

Military Bank (MBB)

Enjoy impressive year-over-year growth

November 14, 2022

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3Q22 PBT jumped by 61.5% YoY to VND6,296 billion

Military Bank (MBB) achieved 3Q22 NII of VND9,039 billion (+4.5% QoQ, +36.0% YoY) and NOII of VND1,946 billion (-13.6% QoQ, -10.9% YoY). During the period, provision expenses slumped 45.9% to VND962 billion, helping PBT climb 61.5% YoY to VND6,296 billion. For 9M22, PBT touched VND18,193 billion (+53.1% YoY).

3Q22 NIM improved slightly 0.02 pts QoQ to 5.97%

In 3Q22, average earnings yield rose 0.33 pts QoQ to 8.61% on interest from deposits at other institutions (+2.97 times QoQ). Average cost of funds picked up 0.31 pts QoQ. As a result, 3Q22 NIM increased slightly by 0.02 pts QoQ to 5.97%.

Loans maintained positive growth while deposits fell

MBB boosted lending in 3Q22, with customer loans up 17.2% YTD to VND426 trillion & outstanding value of corporate bonds down slightly QoQ but up 16% YTD. Total mobilized capital was VND542 trillion (+6.1% YTD). The issuance of valuable papers surged 52.2% YTD, offsetting a 2% YTD decrease in customer deposits.

NPL ratio dropped to 1% by the end of 3Q22

Consolidated NPL ratio fell to 1%, parent bank's NPL ratio was 0.9%. The loan loss coverage ratio (LLCR) was lower to 207.7% but MBB is still among the banks with the highest LLCR. Restructured loans in 3Q hit VND2.2 trillion (-33.3% QoQ).

Digital banking continued to record impressive growth

MBB attracted another 3 million users for App & Biz, taking the total number of digital banking users to 18 million. Transactions over digital channels in 3Q hit 812 million (+3.6 times YoY) or 94% of MBB's total transactions. Transaction value in 3Q was VND7.8 million billion (+2.7 times YoY).

We recommend BUY for MBB stocks with a target price of VND22,000

Based on residual income & P/B valuation, we recommend BUY for MBB with a target price of VND22,000, 45% higher than the closing price on Nov 14, 2022.

Buy maintain

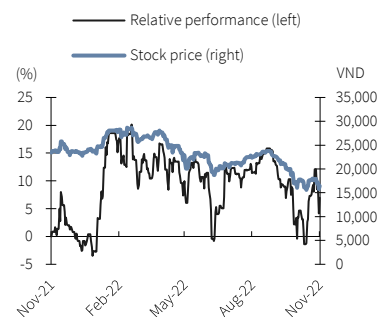
Target price	VND22,000
Upside/Downside	45.0%
Current price (Nov 14, 2022)	VND15,200
Consensus market price	VND32,267
Market cap (VNDbn)	101,070

Trading data	
Free float	58.9%
3M avg trading value	196.50
Foreign ownership	23.24%
Major shareholder	Viettel (18.5%) SCIC (9.42%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.5	-26.3	-28.2	-30.9
Relative	7.4	-4.0	-2.7	6.1

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	20,278	26,200	35,448	44,489
Pre-provision operating profit (VNDbn)	16,807	24,557	30,206	38,720
NPAT of the parent bank (VNDbn)	8,263	12,697	18,661	24,509
EPS (VND)	2,993	3,362	3,951	4,324
EPS growth (%)	-16.8%	12.3%	17.5%	9.4%
PER (x)	8.95	9.71	5.58	5.10
Book value per share (VND)	17,463	16,150	18,844	18,738
PBR (x)	1.53	2.02	1.17	1.18
ROE (%)	19.1%	23.5%	25.4%	25.7%
Dividend yield (%)	18%	35%	25%	20%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q22 PBT jumped by 61.5% YoY to VND6,296 billion

