

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

Hanoi, 15 May 2025 - VIS Rating has assigned a long-term issuer rating of BBB- to UP Securities Joint Stock Company (UPS). The outlook on UPS's BBB- issuer rating is stable. This is the first time VIS Rating has assigned a rating to UPS.

RATING RATIONALE

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

UPS is a small securities firm in Vietnam, providing brokerage and margin lending services to individuals, and corporate advisory services. Established in 2007, the firm operates on a small scale with total assets of VND330 billion at end-2024 – less than 0.1% of total industry assets. Since the firm underwent a change in its key shareholders in mid-2024, a new management team had been put in place to steer the future strategic growth of the firm. Prior to 2024, the firm had limited business activity.

According to the management, UPS intends to accelerate the growth of its core brokerage and margin lending businesses, its proprietary trading and investments in listed equities and fixed-income instruments, as well as develop its capital market advisory business. A key pillar of the firm's growth strategy is the continuous investment in new technology to develop its online stock and bond trading platform to attract young individual customers. The firm plans to expand its physical operations over time, and strengthen its access to bank and bond financing to fund its expansion.

UPS's profitability reflects its historically lower-than-industry return on average assets (ROAA) and higher-than-industry earnings volatility.

With minimal business activities under previous shareholders over the past five years, UPS's ROAA was at 1.0% on average, much lower than the industry average of 5.5%.

Over the next 12-18 months, UPS plans to boost its core profits by quadrupling its higher-earning assets with a target ROAA of 2.8% in 2026. The firm plans to have 60% of its total assets in margin loans; 20% in fixed-income instruments mainly Term Deposits (TDs), Certificate of Deposits (CDs), Financial Institution (FI) bonds; and 10-15% in listed equities.

As a small firm in the early stages of acquiring new customers, UPS is likely to rely on lowering service fees to attract new brokerage and margin loan borrowers. The firm has identified companies in real estate, construction, renewable energy, and agricultural sectors to provide bond advisory services to. Higher core profits from margin lending, fixed-income operations, and corporate advisory will be offset by operating costs from new technology investment and business expansion.

We expect its earnings volatility will remain high given its small scale of operations. As its income from other new business lines begin to grow, we expect income diversity and stability to improve.

We assess UPS's risk appetite at an "Above-Average" level, reflecting its low exposure to higher-risk assets such as non-FI bonds and unlisted shares, in line with the firm's strategy to prioritize margin loans and treasury activities over the next 12-18 months.

As of 31 March 2025, most of UPS's total assets are cash, TDs and listed equity investments. As the firm accelerates its margin lending and investment activities, it will be critical for the firm to establish strong operational and risk management practices to manage credit and market risks prudently.

According to the management, given the firm's modest capital level, UPS will refrain from underwriting large corporate bonds deals, and instead invest in bank bonds and CDs for treasury activities over the next 12-18 months.

We position UPS's funding and liquidity at an "Average" level, reflecting its small scale that limits its access to new funding sources.

As of end-2024, UPS's total funding consisted primarily of total equity. According to the management, UPS is actively working with several domestic banks to obtain new credit facilities on both secured and unsecured basis. We note that large firms in Vietnam typically have established a track record of securing clean credit lines from domestic and foreign banks, which adds to the resilience of their funding and liquidity during market volatility.

As of 31 March 2025, UPS's inflow-to-outflow ratio was at 204%, higher than the industry average, as the firm maintained minimal business activities and significant cash balances over the last five years. If the firm's business expands as planned, we expect its liquidity buffer to recede over time.

We assess UPS's leverage at an "Above-Average" level, reflecting the firm's lower-than-peers use of borrowings. UPS's leverage ratio increased to 1.6x in 3M2025 from 1.0x in end-2024, as the firm increased its holdings of listed equities and Certificate of Deposits.

According to the management, UPS plans to raise new equity as well as borrowings to fund its business expansion. It plans to raise up to VND 320 billion of new equity in 2025. It is also prepared to operate at higher leverage of 2-3x. The firm plans increase bank borrowings and issue VND 300 billion worth of two-year unsecured bonds in 2025.

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

The outlook on UPS'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

UPS's BBB- rating could be upgraded if (1) the company demonstrates a track record of improving the profitability of its core businesses on a sustainable basis, for example, through the organic growth of its customer base and business activity, and achieving ROAA of 3.5% or higher; and (2) the company pursues business expansion prudently by strengthening its loss absorption buffer, for example leverage ratio of 2x or lower on a consistent basis.

Factors that could lead to a downgrade of the rating

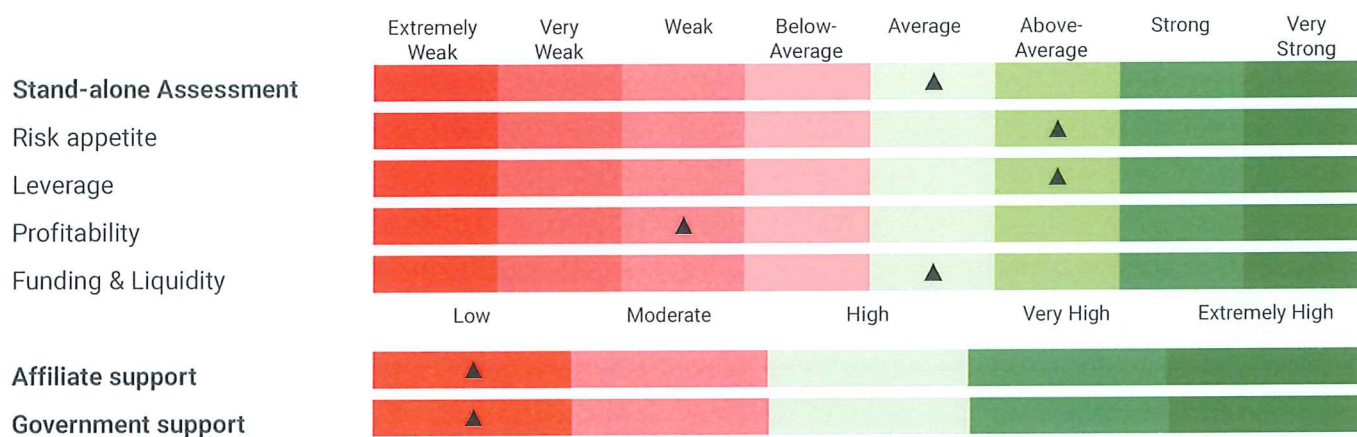
UPS's BBB- rating could be downgraded if (1) the company's exposure to higher-risk assets increases substantially, for example, through operational and credit issues with its margin loans or exposure to non-FI corporate bonds and unlisted shares; or (2) leverage increases significantly as a result of aggressive asset growth, leading to a severe deterioration to its loss absorption buffer, for example, leverage ratio of 3x; or (3) the profitability of its core businesses worsens continuously, and pointing to weakness in business franchise and significant operational challenges; or (4) the company becomes increasing vulnerable to liquidity risks and does not hold sufficient liquid assets to cover its short-term obligations, for example, liquidity ratio below 100% on a consistent basis.

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
15 May 2025	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

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

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