

## Initial Issuer Credit Rating Public Announcement

# Hoa Binh – Xuan Mai Clean Water LLC (“HB-XM”)

**Project Company Credit Rating (PCR\*): BB**

**Outlook: Stable**

**Hanoi, 13 November 2024**

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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.*

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

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Hanoi, 13 November 2024

FiinRatings is pleased to announce that Hoa Binh – Xuan Mai Clean Water LLC (“HB-XM” or “the Company”) has been assigned a first-time long-term Issuer Credit Rating of “**BB**” with a “**Stable**” outlook.

## RATING RATIONALE

The credit rating of Hoa Binh - Xuan Mai Clean Water LLC (“HB-XM”) at “**BB**” with a “**Stable**” outlook reflects FiinRatings’ assessment of risks during both the construction phase and expected operational risks for the water plant, scheduled to commence operations in Q2/2026.

**HB-XM benefits from the experience and capabilities of its parent company, AquaOne, a major clean water supplier in Vietnam.** AquaOne owns and operates two large-scale water plants: Duong River in Hanoi (capacity of 300,000m<sup>3</sup>/day) and Vam Co Dong River in Long An (capacity of 200,000m<sup>3</sup>/day) and holds a controlling interest in Phu Yen Water Supply and Drainage Company. Given AquaOne’s experience with similar-scale projects, FiinRatings recognizes HB-XM’s development team as well-equipped to execute and operate this project effectively.

**FiinRatings further notes that the construction of clean water facilities generally involves a moderate level of complexity** due to optimized, automated design technologies that ensure stable water quality. The HB-XM project location along National Highway 6 is strategically beneficial, reducing transportation time and costs. The water intake and pumping station, located 7km from the Da River, provides convenient access to high-quality water, minimizing chemical treatment costs. However, the treatment plant’s hillside location poses challenges, with potential delays and cost escalations due to the complex terrain.

HB-XM has a competitive advantage using water from Hoa Binh Lake, where natural sedimentation reduces water treatment requirements. Additionally, the project’s geographical location allows gravity to aid water distribution, reducing investment costs in pumping and valve systems. Supplying water to intermediary distributors such as Xuan Mai - Hanoi is also expected to help HB-XM maintain a water loss rate below 5%, significantly lower than the national average. HB-XM plans to retain key technical staff from its contractor to maintain operational stability and minimize risks, while ensuring a diversified supply of chemicals to avoid disruptions. The project will also maintain strict inventory reserves, limiting supply interruptions to under an hour.

The project has obtained necessary legal clearances and commenced Phase 1A on April 18, 2024, with an initial capacity of 150,000m<sup>3</sup>/day, targeted for operation by Q2/2026. AquaOne, HB-XM’s parent company, leads as the investor, while Aone Deutschland AG (Germany), a reputable EPC contractor, manages technology provision and trial operations, ensuring compliance with clean water standards.

FiinRatings also notes potential construction risks for HB-XM, including possible delays in site handover, equipment transportation challenges, and other unforeseen events. Specifically, the Luong Son - Xuan Mai Town Connection Road Project (Phase 1) in Hanoi, intersecting the HB-XM pipeline, is currently delayed due to site clearance issues, which could impact HB-XM’s construction timeline and costs.

**In terms of market risk, HB-XM faces low risk due to its large scale and rising demand for clean water in Hanoi.** Once fully operational, HB-XM will supply 300,000m<sup>3</sup> of water daily, becoming a significant water provider for Hanoi. FiinRatings assesses a reduced risk of output and pricing concerns for HB-XM, as Hanoi has completed water supply planning through 2050. Furthermore, with a minimum approved retail price of VND 8,500/m<sup>3</sup> in Hanoi, expected to rise from 2023, the risk of wholesale water prices falling below production and distribution costs is minimized. The HB-XM project is positioned to meet Hanoi’s increasing clean water demand, particularly in expanding urban and industrial areas in the western region.

