VIETNAM
INVESTORS SERVICE

RATING ANNOUNCEMENT
29 May 2024

VIS Rating assigns first-time BBB issuer rating to Ha An Real Estate Investment and Business Joint Stock Company, stable outlook

Hanoi, 29 May 2024 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of BBB to Ha An Real Estate Investment and Business Joint Stock Company (Ha An). The outlook on Ha An's BBB issuer rating is stable. This is the first time VIS Rating assigned a rating to Ha An.

RATING RATIONALE

Ha An's BBB long-term issuer rating reflects the company's average standalone assessment. The average standalone assessment incorporates the company's average scale and business profile, its very strong profitability and efficiency, as well as its below-average leverage and coverage, which we expect to improve modestly over the next 12-18 months.

Established in 2018 as a project company by Dat Xanh Group Joint Stock Company (DXG), Ha An has grown to become the real estate development arm of DXG. Since 2019, DXG contributed equity capital and transferred its residential projects to Ha An for development and commercialization. As part of DXG, Ha An benefits from operational support in branding, project management, sales, and marketing from DXG and its affiliates. Ha An's annual revenue of VND 2-3 trillion over the past 3 years reflects its 'Average' scale.

We assess Ha An's business profile to be 'Average', incorporating the average industry profile score of the residential real estate sector in which the company operates and Ha An's average competitive position and diversification score.

The residential real estate industry in Vietnam is characterized by a high barrier to entry, average levels of competition and volatility, and a moderate growth outlook. Developers in the sector operate in a highly regulated environment and undertake project development work that is both time-consuming and highly capital-intensive. We view the sector growth to be moderate, underpinned by strong housing demand in major cities and a gradual increase in housing supply.

We position Ha An's competitive position and diversification at an 'Average' level. Our assessment incorporates the company's and DXG's well-established market position and competitive advantage in the residential real estate development industry, its fairly diversified business coverage by geography and product segments, and its average track record of executing its strategic plans and projects.

Over the last 3 years, DXG - through Ha An – is ranked among the ten largest listed developers by revenue. Ha An's track record in project development is demonstrated by the launch and sale of 12 projects by DXG since 2007, and 3 recent projects launched by Ha An following its establishment in 2018.

Ha An has a large portfolio of residential projects with a total area size of 517 ha, of which around 307 ha are located in Ho Chi Minh City (HCMC) region and neighboring provinces such as Binh Duong and Dong Nai, which are among the fastest developing economic regions in Vietnam. Most of its projects in the Southeast region of Vietnam are in localities where legal approvals of new real estate development projects had been brisk, and which are well-connected by current and new transportation infrastructure such as Long Thanh International Airport and national highways. Ha An's projects include a fairly diverse mix of mid-to high-end products including land plots, shophouses, townhouses, and condominiums, and its geographical strategic focus on the Southeast region.

We note that Ha An partners with Dat Xanh Real Estate Services Joint Stock Company (DXS) - a subsidiary of DXG and owner of the largest real estate brokerage network nationwide – to execute its project development and sales. According to the company management, DXS provides Ha An with local market insights on market valuation and pricing trends, as well as dedicated sales and marketing support for Ha An's projects. Such synergies have contributed to Ha An's project successes of late.

Ha An's recent projects were mostly successful. For example, it was able to fully pre-sell Opal Boulevard and Opal Skyline projects within six months following project launch, and hand over the units to homebuyers ahead of schedule. Its other project, Gem Sky World, however, experienced hand over delays by around 12 months. According to the company management, these delays have been resolved and around 60% of the project's sold land plots and shophouses had received land ownership certificates.

We assess Ha An's profitability and efficiency as 'Very Strong', underpinned by its track record of high EBITDA (Earnings before interest, taxes, depreciation & amortization) margins of 27-30% over the past 3 years. Its operational efficiency is better than industry-average.

Over the last 3 years, Ha An's revenue was driven by sales of its new residential real estate projects including Opal Boulevard, Gem Sky World, and Opal Skyline. We note that its revenue growth has been quite volatile in recent years, partly due to legal obstacles that resulted in delays in handovers. In 2024, we expect a significant increase in its revenue by around 50% from the prior year, driven by the recognition of contracted sales from its Opal Skyline and Gem Sky World projects following the completion of the handover process.

We position Ha An's leverage and coverage at a 'Below-Average' level, reflecting the company's 'Strong' leverage but 'Very-Weak' coverage level.

Ha An's strong leverage reflects the significant amount of equity capital infused by DXG since 2018 to support the company's capital expenditures and business growth and repay maturing debt. The company's leverage, measured by Debt/EBITDA, improved to 5x in 2023 from 11x in 2022. Its Debt/Equity of 29% in 2023 was much lower than industry average of 76%.

