

Initial Issuer Credit Rating Public Announcement

Biwase – Long An Water Joint Stock Company (“BWE-LA”)

Issuer Credit Rating (ICR*): BBB

Outlook: Stable

Hanoi, 25 October 2024

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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, 25 October 2024

FiinRatings is pleased to announce that Biwase – Long An Water Joint Stock Company (“BWE-LA” or “the Company”) has been assigned a first-time long-term Issuer Credit Rating of “**BBB**” with a “**Stable**” outlook.

RATING RATIONALE

FiinRatings’s assessment of a “**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 the 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 m³/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 m³/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 than 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 6.0x, 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's 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.

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	BBB	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	Rating Scale
Group 1: Extremely strong capacity to meet financial obligation.	AAA
	AA+
Group 2: Very strong capacity to meet financial obligation.	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
Group 8: Default. Payments on an obligation are not made on the date due (SD) or the issuer becomes insolvent (D). The ' D ' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	C
	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:

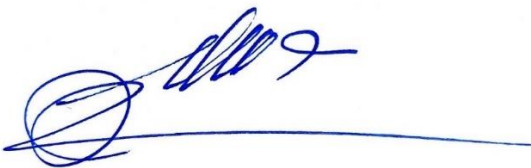
- BWE-LA's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at BWE-LA: *none*
- FiinRatings's other employee percentage of equity ownership at BWE-LA: *none*
- BWE-LA's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment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

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FIINRATINGS JOINT STOCK COMPANY

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Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 25 October 2024

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