



Financing Solutions for Vietnam's Real Estate Market

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1 Financing Sources for Residential Real Estate Developers

2 Key Challenges

3 Solutions and Recommendations

Overview of residential real estate developers in Vietnam

Exhibit 1: Vietnam's Real Estate Sector Structure

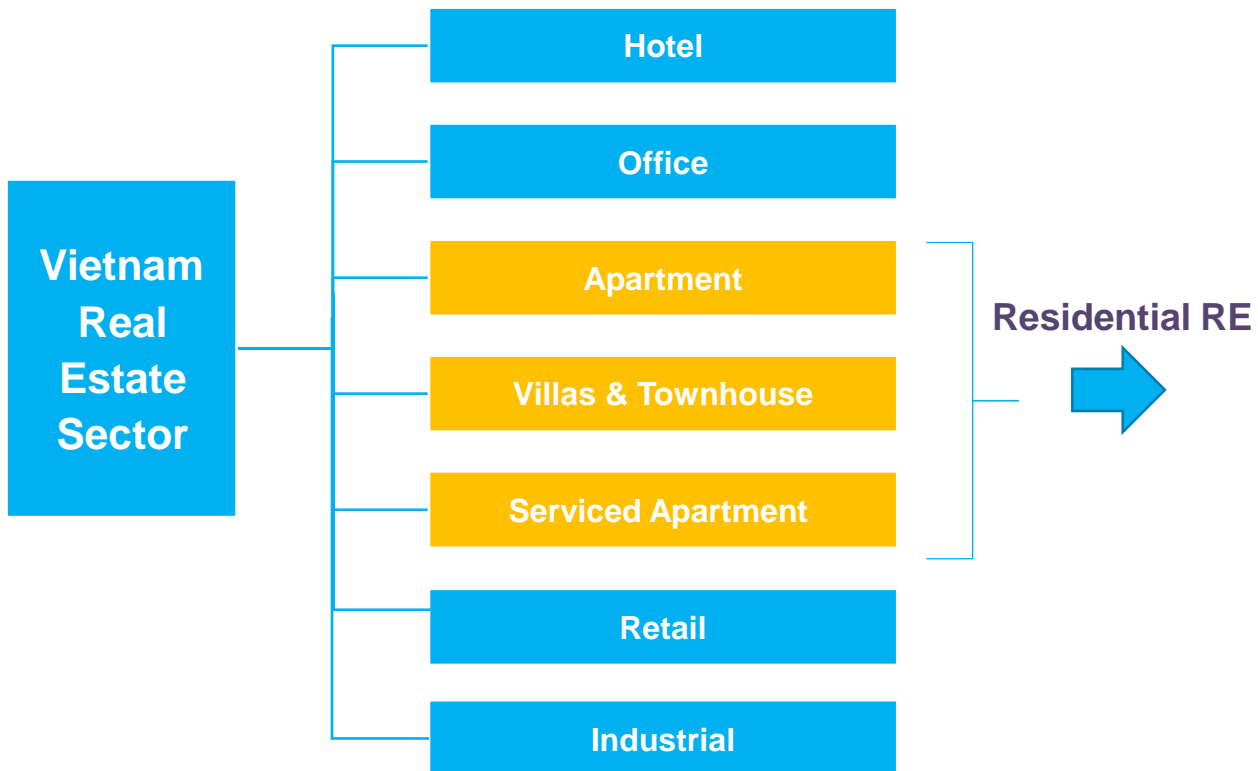
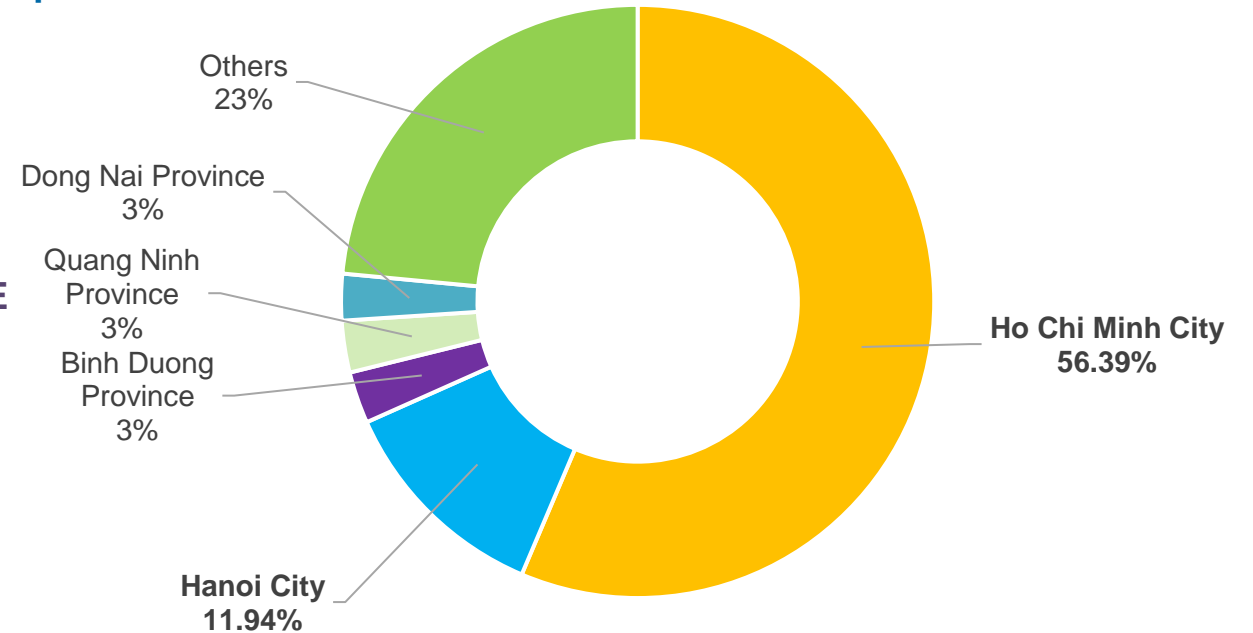


Exhibit 2: Mainly in HCMC, Hanoi and other high urbanization rate provinces



Source: FiinGroup

Note: Data compiled from 3200 residential real estate companies and based on address registered at the Agency for Business Registration of Ministry of Planning and Investment

- The distribution of residential real estate enterprises is mainly concentrated in Ho Chi Minh City (2086 enterprises). Hanoi (325 enterprises) and the remaining large cities also have high urbanization rates. Although a real estate business can have many projects in different localities, the locality in which the business is established and located shows the attractiveness of the investment environment as well as the policy implications.
- Out of a total of more than 3200 residential real estate businesses, there are currently about 1000 businesses focusing on apartments from high-end to affordable housing. Of which, there are about 100 listed companies.

