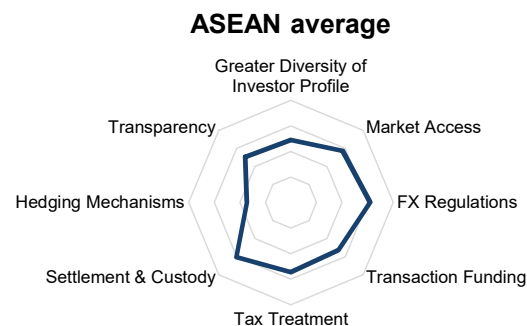
Source: SSC

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- According to 2018 ADB annual LCY Bond Market Liquidity Survey, despite increasingly open market to reach comparable level of ASEAN average in terms of market access, Vietnam still needs to deal with various issues to improve the liquidity of the capital market in general and bond market in specific.



Source: ADB



Source: ADB

Vietnam Bond Market – In the readiness for further growth

2.2 Cross-Border Issuance

International capital market access starts to thrive in top-tire enterprises

- In 2011, HAGL Group became the first company to issue bonds internationally. The issuance, though unsuccessful, has laid the foundation for local companies to seek opportunities from international market.
- From 2012 – 2018, the market witnessed **six notable international issuances**, with total capital raised per deal ranging from USD 10m to USD 300m.
- Given an increasing number of sizable & profitable companies, more upcoming potential issuances are expected, including Vietjet Air (USD 300m of convertible bonds, listed in SGX); VIB (~ USD 500m). Local banks are also expected to be active in the international bond market to raise capital to meet Basel II requirement.

Notable deals	Issued Amount	Year of issuance	Coupon rate	Duration	Convertible	Listed on/Sold to	Underwriter/Advisor or
Vietinbank	USD 250m	2012	8% pa	5 years	No	Singapore Stock Exchange (SGX)	Barclays/ HSBC
Vingroup	USD 300m	2012	5% pa	5 years	Yes	SGX	Credit Suisse
Masan Jsc	USD 155m	2012	1 st yr: 5% pa, plus 1% each year after	4 year	Yes	Sold to American investment funds	NA
Everpia Jsc	USD 10.1m	2018	1% pa	5 years	Yes	Sold to Korean strategic investors	NA
Novaland	USD 160m	2018	5.5% pa	5 years	Yes	SGX	Credit Suisse

Source: MBS Collection

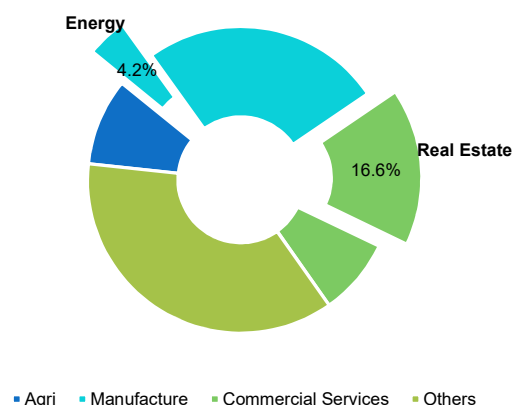
Common characteristics of successful issuance:

- **Duration:** Since foreign investors may consider longer duration too risky, medium terms are most common (**less than 5 years**)
- **Convertible option:** Except Vietinbank, all issuers offer **convertible options** due to a cap of 49% on foreign ownership at a financial institution. In addition, with issuers' strong positions in their industries, embedded convertible option help increase the bond's attractiveness to investors.
- **The involvement of high-profile Underwriter/Advisor:** Apart from Masan Jsc and Everpia Jsc's issuances (all sold to strategic investors), internationally issuance are advised by **well-know global institutions** such as Barclays, HSBC and Credit Suisse who has in-depth understandings and extensive network regionally and globally.

2.3 Corporate Bond Potentials in RE projects (1/4)

Increasingly tightening regulations on the traditional lending market force RE developers to look for alternative financial products

Bank's Loan Outstanding by Segment as 31/12/2018



Source: SBV, MBS estimates

Currently, funding for real estates and energy projects is mainly mobilized from commercial banks. Nonetheless, given increasingly restricted policies in commercial lending activities and government incentives to promote capital market, **it is expected that more project developers would join the bond market in the coming years.**

Circular no.16/2017/TT-BCT

The owner's equity proportion of a grid-connected PV power project shall be at least twenty percent (20 %) of the total investment.

Circular no. 19/2017/TT-NHNN and 36/2014/TT-NHNN

Credit institutions and branches of foreign banks shall comply with the maximum ratio of short-term capital sources used as medium-and-long-term loans under the following roadmap.

b) From January 01, 2019:

(i) Banks, branches of foreign banks: 40%;

(ii) Non-bank credit institutions: 90%."

