

PC1 Group (PC1)

Earnings growth driven by nickel sales & real estate

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EPC and industrial production revenue should improve in 2H23 following the approval of the National Power Development Plan VIII

In 1Q23, PC1 Group (PC1) recorded the total revenue of EPC contracts and industrial production of VND552 billion (-12% YoY) as investors pushed back the project implementation due to bottlenecks during the approval of National Power Development Plan (NPDP) VIII. As the legal corridor has been cleared, we expect the backlog to be quickly implemented and bring in revenue of VND4,795 billion for the whole year.

Hydropower sales volume was impacted by El Nino but improved in June 2023

Hydropower sales volume plummeted 50% YoY in 1Q23, causing hydropower and renewable energy revenues to narrow 59% and 15% YoY, respectively. We foresee electricity trading will decline slightly in 2Q23 on lower hydropower sales volume due to low water levels at reservoirs and expect a recovery in 3Q23 as there have been signs of improvement in June 2023.

PC1 earned from management and operation of Nomura IP in 1Q23; nickel plant in Cao Bang began operation in April 2023

Revenue from the management and operation of Nomura Industrial Park – Hai Phong amounted to VND120 billion in January–March. Management shared a plan to expand phase 2 of this project and install a rooftop solar power system, with an estimated CAPEX of VND2,500 billion and VND100 billion, respectively. Nickel mining in Cao Bang began in April 2023, and PC1 estimates the raw output in 2Q23 is 8,700 tons with concentrates accounting for 8–10%, bringing in VND137 billion in revenue in the second quarter.

We recommend BUY for PC1 with a target price of VND32,600/share

We recommend BUY for PC1 with a target price of VND32,600/share, equivalent to a 16% upside compared to the closing price on June 22, 2023.

Buy maintain

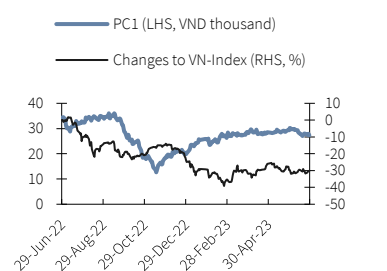
Target price	VND 32,600
Upside	16%
Current price (Jun 22, 2023)	VND 28,000
Consensus target price	VND 33,900
Market cap (VNDtn/USDbn)	7.4/0.3

Trading data	
Free float	60%
3M avg trading value (VNDbn/USDmn)	54.6/2.3
Foreign ownership	7.15%
Major shareholder	49.81%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7%	-4%	37%	-21%
Relative	-11%	-10%	26%	-13%

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	9,828	8,333	9,436	10,321
Operating income (VNDbn)	905	638	987	1,044
NPAT of parent company (VNDbn)	695	450	694	941
EPS (VND)	2,956	1,664	2,565	3,479
EPS growth (%)	0%	-44%	54%	36%
P/E (x)	11.6	12.1	10.6	7.8
P/B (x)	1.6	0.9	1.1	1.0
ROE (%)	13%	7%	9%	11%
Dividend yield (%)	0%	0%	0%	0%



