



Malaysian and Vietnamese corporates face differing credit outlooks

by [Vivane Raj](#)

- **Malaysia and Vietnam domiciled corporates have the highest credit risk as proxied by the NUS-CRI Agg PD out of all ASEAN countries in 2020**
- **Agg PD indicates that Malaysian corporates overtook Vietnamese corporates as the riskiest in ASEAN in 2020**
- **While Malaysia domiciled companies have faced higher credit risk on aggregate in 2020 compared to Vietnam, Forward PD suggests worsening credit quality for Vietnam domiciled corporates**

As ASEAN countries were hard hit by the COVID-19 pandemic and panic in the markets reached its height in Mar 2020, the NUS-CRI Aggregate (Median) 1-year Probability of Default (Agg PD) (See Figure 1) indicated that ASEAN domiciled corporates' credit risk increased to an eight [year](#) high. The member nations are [largely dependent](#) on tourism, manufacturing and labour migration, all of which were severely disrupted by global lockdowns. As a result, the overall GDP of the region has fallen by an estimated [4.2%](#). However, as the region began to gradually bounce back financially from the worst of the crisis, the economic and credit health of ASEAN corporates recovered from its riskiest levels. This brief will analyse the corporate credit quality of companies domiciled in Malaysia and Vietnam, the countries with the highest PDs at the start of 2020 in ASEAN, against the backdrop of the ASEAN region.

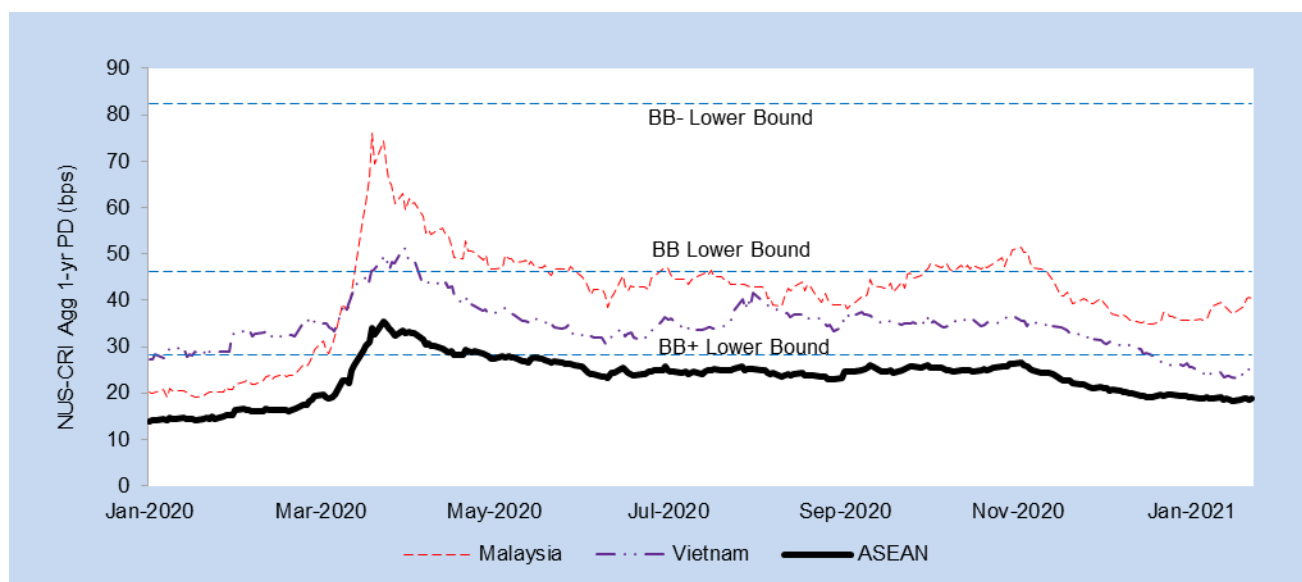


Figure 1: NUS-CRI Agg 1-Year PD of publicly listed corporates in countries within ASEAN¹ with reference to PDiR2.0² bounds. *Source: NUS-CRI*

¹ The countries used in the ASEAN comparison group are Singapore, Thailand, Vietnam, Indonesia, Philippines and Malaysia. Brunei Darussalam, Laos, Myanmar and Cambodia are excluded from ASEAN countries' PD due to lack of publicly-listed companies.

