RATING ANNOUNCEMENT
16 September 2024

VIS Rating assigns first-time A issuer rating to A&A Green Phoenix Group Joint Stock Company, stable outlook

Hanoi, 16 September 2024 – Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A to A&A Green Phoenix Group Joint Stock Company (Phenikaa). The outlook on Phenikaa's A issuer rating is stable. This is the first time VIS Rating has assigned a rating to Phenikaa.

RATING RATIONALE

Phenikaa's A long-term issuer rating is driven by the group's 'Above-Average' standalone assessment. The standalone assessment incorporates the group's 'Above-Average' business profile, leverage and coverage profile; 'Very-Strong' profitability and efficiency; and 'Average' scale.

Phenikaa is a multi-sectoral corporate group comprising over 30 member companies that operate in Vietnam and globally. The group's core business involves the industrial production of countertop materials, in which the key product is quartz stone having been for sale in Vietnam and global markets since 2004. This business is operated and managed under the group's key subsidiaries including Vicostone Joint Stock Company (JSC), Style Stone JSC, Vietnam Stone Work – Top Fabrication JSC.

Since 2018, the group has expanded in the education and healthcare sectors in Vietnam. The group now runs Phenikaa University and Phenikaa School with a total of two campuses in Hanoi and intends to begin operations of its first hospital, Phenikaa University Hospital, in Hanoi over the next 12 months.

Over the past five years, the group recorded an average of VND 4-5 trillion of revenue each year. In 2023, the group revenue was mainly generated from its core business and education segment.

We assess Phenikaa's business profile score to be 'Above-Average,' incorporating the 'Average' industry profile of the group's core business in the construction material sector, and the group's 'Above-Average' competitive position and diversification.

The 'Average' industry profile score reflects the key characteristics of the construction material sector in Vietnam such as the moderately high barrier to entry and market competition, high level of volatility to business cycles, and a moderate industry growth outlook. The construction material sector in Vietnam covers various types of building materials such as steel, cement, tiles, and stones (including quartz stone).

Companies in the sector operate in a moderately regulated environment that is impacted by government policies, for example, on export-import tax rates, and quotas. In addition, the capital-intensive nature of the business typically drives companies to invest heavily in technical and production capabilities in order to grow in scale and stay competitive. The sector is highly dependent on external factors such as raw material price, transportation cost, and interest rates, leading to high business and financial volatility through economic cycles. We view the growth outlook for the sector over the next 12-18 months to be moderately positive, mainly supported by recovering economic and construction activity.

Phenikaa's 'Above-Average' competitive position and diversification score incorporates our view of its very strong operational efficiency, above-average market position, competitive advantage, business diversification and average corporate execution.

Phenikaa has an above-average market position in the quartz stone industry. It is one of the largest exporters to the US market among Vietnamese quartz stone producers. The group also distributes its quartz stone products to other overseas markets, including Canada and the EU.

Like its competitors, the group is facing increasing competition in an already highly-fragmented industry from lower-cost producers from China and India, as well as from substitute countertop materials such as porcelain, sintered stone, and natural stone.

We view Phenikaa's key competitive advantages in its core quartz stone business stem from the high level of vertical integration in its production process, its commitment to innovate and create new products, and its well-established distribution network in the US market.

Phenikaa has, over time, streamlined the production of quartz stone by taking over the production of key input materials and manufacturing the final end products for market sales. The group now produces more than 90% of the input materials required for quartz stone production including polyester resin and cristobalite. It operates 6 production lines with capacity of 3,000,000 m2 of jumbo slabs per year and 2 cut-to-size factories with capacity of 500,000 m2 of customized stone products per year.

As such, Phenikaa is able to manage its production cost well compared with its global competitors. Among local leading companies operating in the construction materials sector, such as Hoa Phat Group, Viglacera, Hoa Sen Group, and Vicem Ha Tien JSC, the group has maintained superior operating efficiency and gross margins over the past 5 years.

Through its early adoption of leading technology and manufacturing methods, Phenikaa has been able to compete with its global peers in terms of quality and diversity of its quartz stone products. The group benefits from lower production costs than its global competitors that operate production facilities in developed countries like the US, Spain, and Israel, and it has consistently invested in its research and development efforts to develop sizable number of new products each year to cater to changing and/or new customer preferences. Its current product portfolio is comprising over 130 models. Over the past ten years, Phenikaa has established its "VICOSTONE®" brand in the global market through a wide international distribution network comprising 10.000 agencies and partners in more than 50 countries.