What are their main sources of financing?

Exhibit 3: Credit structure of the real estate sector (Unit: VND trillion)

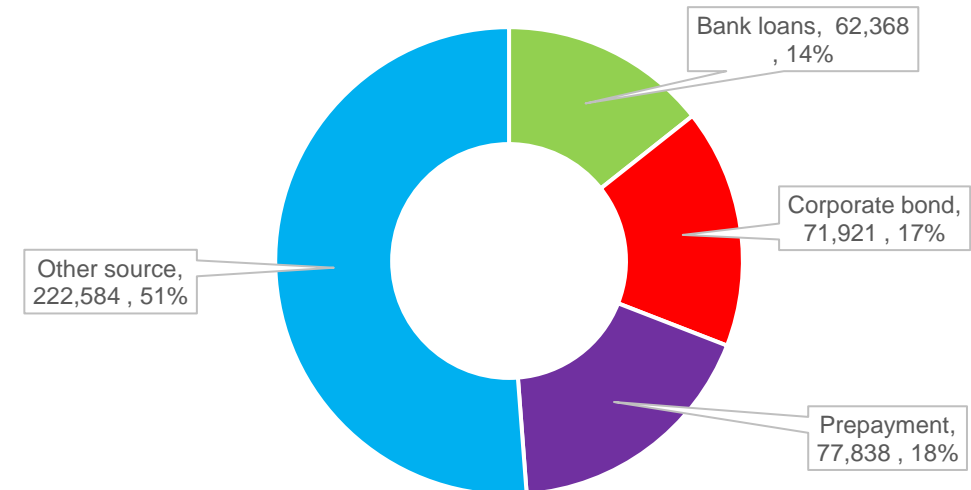
RE companies' main source of loan	Balance on 31/12/2021 (VND billion)
1. Credit to developers	700,0
2. Credit to home buyers	1.312,9
3. Local currency corporate bond	326,3
4. Foreign currency corporate bond	95,2
5. Borrowing in foreign currency	N/A
6. Business cooperation contract	N/A

Source: FiinGroup, SBV

Note: N/A = Data not available for foreign currency borrowing and business cooperation contract. Credit to developers included corporate bonds held by banks.

- As of March 31, 2022, outstanding credit for the real estate sector was VND 2,240,166 billion, an increase of 7.87% compared to December 31, 2021, accounting for 20.23% of total outstanding loans;
- According to SBV, consumer/self-use credit outstanding (mainly residential real estate) accounted for 65.01% of credit outstanding in the real estate sector. Outstanding loans for real estate business accounted for 34.99%.

Exhibit 4: Capital structure of listed residential real estate company (Unit: VND billion)



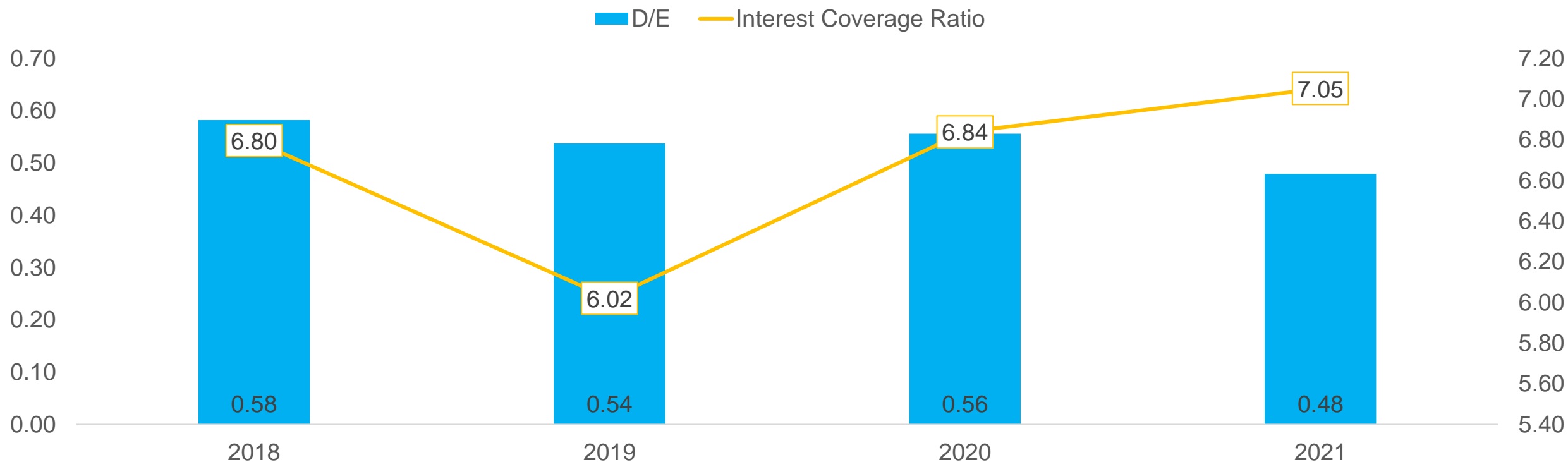
Source: FiinGroup.

Note: Data analysed from 54 listed residential RE companies with the total market capitalization of VND 910 billion. These companies have a total debt of VND 435 billion. Other sources include foreign currency borrowing, BCC and other sources.

- For listed real estate companies, other sources of capital (mainly including business cooperation contracts) are also important sources, aside from bank loans and corporate bonds.

