Rating Update:

FiinRatings affirms ‘BBB’ Issuer Rating for Coteccons Construction Joint Stock Company (‘Coteccons’) with ‘stable’ outlook.

Long-term Issuer Credit Rating*: BBB

Outlook: Stable

Hanoi, 15 January 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.

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.

Hanoi, 15 January 2024

FiinRatings is pleased to announce that it has affirmed the Long-Term Issuer Credit Rating of 'BBB' with the Stable rating outlook to Coteccons Construction Joint Stock Company ("Coteccons" or "the Company").

RATING SUMMARY

	Initial	Surveillant
Business Risk Profile	**Fair (4/6)**	**Fair (4/6)**
Industry Risk	*High Risk (5/6)*	*High Risk (5/6)*
Competitive Position	*Satisfactory (3/6)*	*Satisfactory (3/6)*
Financial Risk Profile	**Modest (2/6)**	**Modest (2/6)**
Company Anchor	**bbb-**	**bbb-**
Modifiers:		
Diversification	*Not applicable*	*Not applicable*
Capital structure	*Neutral (+0)*	*Neutral (+0)*
Liquidity	*Strong (+1)*	*Strong (+1)*
Financial policy & Management	*Neutral & Satisfactory (+0)*	*Neutral & Satisfactory (+0)*
Stand-alone Credit Profile ('SACP')	**bbb**	**bbb**
External Support	**Not applicable**	**Not applicable**
Issuer Credit Rating	**BBB**	**BBB**
Outlook	**Fair (4/6)**	**Fair (4/6)**

RATING RATIONALE

Coteccons' issuer credit rating of '**BBB**' is reaffirmed with the **stable** outlook by FiinRatings in this surveillance, reflecting our view that the Company will continue to maintain its leading position in the civil construction industry with stable performance in the next 24 months amidst the current unfavorable real estate market in Vietnam. Since our initial rating, Coteccons has been on track with its big projects while being able to collect payments from developer clients and has recorded a slight improvement in profitability. Additionally, Coteccons' low gearing level and strong liquidity position will support its future business expansions without engaging in more long-term borrowings, continue to offer a cushion against adverse market developments, and mitigate potential risks that may hinder the Company's project implementation.

The 'fair' business position of Coteccons is reaffirmed to reflect the continuous recoveries in revenue and profitability though the profitability level was modest compared to the figures of five years ago. Apart from this, credit risks remain as the Company's account receivables, though currently manageable, are largely concentrated towards several residential property developers. Amid the gloomy construction activities affected by the real estate market, Coteccons' net revenues in the first nine months of 2023 reached nearly VND 11 trillion, an increase by 30.8% from that of the same period of 2022, while other peers witnessed a double-digit decrease in net sales. The Company's EBITDA in the same period reached approximately VND 304 billion, an increase by 115% from that of the same period of 2022. Having long-standing relationships with big domestic real estate developers, with proven capabilities to meet the foreign investors' requirements, Coteccons has maintained a healthy backlog order. The Company's remaining backlog as of September-end 2023 was approximately VND 23 trillion to be carried forward 2024 and approximately VND 15 trillion to be carried forward 2025. The current project structure is comprised of roughly 45% for civil construction projects, 30% for industrial construction projects, and 25% for other projects. Coteccons is actively bidding for FDI-funded projects, with the backlog for industrial construction expected to grow in 2024 – 2025 (the industrial construction at the end of June 2023: 24%; 2022: 14% of the total backlog). In the context that the civil construction demand has declined due to the headwinds faced by the real estate market, Coteccons' revenue has remained strong thanks to its winning the factory construction packages from large FDI enterprises such as LEGO Vietnam and Foxconn.

Coteccons' profitability and efficiency metrics also displayed certain recoveries in the first nine months of 2023. The trailing-twelve-month EBITDA margin until September 2023 increased to 2.2% (historical figures 2022: 1.5%, 2021: 1.6%), largely thanks to the change in the Company's project structure, which saw a higher proportion of high-value projects with good profit margins. Coteccons has reduced the portion of low-profitability projects within its construction portfolio, as the Company previously agreed on low-profit contracts to support its clients during difficult times. Additionally, Coteccons has significantly cut down staff costs since the beginning of 2023 and particularly in the third quarter of 2023; the cut costs were mostly from outsourced security services, hence lessening employee benefits costs resulting in a more simplified staff cost structure. Despite improving profitability, the Company's trailing-twelve-month return on capital (ROC) until September 2023 reached 2.9%, which was modest compared to the average figure of 5.7% within 2017 – 2020.

