Initial Rating Public Announcement:

Development Investment Construction J.S Corporation ("DIC Group")

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

Rating Outlook: Stable

Hanoi, 30 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, 30 December 2023

RATING RATIONALE

FiinRatings has assigned a **“BB+”** credit rating and a **“Stable”** Rating Outlook to DIC Group, reflecting the company's **“Satisfactory”** business risk profile which has considered the asset scale and operating efficiency within the real estate industry. Additionally, FiinRatings considers the financial risk to be at a **“Significant”** level, with the liquidity position assessed as **“less than adequate”**. DIC Group possesses a total land fund of 1,391.1 hectares, primarily situated in satellite areas near major cities like Dong Nai, Vung Tau, and Vinh Phuc. The company's competitive position is evaluated as satisfactory, driven by its substantial land bank strategically developed in suburban areas of Ho Chi Minh City, Hanoi, and certain locations in Vung Tau City. The Company key product segments include land, apartments, shophouses, resort villas, and hotels. Regarding the financial risk profile, FiinRatings assesses that DIC Group might experience a relatively high level of debt repayment pressure in the next 12-24 months. Despite the company's efforts in debt restructuring and repurchasing of outstanding bonds during the first three quarters of 2023, resulting in a reduction of financial risk with a Debt/Equity ratio of 0.36 as of 30/9/2023, which aligned with the industry median of 0.3-0.4. However, implementing many projects at the same time leads to a significant capital demand to both develop projects and fulfill land use fee obligations. The **“BB+”** credit rating result also reflects FiinRatings' assessment of difficulties in the upcoming period given the forecasted prolonged time required for the real estate market to enhance its overall performance.

The Company's performance is expected to gradually improve in 2024. The operational efficiency and profitability of DIC Group's main business activities have been impacted by both the effects of the Covid-19 pandemic and unresolved legal issues awaiting adjustment approval. Furthermore, the difficulty in accessing capital sources like bonds and bank loans is contributing to challenges in DIC Group’s business operations. These difficulties are expected to persist in the upcoming period, especially as the real estate market is forecasted to continue experiencing a subdued environment. Despite challenges in acquiring new contracts with customers in recent years, primarily influenced by the overall market conditions impacting the Company's revenue and profit projections, DIC Group has successfully collected prepayments from customers for both the Vi Thanh and Nam Vinh Yen projects during the first half of 2023. The contracted sales/inventory ratio stands at 29%, indicating an improvement compared to the figures from 2022. With positive developments emerging from projects in Dong Nai, Vung Tau, and Vinh Phuc, FiinRatings expects an enhancement in DIC Group's business performance over the next 12-24 months.

The projected financial leverage ratio is expected to vary within the range of 0.7 to 0.9 over the next 24 months, surpassing the industry average. DIC Group experienced a reduction in financial leverage because of bonds repurchasing and the restructuring of bank debt. This reduction was driven by the Company's proactive approach in sales for key projects such as Nam Vinh Yen, Vi Thanh, and Chi Linh Center during the first half of 2023. The Debt/Equity ratio stood at approximately 0.36 as of the end of Q3/2023, aligning with the industry median of 0.3 - 0.4 times. With a reasonable leverage level, the Company might have more flexibility and more options to arrange capital sources at reasonable costs consistent with the life cycle of its projects. However, in the upcoming period, FiinRatings assesses that DIC Group's capital requirement remains substantial for the development of key projects in Vinh Phuc and Dong Nai. Given the current market conditions, capital mobilization activities are anticipated to encounter challenges due to unfavorable market conditions and investor reluctance towards the real estate industry, which is sensitive to market fluctuations. In FiinRatings' base scenario for the next 12-24 months, the projected Debt/Equity ratio for DIC Group is expected to be in the range of 0.7 to 0.9, significantly higher than the current financial leverage ratio. Hence, to guarantee an adequate scale of operating capital and mitigate debt pressure, FiinRatings will closely monitor the company's potential to issue shares for capital expansion in the near term. This factor holds significance in evaluating the associated level of financial risks.

