Summarized Report/Initial Rating Public Announcement:

VPS Securities Joint Stock Company ("VPS")

Long-term Issuer Credit Rating (*): A

Rating Outlook: Stable

Hanoi, 15 January 2025

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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 a debt instrument 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.

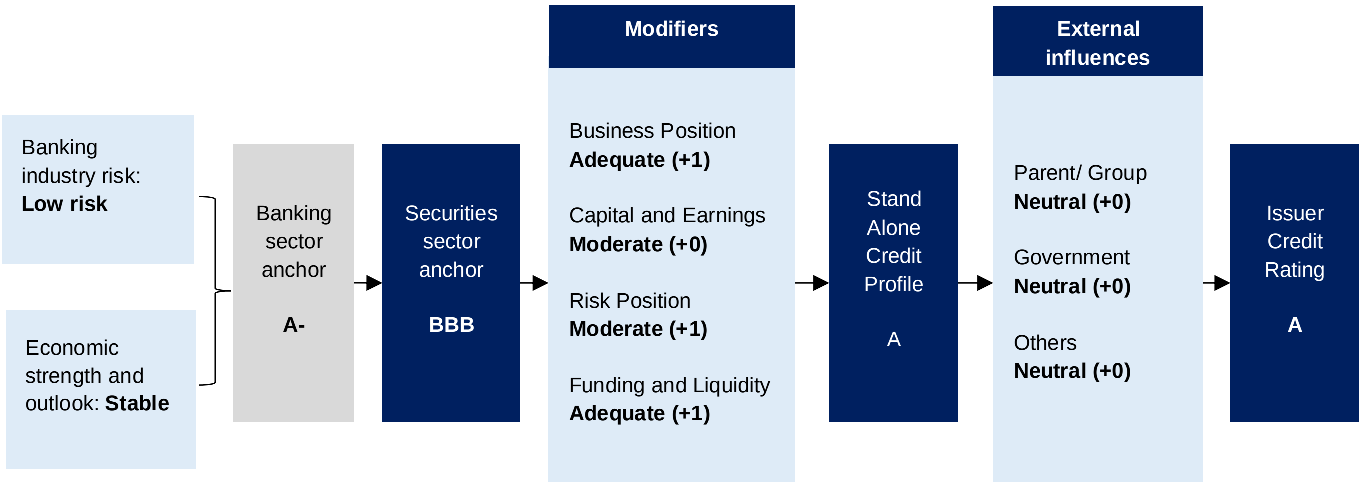
The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

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 2025

FiinRatings is pleased to announce that it has assigned a first-time Long-term Issuer Credit Rating of **'A'** to VPS Securities Joint Stock Company (*“VPS”* or *“the Company”*) with the Outlook: **Stable**.

RATING SUMMARY



VPS’s long-term Issuer Credit Rating of **“A”** with **“Stable”** outlook reflects our assessment of the Company’s superior business position, demonstrated by its leading market share and brokerage revenue. The Company focuses on attracting investors via a well-trained and specialized brokerage team, ensuring diversity in its customer base. Therefore, FiinRatings considers the current relatively high leverage and cost-to-income ratio (CIR) of VPS to be consistent with its business model. In the future, integrating a professional sales team with IT infrastructure is expected to enable VPS to effectively reach investors, thereby improving its business position and helping maintain a stable market position in the medium term.

Our Rating also factors in VPS's low-risk appetite in margin lending and investment strategy, alongside a customer base and investment portfolio with low concentration risk, further supported by its capital market operations and its policy of proprietary trading. VPS’s lending portfolio is evenly diversified across multiple sectors, with less than 10% of outstanding loans attributed to high-net-worth investors. The Company’s investment portfolio also entirely excludes corporate stocks and bonds, focusing primarily on government bonds and large banks' certificate of deposits (CDs) and other money market instruments. We also assess that VPS has strong capital-raising capabilities, leveraging high-quality funding sources at relatively low costs through credit facilities with partner banks, with further funding available through bond issuance in 2025. The Company's liquidity position is expected to remain stable in the medium term, underpinned by low debt repayment pressure and a robust level of liquid assets.

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

Upgrade Scenarios

- The Company demonstrates improvement in multiple business segments (beyond its core strengths) relative to its peers, or VPS’s brokerage market share grows significantly above its peers in the industry (reaching approximately 30-40%).
- VPS shows substantial enhancement in its capital structure through bond issuance or equity issuance, alongside improved operating costs through IT infrastructure upgrades, while maintaining or improving its risk profile and profitability.

