

Strategic Insight

Time to open a new chapter in the capital market

Vietnam's rating is one step closer to the investment grade

On May 26th, 2022, Standard & Poor's announced to upgrade Vietnam's sovereign credit rating from BB to BB+, the highest level in the speculative grade, and bring Vietnam's government debt instruments one step closer to the international capital market. According to S&P, Vietnam's solid economic recovery and its efforts in timely paying government-guaranteed debts over two recent years were the main reasons for the upgrade.

S&P's upgrade indicates a promising Vietnam's capital market

The increase in Vietnam's sovereign credit rating likely indicated Vietnam's effort in upgrading the capital market. These could be the first steps to improve Vietnam's financial competitiveness compared to other countries in the Southeast Asia region by increasing the capacity and the depth of Vietnam's capital market, which already involved limited participation of foreign investors. As can be observed from historical data of Southeast Asia countries, especially Indonesia, showed us a positive correlation between the sovereign credit rating and the capital inflow into a country, indicating Vietnam's opportunity to develop the capital market with increasingly high participation of foreign investors.

KIS leading economic index

	2Q21	3Q21	4Q21	1Q22	2019	2020	2021
GDP (%)	6.61	(6.02)	2.58	5.03	7.02	2.91	2.58
Trade balance (USD bn)	(3.75)	(1.00)	5.22	0.82	10.42	19.01	4.61
CPI (%)	2.67	2.16	1.89	1.93	5.23	3.24	1.84
Discount rate (%)	3.00	3.00	3.00	3.00	4.00	3.00	3.00
USD/VND	23,020	22,761	22,790	22,870	23,231	23,255	22,790
US GDP (%)	NA	7.90	NA	NA	2.29	(3.41)	5.97
China GDP (%)	NA	6.00	NA	NA	5.95	2.34	8.02

Source: KIS

Contents

I. Vietnam's rating is one step closer to investment grade	1
II. S&P's upgrade indicates a promising Vietnam's capital market	3
Macro scorecard (USD bn, USD, %, % YoY)	5

Y Nguyen

y.nt@kisvn.vn

Nhan Tong

nhan.tt@kisvn.vn

I. Vietnam's rating is one step closer to investment grade

On May 26th, 2022, Standard & Poor announced to upgrade Vietnam's sovereign credit rating from BB to BB+, the highest level in the speculative grade, and bring Vietnam's government debt instruments one step closer to the international capital market in the future.

Table 1. Vietnam's historical S&P's rating

Date	Rating	Outlook
May 26, 2022	BB+ ↑	Stable
April 5, 2019	BB ↑	Stable
December 23, 2010	BB- ↓	Negative
September 7, 2006	BB ↑	Stable
May 28, 2002	BB-	

Source: Bloomberg, KIS
Notes: S&P initially ranks Vietnam's credit rating in 2002

Table 2. Vietnam's S&P credit rating status

Indicator	Status
Outlook	STABLE
Foreign Currency Long-term Debt	BB+ ↑
Local Currency Long-term Debt	BB+ ↑
Foreign Currency Short-term Debt	B →
Local Currency Short-term Debt	B →

Source: Bloomberg, KIS

According to S&P, there were two main reasons for Vietnam's upgrade. First, Vietnam's economy in two recent years showed a solid recovery, after lifting mobility restrictions under the pandemic and turning to the "living with COVID" strategy, with high GDP growth and well-controlled inflation. This development strengthened the financial position of the government. Second, Vietnam's effort in timely paying government-guaranteed debts over two recent years, marking the significant improvements in administrative processes. Therefore, S&P Global Rating increased Vietnam's long-term foreign and local currency sovereign credit ratings to BB+ and short-term ratings to B. Furthermore, it posited the economic outlook as stable.

Table 3. S&P's rating ABCs scales

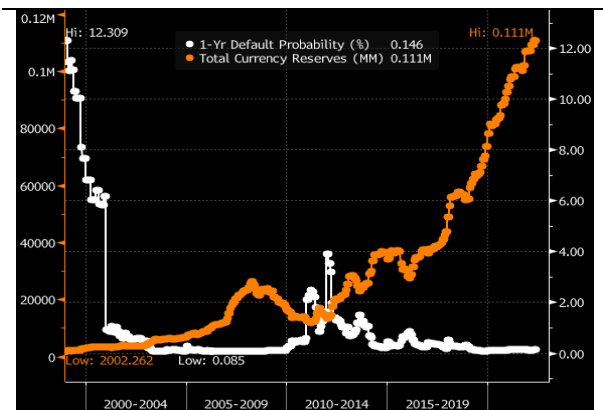
Investment Grade	AAA	Extremely strong capacity to meet financial commitments. Highest rating
	AA	Very strong capacity to meet financial commitments
	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	BBB-	Considered lowest investment-grade by market participants
Speculative Grade	BB+	Considered highest speculative-grade by market participants
	BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	B	More vulnerable to adverse business, financial and economic

	conditions but currently has the capacity to meet financial commitments
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
CC	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
C	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
D	Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken

Source: S&P Global, Bloomberg, KIS

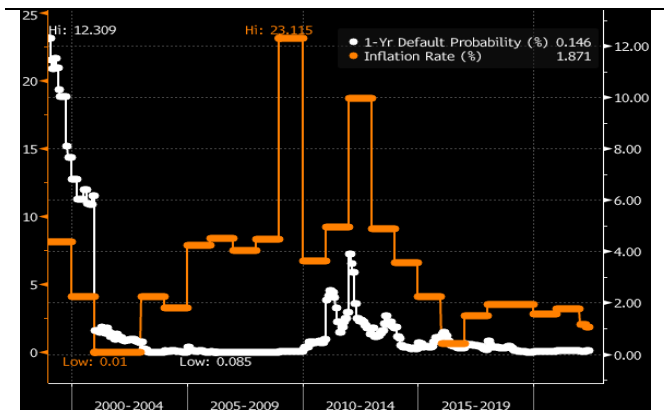
In our point of view, there are also potential factors for S&P’s recent upgrade including the consistent increase in foreign reserve and the well-controlled inflation. According to Bloomberg, Vietnam’s foreign reserve has reached USD110.90bn, which nearly fulfills the current external obligation of USD125.05bn, partly reducing the possibility of default risk at the country level. Besides, inflation played a key role in the model. In the 2009-2011 period of the hyperinflation, the government faced a risk of poor financial position leading to higher costs and financial burden to external investors and causing consequently higher probability of the default risk. At present, with proactive tools and mechanisms, Vietnam’s authorities are doing well in keeping the inflation, even in the stress of global commodity market, under its annual target of 4%.

Figure 1. Vietnam's default risk vs FX reserve



Source: Bloomberg, KIS

Figure 2. Vietnam's default risk vs inflation



Source: Bloomberg, KIS

S&P’s upgrade would be followed by good news from other credit rating agencies, including Moody’s and Fitch, for above-mentioned reasons. Although it is different in rating labeling, their methodologies in accessing the credit default risk of a specific country were similar. Recent developments in economic activities and COVID-19 prevention could reduce the possibility of Vietnam’s default risk in rating models of credit agencies. Hence, we expect that Moody’s and Fitch would upgrade Vietnam’s creditability soon.

Figure 35. S&P's and Moody's rating scale

	Moody's	S&P
Investment grade		
Highest quality	Aaa	AAA
High quality	Aa1	AA+
	Aa2	AA
	Aa3	AA-
Strong payment Capacity	A1	A+
	A2	A
	A3	A-
Adequate payment capacity	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Speculative grade		
Likely to fulfill obligations, ongoing uncertainty	Ba1	BB+
	Ba2	BB
	Ba3	BB-
High-risk obligations	B1	B+
	B2	B
	B3	B-

Source: S&P Global, Bloomberg, KIS

II. S&P's upgrade indicates a promising Vietnam's capital market

The increase in Vietnam's sovereign credit rating likely indicated the Vietnam's effort in upgrading the capital market. These could be the first steps to improve Vietnam's financial competitiveness compared to other countries in Southeast Asia region via increasing the capacity and depth of Vietnam's capital market, which already involved a limited participation of foreign investors. Furthermore, this upgrade opens chance for Vietnam to reduce the gap in capital market accessibility and increase the competitiveness with other countries in the Southeast Asia region. Given the long-standing financial market, Singapore's credibility was outstanding compared to not only countries in the region but also other financial centers in the world. Meanwhile, Vietnam, with the recent effort of the capital market upgrading, can create competitive pressure on other members of ASEAN, especially Indonesia, a country with remarkable growth in attracting foreign capital in recent years.

Figure 35. S&P's ratings of Southeast Asia countries

Country	Foreign currency long-term			Foreign currency short-term			Last update
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	
Vietnam	Ba3	BB+	BB	NR	B	B	May 26, 2022
Philippines	Baa2	BBB+	BBB	NR	A-2	F2	Apr 18, 2022
Malaysia	A3	A-	BBB+	NR	A-2	F2	Jun 2, 2021
Indonesia	Baa2	BBB	BBB	NR	A-2	F2	Apr 22, 2021
Thailand	Baa1	BBB+	BBB+u	P-2	A-2	F1u	Mar 11, 2021
Singapore	Aaa	AAAu	AAAu	NR	A-1+u	F1+u	Feb 16, 2021
Laos	Caa2	NR	CCC	NR	NR	C	Sep 23, 2020
Cambodia	B2	NR	NR	NR	NR	NR	Sep 29, 2014

