ANALYSIS OF ABILITY OF BUSINESSES TO REPAY CORPORATE BONDS: A CASE STUDY IN VIETNAM

● PHAM ANH DUNG

ABSTRACT:

This study analyzed the ability of businesses to repay corporate bonds for fiscal years from 2020 to Q3 2023. Based on the Vietnam Bond Market Association's (VBMA) reports from 2020 to 2022 and Q3 2023, comparison methods were used to assess the corporate bond repayment rate of real estate companies and other enterprises. This study is expected to help Vietnamese businesses realize the current and future problems of a lack of money for corporate bonds. This study's findings could serve as the basis for building suitable solutions to develop the Vietnamese corporate bonds market and further research.

Keywords: Vietnam Bond Market Association (VBMA), State Bank of Vietnam (SBV) bond debt, default, issuance of bond.

1. Introduction

This study analyzed the ability of businesses to repay corporate bonds for fiscal years from 2020 to Q3 2023. Based on the Vietnam Bond Market Association's (VBMA) reports from 2020 to 2022 and Q3 2023, comparison methods were used to assess the corporate bond repayment rate of real estate companies and other enterprises. This study is expected to help Vietnamese businesses realize the current and future problems of a lack of money for corporate bonds. This study's findings could serve as the basis for building suitable solutions to develop the Vietnamese corporate bonds market and further research. Keywords: Vietnam Bond Market Association (VBMA), State Bank of Vietnam (SBV) bond debt, default, issuance of bond.

This study examines how the use of comparison methods and financial management analysis helps the policy makers to know the corporate bond rate, financial position and operating efficiency of enterprises. The businesses have lost profit which impacted on its business capital and inability to repay corporate bonds. After evaluating analysis from the perspective of capital efficiency spent, the enterprise's much bigger problem is the money shortage but could not borrow from banks or bonds issuance. The SBV and VBMA can see the current and future problems of shortage or surplus money supply to adjust accordingly. There has not been a recent study on corporate bonds, leading to defaults.

This study aims to analyze corporate bonds of Vietnam businesses for fiscal years from 2020 to Q3 2023. The findings could be a suggestion to build suitable solutions to develop the Vietnam corporate bond market and further research.

2. Methodology

Comparison analysis is a specialty in data that is aimed at formulating a diagnosis and a prognosis relative to the situation and the business performance of a company or an organization. This study is to present primarily the relationship between data analysis and the fundamental role which statistics from the government, the VBMA, etc. The research method is the bibliographic one, being studied in timely books and articles of the domain. Literature does not provide concrete answers to this problem, resolutions being expected especially from practitioners. An efficient information system can provide relevant indicators to users based on accurate and real information and financial analysis results are based on a diagnosis of return and risk. Data analysis is a process of determining and interpreting relationships between the items of data to provide a meaningful understanding of the performance and financial position of an enterprise. Ratio analysis is an accounting tool to present accounting variables in a simple, concise, intelligible, and understandable form. Ratio analysis is a study of relationships among various financial factors in a business. Thus, it seeks to measure the value of the entity and purpose which it pursues, financial analysis develops the steps of collecting, shaping and treating of a range of management information which may clarify the wanted diagnosis and prognosis [9]. The primary focus of this study is to present primarily the relationship between financial analysis and accounting, highlighting the fundamental role played by accounting in shaping the information crucial for analysts. In the realm of ratio analysis, which serves as a tool for evaluating earning capacity, financial robustness, and operational efficiency of a business organization, the application of ratios in accounting and financial management analysis becomes invaluable [9]. This aids management in gaining insights into the enterprise's profitability, financial position, and operational efficiency. The article strives to achieve its objectives by assessing the level and variability of results and risks affecting the enterprise bankruptcy. In doing so, it seeks to measure the value of the entity as previously mentioned [9]. Given its inherent nature and objective, financial analysis involves a systematic process encompassing the collecting, shaping and treatment of a diverse set of management information. This information is instrumental in providing a clear diagnosis and prognosis, thereby aiding in the pursuit of the article's overarching goals.

