RATING ANNOUNCEMENT
25 October 2024

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

Hanoi, 25 October 2024 – Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A to Gelex Group Joint Stock Company (GEX). The outlook on GEX's A issuer rating is stable. This is the first time VIS Rating has assigned a rating to GEX.

RATING RATIONALE

GEX's A long-term issuer rating reflects the group's 'Above-Average' standalone assessment, underpinned by its 'Very-Strong' scale, 'Strong' business profile, 'Above-Average' profitability and efficiency, and 'Average' leverage and coverage profile.

GEX is the holding company of Gelex Group, a large corporate group with subsidiaries and investments in four key sectors, including Electrical Equipment Manufacturing (55% of consolidated group revenue over the past three years), Construction Materials (25%), Industrial Real Estate (15%) and Utilities (5%).

GEX's 'Strong' Business Profile incorporates our view of its 'Above-Average' Industry Profile and 'Strong' Competitive Position and Diversification, particularly in the sectors that drive the majority of the group's cash flows, Industrial Real Estate and Electrical Equipment Manufacturing sectors.

For Industry Profile, the 'Above-Average' score for Industrial Real Estate sector in Vietnam incorporates the sector's high barrier to entry, low levels of competition and volatility, and a high growth outlook. The 'Average' score for Electrical Equipment Manufacturing and Construction Materials sectors is driven by a higher level of competition and moderate barriers to entry and a moderate growth outlook in the sector. The 'Strong' score for Water (Utilities) sector reflects the sector's high barrier to entry due to complex license requirements, low volatility, and a high growth outlook.

The 'Strong' Competitive Position and Diversification score is driven by strong scores for both the Industrial Real Estate and Electrical Equipment Manufacturing sectors. The majority of the group's subsidiaries are among the leading companies in terms of market share and business coverage in their respective sectors.

GEX is the leading electrical equipment manufacturer in Vietnam, with wide-ranging product lines accounting for 20 - 35% market share of each product. GELEX Electric JSC (GEE) – a subsidiary of GEX – owns renowned national brands through its subsidiaries, including Vietnam Electric Cable Corporation (CAV) in electric cables, EMIC Electrical Measuring Instrument JSC in electrical measuring equipment, Electrical Equipment JSC (THI) in electric transformers, Hanoi Electromechanical Manufacturing JSC (HEM) in electric motors, and CFT Vina Copper Co., Ltd in copper wires.

In the Industrial Real Estate sector, Viglacera Corporation JSC (VGC) – a subsidiary of GEX – has the highest amount of leased land in industrial parks among Vietnam's listed companies in 2023. This company has developed 14 industrial parks with about 4,000 hectares of land and 1,000 hectares of leasable land, ranking among the top 5 listed companies in this sector. VGC is among the market leaders in the Construction Materials sector, with a 42% market share in the building glass segment and a 30% market share in the ceramic tile segment.

Song Da Water Investment JSC - Viwasupco (VCW) specializes in clean water production and produces up to 300,000 m^3 of clean water per day to serve one-fourth of Hanoi's clean water needs. This company has invested in new capital expenditures to double its production capacity by 2025-2026.

The operations of GEX's key businesses and investments span Vietnam's geography and various industries nationwide. The group has a track record of delivering on its business plans and exceeding its profit targets.

GEX is ranked among the top 30 largest listed companies by group consolidated revenue over the past five years. Our 'Very-Strong' assessment of GEX's Scale reflects the well-established and deep market presence of its core businesses, its diverse mix of complementary products to serve market needs, and its ability to maintain good relations with its vendors and financiers.

We expect GEX to maintain revenue recognition at a 'Very-Strong' level in the long term, driven by a solid market share in Other Manufacturing and a robust pipeline in Industrial Real Estate. GEX has a long-term plan to expand its capacity, including the clean water plants expansion project, new electric equipment exports, and Tran Nguyen Han Office and Hotel project.

We assess GEX's Profitability and Efficiency as 'Above-Average'. The group consolidated EBITDA margin (Earnings Before Interest, Taxes, Depreciation, and Amortization over Revenue) of 19-23% was higher than Vietnam's corporate average over the past five years. These high margins are mainly driven by its investments in the Industrial Real Estate, Power, and Water sectors.

Over the next 12-18 months, we expect EBITDA margins to deteriorate to 17-18% due to the divestment of renewable investments and expected losses in the Construction Material sector.

According to the group management, they are actively addressing issues in the Construction Materials segment. Since 2023, VGC has suffered operating losses in the Construction Materials segment due to increasing price competition in the building glass products and weak domestic demand for other products such as sanitary wares and ceramic tiles. In 2023, VGC shut down two of three glass manufacturing factories to control costs and restructured its inefficient product lines, such as building bricks and terracotta products.

GEX's overall credit assessment is constrained by its 'Average' Leverage and Coverage profile, driven by 'Strong' Leverage and 'Below-Average' Coverage scores.

We view the group's overall debt level to be relatively low when compared with Vietnam's corporate average. Its key subsidiaries – accounting for 55% of total group debt – have low Debt/EBITDA ratios, namely VGC (1.0x) and GEE (2.5x). Over the next 12-18 months, we expect the group consolidated Debt/EBITDA ratio to slightly increase to 3.0x-3.2x from 2.9x at end-2023 due mainly to capital expenditures (CAPEX) for new project development by GEX and VCW.