Annex 2: receivables which are authorized by the customer to be used by other organizations and individuals for the purpose of real estate business in commercial banks has 200% risk coefficient (**raised from level of 150% before 12/2/2018**)

Law no. 47/2010/QH12 and no.17/2017/QH14 on Credit Institutions and Circular no. 36/2014/TT-NHNN

1. Total loans and extensions of credit outstanding to clients are not allowed to exceed 15% of equity capital of banks and branches of foreign banks; total loans and extensions of credit outstanding to a client and an associated entity do not exceed 25% of equity capital of banks and branches of foreign banks.

2. Total loans and extensions of credit outstanding to clients are not allowed to exceed 25% of equity capital of non-bank credit institutions; total loans and extensions of credit outstanding to a client and an associated entity do not exceed 50% of equity capital of non-bank credit institutions.

Decree no. 43/2014/ND-CP

The condition of developers' financial capability is prescribed as follows:

a/ Having own capital for implementation of the project equal to **at least 20% of the total investment** for projects built on less than **20 hectares of land**; and to **at least 15%** of the total investment for projects using **20 hectares of land or more**;

b/ Being able to raise capital for implementation of the project from credit institutions, foreign bank branches and other organizations and individuals.

2.3 Corporate Bond Potentials in RE projects (2/4)

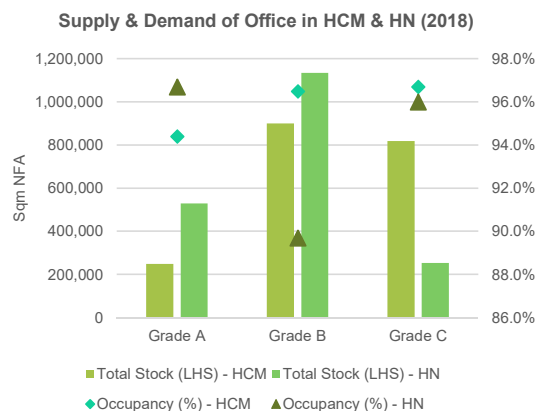
Potential opportunities of Real Estate projects focus on residential and industrial segments

Real Estate Market Development & Potentials

- As of 12/2018, the total value of real estate inventories was about VND 22,000 billion, a Y-o-Y decrease of ~11%, and much lower than the peak of VND 105,572 billion in Q1 / 2013.
- Foreign Direct Investment (FDI) in real estate market reached USD 6.6 billion in 2018, second largest in the FDI structure of Vietnam (18.6%).
- The total value of real estate transactions reached 1.5 billion USD in 2017, an increase of 63% compared to 2016. In the first 2 quarters of 2018, there are about 8,650 successful transactions in Hanoi (+24.6% over the same period in 2017); while Ho Chi Minh City has about 9,550 successful transactions (up 31.4% YoY).

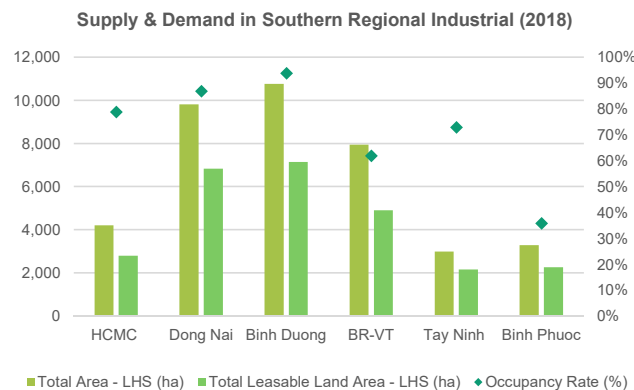
Office

The market witnessed a slowdown in office supply growth in recent years due to insufficient land bank in the center, resulting in a rising trend in the rental rate



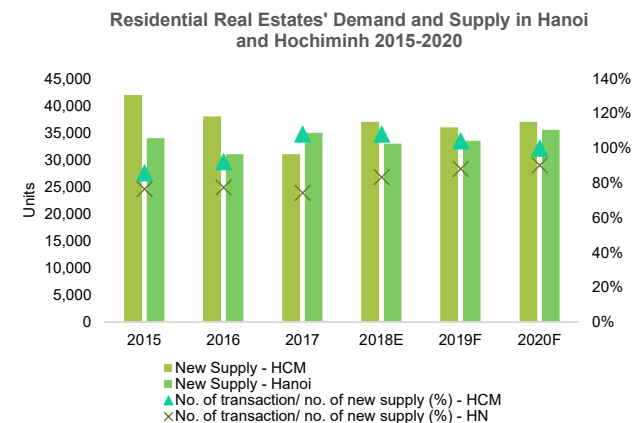
Industrial

Occupancy and land rate are predicted to surge in 2019, driven by a movement of manufacturing plant from China as a result of an increasingly intense the US – China Trade War



Residential

Lack of supply due to increasingly strong demand derived from sizable population size (100 million by 2020), growing urbanization (35% by 2020) and decrease family size (to 3.4 persons/family by 2022).