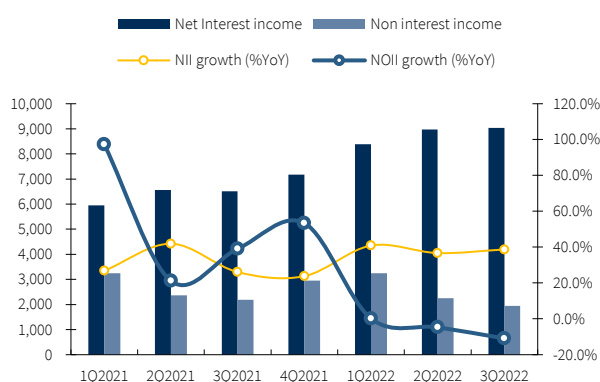
MBB obtained 3Q22 net interest income (NII) of VND9,039 billion (+36.0% YoY, +4.5% QoQ), non-interest income (NOII) of VND1,946 billion (-13.6% QoQ, -10.9% YoY). Shrinking NOII led total operating income (TOI) down slightly by 2.1% QoQ. However, given the low base of 3Q21, TOI still enjoyed strong year-over-year growth (+61.3% YoY). Operating expenses (OPEX) reached VND3,729 billion (-3.4% QoQ, +23.3% YoY) and provision expenses slumped 30% QoQ to VND962 billion, making 3Q22 PBT up slightly 5.2%QoQ and up 61.5% YoY to VND6,296 billion. For 9M22, PBT climbed 53.1% YoY to VND18,193 billion, meeting 79% of MBB's ambitious profit target of VND23 trillion.

3Q22 NIM improved slightly 0.02 pts QoQ to 5.97%

In 3Q22, the average earnings yield improved by 0.33 percentage points (pts) QoQ, mainly thanks to interest from deposits at other institutions rather than customer loans. While the average lending rate only increased slightly by 0.12 pts QoQ to 9.03%, the (average yield of deposit at other institutions) was 3.17 times higher than 2Q22's, reaching 4.5%. Surging interbank rate arising from falling customer deposits coupled with huge interbank deposits by the end of 2Q22 (about VND52 trillion) helped MBB collect VND446 billion (+187% YoY). Although interbank deposits went down 39.6% QoQ to VND31 trillion by the end of 3Q22, we believe MBB may still enjoy high revenue recognition in 4Q22 if the interbank rate remains high.

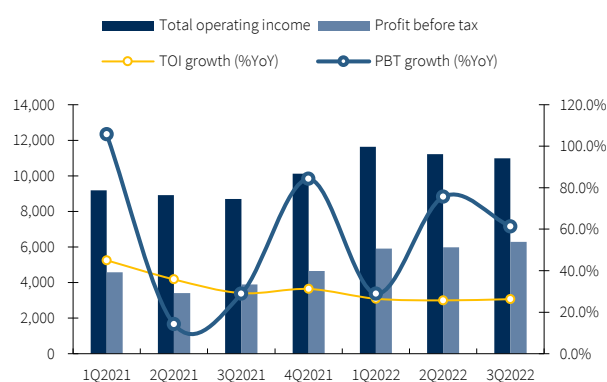
The average cost of funds inched up 0.31 pts QoQ. The average customer deposit rate only increased by 0.27 pts QoQ thanks to the high CASA ratio. The average cost of loans from the interbank market grew by 1.6 pts QoQ to 3.96%. The average savings account interest rate shrank by 11.1%QoQ in 3Q to VND160 trillion, and term deposits remain unchanged for 9M22 at VND217 trillion. As a result, the CASA ratio contracted to 41.6% by the end of 3Q22 since businesses had difficulty accessing bank loans in the context of rapidly increasing deposit rates, forcing them to use their available deposits. Individual and small and medium-sized enterprises (SME) savings accounts made up 66% and 34% of total demand deposits, respectively.

Fig 1. MBB – NII, NOII growth (VNDbn, %)



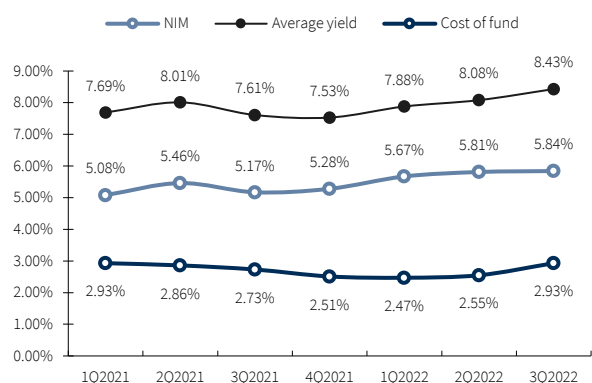
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – TOI, PBT growth (VNDbn, %)