Business performance

Table 1. PC1 – 1Q22–1Q23 business results

(VNDbn)	1Q22	1Q23	%YoY	4Q22	1Q23	%QoQ	Comments
Revenue	1,478	1,505	2%	2,339	1,505	-36%	
Power construction	367	464	26%	1,452	464	-68%	1Q23 EPC revenue is up 26% YoY as 1Q is normally out of season.
Industrial production	257	88	-66%	95	88	-7%	Industrial production continued to face difficulties in 1Q23 (-66% YoY) with many projects signed but not yet implemented.
Renewable energy	457	389	-15%	554	389	-30%	Renewable energy revenue contracted 15% YoY as hydropower was impacted by El Nino, causing a decrease in sales volume.
Residential real estate	66	0	-100%	53	0	-100%	
IP sales	0	120		0	120		PC1 booked revenue from management and operation of Nomura Industrial Park - Hai Phong.
Sales of goods and provision of services	383	437	14%	1,013	437	-57%	
Cost of goods sold	-1,128	-1,198	6%	-1,851	-1,198	-35%	
Gross profit	350	308	-12%	508	308	-39%	
Power construction	28	44	58%	13	44	237%	EPC gross margin improved to 9.5% in 1Q23 (vs 7.6% in the same period).
Industrial production	19	2	-89%	52	2	-96%	Fluctuations in raw material prices and high transportation costs caused a sharp drop in gross profit margin of the industrial production segment.
Renewable energy	286	223	-22%	298	223	-25%	The gross profit margin of the renewable energy segment decreased due to shrinking revenue and changes in hydropower and wind power revenue contribution.
Residential real estate	4	0	-100%	27	0	-100%	
IP sales	0	21		0	21		
Sales of goods and provision of services	13	18	38%	0	18		
<i>Gross profit margin</i>	23.7%	20.4%	-14%	22%	20%	-6%	
Financial income	15	65	325%	42	65	53%	
Financial expense	-121	-212	75%	-163	-212	30%	
Interest expense	-112	-202	81%	-203	-202	-1%	Interest expense plummeted 81% due to surging short-term loans to supplement working capital and rising long-term loans to invest in the nickel factory in Cao Bang.
Shared profits from associates (2015)	6	4	-40%	-18	4	-121%	
SG&A	-55	-67	22%	-68	-67	-1%	
<i>SG&A margin</i>	3.7%	4.4%	0.7%	2.9%	4.4%	1.6%	
Operating income	196	98	-50%	301	98	-68%	
Net other income	-12	-13	14%	-7	-13	98%	
Shared profits from associates	0	1		0	1		
Profit before tax (PBT)	184	84	-54%	294	84	-71%	
PBT margin	12.4%	5.6%	-7%	12.6%	5.6%	-7%	
Corporate income tax	-4	-5	17%	-19	-5	-73%	
NPAT	179	79	-56%	275	79	-71%	
NPAT margin	12.1%	5.3%	-7%	11.8%	5.3%	-7%	
NPAT of parent company	133	15	-89%	188	15	-92%	1Q23 NPAT dropped sharply due to surging minority interest.
NPAT of parent company margin	9.0%	1.0%	-8%	8.0%	0.0	-7%	

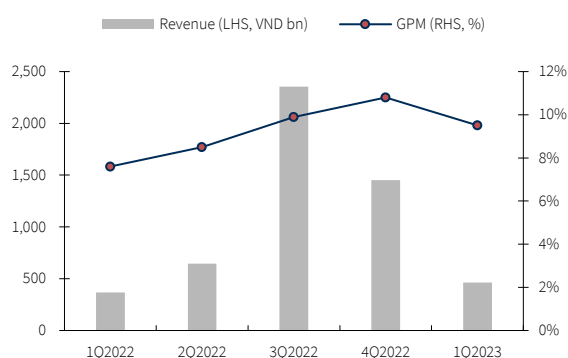
Source: PC1 Group, KB Securities Vietnam

EPC and industrial production revenue reached VND552 billion (-12% YoY) in 1Q23 as the approval of Power Development Plan VIII prolonged

In 1Q23, EPC revenue reached VND464 billion (+26% YoY) despite the effect of low season for the construction industry. The gross profit margin was 9.5% vs. 7.6% in 1Q22. We expect the figure to increase to 11% for 2023F thanks to the growing demand for investing in and implementing future renewable energy projects in the remaining months of the year following the approval of NPDP VIII. In the first quarter, the new contract value touched VND700 billion, taking the backlog to VND3,887 billion. By mid-June 2023, new contracts worth VND1,600 billion.

For industrial production, gross profit and net revenue in 1Q23 contracted to VND2 billion (-89% YoY) and VND88 billion (-66% YoY), respectively. Lower performance was due to (1) signed yet not-implemented projects and (2) fluctuations in raw material prices and freight rate increases, causing the gross profit margin to decline.