2.3 Corporate Bond Potentials in RE projects (3/4)

Potential growths of Renewable Energy projects are derived from natural condition advantages & government incentives

➤ **Vietnam has huge potentials to develop renewable energy projects in the region thanks to:**

- (i) 8.6% of Vietnam's land area is potential to install wind turbines with expected capacity of ~513,000 MW, compared to those of Cambodia (0.2%), Laos (2.9%) and Thailand (0.2%).
- (ii) The average level of solar radiation can reach about 3-5kWh/m²/day, while the average annual sunshine hours is from 2,500 to 3,000 hours, capable of producing up to 10,000 MW of solar energy.

Given strong GDP growth and population & urbanization booming, the electricity consumption is expected to increase by over 10% pa over the 2016-2020 period and 8% pa over the 2021-2023 period. In order to meet such high demand, the electricity capacity need to grow by 13 – 25% pa over in the next 10 years.

➤ **Government sets target to develop renewable energy for 2020, 2025 and 2030 in Vietnam's Power Development Master Plan along with incentives price policies:**

Type		2020	2025	2030
Wind	Total Capacity (MW)	800	2,000	6,000
	Electricity prod. (%)	0.80%	1%	2.10%
Hydro Power	Total Capacity (MW)	21,600	24,600	27,800
	Electricity prod. (%)	29.50%	20.50%	15.50%
Biomass	Electricity prod. (%)	1%	1.20%	2.10%
Solar	Total Capacity (MW)	850.00	4,000.00	12,000
	Electricity prod. (%)	0.50%	1.60%	3.30%

Wind	US cents 8.5/kWh for on-shore	US cents 9.8/kWh for off-shore
Solid waste-to-energy	US cents 7.28/kWh for burning of gases from landfills	US cents 10.05/kWh for direct burning
Solar	US cents 9.35/kWh for all on-grid solar power projects that achieve COD prior to 30 June 2019	expected: US cents 6.67 - 10.87/kWh
Biomass	US cents 5.8/kWh for Combined Heat Power Technology	US cents 7.3 – 7.5/kWh (avoided cost tariff for other technologies)
Small hydropower	US cents 5 /kWh	

Source: Decision no.39/2018/QĐ-TTg; Circular 05/2019/TT-BTC, Circular no.44/2015/TT-BTC, no. 56/2014/TT-BTC, 01/2016/VBHN-BCT

- **Thanks to incentives policies from government and support from local authorities, hundreds of developers has proposed new solar projects last year capacities of which reach 26,000 MW - more than half of total national capacity.** As 30/5/2019, 47 projects with total capacity of 2,300 MW has connected to national grid, while additional capacity of 2,600 MW from 49 other projects is expected to join by the end of 6/2019.

2.3 Corporate Bond Potentials in RE projects (4/4)

Transactions of real estate & renewable energy projects are both sizable, but mainly different in terms

➤ Characteristics of Debt Capital in RE Projects

	Real Estate	Renewable Energy
Purpose of Debt	Invest in Real Estate Projects after clearance phrase and legal document completed	Invest in Renewable Energy Projects after clearance phrase and legal document completed, PPA signed
Typical Capital Structure (Equity – Debt)	30 – 70	30 - 70
Typical type of debt	Commercial Bank Credit Vanilla bond	Commercial Bank Credit
Short-term Interest Rate	7-10%	6-9%
Long – term Interest Rate	9-12%	8-10%
Typical Debt Durations	3 – 5 years	7-12 years
Typical Debt Sources	Commercial Banks	Commercial Banks

