

## Initial Issuer Credit Rating Report

# **Biwase – Long An Water Joint Stock Company ("BWE-LA")**

**Issuer Credit Rating (ICR\*): BBB**

**Outlook: Stable**

**Hanoi, 25 October 2024**

**Primary Analysts:**

Nguyen Vu Cuong, MSc, Lead Analyst: [cuong.nguyen@fiingroup.vn](mailto:cuong.nguyen@fiingroup.vn)

Nguyen Nho Khanh, Secondary Analyst: [khanh.nguyennho@fiingroup.vn](mailto:khanh.nguyennho@fiingroup.vn)

**Rating Committee Members:**

Le Hong Khang, Committee Chairman: [khang.le@fiingroup.vn](mailto:khang.le@fiingroup.vn)

Nguyen Anh Quan, MSc, Committee Member: [quan.nguyen@fiingroup.vn](mailto:quan.nguyen@fiingroup.vn)

Nguyen Nhat Hoang, CFA, Committee Member: [hoang.nguyennhat@fiingroup.vn](mailto:hoang.nguyennhat@fiingroup.vn)

*\* 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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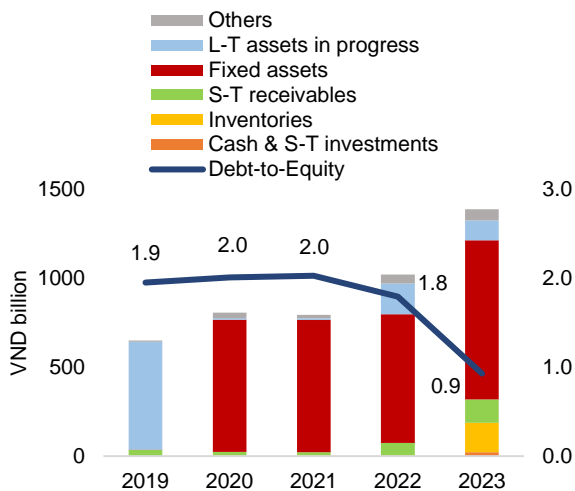
## RATING SUMMARY

Company	Type	Date	Rating	Outlook
<b>Biwase – Long An Water JSC (“BWE-LA”)</b>	Initial Credit Rating	25 October 2024	<b>BBB</b>	<b>Stable</b>

**Industry:** Regulated Utilities | Water

**Company Profile:** Biwase – Long An Water JSC (“BWE-LA” or “the Company”) was founded in 2015. It is a subsidiary of Binh Duong Water and Environment Corporation (the “Group” or “BWE”; 94.5% ownership as of June 30, 2024) and operates mainly in the field of clean water production in Vietnam. The Company owns Nhi Thanh water plant phase 1 and 2 located in Long An province with a total capacity of 60,000 m<sup>3</sup>/day as of June 30, 2024.

**Exhibit 01: BWE-LA’s asset structure (2019-2023)**



Source: BWE-LA, FiinRatings

**Industry Risk: Very low**

FiinRatings rates the Water industry risk at Very low level, reflecting the industry’s essential role in the economy, along with a cost-plus price mechanism, and high barriers to entry. As one of the basic utilities, the clean water production and supply industry grows alongside the economy, playing a crucial role in the industrial, construction, trade, and service sectors, as well as fulfilling the daily needs of the population. Over the past decade, the demand for clean tap water in Vietnam has grown at an average annual rate of 5-6%, and this growth is expected to remain stable in the coming years. Additionally, entry barriers in the water industry are high due to strict regulatory oversight and the need for significant capital investment in building water plants and pipelines. Regarding the selling price mechanism, while there may be fluctuations depending on the negotiation power between water suppliers and distributors, prices are generally confined to a regulated range in each region. Most water suppliers are assured a selling price that covers their production costs and often anticipate annual price increases.

Rating Summary	Assessment
<b>Business Risk Profile (“BRP”)</b>	<b>Satisfactory</b>
Industry Risk	Very low
Competitive Position	Satisfactory
<b>Financial Risk Profile (“FRP”)</b>	<b>Significant</b>
<b>Company Anchor</b>	<b>BBB-</b>
<b>Modifiers</b>	<b>0</b>
Diversification	0
Financial Policy and Governance	0
Capital Structure	0
Liquidity	0
<b>Stand-alone Credit Profile (“SACP”)</b>	<b>BBB-</b>
<b>External Influences</b>	<b>+1</b>
<b>Issuer Credit Rating (“ICR”)</b>	<b>BBB</b>
<b>Rating Outlook</b>	<b>Stable</b>

**Rating Rationale:**

**Business Risk Profile: Satisfactory**

FiinRatings evaluates BWE-LA’s competitive position as Satisfactory, primarily due to the large scale of the Nhi Thanh water plant, the third largest in Long An province. Long An, being densely populated and having numerous industrial zones, has increasing demand for clean water, especially as urbanization accelerates the replacement of saline-contaminated groundwater. The Nhi Thanh plant has a non-revenue water rate of 2.3%, significantly below the industry average, thanks to modern equipment and a business model focused on wholesale distribution. However, BWE-LA’s return on equity (ROE) in 2023 was 0.3%, lower than the industry median of 10.1%, as its projects are still in the early stages of operation. FiinRatings expects improvements in BWE-LA’s operating efficiency and profitability in the medium term, supported by the expertise of its board of directors and management team.

**Financial Risk Profile: Significant**

FiinRatings assesses BWE-LA’s financial risk profile as significant, driven by the Company’s financial leverage level being above the industry average in Vietnam. As of December 31, 2023, the Company’s Debt-to-Equity and Debt-to-EBITDA ratios were 0.9x and 6.0x, respectively, higher than the industry average of 0.3x and 2.2x. FiinRatings projects that these ratios will continue to increase to 1.9x and 11.5x by the end of 2024, as the Nhi Thanh water plant project is in its initial stage of operation and is preparing for further investment in phase 3 (2024-2025). FiinRatings projects that these ratios will continue to increase to 1.9x and 11.5x by the end of 2024, as the Nhi Thanh water plant project remains in its early operational phase and prepares for additional investment in phase 3 (2024-2025). The gearing level is expected to decrease after 2025, once the project enters stable operation in phase 3. Additionally, debt schedule with grace periods for initial principal repayment are appropriate to the capex and operation plan of the Company.

**External Influences: +1**

FiinRatings assesses that given its significant role in BIWASE’s expansion strategy for clean water business and its high level of involvement in the company’s management, BWE-LA’s credit rating has been adjusted upward by one notch from the individual credit rating level.

Exhibit 02: BWE-LA’s key ratios (2022A-2026F)	Unit	2022A	2023A	2024F	2025F	2026F
Total assets	VND billion	1,019.4	1,385.6	1,967.7	1,901.2	1,916.7
Net revenue	VND billion	127.6	164.8	151.6	195.3	321.5
EBITDA	VND billion	87.3	99.8	108.5	140.9	234.9
Debt-to-Equity	times	1.8	0.9	1.9	1.8	1.5
Debt-to-EBITDA	times	6.9	6.0	11.5	8.2	4.6

Source: FiinRatings, BWE-LA (A: Actual, F: Forecasted)

## RATING RATIONALE

FiinRatings' assesment of an “**BBB**” rating and “**Stable**” outlook for Biwase – Long An Water JSC reflects our view of the Company's “Satisfactory” business risk profile and “Significant” financial risk profile. Established in 2015, BWE-LA operates the Nhi Thanh water plant, the third largest in Long An province. With the plant currently running at full capacity in phases 1 and 2, the Company plans to invest further in phase 3, aiming to double its capacity by 2024-2025. To finance for this expansion, BWE-LA intends to issue VND 700 billion in bonds, resulting in the Company's financial leverage ratio (Debt-to-EBITDA) remaining relatively high compared to the industry average during the 2024-2025 period. In addition, FiinRatings assesses that BWE-LA is expected to play a key role in the BWE Group's expansion plans and will receive operational and financial support from the Group, particularly during the early phases of the plant's operations or in challenging business conditions.

