VIETNAM INVESTORS SERVICE

RATING ANNOUNCEMENT
15 May 2025

VIS Rating assigns first-time A+ issuer rating to MB Securities Joint Stock Company, stable outlook

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

RATING RATIONALE

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

MBS is 76.35% owned by Military Joint Stock Commercial Bank (MBB), a large commercial bank in Vietnam. MBB with its key subsidiaries, including MBS, create a cohesive group of companies that works together to serve customers with a comprehensive suite of financial products and solutions. Among the subsidiaries of MBB, MBS has historically been the top contributor of group profits.

Since its establishment in 2000, MBS has leveraged MBB's extensive nationwide physical operations and customer network to expand its core businesses. Today, MBS is among the ten largest securities firms by total assets in Vietnam and consistently ranked among top 10 in brokerage market share over the years. Its core businesses include securities brokerage (contributing 6.5% of operating income in 2024), margin lending (59.2%), and investments in financial instruments (30.8%). Similar with other large firms in Vietnam, MBS has expanded its fixed income operations in recent years, focusing on the advisory of corporate bond issuances, and distribution of the issued bonds.

We position MBS's profitability at an 'Above-Average' level, to reflect its track record of stronger-than-peer return on average assets (ROAA).

During 2020-2024, the firm's average ROAA was at 4.9%, higher than the peer average of 4.7%, driven by robust growth in margin lending and higher lending yields. MBS was able to capitalize on its strong retail customer base and maintain a lending yield of 11.2% on average, higher than the peer average of 10.8%.

MBS's income structure is fairly diversified, and hence, exhibits lower-than-industry-average earnings volatility[1].

Over the past 3 years, income from margin lending made up the majority of MBS's operating profit. Its income from investments in financial instruments – mainly related to investments in certificates of deposits (CDs), term deposits (TDs) as part of its treasury management – is relatively stable.

According to the management, MBS plans to increase its asset yields by holding more higher-yield corporate bonds. Coupled with stronger growth of margin loans amid robust market sentiment, we expect MBS's ROAA to improve over the next 12–18 months.

MBS also plans to further invest in digitalization to boost productivity gains, as well as attract new customers through new digital products. According to the management, the digital transformation has allowed MBS to reduce its back-office headcount by 30%-40% and increase productivity by 26% in 2024.

We assess MBS's risk appetite at an 'Average' level, incorporating the firm's plan to increase corporate bond holdings. Around 6% of its total assets are held in non-FI corporate bonds in 1Q2025, lower than the industry average of 16%.

The firm's corporate bond portfolio consisted of bonds issued by real estate and power sector companies, as the firm leveraged on the parent bank's corporate customers to provide advisory services. We note that some issuers were highly

[1] Pre-tax earning 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.

leveraged and experienced cash flow difficulties, either stemming from legal obstacles that disrupted their operations or from severe impacts caused by the property market downturn.

According to the management, MBS plans to apply stringent customer selection standards for bond advisory and investments as it expands its investment in financial instruments over the next 12-18 months. The firm will prioritize corporate bond investments that are appraised and have collateral managed by MBB.

Asset risks from margin loans are historically well-managed with limited overdue margin loans over the years, low credit concentration, and its well-established margin call and collateral management process. According to the management, credit losses are mitigated through early repayment reminders and an automatic force-sell process.

We assess MBS's funding and liquidity at an 'Above-Average' level, reflecting its sizable liquid asset buffer to meet short-term obligations, well-diversified funding mix, a proven track record of raising funds both offshore and onshore.

Overall, the firm's liquidity risks arising from higher-than-peers use of short-term debts are well-managed, as MBS maintains sizeable short-term liquid assets including TDs and CDs. Over the last 3 years, MBS's short-term borrowings made up 58% of the firm's total assets, above industry average of 46%. Its liquid assets buffers made up 37% of total assets as of 2024, above industry average of 30%. At end-2024, MBS's inflow-to-outflow ratio reached 97%, similar to most peers.

As a large securities firm, MBS currently maintains sizeable credit facilities, including clean lines from various local banks to support business expansion. MBS also obtained syndicated, bilateral loans from several foreign banks from Korea, Taiwan, and Hong Kong. According to the management, MBS will also diversify its funding structure from other borrowing sources, such as bond issuance.

MBS plans to issue up to MBS 2 trillion worth of senior unsecured bonds in 2025 and 2026 to support asset growth. If successful, the additional medium and long-term funding will improve MBS's funding stability.