Source: MBS Collection

➤ Notable Corporate Bond Deals in RE Projects

Issuer		Volume	Duration	Coupon	Industry
VinHome	9/2018	VND 5,000 billion	2 years	N/a	Real Estate
	8/2018	VND 2,000 billion	3 years	N/a	
	9/2017	VND 5,500 billion	3 years	N/a	
Novaland	12/2018	USD 140 million	5 years	Coupon: 5.5% YTM: 6.25%	Real Estate
Dat Xanh Group	2Q 2019	Expected: VND 1,400 billion	5 years	<7%	Real Estate
REE		VND 2,320 VND	10 years	N/a	Real Estate
Vinpearl	2016	USD 325 million		N/a	Real Estate
PCC1	2Q 2019	Expected: VND 1,280 billion	10 yeas	N/a	Renewable Energy
Bamboo Capital	Expected 2Q2019 – 1Q2020	VND 900 billion	3 years	N/a	Renewable Energy

Source: MBS Collection



SECTION 3:

FOREIGN INVESTMENT IN VIETNAM BOND MARKET

- 3.1 Key Considerations
- 3.2 Guidelines for Foreign Investors

3

3.1 Key Considerations for FIs in Vietnam Bond Market

Lack of transparency & credit rating system, and capital flow management pose a significant hurdle to prospective foreign investors in the bond market



TRANSLATION OF LEGISTRATION & INFORMATION DISCLOSURE INTO ENGLISH

➤ Translation of Legislation into English

- There is no official requirement to translate Vietnam legislation into English. English version of applicable laws and regulations in the market provides by the respective regulatory authorities, key exchange and market associations are unofficial and could lead to differences in interpretation of the original Vietnamese version.

➤ Companies' Information Disclosure in English

- There is no official requirement to disclose information in both Vietnamese and English, leading to difficulty to foreign investors to access corporate information. However, most of leading enterprises has also disclosed information in English to attract prospective investors & serve their existing ones.



LACK OF CREDIT RATING SYSTEM

- The lack of credit rating system in Vietnam makes it more difficult for investors to assess bond issuers due to language barriers and differences in accounting standards. Government and authorities are making efforts to build-up and improve credit rating system in Vietnam.