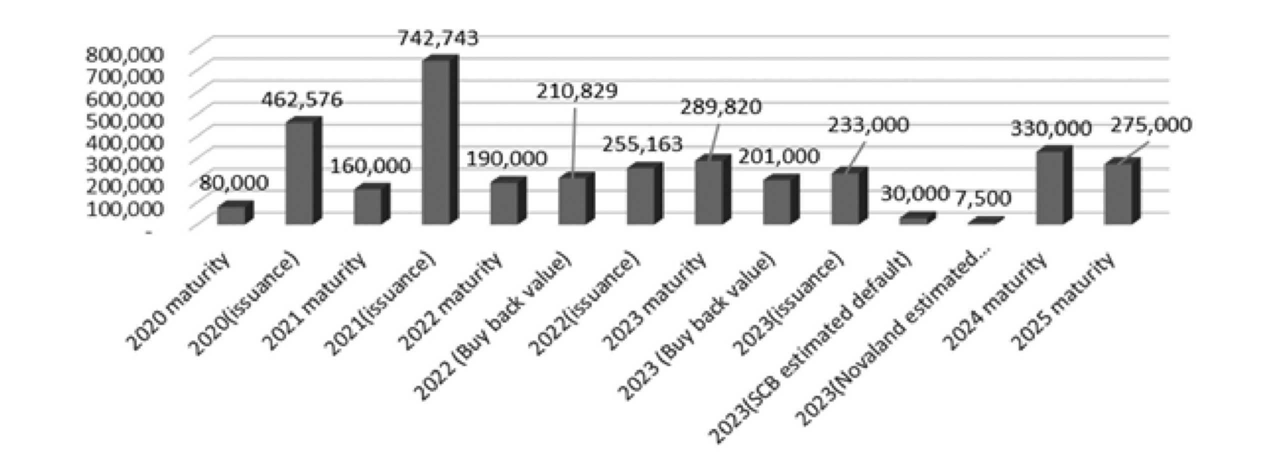
Financial statement analysis is an integral and important part of the broader field of business analysis while business analysis is the process of evaluating a company’s economic prospects and risks. This includes analyzing a company’s business environment, its strategies, and its financial position and performance Business analysis is useful in a wide range of business decisions such as whether to invest inequity or in debt securities, whether to extend credit through short- or long-term loans, how to value a business in an initial public offering (IPO), and how to evaluate restructurings including mergers, acquisitions, and divestitures [9].

3. Results and discussion

Bond of real estate enterprises in 2021 is average term of 3.37 years, average issuance interest rate at 10.36% per year, 29% of the bond volume issued had no collateral, or only secured by shares (this ratio increased by 4-5% in the second half of 2021 when real estate stock price movements were relatively favorable for mortgage), 62% of primary investors were still credit institutions and securities companies, and were redistributed in the market, secondary market for individual investors [7]. However, 75% of the bonds circulating in the market were of non listed enterprises, with financial indicators that were not widely published, creating many potential risks for investors, as the industry's leverage ratio tends to increase in the second half of 2021. The average issuance term of real estate bonds in 2022 is 3.05 years, the average issuance interest rate is 10.4% per year [8]. About 38% of the volume of real estate bonds issued in 2022 had no collateral, or only secured by shares (this ratio increased

