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Rating Update:

FiinRatings raised Issuer Rating of Viet Dragon Securities Corporation (‘VDS’) from BB to BB+; outlook Stable

Long-term Issuer Credit Rating (*): BB+

Rating Outlook: Stable

Hanoi, 01 August 2023

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*This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual insurance such as bond that it may issue.

The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

This document is prepared in both English and Vietnamese. The English translation is for reference only and the Vietnamese version will prevail in the event of any inconsistency between the English version and the Vietnamese version.

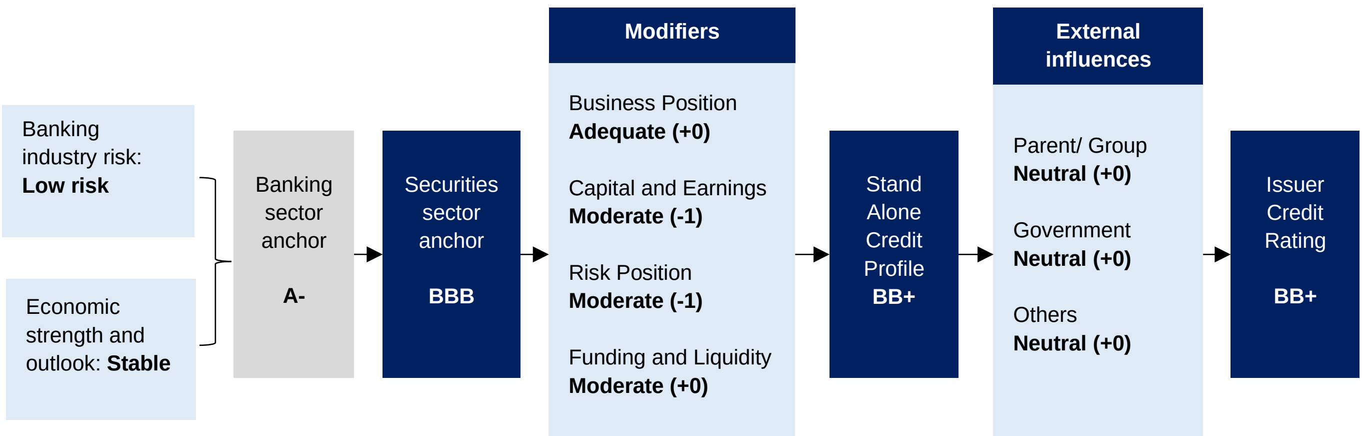
** Mr. Nguyen Anh Quan replaced Mr. Le Hong Khang as Lead Analyst and Mr. Nguyen Huu Hao Hiep replaced Mr. Nguyen Anh Quan as Analyst as of June 27, 2023 due to FiinRatings’ internal work allocation

*** Mr. Nguyen Tung Anh replaced Mr. Paul Coughlin as of July 18, 2023, as Rating Committee Members due to FiinRatings’ internal work allocation.

Hanoi, 01 August 2023

FiinRatings upgrades the issuer credit rating of Viet Dragon Securities Corporation ("VDS") from **"BB"** to **"BB+"** and maintain the rating outlook at **"Stable"** to reflect our assessment on ongoing improvement in the Company's funding ability, which helped reduce significant refinancing risk stemming from reliance on bond issuance that VDS was facing in the last assessment. Our analysis also factors in the Company's stable market share, improving earnings profile and leverage metrics that resulted from positive financial performance achieved and gradually more supportive corporate bond market sentiment. The **Stable** outlook reflects our expectation of the Company's ability to maintain its current business and financial profile. In addition, the outlook represents our view on recovery of stock market liquidity in the next 12-18 months.

RATING SUMMARY



We may consider adjusting the rating of VDS under the following scenarios:

Upgrade Scenarios

We could take positive rating actions if the Company demonstrates:

- Significant improvement in the brokerage market share by attaining retail and institutional clients who incur recurring transactions.
- Stable revenue generating ability and effective cost management leading to lower earnings volatility and more sustainable earnings.
- Improving risk position by reducing risk appetite and enhancing risk management in both proprietary trading and margin lending activities.

Downgrade Scenarios

We could take negative rating actions if:

- A significantly deteriorated business profile as evidenced by a lower securities brokerage market share and shrinking customer base.
- Weaker-than-expected leverage and earnings metrics coupled with high volatility in earnings and lower earnings quality which leads to lower ability to fulfill financial obligations.
- Heightened refinancing risk that results from unexpectedly negative capital market development.
- Increasingly high-risk appetite in proprietary trading, margin lending, and investment banking activities.