We position MBS's leverage at an 'Average' level, reflecting its higher-than-peers use of short-term borrowings to support strong asset growth, as well as its lower capital raise.

MBS's leverage ratio[2] increased to 3.2x by end-2024 from 2.4x in 2022, above peers' average of 2.5x. Over the last three years, MBS's new capital raised made up 42% of its average total equity, lower than the industry average of 60%.

According to the management, the firm plans to raise new capital of VND 773 billion in 2025 and also pay a cash dividend of VND 687 billion. As such, any new capital to support growth in core margin lending will be limited. We note that MBS's margin lending-to-total equity ratio averaged 165% over the past five years, compared to the regulatory threshold of 200%.

Overall, we expect MBS's leverage to be stable over the next 12-18 months, as improving profitability and retained earnings will support its annual asset growth of 15%.

MBS's issuer rating incorporates an uplift for affiliate support. We incorporate a high likelihood of affiliate support from MBB to MBS – its key subsidiary. This is underpinned by MBB's significant ownership stake in MBS, MBS's strategic importance to MBB, the sharing of the same corporate brand by MBB and MBS, as well as the high level of integration in the ongoing strategic planning and execution of MBB and MBS. We view MBB's capacity to support its key subsidiaries to be strong.

The outlook on MBS'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

MBS's A+ rating could be upgraded if (1) the firm raises new capital to strengthen its loss-absorption buffers, for example, its leverage ratio drops to 2.3x on a sustainable basis, or (2) MBB's standalone credit profile improves substantially, and in turn, increases its capacity to provide support to MBS in times of need.

Factors that could lead to a downgrade of the rating

MBS's A+ rating could be downgraded if (1) it increases its holdings of high-risk assets substantially, heightening the likelihood of balance sheet losses and a significant deterioration of the firm's loss absorption buffer; or (2) the firm becomes increasingly vulnerable to liquidity risks, for example, liquid assets decline substantially and may not sufficient to cover its short-term obligations; or (3) we assess MBB's capacity or willingness to support to have fallen substantially.

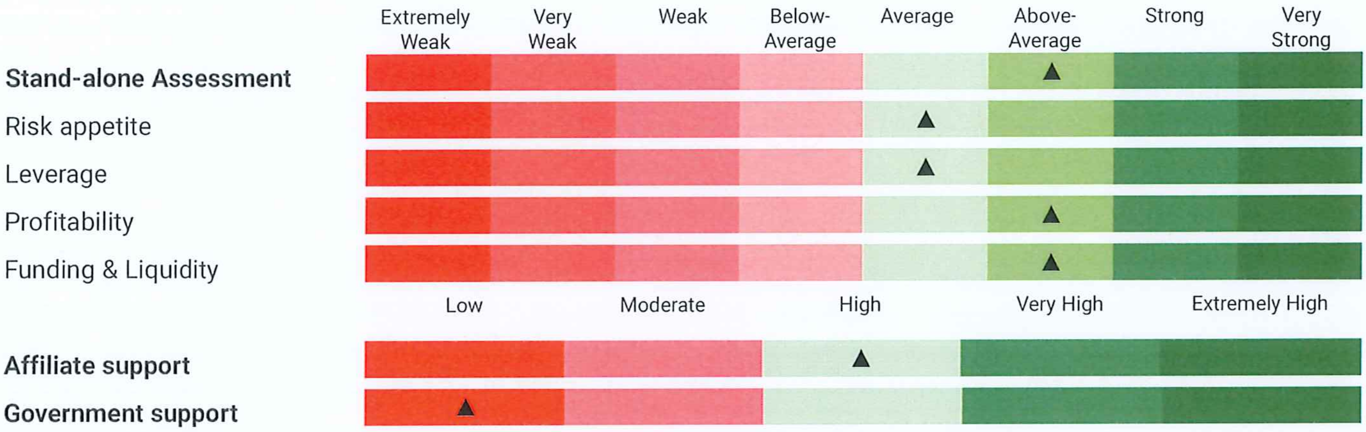
[2] Leverage ratio is measured by total tangible assets and off-balance-sheet exposures over tangible common equity.

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
15 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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This rating is solicited.

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Primary Analysts:
Nguyen Duc Huy, CFA – Associate Analyst – email: huy.nguyen@visrating.com

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

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

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