

# Binh Son Refinery (BSR)

## Crack spreads remain under downward pressure

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**2Q 2024 business performance was adversely impacted by a major maintenance and lower crack spreads**

In 2Q 2024, Binh Son Refinery's (BSR) revenue fell 27.5% YoY after undergoing a comprehensive maintenance lasting 48 days, which led to a 22.1% YoY drop in sales volume. Gross profit plummeted by 57.7% YoY following the emergence of maintenance costs and decreased crack spreads given soft demand.

**Crack spreads continue to face downward pressure in 2H 2024**

The crack spreads in the first half of 3Q 2024 were significantly lower compared to 3Q 2023, mainly due to the sluggish consumption in the Chinese market. In 4Q 2024, we do not foresee any significant momentum that could reverse the situation for the oil market in the region.

**Oil prices will likely fall further despite OPEC+ extending its output cuts until end-2024**

OPEC+ has agreed to postpone its production increase plan until the end of November 2024 amidst falling oil prices. However, disappointing GDP data from the U.S. and China could put substantial downward pressure on crude oil prices, which we assume at USD83 and USD80 per barrel for 2024F and 2025F, respectively.

**We maintain our NEUTRAL rating with a target price of VND24,400 per share**

Although the switch from UpCoM to HOSE would support the stock price in the short term, BSR may face pressure from declining oil prices coupled with crack spreads in 2H 2024 and early 2025. We maintain our NEUTRAL rating for BSR with a target price of VND24,400 per share, representing an upside of 5.2% compared to the closing price on September 10, 2024. Profits that may arise from the Dung Quat Oil Refinery Upgrade and Expansion Project from 2029 and beyond have not been factored in our current valuation. The expected dividend yield is 2.9%.

## Neutral maintain

**Target price** VND24,400

Upside	5.2%
Current price (, 2024)	VND23,200
Consensus target price	VND25,700
Market cap (VNDtn/USDbn)	72.2/2.9

### Trading data

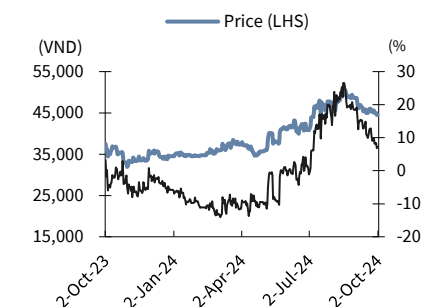
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	214.7/8.5
Foreign ownership	0.7%
Major shareholder	PetroVietnam (PVN, 92.1%)

### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	0.9	0.0	20.6	9.3
<b>Relative</b>	-2.7	1.8	19.0	7.2

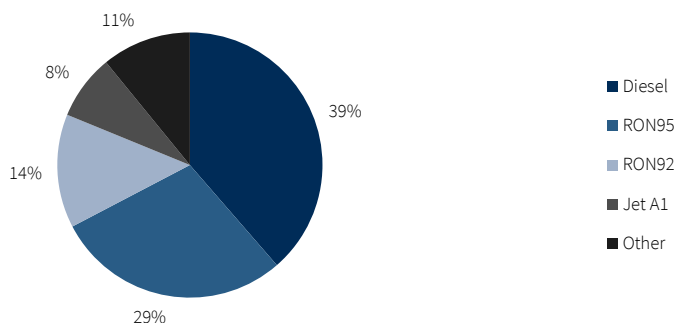
### Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	167,124	147,423	127,688	143,797
Operating income/loss (VNDbn)	14,673	7,948	6,279	7,616
NPAT-MI (VNDbn)	14,726	8,511	6,654	7,845
EPS (VND)	4,750	2,745	2,146	2,530
EPS growth (%)	129.1	-42.2	-22.0	18.0
P/E (x)	5.1	8.9	11.4	9.6
P/B (x)	1.5	1.3	1.3	1.2
ROE (%)	28.7	14.8	11.1	12.4
Dividend yield (%)	1.8	2.9	2.9	2.9



Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2023)



## Business operation

Binh Son Refining and Petrochemical Company Limited (BSR) was established in 2008. The company is the management and operation unit of Dung Quat Oil Refinery with a total investment capital of over USD3 billion and capacity of 6.5 million tons of crude oil/year. BSR currently accounts for about 30% of Vietnam's petroleum demand.

