RATING ANNOUNCEMENT
14 May 2025

VIS Rating assigns first-time A- issuer rating to VNDIRECT Securities Corporation, stable outlook

Hanoi, 14 May 2025 - VIS Rating has assigned a long-term issuer rating of A- to VNDIRECT Securities Corporation (VND). The outlook on VND's A- issuer rating is stable. This is the first time VIS Rating assigned a rating to VND.

RATING RATIONALE

VND's A- long-term issuer rating reflects its above-average standalone assessment and our expectation of a low likelihood of affiliate and government support for the firm in times of need. The firm's standalone assessment incorporates its above-average leverage, funding and liquidity profile, average profitability, and below-average risk appetite relative to peers.

Established in 2006 as a privately-owned securities firm, VND is among the three largest firms by total assets at end-2024. The firm has established an advanced trading platform to grow its customer base and market share in brokerage and margin lending. In recent years, it has expanded its fixed-income operations to serve both institutional and retail customers. The services include corporate bond advisory, underwriting and distribution. VND's largest shareholder is I.P.A Investment Group (HNX: IPA), a privately-owned investment holding company, with a 25.8% equity stake at end-2024.

We position VND's profitability at an 'Average' level, reflecting our expectation of stable return on average assets (ROAA) from core businesses - margin lending and fixed-income operations – and the firm's lower-than-industry earnings volatility.

VND's ROAA improved to 4.0% in 2024 from 3.2% in 2022. Improved bond market conditions helped to boost fixed income-related income, offsetting lower income from margin lending and brokerage businesses, which were affected by keen competition and the firm's cyberattack incident in 1H2024.

Over the past 3 years, income from fixed-income operations made up 52% of VND's operating profit, followed by margin lending (36%) and brokerage income (9%)

VND's earnings volatility[1] was at 58% as of 2024, lower than industry average of 131%, driven by its diversified income structure, backed by strong nationwide retail and institutional customer networks.

Over the next 12-18 months, we expect VND's ROAA to remain broadly stable. According to the management, demand for margin loans will grow alongside improving market sentiment, and the firm is taking steps to expand its retail product suite to cover wealth management services and investment products. The additional revenue will help to offset the lower yields from de-risking of its corporate bond underwriting activities.

We assess VND's risk appetite at a 'Below-Average' level, reflecting the firm's high exposure to higher-risk assets - 30% of total assets on average. Those assets were mainly in the form of corporate bonds, and included unlisted shares, overdue receivables, and commitments to buyback corporate bonds.

We note that the firm recently increased holdings of financial institution (FI) bonds. The firm's corporate bond holdings included several bonds issued by real estate and power sector companies that defaulted in 2023-2024. According to the management, these companies were either embroiled in legal issues that impeded commercial operations or were severely impacted by the downturn in the property market.

[1] Pre-tax earnings volatility is calculated by dividing the standard deviation of pre-tax earnings from trailing ten semi-annual periods over the mean of the company's pre-tax earnings.

According to the management, VND intends to de-risk its fixed income operations by implementing more stringent criteria to select new customers for bond underwriting, and expand its coverage of financial institution bond issuers. In addition, the firm will continue to explore debt restructuring and improve collection from the defaulted corporate bond issuers.

Asset risks from margin loans remain well-managed given the low credit concentration, and its well-established margin call and collateral management process. According to the management, the firm mitigates credit losses through early repayment reminders for borrowers and its automatic force-sell process.

We position VND's leverage at an 'Above-average' level, reflecting the company's good access to new capital to support business growth and strengthen its loss absorption buffers. VND's reported leverage ratio[2] fell from 3.9x in 2020 to 2.4x by end-2024, below peers' average of 2.5x, after raising nearly VND 10 trillion of new capital during 2020-2024.

According to the management, VND plans to maintain modest asset growth over the next 12-18 months, focusing on margin loans. Coupled with steady internal capital generation, we expect VND's leverage level will remain stable.

We assess VND's funding and liquidity at 'Above-average' level, reflecting its diversified funding structure, good access to state-owned banks and offshore lending, and significant liquid asset buffer.