According to the company management, the total CAPEX in the next 18 months will be VND 11 trillion, including VGC's CAPEX (55% of the total), VCW's expansion project (15% of the total), Tran Nguyen Han Office and Hotel project (25% of the total), and other minor projects among subsidiaries of GEE.

The group's 'Below-Average' coverage score incorporates the 'Weak' Interest Coverage score and an 'Average' Debt Coverage score.

The 'Weak' Interest Coverage score is mainly driven by the low EBIT (Earnings Before Interest & Taxes over Interest Expense)/Interest Expense ratios of VCW (1.4x) and GEX (-0.2x). VCW's weak EBIT is mainly driven by its recent large capital expenditure on new production capacity, which is still under construction. GEX's weak EBIT is driven by its operational nature as an investment holding company with limited revenues and relies heavily on dividends from its subsidiaries and investments to service its debt.

During Q2 and Q3 2024, GEX increased its equity investment in Vietnam Export Import Commercial Joint Stock Bank (Eximbank) and became the bank's largest shareholder with a 10% equity stake. In September 2024, Eximbank announced its plan to pay cash dividends (VND300 per share) in Q4 2024 for the first time in ten years. We view this additional income will not have a significant impact on GEX's income.

Over the next 12-18 months, we expect the group's consolidated EBIT/Interest Expense ratio to weaken to 1.7-1.9x from its five-year average of 2.5x due to higher leverage and interest burden at GEX and VCW.

The 'Average' score in Debt Coverage reflects the group's moderate ability to generate operating cash flow to service its debts. This score is primarily driven by the stable cash flows from GEE and VGC, and partially offset by the weaker cash flows of GEX and VCW to cover their respective debt repayment. We note that the group's cash flow from operations (CFO) has been volatile over the past 5 years, mainly due to its merger and acquisition activities. In the next 12-18 months, we anticipate the CFO/Debt ratio will deteriorate to 15 - 25% from the 2022 – 2023 level of 22 – 47%, resulting from large CAPEX by GEX and VCW. We expect the new capital investment to only begin generating revenue and cash flows in 2026.

The group's heavy reliance on short-term financing is a key credit concern. As of 30 June 2024, 53% of the group's consolidated borrowings are short-term loans (VND 9,214 billion) maturing within the next 12 months. VGC and GEE account for 70% of the total group's short-term borrowings, while GEX accounts for around 30%.

Based on our discussions with the group management, liquidity risks have so far been well managed, primarily from the roll-over of the short-term loans prior to maturity. Moreover, the group has a sizable portfolio of financial assets (VND 3-4 trillion on average over the past five years) that are available for sale if and when the need for emergency liquidity arises. These assets include listed shares (VND 2.2 trillion), corporate bonds (VND 0.85 trillion), and bank deposits (VND 0.85 trillion). Nonetheless, we remain concerned about the group's resilience to a liquidity crunch when access to new borrowings and market liquidity for financial assets becomes limited.

We do not incorporate any affiliate support uplift to GEX's assessment score. There is no evidence to assess the support of GEX's major shareholders to the company through loans and other assets. We also expect no government support for GEX because the company has no State-owned stakes, and its business lines do not link with government priorities and political policies.

GEX's long-term issuer rating is stable, reflecting our view that its credit fundamentals will remain stable over the next 12-18 months.

Factors that could lead to an upgrade of the rating

GEX's A rating score could improve if the group demonstrates a consistent improvement in the operating cash flows and profitability (for example, CFO/Debt consistently above 20% or an EBIT/ interest expense ratio consistently above 3.5x), and it reduces its reliance on short-term borrowings.

Factors that could lead to a downgrade of the rating

GEX's A rating score could be lower if:

(1) There is a significant change in GEX's business strategy that negatively affects its ability to pay its debt (for example, the company embarks on aggressive business growth and increases its leverage and liquidity risk); or

(2) The group's core operating performance weakens, leading to weaker debt servicing metrics (for example, EBITDA margin below 15% and EBIT/Interest Expenses ratio below 1.0x).

RATING METHODOLOGY

Rating Methodology: Non-Financial Corporates, published in September 2023.

For detailed information, please see our full methodologies at:
https://visrating.com/wpcontent/uploads/2024/04/VIS-Rating-Rating-Methodology-Non-financial-Corporates-EN.pdf

SUMMARY OF KEY FACTORS

	Extremely Weak	Very Weak	Weak	Below - Average	Average	Above - Average	Strong	Very Strong
Stand-alone Assessment						▲		
Scale								▲
Business Profile							▲	
Profitability & Efficiency						▲		
Leverage & Coverage					▲			

Other Consideration	Negative	Neutral	Positive
Liquidity		▲	

	Low	Moderate	High	Very High	Extremely High
Affiliate support	▲				
Government support	▲				

Source: Vietnam Investors Service

CREDIT RATING HISTORY

Date	Rating product	Result	Outlook	Action
25 October 2024	Long-term Issuer Credit Rating	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/.

GEX's ownership stake in VIS rating: 0%

The ownership ratio of GEX 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 press release 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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Simon Chen, CFA
Head of Ratings and Research
25 October 2024

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