Source: S&P Global, Bloomberg, KIS

Historical data of countries in the Southeast Asia region showed that there is a positive association between the sovereign credit rating and the capital inflow to a country. Indonesia was a good example. We easily find that foreign capital to Indonesia in terms of portfolio investment increased significantly among increasingly high credit ratings. Capital inflows to Indonesia's capital market, especially via the debt instrument of portfolio investment, rose significantly following the S&P's upgrade from B+ to BB- in 2004. The impact was stronger in 2011 and 2017 when the country's sovereign credit ratings climbed to meaningful levels of BB+ and BBB-. These upgrades significantly change its attractiveness to foreign investors. From 2010-to 2015, the total investment flows to Indonesia's debt market was USD71.71bn, doubling the value of the 2005-2009 period. In 2015-2020, the value of capital inflows was USD94.71bn, increasing by 32.07% compared to the 2010-2015 period.

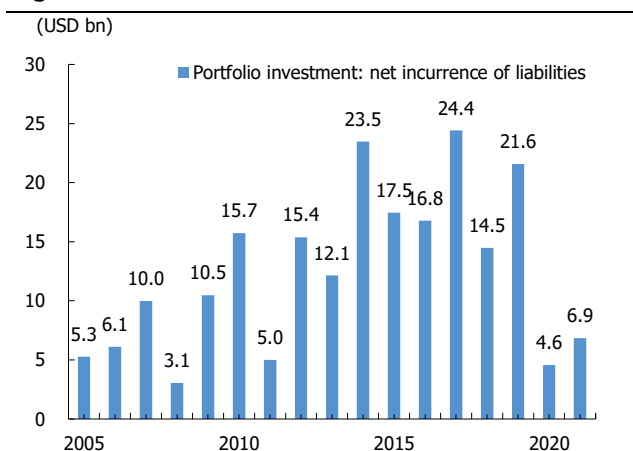
Indonesia's success in attracting foreign investors in the capital market was a valuable lesson for Vietnam. The consistent upgrade in sovereign credit rating would show foreign investors government's commitments toward a transparent and sustained capital market, gradually building up their belief on the government's ability to meet obligation of debt instruments. These developments, in turn, would benefit domestic businesses in long term via lowering funding costs and increasing the funding availability.

Figure 11. Indonesia's historical ratings

Rating	Effective
BBB	May 31, 2019
BBB-	May 19, 2017
BB+	April 8, 2011
BB	March 12, 2010
BB-	July 26, 2006
B+	December 22, 2004
B	October 8, 2003
B-	May 12, 2003
CCC+	September 5, 2002

Source: GSO, KIS

Figure 12. Indonesia's net incurrence of liabilities



Source: GSO, KIS

Macro scorecard

(USD bn, USD, %, % YoY)

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	2Q21	3Q21	4Q21	1Q22	2018	2019	2020	2021
Real GDP growth		5.22					6.61	(6.02)	5.22	5.03	7.08	7.03	2.91	2.58
Registered FDI	2.73	4.69	2.10	2.89	3.91	1.91	5.14	6.88	9.01	8.91	35.47	38.02	28.53	31.15
GDP per capita											2,457	2,604	2,656	
Unemployment rate		3.56					2.62	3.98	3.56		2.21	2.25	2.48	3.22
Export	31.87	34.52	30.84	22.95	34.06	33.26	79.95	82.12	95.26	88.32	243.5	263.6	282.7	335.7
Import	30.61	31.98	29.45	25.28	32.67	32.19	83.70	83.12	88.72	87.50	236.7	254.4	263.0	331.1
Export growth	26.27	24.82	8.05	13.22	14.86	25.27	34.74	2.99	20.43	12.66	13.19	8.16	7.02	18.74
Import growth	23.96	14.59	11.30	21.86	14.81	15.89	45.79	18.85	15.42	15.79	11.01	7.41	3.81	25.90
Inflation	2.10	1.81	1.94	1.68	2.41	2.64	2.67	2.51	1.89	1.93	3.54	2.79	3.24	1.84
USD/VND	22,729	22,790	22,663	22,820	22,870	23,095	23,020	22,761	22,790	22,870	23,175	23,173	23,126	22,790
Credit growth	10.10	12.97	2.74	1.82	4.13	6.37	6.44	7.88	12.97	4.13	10.77	13.75	12.17	12.97
10Y gov't bond	2.09	2.11	2.09	2.24	2.41	3.05	2.21	2.14	2.11	2.41	5.07	3.37	2.01	2.11

Source: GSO, Bloomberg, FIA, IMF

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

DAN SONG, Managing Director, Head of HK Sales (dan.song@kisasiasia.com +852 2530 8914)
GREGORY KIM, Sales (greg.kim@kisasiasia.com, +822 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasiasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasiasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

This report has been prepared by KIS Vietnam Securities Corp. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on this report and the company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is not intended for the use of private investors.

Copyright © 2020 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.