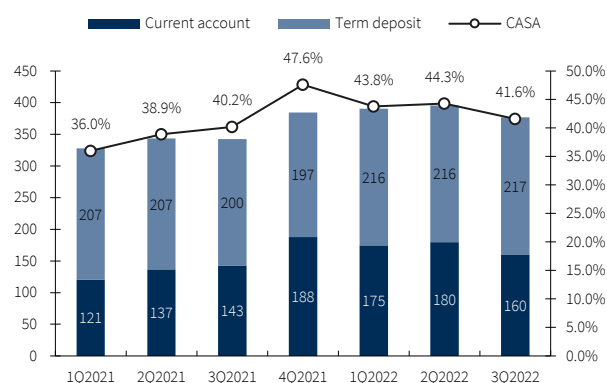
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – NIM, average earnings yield & cost of funds (%)



Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA ratio (%)



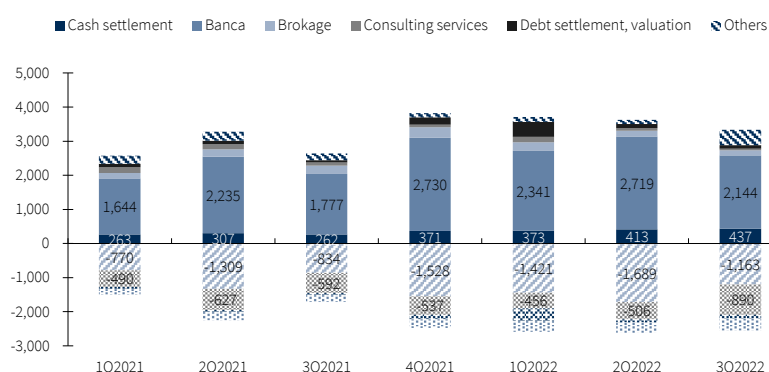
Source: Military Bank, KB Securities Vietnam

Net fee income fell 15.3% YoY due to rising costs

Fee income in 3Q22 reached VND3,331 billion (-8% QoQ and +26.3% YoY). In particular, bancassurance contributed VND2,144 billion (-21.1% QoQ and +20.7% YoY). Cash settlement expanded by 66.8% YoY to VND437 billion. Brokerage services recorded VND151 billion (-13.2% QoQ and -38.1% YoY) due to sharp corrections of the local stock market. A less dynamic bond market caused corporate bond issuance advisory service to drop to VND49 billion in 3Q22 (-34% QoQ and -46.2% YoY). Debt settlement, valuation and others grew by 58.6% and 79.1% YoY, respectively.

Service expenses exploded 48.8% higher over the same period, reaching VND2,547 billion. It was underpinned by bancassurance activities with VND1,163 billion (-31.1% QoQ and +39.4% YoY) and brokerage services with VND890 billion (+75.9% QoQ and +50.3% YoY). Hence, net fee income in the third quarter reached only VND784 billion (-22.4% QoQ and -15.3% YoY).

Fig 5. MBB – Net fee income & service expenses (VNDbn)

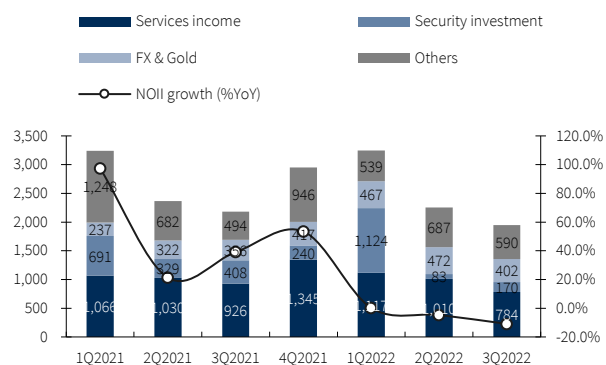


Source: Military Bank, KB Securities Vietnam

NOII/TOI ratio dropped to 17.7% in 3Q22

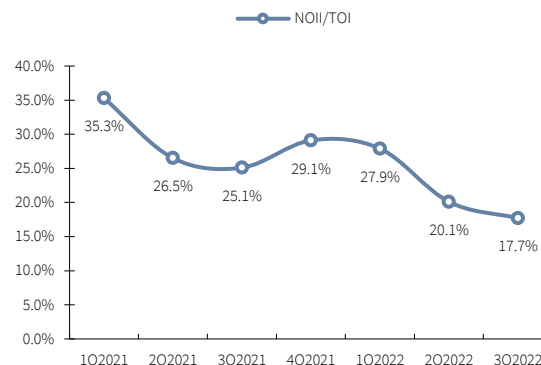
Foreign exchange and gold dealings brought in VND402 billion, up 12.9.5% YoY. Net income from debt settlement gained 4.3% YoY to VND410 billion. Meanwhile, investment securities, although improved by 105% QoQ, still decreased by 58.3% YoY. Thus, NOII kept declining 13.6% QoQ to VND1,946 billion. NOII/TOI ratio fell to 17.7%, the lowest level over the past six quarters.