We view that the group is in progress of building unique capabilities and track records in its other business segments of education and healthcare in order to create strong multi-sector competitiveness for Phenikaa.

Phenikaa's business coverage is fairly diversified by geography and business segment. The group generates revenue locally and also from various developed markets, including the USA, Canada and EU. The group's average corporate execution is reflected by its track record of executing most of its business plan targets in recent years.

Many of its new businesses remain at a nascent stage of development or operations. The group has invested significantly in new technology and technical resources to build its new businesses. Over time, as the new businesses achieve scale, we expect the group to benefit from greater diversity in its revenue stream.

Phenikaa's 'Very Strong' profitability and efficiency score is underpinned by its track record of high EBITDA (Earnings before interest, taxes, depreciation, and amortization) margins of around 41-44%. Its EBITDA margins are among the highest compared with Vietnamese corporations, driven by its superior operating efficiency and ability to maintain high selling prices for its quartz stone products in its key markets. Over the next 12-18 months, we expect the recovery in housing construction activity in the key markets will help to stabilize the group's margins at around 42-43%.

We view Phenikaa's leverage and coverage profile to be 'Above-Average', reflecting its 'Strong' leverage, 'Above-Average' debt coverage, and 'Below-Average' interest coverage.

Phenikaa's 'Strong' leverage is underpinned by its low level of leverage compared with other local peers in the construction material sector. Over the past two years, its Debt/ EBITDA was 2.7x, lower than the peer average of 8.4x. We view its strong operating efficiency and profitability has allowed it to invest in its core and new businesses without heavy reliance on debt financing.

Over the next 12-18 months, we expect its Debt/ EBITDA to be 3.2-3.4x, interest coverage, measured by EBIT (Earnings before interest and taxes) / Interest expense, to reach 2.9-3.4x in 2024-2025, and CFO (Cash flow from operations) / Debt will be 21-23% in 2024-2025, as operating cash flow of its core business remains robust.

We assess Phenikaa's liquidity risks in the next 12-18 months to be well-managed and largely mitigated by its strong operating cash flow and adequate stock of cash resources. Most of its short-term debt is to finance the group's working capital, which is well supported by credit lines from multiple banks. In a stress scenario where the group is unable to access new financing from banks, we expect the group will have sufficient cash from its operating cash flow to repay all of its maturing debt.

We do not incorporate any affiliate support or government support in Phenikaa's issuer rating.

Factors that could lead to an upgrade of the rating

Phenikaa's A issuer rating could be upgraded if the group demonstrates its ability to scale and improve the operating performance of both of its core and new businesses, and maintains a track record of strong financial metrics, including Debt/ EBITDA ratio of below 2x, EBIT/ interest expense ratio of above 5x, and CFO/ Debt ratio of above 35%.

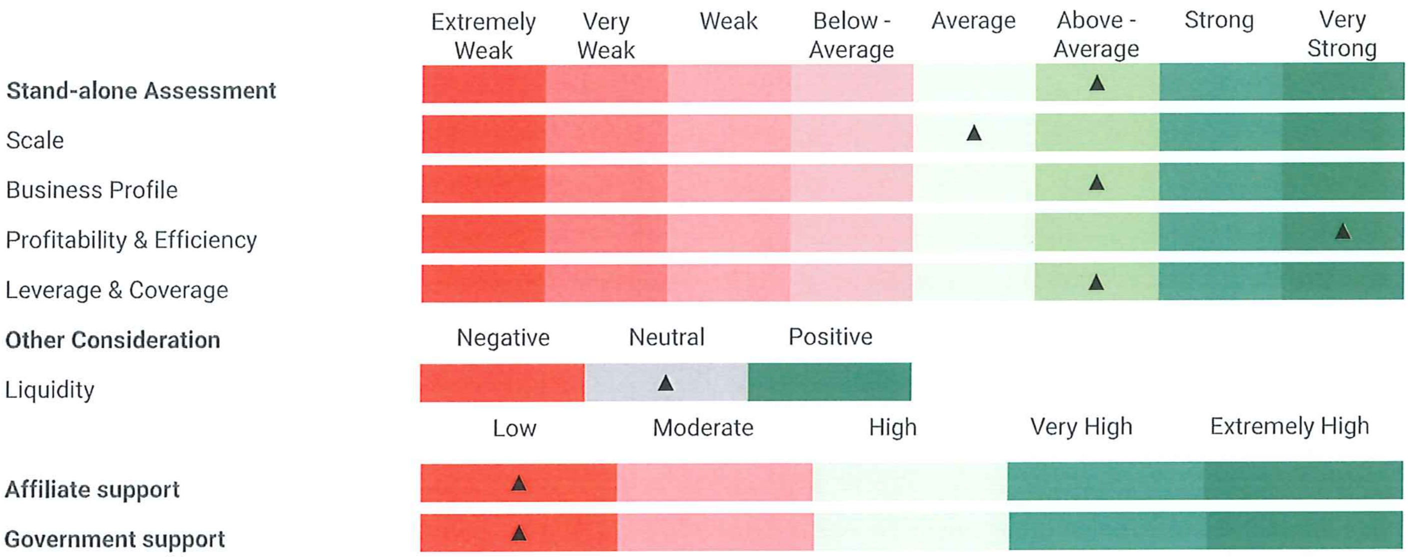
Factors that could lead to a downgrade of the rating