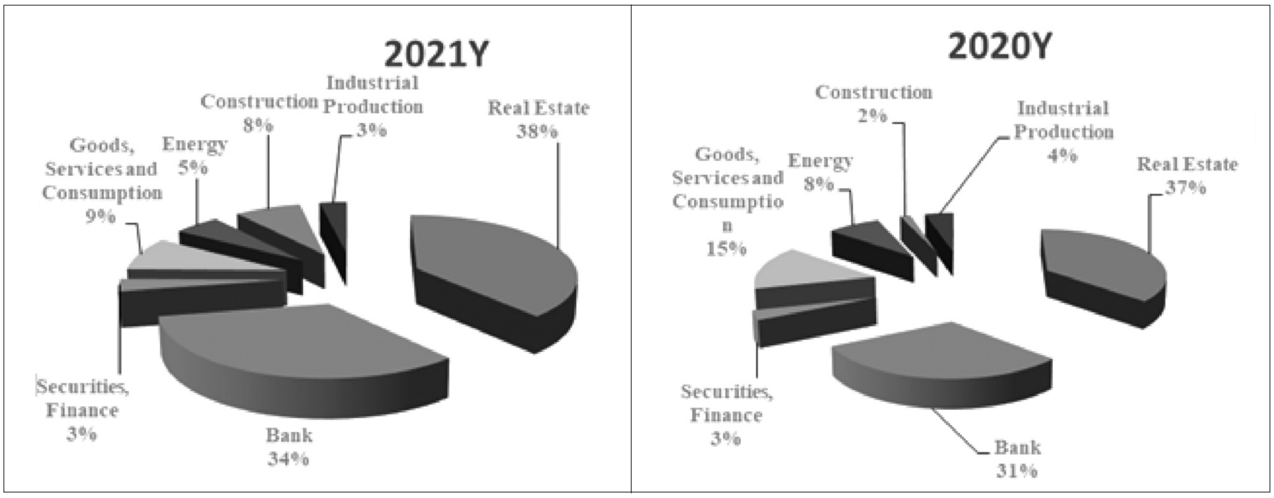
Figure 1: Bond issuance, maturity, and buy back of businesses from 2020 to 2025

(Unit: billion dong)



Source: VBMA 2020-2023 and prepared by author (2023)

Figure 2: Corporate bond issuance structure in 2020 - 2021



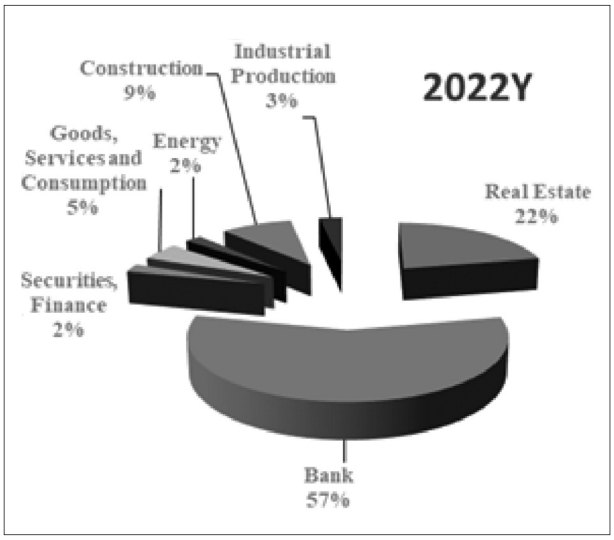
Source: VBMA, 2020 - 2022

compared to 29% in 2021 despite real estate stock price movements no longer favorable for mortgages) [7]. The real estate businesses issuing bonds of unlisted enterprises account for 71.6%. The average issuance term of credit institutions' bonds is 5.47 years, the average issuance interest rate is 5.6% per year. The majority of credit institution bonds purchased come from the banking sector. As of the third quarter of 2022, the outstanding credit institution bond balance of the 10 banks holding has increased an additional 82 trillion dong compared to the end of 2020 [8]. According to the Ministry of Finance's data, the primary corporate bond market in the first 7 months of 2022 recorded 46.14% of investors as financial institutions, 22.43% were securities companies, while professional investors accounted for only 10.11% of the total purchase value. However, data from the secondary market shows that the proportion of corporate bonds held by individuals is up to 32.6%, mainly because of intermediary purchases with securities companies. It can be seen that there is a phenomenon of brokers enticing non-professional investors to invest in corporate bonds as a form of high interest savings deposit. In 2022, businesses bought back bonds worth VND 210,830 billion ahead of schedule, an increase of 46% compared to 2021. Of which, the Banking sector accounted for the majority when repurchasing was 91,799 billion VND, equivalent to 43.5% of the total repurchase value. Behind is the Real Estate sector with 35,439 billion VND, accounting for 16.8%. Most of the repurchased bonds will mature in 2023 and 2024. Although corporate bond repurchase activities have been positive, the pressure to mature corporate bonds in the next 2 years is still large with 650,319 billion VND of bonds mature. Of which, 289,819 billion VND of bonds mature in 2023, 360,500 billion VND mature in 2024, and 275,000 billion VND mature in 2025 [1,10]. During the Covid-19 in the period of 2020 to 2021, the volume of bonds issued was at 1.2 million billion dong (equivalent to 50 billion dollars), equal to the previous 10 years combined. To avoid the risk of largest bonds issuance, causing market collapse, in 2022, the Government regulated buying back bonds before maturity according to Decree 65/2022/ND-CP, amending and supplementing the Decree 153/2020/ND-CP [2,3]. In 2022, the number of bonds issued decreased due to banks tightening credit and many arrests of business owners like Tan Hoang Minh, FLC Group, etc. Novaland case that could not repay bond debts to investors, Novaland stated, related to the outstanding debt of 298.6 million USD in the international convertible bond package, without collateral, listed in Singapore [4]. Recently, Novaland discussed with the bondholder group about liquidity difficulties leading to the inability to timely complete the interest payment obligati on of 7.8 million USD. In addition, Novaland has an outstanding debt of billion dollars with many other organizations, this real estate corporation has delayed repayment of bond debts and negotiation of shares swap solutions with bond holders in long-term. Other pictures showed that bank systems issued from 31% to 34% in period from 2020 to 2021 [7] and increased 57% issuance of bonds in total corporate bonds in 2022 [8]. Therefore, bank systems are key players in the long-term with a big volume of issuance of bonds.

