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ENLIGHTEN THE MARKET

Corporate Rating Methodology

Updated August 2024

Executive Summary

This publication has been developed by FiinRatings and substantially revised by S&P Global Ratings' experts. This publication presents FiinRatings' methodology for assigning issuer credit ratings (ICRs) on non-financial corporates in Vietnam and is intended as a general guidance to help companies, investors and other market participants to understand how FiinRatings looks at quantitative and qualitative factors in explaining rating outcomes.

- The criteria organize the analytical process according to a common framework and articulate the steps in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for non-financial corporates in accordance with international standards.
- FiinRatings uses a principle-based approach for assigning and monitoring ratings nationally, which is in accordance with international standards. These broad principles apply generally to ratings of all types of corporates and asset classes. However, for certain types of issuers and issues, FiinRatings complements these principles with specific methodologies and assumptions.
- FiinRatings assigns credit ratings to both issuers and issues and strives to maintain comparability of ratings across sectors and over time. That is, FiinRatings intends for each rating symbol to connote the same general level of creditworthiness for issuers and issues in different sectors and at different times nationally.
- FiinRatings' approach to rating non-financial corporates involves a comprehensive assessment of several parameters. Some core parameters are considered to have a high influence on the credit quality of a non-financial corporates , while others are considered supplementary parameters. FiinRatings takes a forward-looking view on the performance of the non-financial corporates on these parameters while evaluating its rating.
- If you have any question or concern, please contact our Customer Support Team at https://fiingroup.vn/ContactUs, or email fiinratings@fiingroup.vn.

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THE RATED UNIVERSE

This methodology introduces FiinRatings' analytical process rating non-financial corporate entities. This methodology does not apply to the following sectors, based on the unique characteristics of these sectors, which require either a different framework of analysis or substantial modifications to one or more factors of analysis: project finance entities, project developers, commodities trading, investment holding companies and companies that maximize their returns by buying and selling equity holdings over time, corporate securitizations, non-profit and cooperative organizations (other than agricultural cooperatives, and other entities whose cash flows are primarily derived from partially owned equity holdings).

ISSUER AND ISSUE RATING

Issuer Credit Ratings

A FiinRatings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the counterparty credit ratings. Sovereign credit ratings and corporate credit ratings are all forms of issuer credit ratings.

Issue Ratings

A FiinRatings issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation as well as the currency in which the obligation is denominated. The opinion reflects FiinRatings ' view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default..

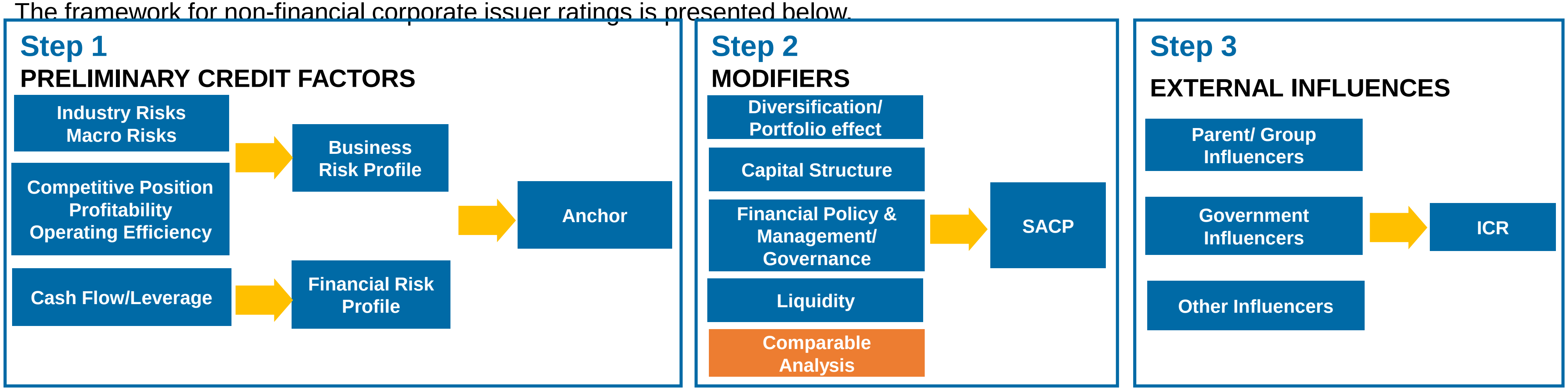
Corporate Issuer Credit Rating Framework

FiinRatings, together with close support of S&P Global Ratings' experts, has developed its rating criteria for non-financial corporate sector in Vietnam market.