Source: Binh Son Refinery, KB Securities Vietnam

## Investment Catalysts

**Switch listing to HOSE.** This would support the stock price in the short term.

**2025F business performance expected to recover from the low base.** Business performance has been adversely impacted by a 48-day maintenance. Entering 2025, Dung Quat Oil Refinery should operate at its full capacity.

**Long-term growth to come from the Dung Quat Oil Refinery Upgrade & Expansion Project.** The project is scheduled for completion in 3Q 2028, raising the total capacity by 15.5%. The plant would also target higher-quality products and process various inputs.

## Notes

Please see more details below

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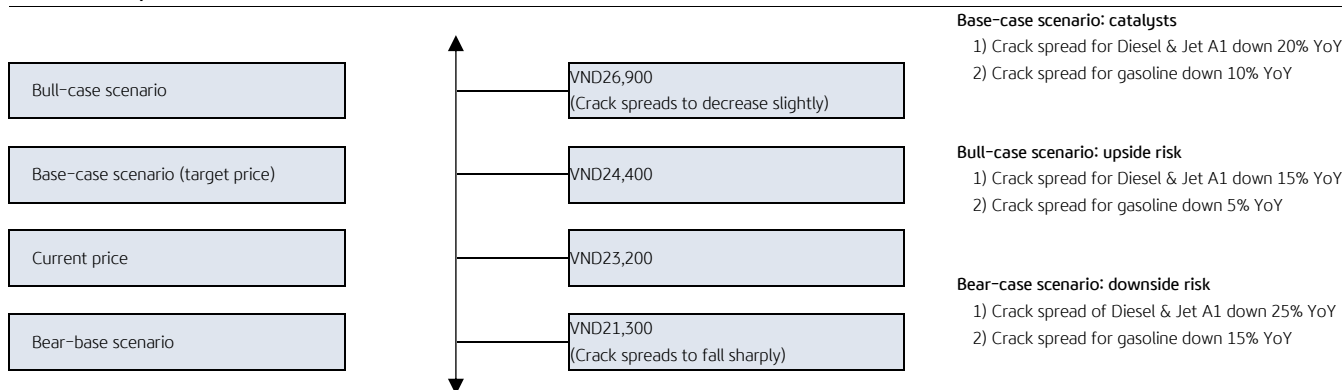
Please see more details [here](#)

## Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	127,688	143,797	-1%	-1%	126,456	134,448	1%	7%
EBIT	6,279	7,616	-1%	-5%	5,777	6,838	8%	11%
NP after MI	6,654	7,845	1%	-3%	5,998	6,890	11%	13%

Source: Bloomberg, KB Securities Vietnam

## Investment opinion & risks



## Business performance

### 2Q 2024 business performance was adversely impacted by a major maintenance and lower crack spreads

In 2Q 2024, BSR's revenue fell by 27.5% YoY after its general maintenance that led to a 22.1% YoY decline in sales volume. Gross profit fell sharply by 57.7% YoY because of overhaul costs, while the crack spreads of its two main products, diesel and jet fuel (Jet A1), followed downward trends in light of weaker-than-expected demand. The average crack spread for gasoline surged by 15% YoY but could not offset the decreases in that of diesel and Jet A1.