**FiinRatings evaluates the water production and supply sector as having relatively low risk, given its critical role in supporting economic growth and social welfare, especially during Vietnam's rapid urbanization and the rising demand for clean water in industrial zones.** Besides the significant barriers to entry due to strict regulatory oversight and large capital requirements, companies in this sector are expected to have extensive experience in water plant construction and supply systems to secure provincial and municipal projects. For new projects to be added to national and regional plan, the licensing process is often lengthy due to the need for modifications by various ministries and provincial People's Committees. Operational and business risks in this sector are considered low, as companies typically benefit from various incentives, including land and corporate income tax exemptions, along with long-term financing options that support early-stage stability. Additionally, the pricing mechanism and cost-based models ensure that most water companies maintain a stable profit margin.

**Given that the clean water supply industry is assessed at Very Low risk, BWE-LA's business profile is evaluated at Satisfactory level.** The Company operates the Nhi Thanh 1 and 2 plants, which have a combined capacity of 60,000 m<sup>3</sup>/day, making it the third-largest supplier in Long An province. Operating in a region with high demand for surface water due to its concentration of residential areas and industrial parks, along with growing urbanization, BWE-LA plans to increase capacity to 120,000 m<sup>3</sup>/day to replace saline-contaminated groundwater with surface water. As the plant utilized modern technology and equipment, BWE-LA's non-revenue water rate stands at just 2.3%, significantly lower than the national average of around 16.5%. BWE-LA's profitability is also outperforming its peers, with an EBITDA margin of 68-73%, significantly higher the industry's median of 18-23%, due to its wholesale focus, which reduces selling expense compared to other retail focus businesses. However, the Company has a limited operating history and lacks geographic diversification. Additionally, due to high interest expenses and depreciation expenses in its early years of operation, BWE-LA's ROE is relatively low compared to other long-established businesses in the sector. FiinRatings expects BWE-LA's operating efficiency and profitability to improve over the next 2-3 years, once phase 3 of the Nhi Thanh plant reaches stable operations

**BWE-LA's financial risk profile is assessed at Significant, reflecting the Company's higher financial leverage compared to the industry average for water suppliers in Vietnam.** As of December 31, 2023, the Company's Debt-to-Equity and Debt-to-EBITDA ratios were 0.9x and 8.2x, respectively, significantly above the industry averages of 0.3x and 2.2x. This is primarily due to the investment of Nhi Thanh water plant Phase 2 in 2023, resulting in higher leverage compared to other long-established companies that have already fulfilled most of their debt obligations. During 2024-2025, as BWE-LA continues to invest in Phase 3, FiinRatings anticipates that the Company's leverage will remain at this level, with Debt-to-Equity ratios between 1.7x and 1.9x, and Debt-to-EBITDA between 8.2x and 11.5x. We expect BWE-LA's financial risk profile to maintain over the next 12-24 months, with a gradual reduction beginning in 2026 as phase 3 becomes operational, generating stable cash flows.

**BWE-LA's capital structure and liquidity position have been assessed as Adequate level.** As of December 31, 2023, the company's average debt maturity was approximately 6.2 years, in line with its Debt-to-EBITDA ratio of around 6.0x. With the planned issuance of a 10-year bond, the average debt maturity is expected to extend further, aligning with the projected Debt-to-EBITDA ratio. Additionally, the company will benefit from a six-year grace period on principal repayments for this bond. From our base-case scenario, BWE-LA's liquidity source-to-use for the next 12 months (starting from September 30, 2024) is estimated to be around 1.2x. Furthermore, the company's EBITDA-to-Interest coverage ratio is expected to range between 1.7x and 3.0x over the next 12-24 months. As a result, we assess that BWE-LA will have sufficient capacity to fulfill its principal and interest obligations over the next two years.

**Given BWE-LA's critical role in BIWASE Group's expansion strategy and the Group's significant involvement in the company's governance, BWE-LA's credit rating has been adjusted by one-notch upward from the Stand-alone Credit Profile.** The assessment of the Group's support is based on (i) control and accountability linkages; (ii) economic linkages; and (iii) BIWASE Group's support capacity. In terms of control, BWE owns more than 90% of BWE-LA and is heavily involved in its governance, including the appointment of key personnel from BWE to BWE-LA's management board. Economically, BWE-LA plays a strategic role in expanding BWE's operations to Long An province, where there is a high demand for clean water. However, BWE-LA's revenue and profits currently contribute only a small portion to the Group's overall scale. To ensure that BWE-LA achieves its long-term objectives, BWE has increased its ownership through additional capital contributions; nevertheless, it is anticipated that BWE-LA will require more time to fully demonstrate its contributions to the Group.

**The Stable outlook reflects our expectation that BWE-LA will be able to maintain its business operations and financial profile over the next 24 months.** The planned investment in Phase 3 of the Nhi Thanh plant, aimed at expanding capacity and market reach, is expected to temporarily limit improvements in asset turnover. Additionally, with approximately VND 700 billion in new debt to fund construction activities, the company's leverage is expected to remain relatively high over the next 24 months. On the other hand, supported by stable operating cash flow and a well-structured capital structure with appropriate debt maturities, BWE-LA is anticipated to fulfill its principal and interest obligations in the next 24 months

## CREDIT HIGHLIGHTS

### Credit Strengths

- The plant's strategic location in a rapidly developing region, with a high concentration of residential and industrial areas, offers strong growth potential. Additionally, increasing saltwater intrusion in coastal areas of Long An province has driven demand for alternative surface water sources.
- The plant, being relatively new and equipped with advanced technology, supported by BWE Group's extensive experience in water supply for similar regions, has achieved high operational efficiency and low non-revenue water rate from its early years of operation.

### Credit Challenges

- The company has a relatively limited operational history and track record. Furthermore, planned investments in phases 3 and 4 of the Nhi Thanh plant are expected to keep the company's leverage higher than industry peers.

## RATING UPGRADE AND DOWNGRADE SCENARIOS

The “**Stable**” credit rating outlook reflects our view that BWE-LA's current credit rating will be maintained over the next 24 months. FiinRatings' credit rating of BWE-LA 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

- BWE-LA demonstrates a significant improvement in operational efficiency, as evidenced by asset turnover ratios and return on equity that surpass industry averages.
- The company reduces its financial leverage, with a Debt-to-Equity ratio of less than 1.0x and a Debt-to-EBITDA ratio below 5.0x, indicating a stronger financial risk profile.

### Downgrade Scenario

- BWE-LA's operational efficiency and profitability deteriorate significantly due to factors such as higher-than-expected capital expenditure, an increased non-revenue water rate, or rising operating costs linked to the commissioning of a new plant. Delays in completing Nhi Thanh Phase 3 could also strain the company's debt repayment ability.
- The maturity profile of the company's new debt does not align with its cash flow generation, especially if the principal repayment on new loans is not deferred until the new plant reaches stable operations.
- Changes in the ownership structure, potentially reducing BWE's stake below a controlling interest, could also prompt a downgrade. A downgrade might also occur if there is a deterioration in the parent company's business capabilities or financial profile.