Fig 1. PC1 – Revenue & gross profit margin of power construction (VNDbn, %)



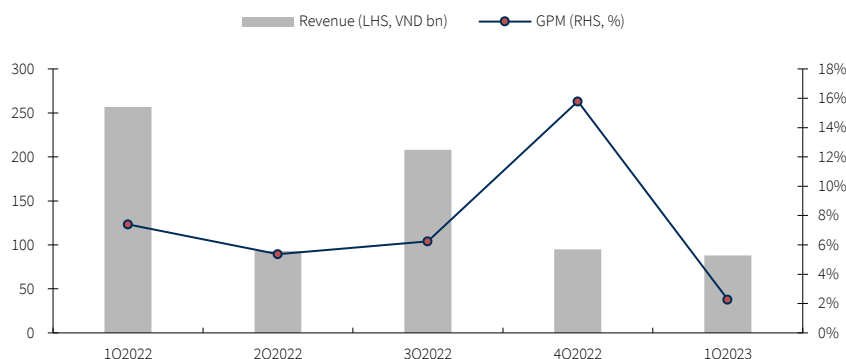
Source: PC1 Group, KB Securities Vietnam

Fig 2. PC1 – New contract value & backlog (VNDbn)



Source: PC1 Group, KB Securities Vietnam

Fig 3. PC1 – Revenue & gross profit margin of industrial production (VNDbn, %)

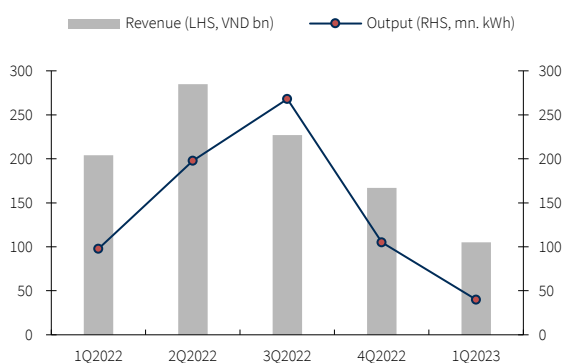


Source: PC1 Group, KB Securities Vietnam

Hydropower revenue was adversely impacted by El Nino, while wind power revenue remained stable and may increase slightly in 2Q23

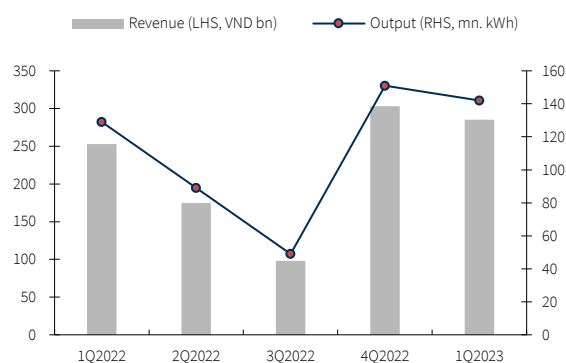
In January–March, hydropower and wind power revenue reached VND105 billion (–49% YoY) and VND285 billion (+12% YoY). Hydropower sales volume in 1Q23 reached 40 million kWh (–59% YoY) under the impact of El Nino on a large scale, causing significantly low water levels at most reservoirs nationwide. We foresee that hydropower revenue will decrease slightly in 2Q23 due to seasonal effects in April and May 2023, but the situation improved in June. Meanwhile, three wind power projects of PC1 are all back to regular operation, and sales volume should resurge in 2Q23.