Coteccons' account receivables remained concentrated on top 10 clients, who accounted for nearly 70% of the outstanding receivables as of September-end 2023. Regarding working capital management, the Company's cash for working capital purposes and investment purposes has continued to be separately managed, which has helped improve the financial income to support the overall business operations. In the first nine months of 2023, Coteccons' cash outflow for investment purposes was VND 2,817 billion (historical figures 2022: VND 4,540 billion; 2021: VND 4,621 billion), with its outstanding balance of investment portfolio as of third quarter-end 2023 reaching VND 1,854 billion. Therein, we assess that the Company's investment portfolio was of relatively low risk with the majority of which were bank deposits (~83%), equity stocks and ETFs (~12%), and the rest to corporate bonds whose portion was reduced to 5% from more than 8% as of first quarter-end 2023. As of third quarter-end 2023, Coteccons' short-term receivables decreased by 8%, to nearly VND 11 trillion, which was equivalent to 52% of the Company's total assets. The two largest projects by outstanding receivables as of third quarter-end 2023, belonging to the Nam Hoi An project developer and Vinhomes, saw a decline in the receivable balance by 20.9% to VND 490 billion and 67.6% to VND 328.4 billion, respectively. Among the top 10 clients, the outstanding receivables from distressed developers like Tan Hoang Minh has been fully provisioned by Coteccons, while most of the other receivables were within due and/or due within 180 days, which is the starting threshold for making provision according to Circular 48/2019/TT-BTC issued by the MOF Vietnam. The Company apparently has kept its receivables well-managed, and this continues to be among the key credit-monitoring factors by FiinRatings.

The residential real estate market is expected to recover more visibly within 2024 – 2025, thereby strengthening construction demand, thanks to (i) the lower interest rate environment that would help increase market confidence as well as support developers' financing needs and (ii) the amended Land Law and revised law on real estate business expected to somewhat resolve the bottlenecks in market operations from 2025 onwards. Given that, we expect Coteccons' construction revenues will be resilient with a CAGR of 8.1% in the 2023 – 2025 period, reaching around VND 15.5 – 18.5 trillion. This is expected to be driven by the high order backlog and output volume and supported by rising activity in the industrial construction market, which has helped compensate for the slow-recovery trend in civil construction. Moreover, assuming the Company's current cost structure is maintained by the management team in our base-case projection within 2024 – 2025, we expect that higher sales and better cost management would result in the EBITDA margin improving to 3.0% – 4.5%.

We view that Coteccons' management will remain committed to preserving leverage metrics in line with a modest financial risk profile, which underpins the current investment-grade rating. The Company has maintained a prudent bidding strategy, good project execution and cost management, all of which have led to the demonstrated improvements in operating margins. As of third quarter-end 2023, the Company's reported debt-to-equity ratio remained close to 0.1x, and up to 0.2x if accounting for factoring principals; this gearing level has been much lower than the industry average of 0.8x. The Company's cash and short-term investment reached VND 4,079 billion and was closely fourfold the size of total debt as of September-end 2023. With no additional long-term debt raising plan, the ESOP equity program having just started, and upcoming M&As fully funded by equity, we expect that Coteccons will continue to maintain its modest leverage level and healthy debt coverage.

Coteccons, when compared to peers, has been in an exceptionally strong liquidity position with the size of the cash and short-term investment holding versus working capital of 56.6% as of third quarter-end 2023 (historical figures at second quarter-end 2023: 55.8%; first quarter-end 2023: 58.2%). Coteccons' total cash & cash equivalents and short-term financial investments remained almost unchanged, reaching above VND 4 trillion, which is equivalent to 20% of the Company's total assets as of September-end 2023. Coteccons' management has been set on maintaining a position of cash and cash equivalent around VND 3 – 4 trillion on hand in the coming period.