² The Probability of Default implied Rating version 2.0 (PDiR2.0) provides a more familiar interpretation through mapping the NUS-CRI 1-year PDs to the S&P letter grades. The method targets S&P's historical credit rating migration experience exhibited by its global corporate rating pool instead of relying solely on the reported default rates.

The overall credit quality for ASEAN corporates remains strong, with the Agg PD for the whole region reverting back into the investment grade (IG) boundary in May 2020, proxied by PDiR2.0. However, Malaysia’s credit health deteriorated significantly in Mar 2020, as its PD rose above that of Vietnam. Vietnam had a relatively elevated Agg PD of 27bps compared to Malaysia’s 20bps at the start of 2020. However, Malaysia’s Agg PD rose to 76bps in March, while Vietnam had a relatively muted jump to 51bps. This spread in credit quality remained constant throughout the remainder of the year. During the pandemic, Vietnam was seen as the model for all countries, with a relatively low [1,817 cases](#) as of 31 Jan 2021 and no lockdowns in sight. The country, in turn, posted [2.9%](#) annual GDP growth in a recessionary global landscape. Meanwhile, Malaysia’s had a significantly higher total active cases in Jan 2021, as the country struggled to contain the outbreak amidst [significant political setbacks](#).

Though both countries decided to use expansionary monetary policy to combat the effects of the pandemic-induced slowdown, there are marginal differences in policy responses. Apart from the reduction of the policy interest rate from [3%](#) to [1.75%](#), which affected the economy as a whole, Malaysia’s policies have mainly [focused on providing relief to SMEs](#), with the aim to mitigate the economic fallout on its most vulnerable demographic. For Vietnam, besides cutting its interest rates from [6%](#) to [4%](#), it also provided [VND 27tn stimulus](#) in April in the form of tax cuts and deferred tax and lease payments for corporates. Overall, this provided a liquidity buffer for Vietnamese corporates to service their debt, helping them weather the full impact of the pandemic better than their Malaysian counterparts.

