

Rating Update:

FiinRatings reaffirms BBB-/Stable issuer rating of F88 Business Joint Stock Company

**Long-term Issuer Credit Rating (*): BBB-
Outlook: Stable**

Hanoi, 08 November 2022

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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.

** Mr. Nguyen Huu Hao Hiep, CFA replaced Ms. Tran Thi Bang Tam, MSc as Analyst as of September 19, 2022 due to FiinRatings' internal work allocation.

Hanoi, 08 November 2022

Our affirmation of F88's credit rating at **BBB-** in our latest surveillance is based on the Company's on-track business growth, more diversified income streams, adequate earnings, and stable asset quality. The **Stable** outlook on F88's credit rating reflects our expectation that the Company will maintain its leading position in the Alternative Lender sector by growing its loan book and store network despite certain challenges in the current environment. Our rating also factors in the expectation of additional equity capital to fund the Company's expansion.

We will closely monitor and consider the factors that we believe can have significant impact on the company's business and financial position, including:

- Debt and equity issuance to fund the expansion of the business.
- The execution capability to maintain a healthy growth of the loan book while keeping the credit cost ratio and recovery ratio under control.
- The ability to diversify income sources to lower the dependence on lending activities, especially the selling of standalone insurance policies.
- The ability to effectively manage costs of services and other expenses at the store level and reduce the break-even time of a new store.
- The ability to adapt to worsening conditions in the capital market and macroeconomic environment.

Upside Scenario

We could take positive rating actions if the Company is able to substantially improve its market share and maintain its lending book growth through stable sources of funding. We could also consider an upgrade if F88 can diversify its revenue to help the Company become less dependent on lending activities as well as to maintain customers retention rate. Additionally, F88's ability to sustain or improve profitability while maintaining acceptable level of financial leverage and asset quality will also be an upgrading factor.

Downside Scenario

The rating could come under pressure if the Company fails to maintain its loan book and income growth due to difficulty in raising capital to fund growth or regulatory changes that negatively affect the current business profile. The current rating could also be affected if its earnings deteriorate beyond our expectation because of higher cost of funds or poor performance of its store network and loan book. We could also consider downgrade if the Company's gearing level reaches an unsustainably high level due to aggressive financial policy and/or weaker-than-expected equity base.

RATING RATIONALE

Within the alternative lending segment, F88 is still the leading alternative lending and pawnshop chain, given its superior geographical reach, diversified store network, and far greater loan book size; the Company's growth has been in tandem with its revenue diversification. Store performance-wise, F88 opened 211 stores YTD, totaling 800 stores and met our YE2022 projection of 800 stores. As of 3Q2022, adjusted loan book is VND 3,357.5 bn, in which approximately VND 800 bn are off-BS CIMB loans. This is a much higher disbursement rate than our previous base case projection of VND 400 bn, indicating better integration of CIMB-funded loans into F88's system and setting a precedent for similar future collaboration with other banks.

F88's revenue stream has been steadily diversified thanks to the growing contribution of non-interest income, specifically from insurance distribution segment. At the end of 3Q2022, revenue from insurance recorded VND 217.5 bn, which accounts for 16.6% of F88's total revenue. In addition, 42% of insurance policies are sold independently of pawn services loans. In a high-interest rate environment which could negatively impact the Company's lending business, we assess that this is a potent source of income. F88's insurance offerings are also diverse in terms and coverage types, including vehicles-related, properties-related, health-related and others. This further demonstrates the Company's sales capability and its commitment to become one of the leading insurance distributors in Vietnam.

Gearing level of F88 is higher than anticipated and is expected to be high for the rest of 2022. As of 3Q2022, Debt/Equity of F88 stands at 4.2x, and while this amount is still below the cap level required by offshore lenders at 5.0x, it is considerably higher than our projected level of 2.2x. Equity-wise, F88 is working with potential investors and is expected to raise additional equity in 4Q2022. As mentioned in our previous surveillance, the ability of F88 to raise timely and adequate equity capital to fund its growth plans and maintain its financial risk profile in line with our expectations will be a key monitorable going forward.

Earnings level of F88 remains stable despite changes in pricing strategy. With its rapid store expansion, F88 has been reducing interest and fee rates charged to customers to a more sustainable level. As such, portfolio yield of the Company witnesses around 13.3% reduction compared to that of 2021. For the first three quarters of 2022, the Company records NIM of 36.5% (48.6% annualized), slightly lower than 2021 figure of 51.3%. With stable cost structure (CIR ratio unchanged at approximately 78%) and earnings streams from distributing insurance, net income for the first three quarters of 2022 is VND 60.7 bn, posting a YTD ROE of 10.3%, comparable to our previous projection of 10.7%.