We analyze an entity's business risk profile, then evaluate its financial risk profile, then combine those to determine an entity's anchor. We then may analyze additional factors that could potentially affect our anchor conclusion. To be specific, the methodology consists of determining, in the following order:

- The anchor: The anchor is determined by the combined assessment of the corporate issuer's business risk profile and its financial risk profile.
- The SACP: The SACP is the anchor adjusted for the impacts of additional factors: diversification, capital structure, financial policy, liquidity, and management and governance. The analysis of these factors can raise or lower the anchor or have no effect. We may also conduct a comparable ratings analysis, which may raise or lower the anchor, based on a holistic view of the entity's credit characteristics.
- The ICR: The ICR results from the combination of the SACP and any support framework, which determines the extent of the difference between the SACP and the ICR, if any, for group or government influence.

The framework for non-financial corporate issuer ratings is presented below.



Source: FiinRatings

Note:

- *The Anchor: The Business Risk and Financial Risk that the Issuer faces*
- *The Stand-Alone Credit Profile ("SACP"): an issuer's creditworthiness in the absence of intervention*

Step 1: Building the Anchor

The first step to determine the anchor for the entity, by combining the assessment of Business Risk Profile (BRP) and Financial Risks Profile (FRP).

To determine an entity's business risk profile, the methodology combines our analysis of industry risk and competitive position. The analytic factors within the business risk profile generally are a blend of qualitative considerations and quantitative information. Qualitative assessments distinguish risk factors, such as an entity's competitive advantages, that we use to consider its competitive position. Quantitative information includes, for example, the historical cyclicality of revenue and profits that we review when assessing industry risk.

The financial risk profile is the outcome of decisions that management makes in the context of its business risk profile and its financial risk tolerances. Leverage is typically considered to determine an entity's financial risk profile the analysis focuses on quantitative measures.

MATRIX TO DETERMINE COPORATE ANCHOR

Business profile	Financial risk profile					
	Minimal	**Modest**	**Intermediate**	**Significant**	**Aggressive**	**Highly leveraged**
Excellent	AAA/AA+	AA	A+/A	A-	BBB	BBB-/BB+
Strong	AA/AA-	A+/A	A-/BBB+	BBB	BB+	BB
Satisfactory	A/A-	BBB+/BBB	BBB/BBB-	BBB-/BB+	BB	B+
Fair	BBB/BBB-	BBB-	BB+	BB	BB-	B
Weak	BB+	BB+	BB	BB-	B+	B/B-
Vulnerable	BB-	BB-	BB-/B+	B+	B	B-

FINANCIAL RISK PROFILE (FRP)

Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged

Leverage & Coverage assessment via core ratios to determine the preliminary cash flow assessment, then adjust via the supplementary ratios

BUSINESS RISK PROFILE (BRP)

Excellent	Strong	Satisfactory	Fair	Weak	Vulnerable

Matrix to determine Business Risk Profile

COMPETITION POSITION	INDUSTRY RISK					
	Very low risk	**Low risk**	**Intermediate risk**	**Moderately high risk**	**High risk**	**Very high risk**
Excellent	Excellent	Excellent	Excellent/Strong	Excellent/Strong	Satisfactory	Weak
Strong	Excellent	Strong	Strong/Satisfactory	Strong/Satisfactory	Satisfactory/Fair	Weak
Satisfactory	Strong	Satisfactory	Satisfactory	Satisfactory	Fair	Vulnerable
Fair	Satisfactory	Fair	Fair	Fair	Weak	Vulnerable
Weak	Fair	Weak	Weak	Weak/Vulnerable	Vulnerable	Vulnerable
Vulnerable	Weak	Vulnerable	Vulnerable	Vulnerable	Vulnerable	Vulnerable

INDUSTRY RISK

Revenue and Profitability Cyclicality	Industry's Competitive risk and growth

ENTITY'S COMPETITIVE POSITION

Competitive advantage	Scale, scope and diversity	Profitability	Operating efficiency

Step 2: Assessment of Modifiers: *Diversification/ Portfolio effect*

Diversification/portfolio effect is the modifier that applies only to companies that we regard as conglomerates. They are companies that have multiple core business lines that may be operated as separate legal entities.

Sub step 1: Assessment of Diversification/ Portfolio effect			
Degree of correlation of business lines	Number of business lines		
	3	4	5 or more
High	Neutral	Neutral	Neutral
Medium	Neutral	Moderately diversified	Moderately diversified
Low	Moderately diversified	Significantly diversified	Significantly diversified

For the purpose of these criteria, we define a conglomerate as a diversified company that is involved in several industry sectors. A conglomerate would have at least three business lines, each contributing a material source of earnings and cash flow. In rating a conglomerate, we first assess management's commitment to maintain the diversified portfolio over a longer-term horizon.