**However, FiinRatings classifies the financial risk during the construction phase as High, due to limited financial buffers and potential capital mobilization challenges.** The total project investment is VND 2,187.8 billion, with funding allocated as 20% equity, 40% bond issuance, and 40% bank loans, as outlined in the Company’s financial plan. The equity portion is contingent upon incremental contributions from parent company AquaOne, which has a track record of implementing and funding projects’ equity as evidenced by the past projects including Duong River and Vam Co Dong, scheduled from Q4/2024 through the end of 2026. Other funding sources remain in negotiation and planning stages. In FiinRatings’ scenario, the “Certain Funding Sources/Downside Need Uses” metric of less than 1 indicates that the current funding structure may risk delays in project completion if capital arrangements do not proceed as planned.

## CREDIT HIGHLIGHTS

### Credit Strengths

- **The stakeholders of the project have significant experience in Vietnam’s clean water supply sector**, particularly the parent company, AquaOne, which has developed major water projects such as the Hau River Surface Water Plant and Duong River Surface Water Plan. The Company has expertise in designing, constructing, and operating water facilities while consistently adhering to national technical standards for clean water quality.
- **The project has secured key licenses**, including project approval and approval of construction design documents to be implemented which helps minimize legal risks during the construction phase period.

### Credit Weaknesses

- **Company’s financial buffer is quite limited under stress scenarios**, particularly if its ability to raise funds from equity or secure bank loans falls short of expectations.

## RATING UPGRADE AND DOWNGRADE SCENARIOS

The “**Stable**” rating outlook reflects our view that HB-XM’s current credit rating will be maintained over the next 12 months.

FiinRatings’ credit rating of HB-XM project may be reviewed for an upgraded or downgraded rating in the following scenarios which reflect our assumptions of potential events over the next 24 months:

### Upgrade Scenario

- The construction progress of the project is faster than expected, allowing the project to be put into operation before 2026 without facing legal or construction risks.
- The company can access additional funding sources to ensure reserve capital and increase the buffer for project construction. Note that the new funding must be secured or backed by a financial instrument such as an unconditional and irrevocable LOC from a bank.
- The sale price and volume of water sold from the project are guaranteed by contract and are higher than FiinRatings’ current assumptions.

### Downgrade Scenario

- The project construction process is prolonged due to legal issues, delays in the transportation of materials, and construction.
- The progress of the company’s equity contribution, bond issuance, and bank loans is slower than expected, or the amount of loans obtained is less than anticipated.
- The sale price and volume of water sold from the project are not guaranteed by contract or are significantly lower than FiinRatings’ current assumptions

## 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:

- [Corporate Rating Methodology](#)
- [Project Finance Rating Methodology](#)

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

- [General Rating methodology](#)

## RATING HISTORY

### Hoa Binh - Xuan Mai Clean Water LLC (“HB-XM”)

Credit Rating Type	Date	Rating	Outlook
Initial Issuer Credit Rating	13 November 2024	<b>BB</b>	<b>Stable</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	Rating Scale
<b>Group 1: Extremely strong</b> capacity to meet financial obligation.	AAA
	AA+
<b>Group 2: Very strong</b> capacity to meet financial obligation.	AA
	AA-
<b>Group 3: Strong capacity</b> to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances.	A+
	A
	A-
<b>Group 4: Adequate capacity</b> to meet financial commitments but more vulnerable to adverse developments and economic conditions.	BBB+
	BBB
	BBB-
<b>Group 5: Moderate capacity</b> to meet financial obligations but less vulnerable than other speculative issuers.	BB+
	BB
	BB-
<b>Group 6: Weak capacity</b> to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	B+
	B
	B-
<b>Group 7: 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
<b>Group 8: Default.</b> Payments on an obligation are not made on the date due ( <b>SD</b> ) or the issuer becomes insolvent ( <b>D</b> ). The ' <b>D</b> ' 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:

- HB-XM's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at HB-XM: *none*
- FiinRatings's other employee percentage of equity ownership at HB-XM: *none*
- HB-XM's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment value of bond(s) issued by HB-XM: *none*
- HB-XM's investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings's investment value of other debt instruments issued by HB-XM: *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. 01-C46-2024



Nguyen Quang Thuan, FCCA

Chief Executive Officer

Hanoi, 13 November 2024

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