As a large securities firm, VND manages to secure sizeable credit facilities – including some clean lines - from various local banks to support business expansion. At end-2024, borrowings from state-owned banks made up 60% of VND's total borrowings. In 2021-2022, VND also obtained syndicated loans from several foreign banks, including Cathay United Bank, Maybank, and Taipei Fubon Bank.

VND plans to issue up to VND 2 trillion of 1-3Y senior unsecured bonds in 2025. If successful, the additional long-term funding will be positive for VND's funding.

Liquidity risks arising from the use of confidence-sensitive short-term debt are well-managed. The firm maintains sizeable high liquid assets – including cash, term deposits and certificate of deposits (CDs), and government bonds. At end-2024, VND's inflow to outflow ratio was 101%, similar to most peers.

VND's issuer rating does not incorporate uplift for affiliate and government support.

The outlook on VND'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

VND's A- rating could be upgraded if (1) the company successfully implements its de-risking strategy, establishes a track record of managing the growth of its fixed-income operations and improves quality and stability of its earnings, or (2) the firm raises new capital to strengthen its loss absorption buffer, for example, leverage ratio falling to below 1.3x on a consistent basis.

Factors that could lead to a downgrade of the rating

VND's A- rating could be downgraded if (1) its higher-risk assets increase further, or the credit quality of its bond holdings worsens, leading to a higher risk of balance sheet losses and a significant deterioration of the firm's capital level; or (2) its core profitability worsens significantly, for example, ROAA falling to below 3% on a consistent basis; or (3) the firm becomes increasingly vulnerable to liquidity risks, for example, liquid assets decline substantially and may not sufficient to cover its short-term obligations.

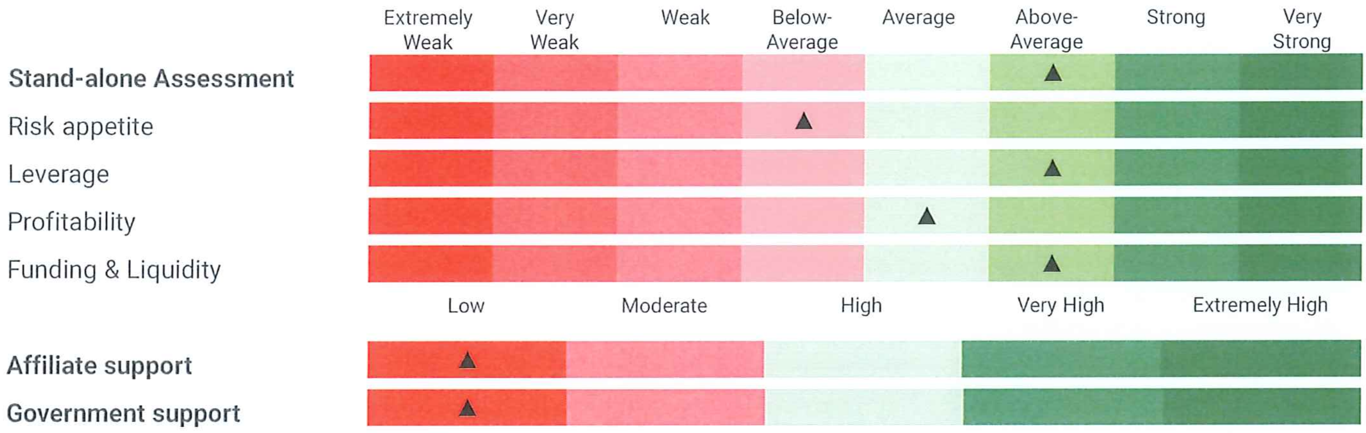
[2] Leverage ratio is measured by total tangible assets and off-balance-sheet exposures over tangible common equity.

RATING METHODOLOGY

Rating Methodology: Financial Institutions.

For detailed information, please see our full methodologies at: https://visrating.com/how-to-get-rated/view/financial-institutions-rating-methodology.2

SUMMARY OF KEY FACTORS



Source: VIS Rating

CREDIT RATING HISTORY

Date	Rating type	Rating	Outlook	Action
14 May 2025	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: 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

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Simon Chen, CFA
Head of Ratings and Research
14 May 2025

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