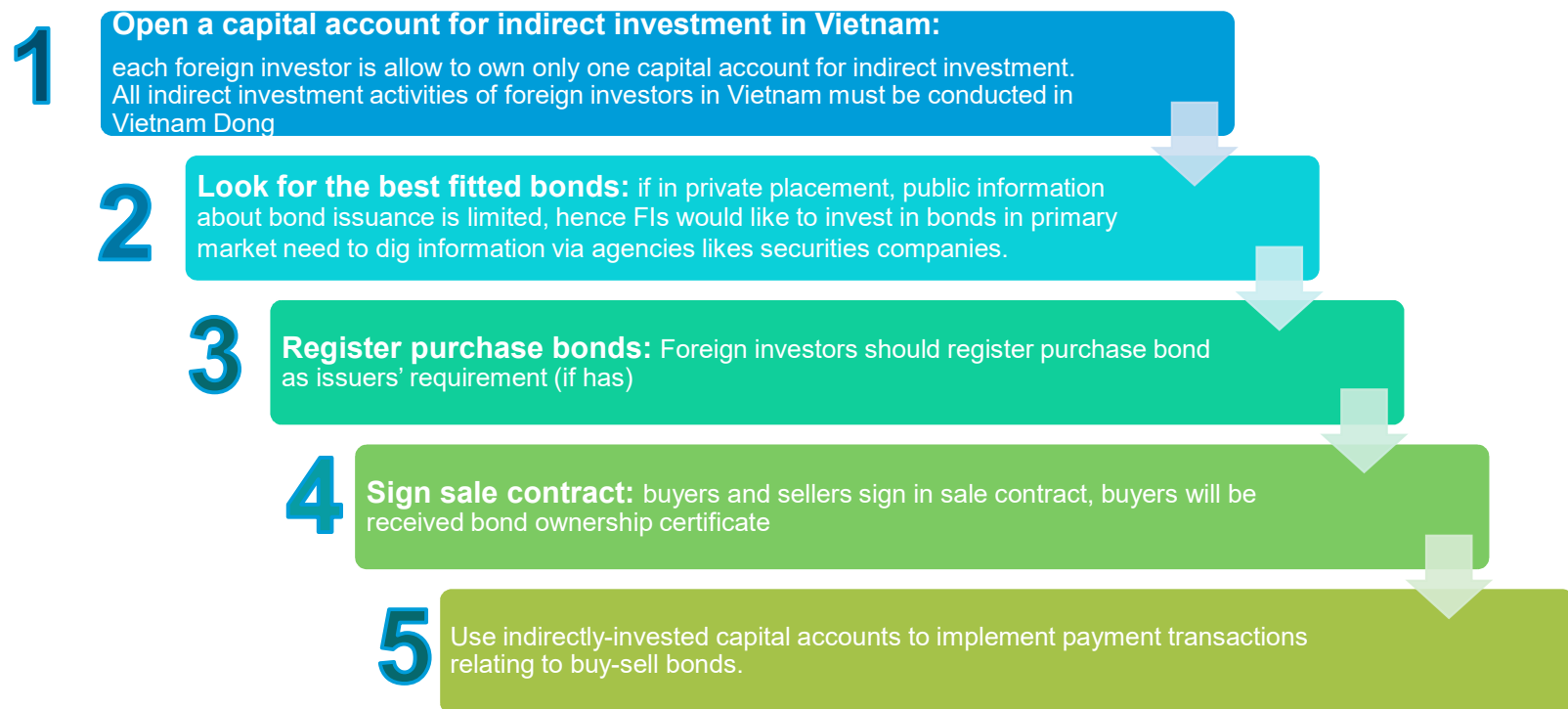
FOREIGN EXCHANGE CONVERTIBILITY & CAPITAL OUTFLOW

- Foreign exchange convertibility & transferring money overseas have been a concern among investors due to strict foreign exchange control of the State Bank of Vietnam (SBV). Nonetheless, such issue has been mitigated in recent years thanks to a relatively stable exchange rate as a result of effective monetary policies, political stability as well as economic potentials.

3.2 Guidelines for Foreign Investors (1/3)

Foreign investors have to comply with Circular no. 05/2014/TT-NHNN guiding the opening and use of indirectly-invested capital accounts to join the capital market

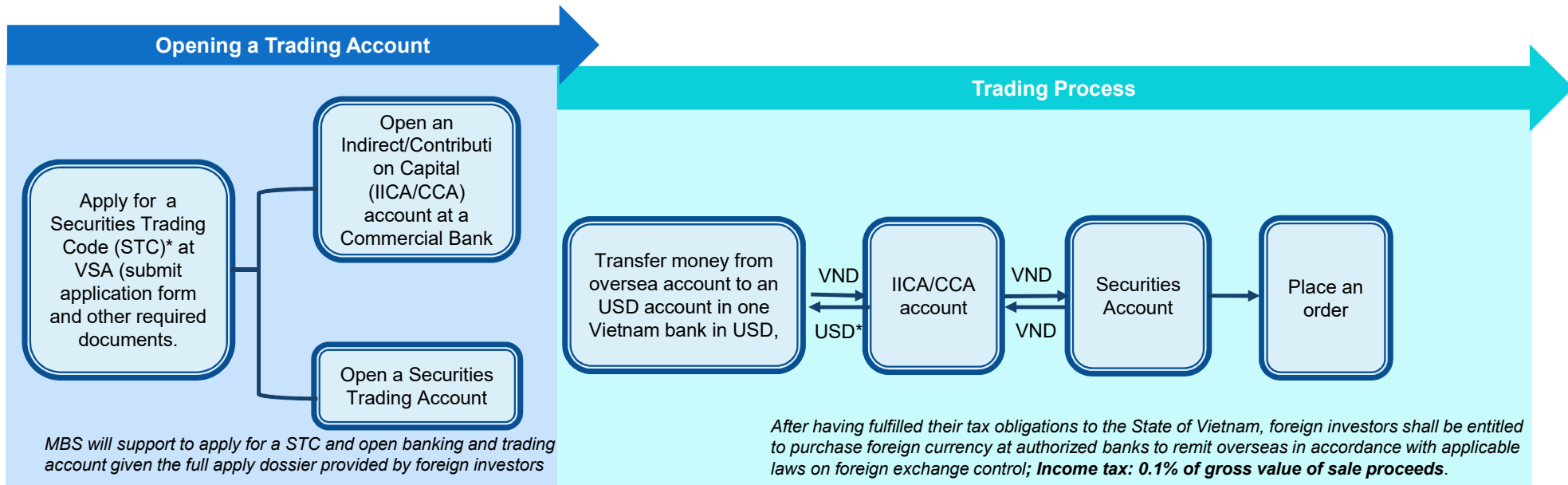
Procedures in the primary market



3.2 Guidelines for Foreign Investors (2/3)

Foreign investors have to comply with Circular no. 05/2014/TT-NHNN guiding the opening and use of indirectly-invested capital accounts to join the capital market

Procedures in the secondary market



Besides, foreigner investors can invest in open-end funds in Vietnam by opening accounts in the fund and transfer money from IICA/CCA account.

