

Rating Update:

## **FiinRatings maintains long-term credit rating of F88 Business Joint Stock Company at BBB-, keeping the rating outlook at Negative**

**Long-term Issuer Credit Rating\*: BBB-  
Outlook: Negative**

**Hanoi, 08 December 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.

\*\* Ms. Nguyen Tuyet Lan replaced Mr. Nguyen Huu Hao Hiep, CFA as Analyst as of October 1, 2023 due to FiinRatings' internal work allocation.

\*\*\* Ms. Nguyen Thi Lan, CFA replaced Mr. Le Xuan Dong, CFA and Mr. Nguyen Tung Anh replaced Mr. Paul Coughlin as Committee member as of October 1, 2023 due to FiinRatings' internal work allocation.

**Hanoi, 08 December 2023**

FiinRatings maintains F88's credit rating at **BBB-** in the latest update based on the Company's continually leading position in the alternative lending sector, as well as its recovering business performance despite unfavorable developments in the industry during a struggling economic period. However, we also maintain F88's rating outlook at '**Negative**'. This reflects our assessment that F88's asset quality and business results have declined as expected in the previous surveillance. In addition, we believe that the rating outlook is still reflecting accurately the current and near future state of the consumer finance sector and the alternative lending segment. However, we expect that the impact of the forementioned unfavorable factors on F88 is coming to an end, and we will continue to monitor these factors in the upcoming surveillance.

We will closely monitor and assess the following factors that we believe could have a significant impact on the Company's business and financial performance in the medium term:

- Asset quality and the ability to recover bad debts in the context of tightening regulations related to debt collection activities that directly affect the Company's profitability.
- The ability to diversify revenue sources in order to reduce reliance on lending activities, especially from the distribution of standalone insurance products that are not associated with loans.
- The ability to recover and strengthen business position, adapting to unfavorable conditions in the capital market and in the challenging macroeconomic environment.
- Sufficient/adequate funding and liquidity position in order to ensure and meet business expansion plans.

**Upside scenario:**

We could consider adjusting the rating outlook to 'Stable' if:

- F88 demonstrates significant recovery and improvement in loan book growth beyond our expectation, or
- F88 shows improvement in the Company's risk position (reflected by credit costs and bad debt recovery rates) after the impact of unfavorable developments in 2023, or
- F88 significantly improves the Company's profitability while maintaining financial leverage at a reasonable level.

**Downside scenario:**

We could take negative rating actions if:

- F88 does not demonstrate significant recovery in loan book growth and revenue due to difficulties in business activities and debt collection in the context of challenging industry and economy conditions, or
- F88's profitability does not show considerable improvement due to rising credit costs or due to a steep decline in the average business efficiency of stores as well as the Company's asset quality, or
- F88's leverage ratio increases notably due to changes in financial policy and/or lower than expected equity.

## RATING RATIONALE

**F88's business position is maintained at "Adequate", similar to our previous surveillance, since the Company has remained a leader in the alternative lending industry in Vietnam with a dominant position attributable to its extensive geographical reach, diversified network of stores, and a considerable loan book** even comparable to some SBV-licensed finance companies. F88's adjusted loan balance at the end of October 2023 decreased by 31% from the end of 2022 due to the Company's proactive tightening of loan disbursements to reduce non-performing loans in the face of unfavorable market developments. However, revenue from fee and interest in the first 10 months of 2023 ("10M2023") still grew by 28% year-on-year (y-o-y). In addition, while the expansion plan was temporarily interrupted, F88 focused on developing the business performance of its existing branches instead of continuously opening new ones. As a result, as of October 2023, the total number of branches reached 815, with not much change from the end of 2022. In addition, the Company continued to diversify revenue sources, shown by the promotion of insurance services segment and the payment services segment (total accounted for 11% of total revenue). Regarding products and services diversity, there is a variety of service packages to meet customer needs; this help reduce concentration risk in the product portfolio.