## BASE-CASE SCENARIO PROJECTION

### Key Assumptions

- In 2024, phases 1 and 2 of the Nhi Thanh plant are expected to operate at an approximate utilization rate of 90%, producing a combined 60,000 m<sup>3</sup>/day at a selling price of VND 7,875/m<sup>3</sup>, consistent with the previous year. As a result, BWE-LA's estimated total revenue from clean water sales in 2024 is VND 151.6 billion.
- In the second half of 2024, the company plans to issue VND 700 billion in bonds to fund the construction of phase 3 of the Nhi Thanh plant, which will have a capacity of 60,000 m<sup>3</sup>/day. The total investment for the project is estimated at approximately VND 870.2 billion (including VAT), with the construction expected to begin in late 2024 and finish by the third quarter of 2025. The newly constructed plant is anticipated to begin operations in the fourth quarter of 2025.
- The selling price for BWE-LA's clean water in 2025 is forecasted to increase by 3% compared to 2024, aligning with the anticipated increases in input costs and labor expenses. Notably, the retail price of clean water in Long An province has grown at an average rate of 8% annually between 2021 and 2023.

### Key Metrics

**Exhibit 03: BWE-LA's key analytical ratios (2022A-2026F)**

Unit: VND billion	2022A	2023A	2024F	2025F	2026F
<b>Net revenue</b>	128.1	164.2	151.6	195.3	321.5
<b>Gross profit</b>	54.1	66.9	76.2	99.9	154.4
<b>EBITDA</b>	82.1	96.5	105.5	140.9	234.9
<b>Debt</b>	604.9	607.8	1,247.3	1,162.1	1,070.1
<b>Equity</b>	337.6	651.9	666.5	672.8	737.4
<b>Debt-to-Equity (times)</b>	1.8	0.9	1.9	1.7	1.5
<b>Debt-to-EBITDA (times)</b>	7.4	6.3	11.5	8.2	4.6
<b>EBITDA-to-Interest expense</b>	2.2	1.9	2.1	1.7	3.0

Notes: A: Actual; F: Forecasted

Source: BWE-LA, FiinRatings

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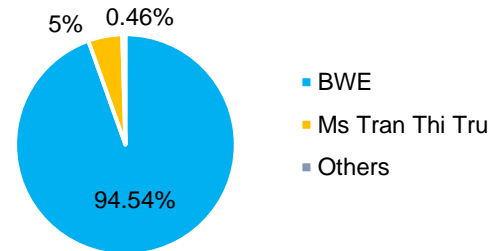
## COMPANY PROFILE

Biwase Long An Joint Stock Company (“BWE-LA” or “the Company”), formerly known as DNP – Long An Water Infrastructure Investment Joint Stock Company, was established in 2015. Headquartered in Ap 7, Nhi Thanh Commune, Thu Thua District, Long An Province, the Company primarily engages in the extraction, treatment, and supply of clean water. In 2023, the Company officially became a subsidiary of Binh Duong Water and Environment Joint Stock Corporation (“BWE”) following BWE’s successful acquisition of BWE-LA from DNP Water Industry Joint Stock Company in May 2023. As of December 31, 2023, BWE-LA has two major shareholders: its parent company, BWE, holding a 94.5% stake, and Ms Tran Thi Tru with a 5% stake.

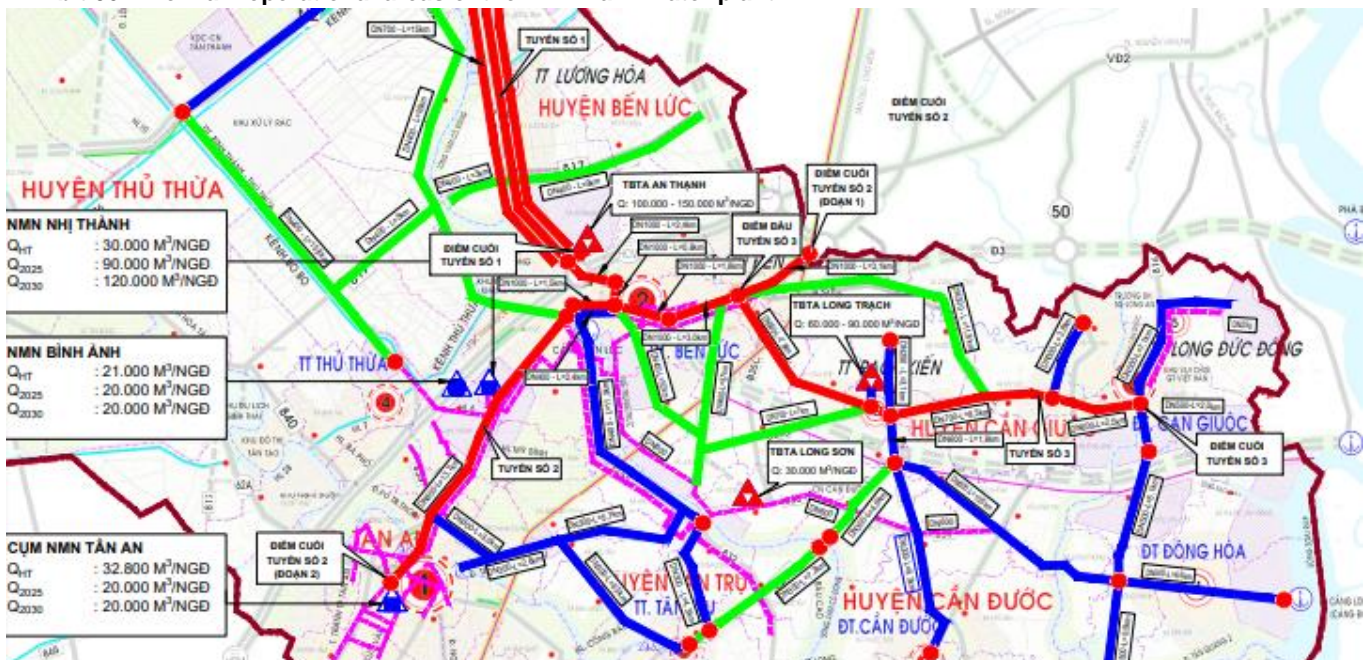
**Exhibit 04: BWE-LA’s BoD as of Dec 31, 2023**

Member	Position
Mr. Tran Chien Cong	Chairman
Mr. Tran Tan Loi	Member
Mr. Bui Truong Son	Member
Mr. Tran Tan Duc	Member
Ms. Duong Anh Thu	Member

Source: BWE-LA, FiinRatings

**Exhibit 05: BWE-LA’s ownership structure as of Dec 31, 2023**


Operating primarily in the clean water production sector, BWE-LA’s Nhi Thanh water plant began operations in 2019 with an initial capacity of 30,000 m<sup>3</sup>/day. This capacity was later expanded by an additional 30,000 m<sup>3</sup>/day in 2022, bringing the total output to 60,000 m<sup>3</sup>/day. The company also successfully completed the construction of major water pipelines, including Pipeline 1, which uses an HDPE D800 pipeline and spans 13.7 kilometers from the raw water pumping station to the Nhi Thanh plant, and Pipeline 2, which uses an HDPE D1000 pipeline and measures 1.6 kilometers from the pumping station to the parallel road at overpass number 7. Additional pipelines have been built to serve areas with high clean water demand and significant groundwater contamination, such as Can Giuoc, Can Duoc, Tan Tru, Chau Thanh districts, and Tan An city. To address the increasing demand for clean water in Long An province, the company plans to construct phase 3 of the Nhi Thanh plant during 2024-2025, which will boost the plant’s capacity by an additional 60,000 m<sup>3</sup>/day, raising the total capacity to 120,000 m<sup>3</sup>/day.

**Exhibit 06: The main operational areas of the Nhi Thanh water plant**


Source: BWE



## BUSINESS RISK PROFILE

### Industry Risk

FiinRatings assesses the risk level of the water sector at **Very low** level, reflecting the stable demand growth for essential products, a pricing mechanism that ensures cost recovery, and the presence of high barriers to entry.

