Rating Update:

FiinRatings has upgraded the Issuer Rating for Coteccons Construction Joint Stock Company ('Coteccons') to 'BBB+' with a 'Stable' outlook.

Long-term Issuer Credit Rating*: BBB+

Outlook: Stable

Hanoi, 27 September 2024

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** This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual insurance such as bond that it may issue.*

The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

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

This document is prepared in both English and Vietnamese. The English translation is for reference only and the Vietnamese version will prevail in the event of any inconsistency between the English version and the Vietnamese version.

Hanoi, 27 September 2024

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

RATING SUMMARY

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

RATING RATIONALE

The upgrade of Coteccons' long-term issuer credit rating to '**BBB+**' from '**BBB**', with a '**Stable**' rating outlook, is driven by a reassessment of the Company's business risk profile from '**Fair**' to '**Strong'**. This reflects Coteccons' resilience in maintaining its leading market position over the past 3 years, after the departure of its previous management team, in addition to the challenges posed by a highly cyclical construction industry and recent unfavorable macroeconomic conditions. From 2021 to 1H2024, Coteccons has demonstrated a remarkable and continued recovery in revenue, which has been driven by a growing backlog that has brought the Company close to pre-restructuring levels seen before 2020. The Company has also shown consistent improvement in profitability, operating efficiency and the quality of account receivables thanks to the shift toward better cash-generating projects, particularly in the foreign direct investment (FDI) sector. Looking ahead, with tentative signs of more favourable industry and macroeconomic conditions, we expect that Coteccons will continue to leverage its strong competitive position, accompanied by its modest debt level and exceptionally strong liquidity compared to peers.

Coteccons has shown remarkable resilience in maintaining its leading position following the restructuring phase, despite the high-risk nature of the construction industry and challenging macroeconomic conditions. This resilience is reflected in its strong and sustained growth in revenue and backlog, along with notable and consistent improvements in profit margins, operational efficiency indicators and account receivables quality.

Coteccons has demonstrated strong and sustained revenue growth, supported by an expanding backlog. By 1H2024, the Company's revenue reached VND 11,261 billion, a 67% increase compared to 1H2023. From 2021 to 2023, revenue grew at a compound annual growth rate (CAGR) of 22.1%, rising from VND 9,078 billion in 2021 to VND 16,528 billion in 2023. This continuous revenue growth is underpinned by the steady expansion of its backlog, which reached approximately VND 30 trillion by Sep. 2024 (up from VND 23 trillion in Sep. 2023 and VND 17 trillion in March 2023). The Company estimated VND 22 trillion of backlog to carry over into 2025.

Coteccons' robust revenue and backlog growth is driven by two key factors: (1) its competitive strengths in securing FDI/factory projects, and (2) its ability to execute lump-sum (fixed-price) contracts during periods of rising construction material costs.

(1) Coteccons' competitive position in bidding for FDI and industrial projects has been proven through recent successful bids for high-profile clients such as Lego, Foxconn, Suntory Pepsico, HPG, Aeon Mall, and Heineken. Even when competing with foreign contractors, Coteccons has been able to secure major FDI projects by meeting stringent technical and financial requirements. As of the end of 2Q2024, factory projects accounted for 52% of Coteccons' total revenue (2023 figure: 35%, 2022 figure: 14%), while revenue from residential building projects showed a decrease in contribution to 41% (2023 figure: 38%, 2022 figure: 55%).

We consider the increased contribution of FDI projects in Coteccons' backlog as a positive development in the Company's creditworthiness; We view that FDI projects not only help sustain the Company's backlog during the slowdown in the property market but also generally carry lower risks, which enable the Company to improve profitability and enhance the quality of its account receivables. Before entering the Vietnamese market, FDI investors must complete all necessary licensing, secure adequate funding, and demonstrate strong financial stability. Most FDI projects are supported by bank guarantees, ensuring secure payments throughout project execution. The construction timelines for factories / FDI projects are also considerably shorter than those for building or villa-resort projects, where property developers may delay progress due to subdued market demand, financial difficulties, or legal complications. This enables general contractors like Coteccons to minimize cost overruns and maintain the profit margins in the initial technical plans.

As a result, by 6M2024, Coteccons' profitability have shown commendable and consistent improvement, with return on capital at 4.9% and net profit margin at 1.5%, both of which are getting closer to the industry median of 6.6% and 1.5%, respectively. In 2Q2024, the Company also saw its gross profit margin increased to 3.4% (2023 figure: 2.6%, 2022 figure: 3.3%, 2021 figure: 3.0%), and its EBITDA margin increased to 2.8% (2023 figure: 2.7%, 2022 figure: 1.5%, 2021 figure: 1.6%).

