

VIS Rating assigns first-time BBB+ issuer rating to Tasco Joint Stock Company, stable outlook

Hanoi, 4 December 2024 – Vietnam Investors Service And Credit Rating Agency Joint Stock Company (“VIS Rating”) has assigned a long-term issuer rating of BBB+ to Tasco Joint Stock Company (HUT). The outlook on HUT’s BBB+ issuer rating is stable. This is the first time VIS Rating has assigned a rating to HUT.

RATING RATIONALE

HUT’s BBB+ long-term issuer rating primarily reflects the company’s ‘Average’ standalone assessment. The standalone assessment incorporates our view of the company’s intrinsic financial strength driven by its business profile and financial flexibility. Specifically, our assessment reflects the company’s ‘Very Strong’ scale and ‘Above-Average’ business profile, and also its ‘Average’ leverage and coverage profile and ‘Below-Average’ profitability and efficiency.

Today, HUT has an annual revenue of over USD 1 billion and is targeting to achieve USD 3 billion in revenue by 2027. HUT is the leading company in automobile distribution with a 13.7% market share, operating 106 car showrooms nationwide and distributing 16 different car brands. According to management, HUT is also a leader in the smart transportation sector, with a 75% market share and serving 3.6 million customers.

HUT was first established in 1971 as a construction contractor in Northern Vietnam and grew through investments in infrastructure projects, real estate, and electronic toll collection systems. The company underwent a major strategic overhaul over the last 2 years (2023 – 2024) to advance its vision to become the leading provider of automotive services and smart transportation infrastructure in Vietnam. This strategic shift led to significant restructuring and streamlining of its core businesses, including the acquisition of new business assets and divestment of its legacy non-core businesses, such as construction and healthcare.

HUT’s ‘Above-Average’ business profile incorporates our view of the ‘Average’ industry profile of the automotive industry in which the company mainly operates and the ‘Strong’ competitive position and diversification of HUT in this sector.

Through its subsidiaries, HUT currently operates in 4 main segments: (1) automotive dealership and distribution, which is the company’s core business and accounts for 88% of 2023 revenue; (2) infrastructure operation (9%) including five invested toll road projects and an electronic toll collection company – Vietnam Electronic Toll Collection (VETC), (3) residential real estate (2%) and (4) non-life insurance (less than 1%) via Tasco Insurance.

The ‘Average’ industry profile score reflects the key characteristics of Vietnam’s automotive industry, such as a moderate barrier to entry and a positive growth outlook, but under high competition and a high level of business volatility.

The automotive industry is moderately regulated, mainly by government tax and fee policies. The sector is also capital-intensive, requiring CAPEX and working capital for manufacturing and showroom facilities. Competition in the sector is high, as the top 5 car retailers account for less than 40% of the market share.

In Vietnam, the automotive sector shows high volatility in business performance as car prices are significantly high relative to income, leading to high fluctuation in demand following macroeconomic factors. In the next 12-18 months, the sector outlook is moderately strong as Vietnam’s low car ownership and economic growth recovery in 2025 will mitigate effects stemming from the termination of the 50% registration fee reduction policy at the end of 2024. In addition, the rapid growth of the middle class, combined with the development of transportation infrastructure—particularly the expansion of new highways (projected to reach 3,000 km by 2025, nearly double the total highway kilometers of the past decade)—will create favorable conditions to drive the growth of the automotive market.

We assess HUT to have a 'Strong' competitive position and diversification based on its strong market position, competitive advantage, and business diversification in the automotive sector.

HUT's business strategy focuses on delivering a vertically integrated automotive ecosystem, providing seamless customer experience throughout the vehicle's lifecycle. This includes its plans to expand into the automotive upstream value chain by cooperating with Geely – the top 10 global carmakers for exclusive car distributions and investing in an automobile assembly factory with a capacity of 75,000 units per year in 2025, serving for domestic consumption and export to Southeast Asia, South America, Europe.

The company has a leading position in auto dealerships in Vietnam, with 106 nationwide showrooms, accounting for about 13.3% of Vietnam's total passenger car distribution in 2023 and increase to 13.7% in 9M2024, outperforming most other automotive retailers, which have a market share of less than 1%. HUT holds exclusive distribution rights for Lynk & Co, Zeekr, Geely cars, and luxury brand Volvo.