They still have room for further debt capacity: data sample for listed companies

Exhibit 5: Listed real estate companies' leverage and interest coverage ratios are basically under safe level



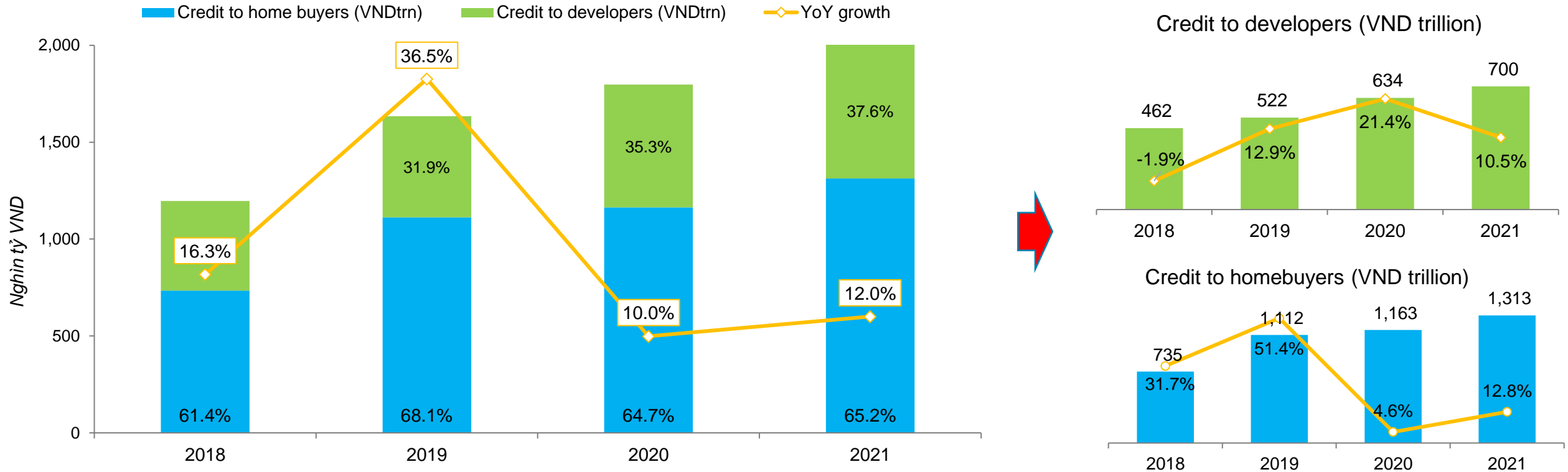
Source: FiinGroup

Note: Data analysed from 54 listed residential RE companies with the total market capitalization of VND 910 billion. These companies have a total debt of VND 435 billion. Total debt only includes short-term and long-term debt and not include other liabilities (mainly from business cooperation contract with customers and partners)

- The decreasing Debt/Equity Ratio of listed real estate companies along with the rising interest coverage ratio reflect the borrowing and repaying capacity of these businesses to be relatively stable. However, the prolonged pandemic and the real estate's legal issues have bottlenecked their projects' progress, making financing through channels more difficult.

Banking credit: under measures to control credit risks at some segments

Exhibit 6: Bank credit are mainly allocated to homebuyers, thus the risk are dispersed



Source: FiinGroup

- SBV is currently strictly controlling credit for the real estate sector, especially the real estate business. It encourages focusing the capital sources to low-cost commercial housing, social housing, and housing for workers to meet the real demand.
- As 65% of bank credit is for homebuyers, the risk factor mainly depends on the homebuyer's income/savings and the home loan interest rate applied by the bank.

Corporate bonds: who are main bondholders/buyers?

Exhibit 7: Issuers and investor profile in the c-bond primary markets in 2021 (VND trillion)

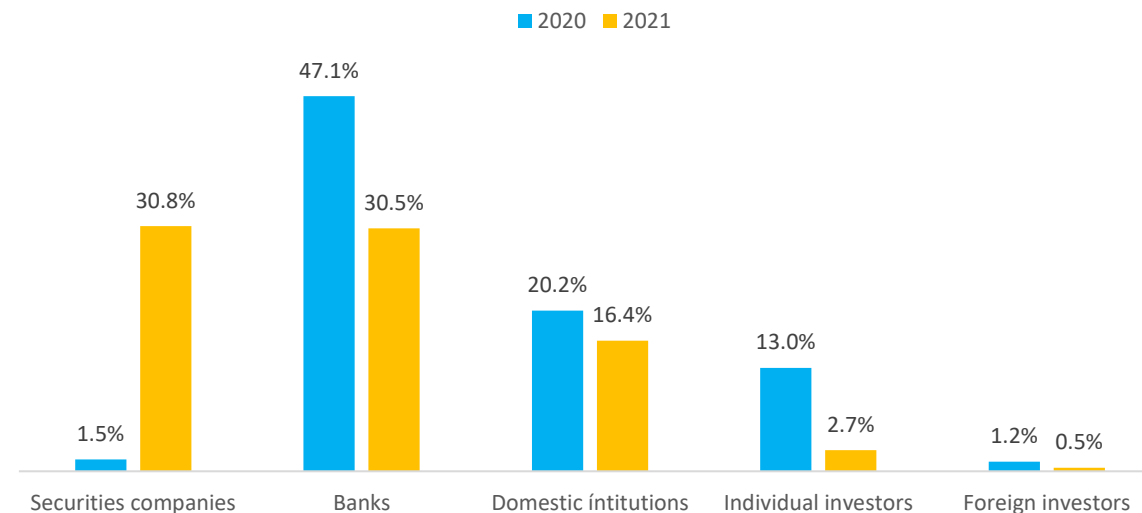
Issuers	Investors						Total
	Banks	Securities comp.	Domestic institutions	Foreign institutions	Individuals	N/A*	
Banks	62.9	94.4	41.0	-	10.6	21.9	230.8
Real estate	59.3	52.5	65.3	2.5	11.5	58.9	250.0
Other financial institutions	8.1	1.6	5.2	0.8	7.1	11.1	33.8
Others	34.1	35.3	47.8	5.3	7.2	37.4	167.0
Total	164.4	183.7	159.3	8.5	36.4	129.2	681.5

Source: FiiRatings, HNX

Note: Data compiled from 1077 corporate bonds issuance in 2021. These figures do not include USD 1.43 billion of foreign currency bond in 2021. *="A" due to undisclosed information of issuers

- In 2021, real estate bonds are mainly invested by domestic institutions, securities companies and commercial banks.
- With significant policy changes (Circular 16 for banks and Decree 153 for private placement bonds), it is important for real estate companies to consider expanding access to other Institutional investors, including insurance companies, and changing form of issuance to public offerings.