**The water sector is a vital utility, developing alongside the economy and playing a critical role in various industries such as construction, commerce, services, and meeting daily consumer needs.** Growth in the water sector varies by region, with industrial zones and residential areas often located near rivers to optimize water usage. In Vietnam, regions like Ho Chi Minh City, Hanoi, Dong Nai, Hai Phong, and Da Nang have the highest water demand. The demand for piped water in other areas has also risen sharply due to the trend of replacing contaminated or substandard well water. Over the past decade, the growth rate of piped water demand in Vietnam has averaged 5-6% annually, and this trend is expected to continue, particularly in newly designated administrative or industrial centers

**The water sector is characterized by high barriers to entry, particularly in terms of legal compliance due to stringent government oversight.** Although there was a privatization initiatives of water supply companies, Decision 908/QD-TTg halted the divestment of state-owned enterprises (SOEs) in the water sector as of mid-2020. Market entry typically occurs through competitive bidding for projects included in provincial master plans, requiring high standards of quality, scale, and financial capacity. Private enterprises like DNP and AquaOne have sought to avoid direct competition with experienced SOEs by proposing new projects for inclusion in provincial plans. However, this process can be lengthy, involving multiple steps from land clearance to investment certification, requiring approvals from provincial People's Committees and various ministries, including Construction, Planning and Investment, Health, and Agriculture and Rural Development.

**As the water sector is essential, companies operating in the sector often benefit from policy incentives and favorable financing options.** Under Decrees 117/2007/ND-CP and 124/2011/ND-CP, water supply companies are exempt from land use and lease fees for water supply projects, including extraction, treatment, pipelines, and related infrastructure. They also benefit from a corporate income tax rate of 10% throughout the project lifecycle, with a four-year tax exemption followed by a 50% reduction for the next five years, as per Decree 69/2008/ND-CP. Moreover, financing options for water sector projects tend to offer longer terms than in other industries, allowing enterprises to maintain stability during construction and initial operations phases.

**In terms of pricing mechanisms, although prices may fluctuate based on negotiations between water suppliers and distributors and are subject to regional price ceilings, most water supply companies have the selling prices that cover production costs, and anticipate annual price increases.** Based on the general clean water pricing framework set by the Ministry of Finance, each provincial People's Committee establishes its own price framework and phased price increase schedule, ensuring all production costs are included. Water supply and distribution companies negotiate the purchase price of clean water, after which the distributor proposes a selling price within the provincial guidelines. As a result, while profit margins may differ across companies, most water sector enterprises achieve positive gross profit margins since the early stages of operation.

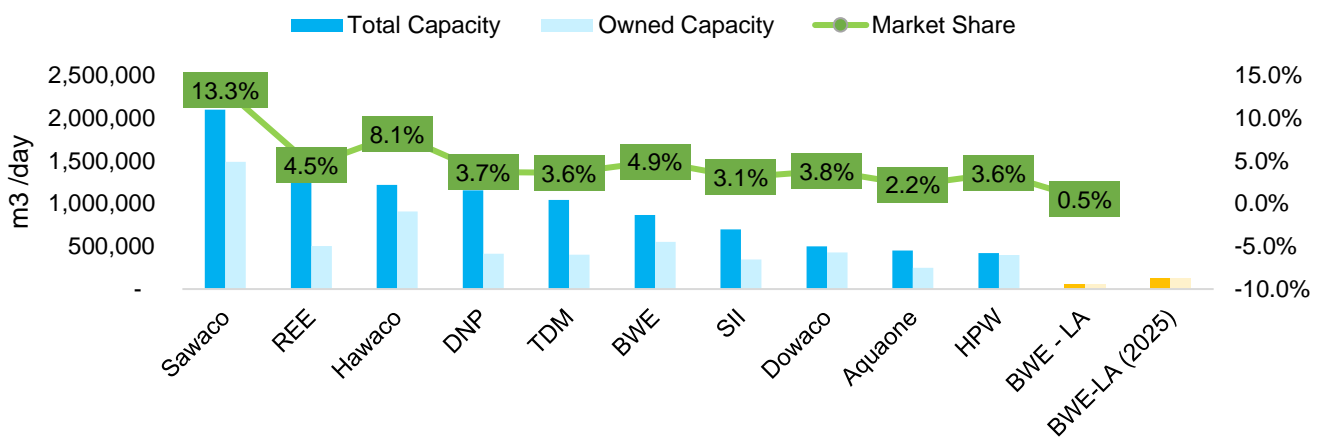
## Competitive Position

FiinRatings assesses that BWE-LA's competitive position is at a **Satisfactory** level due to its possession of a relatively large plant in Long An province, benefiting from planned capacity expansions and modern equipment that contribute to reducing water loss rates. However, BWE-LA's scale and profit-generating capacity remain modest compared to its industry peers.

### Scale, Scope, and Diversity

FiinRatings evaluates BWE-LA's overall scale, scope, and diversification within the water supply segment as **Average**. Although the Nhi Thanh plant, with phases 1 and 2, currently produces 60,000 m<sup>3</sup>/day and is expected to increase to 120,000 m<sup>3</sup>/day after phase 3's completion in 2025, BWE-LA remains relatively modest in scale compared to larger industry peers. BWE-LA's capacity constitutes only 0.5% of the national water supply market share. In contrast, Sawaco, the largest player in the industry, manages plants with a combined capacity of over 2 million m<sup>3</sup>/day, representing 13.3% of the national market.

**Exhibit 07: Water supply capacity and market share of some companies in the water industry**



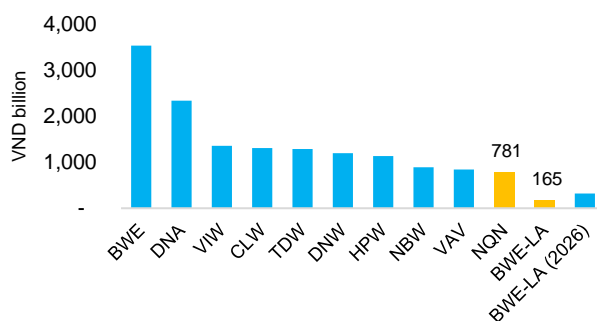
Source: BWE-LA, FiinRatings compiled from various companies.

\*Ownership capacity is the total capacity of member units based on ownership percentage.

\*Market share is calculated based on the ownership capacity of the companies.

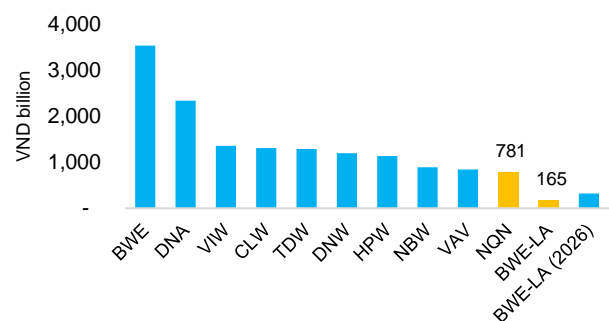
In 2023, BWE-LA generated VND 165 billion in revenue, which is projected to increase to VND 321 billion following the commissioning of Nhi Thanh phase 3. However, this figure still remain relatively modest compared to top 10 largest companies in the sector. The Company's total assets in 2023 amounted to VND 1,386 billion, ranking it 12<sup>th</sup> out of 61 listed companies. Certain enterprises, such as DNA and VIW, operate in multiple business segments beyond water supply, including energy and construction contracts

**Exhibit 08: Revenue of BWE-LA and the top 10 enterprises in the water industry in 2023**



Source: BWE-LA, FiinRatings compiled from various companies.