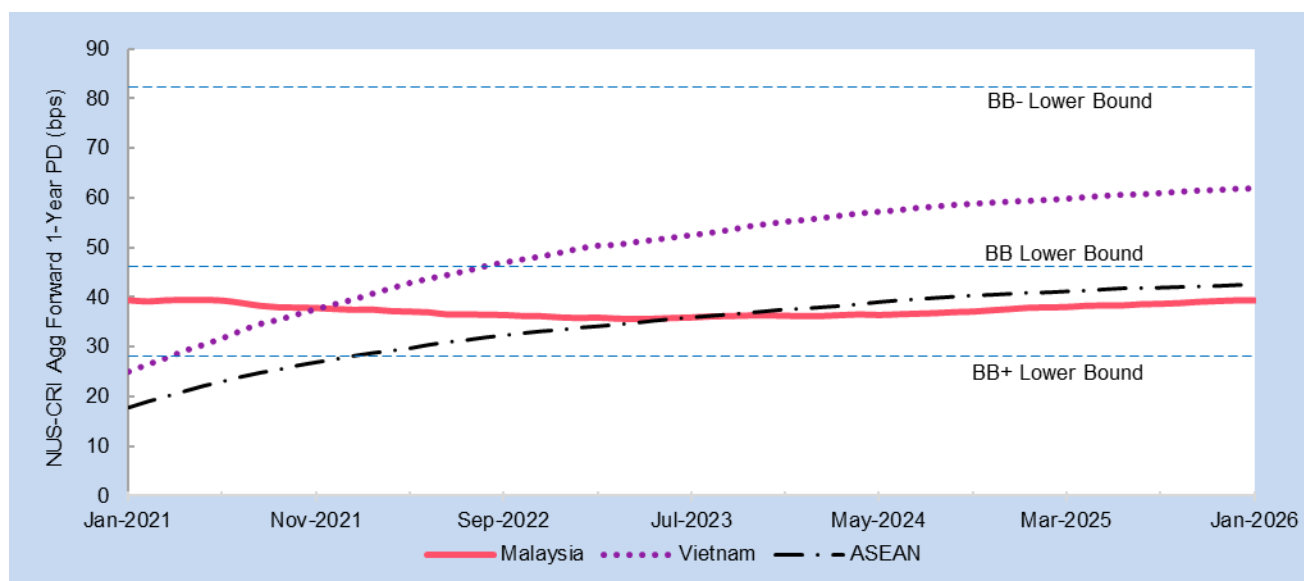


Figure 2: Corresponding NUS-CRI Agg Forward 1-Year based on data feed at Jan 2021 with reference to PDiR2.0. Source: NUS-CRI

Looking forward, Malaysia’s credit outlook appears to be slightly brighter, with the NUS-CRI Agg Forward 1-Year Probability of Default (Forward PD³) remaining relatively the same over the next 5 years. A [state-of-emergency](#) imposed in Jan 2021 stripped away red-tape for government actions going forward, making it easier for the country’s leaders to provide an [agile economic response](#) to the COVID crisis. This is complemented with a new round of [MYR 15bn](#) stimulus, which now includes certain subsidies for [non-SME corporates](#) as well. These factors are a positive for the credit health of Malaysian corporates, and with more concessions given to corporates, they will be better able to handle cash flow volatility going forward.

On the other hand, while Vietnam has been a strong performer during 2020, it has a weaker credit outlook going forward as demonstrated by the Forward PD. Vietnam’s regulatory crackdown on corporate borrowing could be a double-edged sword. As domestic banks [remain selective](#) with lending, companies’ access to capital will be restricted. [High funding costs](#) may present refinancing risks as well, while smaller corporates may face a tough time borrowing from [international debt markets](#). While the country has come out of the pandemic [relatively well](#)

³The Forward PD estimates the credit risk of a company in a future period, which can be interpreted similarly to a forward interest rate. For example, the 6-month Forward 1-year PD is the probability that the firm defaults during the period from 6 months onwards to 18 months – this is conditional on the firm’s survival in the next 6 months.

compared to its regional and global peers, it recently recorded the highest single day case count in the country. As Vietnam domiciled companies face high funding costs and lower liquidity buffers, potential lockdowns could land a huge blow to its corporates.