Fig 6. MBB – NOII breakdown (%)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – NOII/TOI (%)



Source: Military Bank, KB Securities Vietnam

Loans maintained positive growth while deposits fell

MBB receives a higher credit growth quota than other peers, about 24%, thanks to taking over a weak credit institution. Credit grew 17.1% YTD by the end of September, with outstanding loans reaching VND475 trillion. Of that, loans improved by 2.9% QoQ in the third quarter thanks to the State Bank of Vietnam (SBV) loosening credit room. The restructuring of the loan portfolio, which focuses on individual and SME micro loans, is still on the right track. Personal loans accounted for 48% of total outstanding loans (vs. 44% of 2020 and 46% of 2021) and rose 23% YTD by the end of 3Q22, hitting VND206 trillion. Business loans grew by 12% YTD, making up 45% of total outstanding loans (vs. 47–55% in the previous years). MBB's shift to personal loans is expected to boost its NIM.

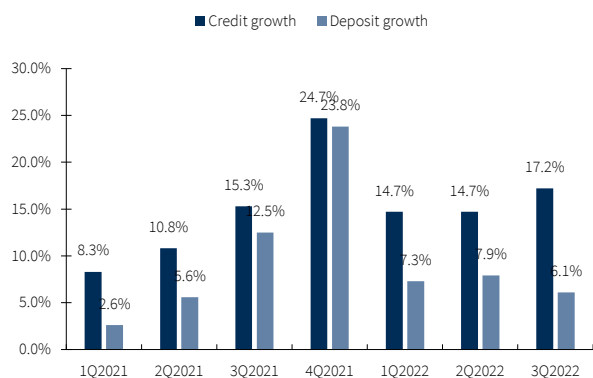
Unlike Techcombank (TCB), MBB was able to boost lending without having to selling off its securities portfolio thanks to credit expansion. Ending 3Q22, outstanding value of corporate bonds decreased further by VND662 billion to approximately VND49 trillion (+15.8% YTD). It may come from the maturity of corporate bonds. MBB said that bond investments are still profitable and seen as standard debt.

Total mobilized capital in 9M22 was VND542 trillion (+6.1% YTD, -1.63% QoQ) due to declining customer deposits (-4.9% QoQ and -1.9% YTD). Accordingly, valuable papers gradually became a critical mobilization channel for MBB, up 52.2% YTD after nine months and with a total value of up to VND35 trillion. Besides, MBB had to consider cutting loans from the interbank market, given recent surges to new highs in the cost of loans from this market. Deposits and loans in the interbank market totaled VND63 trillion, up 6.1% YTD.

Deposit growth was only half of loan growth, driving MBB's loan-to-deposit ratio (LDR) up by 3.2 pts QoQ to 78.6%, the highest quarterly level ever but still within the limit of 85% under Circular No. 22. At a recent meeting with credit institutions, the SBV suggested revising the LDR ratio in the deposit market to 90%. It is an important criterion for banks to get credit extensions over the next year since solving the liquidity problem of the banking system is of priority.

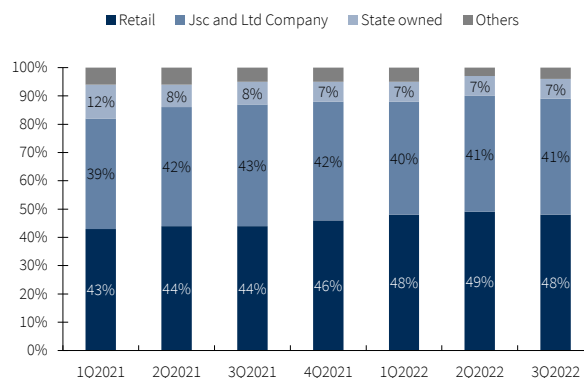
However, it would take time for the SBV to give a reasonable LDR ratio when most banks currently have LDR much higher than the 90% threshold. We estimate MBB's LDR to be around 113% (Figure 11).