**Exhibit 09: Total assets of BWE-LA and the top 10 enterprises in the water industry in 2023**



Source: BWE-LA, FiinRatings compiled from various companies.

**Competitive Advantage**

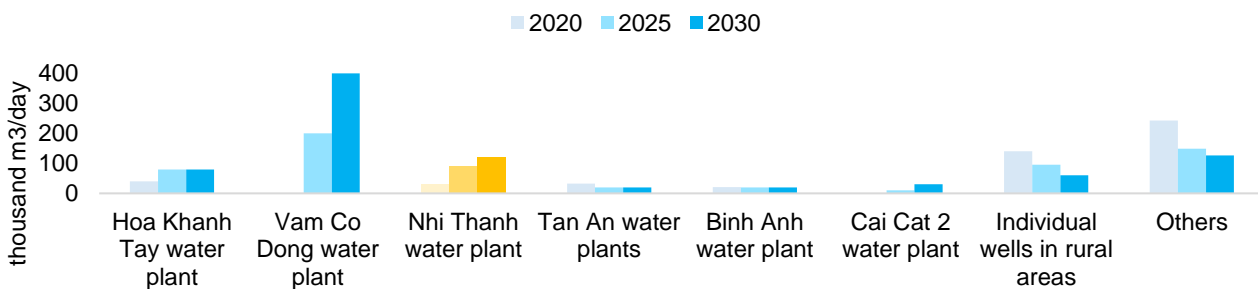
**BWE-LA’s competitive advantage is primarily derived from its favorable location in a region with high demand for clean water and its modern technological infrastructure that significantly reduces non-revenue water ratio.** This competitive advantage is supported by Long An province’s water supply plan, which emphasizes reducing groundwater use and increasing reliance on surface water, a shift that favors surface water plants like BWE-LA’s Nhi Thanh facility.

The water industry is characterized by distinct zoning regulations, with only a limited number of companies permitted to supply water within a province. In Long An, there are 36 urban water supply plants and stations, of which 32 (62% of total capacity) utilize groundwater, while the remaining four exploit surface water. According to Decision 2286/QĐ-UBND of the People’s Committee of Long An province on adjusting the water supply plan through 2030 and vision for 2050, the province will gradually reduce and cease groundwater exploitation, shifting surface water sources.

**Nhi Thanh water plant’s pipping system spans areas with high demand for domestic water use and growing shortage due to groundwater contamination, such as Can Giuoc, Can Duoc, Tan Tru, Chau Thanh districts, and Tan An city.** Under the Long An provincial water supply plan, by 2030, Nhi Thanh plant will have a capacity of 120,000 m<sup>3</sup>/day after the completion of phase 3, surpassing the Hoa Khanh Tay surface water plant and ranking second only to the Vam Co Dong surface water plant (planned capacity of 400,000 m<sup>3</sup>/day by 2030). Moreover, due to substandard water quality, the supply capacity from rural individual wells, groundwater plants, and groundwater stations will decline significantly and must be converted into booster pumping stations.

As of June 30, 2024, Nhi Thanh plant is the third largest in terms of givcapacity in Long An province, trailing only behind the Hoa Khanh Tay surface water plant (capacity of 80,000 m<sup>3</sup>/day) and the Vam Co Dong surface water plant (capacity of 80,000 m<sup>3</sup>/day).

**Exhibit 10: Capacity planning for water supply plants in Long An**

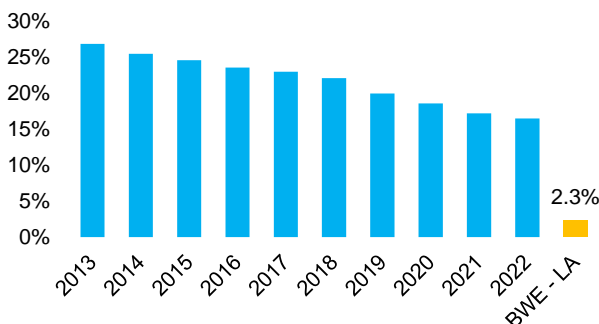


Source: Long An Provincial People’s Committee, FiinRatings compilation.

\*The remainder consists of small-scale groundwater plants and stations, some of which will need to be converted into booster pumping stations by 2025 or 2030.

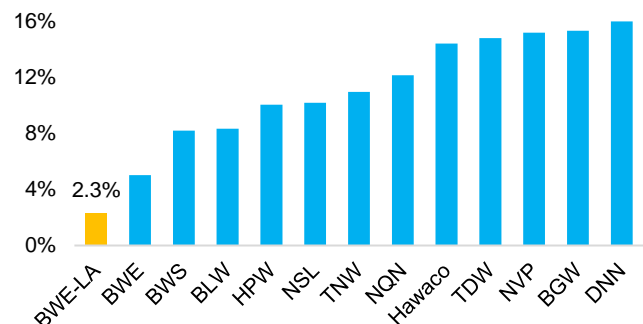
BWE-LA also benefits from lower non-revenue water rates, thanks to its modern infrastructure and relatively new piping systems. In contrast to many other companies in the water sector, which face challenges related to outdated machinery and aging pipelines, BWE-LA’s infrastructure is more cost-efficient. Additionally, since BWE-LA focuses primarily on wholesale water supply to distribution companies (accounting for 99% of its revenue), most water losses occur at the distribution stage, further limiting its operational water loss challenges.

**Exhibit 11: Non-revenue water ratio of sector and BWE-LA**



Source: BWE-LA, FiinRatings compiled from various companies.

**Exhibit 12: Non-revenue water ratio of BWE-LA and peers in 2023**



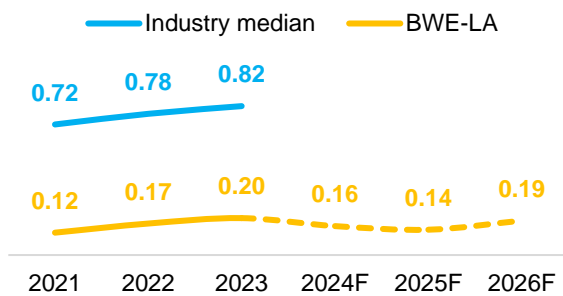
Source: BWE-LA, FiinRatings compiled from various companies.

### Operating Efficiency and Profitability

FiinRatings evaluates BWE-LA’s operational efficiency as Average in comparison to its industry peers. This assessment is reflected in its fixed asset turnover ratio and return on equity (ROE), both of which are below industry medians. Specifically, BWE-LA’s fixed asset turnover ratio was 0.12x in 2021, shortly after the Nhi Thanh plant commenced operations, and improved to 0.20x by 2023 as the plant operated at 89% utilization rate. In contrast, the industry median for total asset turnover in 2023 was significantly higher at 0.82x. The underperformance of BWE-LA is primarily due to the longer operational histories of many competitors, whose assets have been depreciated substantially than those of newer entrants like BWE-LA.

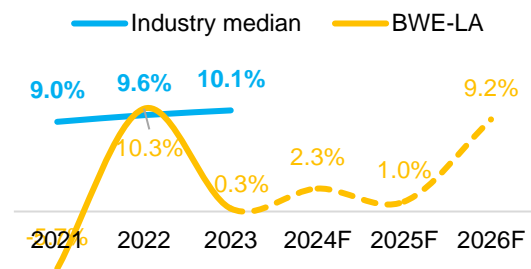
BWE-LA’s ROE, excluding one-off financial income, has been relatively low, largely due to high interest expenses and depreciation linked to the new Nhi Thanh plant. Looking forward, FiinRatings projects that ROE will improve to 9.2% by 2026, aligning with industry averages, as plant performance stabilizes and interest expenses decrease.