The criteria aim to measure how diversification, or the portfolio effect could improve the anchor of a company with multiple business lines. This approach helps us determine how the credit strength of a corporate entity with a given mix of business lines could improve based on its diversity. The competitive position factor assesses the benefits of diversity within individual lines of business. This factor also assesses how poorly performing businesses within a conglomerate affect the organization's overall business risk profile.

We expect that a conglomerate will also benefit from diversification if its core assets consistently produce positive cash flows over our rating horizon. This supports our assertion that the company diversifies to take advantage of allocating capital among its business lines. To this end, our analysis focuses on a conglomerate's track record of successfully deploying positive discretionary cash flow into new business lines or expanding capital-hungry business lines. We assess companies that we do not expect to achieve these benefits as neutral.

We determine the assessment for this factor based on the number of business lines in separate industries and the degree of correlation between these business lines. There is no rating uplift for an issuer with a small number of business lines that are highly correlated. By contrast, a larger number of business lines that are not closely correlated provide the maximum rating uplift. The degree of correlation of business lines is high if the business lines operate within the same industry. The degree of correlation of business lines is medium if the business lines operate within different industries but operate within the same geographic region. An issuer has a low degree of correlation across its business lines if these business lines are both (i) in different industries and (ii) either operate in different regions or operate in multiple regions.

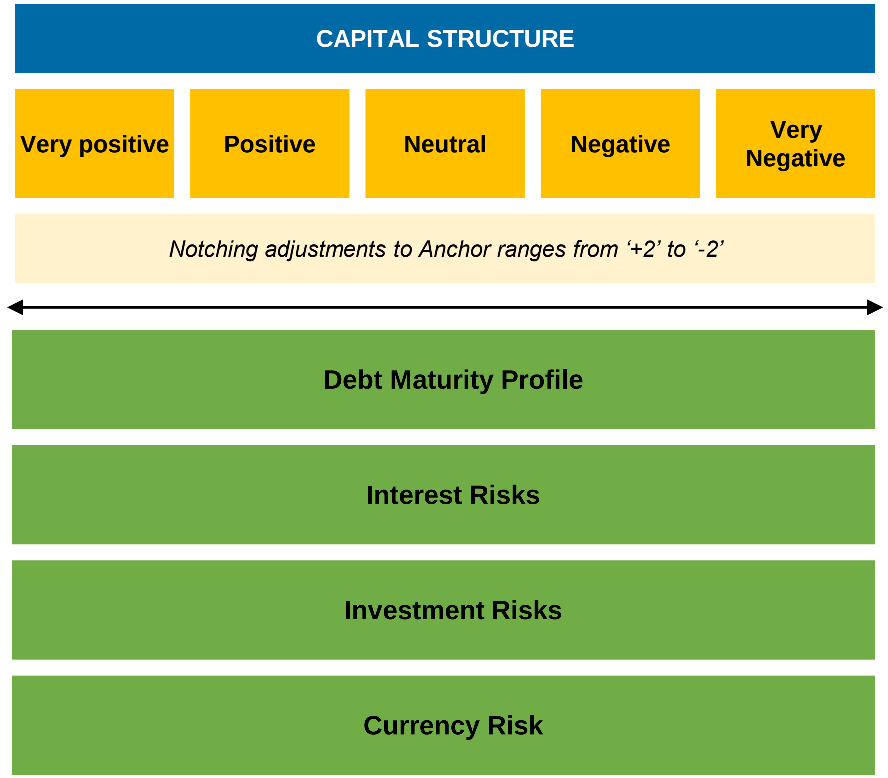
Step 2: Assessment of Modifiers (Cont.): *Capital structure*

FiinRatings uses its capital structure criteria, the second modifier, to assess risks in a company's capital structure that may not show up in our FRP measured by Cash flow/ Leverage. These risks may exist as a result of maturity date or other mismatches between an entity's sources of financing and its assets or cash flows.

FiinRatings considers the following factors that may not be adequately captured in our leverage analysis:

- Debt maturity profile: we consider refinance risks or benefits beyond the horizon we typically consider in our liquidity analysis;
- Debt interest rate risk: we could view this risk as negative if interest rate movements could lead to material weakening of leverage due to an entity's mix of fixed versus floating rate debt;
- Investments: We view material, nonstrategic investments that could be readily monetized as flexibility that could enhance an issuer's credit quality; and
- Debt currency risk: we could view this risk as negative when exchange rate movements could lead to weakening leverage metrics due to unhedged foreign exchange risk.