HUT distributes the largest portfolio of car models consisting of 16 auto brands, including some top-selling brands such as Toyota (~20% retail shares), Ford (~28%), Mitsubishi (~19%), and luxury brand Volvo (100%), compared to an average of 6 brands distributed by the remaining top 5 retailers. Compared to its peers, HUT has a higher inventory turnover, showing above-average operation efficiency. HUT's proven capabilities to distribute auto brands ranging from premium to budget segments allow it to have high bargaining power with car manufacturers and support the expansion of showrooms for new brands.

According to the management, HUT aims to develop a comprehensive ecosystem for entire customers' automobile life cycle through its subsidiaries and affiliates, ranging from new car dealership network (Tasco Auto, Savico, Sweden Auto), used car trading (Carpla), car insurance (Tasco Insurance) and financial services (cooperation with commercial banks), electronic toll collection and related e-wallet services (VETC) and car services in each service centers. The company is also moving upstream on the automotive value chain by investing in Lynk & Co and Geely CKD factory in 2025 to improve the profit margin in sales of these car brands.

The company's business is well-diversified geographically among several major cities and provinces across Vietnam, with a broad customer base in the middle-to-high-income class. The company's corporate execution in the automotive industry is above average, represented by Tasco Auto's track records is above-average, indicated by the completion of sales and profit plans in the last three to five years, regardless of the COVID-19 impact on Vietnam's automobile sales. On the other hand, most of HUT's management team were appointed after the restructuring announcement and changes in the company's major shareholders in 2022, with 15-20+ years of experience in different backgrounds such as financial services, automotive, infrastructure, and hospitality, and they are still in the process of building a track record at HUT.

Our 'Below-Average' assessment of HUT's profitability and efficiency incorporates our expectation of its EBITDA margin to stay around 5-7% in 2024F-2026F, which is lower than the average of Vietnam corporates. HUT's EBITDA margin is driven by its automotive dealership business, which accounts for the bulk of its profits. According to management, the automotive industry has faced significant challenges in 2023, with declining demand leading to lower sales and revenue compared to the previous period, but is expected to recover in 2024 - 2026.

HUT's profitability also incorporates contributions from its infrastructure operation businesses, including its VETC business, which remains loss-making, and investments in toll road projects. We note that three out of its five toll road project investments underwent debt restructuring for upcoming years.

We expect HUT's profitability to improve in the next 12 – 18 months, driven by strong revenue growth (CAGR of 19% in 2024-2026F) from improving demand and higher margins from exclusive distribution of some car brands (Volvo, Lynh & Co, Geely), operation of the CKD factory, as well as profits from Ana Mandara Viet Tri residential real estate project (Viet Tri project). Furthermore, we expect HUT's profit margin to improve further after its CKD manufacturing operations achieve high-capacity utilization beyond 2026 and HUT successfully transforms into an integrated automotive manufacturer, distributor, and dealer.

HUT's 'Average' leverage and coverage profile is driven by its 'Above-Average' leverage and 'Below-Average' coverage level. HUT's 'Above-Average' leverage is reflected by the Debt/EBITDA ratio of around 6.5x – 7.0x in 2025-2026, which is lower compared to its automotive peers at 7.2x. We expect HUT's leverage to remain stable as EBITDA growth of 39% annually will mitigate new debt increases in the next 12-18 months as the company will borrow around VND 3.5 trillion (35% of current total debt) to finance capital expenditure and working capital for CKD factory and other showrooms expansion, and around VND 1 trillion (10% current debt) to develop Viet Tri residential real estate project during 2025 – 2026 period.

The company's 'Below-Average' coverage is mainly driven by its thin profitability and increasing debts and interest expenses. The company's interest coverage—measured by EBIT (Earnings before interest and taxes)/ Interest expenses will remain at a moderately low level of 1.5-2.0x in the next 12-18 months. Before its expansion into the automotive segment, HUT's CFO (Cash flow from Operations)/Debt fluctuated significantly in 2020 – 2023. We expect the ratio to

remain stable at around 5 - 8% in 2024 – 2026, driven by more stable operating cash flow from the automotive business as sales recover from improved demand.

The Company's debt comprises revolving short-term loans and loans for long-term projects, including toll road projects, the upcoming CKD factory, and the Viet Tri residential project. Short-term debts primarily finance the working capital of the automotive business, with an average term of less than 6 months.

According to management, HUT expects to raise an additional VND of 1,785 billion in Q1/2025 from share issuances to existing shareholders under the approved plan in the 2024 Annual General Meeting. We expect HUT's liquidity risks in the next 12-18 months, driven by large capex disbursement, will be mitigated by the expected cash injection from share issuance and the sales proceeds from the Viet Tri project. The management intends to commercialize the project within the second half of 2025. Going forward, its debt repayment capacity will continue to rely on the business performance in the automotive segment, especially the CKD factory.