Downgrade Scenarios

- VPS's customer network contracts, and/or its brokerage market share decline significantly, impacting the Company’s ability to maintain its business position.

- The Company's leverage increases sharply, while profitability deteriorates, falling below our projections, accompanied by high volatility in earnings.
- VPS's risk profile weakens due to an increased risk appetite in margin lending, investment banking, and proprietary trading activities, indicated by a heightened willingness to lend to high-risk securities/sectors and/or expanded investments in corporate bonds and stocks.

RATING RATIONALE

FiinRatings assesses VPS's business position as 'Strong,' as the Company consistently maintains its leadership in brokerage market share, supported by a diverse and highly stable business model, along with prudent risk management strategies implemented by its management. VPS's stability is strongly reinforced by its sustained leading position in equity, fund certificate, and derivatives brokerage in Vietnam over the years. As of December 31, 2024, VPS led the brokerage market across all four stock exchanges, with a market share of 18.3% on HOSE, 22.7% on HNX, 25.9% on UPCOM, and 58.1% in derivatives. The Company's market leader position in terms of brokerage market share has been maintained for four consecutive years, even during periods of significant market downturns, such as from late 2022 to early 2023. Additionally, over the past four years, the Company's stable revenue proportion (excluding investment income and one-off transactions) has consistently accounted for over 90% of its operating revenue. Regarding its customer base, VPS has continued to expand and diversify its clientele by developing a nationwide sales team. This has enabled the Company to achieve the highest brokerage revenue in the industry since 2021. In terms of business diversification, VPS is actively expanding its product and service offerings to diversify revenue sources. These include consulting, debt and equity instruments issuance advisory, M&A advisory, IPO advisory… for its institutional investment banking clients. We believe that VPS's strategic focus on maintaining its No. 1 brokerage market position in Vietnam aligns with current market conditions and the Company's business model. FiinRatings expects VPS to continue to benefit from its superior brokerage market share in the medium term, providing a solid foundation for further diversification through ongoing investment in current operations and the introduction of new products.

VPS's capital structure and leverage are assessed to be 'Adequate,' as reflected by the Company's financial adequacy ratio significantly exceeding the regulatory minimum, despite a relatively higher leverage ratio compared to the industry average. As of September 30, 2024, VPS's financial safety ratio stood at a robust 411%, well above the regulatory minimum of 260%, though slightly below the median of 448% of the top 20 securities firms in the industry. The Company's leverage ratio (debt/equity) ranged from 1.5 to 1.7 times, higher than the top 20 median of 1.4 times, yet consistent with our assessment of its business strategy. FiinRatings expects VPS's leverage ratio to reach up to 2 times in the short to medium term, in line with its plans to issue VND 5,000 billion in public bonds and VND 7,000 billion in private convertible bonds over the next two years. The Company's profitability is also assessed to be 'Adequate', with remarkable growth in 2024 and improved operational efficiency in the first three quarters of 2024, despite operational costs remaining above the industry median. During the first nine months of 2024, VPS achieved a pre-tax profit of VND 2,624 billion, up 105.6% year-on-year from 3Q2023 and 44.7% year-to-date. This growth was primarily driven by effective management of losses from its capital market operations, resulting in a profit margin of VND 613.2 billion from this segment, compared to a loss of VND 16 billion in the same period last year. Additionally, key revenue drivers such as margin lending and securities brokerage posted significant growth, increasing by 46.5% and 29.8% year-on-year from 3Q2023, reaching VND 1,034 billion and VND 2,568 billion, respectively. This performance led to an impressive rise in VPS's ROE, from 7.6% at the end of 2023 to 19.5% as of 3Q2024. In terms of operational efficiency, VPS's adjusted cost-to-income ratio (CIR) decreased from 68.2% at the end of 2023 to 64.0% in 3Q2024, although it remains higher than the industry average of 58%. The higher CIR is primarily attributed to brokerage expenses, which accounted for 91% of total operating costs and increased by 32.3% year-to-date in the first nine months of 2024. However, these costs align with VPS's market share expansion strategy without compromising transaction fee revenues, supported by increased spending on customer outreach teams. As a result, we consider operational efficiency a key area to monitor in the next credit rating review to assess VPS's ability to sustain and improve profitability, particularly given potential volatility in the stock market.