Fig 8. MBB – Credit and deposit growth (%)



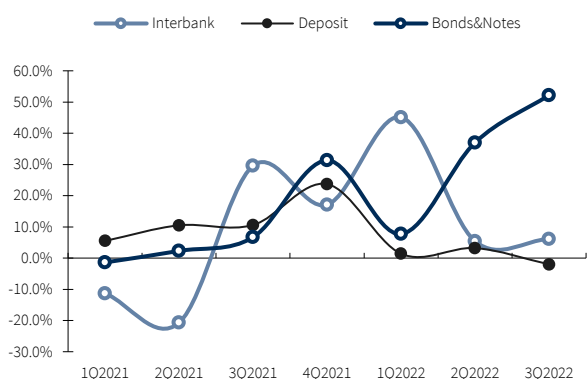
Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – Customer loans (%)



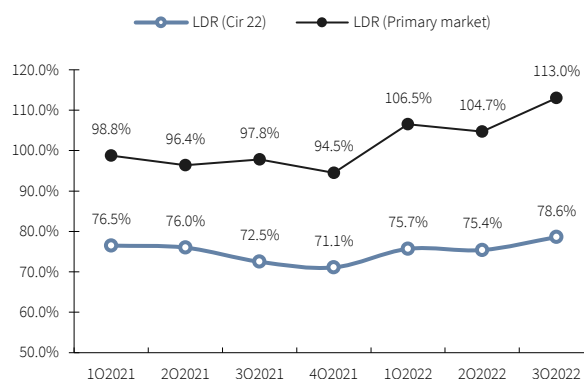
Source: Military Bank, KB Securities Vietnam

Fig 10. MBB – Deposit growth (%)



Source: Military Bank, KB Securities Vietnam

Fig 11. MBB – LDR (%)



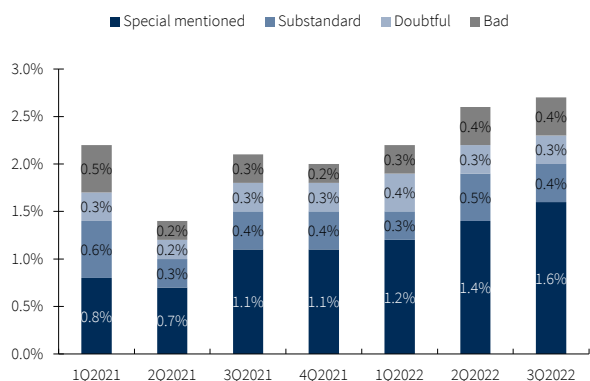
Source: Military Bank, KB Securities Vietnam

NPL ratio dropped to 1% by the end of 3Q22

Consolidated NPL ratio decreased to 1.04% by the end of 3Q22 (-16bps QoQ and -9bps YoY), and NPL ratio of the parent bank was 0.9%. NPL ratio improved since MBB wrote off about VND2,760 billion of bad debts right in the third quarter against VND1,100 billion in 6M22. Furthermore, the bank also boosted provisioning in the past, helping to ease provisioning pressure, and MBB only had to set aside another VND814 billion in the third quarter (-31% QoQ and -55.5% YoY). Accordingly, LLCR decreased to 207.7%, but MBB is still among the banks with the highest LLCR. However, surging special mentioned loans in 3Q22 (+22.7% QoQ) may lead to rising NPL ratio in the coming time.

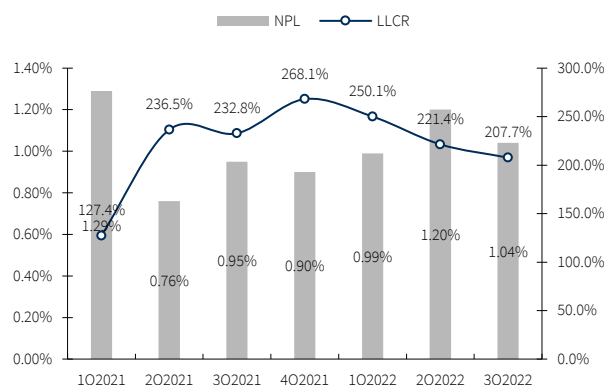
The recovery from the pandemic of customers enjoying debt rescheduling as well as the bank's efforts in bad debt recovery has helped to lower restructured loans by 33.3% to about VND2,200 billion or 0.52 % of total outstanding loans by the end of 3Q22.