(2) Coteccons' ability to execute lump-sum contracts during a period of rising construction material prices has contributed to its expanding backlog. In 2022 - 2023, due to unprecedented rising material costs, a number of construction companies struggled to fulfil their original lump-sum contracts. Majority of those companies resorted to (i) renegotiating terms to include adjustable price provisions in the initial lump-sum contracts, (ii) offering adjustable-price contracts for new projects, or (iii) limiting their services to construction only while developers provided the materials. Coteccons is one of the few contractors that have continued to execute lump-sum contracts, even with a shorter completion time thanks to the Company's fast track model, while still being profitable. We believe that this competitive advantage has contributed to Coteccons' success in winning bids and growing its backlog.

In addition to strengthened revenue growth and profitability, Coteccons is witnessing notable improvements in accounts receivable quality with reduced concentration risk, thanks to the growth of FDI projects and proactive financial management. By 6M2024, accounts receivable remained stable at VND 12 trillion, which accounted for 55% of the Company's total assets. We observed a reduction in account receivable concentration, with the top 10 clients' contribution to receivables decreasing to 50% in June 2024 from 68% in Sep. 2023. Additionally, the quality of accounts receivable improved significantly, with nonprovisional receivables—those within due and less-than-6-month overdue—increasing to 72% in 2Q2024 from 61% in 3Q2023. This progress is attributed to Coteccons' proactive collection approaches, including: (i) focusing on better cash-collection projects from FDI clients, (ii) reducing exposure to problematic developers by setting strict criteria at the bidding stage and prioritizing sales to clients with KYC-ed stable financial status, (iii) employing bank factoring, and (iv) acquiring project assets at discounted prices from distressed developers with valuable properties. By 6M2024, Coteccons' receivables days dropped to 220 days, down from a peak of 303 days in 2021. The cash conversion cycle also shortened to 156 days, down from a peak of 233 days in 2021. Meanwhile, the Company's working capital turnover improved significantly, reaching 3.4 times in 2Q2024, compared to 1.3 times in 2021.

However, we acknowledge a slight increase in Coteccons' bad debt as of June 30, 2024; this figure reached VND 2,243 billion, with provisions of VND 1,356 billion (covering 60.4%). The irrecoverable debts are primarily related to distressed property developers, including Tan Hoang Minh, Bitexco, and Minh Viet Investment Joint Stock

Company, along with an additional amount of overdue debts from villa-resort projects. Given that overdue debts within the 6-12 months now make up only 6% of Coteccons' accounts receivables and considering the Company's strategic shift towards better-financed FDI projects, we expect less pressure from bad debts going forward. Regardless, the Company's account receivables quality continues to be our key watching factor in subsequent surveillance. Therefore, under our base case, we project Provision expenses / Total revenue ratio to remain within the 1.1%-1.3% range from 2024-2026, reflecting continued provisioning for current overdue debts while accounting for growth in accounts receivable and revenue.

We expect the financial risk profile of Coteccons to remain modest, which is supported by a solid net cash position and low gearing, with improving earnings likely to provide robust coverage within 2024-2026. As of June-end 2024, the increase in Coteccons' total outstanding debt is primarily driven by the acquisition of Sinh Nam Corporation, resulting in a minor rise in the Debt/Equity ratio to 0.18 times (up from 0.13 times in 2022 and 2023), and Debt/ EBITDA of 2.6 times (2023 figure: 2.5 times, 2022 figure: 4.9 times). These figures remain modest compared to direct peers and the industry average, with the sector's average Debt/Equity ratio at 0.8 times and Debt/EBITDA at 4.2 times as of 2Q2024. Within the first half of 2024, the Company had significantly increased its use of short-term revolving facilities to approximately VND 1,200 – 1,500 billion per quarter, compared to only around VND 500 billion per quarter in 2023. As Coteccons undertakes more projects, driving higher working capital requirements, we project its annual use of short-term revolving facilities to reach VND 3,000 – 4,000 billion within 2024 – 2026. To mitigate the possible refinance risk from these facilities, the Company retains approximately VND 3,000 – 4,000 billion in cash reserves. Throughout 2024 – 2026, we expect the Company's gearing to stay at 0.2 times, already factoring in its long-term borrowing plan of VND 250 billion for M&A activities in 2025. Coteccons' debt and interest coverage ratios are also projected to improve thanks to more robust profitability, with our base-case forecast Debt/EBITDA ratio of 2.5 – 3.1 times and EBITDA/Interest expense ratio of 6.3 – 6.8 times.

