

Rating Announcement:

FiinRatings First Rated F88 Business Joint Stock Company (“F88”)

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

Hanoi, 12 October 2021

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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, 12 October 2021

FiinRatings today announced that it has assigned its **BBB-** long-term issuer credit rating to F88 Business Joint Stock Company (“F88” or “the Company”) with the outlook: **Stable**.

The stable outlook on F88 reflects our expectation that F88 will continue to maintain its leading position within the alternative lending sector in Vietnam together with its strong earnings profile and healthy asset quality. The outlook also reflects our expectation that F88 will be able to withstand the impact of the pandemic and sustain its targeted growth.

RATING RATIONALE

Our rating opinion reflects our view that F88 has consistently delivered and executed of its business plan well. The Company has the vision to become a comprehensive financial services provider in the next 05 years.

Experienced management: F88’s management has nearly a decade-long pawnshop lending experience with the support from regional experts, steering the Company through the early stage as a small pawnshop chain to a leading company in the sector covering the majority of market share. FiinRatings factors into the rating this management expertise and expects F88 to continue to benefit from it in the medium and long term.

Strong earnings capacity and reasonable leverage: At end of 1H2021, F88’s level gearing as measured by Debt/Equity is around 3.5x and expected to be maintained at the same level at end of 2021, despite being higher than 2019 due to rapid expansion of the Loan book. The Company is planning for an equity infusion in early 2022 from a prospective investor to fund its expansion plans. With the Company’s demonstrated ability to raise both equity and debts, FiinRatings believes F88’s leverage ratio will be maintained under 4.0x level over the medium-term. Despite the rapid expansion, F88 has delivered robust performances in the last 02 years. Its earning quality has improved substantially in 1H2021, the ROE forecasted for FY2021 is around 18% compared with only 13% in FY2020. In return, strong earnings with no dividend paid out to its shareholders have help F88 bolstering its capital buffer as well as provided support for its expansion activities.

Robust asset quality despite rapid growth of loan portfolio: FiinRatings opines the Company’s asset quality is superior to its peers with gross non-performing assets (90 days past due) of approximately 1% of its average gross loan book at end of July 2021 and its total credit cost (write-off ratio) is only 8-9%/year of its gross loan book which much lower compared to its peers and larger consumer finance companies (average credit cost around 20-25%/year). F88 has exerted its strict policy on monitoring Loan book by writing off all the amounts past due more than 90 days and making 100% provision for the last 02 years. The Company’s recovery rate is also strong with nearly 30% of its write-off assets being recovered during the year. FiinRatings also expects the Company to continue to diversify its sources of income which will not only provide stability to its earnings profile but also help the Company to focus on better quality loans.

Liquidity profile – Adequate: Based on FiinRatings stress test, the Company has adequate liquidity buffers with liquidity sources over 1.2x-1.4x of its liquidity use. As part of its asset-liability management

(ALM) activities, the Company has monitored its cash position quarterly to prepare for any significant cash outflows or raising funds in a timely manner to support its lending activities. Considering the secured nature of lending and effective collection activities of the Company, we view F88’s liquidity as adequate in the medium-term.

We also assess that the uncertainty of regulatory framework regarding the possibility of capping lending interest rate & fees by the Government is a major rating consideration factor in the long term. Given the landscape of Vietnam economy, there is a large portion of the population whose credit profiles are not supported by financial institutions. We believe alternative lending is still effective support to the Financial Inclusion plan of the Government in the next 05 years. Hence, in our view, any sudden changes on the regulatory framework are low possibility events. Additionally, in response to the potential competition from consumer finance companies, the Company is planning to diversify its sources of income and repositioning its business model by being a financial services provider in the long term.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We might consider upgrading the rating of F88 if:

- Substantially improve its market share and sustain its lending book growth beyond our expectation while withstanding impact from Covid-19 and competition from other alternative lenders and finance companies.
- Sustain its strong earnings profile by maintaining high lending rates, benefit from economies of scale and diversification, and maintaining asset quality.
- Diversify resource profile with a preference for medium and long-term funds to help the Company extend its products maturity and maintain customers retention rate
- Raise funds both equity and debt as planned to support its growth plans

We could lower the rating of F88 if:

- The ratings could come under pressure if the Company fails to maintain its track record of improving its operating profitability, or if its geographical diversification does not provide tangible benefits, or if the lockdown intensifies beyond our expected scenario, or unexpected events undermine its financial position. Any potential regulatory changes which limit the Company’s ability to charge lending rates around current levels could also affect its credit profile. The Company’s rating could also get affected in the event its earnings deteriorate beyond our expectations because of higher cost of funds (“COF”) or poor performance of its loan book. We could also lower the rating if management makes changes that hamper the Company's strategy formulation and execution or if its risk appetite significantly increases beyond our expectations.

RATING SCALE AND DEFINITIONS

We employ the 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 | Scale |
|--|-------------|
| Extremely strong capacity to meet financial obligation | AAA |
| Very strong capacity to meet financial obligation | AA+ |
| | AA |
| | AA- |
| Strong capacity to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances | A+ |
| | A |
| | A- |
| Adequate capacity to meet financial commitments but more vulnerable to adverse developments and economic conditions | BBB+ |
| | BBB |
| | BBB- |
| Moderate capacity to meet financial obligations but less vulnerable than other speculative issuers | BB+ |
| | BB |
| | BB- |
| Weak capacity to meet financial obligations. Sensitive to business, financial and economic conditions. High risk. | B+ |
| | B |
| | B- |
| Very weak capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk. | CCC+ |
| | CCC |
| | CC |
| | C |

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of non-financial corporates 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 this sector.

In addition, ratings are forward-looking opinions about an issuers’ future capacity and willingness to honor its obligations to creditors, but the scorecard uses historical data. As a result, the assigned rating may deviate from the scorecard-indicated rating range in such cases, where a rating committee deems this to be appropriate. The related criteria and methodology are shown in more detail:

- [Rating Methodology for Financial Institutions](#)

or visit the link below for further information about general rating methodology:

- [Rating Methodologies](#)

OWNERSHIP DISCLOSURE

The following information has been provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

- FiinGroup’s* percentage of equity ownership at F88: *none*
- FiinGroup’s* percentage of bond(s) ownership at F88: *none*
- FiinGroup’s* percentage of other debt instruments ownership at F88: *none*

* including FiinGroup as a company, its directors, Committee members, analysts of FiinGroup engaged in this rating action. The information above was examined during client acceptance process and before the signing date of Rating Agreement with the Company and was updated on the day of publication.

As a licensed credit rating agency, 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 the credit rating action are not allowed to own or to execute any transactions of securities, shares or debt instruments issued by the Company when FiinRatings has established a credit rating relationship.

CONTACT US

This rating announcement is intended for general public audience and therefore it provides rating summary and credit highlights only. Complete rating information or a full rating report would be available for purchase on request to FiinRatings with specific terms and conditions.

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FiinGroup Joint Stock Company

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Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, October 12th, 2021

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