Exhibit 8: 2021 C-bond primary market's investor base



Source: FiiRatings.

Note: The figures were estimated based on issuance value, except bank bonds. Banks and credit institutions are not included in the Domestic institutions.

- Individual investors has decreased their exposure after the regulation on professional investors in Decree 153 took effect in early 2021. There was also a strong participation of securities companies in the primary market and then distribute the bonds to professional individual investors on the secondary market.

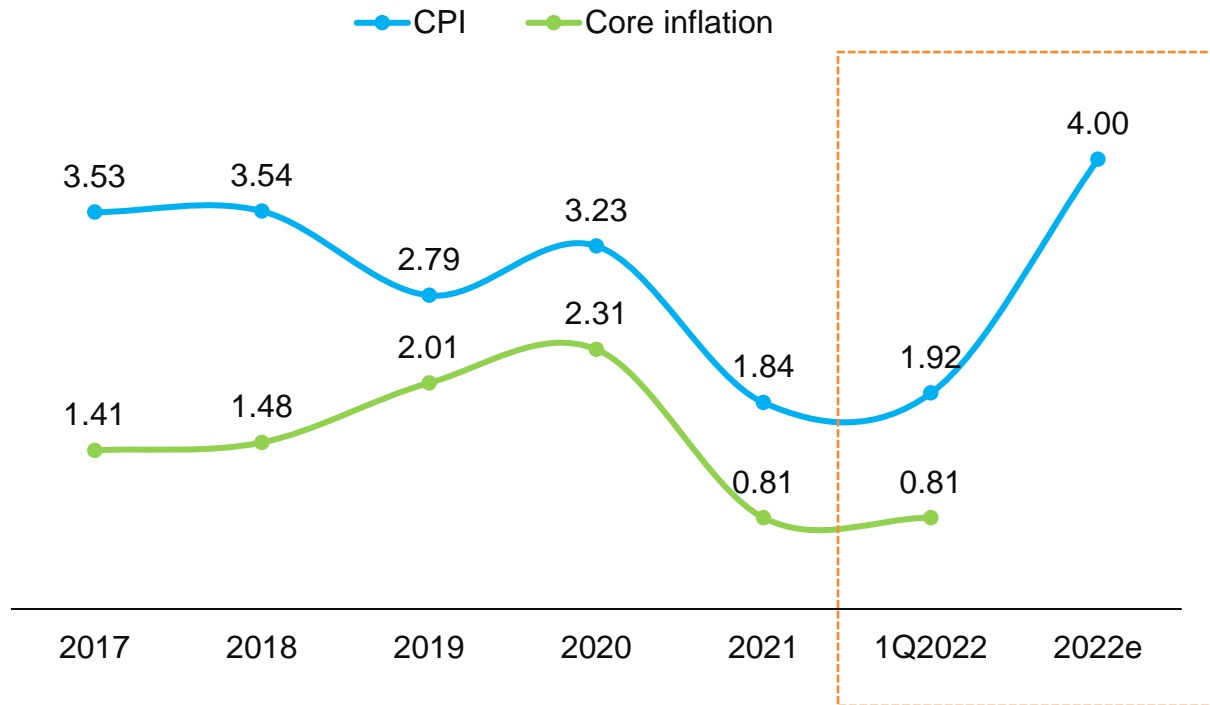
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1 Real estate developers are under macroeconomic headwinds

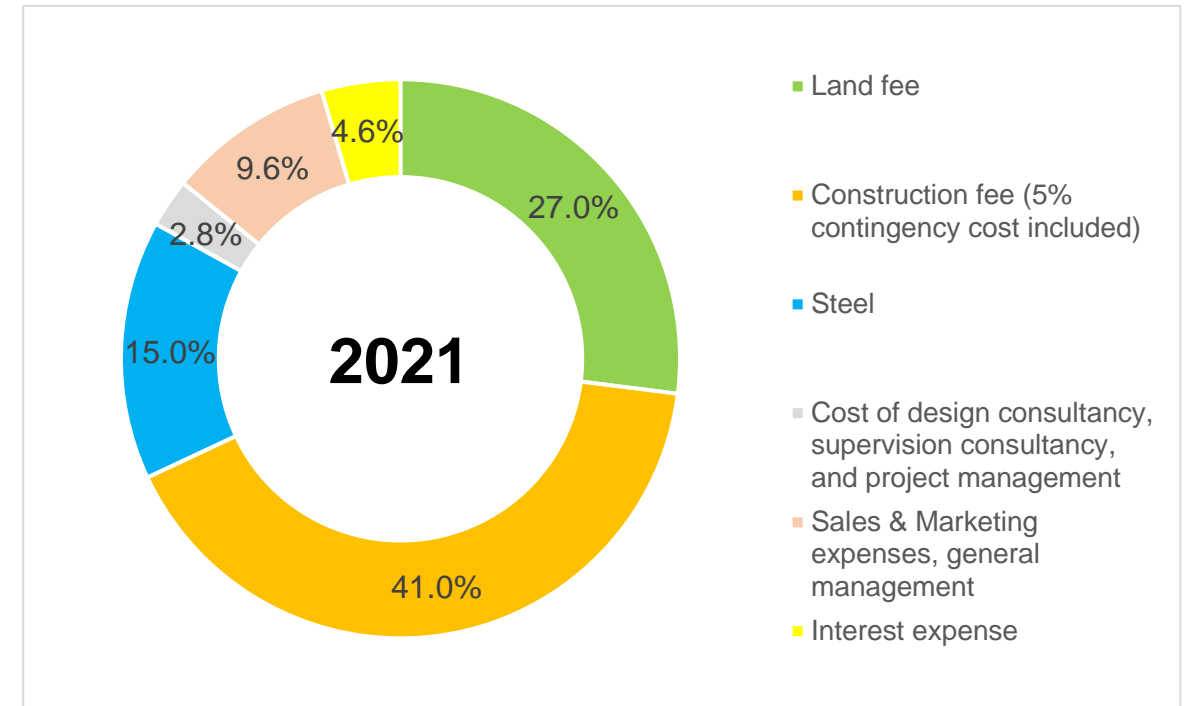
Exhibit 9: Rising inflation and interest rate causing rising input and capital cost



Source: FiinGroup

- Inflation is considered to have bottomed out and will increase due to the rising pressure of prices of basic commodities, and world geopolitical tensions leading to higher energy prices.
- Despite being strictly controlled, experts and international financial institutions believe that Vietnam's inflation in 2022 will reach around the 4% target set by the Government and the National Assembly.