Fig 12. MBB – Groups of debt (%)



Source: Military Bank, KB Securities Vietnam

Fig 13. MBB – NPL, LLCR (%)



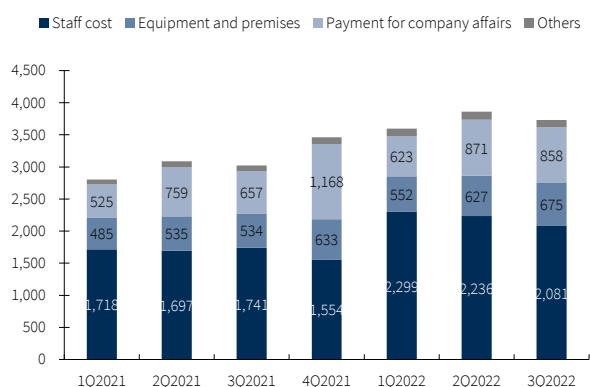
Source: Military Bank, KB Securities Vietnam

Overall costs were reduced in the third quarter

OPEX in 3Q22 reached VND3,729 billion, down 3.4%QoQ and up 23.3% YoY. In detail, staff cost remained high compared to the corresponding period a year earlier, up 19.5% YoY to VND2,081 billion. Payment for company affairs has seen a rapid increase since 4Q21 when the bank boosted digital transformation, reaching VND784 billion (+21.1% YoY) for the year to the end of September. 3Q22 CIR was 33.9%, showing the bank’s good expense management.

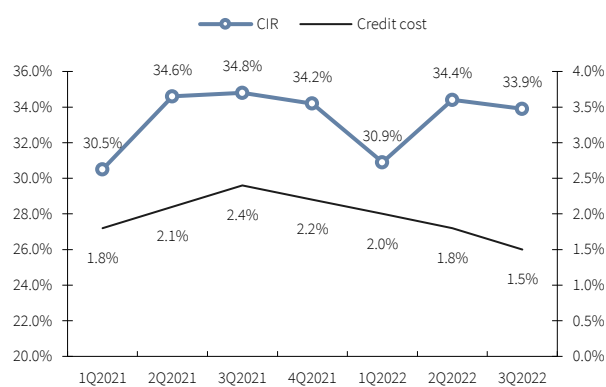
Provision expenses in 3Q22 went down to VND962 billion (-30.0% QoQ and -45.9% YoY), helping credit cost to contract by 0.9 pts from the peak of 2.4% in the same period last year.

Fig 14. MBB – Operating expense breakdown (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 15. MBB – CIR, credit cost (%)



Source: Military Bank, KB Securities Vietnam

Updates on MBB’s analyst meeting

Progress on selecting a strategic partner for MIG and MBS? MBB has been looking for a strategic partner. Last year, there were some contacting, but both sides did not reach an agreement. MBB emphasizes it does not focus on transferring capital to create other sources of income. Instead, it desires to cooperate with the one with a strong financial position, advanced technology, product development strategy, governance capability, and among the top in the world or in the region to support improving MBB’s operational efficiency.

Establishing a commercial bank in Cambodia? MBB has submitted to the

State Bank of Vietnam and the State Bank of Cambodia regarding setting up a 100 percent-owned bank in Cambodia and is negotiating with a partner to jointly invest with MBB in this bank. The negotiation process may end in 2023.

Progress on taking over OceanBank? MBB has prepared necessary paperwork and made a plan to deal with OceanBank, the weak credit institution it will take over, to submit to the SBV. The procedure is expected to be completed next year.

Reasons behind decreasing customer deposits and impacts of rising interest rates? Customer deposits fell in line with the general trend, so MBB has actively mobilized capital through the issuance of valuable papers since the start of the year (+53% YTD by the end of September). This mobilization channel provides MBB with abundant medium and long-term capital for lending. It is of great importance as customers tend to prioritize short-term deposits to capitalize on rising interest rates, making mobilizing medium to long-term capital more difficult. Moreover, MBB had promoted mobilizing through issuing valuable papers before the interest rates increased sharply, contributing to maintaining low cost of funds.

Digital banking continued to record impressive growth

In the third quarter alone, MBB attracted another 3 million users, double that of the same period last year, for its new app named App & Biz, taking the total number of digital banking users to 18 million. The bank aims towards 20 million users by the end of this year and 30 million by 2026. The regular user rate is 75% from 62% over the same period last year. Transactions over digital channels this past quarter hit 812 million, up 3.6 times YoY and accounting for 94% of MBB's total transactions. Transaction value in 3Q reached VND7.8 million billion, up 2.7 times YoY.

Impressive results show that the bank's digital transformation strategy is on the right track and has somewhat brought about achievements. It would help CASA to be more stable and further improve while reducing operating costs for MBB.