For the main liquidity uses in the next two years, it is assumed that the company will spend around VND 1.6 trillion for capital expenditure and acquisitions, therein a budget of around VND 500 billion has been allocated to set up a U.S.-based construction subsidiary and to conduct vertical acquisitions of two companies, including one specializing in Mechanical & Electrical (M&E) and the other in high-end glass window construction. Meanwhile, another part of VND 500-600 billion within the budget is planned for Coteccons to purchase or conduct short-term swaps of property projects, whose developers are in financial distress but whose feasibility is high, at a discount of 20 – 30% of the market price. Both plans will be equity financed and expected to contribute to Coteccons with more other revenue sources and better receivable collections within 2024 – 2025. We assess that Coteccons has ample liquid assets to handle the current debt obligations, upcoming capital expenditure and business expansion plans, as well as working capital swings without engaging in more long-term borrowings. Hence, the ‘strong’ liquidity position is reaffirmed with an estimated liquidity sources-to-uses ratio of stably around 1.5 times in the next 24 months in our base-case projection.

Overall, we reaffirm Coteccons’ issuer rating of ‘**BBB**’ with ‘**stable’** outlook, reflecting our expectation that the Company's good reputation and its track record of project execution will continue to support its ability to acquire new contracts. This is expected to give Coteccons more bargaining power so that the Company does not have to pursue a price competition strategy; thereby stabilizing its profitability in the future. Additionally, the Company's resilient business performance along with its relatively low leverage will generate a certain level of capital buffer to withstand a moderate amount of volatility in unfavorable environments.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

The Stable outlook of Coteccons reflects our expectation that the Company will maintain its issuer credit rating for the next 24 months.

Upgrade Scenarios:

Factors that could, individually or collectively, lead to our review for positive rating action or upgrade for Coteccons:

- Consistent track record of positive discretionary cash flows and liquidity metrics that are better than FiinRatings’ base-case projection;
- More financial flexibility by obtaining better profit projects into future backlog, with progress payments from its clients, which significantly enhance working-capital generations resources;
- Profitability metrics being significantly improved in comparison to our base-case projection and above the industry average while profitability sustainability is certain.

Downgrade Scenarios:

Factors that could, individually or collectively, lead to our review for negative rating action or downgrade for Coteccons:

- Coteccons’ advance payments deteriorate, or the quality of receivables weakens, and other operating deteriorations that impair working capital inflows; Lengthened receivable-collection days that put pressures on debt coverage ratio;
- Rising operating costs and/or project cost overruns that hinder the Company’s profitability;
- Coteccons’ business expansion (for example, into more property development that destabilize working capital) is overly aggressive, as indicated by the debt coverage ratios declining;
- Sizeable investments into risky assets versus equity size (such as equity investment over bond investment, more money spent on buying low-quality properties from financial distressed developers);
- Worsen and unfavorable macro trends that impact on the real estate and construction industry.

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

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

- General Rating methodology

CREDIT RATING HISTORY

Coteccons Construction Joint Stock Company		
Issuer Credit Rating History		
14 June 2023	*Initial Ratings*	*Issuer Rating:* ***BBB*** *Outlook:* ***Stable***
15 January 2024	*Surveillance*	*Issuer Rating:* ***BBB*** *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:

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

** *Additional disclosures as of 15 January 2024:*

- *Mr. Bolat Duisenov, currently the Chairman of the Board of Directors at Coteccons, holds 7.002% of common shares of FiinGroup Joint Stock Company ("FiinGroup") as an individual shareholder. Meanwhile, FiinGroup holds a 99.994% ownership stake in FiinRatings Joint Stock Company.*
- *Mr. Bolat Duisenov does not participate in the management of FiinGroup or FiinRatings, and his roles and stake holdings at FiinGroup level do not violate the independence requirement for a licensed credit rating agency as stipulated in Article 38 of Decree 88/2014/ND-CP issued on September 26, 2014, governing credit rating services in Vietnam.*

FiinRatings has also strictly established, maintained, and complied with its policies regarding internal control, conflicts of interest, and confidential information nondisclosure to ensure its independence and integrity of any ratings in general as well as the specific ratings for Coteccons.

FIINRATINGS JOINT STOCK COMPANY

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Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 15 January 2024

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