Fig 4. PC1 – Revenue & sales volume of hydropower



Source: PC1 Group, KB Securities Vietnam

Fig 5. PC1 – Revenue & sales volume of wind power

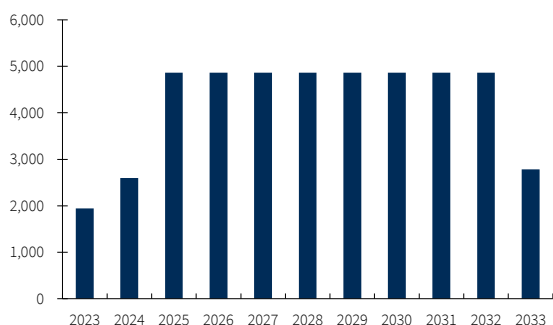


Source: PC1 Group, KB Securities Vietnam

Nickel plant in Cao Bang began operation in April 2023, with expected revenue in 2Q23 of VND137 billion

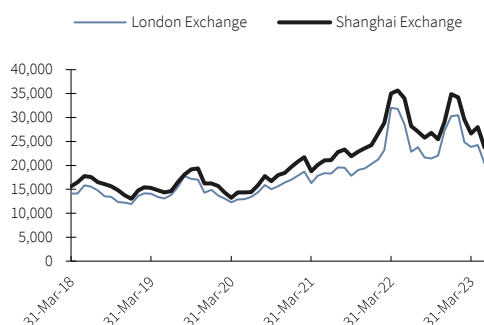
PC1 put the nickel plant in Cao Bang into operation in April 2023, with an estimated raw output of 8,700 tons and revenue of VND137 billion in 2Q23. PC1 expects nickel sales to contribute VND900 billion to overall revenue in 2023 and said it plans to expand phase 2 with a CAPEX estimated at VND2,500 billion. Currently, the mining output is 3.5 million tons with a 6-year mining license term, and the operation of phase 2 may improve the volume by 10.8 million tons. We assume that after PC1 completes the construction and obtains a mining license for phase 2, the mining capacity can grow to 1,500,000 tons/year from 600,000 tons/year at the time being, and nickel sales can generate VND2,000 billion in annual revenue.

Fig 6. PC1 – 2023F–2033F concentrated nickel output (tons)



Source: PC1 Group, KB Securities Vietnam

Fig 7. Global – Nickel prices (USD/ton)



Source: PC1 Group, KB Securities Vietnam

PC1 should deliver all apartments at Yen Thuong – Gia Lam within 2023, with expected revenue of VND315 billion

PC1 should hand over all 54 low-rise units at the Gia Lam real estate project within 2023, with estimated revenue of VND315 billion. For the Vinh Hung project, PC1 rescheduled its delivery plan to 2027 (in line with our expectations). The delivery delay of the remainders is an objective factor amid difficulties facing property developers, weak liquidity, and low housing prices, dampening the profit margin of projects if opened for sale at the time being.

Table 2. PC1 – Plan on deliveries of residential projects

Projects	Type	GFA (m ²)	Estimated revenue (VNDbn)	Estimated earnings (VNDbn)	Implementation					
					2023	2024	2025	2026	2027	2028
Gia Lam	Low-rise	7,152	313	37	■					
Dinh Cong	Low-rise	15,100	675	70		■	■	■	■	■
Vinh Hung	High-rise	5,160	540	50		■				
Thang Long	Low-rise & high-rise	25,200	1,620	445		■	■	■	■	■

Source: PC1 Group, KB Securities Vietnam

PC1 expects to turn a profit from IP land sales from 4Q23 and book revenue from 1Q24

PC1 expects to record cash flow from leasing at the Yen Phong II-A project in 4Q23. We assume PC1 will book revenue and recognize shared profit from associates (Western Pacific) from 1Q24. In 1Q23, PC1 recorded VND120 billion in revenue from the management and operation of Nomura IP – Hai Phong, which we believe will be a stable source for PC1. Per our estimate, IP land sales should contribute VND500 billion to 2023 overall revenue. In the coming time, PC1 plans to invest 8 MW of solar power in Nomura IP with a CAPEX estimated at VND100 billion. PC1 intends to use this energy source partly to supply manufacturers to lease land at the IP and to sell to EVN. The ceiling price of transitional rooftop solar power under NPDP VIII is USD0.05/kWh (equivalent to VND1,175/kWh).