Phenikaa's A issuer rating could be downgraded if the group (1) begins to show increasing signs of liquidity risks, for example increasing reliance on short-term borrowings and difficulties in refinancing at market rates; and/or (2) increases its leverage substantially in pursuit of growth in its new businesses, for example, Debt/ EBITDA ratio rising above 4.5x; and/or (3) experiences significant and continued deterioration in the operating performance and cash flow of its core and/or new business, for example, EBIT/ interest expense ratio falling below 2x, and CFO/ Debt ratio below 15%.

RATING METHODOLOGY

Rating Methodology: Non-Financial Corporates, published in September 2023.
For detailed information, please see our full methodologies at: https://visrating.com/wp-content/uploads/2024/04/VIS-Rating-Rating-Methodology-Non-financial-Corporates-EN.pdf

SUMMARY OF KEY FACTORS



Source: Vietnam Investors Service

CREDIT RATING HISTORY

Date	Rating product	Result	Outlook	Action
16 September 2024	Long-term Issuer	A	Stable	First-time assignment

RATING SCALE

Long-Term Rating

AAA	Issuers or debt instruments demonstrate the **strongest** creditworthiness relative to other domestic entities and transactions.
AA	Issuers or debt instruments demonstrate **very strong** creditworthiness relative to other domestic entities and transactions.
A	Issuers or debt instruments demonstrate **above-average** creditworthiness relative to other domestic entities and transactions.
BBB	Issuers or debt instruments demonstrate **average** creditworthiness relative to other domestic entities and transactions.
BB	Issuers or debt instruments demonstrate **below-average** creditworthiness relative to other domestic entities and transactions.
B	Issuers or debt instruments demonstrate **weak** creditworthiness relative to other domestic entities and transactions and may be approaching default, with strong recovery prospects.
CCC	Issuers or debt instruments demonstrate **very weak** creditworthiness relative to other domestic entities and transactions and are likely in or near default, typically with moderate recovery prospects.
CC	Issuers or debt instruments demonstrate **extremely weak** creditworthiness relative to other domestic entities and transactions and are typically in default, typically with poor recovery prospects.
C	Issuers or debt instruments demonstrate the **weakest** creditworthiness relative to other domestic entities and transactions and are typically in default, with very poor recovery prospects.

Note: Vietnam Investors Service appends the modifiers + and – to each generic rating classification from AA through CCC. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier – indicates a ranking in the lower end of that generic rating category

REGULATORY DISCLOSURES

For further specification of Vietnam Investors Service's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Vietnam Investors Service's Rating Symbols and Definitions can be found at: https://visrating.com/how-to-get-rated/.

Phenikaa's ownership stake in VIS rating: 0%

The ownership ratio of Phenikaa held by VIS Rating's staff: 0%

Cases in which analysts and credit rating council members cease their participation in the credit rating contract before the contract expires and the reason for the cessation: 0

VIS Rating adheres to a stringent independence policy by current regulations governing the provision of credit rating services in Vietnam. This commitment extends to compliance with our conflicts-of-interest policy, aiming to uphold objectivity and independence when expressing opinions on credit ratings.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

This rating is solicited.

Regulatory disclosures contained in this rating announcement apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see https://visrating.com for any updates on changes to the lead rating analyst and to the Vietnam Investors Service's legal entity that has issued the rating.

Please see the rating tab on the issuer/entity page on https://visrating.com for additional regulatory disclosures for each credit rating.

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