Exhibit 10: The investment cost structure of a sample project

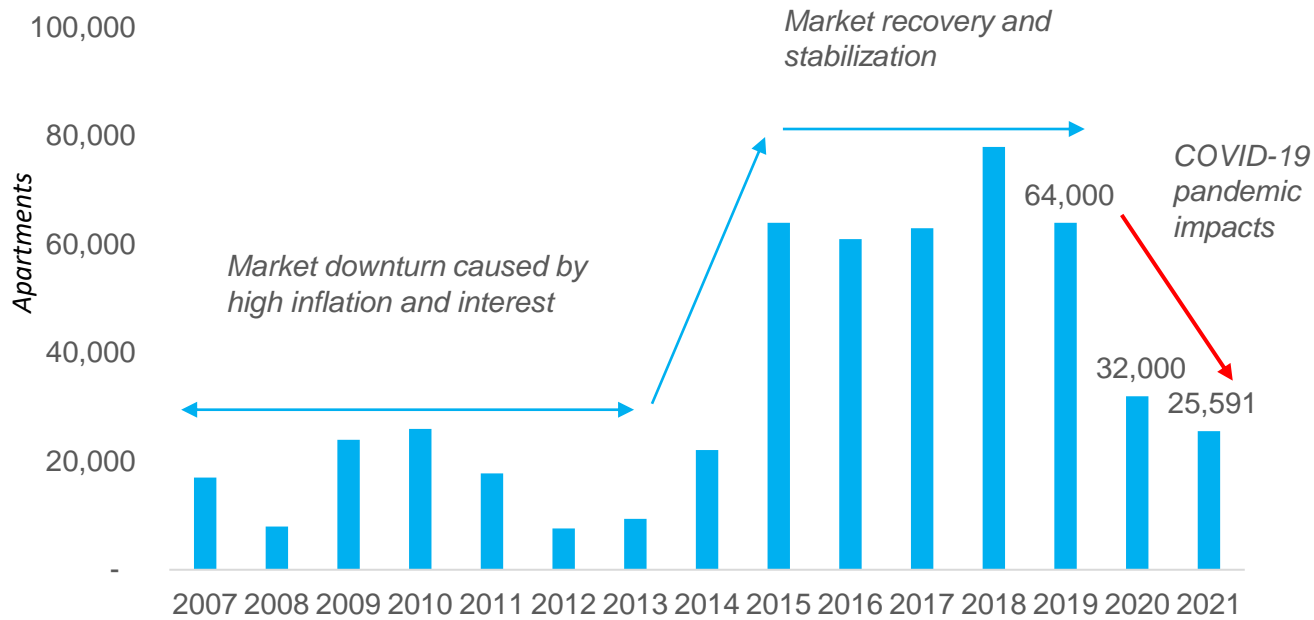


Source: FiinRatings, GSO, Institute of Construction Economics

- Steel costs account for a large proportion of real estate development projects, ranging from 15-20% of total investment costs for each project.
- Raw material prices and particularly steel prices have jumped recently, which increase the costs for investors significantly. Steel prices in April 2022 have increased by 46% compared to 2019, corresponding to the 7% increase of average cost of equipment.

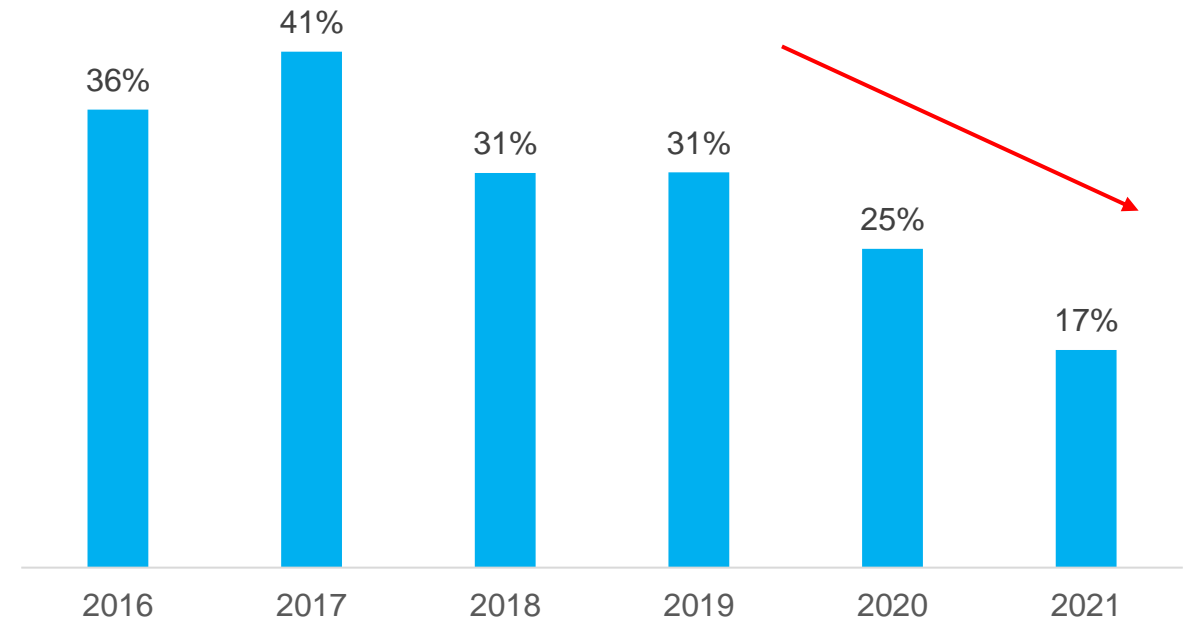
2 Low liquidity due to COVID-19 causing slow project implementations