Table 1. #KBChart&TableTitle

(VNDbn)	2Q 2023	2Q 2024	+/- %YoY	6M 2023	6M 2024	+/- %YoY	Notes
<b>Revenue</b>	<b>33,669</b>	<b>24,424</b>	<b>-27.5%</b>	<b>67,735</b>	<b>55,113</b>	<b>-18.6%</b>	Primarily due to the 48-day overhaul maintenance (from mid-March to end-April), causing sales volume to drop by 22% YoY.
Diesel	13,060	10,287	-21.2%	26,149	22,670	-13.3%	
A95 gasoline	9,313	6,447	-30.8%	18,437	15,881	-13.9%	
A92 gasoline	9,254	3,371	-63.6%	14,250	6,546	-54.1%	
Jet A1	2,323	2,110	-9.2%	5,135	4,805	-6.4%	
FO	668	501	-25.0%	1,030	823	-20.1%	
LPG	3,307	1,150	-65.2%	5,457	2,756	-49.5%	
<b>Gross profit</b>	<b>1,178</b>	<b>498</b>	<b>-57.7%</b>	<b>3,249</b>	<b>1,754</b>	<b>-46.0%</b>	Sales volume decreased but fixed costs remained high, causing the gross profit margin to narrow by 1.6%. The crack spreads of key products, diesel and Jet A1, contracted by 15% and 11% YoY, respectively. The average crack spreads of gasoline rose by 15% YoY.
<i>Gross profit margin</i>	3.5%	2.0%		4.8%	3.2%		
Financial income	469	746	59.1%	1,279	1,266	-1.0%	VND390 billion profit came from ceasing the consolidation of BSR-BF in 2Q 2024.
Financial expenses	93	138	48.5%	484	394	-18.6%	Mainly due to a 46% YoY decrease in borrowing expense.
Profits from affiliates	0	0	N/A	0.0	0.0	N/A	
SG&A	334	270	-19.2%	748	529	-29.3%	
<b>Operating income/loss</b>	<b>1,219</b>	<b>836</b>	<b>-31.4%</b>	<b>3,296</b>	<b>2,097</b>	<b>-36.4%</b>	
Other income	7	4	-39.6%	21.7	15.01	-30.8%	
Profit before taxes (PBT)	1,226	840	-31.5%	3,317	2,112	-36.3%	
<b>Profit after taxes (NPAT)</b>	<b>1,328</b>	<b>769</b>	<b>-42.1%</b>	<b>2,949</b>	<b>1,884</b>	<b>-36.1%</b>	
<b>NP after MI</b>	<b>1,341</b>	<b>782</b>	<b>-41.7%</b>	<b>2,970</b>	<b>1,925</b>	<b>-35.2%</b>	
NPAT margin	4.0%	3.2%		4.4%	3.5%		
<b>Consumption (million tons)</b>	<b>1,842</b>	<b>1,226</b>	<b>-33.4%</b>	<b>3,522</b>	<b>2,743</b>	<b>-22.1%</b>	The fifth general maintenance lasted 48 days, from mid-March to end-April.
Diesel	738	538	-27.1%	1,415	1,175	-17.0%	
A95 gasoline	458	306	-33.2%	884	748	-15.4%	
A92 gasoline	285	156	-45.2%	517	302	-41.6%	
Jet A1	138	104	-24.8%	262	240	-8.4%	
FO	35	19	-45.7%	62	43	-30.6%	
LPG	122	67	-44.9%	236	156	-33.9%	
<b>Brent crude oil price (USD/barrel)</b>	<b>78</b>	<b>85</b>	<b>9.4%</b>	<b>80</b>	<b>83</b>	<b>3.8%</b>	

Source: KB Securities Vietnam

**BSR concluded its scheduled overhaul maintenance in 2Q 2024**

In 2Q 2024, BSR officially completed its general maintenance period. From 2025 onwards, Dung Quat Refinery is expected to return to normal operation at maximum capacity, which lays the foundation for BSR’s growth from the low base in 2024.

**BSR will likely be approved for listing on HOSE**

In August 2024, BSR officially applied to list 3.1 billion shares on the HOSE exchange. The probability of BSR’s listing approval has significantly increased, as the company has met all criteria following its subsidiary BSR-BF’s bankruptcy filing. We believe the transition to listing on the HOSE will push the stock price in the short term.

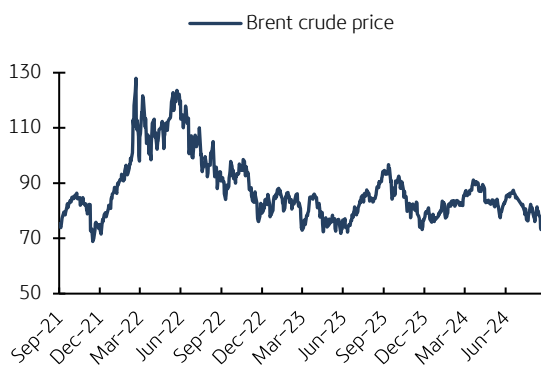
**Crack spreads continue to face downward pressure in 2H 2024**

Since the start of 3Q 2024, the crack spreads for Diesel, RON95 gasoline, RON92, and Jet A1 in Asia have decreased by 44%, 24%, 48%, and 42% YoY, respectively. The crack spreads in 2024 are significantly lower compared to the same period last year, given the sluggish consumption in the Chinese market, which has kept inventories in the Asia region at high levels even amid peak oil demand. In the last three months of 2024, we do not foresee any significant momentum that could reverse the situation for the oil market in the region. We have adjusted our growth forecast for diesel and Jet A1 crack spreads from -15% YoY to -20% YoY for 2024.

