

Rating Update:

FiinRatings reaffirms BB+/Stable Long-term Issuer Credit Rating of Petrovietnam Securities Incorporated (“PSI”)

Long-term Issuer Credit Rating (*): **BB+**

Rating Outlook: **Stable**

Hanoi, 26 June 2024

Primary Analysts:

Le Hong Khang, Lead Analyst; email: khang.le@fiingroup.vn

Tran Thi Anh Linh, CFA, Analyst; email: linh.tran@fiingroup.vn

Rating Committee Members:

Nguyen Anh Quan, MSc, Committee Chairman; email: quan.nguyen@fiingroup.vn

Khong Van Minh; Committee Member; email: minh.khongvan@fiingroup.vn

Nguyen Nhat Hoang, CFA, Committee Member; email: 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 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.

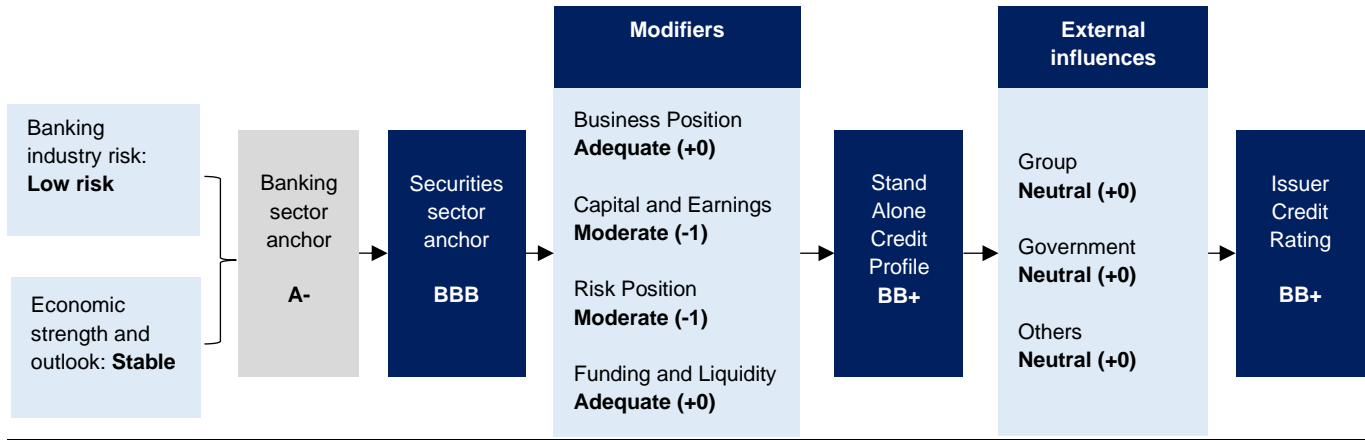
The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

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, 26 June 2024

FiinRatings affirms the credit rating of PetroVietnam Securities Joint Stock Company (“PSI”) at “**BB+**” to reflect our assessment of the Company’s business performance, which is developing in line with our previous projections. Our analysis also takes into account the Company’s ability to maintain a relatively stable business position, improvements in its funding capability, and gradually improving earnings from increasing asset scale via leverage. The “**Stable**” outlook reflects FiinRatings’ expectations of the Company’s ability to sustain its current business and financial status. Additionally, this outlook also incorporates our assessment of the market liquidity over the next 12-18 months.

RATING SUMMARY



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

Upgrade Scenarios

- PSI significantly improves its market share in the securities brokerage segment thanks to an expansion of business activities, continues to maintain a strict risk management policy for customers with large loan balances, and while maintaining moderate risk appetite.
- The Company strengthens its funding profile by issuing additional equity or establishing new credit lines with other financial institutions or other stable funding sources.
- PSI’s earnings increase significantly due to effective cost management.

Downgrade Scenarios

- Shrinking customer network and a substantial decline in the securities brokerage market share leads to adverse impacts on PSI’s business position.
- The Company’s ability to raise funds and earnings deteriorates materially compared to our expectation.
- PSI increases its risk appetite in margin lending, investment banking activities, and proprietary trading.