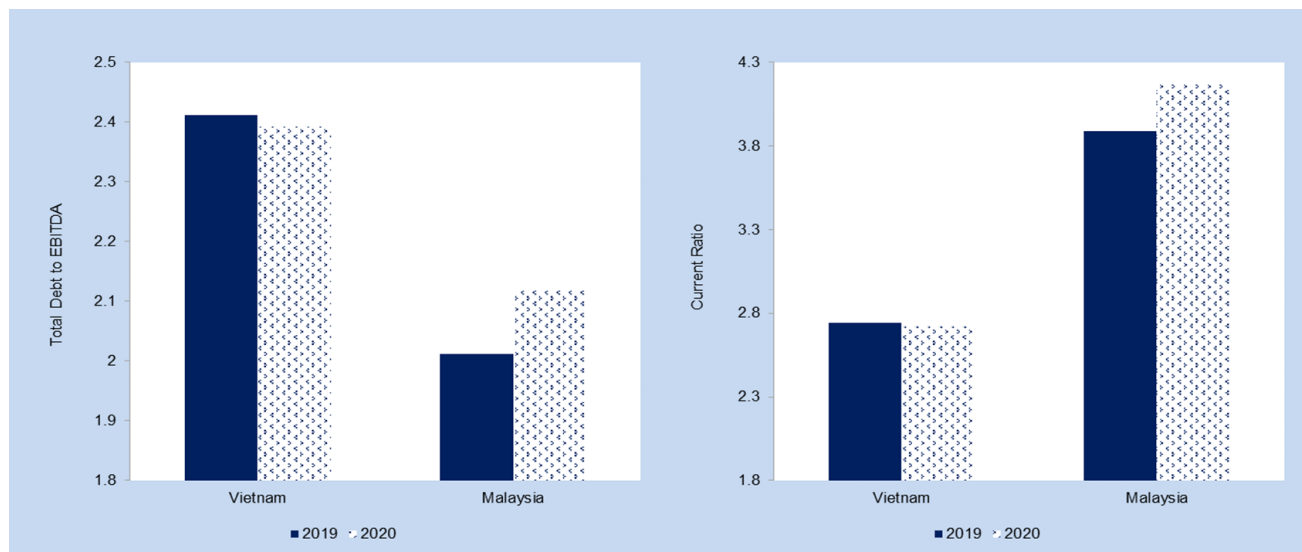


Figure 3a (LHS): Change in Total Debt to EBITDA levels across 2019 and 2020 for Malaysia and Vietnam. Figure 3b (RHS): Change in current ratio levels across 2019 and 2020 for Malaysia and Vietnam. Source: Bloomberg.

Malaysia experienced a [12.1%](#) rise in local currency corporate debt issuances from Q2 to Q3 2020, as companies took advantage of [record-low](#) interest rates in order to refinance their debt. Vietnam saw a fall in local currency corporate debt issuance in Q3 2020, totalling [VND 67tn](#), a fall of VND 16tn from the prior quarter. This was likely due to [government regulations](#) ensuring that only stronger issuers can access the credit market. Corporates that issued debt after this would be [limited](#) by the amount of debt that could be issued, as well as the frequency at which they could issue that debt.

While Malaysian corporates have experienced a marginal increase in leverage (Figure 3a), their median Debt-to-EBITDA levels are still lower than that of Vietnam. The median Debt-to-EBITDA ratio of Malaysian corporates was 2.12 in 2020 from 2.01 in 2019, as compared to Vietnamese corporates, which had a median leverage to 2.39 from 2.41 in 2019. Unsurprisingly, the current ratio for Malaysian corporates increased from 3.89 to 4.17 as they built up buffers for long-sustaining strenuous economic conditions. In comparison, Vietnam's average current ratio marginally decreased from 2.74 to 2.72 as debt issuances fell. Overall, this puts Malaysian corporates in a better position than their Vietnamese counterparts.

In sum, the credit outlook over the next year for ASEAN domiciled corporates on aggregate remains investment-grade. With vaccinations and economic stimulus in the pipeline, ASEAN corporates may enjoy some breathing room after a turbulent 2020. The initiation of the Regional Comprehensive Economic Partnership (RCEP) will have broader market implications for the region, as countries such as Malaysia and Vietnam receive higher [exposure](#) to the larger regional market in the future. The resultant creation of novel [supply chains](#) will help corporates in the region to expand their businesses, giving developing nations in the region the chance to catch up to global peers. With concrete plans on diminishing trade barriers and encouraging cross-country investment within the region, ASEAN's potential [economic integration](#) between member nations and global institutions may improve revenue streams in a post-COVID future.

Credit News**China debt maturity wall looms as rising rates pressure issuers**

Jan 29. In Mar and Apr 2020, over CNY 2.6tn worth of corporate issuance is expected to mature. Given PBOC's stance to scale back fiscal stimulus, the cash conditions are increasingly geared. An analyst claimed that the credit risk from last year was delayed but not removed. In light of the seemingly less accommodative monetary stance, there are speculations of rising rates tightening liquidity. Since the height of SOE defaults, the spread of a one-year AA-rated paper doubled. Moving forward, it is imperative for the market to ensure discipline and allow for credit differentiation. ([Reuters](#))