**Oil prices will likely fall further despite OPEC+ extending its output cuts until end-2024**

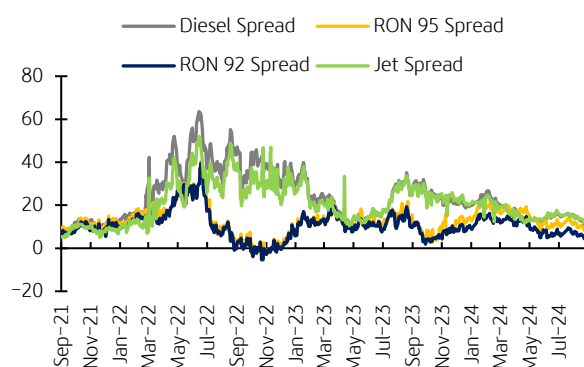
Decreased crude oil prices may force BSR to set aside for its inventory in 2H 2024. In its latest report, OPEC has downgraded its global crude oil demand forecast for 2024F and 2025F by 6.0% and 3.5% YoY, respectively. This adjustment primarily stems from the disappointing GDP data from the world's two largest oil consumers, the U.S. and China. On the supply side, OPEC+ has agreed to postpone its production increase plan until the end of November 2024 amidst falling oil prices. However, the political instability in Libya appears to be improving, alleviating concerns about supply shortages and exerting significant downward pressure on crude oil prices in the short term. Our oil price assumptions for 2024F and 2025F are USD83 and USD80 per barrel, respectively.

**Fig 2. Global – Brent crude oil price performance (USD/barrel)**



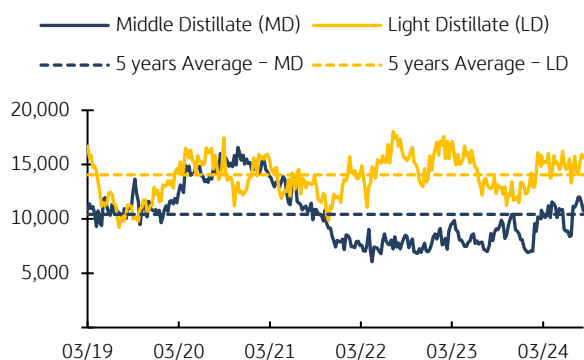
Source: Bloomberg, KB Securities Vietnam

**Fig 3. BSR – Crack spread for some key products (USD/barrel)**



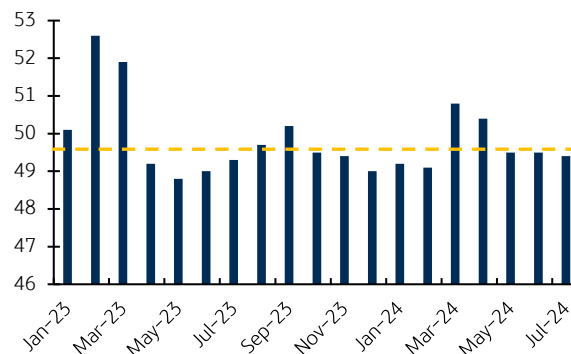
Source: Bloomberg, KB Securities Vietnam

Fig 4. Asia –Middle Distillate (Diesel, FO, Jet A1) & Light Distillate (A95, A92 gasoline) stockpiles (thousand barrels)