F88's risk position is maintained in comparison with historical track records. The Company maintains the policy of writing off loans over 90 days past due. Total credit cost in 3Q2022 amounted to about VND 200 billion, equivalent to 8% of the average loan book (including the balance from CIMB funding), which is slightly lower than the 2021 figure. For the three quarters of 2022, the recovery ratio surged to 36.9% of the loans written off, which doubled the 2021 figure, as the debt collection activities are back to normal after long periods of social distancing in 2021. The LTV ratio is capped at 80% as a debt covenant with offshore creditors, yet F88 usually keeps the LTV at 65-70% to reduce the risk exposure and to increase the chance of recovery in case the loans become non-performing.

Funding ability has shown certain improvements since our last surveillance. F88 successfully obtained a one-year credit facility of USD50mn (VND 1,200 bn) from a foreign lender and has gotten approval from the State Bank of Vietnam ("SBV") for another four-year facility of the same amount from the same foreign lender to refinance the existing one. For off-BS funding, the credit limit with CIMB is recently increased to USD60 mn (VND 1,440 bn), over 40% higher compared to the previous limit of VND 1,000 bn. Furthermore, F88 is working with CIMB to further increase the credit line to USD125 mn (VND3,000 bn) by the end of 2023 and is also in progress to establish partnerships with other banks for similar off-BS structure. F88 has exceeded our expectation, yet the track-record for this line of service is quite short. Therefore, this will also be a key monitorable going forward.

In the medium term, F88's funding ability may be affected by deteriorating macroeconomic conditions as well as regulatory changes and disruptions in the capital market. USD/VND exchange rate has spiked by more than 9.0% since the beginning of 2022 and SBV has raised base interest rate by a total of 2% under the pressure of containing inflation and maintaining a healthy economic growth. In our view, rising interest rates and unfavorable movements of exchange rate could negatively impact F88's profit margin due to higher interest expenses for new debt issuances and hedging costs. Capital market, especially corporate bond market has experienced a period of slowing

down with recent cases of misconduct of several issuers, consequently lowering appetite and demand from investors for corporate bonds. Additionally, Decree 65 issued in 3Q2022 further tightens the offering and sale of private-placement corporate bonds. As this channel has been one of the Company's main funding sources in recent years, we believe that in the medium term, the Company may have trouble in raising new domestic debt capital and/or refinancing existing ones.

We expect the liquidity of F88 to remain adequate in the next 12 months. Under current conditions, it is unlikely that the Company will face any liquidity pressure in the short-term since SBV approval for debt restructuring has substantially alleviated debt repayment pressure for 2023. In our stress case scenario of no equity infusion and no new borrowings made in the next year, the Company still poses adequate level of 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 Non-bank Finance Companies](#)

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

- [General Rating methodology](#)

CREDIT RATINGS HISTORY

Credit Ratings History

F88 Business Joint Stock Company

Issuer Credit Rating History

12 October 2021	Initial Ratings	Issuer Rating: BBB- Outlook: Stable
21 June 2022	Surveillance	Issuer Rating: BBB- Outlook: Stable
08 November 2022	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	Grading Scale
Group 1: Extremely strong capacity to meet financial obligation	AAA	Investment Grade
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	AA-	
	A+	
	A	
Group 4: Adequate capacity to meet financial commitments but more vulnerable to adverse developments and economic conditions	A-	
	BBB+	
	BBB	
Group 5: Moderate capacity to meet financial obligations but less vulnerable than other speculative issuers	BBB-	
	BB+	
	BB	
Group 6: Weak capacity to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	BB-	Speculative Grade
	B+	
	B	
Group 7: Very weak capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	B-	
	CCC+	
	CCC	
	CCC-	
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.	CC	
	C	
	SD, D	Default Grade

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:

- F88's percentage of equity ownership at FiinRatings: *none*
- FiinRatings's percentage of equity ownership at F88: *none*
- FiinRatings's other employee percentage of equity ownership at F88: *none*
- F88's investment value of bond(s) issued by FiinRatings: *none*
- FiinRatings's investment value of bond(s) issued by F88: *none*
- F88's investment value of other debt instruments issued by FiinRatings: *none*
- FiinRatings's investment value of other debt instruments issued by F88: *none*

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FIINRATINGS JOINT STOCK COMPANY

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Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 08 November 2022

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