Exhibit 13: Fixed asset turnover of BWE-LA and Industry median



Source: BWE-LA, FiinRatings compiled from various companies.

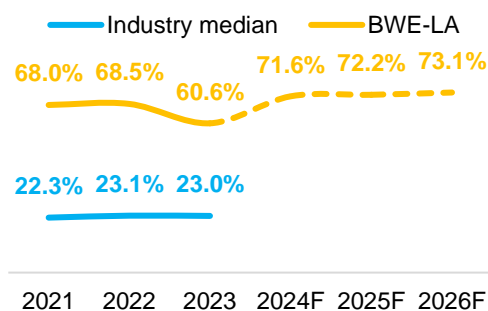
Exhibit 14: ROE of BWE-LA and Industry median



Source: BWE-LA, FiinRatings compiled from various companies.

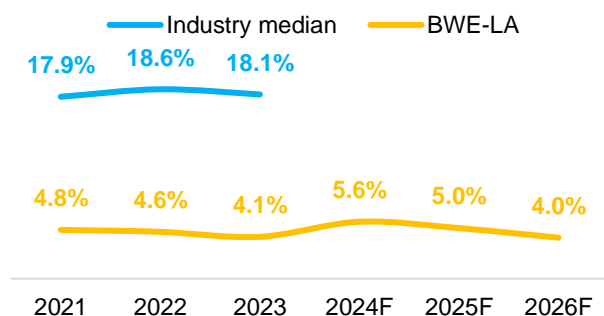
BWE-LA has demonstrated a Good level of profitability, maintaining an EBITDA margin between 68-73% from 2021 to 2023, surpassing the industry median of 18-23%. The company’s strong profitability is largely attributed to its strategic focus on the wholesale activities, which allows the Company to avoid the elevated selling, general, and administrative (SG&A) expenses typically associated with distribution companies. As a result, BWE-LA’s SG&A-to-Revenue ratio remains low, at only 4-5%. This is in lower than retail distributors that incur additional costs related to customer service, marketing, meter installation, and billing. This efficiency in operations and cost management positions BWE-LA favorably within the water supply industry, enhancing its profitability while allowing it to scale operations effectively.

Exhibit 15: EBITDA of BWE-LA and Industry median



Source: BWE-LA, FiinRatings compiled from various companies.

Exhibit 16: SG&A-to-Revenue of BWE-LA and Industry median



Source: BWE-LA, FiinRatings compiled from various companies.

## FINANCIAL RISK PROFILE

BWE-LA's financial risk profile is assessed at a **Significant** level, primarily due to its leverage levels exceeding those of other water supply companies in Vietnam. As of December 31, 2023, BWE-LA's Debt-to-Equity ratio was at 0.9x and its Debt-to-EBITDA ratio stood at 8.2x, compared to industry averages of 0.3x and 2.2x, respectively.

**Exhibit 17: BWE-LA's key financial ratios (2021-2025F)**

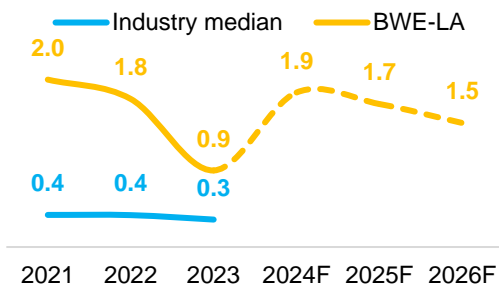
Unit: times (x)	2021	2022	2023	2024F	2025F	Industry average (2023)
<b>Debt-to-Equity</b>	2.0	1.8	0.9	1.9	1.7	0.3
<b>Debt-to-EBITDA</b>	7.7	6.9	6.0	11.5	8,2	2.2
<b>Interest coverage</b>	1.6	2.2	1.9	2.1	1.7	18.2

Source: FiinRatings

Despite the improvement in the Debt-to-Equity ratio from 2.0x in 2021 to 0.9x in 2023, it remains higher than its peers. This higher leverage reflects substantial investments made in the first two phases of the Nhi Thanh plant and related pipeline infrastructure to address growing demand for clean water. In contrast, other water utilities generally maintain lower leverage levels due to the maturity of their assets, focusing only on funding working capital and maintenance.

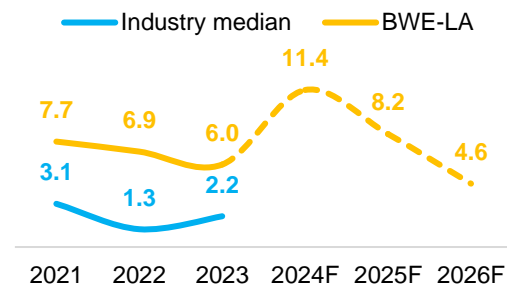
In 2024 and 2025, BWE-LA is planning further investments in the third phase of the Nhi Thanh plant, which has an estimated investment of VND 870 billion. To finance these capital needs, the Company plans to issue an additional VND 700 billion worth of bonds in the second half of 2024, potentially increasing the debt-to-equity ratio to 1.9x in 2024 and 1.7x in 2025.

**Exhibit 18: Debt-to-Equity of BWE-LA and Industry median**



Source: BWE-LA, FiinRatings compiled from various companies.

**Exhibit 19: Debt-to-EBITDA of BWE-LA and Industry median**



Source: BWE-LA, FiinRatings compiled from various companies.

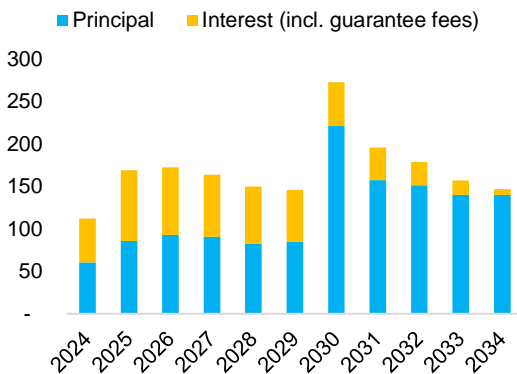
BWE-LA's debt servicing capacity is assessed as adequate level. With the operation of the first two phases of the Nhi Thanh plant, the Company's operating cash flow has improved year-on-year, leading to a decrease in the debt-to-EBITDA ratio from 2023 compared to 2021 and 2022. However, projections indicate that this ratio may rise to 11.5x in 2024 and 8.2x in 2025 after the bond issuance.

FiinRatings anticipates that the Debt-to-EBITDA ratio will gradually decline starting in 2026 as the third phase of the plant begins operations, thereby boosting revenue and profit. Additionally, BWE-LA's interest coverage ratio is deemed adequate, with an EBITDA-to-Interest expense ratio of 1.7x in 2023, indicating sufficient capability to fulfill financial obligations over the next 12-24 months.

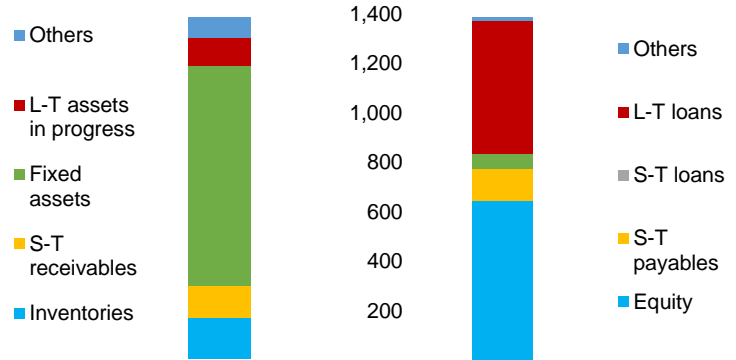
## MODIFIERS

### Capital Structure

FiinRatings assesses BWE-LA's capital structure at a **Neutral** level, reflecting a balanced alignment between the company's debt maturities and the cash flow generated from its operating activities. The equally distributed nature of BWE-LA's debt structure further mitigates the risks associated with concentrated debt obligations. As a result, we do not adjust the Company's anchor for this modifier.