Source: Bloomberg, KB Securities Vietnam

Fig 5. China – PMI after post-Covid economic reopening



Source: Bloomberg, KB Securities Vietnam

## Forecast

Table 6. BSR – 2023A–2025F business performance

(VNDbn)	2023A	2024F	+/- %YoY	2025F	+/- %YoY	Notes
<b>Revenue</b>	<b>147,423</b>	<b>127,688</b>	<b>-13.4%</b>	<b>143,797</b>	<b>12.6%</b>	2024F revenue should decline given negative impact from overhaul maintenance lasting 48 days. 2025F revenue is set to recover from the low base as plant returns to normal operations.
Diesel	57,736	51,944	-10.0%	58,477	12.6%	
A95 gasoline	42,239	36,830	-12.8%	41,648	13.1%	
A92 gasoline	19,900	15,858	-20.3%	17,646	11.3%	
Jet A1	11,954	10,693	-10.5%	12,441	16.3%	
FO	1,893	1,306	-31.0%	1,271	-2.7%	
LPG	7,451	5,715	-23.3%	6,460	13.0%	
<b>Gross profit</b>	<b>9,608</b>	<b>7,561</b>	<b>-21.3%</b>	<b>9,059</b>	<b>19.8%</b>	2024F gross profit is expected to decline due to major maintenance and revision of diesel and Jet A1 crack spread assumptions from -15% YoY to -20% YoY based on the actual situation in 1H 2024 and subdued outlook for consumption in China. 2025F gross profit should recover from the low base thanks to stable plant operations. However, we assume that the average crack spread of products will contract by 10% YoY.
Gross profit margin	6.5%	5.9%		6.3%		
Financial income	2,659	2,127	-20.0%	2,127	0.0%	
Financial expenses	1,154	1,048	-9.2%	1,069	2.0%	
Profits from affiliates	0	0	N/A	0	N/A	
SG&A	1,660	1,282	-22.8%	1,443	12.6%	
<b>Operating income/loss</b>	<b>9,453</b>	<b>7,358</b>	<b>-22.2%</b>	<b>8,674</b>	<b>17.9%</b>	
Other income	32	0	-100%	0	N/A	
<b>Profit before taxes (PBT)</b>	<b>9,486</b>	<b>7,358</b>	<b>-22.4%</b>	<b>8,674</b>	<b>17.9%</b>	
PBT margin	6.4%	5.8%		6.0%		
<b>Profit after taxes (NPAT)</b>	<b>8,455</b>	<b>6,622</b>	<b>-21.7%</b>	<b>7,807</b>	<b>17.9%</b>	
NPAT margin	5.7%	5.2%		5.4%		
<b>NP after MI</b>	<b>8,511</b>	<b>6,654</b>	<b>-21.8%</b>	<b>7,845</b>	<b>17.9%</b>	
Production (million tons)	7,256	6,390	-11.9%	7,445	16.5%	
Consumption (million tons)	2,990	2,726	-8.8%	3,170	16.3%	Production output should fall sharply in 2024F due to major maintenance and recover from 2025 thanks to stable plant operations.
Diesel	1,947	1,744	-10.4%	2,048	17.4%	
A95 gasoline	953	784	-17.7%	906	15.6%	
A92 gasoline	514	469	-8.8%	562	19.8%	
Jet A1	129	89	-31.0%	89	0.0%	
FO	473	370	-21.8%	431	16.5%	
LPG	83	83	0.0%	80	-3.6%	
<b>Brent crude oil price (USD/barrel)</b>	<b>147,423</b>	<b>127,688</b>	<b>-13.4%</b>	<b>143,797</b>	<b>12.6%</b>	

Source: Binh Son Refinery, KB Securities Vietnam

## Valuation

**We maintain our NEUTRAL rating for BSR with a target price of VND24,400/share**

After combining two valuation methods, free cash flow to the firm (FCFF) and P/B ratio, we reiterate our NEUTRAL stance towards BSR, with a target price of VND24,400 per share, representing an upside of 5.2% compared to the closing price of VND23,200 per share on September 10, 2024. The target P/B ratio of 1.29x is based on BSR's average P/B over the past five years. Please note that our current valuation does not include the benefits expected from the Dung Quat Oil Refinery Upgrade and Expansion Project, which is scheduled for completion in 3Q 2028. The expected dividend yield is 3%.

**Table 7. BSR – FCFF model assumptions**

	4.7%	Present value of terminal value (VNDbn)	28,957
Risk-free rate	7.6%	Total present value for the 2024–2028 period	17,083
Beta	1.44	<b>Total present value</b>	<b>46,040</b>
Average interest rate	7.0%	Plus: Cash & Short-term investments	39,982
Taxes	10.0%	Minus: Net Debt	-11,099
<b>WACC</b>	<b>12.8%</b>	Minus: Minority interest	-124
Terminal growth rate	1.5%	<b>Equity value</b>	<b>74,799</b>
		Number of shares outstanding (million shares)	3,100.5
		<b>Equity value/share (VND)</b>	<b>24,100</b>