RATING RATIONALE

We affirm PSI's business position at “Adequate” based on the Company's business performance shown by brokerage market share, margin lending balance, as well as proprietary trading and investment banking activities. Leveraging its strengths with target customers in the energy sector, 70%-80% of PSI's financial advisory contracts are focused on customers within this sector. Additionally, the Company also collaborates with PVcomBank to tap into its parent bank's customer base, enabling cross-selling advisory products to optimize customer resources. PSI also proactively developed technology products to expand its individual customer base and to prepare for the pivot to digital platforms trading. In 2023, the Company opened 6,285 new accounts, bringing the total number of accounts at the end of the year to 38,935. Brokerage market share of the Company in 2023 reached 0.32% of the total market trading value, consistent with our base case forecast. This figure has slightly increased to 0.33% in the first quarter of 2024. The Company's margin lending and advance to customer receivables reached VND 1,004.4 billion as of 1Q2024, an increase of 14% over the first three months and better than our base case projections. Therefore, we assess that the Company's business position is in line with our base case projections and will likely remain stable in the near future. In 2024, alongside the goal of expanding its customer base through PVcomBank's channels, PSI plans to further expand its capital market operations via valuable paper trading.

We maintain our assessment of PSI's Capital, leverage and earnings at “Moderate”. Compared to our previous assessment, PSI's leverage has increased and is currently higher than the industry average. The Company has made significant changes in its capital structure to meet earnings goals in 2024, via financing treasury trading activities. Pre-tax profit in 2023 was VND 30.8 billion, lower than our projection of VND 44.7 billion. This is due to higher-than-projected operating costs, coming from increased expenses related to trading systems for individual customers and IT facilities. During the year 2023, PSI recorded substantial investment in systematic software services, in preparation for expansion into the mass customer base of PVcomBank. Additionally, the Company made a provision of VND 5.1 billion for its financial investment in PetroVietnam Trade and Investment JSC, which was not in our projection. However, we also assess this provision as appropriate for PSI's restructuring initiative regarding investments in unlisted companies.

Pre-tax profit for 1Q2024 was VND 12.6 billion, higher than our projection of VND 5.3 billion, due to revenue from lending activities being 1.5 times higher than projected. To finance margin lending activities, PSI continuously expanded its asset scale from VND 2,000 billion to around VND 2,400 billion in 4Q2023 and 1Q2024, with funding mainly coming from loans from other entities and individuals. Given the uncertainty regarding equity issuance in the short term, we deem PSI's leverage increase to meet margin lending demand necessary.

Regarding operational efficiency, the Company's profitability in 2023 with ROE of 3.6% was lower than the industry average. Due to limitations in equity issuance to finance its operations, PSI's Debt-to-Equity ratio increased to 2.4 times, significantly higher than the 1.8 times as of 30/09/2023. The capital structure shows a reduction in bank loans and a proportionate increase in loans from other entities.

FiinRatings maintains our assessment of PSI's risk position at “Moderate”, reflected in the Company's risk appetite through its margin lending portfolio and its projected expansion into treasury trading activities.

The risk in PSI's proprietary trading of corporate bonds has remained stable compared to our previous assessment. Specifically, the value of listed and unlisted corporate bonds recorded in PSI's financial assets increased from VND 79.27 billion as of 30/09/2023 to VND 152.2 billion by the end of the year. Accordingly, the Company increased its holdings of HDBank's bonds in addition to bonds of FECON and Hai Phat Invest in its portfolio. We assess the risk regarding the portfolio of listed and unlisted shares to not have changed compared to our previous update report, since PSI did not increase its holdings and continued to divest from these unlisted companies.

Regarding its margin lending activities, the Company did not record any bad debt provisions in 4Q2023 and 1Q2024, with distribution by sector as follows: real estate 18%, banking 10%, food and beverages 10%, materials 13%, and other sectors 48%. Approximately 90% of the portfolio consists of large-cap (> VND 10 trillion) and mid-cap (> VND

1 trillion) tickers. The proportion of loans to the top 20 individual clients with significant outstanding balances is 35%, slightly down from 37% at the time of previous surveillance.

We maintain our assessment of PSI's funding and liquidity profile as “Adequate” level, as reflected by increased credit lines with commercial banks, timely bond maturity, and diversified funding channels to optimize costs.