We note that DXG completed another round of equity infusion of VND1,119 billion in Ha An in March 2024. According to the company management, Ha An will use the new capital proceeds to repay the majority of Ha An's (including its subsidiaries) maturing debt in 2024. Coupled with EBITDA growth of 44% in 2024, we expect the company's leverage will improve to around 3x-4x by the end of 2024.

Ha An's very weak coverage is driven primarily by its negative cash flow from operations, which resulted from relatively weaker project sales over the last two years and high level of capital expenditures for new project development. Its CFO (Cash flow from Operations)/Debt was -22% in 2023. Its interest coverage – measured by EBIT (Earnings before interest and taxes)/ Interest expense – was 1.5x in 2023, much lower than the industry average of 2.9x.

Over the next 12-18 months, we expect its weak coverage metrics to improve modestly. We view the cash inflows from a recovery in project sales alongside improving homebuyer sentiment will help to partially meet the company's new capital expenditures.

We understand from the company management that the company's new capital expenditures in 2024 for their ongoing projects - Gem Sky World, Opal Luxury, and Dat Xanh Home Park View - are around VND950 billion, of which we assume 70% to be funded by debt.

We assess Ha An's liquidity risks in 2024 to be largely mitigated by its plan to use proceeds from the recent capital infusion by DXG to repay the majority of maturing debt of VND903 billion. Going forward, its debt repayment capacity will continue to rely on new cash resources, for example through new capital infusions.

Following DXG's recent annual general shareholders meeting, it announced its intention to raise around VND1.8 trillion of new equity capital by issuing new shares to existing shareholders from Q4/2024 to 2025, of which VND1.4 trillion of the proceeds will be used to boost Ha An's capital and repay VND1.3 trillion of debt maturing in 2025. According to the company management, Ha An does not intend to pay any shareholder dividends over the next two years.

We do not incorporate any affiliate support uplift to Ha An's issuer rating. Ha An is DXG's largest subsidiary in terms of assets, and we view DXG to have limited financial resources in other parts of the group that could be available to extend extraordinary support to Ha An.

Ha An'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

Ha An's BBB issuer rating could be upgraded if the company demonstrates a track record of improvement in its operating cash flows and its capacity to service its debt obligations, for example, CFO/ Debt ratio of above 10%, and EBIT/ interest expense ratio of above 4x.

Factors that could lead to a downgrade of the rating

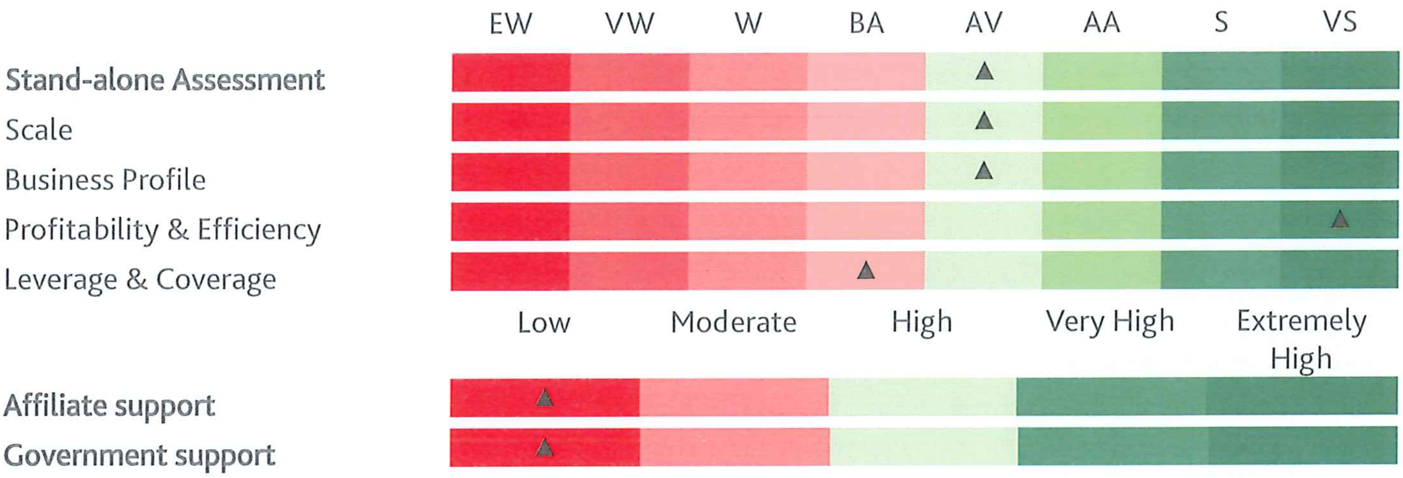
Ha An's BBB issuer rating could be downgraded if (1) the company experiences multiple delays in project completion or handover that may reveal weakness in corporate execution and/or competitive positioning; and/or (2) the company embarks on aggressive business growth that results in further weakening of its leverage and coverage metrics, for example, Debt/ EBITDA ratio exceeding 8x, and/or (3) we view that the company's liquidity risks have increased.