These above assumptions underpin the stable outlook on its issuer rating.

We do not incorporate any affiliate support uplift to HUT's issuer rating. We expect limited government support for HUT because the company has no state-owned stakes, and its business lines are unrelated to government priorities and political policies.

Factors that could lead to an upgrade of the rating

HUT's BBB+ long-term issuer rating could improve if the company: (1) successfully expands into upstream manufacturing and assembly, maintaining consistently higher margins with larger revenue contribution by these activities, (2) develops its new business segments, including real estate and financial services, commanding higher margins and maintaining steady growth in new business transactions and market position that result in better credit metrics, for example, EBITDA margin consistently remains above 10%, Debt/EBITDA below 5x, and CFO/Debt ratio consistently above 10%.

Factors that could lead to a downgrade of the rating

HUT's BBB+ long-term issuer rating could be lower if: (1) the company embarks on aggressive business growth or acquisition that results in further weakening of its leverage and coverage metrics, for example, Debt/EBITDA above 8.0x and CFO/Debt below 5%, or (2) the company's liquidity risks increase considerably at the group or parent company level due to significant decline in cash flow or failure to complete its share issuance.

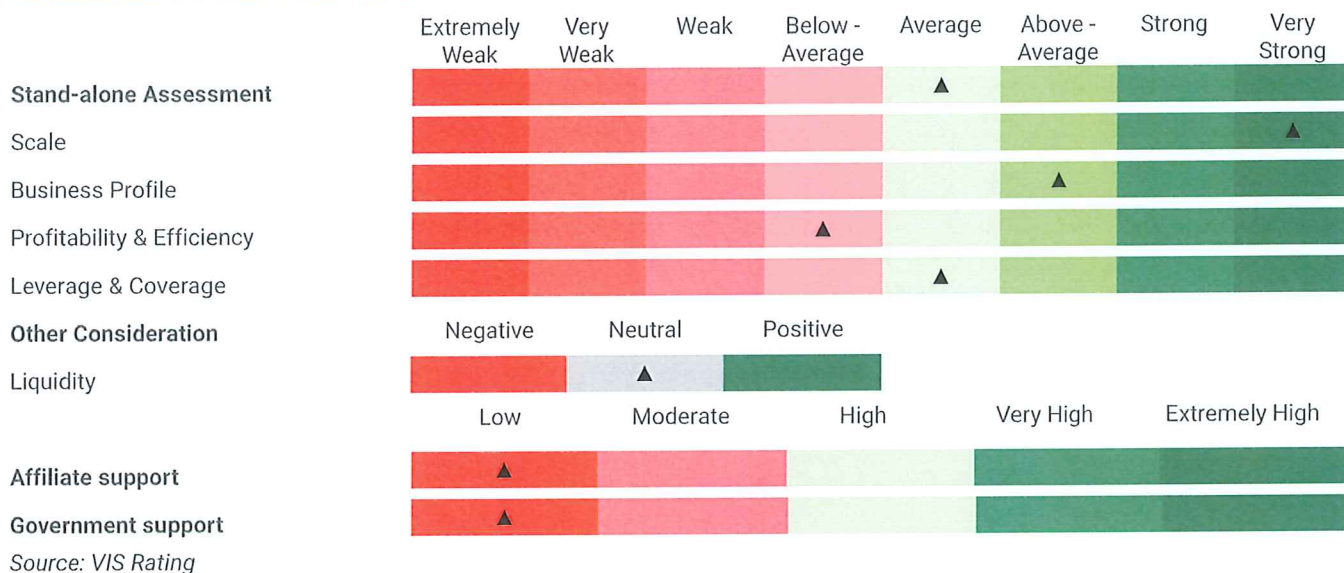
RATING METHODOLOGY

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



CREDIT RATING HISTORY

Date	Rating product	Result	Outlook	Action
4 December 2024	Long-term Issuer Credit Rating	BBB+	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: VIS Rating 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 VIS Rating's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. VIS Rating's Rating Symbols and Definitions can be found at: <https://visrating.com/how-to-get-rated/>.

HUT's ownership stake in VIS Rating: 0%

The ownership ratio of HUT 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

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This rating is solicited.

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Vietnam Investors Service and Credit Rating Agency Joint Stock Company

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