Forecast & Valuation

2022–23F business results

We make our forecast for MBB's 2022F business results as follows:

- We maintain our assumption that credit growth for the entire 2022 is 22%, which is within the allocated level of 24% for (1) MBB will not expand investment in corporate bonds; (2) MBB may be more cautious in lending activities, given the possibility of the SBV applying 90% to LDR in the deposit market; and (3) Banks are facing difficulty mobilizing capital. We expect MBB to receive a higher credit growth quota of 30% next year since it will take over and start restructuring OceanBank in 2023.
- NIM beat our expectations after nine months of the year, so we raise our 2022F NIM to 5.77%, up 73bps YoY as the average cost of funds is increasing at a lower rate than the average earnings yield. Entering 2023, the bank would adjust lending rates and boost lending, so we estimate 2023F NIM to be 6.1%.
- NPL ratio is expected at 0.88%, down slightly 2bps compared to the end of 2021.
- We revise provision expenses for 2022F to VND5,916 billion (down 11% against the previous assumption). The figure for 2023F is VND6,818 billion (+15.2% YoY).
- NPAT of the parent bank for 2022F and 2023F should be VND18,661 billion (+47% YoY) and VND24,509 billion (+31.3% YoY), respectively.

Table 2. MBB – 2022–23F business results

VND bn	2021A	2022F	2023F	%YoY2022	%YoY2023
Net revenue	26,200	35,448	44,489	35.3%	25.5%
Net fee and commission income	4,367	4,271	7,603	-2.2%	78.0%
Total operating income	36,934	45,730	56,941	23.8%	24.5%
Provision expenses	-8,030	-5,916	-6,818	-26.3%	15.2%
NPAT of the parent bank	12,697	18,661	24,509	47.0%	31.3%
NIM	5.04%	5.77%	6.10%		
Average earnings yield	7.40%	8.25%	8.76%		
Average cost of funds	2.66%	2.85%	3.10%		
CIR	33.5%	33.9%	32.0%		
NPL ratio	0.90%	0.88%	0.79%		
Total assets	607,140	689,964	842,351	13.6%	22.1%
Equity	62,486	90,378	108,305	44.6%	19.8%

Source: KB Securities Vietnam

We recommend BUY for MBB stocks with a target price of VND22,000/share

We combine two valuation methods, P/B and residual income, to find a fair price for MBB stocks.

(1) P/B valuation (Figure 16)

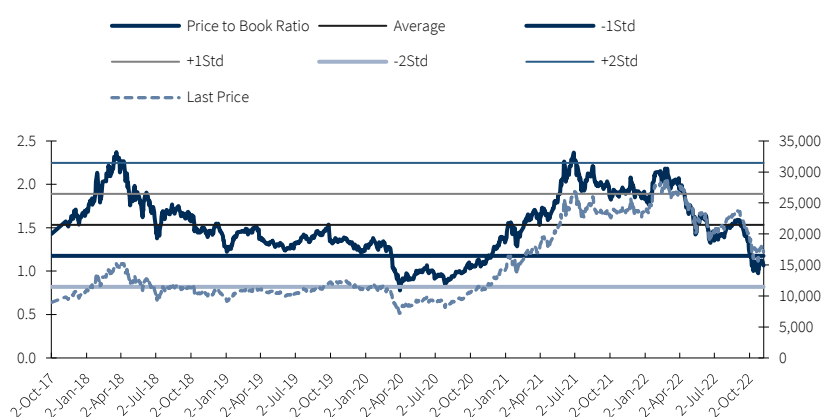
MBB owns a comprehensive financial ecosystem, has good asset quality and high operational efficiency, and has enjoyed rapid growth over the past years thanks to pioneering digital transformation. MBB stock price has constantly decreased on concerns over the prospect of the banking sector and MBB's bond portfolio. MBB is now trading at a P/B of 1.01x, which we consider relatively attractive for the bank stock. We project MBB's 12M trailing P/B at around 1.17x or -1Std.

(2) Residual income valuation (Table 4)

In addition, we incorporate the residual income method to reflect systematic

risk and long-term expectations. We adjust the risk-free rate to 5% from 4% based on the current 10-year government bond yield. We raise the risk premium by 3 pts to reflect real estate bonds and loans-related risks (Table 5). Combining the above two valuation methods with a ratio of 50:50, we recommend BUY for MBB stocks with a target price of VND22,000/share, 45% higher than the closing price on November 14, 2022 (Table 6). Downside risks include: (1) the deterioration of asset quality as customers enjoying debt rescheduling may not recover well from the pandemic as expected and (2) risks regarding MBB's partner being Novaland (NVL), a property developer.