Exhibit 11: Total number of apartments sold in Hanoi and Ho Chi Minh City in 2007-2021



Source: FiinRatings compiled from CBRE, Savills, VARS

Exhibit 12: Contracted sales outstanding/Inventory ratio of listed real estate firms



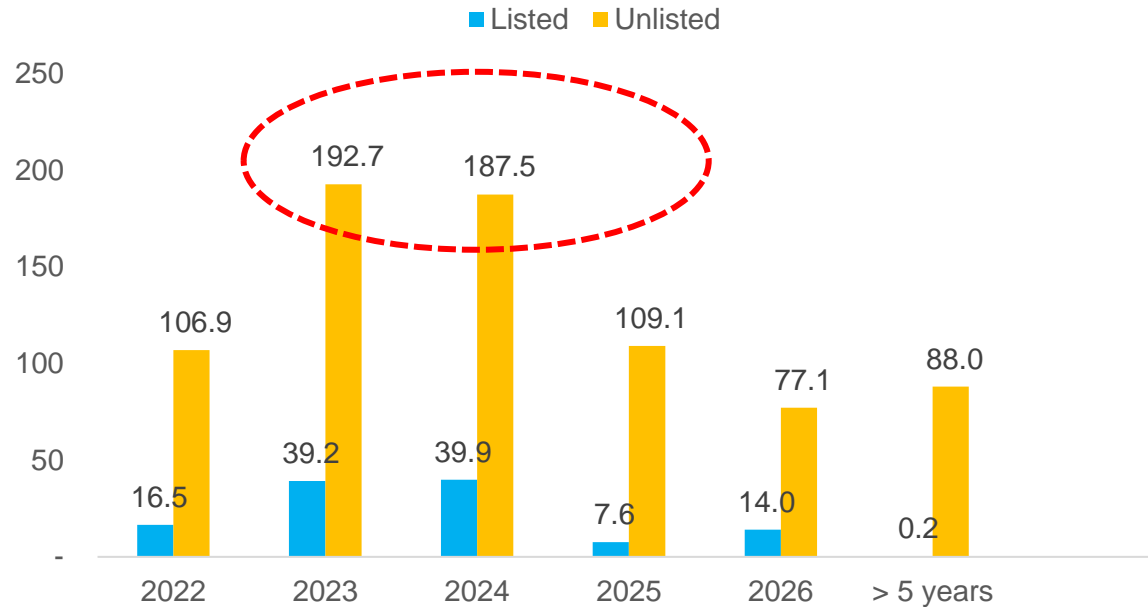
Source: FiinRatings

Notes: Data calculated from the financial reports of 50 listed residential real estate companies

- Slow project implementation due to COVID-19 social distancing and project legal procedures is shown by a sharp decrease in the Contracted Sales/Inventory index.
- Sale rate dropped sharply at 30% - compared to the highest record in the market recovery and stabilisation phase (only in Hanoi and HCMC - which accounted for about 60% of the national scale).
- Real estate credit in difficulty: Bank credit with the State Bank's Circular 16 and recent developments in corporate bond channel (Draft Decree Amending Decree No. 153); policy changes after the Thu Thiem land auction.

3 Debt coming due in the context of the credit tightening

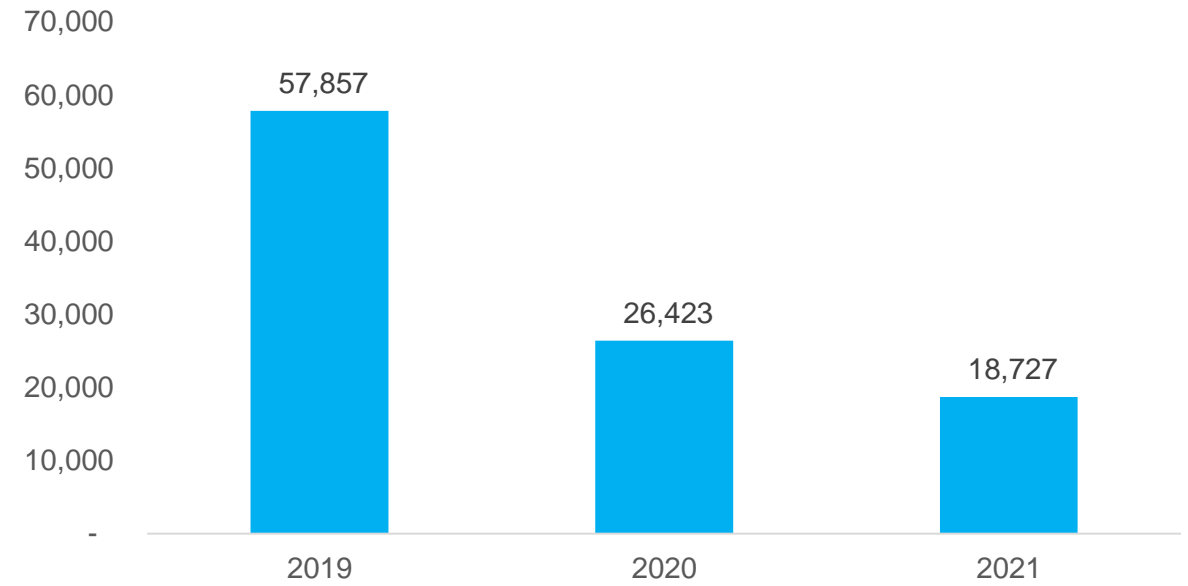
Exhibit 13: Corporate bond maturity schedule of Vietnam Real Estate Issuers by Value (VND trillion)



Source: FiinRatings, HNX.