RATING RATIONALE

Compared to the initial assessment, we affirm the Business position assessment of VDS at Adequate considering the Company's intermediate size, its stable market share in brokerage service and margin lending activities, as well as consistency in investment strategy. VDS still ranks within the top securities companies in terms of market share of brokerage service (1.44% in 1H/2023). In addition, the Company has expanded its retail clients gradually by investing in IT infrastructure to prepare for the expansion into the mass market. Besides, margin lending activities remain stable considering the stable lending balance at around VND 2,000 bn in the period of 2021-2023. However, the firm's investment strategy of focusing on public equity investment (accounted for 41% of adjusted total revenue for 1H2023) makes VDS exposed to market risk. Overall, we expect that VDS will maintain its business position as one of the top 15-20 securities brokerage companies in the next 12-18 months with normalized market share of around 1.44% in the second half of 2023 and for the whole year of 2024.

VDS's capital, leverage and earnings remained at "Moderate" level. Compared to our previous assessment, VDS's leverage has decreased and is currently on-par with the industry's level. Earnings profile has been improving in 1H2023 thanks to the recovery of the Company's stock holdings. Capital and leverage are assessed as Moderate taking into account: (i) the small-to-medium size of shareholders' equity (the figure as of June 2023 is at VND 2,237 bn, less than the industry's median level at VND 2,400 bn), (ii) the Debt/Equity ratio decreased to 0.94x, which is on par with the industry median figure of 0.95x, but is likely increase in the future since the Company may expand its margin lending service to take advantage of a recovering market. Regarding the Company's earnings profile, it has been improving significantly in comparison to last year thanks to VDS's consistent investment strategy in a more favorable market. In the first quarter of 2023, the Company's ROE was stated at 2.6%, which is significantly higher than the industry median level of 1.6%, and the Company posted net profit at VND 160.03 bn and ROE at 7.4% in the first half of 2023. In addition, the cost-to-income ratio (CIR) remains at around 50-60%, which is still on par with the industry median level. However, we assess that VDS still relies significantly on investment & proprietary trading activities, which are driven by the market and can cause substantial fluctuations in the Company's profit level. Regardless, with the recent positive market movement, we expect VDS's profitability in brokerage and margin lending to be strengthened along with the rise in market liquidity. Earnings quality as well as the stability of profits will be factors that we monitor and update in the upcoming surveillance ratings.

Risk position's assessment remains at "Moderate" considering the Company's relatively high-risk appetite in proprietary trading and investment in unlisted bonds and concentration risk in margin lending activities. Regarding proprietary trading, VDS has relatively high-risk investment appetite considering (i) the average Beta of VDS's stock portfolio as our analysis in 2022 and the first quarter of 2023 is at above 1, indicating higher-than-market price volatility, (ii) the Company's long-term investment strategy for most of the stocks in the portfolio, therefore accepting the impact of unfavorable market movement in the short term and maintaining its position according to the investment plan. Those factors can negatively impact on the Company's earnings during periods of market downtrend. (The company occurred net loss in this segment in 2022 but recovered to recognize net profit in 1H/2023). Nevertheless, the Company's portfolio consists of highly liquid stocks, most of which are from well-known firms and have good-to-strong fundamentals, hence market risk is expected to be neutralized in the long run. In addition, credit risk may exist for the unlisted corporate bonds that VDS intends to hold as a long-term position. As discussed with VDS, the Company is working closely with certain issuers to redeem their investments in these holdings.

Regarding margin lending activities, the concentration risk may arise since around a significant portion of lending balance coming from top biggest customers, but such risk can be under control taking into account of long-term relationship with its high net-worth customers. Moreover, despite the lack of a fully automated force selling system, operational risk is still sufficiently managed by the Company since the present system is sufficient for VDS's current business model. However, such risks may aggravate when VDS expands their loan book size and could also result in a lack of timely response in a more challenging market condition. VDS is also aware of these shortcomings and is committed to further improving their operational processes, as evidenced by their effort to develop up a fully automated force selling system. In the fourth quarter 2022, the Company incurred additional provision expenses of only VND 0.12 bn during the market turmoil, but it is minimal compared to the margin lending balance (making up only 0.006% of its lending balance). In addition, VDS selects stocks eligible for margin lending and ensures a sufficient ratio of collateral coverage at 300% which lessens the company's credit risk in margin lending.

VDS is assessed as "Moderate" in funding capability due to reliance on bond issuance. However, this weakness has been partly mitigated by higher diversification in funding sources from banks, and successful new bond issuance. Despite unfavorable market development during recent periods, the Company successfully raised VND 656.1 bn during the last three quarters, meeting 80% of its original funding plan. For funding from credit institutions, as of June 2023, the Company's bank credit line has increased by around 40.0% compared to that of September 2022. The Company's total available credit line/bond funding ratio as of June 2023 at 77.0%, much higher than the figure of Q3/2022 at 41.0%. We expect this debt funding mix ratio to further improve, because with recent positive business performance, VDS can now establish higher credit lines with its existing or new creditors. We assess that the Company's ability to further improve its debt funding mix will be a key monitorable for the upcoming surveillances.