One of top ten big bank is SCB Bank which recently shows that Van Thinh Phat case, Ms. Truong My Lan has appropriated 304,096 billion VND (equivalent 12.4 billion dollars) in which fraud of more than 30,000 billion VND in bonds (equivalent to 1.22 billion dollars) [6], estimated 2.5% of bad debt of bonds in total corporate bonds with amount of 1.2 million billion dong. This was one of the biggest losses in the market and forced the government to pump money to rescue SCB from default and the government has restructured it by inviting many other banks to participate.

Figure 3: Corporate bond issuance structure in 2022

(Unit: billion dong)



Source: VBMA, 2020 - 2022

No recent studies have delved on corporate bonds as its defaults and estimate the quantitative number of default rate on total issuance of bonds as above mentioned, leaving the researcher without any reference points for comparison. Consequently, this study aims to fill this gap and establish a foundation for subsequent research on the subject. Moreover, the GSO, the VBMA, or the government does not provide any data to structure the percentage of defaults of businesses. The findings of the analysis as stated previously, have significant implications for private sector policy makers and participants in the bonds market.

4. Conclusion

Until November in 2023, banks and real estate enterprises account for 77.3% of the total corporate bond issuance, equivalent to more than 180,665 billion dong [1]. The research results are strange and unbelievable, no businesses have reported to default on the bond market, even though one of the top ten big banks is SCB. Except for the above case mentioned, generally in the big picture, almost all businesses repay bonds in time. However, many businesses have delayed payment or conducted share swap solutions and negotiation to prolong repayment of the corporate bond in fact. In generally, conclusion from period of 2020 to November, 2023 almost businesses in Vietnam repay bond debts on time and even they bought back bonds from investors if requested before maturity, of which mitigate volume of bonds in maturity. In the long-term, I recommend that the government must publish the information of defaulted businesses or inability to repay bonds, thereby helping the market be transparent and reducing risks for investors when they do not have information about the corporate bond issuers and holders. A country with a perfect market economy must have strict regulations and transparent information disclosure to protect investors and financial institutions, thereby attracting many FDI capital into Vietnam ■

REFERENCES:

1. Bong Mai (2023). Banks and real estate collected more than 180,665 billion VND in bonds from the beginning of the year until now. Available at: https://tuoitre.vn/ngan-hang-bat-dong-san-gom-hon-180-665-ti-dong-trai-phieu-tu-dau-nam-den-nay-20231129222126684.htm.

2. Vietnam Government Portal (2022). Decree 65/2022/ND-CP for amending and supplementing some articles of decree no. 153/2020/ND-CP dated December 31, 2020 providing regulations on private offering and trading of corporate bond in the domestic market and offering of corporate bond business to the international market. Available at: https://thuvienphapluat.vn/van-ban/Doanh-nghiep/Nghi-dinh-65-2022-ND-CP-sua-doi-Nghi-dinh-153-2020-ND-CP-chao-ban-giao-dich-trai-phieu-doanh-nghiep-529835.aspx.