Forecast

Table 3. PC1 – 2023F–2024F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Revenue	8,333	9,436	13%	10,321	9%	
Power construction	4,819	3,974	-18%	4,587	15%	We estimate 2023F EPC revenue of VND3,974 billion (-18% YoY) thanks to the implementation of renewable energy projects from 2Q23 following approved electricity prices for the transitional projects. Our lower projection is due to reduced projection for new EPC value from VND5,500 billion to VND3,500 billion.
Industrial production	653	820	26%	876	7%	
Renewable energy	1,795	1,729	-4%	1,729	0%	
Nickel mining	0	900		1,200	33%	
Residential segment	53	313	490%	230	-27%	We raise our revenue forecast for the residential segment due to changes in the plan to transfer apartments in Gia Lam.
IP land sales	0	500		500	0%	We revise our forecast for the IP segment on the assumption that PC1 will book revenue from Western Pacific from 2024 and in 2023 record revenue from the Nomura IP – Hai Phong.
Sales of goods and provision of services	1,013	1,200	18%	1,200	0%	
Cost of goods sold	-6,735	-7,491	11%	-8,212	10%	
Gross profit	1,599	1,945	22%	2,109	8%	
Power construction	520	437	-16%	505	15%	The gross profit margin should reach 11% in 2023 when the backlog has many projects of private investors other than EVN.
Industrial production	52	82	58%	88	7%	
Renewable energy	976	960	-2%	960	0%	
Nickel mining	0	243		324	33%	
Residential segment	27	63	132%	73	16%	
IP land sales	0	100		100	0%	
Sales of goods and provision of services	23	60	159%	60	0%	
Gross profit margin	19.2%	20.6%	1.4%	20.4%	-0.2%	
Financial income	95	217	127%	148	-32%	
Financial expense	-765	-839	10%	-858	2%	
Interest expense	-614	-830	35%	-858	3%	Interest expense climbed 35% due to the issuance of VND1,200 billion worth of bonds to invest in Western Pacific.
Shared profits from associates (2015)	-10	0	-100%	0		
SG&A	-281	-345	23%	-376	9%	
SG&A margin	3.4%	3.7%	0.3%	3.6%	0.0%	
Operating income	638	977	53%	1,024	5%	
Net other income	-40	0	-100%	0		
Shared profit from associates	0	0		258		We estimate shared profits from Western Pacific at VND258 billion in 2024 when booking IP land sales revenue at Yen Phong II-A IP.
Profit before tax (PBT)	598	950	59%	1,282	35%	
PBT margin	7.2%	10.1%	3%	12.4%	2.4%	
Corporate income tax	-71	-142	101%	-192	35%	
NPAT	527	807	53%	1,089	35%	
NPAT margin	6.3%	8.6%	2%	10.6%	2.0%	
NPAT of parent company	450	686	53%	926	35%	
NPAT of parent company margin	5.4%	7.3%	2%	9.0%	1.7%	

Source: KB Securities Vietnam

Valuation

We recommend BUY for PC1 with a target price of VND32,600/share

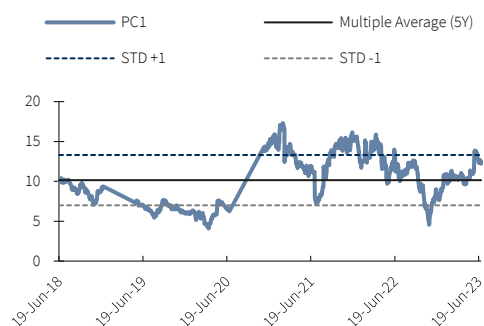
We apply the sum-of-the-parts (SOTP) valuation approach to value PC1 and determine the fair value of VND32,600/share (corresponding to a 20% upside against the closing price on June 22, 2023). We adjust the valuation method based on 2024F NPAT for the EPC and industrial production segments.