**Exhibit 20: BWE-LA's expected debt repayment structure, 2024-2034 (VND billion)**


Source: FiinRatings, BWE-LA

**Exhibit 21: BWE-LA's assets and total sources structures as of Dec 31, 2023 (VND billion)**


Source: FiinRatings, BWE-LA

In 2024, BWE-LA plans to issue VND 700 billion in bonds, which will have a ten-year maturity. Principal repayments are expected to commence in 2030, after the completion and stabilization of phase 3 of the Nhi Thanh plant. As of December 31, 2023, BWE-LA's average debt maturity was approximately 6.2 years, which corresponds with its Debt-to-EBITDA ratio of 6.0x for the same period. By evenly distributing its debt maturities over time, BWE-LA has mitigated the risk of facing significant debt obligations at any given point.

### Liquidity

FiinRatings assessed BWE-LA's liquidity at an **Adequate** level, supported by a Liquidity source-to-use ratio of 1.2x over the next 12 months. Consequently, there is no adjustment to the company's anchor for this modifier.

**Exhibit 22: BWE-LA's liquidity projection for the next 12 months (starting from June 30, 2024)**

Liquidity source: VND 907 billion	Liquidity use: VND billion
- Cash and S-T investments: VND 99 billion - EBITDA: VND 109 billion - Bond issuance: VND 700 billion	- Fixed asset investments: VND 632 billion - Principal due: VND 73 billion - Interest expenses: VND 68 billion - Dividend payments: VND 0.8 billion
<b>Liquidity source-to-use: 1.2x</b>	

Source: FiinRatings

The operational efficiency of Phase 1 and 2 of the Nhi Thanh plant is projected to contribute an additional VND 109 billion to BWE-LA's EBITDA in the next year, enhancing its capacity to meet debt obligations. The planned VND 700 billion bond issuance in the latter half of 2024 will provide the necessary capital for the third phase of the Nhi Thanh project, with an estimated investment of VND 632 billion over the next 12 months.



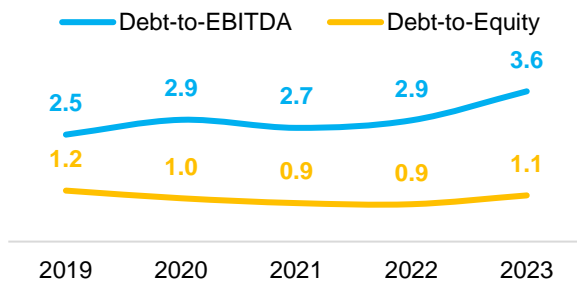
## EXTERNAL INFLUENCES

FiinRatings has assessed that BWE-LA will play a **crucial role** in BWE’s strategy to expand its clean water business outside of Binh Duong province. The high level of **governance participation** from the parent company (BWE) is a key factor in this evaluation. As a result, BWE-LA’s Credit Rating (ICR) has been adjusted by **one-notch upward** from its Stand-alone Credit Rating, based on evaluations of support from the parent company, including: (i) control and accountability linkages; (ii) economic linkages; and (iii) BWE’s support capability.

**BWE-LA has received substantial support in terms of branding, governance, expertise, and business development capabilities from the BIWASE Group.** Following its acquisition from DNP, BWE-LA was rebranded as BIWASE – Long An to align with the parent company’s "BIWASE" brand. The parent company’s managerial involvement is also very high, with ownership exceeding 90% of BWE-LA’s shares. Most members of BWE-LA’s Board of Directors are key personnel appointed by BWE, such as Mr. Tran Chien Cong (Vice Chairman of BWE, Chairman of BWE-LA), Mr. Mai Song Hao (Deputy General Director of BWE, Member of the Board of Directors of BWE-LA), and Mr. Tran Tan Duc (CFO of BWE, Member of the Board of Directors of BWE-LA), demonstrating tight oversight and management from the group. Additionally, BWE has provided support in terms of expertise, technology, and raw materials since the merger with BWE-LA.

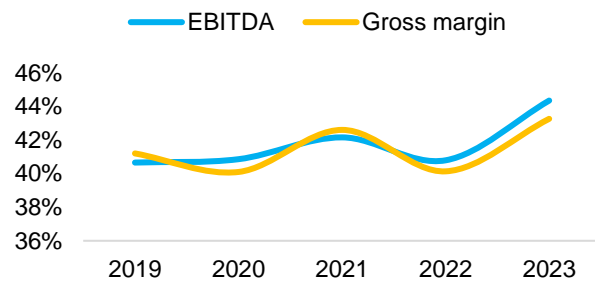
**Strategically, the merger of BWE-LA is considered to be of significant value in the Group’s ability to expand into neighboring provinces.** We believe that BWE-LA plays a critical role for BWE in Long An province, where there is a high demand for clean water to serve the needs of social development in the coming years. However, as of 2023, BWE-LA’s contribution to the parent company remained modest, with its asset size accounting for only about 11.7% of BWE’s, and its revenue and profit contributions being only around 4.7% and 0.3%, respectively, due to the project being newly operational and in the early stages of capacity expansion. In the medium to long term, we expect the economic linkages between BWE-LA and its parent company to improve as BWE-LA continues to expand its scale and invest further in the water pipeline system to connect areas between districts in Long An province. The parent company BWE also expects to maintain control over BWE-LA to implement these orientations through its ownership of more than 90%.

**Exhibit 23: BWE’s consolidated Debt-to-EBITDA and Debt-to-Equity**



Source: FiinRatings, BWE

**Exhibit 24: BWE’s consolidated EBITDA and gross margin**



Source: FiinRatings, BWE

**BWE is assessed as capable of providing support in cases where subsidiaries face financial difficulties or unfavorable business operations.** As of December 31, 2023, BWE’s Debt-to-Equity ratio and Debt-to-EBITDA ratio were 1.1x and 3.6x, respectively. With relatively good profitability as reflected by an EBITDA margin of 43.3% and the maintenance of highly liquid assets such as cash and short-term investments at around 7.6% of total assets, we expect BWE to be able to fully meet its debt principal and interest obligations in the next 12-24 months.

## 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 ranking methodology:

- [General Rating methodology](#)

## RATING HISTORY

Biwase – Long An Water Joint Stock Company (“BWE-LA”)			
Credit Rating Type	Date	Rating	Outlook
Initial Issuer Credit Rating	25 October 2024	<b>BBB</b>	<b>Stable</b>

## 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:

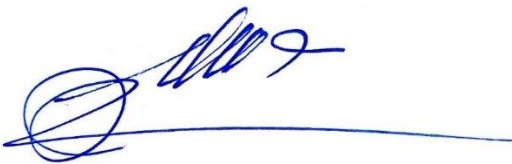
- BWE-LA's percentage of equity ownership at FiinRatings: *none*
- FiinRatings' percentage of equity ownership at BWE-LA: *none*
- FiinRatings' other employee percentage of equity ownership at BWE-LA: *none*
- BWE-LA's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings' investment value of bond(s) issued by BWE-LA: *none*
- BWE-LA's investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings' investment value of other debt instruments issued by BWE-LA: *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-C44-2024