3. Finn Ratings (2022). Assessing the impact of Decree 65/2022/ND-CP on the corporate bond market. Available at: https://fiingroup.vn/upload/docs/market-commentary-3-assessing-impact-decree-65-2022-ND-CP-on-the-corporate-bond-market.pdf.

4. Ha Anh (2023). Novaland continues to want to defer nearly 300 million USD in debt in the international convertible bond package, VN Economy. Available at: https://vneconomy.vn/novaland-tiep-tuc-muon-gian-no-gan-300-trieu-usd-trong-goi-trai-phieu-chuyen-doi-quoc-te.htm.

5. Porter G., Norton C. (2012). Using Financial Accounting Information: The Alternative to Debits and Credits. Southwestern Cengage Learning, Mason, USA.

6. Chinhphu.vn (2023). SCB Bank, Van Thinh Phat case: Ms. Truong My Lan appropriated 304,096 billion VND; Fraud of more than 30,000 billion VND in bonds. Available at: https://xaydungchinhsach.chinhphu.vn/truy-na-7-bi-can-trong-vu-an-xay-ra-tai-ngan-hang-scb-va-tap-doan-van-thinh-phat-119231029192725111.htm

7. Vietnam Bond Market Association (2022). Vietnam Bond Market Summary Report in 2021 of Vietnam Bond Market Association (VBMA). Available at: https://vbma.org.vn/storage/reports/March2022/ VIE_VBMA_TOM %20TAT%20TTTP%202021.pdf

8. Vietnam Bond Market Association (2022). Vietnam Bond Market Summary Report in 2022 of Vietnam Bond Market Association (VBMA). Available at: https://vbma.org.vn/vi/reports/yearly

9. Y. A. Babalola1, F. R. Abiola (2013). Financial Ratio Analysis of Firms: A Tool for Decision Making. International Journal of Management Sciences, 1(4),132-137.

10. Uyen To (2023). Nearly VND 330,000 billions of corporate bonds will mature in 2024. Available at: https://thitruongtaichinhtiente.vn/gan-330-000-ty-dong-trai-phieu-doanh-nghiep-se-dao-han-trong-nam-2024-52341.html

Received date: November 17, 2023
Reviewed date: December 10, 2023
Accepted date: December 20, 2023

Author's information:
PhD. PHAM ANH DUNG
Founder CEO, Greyland Construction and Real Estate JSC

PHÂN TÍCH KHẢ NĂNG TRẢ NỢ TRÁI PHIẾU CỦA CÁC DOANH NGHIỆP: NGHIÊN CỨU TÌNH HUỐNG Ở VIỆT NAM

● TS. **PHẠM ANH DŨNG**
CEO Công ty Cổ phần Đầu tư Phát triển Dịch vụ Bất động sản và Xây dựng Đất Xám

TÓM TẮT:

Nghiên cứu này nhằm phân tích khả năng trả nợ trái phiếu của doanh nghiệp trong các năm tài chính từ 2020 đến quý 3 năm 2023. Dựa trên báo cáo của Hiệp hội Thị trường Trái phiếu Việt Nam (VBMA) từ năm 2020 đến năm 2022 và trong quý 3 năm 2023, phương pháp so sánh đã được sử dụng để đánh giá tỷ lệ trả nợ trái phiếu của công ty bất động sản và các doanh nghiệp khác. Nghiên cứu này kỳ vọng sẽ giúp các doanh nghiệp Việt Nam nhận thấy được vấn đề thiếu tiền hiện tại và tương lai để trả nợ trái phiếu. Nghiên cứu này có thể giúp đưa ra các giải pháp phù hợp nhằm phát triển thị trường trái phiếu doanh nghiệp Việt Nam và phục vụ cho các nghiên cứu tiếp theo.

Từ khóa: Hiệp hội Thị trường Trái phiếu Việt Nam, trả nợ trái phiếu, phát hành trái phiếu.