FiinRatings considers the above factors in totality when arriving at an assessment of capital structure as positive or negative, which may adjust the anchor up or down, respectively. A neutral capital structure has no effect on the anchor.



Step 2: Assessment of Modifiers (Cont.): *Liquidity*

Our assessment of liquidity, the third modifier, focuses on the monetary flows (the sources and uses of cash) that are the key indicators of a company's liquidity cushion.

The liquidity analysis typically considers the potential for an entity to breach any covenant tests, as well as its ability to absorb high-impact, low-probability events, the nature of the entity's bank relationships, its standing in credit markets, and how prudent (or not) we believe its financial risk management to be.

Liquidity does not usually provide uplift to a rating, but in some cases may be the driving factor of relatively low ratings. We consider quantitative and qualitative factors when analyzing liquidity and may assess liquidity as sufficient or insufficient. The most important reflection of liquidity is generally in the quantitative measure of sources to uses. In periods of increasing stress, where an entity has flexibility to reduce planned cash outflows (for instance, growth capital expenditures), we may account for such a reduction when we believe management will behave accordingly.

LIQUIDITY				
Exceptional	**Strong**	**Adequate**	**Less than adequate**	**Weak**
Notching adjustments to Anchor range from '+1' to '-2'				

Liquidity Sources	*Generally, liquidity sources over a given time period include cash and liquid investments less any taxes or expected discounts on realization; forecasted cash from operations if positive; proceeds from contracted asset sales; undrawn and available portion of available and reliable credit lines; explicit quantifiable support from a parent, government, or related affiliate support.*
Liquidity Uses	*Uses of liquidity typically include forecasted cash from operations if negative; expected capital expenditures; all debt maturities either recourse to the company or which it is expected to support, including commercial paper; contracted acquisitions and expected shareholder distributions; and any cash calls that are likely to be triggered due to a covenant breach or other trigger.*

Step 2: Assessment of Modifiers (Cont.): *Financial policy, Management & Governance*

Financial policy, Management & Governance analysis is the third analytical factor to determine the final SACP under the methodology.

Financial policy:

Financial policy refines the view of a company's risks beyond the conclusions arising from the standard assumptions in the “Cash flow / leverage” assessment. The cash flow/leverage assessment will typically factor in operating and cash flows metrics we observed from historical performance and the trends we expect to see for the coming few years based on operating assumptions and predictable financial policy elements.

The financial policy assessment is a measure of the degree to which owner/managerial decision-making can affect the predictability of a company's financial risk profile. We assess an entity’s financial policy via the evaluation of the management’s financial discipline and financial policy framework. The former assessment is based on management's leverage tolerance and the likelihood of event risk. The later assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies. This will help determine whether there is a satisfactory degree of visibility into the issuer's future financial risk profile. Companies that have developed and sustained a comprehensive set of financial policies are more likely to build long-term, sustainable credit quality than those that do not.

Management & governance:

The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the company's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. Stronger management of important strategic and financial risks may enhance creditworthiness.

FINANCIAL POLICY		
Positive	**Neutral**	**Negative**
The financial policy assessment is the combination of assessing the entity’s (i) financial policy framework and (ii) financial discipline.		

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MANAGEMENT AND GOVERNANCE					
Strong		**Satisfactory**	**Fair**		**Weak**
Management			**Governance**		
Positive	**Neutral**	**Negative**	**Neutral**		**Negative**
1. Strategic planning process 2. Consistency of strategy with organizational capabilities and marketplace conditions 3. Ability to track, adjust, and control execution of strategy 4. Comprehensiveness of enterprise-wide risk management standards and tolerances 5. Financial policy 6. Operational performance 7. Management’s operational effectiveness 8. Management’s expertise and experience 9. Management’s depth and breadth			*1. Board effectiveness 2. Entrepreneurial or controlling ownership 3. Management culture 4. Regulatory, tax, or legal infractions 5. Communication of message 6. Internal controls 7. Financial reporting and transparency*		

Step 2: Assessment of Modifiers (Cont.): *Comparable Analysis*

Comparable ratings analysis is the last analytical factor under the methodology to determine the final SACP on an entity, and this considers the overall credit quality of the entity and its position against peers.

This analysis can lead us to raise or lower our anchor, based on our overall analysis of its credit characteristics for the factors we have considered in arriving at the SACP. This involves taking a holistic review of an entity's SACP, in which we evaluate an entity's credit characteristics in aggregate and consider any factors not already captured. The application of comparable ratings analysis reflects the need to "fine-tune" ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional. The SACP may be notched up/down by one notch or remain unchanged.