FiinRatings assesses VPS's risk position to be 'Strong', primarily due to the low concentration risk in its margin lending portfolio, stemming from its focus on the retail customer segment, and the low-risk appetite of its investment portfolio, which aligns with its strategy of no proprietary trading. In addition to consistently maintaining a financial adequacy ratio above the regulatory threshold, VPS has implemented effective internal risk management policies, particularly for its margin lending portfolio. These measures include an automated forced sale system and stringent quality and coverage standards for collateral assets. The Company's margin lending portfolio also demonstrates low concentration risk, with lending diversified across sectors: real estate (10%), banking (20%), securities (17%), retail (6%), and others (47%). Moreover, as of September 30, 2024, the proportion of outstanding loans held by high-net-worth individual and institutional investors accounted for less than 10%, consistently remaining below 25% over the past three years. VPS's conservative risk appetite is further reflected in its shortlist of stocks eligible for margin lending, created and managed with input from independent experts. The Company accepts only listed stocks and cash as collateral, with an average loan-to-value (LTV) ratio of 30-35%, and excludes non-compliant stocks. This approach proved effective during 3Q2022 and early 2023, when market liquidity tightened, and indices dropped significantly. VPS had proactively limited its margin lending exposure to high-risk sectors beforehand and therefore avoided issues during the forced sale processes. FiinRatings also evaluates VPS's risk appetite in its capital market operations to be relatively low, given that 100% of the Company's investment portfolio consists of government and government-guaranteed bonds and debt instruments from top-tier financial institutions in Vietnam. The current investment portfolio is characterized by low credit risk, high liquidity, and low exposure to market fluctuations. We expect VPS to maintain its non-speculative capital market strategy in the medium term. However, we note that VPS might make selective corporate bond investments when favorable market conditions present themselves.

VPS's funding and liquidity profile is rated as 'Strong' thanks to abundant high-quality funding sources, below-average funding costs, low debt repayment pressure, and good fundraising capability in the short to medium term. Funding from credit lines is a clear strength of VPS, with high accessibility and room for growth (both in terms of remaining and total limits). The quality of these funding channels also shows a certain level of diversity, including from state-owned banks, leading private commercial banks, and foreign banks. The costs of these credit lines are also significantly lower than the industry average, enabling VPS to consistently rank among the securities companies with the lowest funding costs in the market. VPS's ability to raise funds through bond issuance is rated as "Adequate", as the Company primarily relies on bank loans and has limited bond issuances. If the Company succeeds in its short-term bond issuance plans, FiinRatings believes its funding profile will benefit from (i) diversification of capital structure, (ii) autonomy in funding costs, and (iii) flexibility in disbursement conditions to support the plan to grow its margin lending balances. Additionally, we assess that the interest rates on these bonds will be competitive compared to the Company's current credit limits. In the event the Company is unable to issue bonds, we expect that its equity and retained earnings will still suffice to cover approximately 80% of the funding needs for margin lending operations in the medium term and maintain a certain level of growth. The capacity for bond issuance in the short to medium term, in the context of fluctuating interest rate environments, will be one of the factors we monitor in upcoming credit surveillances. Regarding liquidity, VPS is currently not under pressure to repay debt in the short term. Furthermore, VPS holds a large amount of highly liquid assets to support its capital market operations. This significantly reduces the actual capital intensity in the Company's operations and provides a liquidity buffer sufficient to cover 72% of its current interest-bearing debt and 78% of principal debt payment through 1Q2025. We expect that over the next 12–24 months, VPS will continue to maintain its current liquidity capacity to meet financial obligations, keeping the liquidity sources/liquidity uses ratio above 1x.

We will closely monitor and consider factors that we believe could have significant medium-term impacts on the Company's business and financial situation, including the ability to issue bonds to diversify funding sources and finance margin lending operations, along with the funding costs of these bonds.

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		
VPS Securities Joint Stock Company		
Issuer Credit Rating History		
15 Jan 2025	*Initial Ratings*	*Issuer Rating:* ***A*** *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:

- VPS's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at VPS: *none*
- FiinRatings's other employee percentage of equity ownership at VPS: *none*
- VPS's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment value of bond(s) issued by VPS: *none*
- VPS's investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings's investment value of other debt instruments issued by VPS: *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-C52-2025

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 15 Jan 2025

CONTACT US

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