Table 4. PC1 – Valuation result

Segments	Valuation approach	Target (x)	Value (VNDbn)
Renewable energy	EV/EBITDA	13	14,652
EPC & industrial production	P/E	10	1,390
Residential segment	DCF		1,261
IP land sales	DCF		1,927
Nickel mining	DCF		1,257
Total			20,487
Cash			2,747
Net debt			11,331
NPATMI			2,106
Holdings discount			10%
Equity value (VNDbn)			8,817
No. of shares outstanding (million shares)			270
Share price (VND/share)			32,600

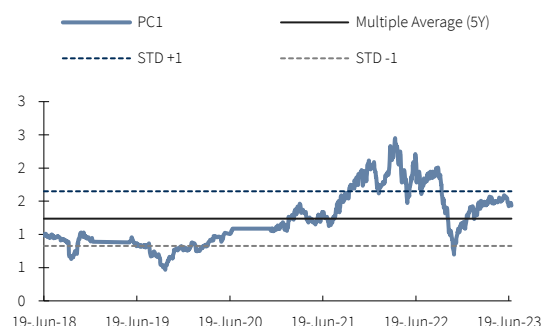
Source: KB Securities Vietnam

Fig 8. PC1 – Historical P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 9. PC1 – Historical P/B (x)



Source: Bloomberg, KB Securities Vietnam

PC1 – 2021A–2024F financials

Income Statement**(bn. VND)****(Standard Report)**

	2021	2022	2023F	2024F
Net Revenue	9,828	8,333	9,436	10,321
Cost of Goods Sold	-8,673	-6,735	-7,491	-8,212
Gross Profit	1,156	1,599	1,945	2,109
Financial Income	319	95	227	169
Financial Expenditure	-359	-765	-839	-858
Including: Cost of Borrowing	-315	-614	-830	-858
Profit/(loss) from affiliated companies	86	-10	0	0
Selling expenditures	-74	-70	-86	-94
General and administrative expenditures	-223	-211	-259	-282
Profit/(loss) from operating	905	638	987	1,044
Other income	28	21	0	0
Other expenditures	-36	-61	-14	0
Net Other Income	-8	-40	-13	0
Profit/(loss) from affiliated companies	0	0	0	258
Profit/(loss) before tax	896	598	960	1,302
Tax	-132	-71	-144	-195
Profit/(loss) after tax	764	527	816	1,107
Minority Interest	69	77	122	166
NPATMI	695	450	694	941

Operating Ratios

	2021	2022	2023F	2024F
Gross Profit Margin	11.8%	19.2%	20.6%	20.4%
EBITDA Margin	16.1%	22.6%	29.2%	27.9%
EBIT Margin	12.4%	15.0%	19.3%	18.4%
PBT Margin	9.1%	7.2%	10.2%	12.6%
Operating Profit Margin	9.2%	7.7%	10.5%	10.1%
Net Profit Margin	7.8%	6.3%	8.6%	10.7%

Cash Flow Statement**(Standard Report)**

	2021	2022	2023F	2024F
PBT	896	598	960	1,302
Depreciation	364	627	934	979
Profit/(loss) from investing	-386	-82	0	0
Cost of borrowing	315	614	830	858
Profit/(loss) before changes in WC	1,233	1,872	2,724	3,139
(Increase)/decrease in receivables	-28	49	1,060	-1,556
(Increase)/decrease in inventory	-173	8	-92	322
Increase/(decrease) in payables	-408	-163	111	805
(Increase)/decrease in pre-paid expenses	-68	-45	0	0
Sellable securities, cost of borrowing, tax	0	0	0	1
Operating Cash Flow	93	1,020	3,049	1,915
Purchases of fixed assets and other long term assets	-3,991	-1,508	-1,163	-2,821
Proceeds from disposal of fixed assets	3	3	0	0
Loans granted, purchases of debt instruments	-293	-577	0	0
Collection of loans, proceeds from sales of debts instruments	212	307	0	0
Investments in other entities	-925	-1,543	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	45	71	0	0
Investing Cash Flow	-4,949	-3,246	-1,163	-2,821
Proceeds from issue of shares	422	97	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	15,587	9,102	7,006	6,349
Repayment of borrowings	-10,303	-6,285	-9,102	-7,006
Finance lease principal payments	0	0	0	0
Dividends paid	-24	-40	0	0
Interests, dividends, profits received	0	0	0	0
Financing Cash Flow	5,682	2,874	-2,096	-657
Net increase in cash and cash equivalents	826	648	-210	-1,563
Cash and cash equivalents at the beginning o period	1,476	2,292	2,937	2,727
Cash and cash equivalents at the end of period	2,292	2,937	2,727	1,164