- ❖ VSD: Vietnam Securities Depository
- ❖ MBS: MB Securities Joint Stock Companies
- ❖ STC: each foreign investor has only one Securities Trading Code and only one Securities Trading Account for trading securities in Vietnam Stock Markets. This code is issued on a perpetual basis and does not expire or require reapplication or renewal.
- ❖ IICA/CCA account: A Vietnamese Dong (VND) cash account is mandatory. The IICA/CCA account can only be used for securities-related transactions in Vietnam. A US Dollar (USD) cash account is optional to foreign investors and is used for transfer or remittance of USD funds offshore.

3.2 Guidelines for Foreign Investors (3/3)

Foreign investors could to negotiate directly with issuers or purchase public offering in overseas exchanges to invest in foreign-currency nominated bonds.

Foreign-currency nominated Bond

Target Identification



The target has income in foreign currencies to mitigate exchange rate risk when raising capital from overseas markets.



The target has demand on raising capital in debt capital market to implement investment programs and projects or finance working capital or restructure debts.



The target possesses healthy financial position and feasible repayment plan.



Opportunity Searching

Obtain information from Resolutions of General Meeting Shareholders

Perform screening among available partners

Connect with local financial advisory firms who possess an extensive network of clients

MBS cung cấp các dịch vụ chứng khoán
tốt nhất cho Khách hàng

TÌM HIỂU THÊM ➔



SECTION 4: INTRODUCTION ABOUT MBS

- 4.1 MBS At a glance
- 4.2 Our Development Story
- 4.3 Our Capabilities
- 4.4 Our Experts
- 4.5 Our Credentials

4

4.2 MBS At a glance

2000_{year}
Established in 2000
Best Investment Bank, 2018
Best Investment Management, 2018

77_{usd mn}
Market capitalization

53_{usd mn}
Paid-up equity capital

667
Employees by end 2018

05
Top 05 market shares for
both brokerage and IB

119,200
Trading accounts
31,000 active accounts

1.45_{usd bn}
NAV of trading clients

1.7_{usd bn}
Bonds issuance for corporate
clients over last 03 years

46_{usd mn}
2018 Revenue

12.8_{usd mn}
2018 Net profit

2.3_{usd mn}
Net investment
earnings 2018

12.9%
ROE

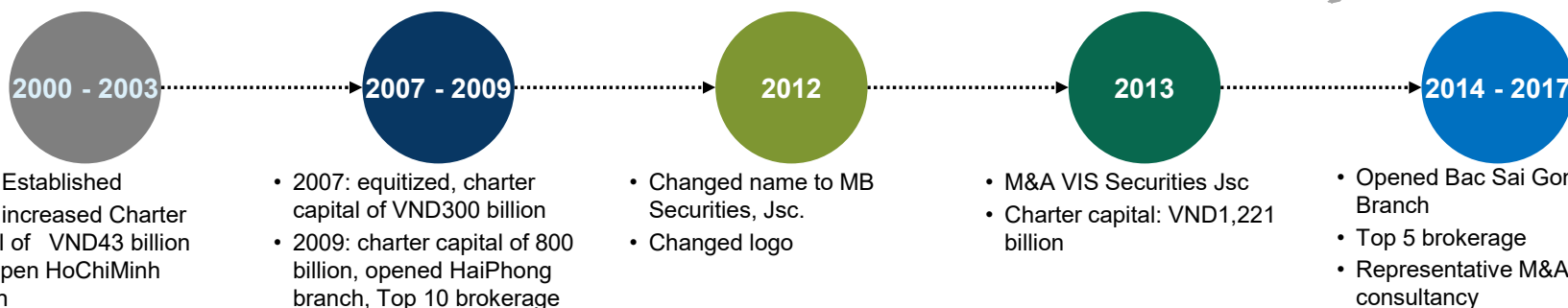
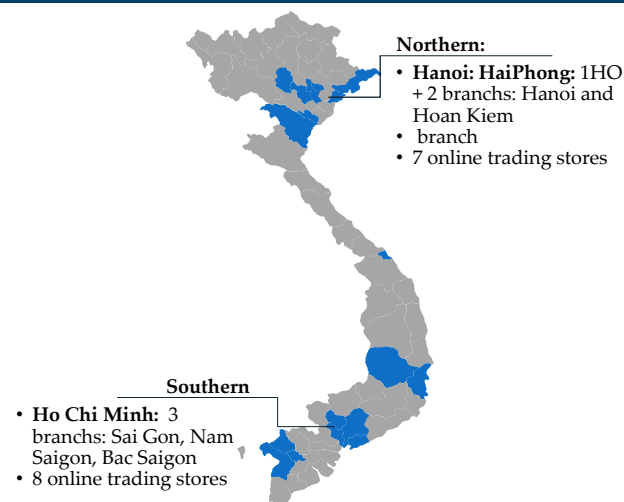
4.2 Our Development story