DIC Group's Liquidity Position is assessed at a Less-than-Adequate level and FiinRatings makes a one-notch downward adjustment from the Anchor. This adjustment is based on the understanding that the company's capacity to settle debts heavily relies on its sales performance at key projects such as Nam Vinh Yen, Vung Tau Center, and Vi Thanh. In addition, the reserve buffers available to fulfill debt obligations are considered relatively thin, concentrated across multiple projects undergoing legal processes and site clearance. Consequently, the ability to meet debt obligations has to rely on accessing new capital sources or undergoing debt restructuring**.** Moreover, even though DIC Group has taken proactive steps such as restructuring bank loans and repurchasing over VND 1,000 billion of outstanding bonds in Q1/2023, FiinRatings expects the Company might have significant pressure on debt repayment in 2024. this is due to DIC Group requiring a substantial source of liquidity to both project development and fulfill land use fee obligations for projects in Vinh Phuc and Dong Nai. The projected ratio of liquidity sources/liquidity uses of DIC Group is approximately one time in the next 12 months.

Key Assumptions and Analytical factors

The base-case scenario is based on key analytical factors as follows:

- The Company’s EBITDA Margin will maintain at around 20% - 30% over the next 2 years.
- DIC Group obtains funds through the issuance of bonds and bank loans to meet financial obligations related to land use fees for projects such as Long Tan, North Vung Tau, and the Vi Thanh project.
- Implement a 5% decrease in revenue from the Company's forecast and only incorporate projects with a clear legal status in 2024 and 2025. This adjustment is made in response to the existing unfavorable market conditions characterized by low market liquidity and absorption rates.
- Implement an adjustment to reduce construction and site clearance expenses by 40% compared to the Company's initial estimates by excluding projects that lack complete legal status and are not urgent.
- FiinRatings expects that DIC Group will require the mobilization of approximately 3,500 billion in additional capital to fulfill the investment requirements for essential projects in Vinh Phuc and Dong Nai over the next 12-24 months.

KEY CREDIT FACTORS FOR AN UPGRADE OR DOWNGRADE OF THE RATINGS

The **'Stable'** outlook reflects FiinRatings' viewpoint on the credit rating of DIC Group maintaining over the next 12 months. The assignment reflects the Company's position, capability, and extensive industry experience in the industry, despite some common challenges for the real estate industry in the period from 2023 to 2024 as previously highlighted.

Upside Scenario:

The following factors may lead to a change in credit rating for DIC in the medium term:

- Cash flow will exceed the expectations outlined in FiinRatings' base case forecast. This improvement might be attributed to key projects in the 2024-2025 period, including Dai Phuoc, Vi Thanh, and Nam Vinh Yen. Moreover, financial indicators and liquidity position demonstrate enhancement in comparison to the base case scenario. These positive changes result from the effective restructuring of existing bank loans and the extension of credit limits with financial institutions such as BIDV and VietinBank.
- Dai Phuoc project will be handed over on schedule, qualified for sale-opening and exploitation, leading to significant cash flow in the 2024-2025 period. In 2024, the Company will properly and fully complete the obligations signed with customers thereby ensuring the recognition of revenue from this project.
- The company successfully mobilized equity capital through the expected stock issuance plan in 2024-2025, reducing short-term financial pressure.

Downside Scenario:

Negative factors that can lead to credit rating downgrade:

- Unfavorable market conditions create pressure for the company, either resulting in increased expenses or compelling the company to lower selling prices
- Factors related to the interest rate or macroeconomic environment and unresolved legal problems might influence the company's capability to mobilize capital in line with the planned execution and deployment of projects.
- The cash flow falls short of FiinRatings' base case scenario, leading to the persistence of high financial leverage or the company facing challenges in repaying or refinancing existing debt.

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 (**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.	**SD, D**

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

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:

- DIC Group's percentage of equity ownership at FiinRatings: none
- FiinRatings's percentage of equity ownership at DIC Group: none
- FiinRatings's other employee percentage of equity ownership at DIC Group: none
- DIC Group's investment value of bond(s) issued by FiinRatings: none
- FiinRatings's investment value of bond(s) issued by DIC Group: none
- DIC Group's investment value of other debt instruments issued by FiinRatings: none
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FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 30 December 2023

CONTACT

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