Nguyen Quang Thuan, FCCA

Chief Executive Officer

Hanoi, 25 October 2024

## APPENDICES

### Appendix 1: BWE-LA's financial statements (2021-2023)

Balance Sheet	2021	2022	2023	Income Statement	2021	2022	2023
<b>CURRENT ASSETS</b>	<b>40.6</b>	<b>103.4</b>	<b>372.5</b>	<b>Net revenue</b>	<b>91.8</b>	<b>127.6</b>	<b>164.1</b>
Cash and equivalents	0.3	0.2	5.1	Cost of sales	(61.5)	(73.4)	(97.1)
S-T investments	-	-	16.8	<b>Gross profit</b>	<b>30.3</b>	<b>54.1</b>	<b>66.9</b>
S-T accounts receivable	17.7	69.2	126.8	Financial income	-	26.6	0.9
Inventories	3.2	4.0	166.6	Financial expenses	(39.7)	(40.1)	(54.4)
Other curent assets	19.3	30.0	57.3	<b>Interest expenses</b>	<b>(39.7)</b>	<b>(38.6)</b>	<b>(54.4)</b>
<b>NON-CURRENT ASSETS</b>	<b>753.4</b>	<b>916.0</b>	<b>1,045.1</b>	Profit from affiliated companies	-	-	-
L-T accounts receivable	-	-	-	Selling expenses	-	-	(0.1)
Fixed assets	742.5	722.7	922.5	Administration expenses	(4.4)	(5.9)	(8.8)
L-T assets in progress	9.9	172.5	114.4	<b>Net operating profit</b>	<b>(13.8)</b>	<b>34.8</b>	<b>4.5</b>
L-T investments	-	20.0	-	Other profit/(loss)	(0.1)	-	(1.5)
Other L-T assets	1.0	0.9	8.2	<b>Profit before tax</b>	<b>(13.9)</b>	<b>34.8</b>	<b>3.0</b>
<b>TOTAL ASSETS</b>	<b>794.0</b>	<b>1,019.4</b>	<b>1,417.6</b>	Income tax expenses	-	5.2	-
				Deferred tax	-	-	1.0
				<b>Net profit</b>	<b>(13.9)</b>	<b>29.5</b>	<b>2.1</b>
<b>LIABILITIES</b>	<b>557.9</b>	<b>681.8</b>	<b>765.7</b>	<b>Cash Flow Statement</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Current liabilities</b>	<b>33.4</b>	<b>87.3</b>	<b>221.0</b>	Profit before tax	(13.9)	34.8	3.0
S-T trade payables	8.1	24.2	130.8	Depreciation of fixed assets	36.6	39.1	40.9
Income tax payable	1.3	7.3	2.2	Interest expenses	39.7	40.1	54.4
Payables to employees	0.7	-	-	Operating profit before WCC	<b>62.4</b>	87.3	98.0
S-T accrued expense	2.0	2.9	12.0	<b>CFO</b>	<b>47.5</b>	<b>42.2</b>	<b>(144.4)</b>
S-T loans	21.3	44.0	65.5	Expenditures on loans	-	(12.5)	(16.4)
Other S-T payables	-	8.8	10.5	Proceeds from lending	-	-	-
<b>Non-current liabilities</b>	<b>524.5</b>	<b>594.5</b>	<b>544.8</b>	Equity investments in other entities	-	(27.5)	-
L-T trade payables	33.7	-	-	Proceeds from interests and dividends	-	0.3	0.6
Deferred tax liabilities	-	-	2.4	Expenditures on fixed assets	(26.0)	(201.3)	(133.3)
L-T loans	457.0	560.8	542.3	Proceeds from fixed assets	-	-	0.8
Other L-T payables	33.9	33.7	-	<b>CFI</b>	<b>(26.0)</b>	<b>(240.9)</b>	<b>(148.2)bi</b>
<b>OWNER'S EQUITY</b>	<b>236.1</b>	<b>337.6</b>	<b>651.9</b>	Proceeds from share issuance	-	72.0	322.0
Shareholders' equity	250.0	322.0	644.0	Proceeds from borrowings	0.3	162.9	112.6
Retained earnings	(13.9)	15.6	7.9	Repayment of principal	(24.1)	(36.3)	(121.5)
Contributed capital	-	-	-	Dividend paid	-	-	(15.6)
<b>TOTAL SOURCES</b>	<b>794.0</b>	<b>1,019.4</b>	<b>1,417.6</b>	<b>CFF</b>	<b>(23.8)</b>	<b>198.6</b>	<b>297.5</b>
				<b>Net changes in cash</b>	<b>(2.4)</b>	<b>(0.1)</b>	<b>4.9</b>
				<b>Beginning cash balance</b>	<b>2.7</b>	<b>0.3</b>	<b>0.2</b>
				<b>Ending cash balance</b>	<b>0.3</b>	<b>0.2</b>	<b>5.1</b>

## Appendix 2: Key Metrics and Formula

- Interest expense = interest expense reported + Capitalized interest + Operating lease interest expense + hybrid dividend accrual + Other adjustments
- Cash interest paid = Interest expense paid + Hybrid cash dividend
- EBITDA (reported) = Revenue - COGS- SG&A - R&D + D&A - Tax and additional expense - Other operating expenses
- EBITDA = EBITDA (reported) + Operating lease rent -Capitalized development cost + Capitalized interest + Dividend received from equity investments + Other adjustments
- EBIT = EBITDA - D&A - Operating lease depreciation + Non-operating income + Other adjustments
- FFO = EBITDA - Interest expense + interest and dividend income - Current tax + Other adjustments
- CFO = CFO reported - Capitalized interest + Operating lease depreciation - Capitalized development cost - hybrid dividend cash payment - interest paid/received + Dividends received + Other adjustments
- Capital expenditure = Capital expenditure reported - Capitalized interest - Capitalized development cost + Other adjustments
- EBITDA interest coverage = EBITDA/interest expense
- FFO interest coverage = (FFO + Cash interest paid)/ interest expense
- EBITDA Margin = EBITDA / Revenue
- Cash ratio = Cash & cash equivalents/Current liabilities
- Quick ratio = (Cash & cash equivalents + Short-term investments + Short-term receivables)/ Current liabilities
- Short-term coverage ratio: (Cash & cash equivalents + Short-term investments)/(Current liabilities – Prepayments from customers – Unearned revenue + Interest paid + Dividend paid)
- Current ratio = Current asset/ Current liabilities
- Debt/Equity = (Short-term debt+Long-term debt)/Equity
- Total liabilities/Equity = (Short-term liabilities+Long-term liabilities)/Equity
- Debt/EBITDA (\*) = (Short-term debt+Long-term debt)/EBITDA
- Return on asset (“ROA”) = Net income/Average total assets
- Return on equity (“ROE”) = Net income/Average total equity
- Total asset turnover = Net revenue/ Average total assets
- Receivable days = Average account receivables\*365/Net revenue
- Inventory days = (Average inventories +Average Long-term asset in progress) \*365/Cost of goods sold
- Payables days = Average trade payables\*365/Cost of goods sold
- Cash conversion cycle = Receivables days + Inventory days – Payables days
- Gross margin = Gross profit/Net revenue
- EBIT margin = EBIT/Net revenue
- EBITDA margin = EBITDA/ Net revenue
- Operating margin = Operating profit/Net revenue
- Pre-tax margin = Pretax income/Net revenue
- Net margin = Net income/Net revenue

## Appendix 3: 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



## CONTACT

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**For Media Enquiries:** Ms. Pham Thuy Duong, Marketing Manager

Mobile: +84 (0) 399 841 588

Email: [duong.phamthuy@fiingroup.vn](mailto:duong.phamthuy@fiingroup.vn)

**For Client Service:** Ms. Ba Thi Thu Hue, Senior Manager, Head of Commercial

Mobile: +84 (0) 971 390 935

Email: [hue.ba@fiingroup.vn](mailto:hue.ba@fiingroup.vn)

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