Rating Update:

FiinRatings reaffirms ‘BB+’ Issuer Rating for Van Phu—Invest Investment Joint Stock Company (‘VPI’) revises its outlook from ‘Negative’ to ‘Stable’.

Long-term Issuer Credit Rating*: BB+

Outlook: Stable

Hanoi, 29 April 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, 29 April 2024

FiinRatings is pleased to announce that it has affirmed the Long-Term Issuer Credit Rating of Van Phu—Invest Investment Joint Stock Company's ("VPI" or the "Company") of '**BB+**,' with the rating outlook revised from '**Negative**' to '**Stable**'.

RATING SNAPSHOT

	Surveillance 02	Surveillance 03
Business Risk Profile	**Strong (2/6)**	**Strong (2/6)**
Industry Risk	*Moderately High (4/6)*	*Moderately High (4/6)*
Competitive Position	*Strong (2/6)*	*Strong (2/6)*
Financial Risk Profile	**Aggressive (5/6)**	**Aggressive (5/6)**
Company Anchor	**bb+**	**bb+**
Modifiers:		
Diversification	*+0*	*+0*
Capital structure	*+0*	*+0*
Liquidity	*+0*	*+0*
Financial policy & Management	*+0*	*+0*
Stand-alone Credit Profile (‘SACP’)	**bb+**	**bb+**
External Support	**+0**	**+0**
Issuer Credit Rating	**BB+**	**BB+**
Outlook	**Negative**	**Stable**

RATING RATIONALE

FiinRatings affirms the issuer credit rating of VPI at **‘BB+’** and revised the rating outlook to **‘Stable’** from **'Negative'** to reflect our expectation that VPI can witness a gradual business recovery in the coming time, which is in line with the modest revival trend of Vietnam’s residential property developers in 2024. We also expect that the Company’s recoveries in its sales progress will help to maintain VPI's liquidity position as adequate. However, we acknowledged several challenges remaining for VPI in the next 12 – 24 months due to slow regains in the overall market demand amid the backdrop of somewhat unstable economic and political conditions recently. Additionally, the primary pressure on the company's credit profile still lies in its debt maturities, concentrating on the 2024 – 2025 period. Despite that, VPI has always been proactive in planning to ensure the company’s debt repayment obligations and adequate liquidity profiles for at least the next 12 months. On the other hand, thanks to its competitive advantages in land procurement with clear legal status and project implementation, VPI's business risk profile continues to stay at the '**Strong**' level compared to the industry peers. VPI's projects offering clear legal status, situated in prime urban areas, along with price targeting for the mid-end segment, will serve as competitive advantages compared to other companies in the industry. The recent regulatory amendments in Vietnam’s Land Law that are to take effects in 2025 are also expected to support developers like VPI in obtaining more land banks via auctioning/ bidding.

Though coping with sales drops due to the weak recovery of the whole market demand, VPI has continued to stick with its key project portfolio while maintaining the flexibility to adjust the development progress and timeliness. Within Q4/2023 to Q1/2024, according to the Vietnam Real Estate Brokers Association (VARS), the housing segment in Vietnam saw a slight recovery, with the number of transactions increasing by 8%, reaching 6,200 transactions, along with a 5% rise in the absorption rate, reaching 31%. In dealing with the market challenges, VPI has proactively adjusted its medium and long-term strategies, focusing on developing only about 10 main projects with clean land banks located in major satellite regions, including Bac Giang, Bac Ninh, Hai Phong, etc., via its subsidiaries and affiliates. These areas have boasted strong economic growth potentials, with regional GDP growth higher than the average level of other regions, fostering industrial development and urbanisation, as well as attracting substantial FDI investment. These satellite regions, like Bac Ninh and Bac Giang, has recorded a housing demand recovery, with a growth of 30-40% in regional absorption rates within the Q4/2023 – Q1/2024 period.