Coteccons' solid liquidity position is expected to be reinforced by the effective use of factoring and increasing customer advances. As one of the few construction companies that can access bank factoring—typically involving a three-party arrangement requiring both a creditworthy developer and a highly credible construction Company—Coteccons is currently using factoring for key projects with clients such as Lego and Vingroup. With its expanding backlog, particularly from FDI projects and other securely financed developments, we believe that Coteccons has the potential to expand its use of factoring further. Additionally, from 2022 through 1H2024, the Company recorded a substantial increase in short-term customer advances, reaching around VND 2,300 billion, much higher than an average of VND 700 billion during the 2017-2020 period. We believe that the use of factoring, the increase in customer advances, and proactive accounts receivable management, will help mitigate working capital outflows and continue supporting Coteccons' strong liquidity position. In our base-case projection, Coteccons' solid liquidity position is reaffirmed, with an estimated liquidity sources-to-uses ratio of 1.6 to 2.2 times over the next 24 months. We expect the Company to preserve cash holdings of around VND 3,000-4,000 billion during 2024-2026; we believe that the reserved cash will be sufficient to cover debt repayments, interest obligations, and working capital needs under our base-case scenario.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

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

Upgrade Scenarios:

We see little likelihood of an upgrade in Coteccons' long-term issuer credit rating within the next 12 months, unless there is a radical improvement in the high-risk construction industry or the Company operates with virtually no reliance on leverage, achieving a gearing ratio close to 0 and a financial risk profile at 'Minimal' level (1/6).

Downgrade Scenarios:

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

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

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of companies in Vietnam. This methodology is intended as a general guidance to help companies, investors, and other market participants to understand how FiinRatings looks at quantitative and qualitative factors significant in explaining rating outcomes in general and specific for each sector that we cover.

In addition, certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please follow the link below for the Rating Methodology and Related Criteria:

- Corporate Rating Methodology

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

- General Rating methodology

CREDIT RATING HISTORY

Coteccons Construction Joint Stock Company

Issuer Credit Rating History

14 June 2023	*Initial Ratings*	*Issuer Rating:* ***BBB*** *Outlook:* ***Stable***
15 January 2024	*Surveillance*	*Issuer Rating:* ***BBB*** *Outlook:* ***Stable***
27 September 2024	*Surveillance*	*Issuer Rating:* ***BBB+*** *Outlook:* ***Stable***

RATING SCALE AND DEFINITION

We employ below rating scale in assigning ratings for all issuers across industries and sectors that we cover in Vietnam. The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Definition and explanation	Rating scales
Group 1: **Extremely strong** capacity to meet financial obligation	**AAA**
Group 2: **Very strong** capacity to meet financial obligation	**AA+**
	AA
	AA-
Group 3: **Strong capacity** to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances	**A+**
	A
	A-
Group 4: **Adequate capacity** to meet financial commitments but more vulnerable to adverse developments and economic conditions	**BBB+**
	BBB
	BBB-
Group 5: **Moderate capacity** to meet financial obligations but less vulnerable than other speculative issuers	**BB+**
	BB
	BB-
Group 6: **Weak capacity** to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	**B+**
	B
	B-
Group 7: **Very weak** capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	**CCC+**
	CCC
	CCC-
	CC
	C
Group 8: **Default**. Payments on an obligation are not made on the date due or the issuer becomes insolvent. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	**SD, D**

OWNERSHIP DISCLOSURE AND STATEMENTS

At the time of the publication, the following information is provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

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

FiinRatings aforementioned includes FiinRatings JSC., its directors, Credit Rating Committee members, and analysts of FiinRatings engaged in this rating action. The information above was examined during the client acceptance process and before the signing date of Credit Rating Agreement with the Company and was updated on the issue date of this report.

FiinRatings maintain a strict independence policy to meet current regulations in providing credit rating services in Vietnam as well as to comply with our conflicts-of-interest policy and to ensure the objectivity and independence in giving opinion on our credit ratings. Accordingly, personnel directly participated in credit rating are not allowed to own or to execute any transactions of securities, shares or debt instruments issued by the Company once FiinRatings has established a credit rating relationship.

** *Additional disclosures as of 27 September 2024:*

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

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

FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 03-C21-2024

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 27 September 2024

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