Source: PC1 Group, KB Securities Vietnam

Balance Sheet**(bn. VND)****(Standard Report)**

	2021	2022	2023F	2024F
TOTAL ASSET	18,687	21,604	20,394	21,907
CURRENT ASSETS	6,589	7,917	6,719	6,389
Cash and cash equivalents	2,292	2,937	2,727	1,164
Short-term investments	144	655	655	655
Accounts receivable	3,124	3,172	2,112	3,668
Inventories	904	890	982	660
LONG-TERM ASSETS	12,098	13,688	13,675	15,518
Long-term trade receivables	8	0	9	9
Fixed assets	10,160	9,521	10,750	12,593
Long-term incomplete assets	380	1,385	385	385
Long-term investments	639	1,527	1,542	1,542
Good will (before 2015)	0	0	0	0
TOTAL LIABILITIES	12,406	14,543	12,516	12,922
Current liabilities	5,799	5,953	4,489	5,503
Trade accounts payable	1,756	1,293	1,404	2,209
Short-term borrowings	2,800	3,676	2,182	2,133
Other short-term liabilities	1,243	984	903	1,161
Long-term liabilities	6,607	8,589	8,027	7,418
Long-term trade payables	0	0	0	0
Other long-term liabilities	6,238	8,284	7,683	7,074
Long-term borrowings	370	305	344	344
OWNER'S EQUITY	6,281	7,062	7,878	8,985
Paid-in capital	2,352	2,704	2,704	2,704
Share premium	711	711	711	711
Other funds	333	356	479	645
Undistributed earnings	1,305	1,337	2,031	2,972
State capital	0	0	0	0
Interest of non-controlling shareholders	1,580	1,953	1,953	1,953

Main Ratios**(x, %, VND)**

	2021	2022	2023F	2024F
Valuation Ratios				
P/E	11.6	12.1	10.6	7.8
P/E (diluted)	11.6	12.1	10.6	7.8
P/B	1.6	0.9	1.1	1.0
P/S	0.8	0.7	0.8	0.7
P/Tangible Book	0.9	0.6	0.8	0.6
P/Cash Flow	86.3	5.4	2.4	3.8
EV/EBITDA	12.1	11.6	5.3	5.3
EV/EBIT	12.1	11.6	8.0	8.1
Management Efficiency				
ROE%	13%	7%	9%	11%
ROA%	5%	2%	3%	4%
ROIC%	6%	3%	4%	5%
Financial Ratios				
Cash Ratio	0.4	0.5	0.6	0.2
Quick Ratio	1.0	1.1	1.2	1.0
Current Ratio	1.3	2.3	3.3	4.3
Long-term borrowing/Owner's Equity	0.1	0.0	0.0	0.0
Long-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Short-term borrowing/Owner's Equity	0.4	0.5	0.3	0.2
Short-term borrowing/Total Asset	0.0	0.0	0.0	0.0
Short-term payables/Owner's Equity	0.3	0.2	0.2	0.2
Short-term payables/Total Asset	0.1	0.1	0.1	0.1
Total payables/Owner's Equity	0.3	0.2	0.2	0.2
Total payables/Total Asset	0.1	0.1	0.1	0.1
Operating Ratios				
Receivables turnover	120.9	137.9	102.2	102.2
Inventory turnover	34.4	48.6	45.6	36.5
Payables turnover	60.1	82.6	65.7	80.3

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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