In 2023, the low-rise products of the Vlasta Sam Son project were mostly sold out and became the key operating inflows. Though a large part of the total sales was sold at a 30% discount to a wholesale buyer, the company still maintained high profitability thanks to the project's low development cost. In the same period, VPI also recorded a rise in inventory from the land acquisitions and payments for two projects known as Song Khe-Noi Hoang and Vlasta Thuy Nguyen. These two projects are expected to be among key contributors to property sales within 2024 – 2025, apart from projects under construction and partly available-for-sales, including The Terra Bac Giang and Grandhome (Yen Phong-Bac Ninh). Regarding the two open-for-sale projects, VPI recorded positive signals regarding housing demand in the Bac Ninh and Bac Giang markets through the recovery in the number of customer visits, contract deposits, and actual selling prices, especially for commercial housing products. Although the company's reported cash flow in Q1/2024 has not yet reflected this recovery, we anticipate VPI can experience sales revenue growth in the subsequent quarters of the year when the submitted house purchasing contracts are officially approved by the local authorities and housing demand expected to keep improving in the remaining time of 2024. Regarding the Vlasta Thuy Nguyen project, VPI completed the first-round land payment in Q1/2024, which was partly funded by the recent VND 650 billion bond issuance in January 2024. VPI has also planned to start the construction of Vlasta Thuy Nguyen in Q3/2024, and open for sales in Q4/2024. Additionally, the Company inflows from commercial properties, including Residence Oakwood hotels and services areas of The Terra An Hung and The Grandeur Giang Vo, are expected to be stabilised within VND 150 – 200 billion per year. In the next 2 – 3 years' time, the remaining land plots from the Vlasta Sam Son project, which is kept for constructing and operating a hotel and commercial area, is expected to generate additional income from commercial properties for the Company.

Overall, FiinRatings believes that VPI can witness a V-shaped revenue in 2024 – 2025 thanks to the Company's ongoing project execution and available-for-sale projects in satellite areas such as Bac Giang, Bac Ninh, and Hai Phong, etc., whose housing demand presents several recovering signs. However, the profitability is expected to be less favourable than the previous year's level due to higher development costs for these projects. Considering this, we estimate that VPI's contracted sales/ inventory ratio will improve to around 20 – 35% during 2024 – 2025 (Historical figures in 2022: 11.0%; 2023: 14.4%). Under the assumptions of no major economic or political disruptions, FiinRatings estimates that VPI's revenue within 2024 – 2025, including recurring revenue from the mentioned commercial properties, will recover by an average annual growth of 20 – 30% from 2023's figures, reaching around VND 2,200 – 2,400 billion in 2024 and around VND 2,700 – 3,000 billion in 2025, with an estimated EBITDA margin of about 25 – 35% during the same period.

Though VPI continues to use debt financing for project implementation, we estimate that the company's financial risk profile will be less aggressive within 2024 – 2025, mainly owing to its conversion plan of maturing bonds into equity in 2024. As of the first quarter-end 2024, VPI's total debt reached VND 6,502.4 billion, with a leverage ratio of 1.6 times and a Debt-to-EBITDA ratio of 8.0 times. As of year- end of 2023, the total debt was VND 5,358.5 billion, with a leverage ratio of 1.4 times and a Debt-to-EBITDA ratio of 4.6 times. As can be seen, VPI's leverage level has significantly exceeded the industry median; specifically as of the first quarter-end 2024, the industry average's Debt/Equity ratio was approximately 0.4 times (year-end 2023: 0.4 times), and the industry average's adjusted Debt-to-EBITDA ratio was 4.9 times (year-end 2023: 4.1 times), (*The industry average figures were estimated based on the recently released financial reports in Q1/2024 by 30 listed property development companies)*. Although an upward trend is witnessed in VPI's leverage level, we assess that the significantly high leverage in Q1/2024 will be temporary and reduced by the year's end thanks to the conversion of VND a 690 billion bond into equity in 2024. After subtracting all maturing debt obligations from the current outstanding debts in 2024, along with considering the bond conversion implementation, we estimate that the company's gearing ratio will stabilize around 1.2 times as of year-end 2024, assuming no additional borrowings during the year. As a result, we estimate that VPI's gearing ratio will be around 1.2 – 1.3 times within 2024 – 2025 under our base-case scenarios, while increasing to 1.5 – 1.6 times under our worst-case scenario where the company cannot raise new equity and continues to raise debt.

Still, VPI's debt maturity concentrating in 2024-2025 will remain the key credit concerns but the refinancing pressures are expected to be alleviated thanks to official approvals on repayment extension by some creditors.

Specifically, VPI's debt and interest payment rescheduling of BT project-related loans has officially been approved by Vietcombank and Indovinabank to be extended until 2028. Besides, the VND 550 billion loan from Thanh Loi Company, initially due in September 2024, has been extended until July 2025. Besides, VPI has recently succeeded in raising a bond of VND 650 billion via public offering in January 2024, which is used to support the land payments of the Vlasta Thuy Nguyen project and fund other operating expenses. FiinRatings estimates VPI's average loan maturity as of the end of Q1/2024 to be approximately 2.87 years, indicating low refinancing pressure.