Note: Data compiled from 3905 bond issuance of 633 issuers

Exhibit 14: Operating cashflow of listed residential real estate companies that issued bonds in 2021 (VND billion)



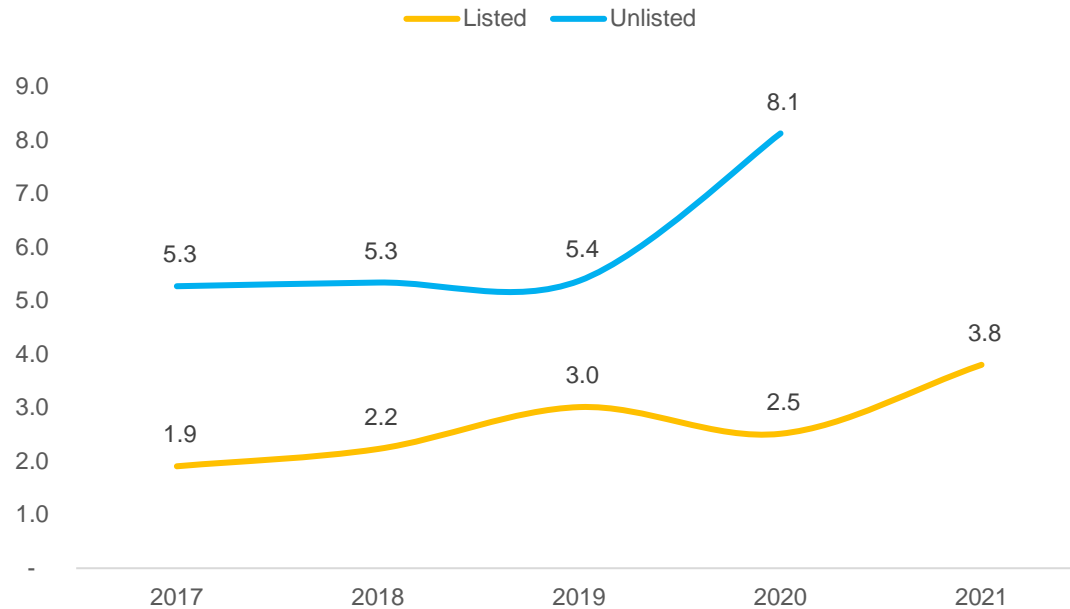
Source: FiinRatings.

Note: Data calculated from 26 listed real estate companies' financial statements that issued bond in 2021 (except for VinGroup as VinHomes was included).

- The total bond outstanding of Real Estate sector is VND 487 trillion as of the end of April. Our data showed that 63% of this value, which is VND 305 trillion, will mature in the next 3 years (2022 – 2024).
- The decreasing operating cashflow of the listed RE companies due to the pandemic showed their weakening credit health.

4 Weakening credit strengths especially unlisted companies

Exhibit 15: Debt/EBITDA of listed real estate companies that issued bonds continue to rise in 2021



Source: FiinRatings. Total debt = Short-term debt + Long-term debt – Cash – Short-term financial investment

- The credit capacity of unlisted enterprises is much weaker than that of listed ones.

Exhibit 16: The residential real estate sector expected to have modest earnings growth in 2022

	Profit After Taxes Growth				
	2018	2019	2020	2021	2022F
Real Estate and Building Materials					
Resident	158.3%	39.2%	4.2%	34.3%	2.1%
Industrial	16.3%	24.2%	3.2%	1.3%	64.1%
Construction	-15.7%	-6.7%	-9.4%	33.4%	36.4%
Steel	-16.6%	-13.3%	88.6%	163.1%	-8.5%
Building Materials	0.6%	11.6%	2.5%	-13.3%	20.6%
Non-financial					
TOTAL	6.1%	4.6%	-12.5%	46.1%	12.7%
	14.1%	12.6%	-0.7%	42.8%	21.1%

Source: FiinPro Platform. 2022F is forecasted figured, derived from forecasts of securities analysts and target planned and approved at shareholders' meetings.

- While non-financial enterprises in the whole stock market are forecasted to maintain positive profit growth, the profit outlook of listed real estate units is forecasted to be "flat".

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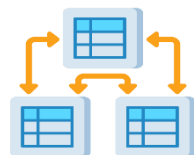
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Summary of Recommendations

We propose 3 solutions to maintain the sustainable development of the Residential Real Estate Sector in Vietnam while ensuring the goal of strengthening credit risk control:

Establish an open-access national database of residential real estate projects



As credit institutions and bond buyers are "risk-averse" due to the lack of information



- Information on land ownership
- Project legal information (licensing and transfer)
- Development progress and commercial activities

Enhance transparency of bond issuer and bonds



Due to the lack of information for decision-making and risk management



- Improve issuing documents: Standardised OC form that all issuers must use, etc.
- Apply and improve the public credit ratings.
- Information disclosure through out the bond's cycle