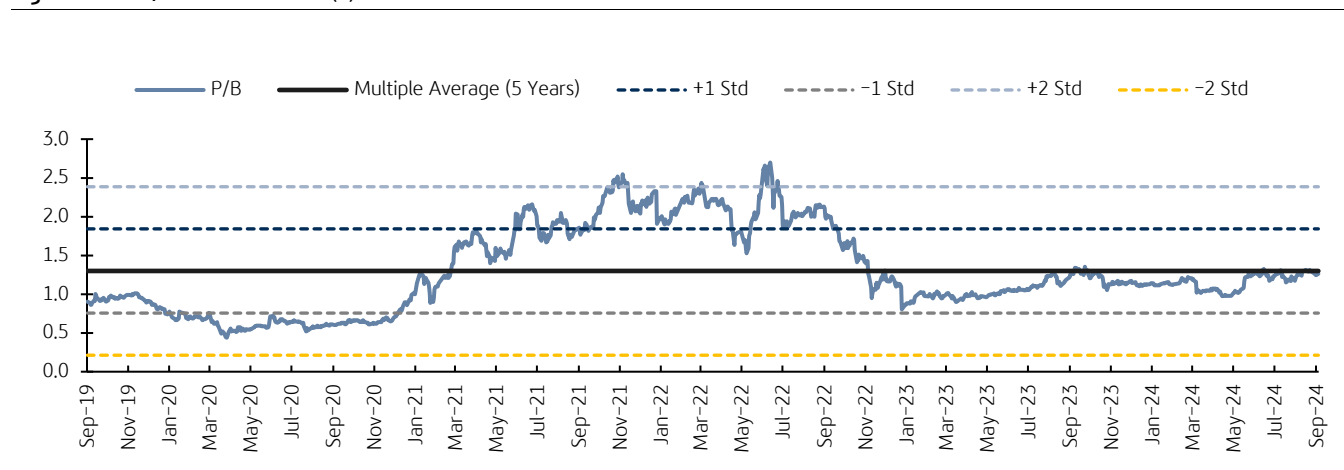
Source: Bloomberg, KB Securities Vietnam

**Table 8. BSR – Valuation results**

Valuation method	Forecast price	Weighting	Weighted price
FCFF	24,100	50%	12,050
P/B (1.29x)	24,718	50%	12,359
<b>Target price (rounded)</b>			<b>24,400</b>
Current price (Sep 10, 2024)			23,200
Upside			5.2%