We raised our assessment on funding capability of VDS from "Moderate" to "Adequate" thanks to more diversified funding sources and lower refinancing risk. For bond funding, the Company raised VND 656.1 bn during Q4/2022 and 1H2023, meeting 80% of its original funding plan, which is notable given that the bond market was essentially frozen in Q4/2022 and 1H/2023 due to unfavorable market developments as well as stricter requirements imposed on bond private placements. We assess that, unlike several other peers in the industry, bond funding can be presently considered a source of stable funding for VDS, and that VDS possesses a base of sticky customers who are willing to purchase bonds even amidst market turmoil. Because of that, we expect that the refinancing risk of VDS onward to be less severe than our previous assessment. For funding from credit institutions, as of June 2023, the Company's bank credit line has increased to VND 1,159.7 bn, which is 40% higher compared to similar figure of Q3/2022. The Company's total attained credit line/bond funding ratio is now at 77.0%, much higher than the figure of Q3/2022 at 41.0%. With VDS' current funding plan, the ratio is expected to further improve as the Company plans to boost the credit lines with the existing and new banks (increase to around VND2,000 bn at year-end 2024). We expect credit lines from banks will become the key funding sources of VDS in the next 12-18 months.

We affirm liquidity of VDS as "Adequate". VDS has a predictable and largely-fixed operating cost base and the ability to downsize its margin lending book (Lending balance/Short-term Debt as of June 2023 is at 1.2x). Additionally, the Company's stock holdings are concentrated on liquid stocks, which account for around 11.0% of total assets and are able to cover around 25% of short-term debt. VDS has the flexibility to quickly liquidate its assets to meet its principal debt payments. In our stress scenario, in which only 50% of the Company's plan for new bond issuance is included, we project that VDS still poses sufficient liquidity position to meet its financial obligations.

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of companies in Vietnam. This methodology is intended as a general guidance to help companies, investors, and other market participants to understand how FiinRatings looks at quantitative and qualitative factors significant in explaining rating outcomes in general and specific for each sector that we cover.

In addition, certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please follow the link below for the Rating Methodology and Related Criteria:

- Rating methodology for Securities Companies
- Notching for Group Support Methodology

Or refer to the following link for more details on the general rating methodology:

- General Rating methodology

CREDIT RATINGS HISTORY

Credit Ratings History		
Viet Dragon Securities Corporation		
Issuer Credit Rating History		
19 January 2023	*Initial Ratings*	*Issuer Rating:* ***BB*** *Outlook:* ***Stable***
01 August 2023	*Surveillance*	*Issuer Rating:* ***BB+*** *Outlook:* ***Stable***

RATING SCALE AND DEFINITION

We employ below rating scale in assigning ratings for all issuers across industries and sectors that we cover in Vietnam. The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Definition and explanation	Rating scales
Group 1: **Extremely strong** capacity to meet financial obligation	**AAA**
Group 2: **Very strong** capacity to meet financial obligation	**AA+**
	AA
	AA-
Group 3: **Strong capacity** to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances	**A+**
	A
	A-
Group 4: **Adequate capacity** to meet financial commitments but more vulnerable to adverse developments and economic conditions	**BBB+**
	BBB
	BBB-
Group 5: **Moderate capacity** to meet financial obligations but less vulnerable than other speculative issuers	**BB+**
	BB
	BB-
Group 6: **Weak capacity** to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	**B+**
	B
	B-
Group 7: **Very weak** capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	**CCC+**
	CCC
	CCC-
	CC
	C
Group 8: **Default**. Payments on an obligation are not made on the date due or the issuer becomes insolvent. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	**SD, D**

OWNERSHIP DISCLOSURE AND STATEMENTS

At the time of the publication, the following information is provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

- VDS's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at VDS: *none*
- FiinRatings's other employee percentage of equity ownership at VDS: *none*
- VDS's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment value of bond(s) issued by VDS: *none*
- VDS's investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings's investment value of other debt instruments issued by VDS: *none*

FiinRatings aforementioned includes FiinRatings JSC., its directors, Credit Rating Committee members, and analysts of FiinRatings engaged in this rating action. The information above was examined during client acceptance process and before the signing date of Credit Rating Agreement with the Company and was updated on the issue date of this report.

FiinRatings maintain a strict independence policy to meet current regulations in providing credit rating services in Vietnam as well as to comply with our conflicts-of-interest policy and to ensure the objectivity and independence in giving opinion on our credit ratings. Accordingly, personnel directly participated in credit rating are not allowed to own or to execute any transactions of securities, shares or debt instruments issued by the Company once FiinRatings has established a credit rating relationship.

FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 02-C13-2023

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 01 August 2023

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