Fig 16. MBB – Share performance & P/B during 2018–2022



Source: Fiiipro, KB Securities Vietnam

Table 4. MBB – Residual income valuation

VND bn	2022F	2023F	2024F	2025F	2026F
Profit after tax	19,431	25,520	30,493	39,226	47,945
Excessed return	1,760	4,256	3,330	4,382	3,790
Required rate of return (re)	18.7%				
Growth (g)	5%				
Terminal value	12,328				
Present value (PV)	22,637				
Share price	22,142				

Source: KB Securities Vietnam

Table 5. MBB – Equity risk premium

		Equity Risk Premium				
		7.8%	8.8%	9.8%	10.8%	11.8%
Risk-free rate	3.0%	59,310	46,593	37,826	30,491	24,743
	4.0%	49,181	39,135	32,024	25,953	21,116
	5.0%	41,204	33,095	27,231	22,142	18,026
	6.0%	34,782	28,121	23,219	18,903	15,370
	7.0%	29,517	23,968	19,821	16,126	13,069

Source: KB Securities Vietnam

Table 6. MBB – Residual income and P/B valuation

Valuation method	Forecast price	Weight	Weighted price
Residual income	22,142	50%	11,071
P/B	21,923	50%	10,962
Target price			22,033

Source: KB Securities Vietnam

MBB – 2020A–2023F financials

Income Statement					Balance Sheet				
(Bn VND)	2020	2021	2022F	2023F	(Bn VND)	2020	2021	2022F	2023F
Interest and Similar Income	32,767	38,465	50,735	63,727	TOTAL ASSETS	494,982	607,140	689,964	841,526
Interest and Similar Expenses	-12,490	-12,265	-15,287	-19,390	Cash and precious metals	3,109	3,475	2,992	3,614
Net Interest Income	20,278	26,200	35,448	44,337	Balances with the SBV	17,297	38,051	9,132	11,232
Fees and Commission income	8,228	12,308	14,707	19,146	Placements with and loans to other credit inst	47,889	35,983	36,775	40,820
Fees and Commission expenses	-4,653	-7,941	-10,436	-11,543	Trading securities, net	3,085	7,575	4,924	5,727
Net Fee and Commission Income	3,576	4,367	4,271	7,603	Derivatives and other financial assets	37	274	69	42
Net gain/(loss) from foreign currency and gol	786	1,331	1,747	1,642	Loans and advances to customers, net	293,943	354,797	448,042	567,349
Net gain/(loss) from trading of trading secur	85	221	236	135	Debts purchase	0	2	0	0
Net gain/(loss) from disposal of investment s	866	1,446	1,488	1,265	Investment securities	99,714	128,806	146,839	166,163
Net Other income/(expenses)	1,680	3,254	2,444	1,711	Investment in other entities and LT investmer	885	803	690	842
Dividends income	93	115	96	96	Fixed assets	4,311	4,678	4,830	7,153
Total operating income	27,362	36,934	45,730	56,789	Investment properties.	248	269	276	252
General and Admin expenses	-10,555	-12,377	-15,524	-18,172	Other assets	24,465	32,426	35,395	38,289
Operating Profit Before Provision for Credit L	16,807	24,557	30,206	38,617	LIABILITIES AND SHAREHOLDER'S EQUITY	494,982	607,140	689,964	841,526
Provision for credit losses	-6,118	-8,030	-5,916	-5,178	Total liabilities	444,883	544,654	599,585	731,991
Profit before tax	10,688	16,527	24,290	33,439	Due to Gov and Loans from SBV	15	262	0	0
Corporate income tax	-2,082	-3,306	-4,859	-6,689	Deposits and Loans from other credit instit	50,876	59,560	64,920	80,176
Net profit for the year	8,606	13,221	19,431	26,750	Deposits from customers	310,960	384,692	384,692	446,243
Minority interest	-343	-524	-770	-1,060	CBs/CDs and other valuable papers issued	50,924	66,887	112,370	161,813
Attributable to parent company	8,263	12,697	18,661	25,690	Other liabilities	31,900	31,254	37,603	43,759
					Shareholder's equity	50,099	62,486	90,378	109,535
					Charter capital	27,988	37,783	47,229	56,675
					Share premium	1,178	869	869	477
					Reserves	6,225	7,341	12,076	16,089
					Retained Earnings	12,956	12,915	30,204	36,294
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	2,993	3,362	3,951	4,533
					Book value per share	17,463	16,150	18,844	18,956
					Valuation ratio				
					PER	6.91	7.39	4.05	3.53
					PBR	1.18	1.54	0.85	0.84
					Dividend yield	18.0%	35.0%	24%	20%

Source: Military Bank, KB Securities Vietnam

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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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