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
Note: EW- Extremely Weak, VW- Very Weak, W- Weak, BA- Below-Average, AV- Average, AA- Above-Average, S- Strong, VS- Very Strong

CREDIT RATING HISTORY

Date	Rating product	Result	Outlook	Action
29 May 2024	Long-term Issuer	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.

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/.

Ha An's ownership stake in VIS rating: 0%

The ownership ratio of Ha An 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 www.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 www.visrating.com for additional regulatory disclosures for each credit rating.

Primary Analysts:
Duong Duc Hieu, CFA - Director - Senior Analyst – email: hieu.duong@visrating.com
Hoang Thi Hien – Associate Analyst – email: hien.hoang@visrating.com

Rating Committee Members:
Simon Chen, CFA - Committee Chairman – email: simon.chen@visrating.com
Nguyen Dinh Duy, CFA – Committee Member – email: duy.nguyen@visrating.com
Phan Thi Van Anh, MSc - Committee Member – email: vananh.phan@visrating.com
Phan Duy Hung, CFA, MBA – Committee Member – email: hung.phan@visrating.com

Vietnam Investors Service and Credit Rating Agency Joint Stock Company
Public Credit Rating Announcement No: VN3702642596-001-290524

M.S.D.N: 0109839192 - C.T.C.P
CÔNG TY
CỔ PHẦN
XẾP HẠNG TÍN NHIỆM
ĐẦU TƯ
VIỆT NAM
Q. BA ĐÌNH - T.P HÀ NỘI

Simon Chen, CFA
Head of Ratings and Research
29 May 2024

CREDIT RATINGS ISSUED BY VIS RATING ARE OUR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, DEBT OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS OR OF ISSUER OF SUCH DEBTS OR FINANCIAL OBLIGATIONS, DEBT SECURITIES, PREFERRED SHARES OR OTHER FINANCIAL INSTRUMENTS IN VIETNAM AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY VIS RATING (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. VIS RATING DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE VIS RATING'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY VIS RATING'S CREDIT RATINGS. APART FROM FUNDAMENTAL RISKS NEEDED TO BE ASSESSED AS REQUIRED UNDER THE VIETNAMESE LAW (INCLUDING DECREE 88/2014 DATED 26 SEPTEMBER 2014 OF THE GOVERNMENT) ON CREDIT RATING SERVICES FROM TIME TO TIME, CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN VIS RATING'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE FOR REFERENCES ONLY AND DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO INVEST INTO, CONTRIBUTE CAPITAL, PURCHASE, SELL, OR HOLD PARTICULAR DEBT INSTRUMENTS OR FINANCIAL INSTRUMENTS. VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. VIS RATING ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY OR DEBT INSTRUMENTS THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY NON-PROFESSIONAL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR NON-PROFESSIONAL INVESTORS TO USE VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN (INCLUDING INFORMATION OF VIS RATING AND/OR THIRD PARTIES WHO LICENSE VIS RATING TO INCORPORATE THE INFORMATION HEREIN ("VIS RATING'S LICENSORS")) IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT PRIOR WRITTEN CONSENT OF VIS RATING OR VIS RATING'S LICENSORS. VIS RATING'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USEDIN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by VIS Rating from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. VIS Rating adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources VIS Rating considers to be reliable including, when appropriate, independent third-party sources. However, VIS Rating is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by VIS Rating.

To the extent permitted by law, VIS Rating and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, VIS Rating or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY VIS RATING IN ANY FORM OR MANNER WHATSOEVER.

VIS RATING MAY MAKE MODIFICATIONS AND/OR CHANGES TO ITS PUBLICATION AT ANY TIME, FOR ANY REASON. HOWEVER, VIS RATING UNDERTAKES NO OBLIGATION (NOR DOES IT INTEND) TO PUBLICLY SUPPLEMENT, UPDATE OR REVISE ITS PUBLICATION ON A GOING-FORWARD BASIS. YOU ASSUME THE SOLE RISK OF MAKING USE OF AND/OR RELYING ON VIS RATING's ASSESSMENTS, OTHER OPINIONS AND PUBLICATION.

VIS Rating maintains policies and procedures to address the independence of VIS Rating's credit ratings and credit rating processes. Information regarding, among others, entities holding more than 5% of the contributed charter capital of VIS Rating, any change to the shareholding ratios of entities holding more than 5% of the contributed charter capital of VIS Rating and a list of rated entities with a credit rating service charge accounting for over 5% of VIS Rating's total revenue from credit rating activities in the fiscal year prior to the time of information disclosure, are posted at www.visrating.com under the heading "Corporate Disclosure.

VIETNAM
INVESTORS SERVICE