Consider amending legal regulations towards flexibility

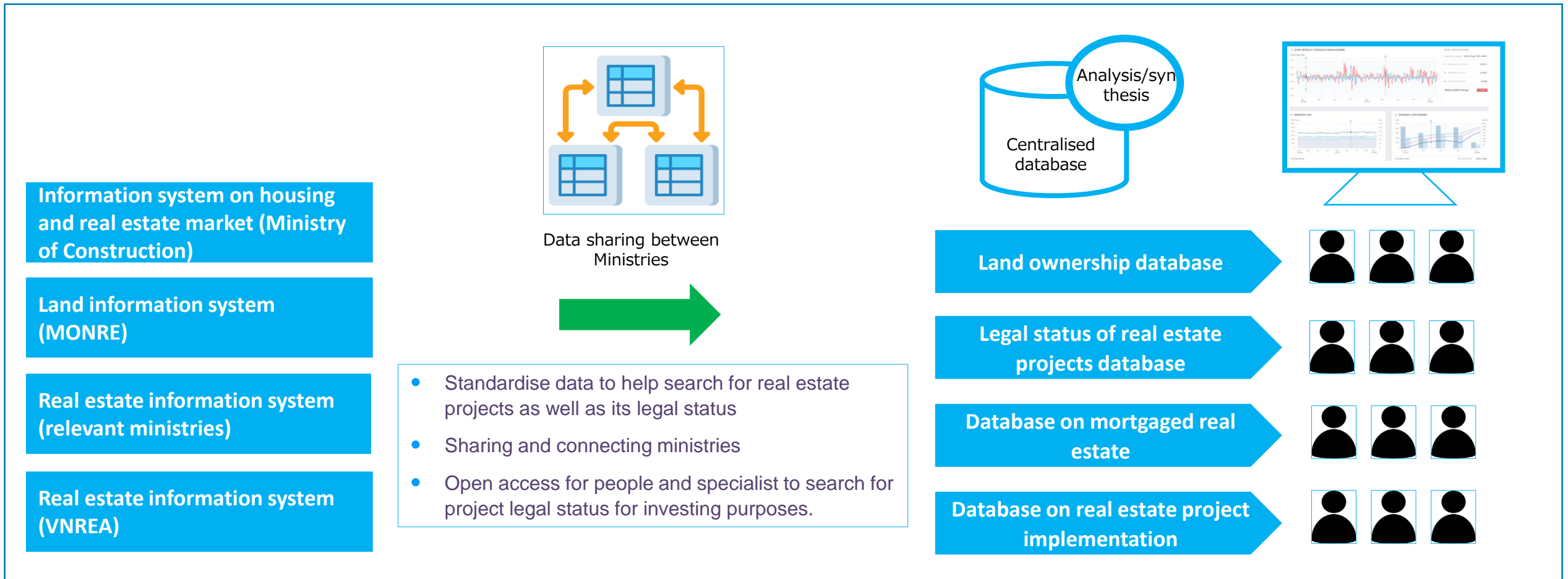


For the true function of the c-bond market and the high investing demand of people



- Limit the use of technical criteria, such as financial results and leverage ratio
- Improve the supervision on issuers, iunderwriters/advisors, sales agents and collateral asset managers
- Expand the domestic and foreign investor base

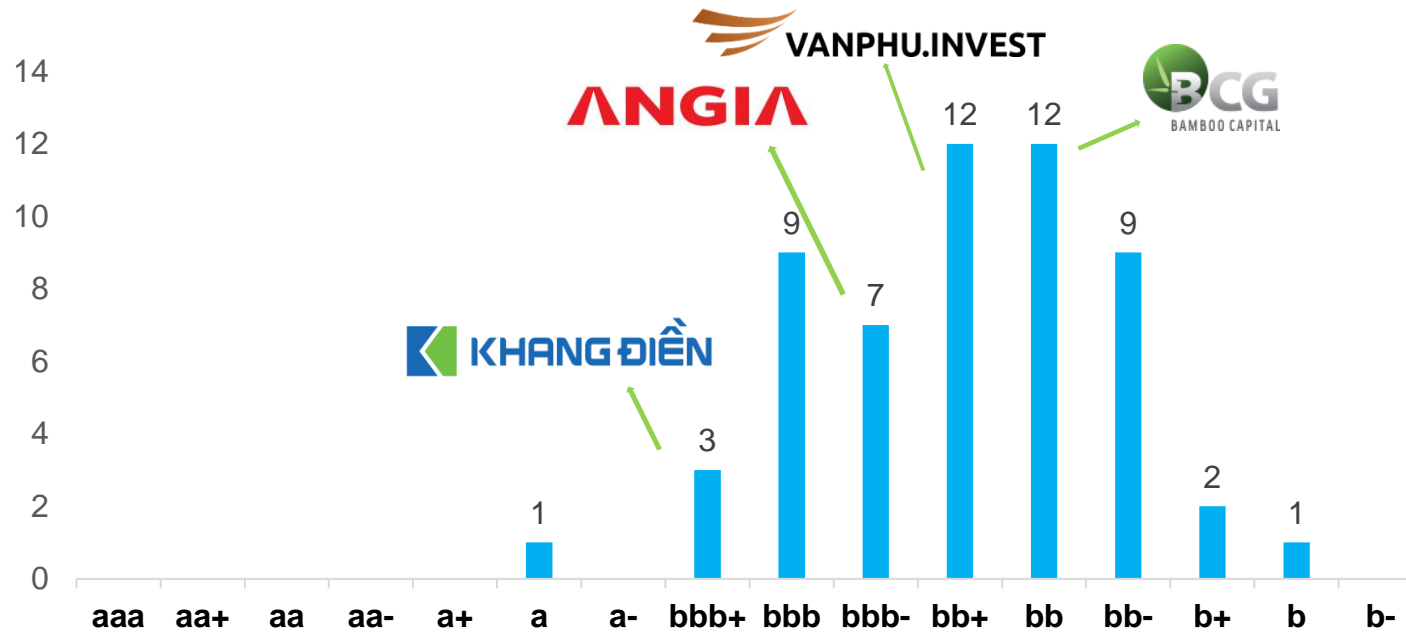
Preliminary idea for the national open-access database on residential real estate projects



- Integrated Land Information Service (INLIS) – integrated land database: ownership, legal status, etc. of Singapore Land Authority.
- Real Estate Information System (REALIS) – one-stop portal on real estate information of Singapore’s Urban Redevelopment Authority.

Applying credit ratings: improve information transparency; support credit risk control; and manage cross-default risks

Exhibit 17: Relative ranking of listed Real Estate companies and FiiRatings' official ratings of several issuers



Source: FiiRatings

Important Note: Except for issuers with names and logo shown on the Exhibit, this is not the final results of FiiRatings. To carry out rating actions, we would need to perform qualitative analysis, including interviews with the companies' management, due diligence and assess characteristics of each particular business model.

- The promotion of credit rating will help not only individual investors but also commercial banks in selecting, evaluating and lending credit in line with risk appetite and the State Bank's directive: strictly control real estate credit risks.
- Help "synchronize" information on bond credit quality and bank credit, thereby supporting cross-default risk monitoring of the credit market in general.

Exhibit 18: Meaning of credit rating scales for real estate developers

Credit quality	Description	Business Risk Profile	Financial Risk Profile
[a]	<ul style="list-style-type: none"> • Large and clean land bank in several cities and central areas, with diversified products and sources of income. • Strong reputation and proven project implementation capability. • Good funding capability and low financial leverage. 	Strong and above	Intermediate to Modest
[bbb]	<ul style="list-style-type: none"> • Above average scale with central city land bank. The implementation capability and feasibility is proven. • Below average financial leverage. 	Adequate to Strong	Intermediate to Modest
[bb]	<ul style="list-style-type: none"> • Land bank in cities, vicinity or others. • Higher financial leverage. 	Moderate to Adequate	Significant to Aggressive
[b]	<ul style="list-style-type: none"> • Small to average size. • Higher risks regarding the implementation capability. • Higher financial leverage. 	Below Moderate	Aggressive to Highly Leverage

Source: FiiRatings



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