Creditors seek bankruptcy of China's once high-flying HNA

Jan 29. Creditors of China's HNA group have applied to a Chinese court for the company to be restructured under Bankruptcy due to its inability to pay its debts. One of China's most aggressive dealmaking firms, HNA group, fueled its USD 50bn global acquisition spree using debt. It had USD 109.8bn debts at the end of Jun 2019. Eight of HNA's onshore listed entities made filings on their exchange regarding bankruptcy and restructuring. The company is trying to reduce its debt levels by converting debt into equity and attracting new strategic investors. This is a sign that the Chinese government is cleaning up bigger and bad companies. ([Reuters](#))

Credit investors worldwide are piling into US corporate debt

Jan 29. With falling hedge costs, US corporate papers are more attractive. To put it on relative grounds, an investor from Europe can yield over 1% on average with a US IG paper after hedging. In contrast, the EU counterparts yield around 0.8%. BofA expects the rising demand to aid longer tenor papers to catch up with their relatively short maturity counterparts. This demand can be attributed to the democratic control of the government. With expectations of more stimulus, more funding is expected from the treasury. This has resulted in a rise of the 30-year rate to 1.9%. ([Bloomberg](#))

Emerging-market borrowing boom sparks concerns over debt loads

Jan 28. Governments and companies in developing countries have sold almost USD 100bn of bonds in Jan 2021 (compared to USD 847bn in 2020), raising investors' concerns regarding future debt problems. Demand for higher-yielding assets has fueled the bond boom as developed markets see super low or negative rates, leading to a surge of liquidity in the markets. The expectation of a relatively weak dollar is also leading to mass accumulation of debt. Investment-grade debt yield has come down to a record low of 2.1% from 3.5% at the height of the market meltdown in 2020. At the same time, high-yield borrowers' cost of debt has come below pre-pandemic levels to 5.9% after increasing above 12% last year. ([WSJ](#))

Companies raise USD 400bn over three weeks in blistering start to 2021

Jan 26. Across the equity and debt capital markets, companies have raised over USD 400bn in funds. This marks a multi-year high. Despite doubts about the economic recovery and the spread of COVID 19, the markets are priced based on the global fiscal and monetary landscape. For the debt market, in particular, companies have raised over USD 337bn by Jan 22, 2020. The shoring up of balance sheets is done in preparation and buffer of the future headwinds to come. Meanwhile, the ICE BofA's US CCC rated bonds are near an all-time low of 7.6%. ([FT](#))

Trump's Indonesia partner gets approval for distressed debt plan ([Bloomberg](#))

National Bank applies to join Greece's Hercules bad loan scheme ([Reuters](#))

Qatar's Commercial Bank plans to raise at least USD 1bn via bond sales – CEO ([Reuters](#))

Regulatory Updates

Chinese regulator curbs asset transfers to protect bondholders

Jan 29. China's interbank bond market regulator is going to restrict moves by bond issuers to transfer assets for free as a means to protect bondholders after a spur of defaults. This will ensure that issuers will not dodge debt obligations through asset transfer or transactions with related parties. The new regulation requires that if a company wants to conduct a free transfer of assets, it must make timely disclosure to bondholders. Additionally, if the resultant transfer of assets reduces its net assets by 10% or more, or result in changing control, a bond-holders meeting must be held. Consequently, China's regulators have vowed to reduce misconduct, reprimand underwriters and CRAs, and improving disclosure rules. ([Reuters](#))

Excess liquidity signals Bank of Canada's bond purchases too big for money markets

Jan 29. An unprecedented amount of cash floated the Canadian money markets in light of the global pandemic. As the central bank maintains its Quantitative Easing program, the money market rate is currently below target. In other words, the Bank of Canada might not be able to deliver the promised cut of 25bps without driving some rates into the negative range. For institutions without access to the central bank's deposit rates, excess funds are swelling up their in-house deposits and the money market. ([Reuters](#))

PBOC withdraws financial market liquidity to contain risks ([Regulation Asia](#))

US banking regulator freezes controversial 'fair access' rule ([Reuters](#))