Our capabilities has been enriched and accumulated from our long-established history and developments in local market

Our development story

MB Securities Joint Stock Company – a member of MB group

- Founded in 2000, one of the 5 pioneers in Vietnam stock market and a subsidiary of Military Commercial Joint Stock Bank (MB)
- Charter capital: VND1,221 billion
- Staff: 600 members
- MBS aims to be one of the leading investment banking providers in Vietnam with the highest level of professionalism.
- MBS is one of the leading brokerages firms in Vietnam with top 5 market shares in both Ho Chi Minh stock exchange (HSX) and Hanoi Stock Exchange (HNX), being as the precious investment banking supplier, providing the best financial solutions to corporates across sectors/businesses in Vietnam.



4.3 Our capabilities

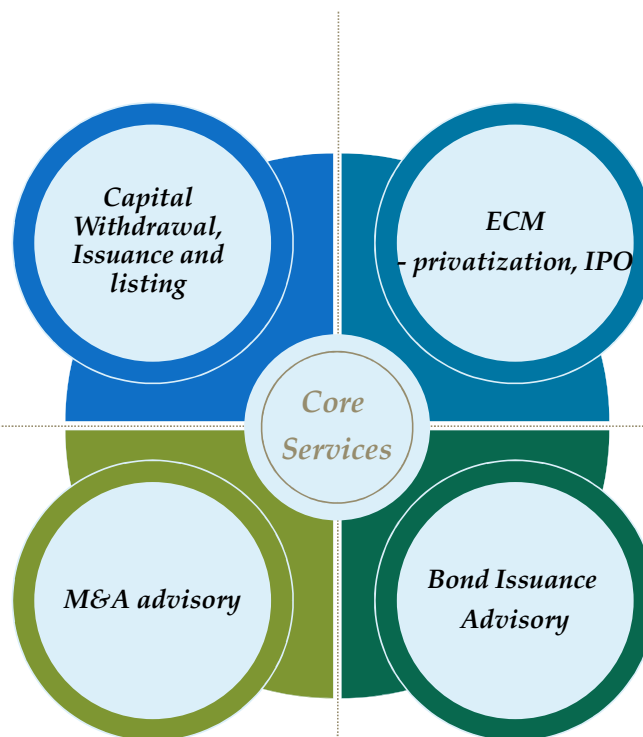
Our capabilities have been recognized through high-value financial products we bring to our clients

We commit to providing the best solution and integrated investment banking services to clients.

MBS offers integrated advisory services for clients wanting to raise capital through issuing equity capital instruments or equity-linked capital instruments on ECM:

- Advise, review and finalize regulation requirements for the issuances.
- Advise and make a plan and an issuance dossier.
- Support in stocks offering.
- Underwriting.

- Providing advisory services to both buy-side or sell-side on seeking potential partners.
- We accompany enterprises from planning of structured transactions, determination of target partners, due diligence, evaluation to negotiation and legal supports to guarantee the success.



- MBS advises state-owned enterprises, foreign-invested and private enterprises on privatization process and the best fitting strategy for client's goals.

- Our experts advised many state-owned enterprises and joint-stock companies not only on handling complicated procedures and IPO-required documents, but also on the secondary issuance to mobilize capital.

- Advise on key regulation requirements for the issuances.
- Support in book-building process for bond issuances.
- Bond issuance agent.
- Deposit and paying agent.
- Underwriting.

4.4 Our experts

Our people are experienced and dedicated to offer our customers the best service

MBS is well versed in managing complex projects on a international basis and standards