Generally, we compare an entity with all other entities in the same sector and country of domicile. More specifically, the peer group is typically corporates that are in the same sector and have similar SACPs (i.e., the same or one notch higher or lower). However, the peer groups may include others. For example:

- The peer group may include companies in the same sector but in different countries if there's an insufficient number of domestic peers or because regional or global peers form a better comparison.
- The peer group may include companies from other sectors when the entity's business overlaps with or is adjacent to other sectors.

Step 3: Assessment of External Influencers

After determining the SACP, FiinRatings then factor in any potential external influences on an entity to determine the ICR.

The criteria address a key area of "External support" in Framework. One of the main rating considerations is the potential for support (or negative intervention) from the parent company or group.

The criteria articulate the steps in determining an issuer credit rating (ICR) or financial strength rating (FSR) on a member of a corporate or financial services group. This involves assessing the group's overall creditworthiness, the stand-alone credit profile of group members, and the status of an entity relative to other group members and the parent company.

Step 1
Identify the members of a group.

Step 2
Determine a GCP for the group.

Step 3
Assess group status of group members:
- Core;
- Highly Strategic;
- Strategically Important;
- Moderately Strategic;
- Nonstrategic.

Step 4
Determine the SACP (if required) of relevant group members.

Step 5a
Assign a potential ICR based on group rating methodology.

Step 5b
Assign a potential ICR based on government-support criteria.

Step 5c
Assign a potential ICR, based on a credit-substitution guarantee (if any).

Step 5d
Take the highest of the four potential ICRs from steps 5a, 5b, or 5c, or from applying ALAC criteria.

Step 6
Apply constraints to the potential ICR (e.g T&C assessement) to derive the final ICR.

GCP: *Group credit profile*
SACP: *Stand-alone credit profile*
ALAC: *Additional loss-absorbing capacity*
T&C: *Transfer and convertibility*

Issue Credit Rating Framework

Once we have Issuer Credit Rating, we can proceed to rate an Issue.

- **Issuer ratings:** General estimate of the creditworthiness of the Company
- **Issue ratings:** Specific rating for a financial instrument (e.g., corporate bond, unsecured debt instruments)
- **The issue ratings** = Issuer ratings +/- Issue notching factors *(Qualitative and Quantitative factors)*

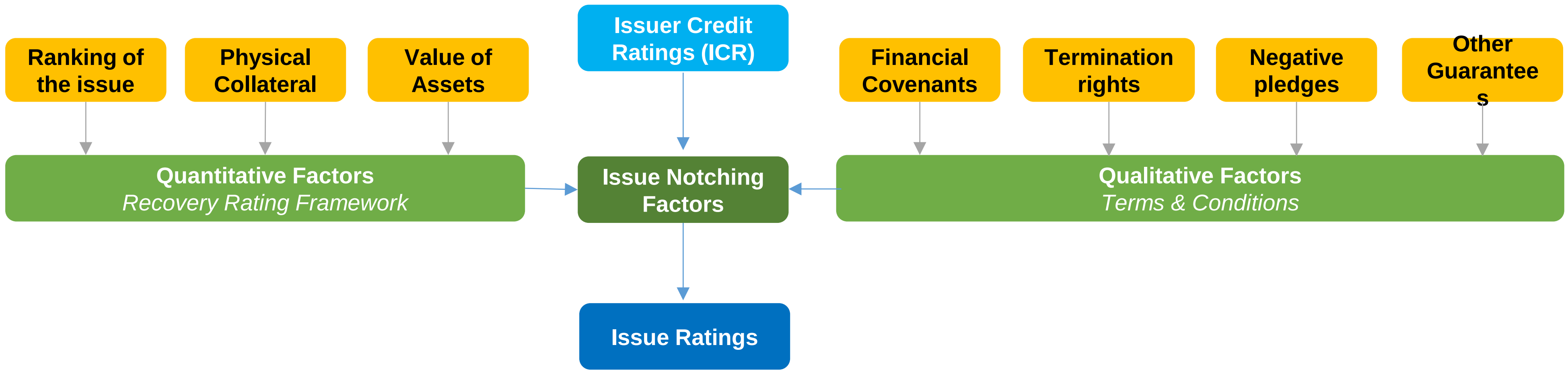
Issue Credit Ratings Framework

Issue credit ratings are based, in varying degrees, on S&P Global Ratings' analysis of the following considerations:

- The likelihood of payment--the capacity and willingness of the obligor to meet its financial commitment on a financial obligation in accordance with the terms of the obligation;
- The nature and provisions of the financial obligation, and the promise we impute; and
- The protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangements under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

The issuer ratings could be notched up or not notched down maximum 3 notches (1 category) to produce the final issue ratings.



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