**The capital structure and financial leverage are kept at "Strong", considering the improvement in the scale of equity after the capital increase in March 2023; this helped reduce the leverage ratio.** The capital increase in March 2023 from Mekong Capital and Vietnam-Oman Investment Fund helped F88 maintain its leading position in the alternative lending segment and a competitive position against some non-bank finance companies. Hence, as of the end of October 2023, F88's gearing level was 1.85 times, equivalent to only half the value at the end of 2022 (3.86 times) and much lower than the median of the consumer finance industry (approximately 4.58 times as of 30/06/2023). F88 does not have plan to raise equity in the near future, while there will be disbursements of new loans from foreign funds as well as the issuance of short-term bonds in the near future. Therefore, we expect the Company's leverage ratio to stabilize at an appropriate level. Consequently, this will help strengthen the Company's resilience to losses in the event that F88's business situation and asset quality are not improved immediately in the near future.

**FiinRatings has revised the assessment of F88's profitability from "Strong" to "Adequate" owing to the Company's net loss in the first 10M2023, primarily caused by the Company's increasing credit costs. However, this did not yet change the overall assessment of the Company's "capital, leverage and earnings" modifier. Despite the net loss, F88 still managed its operating costs relatively well and its business performance has improved since 3Q2023; The Company made profits in October 2023 for the first time since March.** In fact, F88 has a relatively stable cost structure, with its operating expenses to operating income ratio (CIR) improving to 63.0% in the first 10M2023 (compared to similar figure of 74.4% in 2022). We view that this downward trend is somewhat sustainable, driven by two main factors including: (i) the integration of technology applications in customer service as well as in operational and management processes, and (ii) a loan strategy shift from focusing on motorcycle pawn loans to car pawn loans, leading to higher profitability and lower credit risk. Despite controlling its operating costs well, F88 still recorded a net loss in 10M2023 caused primarily by increasing credit costs in this period. This was due to the Company's strict provisioning policy, the temporary disruption of loan collection activities in April and May, and the temporary inability to repay loans from certain groups of customers. However, such costs have gradually decreased since 3Q2023 as F88 has tightened its lending activities to groups of borrowers with unstable income. In addition, the recovery rate has also been enhanced as F88 has stabilized its operations, especially by reorganizing its asset management team and gradually recovering some overdue loans from customers. Therefore, after 09 months of net losses, F88 returned to profitability from October 2023.

**We reaffirm our assessment of F88's risk position at "Strong" based on the Company's appropriate risk appetite alongside with intermediate customer and product concentration, controlled lending procedures, and strong loan portfolio management as well as bad debt resolution capabilities, especially under the adverse impacts of the market downturn and the recent regulatory inspection.** All of the Company's loans are secured loans with moderate loan-to-value ratios (the average level at 65-70%); helping to reduce credit risk and to increase recovery potential in the event of asset quality deterioration. Additionally, with the conservative policy of writing off loans, total credit costs in 10M2023 were VND 1,420.9 bil, equivalent to 39.9% of adjusted average outstanding loan balances, and increased 3.7 times from 2022; while the recovery rate fell to 10.6% (2022: 35.1%). However, F88 has gradually improved its recovery rate and reduced credit costs since the 3Q2023. Specifically, the Recovery/Credit Costs ratio, which fell to 8.7% in the 2Q2023, rose to 9.8% in the 3Q2023 and 11.3% in 10M2023 (trailing twelve months data). This improvement is thanks to the strict internal management experience, effective coordination between departments to mitigate risks and to increase recovery rates from written-off loans, as well as the recovery of loan collection activities after a disruptive period. We expect F88 to continue to improve its recovery rate and credit loss, and to continue to maintain prudent policies for classifying, provisioning, and resolving bad debt.