4.5 Our Credential (1/4)

Notable Bond Issuance Transactions over 2015-2018

 <p>Trung Nam Land co, Jsc Bond Issuance Advisory Scale: VND 1,200 billion 2018</p>	 <p>Vietracimex co.,jsc Bond Issuance Advisory Scale: VND1,250 billion 2018</p>	 <p>Sun Group Bond Issuance Advisory Scale: VND1,000 billion 2018</p>	 <p>Ton Dan Hanoi co.,jsc Bond Issuance Advisory Scale: VND1,000 billion 2018</p>	 <p>Thai Hung commercial co.,jsc Bond Issuance Advisory Scale: VND650 billion 2018</p>	 <p>Novaland and subsidiaries Bond Issuance Advisory Scale: VND2,580 billion 2018</p>	 <p>Nam Cuong Corporation Bond Issuance Advisory Scale: VND718 billion 2018</p>
 <p>Northern Thu Thiem Ltd.,co Bond Issuance Advisory Scale: VND 500 billion 2018</p>	 <p>Hanoi Golf Club Bond Issuance Advisory Scale: VND600 billion 2018</p>	 <p>Sacomreal co.,jsc Bond Issuance Advisory Scale: VND1,000 billion 2018</p>	 <p>REE corporation Bond Issuance Advisory Scale: VND 1,000 billion 2017</p>	 <p>Green Feed Vietnam co.,jsc Bond Issuance Advisory Scale: VND500 billion 2017</p>	 <p>Sacomreal co.,jsc Bond Issuance Advisory Scale: VND300 billion 2017</p>	 <p>Mavin Austfeed co.,jsc Bond Issuance Advisory Scale: VND300 billion 2017</p>
 <p>Kien Giang construction & Investment consuling co.,jsc Bond Issuance Advisory Scale: VND300 billion 2017</p>	 <p>Societe de bourbon Tay Ninh Bond Issuance Advisory Scale: VND1,000 billion Investors: VIB,TPB 2016</p>	 <p>Sacomreal co.,jsc Bond Issuance Advisory Scale: VND400 billion 2016</p>	 <p>Investment consultant mining port co.,jsc Scale: VND400 billion Investor: LienVietPost bank 2016</p>	 <p>Novaland Bond Issuance Advisory Scale: VND6,000 billion Investor: MB 2016</p>	 <p>T&T Group co.,jsc Scale: VND2,000 billion Investor: MBB 2016</p>	 <p>Austfeed Vietnam co.,jsc Bond Issuance Advisory Scale: 1,500 billion 2015</p>

4.5 Our Credential (2/4)

Notable Equalization, Privatization and Divestment Transactions over 2015-2018



MOC Divest in DIG
Scale: VND2,500billion
2017



State Capital Investment Corporation
Capital withdrawal from GMD
2016



State Capital Investment Corporation
Capital withdrawal from VSH
2016



State Capital Investment Corporation
Capital withdrawal from Vietracimex
2016-2017



Vinamotor co.,jsc
Capital Withdrawal from subsidiaries
2015, 2016



Bac Giang Railway signal co.,ltd
Privatization & IPO Advisory
2015



Fico corporation co., jsc
Privatization advisory
2015-2016



Viettel telecom
Capital Withdrawal from subsidiaries
2014, 2015, 2016



Lung Lo Construction corporation co., j
Privatization, IPO and capital withdrawal advisory



Vietfracht co.,jsc
Privatization, auction, issuance and listing advisory



Nicotex co.,jsc
Capital withdrawal and IPO advisory

4.5 Our Credential (3/4)

Notable Listing and Issuance Transactions

						
Thibidi co., Jsc Equity Issuance Advisory Value: VND274 billion 2015, 2016	MB securities co.,jsc Listing advisory Value: VND1,221 billion 2016	Gelex co.,jsc Privatization and equity issuance advisory 2015, 2016	C.E.O Group Co.,Jsc Equity Issuance and listing advisory Value: VND343 billion 2014, 2015	Dong A group co.,jsc Equity Issuance advisory Value: VND52.5 billion 2015	LDG group co.,jsc Equity Issuance Advisory Value: VND750 billion 2015	VNT mineral co., jsc Listing advisory
						
FIT co.,jsc Equity Issuance advisory and underwriting Value: VND342.5 billion 2013-2014	Military Bank Equity Issuance and Listing Value: VND11,256 billion 2011-2013	HUDland estate investment and development co.,jsc Equity Issuance Advisory Value: VND100 billion 2013	Military Insurance co.,jsc Equity Issuance Advisory	FLC Group co.,jsc Underwriting	An Phu Irradiation co.,jsc IPO, equity issuance advisory and underwriting, listing advisory	International Development & Investment IPO and listing advisory
						
Tân Phát co.,jsc Equity Issuance Advisory	Sacomreal co.,jsc Equity Issuance Advisory	Tan Mai paper group co.,jsc IPO and listing advisory	Thuan An Wood Processing co.,jsc IPO and listing advisory	Garco 10 co.,jsc Convertible bond issuance advisory Value: VND20 billion 2012		

4.5 Our Credential (4/4)

Notable M&A transactions



Mai Linh Group
Merger advisory
2017-2018



Vinaseed co.,jsc
Auction Advisory
2015



CHOLIMEX FOODS JSC
Acquisition Arrangement of 19%
stake for Nichirei group (Japan)



F.I.T group
Acquires stake in Can Tho
Techno-Agriculture Supplying
co.,jsc
2014



Merger between MBS and VIS
Securities co.,js
Merger advisory
2012



Diageo Plc acquires 11% stake in
Halico co.,jsc
2011

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