We expect VPI's liquidity to be manageable within the next 12 months. We expect that VPI is able to maintain liquidity at an adequate level with the estimated liquidity sources-to-uses ratio of 1.1 times over the next 12 – 24 months under our base-case assumptions. However, liquidity risks may arise from Q4/2024 onwards, under our low-case scenario assumptions that potential instabilities in the economic and political conditions continue to prolong, and the company simultaneously gets lower sales, rising costs while cannot access new debt and equity funding (except for committed loans that is specifically for project financing). To prepare for the adverse conditions, VPI has also set aside several project liquidations plans in case of liquidity shortfall, noting that these are planned on projects that are not ready for construction or sales. For the liquidity sources within 2024 – 2025, an estimated 50% – 70% of the sources is from operating inflows reaching around VND 3,800 – 5,800 billion, with an average of 95% from property sales and 5% from commercial real estate operations. VPI's liquidity uses consist of operating outflows from construction costs based on the projects' sales progress, operating expenses, and principal and interest payments. FiinRatings estimates that VPI's construction and pre-construction costs in 2024 will increase as the company accelerates the implementation progress of the four key mentioned projects that are planned to open for sales within 2024 – 2025. Though the main challenge to VPI's liquidity position lies in the high debt repayment pressure concentrated in 2024 – 2025, VPI can be flexible in adjusting the timelines of projects in various stages, such as R&D, land clearance, designing and zoning phases, thereby the company can be active in reducing pre-development spendings, hence lower outflows from investing activities.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

Rating Outlook: Stable

FiinRatings reaffirms the long-term issuer credit rating ("ICR") of VPI at 'BB+' with the outlook revised from 'Negative' to 'Stable' in the surveillance to reflect our expectation that VPI can witness a gradual business recovery in the coming time, which is in line with the modest revival trend of Vietnam's residential property developers in 2024. However, the pressure of maturing loans during the period of 2024 – 2025 remains a significant challenge for the company's credit profile. FiinRatings will closely monitor factors that we believe could have a significant impact on the company's business and financial situation, including:

- Progress and cash flows of key projects within the next 6 – 12 months (The Terra Bac Giang, Grandhome Yen Phong – Bac Ninh, Vlasta Thuy Nguyen), and other projects' potential cashflows;
- Progress and outcome of capital raising plans that impact project implementation timelines, cash flow, and the Company's financial metrics (for example, the implementation of converting the VND 690 billion bond into equity, along with considering other factors).
- Changes in the macroeconomic and legal environment that could affect the entire residential and commercial real estate development segment, together with VPI's strategy to adapt to those changes.

Upside Scenario: There is a low likelihood of rating upgrade within the next 6-12 months; however, a rating upgrade or outlook upgrade can be considered in case the Company receives land and related payments for the current BT-contract projects.

Downside Scenario: We could take negative rating actions if the Company experiences:

- VPI increases its debt levels while cash inflows from project sales/ operation are lower than FiinRatings' forecast, resulting in leverage and debt repayment metrics reaching a riskier level compared to our projection (for example, VPI's gearing ratio exceeds the current peak level at 1.6 times; adjusted Debt-to-EBITDA exceeds the threshold of 8.0 times; along with considering the volatility in other metrics);
- Unfavorable market conditions resulting in increased cost pressures, delayed sales and collections, or necessitating price reductions, leading to lower profitability metrics compared to FiinRatings' base-case projections (for example, VPI's contracted sales/ revenue ratio falls below 16%, along with considering the volatility in other metrics);
- Adverse interest rate environment or macroeconomic factors may negatively impact the Company's ability to raise planned capital, causing impediments to project construction and sales progress; and/or
- The overall property development industry is assessed by FiinRatings to get riskier, leading to our revision on the industry risk assessment to a higher (riskier) level, which in turns will have negative impact on the Company's business risk profile score.

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

Van Phu – Invest Investment Joint Stock Company		
Issuer Credit Rating History		
20 April 2022	*Initial Ratings*	*Issuer Rating:* ***BB+*** *Outlook:* ***Stable***
23 November 2022	*Surveillance*	*Issuer Rating:* ***BB+*** *Outlook:* ***Stable***
14 July 2023	*Surveillance*	*Issuer Rating:* ***BB+*** *Outlook:* ***Negative***
29 April 2024	*Surveillance*	*Issuer Rating:* ***BB+*** *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:

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

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Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 29 April 2024

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