

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, 28 December 2023

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

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

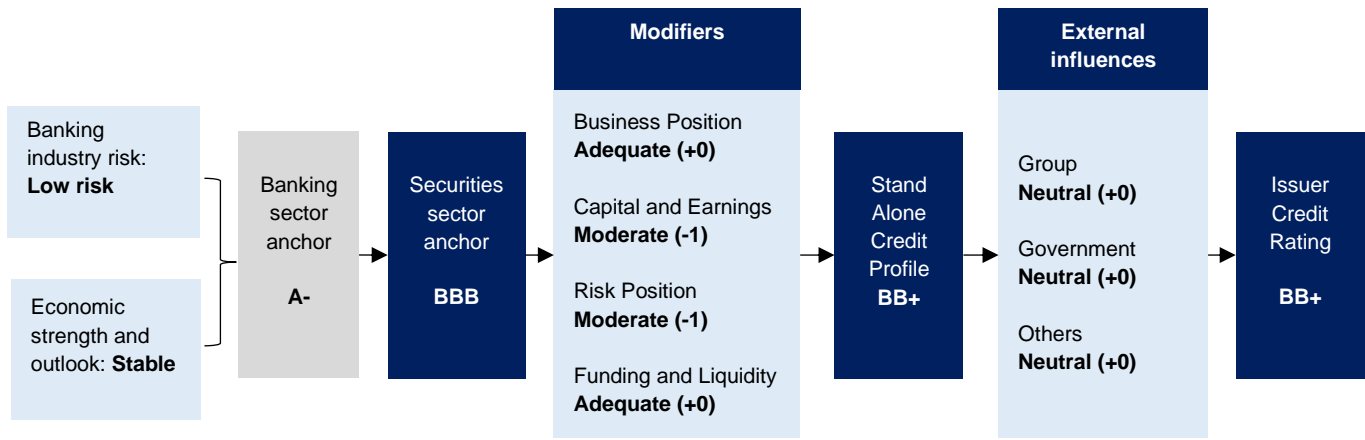
The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

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

Hanoi, 28 December 2023

FiinRatings has reaffirmed the credit rating of Petrovietnam Securities Incorporated (“PSI”) at “**BB+**” and maintained the rating outlook at “**Stable**” to reflect the assessment of the Company’s business performance in line with our previous forecast. Our analysis also takes into account the Company’s ability to maintain a relatively stable business position and gradually improve profitability from its business results that have been achieved in the past. The “**Stable**” rating outlook is maintained to reflect FiinRatings’ expectations of the Company’s ability to maintain its current business and financial performance. In addition, this outlook also incorporates our assessment of the stock market outlook within the next 12 months.

RATING SUMMARY



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

Upgrade Scenarios

- PSI shows significant improvement in the brokerage market share after expanding its business while continuing to comply with risk management policies and keeping risk appetite at a moderate level.
- The Company strengthens its funding profile through either infusing equity or establishing new credit lines with financial institutions or other stable funding sources.
- PSI improved profitability significantly through improving business performance as well as better cost control.

Downgrade Scenarios

- PSI’s loyal client base shrinks and the Company experiences a significant decrease in brokerage market share, affecting PSI’s ability to maintain its current business position.
- There is a material worsening of the funding profile and earnings profile of the Company in excess of our current expectations.
- PSI increases its risk appetite in margin lending, investment banking activities, and proprietary trading.

RATING RATIONALE

We maintain the assessment of 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. According to FiinRatings's estimates, the Company's transaction value in the first 9 months of 2023 accounts for about 0.6 - 0.7% of the market's transaction value. Accordingly, we assess that the Company's stock brokerage market share is likely to remain the same or have partially improved compared to the end of 2022, which is consistent with our base case scenario forecast. At the same time, we also assess that the Company's margin lending activities still maintain a stable position, that is shown by the outstanding loan balance increasing by 25% within 9 months, reaching VND 937.80 bn at 30/09/2023. In addition, the Company continues to reap diversified revenue sources from proprietary trading activities as well as investment banking activities, demonstrating its stable business activities.

At the time of writing this report, PSI's strategic shareholder SMBC Nikko Securities Inc. (Japan) wholly divested its 14.9% ownership on October 6, 2023. The move is appropriate to avoid conflicts of interest between the investment and the strategic partnership between Sumitomo Mitsui Banking Corporation ("SMBC") and Vietnam Prosperity Joint Stock Commercial Bank ("VPBank") – the parent company of another securities company. In addition, Japanese partner SMBC Nikko continues to cooperate with PSI in valuable deals on a small and medium scale, such as stock brokerage on the floor for institutional and individual customers introduced from SMBC Nikko. The withdrawal of Japanese shareholders does not affect our assessment of PSI's business position, which does not focus on customer base from this partner. PSI's individual and institutional customer base remains stable and has slight growth in the first 9 months of 2023 through promotional programs and enhancing the Company's competitive position in the environmental sector. retail customers such as: putting into operation the PSI-AI automatic consulting system, reducing brokerage fees when trading online, and supporting margin lending interest rates for stock codes in the list. PSI priority items.