PSI's bonds have matured on time. The total bond outstanding of PSI has decreased to only VND 74 billion as of 31/3/2024, coming from two new issuances in 2023, including a VND 24 billion bond with a 12-month term (maturing in 2024) at an interest rate of 9%, and a VND 50 billion bond with a 36-month term (maturing in 2026) at an interest rate of 9.95%.

As of 31/03/2024, PSI's capital structure is 58% debt, 3% bonds, and 29% equity. Accordingly, the Company shifted to reduce bank borrowing and increase borrowing from other entities, with debt from other entities and individuals increasing by 30% in the first three months of 2024. However, in terms of priority, PSI still prioritizes credit lines with banks, especially unsecured loans due to clear legality and lower costs. The Company has significantly increased its credit limits, totaling VND 1,704.6 billion, an increase of 80% compared to VND 943 billion six months ago. In a scenario where 100% of individual customers and other entities withdraw their funding from PSI, unused bank credit limits can cover 118% of the total borrowing from individuals and other entities. The Company also plans to establish additional unsecured credit lines with five banks, including one foreign bank. In 2025, PSI intends to continue extend unsecured credit lines to finance its capital market operations.

Due to the characteristics of treasury trading operations, we also noted a significant increase in loan principal borrowing/repayment in 1Q2024, reaching VND 11 trillion per quarter compared to VND 6 trillion per year during the period of 2021 – 2023. Expanding capital market operations is a necessary step for PSI to meet its revenue and earnings plans, especially when revenue from capital market trading accounts for 30% of the Company's total revenue per its business plan.

In our projections, PSI can maintain sufficient liquidity to meet financial obligations, with the liquidity source/use ratio remaining above 1.

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

Petrovietnam Securities Incorporated

Issuer Credit Rating History

<i>12 May 2023</i>	<i>Initial Ratings</i>	<i>Issuer Rating: BB+ Outlook: Stable</i>
<i>28 December 2023</i>	<i>Surveillance</i>	<i>Issuer Rating: BB+ Outlook: Stable</i>
<i>26 June 2024</i>	<i>Surveillance</i>	<i>Issuer Rating: BB+ Outlook: Stable</i>

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
	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 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.	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:

- PSI’s percentage of equity ownership at FiinRatings: *none*
- FiinRatings’s percentage of equity ownership at PSI: *none*
- FiinRatings’s other employee percentage of equity ownership at PSI: *none*
- PSI’s investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings’s investment value of bond(s) issued by PSI: *none*
- PSI’s investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings’s investment value of other debt instruments issued by PSI: *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.: 02-C19-2023



Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 26 June 2024

CONTACT US

This credit rating notice is prepared for public disclosure in accordance with applicable regulations and therefore only provides rating results and an evaluation summary of relevant criteria. Complete ratings information or complete ratings reports are provided exclusively by FiinRatings subject to specific terms and conditions.

For Client Service: Ms. Ba Thi Thu Hue, Director, Head of Commercial,
+84 (0) 971 390 935 or email: hue.ba@fiingroup.vn

COPYRIGHT & DISCLAIMER STATEMENTS

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced, or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of FiinRatings. The Content shall not be used for any unlawful or unauthorized purposes. FiinRatings and any third-party providers, as well as their directors, officers, shareholders, employees, or agents (collectively FiinRatings Parties) do not guarantee the accuracy, completeness, timeliness, or availability of the Content. FiinRatings Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. FIINRATINGS PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall FiinRatings Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. FiinRatings’ opinions, analyses, and rating acknowledgment decisions (described below) are for reference and are not recommendations to purchase, hold, or sell any securities, and/or debt, or financial instruments or to make any investment decisions. FiinRatings assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment, and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. FiinRatings does not act as a fiduciary or an investment advisor. While FiinRatings has obtained information from sources it believes to be reliable, FiinRatings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

FiinRatings Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

FiinRatings JSC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of FiinRatings may have information that is not available to Vietnam FiinGroup JSC’s business units. FiinRatings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

FIINRATINGS, FIIN, and FIINGROUP are registered trademarks of Vietnam FiinGroup Joint Stock Company.