**In comparison with the previous surveillance, F88's funding ability is similarly assessed as "Adequate", as evidenced by the diversity in its capital structure to reduce refinancing risk.** F88 has demonstrated significant improvements in its funding ability, especially in the face of unfavorable developments in macroeconomic conditions and the capital market. Specifically, the Company has diversified its funding from various sources, including equity, debt (short-term bond issuance; borrowing from foreign funds, individuals, and banks). Regarding equity, after successfully raising USD 50 mil from Mekong Capital and Vietnam-Oman Investment Fund in March 2023, F88's equity increased to VND 1,338.3 bil by the end of October 2023. The Company's capital base helps F88 maintain its leading position in the alternative lending segment; this figure is even higher than similar figures of some companies in the consumer lending industry. Regarding debt, the Company borrows short-term loans from domestic banks (Vietcombank), individuals, foreign funds, and issues short-term bonds domestically. In addition, F88 plans to borrow short-term loan from some new foreign funds and increase credit limits with some domestic commercial banks. Besides, the Company is borrowing long-term from Lendable and Lion Asia, as well as a new foreign fund in the next year. We believe that these are positive factors that help strengthen F88's funding ability. However, given the recent unfavorable business performance, we will closely and continuously monitor for signs of early and/or sudden withdrawal of funds by lenders or investors, as this could have a significant impact on F88's funding and liquidity position.

**We believe that F88's liquidity will remain at the "Adequate" level in the next 12 months. Under current conditions, we believe that the Company is unlikely to face liquidity pressure in the short term.** In fact, F88's successful issuance of foreign long-term loans to restructure its debt has significantly reduced the Company's debt repayment pressure for 2023. Besides, when conducted stress tests to assess the Company's liquidity position under various unfavorable assumptions, F88 can still maintain liquidity at an "Adequate" level (with the Liquidity Sources/Liquidity Uses ratio always remains above 1.0x in every quarter). However, we will closely monitor the Company's cash flow management activities in light of the events that have occurred previously, as this could lead to a sudden liquidity pressuring situation if the current capital base is withdrawn early while asset quality deteriorates and loan recovery is slower than expected.

## 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 Non-bank Finance Companies](#)

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

- [General Rating methodology](#)

## CREDIT RATING HISTORY

### F88 Business Joint Stock Company

#### Issuer Credit Rating History

12 October 2021	Initial Ratings	Issuer Rating: <b>BBB-</b> Outlook: <b>Stable</b>
21 June 2022	Surveillance	Issuer Rating: <b>BBB-</b> Outlook: <b>Stable</b>
08 November 2022	Surveillance	Issuer Rating: <b>BBB-</b> Outlook: <b>Stable</b>
12 April 2023	Surveillance	Issuer Rating: <b>BBB-</b> Outlook: <b>Negative</b>
08 December 2023	Surveillance	Issuer Rating: <b>BBB-</b> Outlook: <b>Negative</b>

## 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: <b>Extremely strong</b> capacity to meet financial obligation	AAA
	AA+
Group 2: <b>Very strong</b> capacity to meet financial obligation	AA
	AA-
Group 3: <b>Strong capacity</b> to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances	A+
	A
	A-
Group 4: <b>Adequate capacity</b> to meet financial commitments but more vulnerable to adverse developments and economic conditions	BBB+
	BBB
	BBB-
Group 5: <b>Moderate capacity</b> to meet financial obligations but less vulnerable than other speculative issuers	BB+
	BB
	BB-
Group 6: <b>Weak capacity</b> to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	B+
	B
	B-
Group 7: <b>Very weak</b> 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: <b>Default</b> . 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

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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:

- F88's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at F88: *none*
- FiinRatings's other employee percentage of equity ownership at F88: *none*
- F88's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment value of bond(s) issued by F88: *none*
- F88's investment value of other debt instruments issued by FiinRatings: *none*
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## FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 04-C04-2023



Nguyen Quang Thuan, FCCA  
Chief Executive Officer  
Hanoi, 08 December 2023

## CONTACT US

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