Source: Bloomberg, KB Securities Vietnam

**Fig 9. BSR – P/B in 2019–2024 (x)**



Source: Bloomberg, KB Securities Vietnam

## BSR – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND billion)	2022A	2023A	2024F	2025F	(VND billion)	2022A	2023A	2024F	2025F
Net sales	167,124	147,423	127,523	143,696	CURRENT ASSETS	78,488	86,454	89,743	92,432
Cost of sales	-151,027	-137,815	-120,127	-134,738	Cash and cash equivalents	58,471	68,546	72,842	67,579
Gross Profit	16,097	9,608	7,396	8,958	Short-term investments	22,853	17,001	18,683	21,128
Financial income	1,750	2,659	2,127	2,127	Accounts receivable	2,172	21,122	21,122	21,122
Financial expenses	-923	-1,154	-1,048	-1,069	Inventories	16,553	14,999	18,272	13,228
of which: interest expenses	-253	-288	-294	-299	LONG-TERM ASSETS	16,809	15,352	14,613	12,108
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	Long-term trade receivables	20,017	17,908	16,901	24,853
Selling expenses	-909	-1,034	-739	-833	Fixed assets	534	549	549	549
General and admin expenses	-515	-626	-541	-610	Investment properties	18,075	16,059	15,052	23,004
Operating profit/(loss)	15,500	9,453	7,195	8,573	Long-term incomplete assets	1,275	1,211	1,211	1,211
Other incomes	87	32	0	0	Long-term investments	0	0	0	0
Other expenses	1	0	0	0	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	86	32	0	0	LIABILITIES	27,298	29,322	30,312	29,845
Income from investments in other entities	1	2	3	4	Current liabilities	26,015	28,439	28,908	24,449
Net accounting profit/(loss) before tax	15,586	9,485	7,195	8,573	Trade accounts payable	14,836	14,617	15,477	10,433
Corporate income tax expenses	-916	-1,031	-720	-857	Advances from customers	38	247	247	247
Net profit/(loss) after tax	14,669	8,455	6,475	7,716	Short-term unrealized revenue	8,954	10,970	10,579	11,164
Minority interests	-57	-57	-31	-37	Short-term borrowings	1,282	884	1,404	5,396
Attributable to parent company	14,726	8,511	6,506	7,753	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	0	0	520	4,512
					Long-term borrowings	51,190	57,131	59,431	62,587
					OWNER'S EQUITY	31,005	31,005	31,005	31,005
					Paid-in capital	0	0	0	0
					Share premium	14,652	16,202	18,533	21,727
					Undistributed earnings	5,598	10,048	10,048	10,047
					Minority interests	-65	-124	-155	-192
Margin ratio					Key ratios				
-	2022A	2023A	2024F	2025F	-				
Gross profit margin	9.6%	6.5%	5.8%	6.2%	Multiple				
EBITDA margin	10.1%	6.9%	6.7%	7.3%	P/E	5.0	8.8	11.5	9.7
EBIT margin	8.8%	5.4%	4.8%	5.2%	P/E diluted	5.0	8.8	11.5	9.7
Pre-tax profit margin	9.3%	6.4%	5.6%	6.0%	P/B	1.5	1.3	1.3	1.2
Operating profit margin	9.3%	6.4%	5.6%	6.0%	P/S	0.4	0.5	0.6	0.5
Net profit margin	8.8%	5.7%	5.1%	5.4%	P/Tangible Book	1.5	1.3	1.3	1.2
					P/Cash Flow	10.4	6.4	10.4	5.7
					EV/EBITDA	3.6	6.7	7.9	6.7
					EV/EBIT	4.1	8.7	11.0	9.2
Cash Flow Statement					Operating performance				
(VND billion)	2022A	2023A	2024F	2025F	-				
Net profit/(loss) before tax	15,586	9,486	7,195	8,573	ROE	28.7%	14.8%	10.9%	12.3%
Depreciation and amortisation	2,192	2,269	2,420	2,919	ROA	18.7%	9.8%	7.2%	8.4%
Profit/loss from investing activities	-1,102	-2,315	0	0	ROIC	38.0%	15.3%	11.6%	13.0%
Interest expense	253	288	294	299	Financial structure				
Operating profit/(loss) before changes in Working Capital	16,929	9,728	9,909	11,791	Cash Ratio	1.0	1.3	1.4	1.7
(Increase)/decrease in receivables	-2,943	1,848	-3,273	5,044	Quick Ratio	1.6	1.9	2.0	2.3
(Increase)/decrease in inventories	-6,577	1,305	739	2,505	Current Ratio	2.3	2.4	2.5	2.8
Increase/(decrease) in payables	883	604	860	-5,044	LT Debt/Equity	0.0	0.0	0.0	0.1
(Increase)/decrease in prepaid expenses	184	36	0	0	LT Debt/Total Assets	0.0	0.0	0.0	0.0
Net cash inflows/(outflows) from operating activities	7,088	11,672	7,221	13,140	Debt/Equity	0.2	0.2	0.2	0.2
Purchases of fixed assets and other long term assets	-220	-230	-1,555	-10,787	Debt/Total Assets	0.1	0.1	0.1	0.1
Proceeds from disposal of fixed assets	0	1	0	0	ST Liabilities/Equity	0.5	0.5	0.5	0.4
Loans granted, purchases of debt instruments	-7,826	-29,789	-31,732	-32,104	ST Liabilities/Total Assets	0.3	0.3	0.3	0.3
Collection of loans, proceeds from sales of debts instruments	9,843	10,840	29,789	29,789	Total Liabilities/Equity	0.5	0.5	0.5	0.5
Investments in other entities	0	0	0	0	Total Liabilities/Total Assets	0.3	0.3	0.3	0.3
Proceeds from divestment in other entities	0	0	0	0	Activity ratios				
Dividends and interest received	897	1,303	0	0	Account Receivable Turnover	11.1	9.3	7.7	9.1
Net cash inflows/(outflows) from investing activities	2,695	-17,874	-3,498	-13,102	Inventory Turnover	11.1	8.6	8.0	10.1
Proceeds from issue of shares	0	0	0	0	Account Payable Turnover	13.8	10.0	8.5	11.1
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	77,969	95,396	520	4,785					
Repayment of borrowings	-79,886	-93,407	-391	-208					
Finance lease principal payments	0	0	0	0					
Dividends paid	-1,347	-2,164	-2,170	-2,170					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-3,265	-175	-2,041	2,407					
Net increase in cash and cash equivalents	6,518	-6,377	1,682	2,445					
Cash and cash equivalents at the beginning of period	16,346	22,853	17,001	18,683					
Cash and cash equivalents at the end of period	22,853	17,001	18,683	21,128					

Source: Binh Son Refinery, KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

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

Buy:	Neutral:	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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