The Company's capital, leverage, and earnings are maintained at a "Moderate" level. Compared to the previous assessment, PSI's leverage ratio has increased. However, PSI's profits are significantly higher than our forecast in the first 9 months of 2023 mainly thanks to better-than-expected cost of fund and growth rate in margin loan balance compared to the end of 2022. As of 30/09/2023, short-term loans from commercial banks and corporate bonds no longer account for a significant proportion to finance PSI's margin lending activities. The Company's capital structure has changed when the balance coming from the capital mobilization channel from individual customers doubled to VND 641.75 billion. This is a short-term funding channel with lower cost of fund than the corporate bond channel, with tenor mostly ranging from 3 - 6 months coupled with an average interest rate of 6.5%/year. Accordingly, PSI's new capital structure with the ratio from (1)Banking/(2)Corporate bonds and individual customers/(3)Equity is 27%/36%/34%. The Debt/Equity ratio including funding from individual customers is 1.85 times, a significant increase compared to 1.59 times as of 31/12/2022. It is necessary for PSI to increase leverage to meet the need for margin lending to take advantage of stock market liquidity, especially when the Company has proactively prepared liquidity sources to settle these loans. According to the latest direction from The State Securities Commission of Vietnam, securities companies need to settle deposits from individual customers no later than 30/06/2024. Based on available credit lines and the ability to establish new credit lines with other financial institutions, we expect PSI to significantly reduce fund mobilization from individual customers and replace them with financial institutions' credit lines. Accordingly, the Company's capital structure returns to its typical proportion at the end of 2022, with bank loans accounting for approximately 40% of total funding sources.

Regarding operating efficiency, PSI's adjusted cost-to-income ratio excluding results from proprietary trading activities (adjusted CIR) has not shown significant change. However, the Company's profitability has improved in the first 9 months of 2023 with annual ROE reaching 5.7%, higher than at the end of 2022 at 4.1%. Accumulated pre-tax profit in the first 9 months of 2023 is 36.14 billion VND and after-tax profit in the same period reached 28.78 billion VND. PSI's operating results are better than our base case scenario forecast of VND 13.5 billion in pre-tax profit for the whole year 2023. This result comes from the Company's actual interest expense being significantly lower than our forecast in base case scenario. We expect PSI's profitability in the brokerage and margin lending business to continue to achieve positive results, besides proprietary trading revenue from moderately risky assets.

FiinRatings continues to assess PSI's risk position at "Moderate" level, reflecting the Company's risk appetite through its margin loan portfolio and proprietary trading portfolio. The Company's risk position in corporate bond trading activities tends to be maintained compared to the time of the initial credit rating. Specifically, the value of unlisted corporate bonds recorded in PSI's financial assets decreased from VND 178.32 billion to VND 79.27 billion as of 30/09/2023. After reducing investments in unlisted corporate bonds, including bonds that have matured and were extended for another two years, currently recorded as receivables from the sale of financial assets; PSI switched to holding listed bonds of businesses with better credit quality including Masan MEATLife and Vinhomes. In addition, the risk position for the listed and unlisted stocks portfolio has not changed compared to our initial report. Accordingly, the Company does not increase the number of shares held and continues to make efforts to divest equity from these unlisted enterprises. For margin lending activities, PSI does not record provisions for bad debts arising in the first 9 months of 2023. The loan portfolio does not change significantly with top 5 stock tickers accounting for 33.5% of total outstanding loans. The proportion of loans to the top 20 individual customers with largest outstanding loans is about 37% as of 30/09/2023, reduced slightly from 44% as of 31/12/2022.

We maintain our assessment of PSI's funding and liquidity at "Adequate" level, demonstrated by stable credit limits with commercial banks, timely bond redemption and proactively establishing new relationships with financial institutions to diversify funding sources. For bond lots issued in 2022, PSI has settled early redemption before maturity. At the same time, the Company issued a new bond lot of VND 24 billion, 12-month tenor (due in 2024) with an interest rate of 9% and another bond lot of VND 50 billion, 36-month tenor (due in 2026) with an interest rate of 9.95%. Accordingly, PSI's total outstanding debt from corporate bond decreased significantly, from VND 214.2 billion to VND 85.2 billion as of 30/09/2023. PSI has total credit lines with commercial banks to VND 943 billion, a slight increase compared to VND 922 billion as of 31/12/2022. Regarding liquidity position, according to our forecast, PSI can still maintain liquidity to meet financial obligations. Specifically, the liquidity source/liquidity use ratio reached more than 1.0 times for every quarter. Given recent direction from the State Securities Commission on tightening capital mobilization channels from individual customers, we assess that this will not have a significant impact on PSI's liquidity position. Because the Company is currently using about 50% of the total available credit lines with commercial banks, we estimate that the remaining credit lines can meet up to 76% of settlement needs coming from the capital mobilization channel of individual customers. At the same time, the margin lending portfolio includes stocks with appropriate liquidity levels, which will give the Company adequate flexibility. When performing stress test with assumptions about provisioning for receivables from the sale of financial assets, and ceasing mobilization from individual customer, PSI did not encounter significant pressure on liquidity with corresponding funding source from available banking credit lines and margin lending portfolio with a list of stock tickers having relatively stable liquidity.

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

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

- 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, 28 December 2023

CONTACT US

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