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3Q results are positive

In 3Q23, FPT Corporation (FPT) posted VND13,762 billion in revenue (+23% YoY) and a gross profit margin (GPM) of 40%. NPAT was VND2,076 billion (+18% YoY). In 9M23, the foreign IT services continued to lead the growth of the corporation with many large orders. 9M value of newly signed contracts reached VND20,700 billion (+23.2% YoY), including 20 projects worth over USD5 million each.

The foreign IT segment is increasing brand awareness in the US market

We expect revenue from the IT segment in 2024 to grow 25% YoY, based on (1) potential revenue from Japan (+30% YoY) and APAC markets (+30% YoY) thanks to digital transformation demand and the ability to penetrate these two markets; (2) expected improvement in IT spending in the US and EU; and (3) advantages from low cost, experience, and synergistic benefits from recent M&As.

The education segment positively contributes to the corporation growth

The education segment continues to show steady growth. In 9M23, it achieved strong growth in revenue, reaching VND4,435 billion (+43% YoY). We believe that FPT, with its reputation for training highly qualified human resources in IT, will attract many students as the current demand for learning is large. FPT University founded the Department of semiconductor and circuits, expected to officially start training from 2024.

BUY recommendation with target price of VND108,500/share

Based on FCFF and P/E valuation, business prospects and possible risks of FPT, we recommend BUY for FPT stock. The target price is VND108,500 apiece, 19% higher than the closing price on November 28, 2023.

Buy change

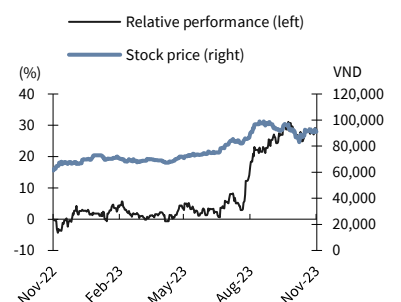
Target price	VND108,500
Upside	19%
Current price (Nov 28, 2023)	VND91,100
Consensus target price	VND111,800
Market cap (USDbn/VNDtn)	4.73/116

Trading data	
Free float	85%
3M avg trading value (VNDbn)	76.03
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.9	1.3	29.0	45.7
Relative	0.1	10.0	25.0	29.2

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	35,657	44,010	53,149	62,674
Operating income (VNDbn)	6,228	7,589	9,061	10,640
NPAT of parent company (VNDbn)	4,337	5,310	6,411	7,529
EPS (VND)	4,349	4,429	5,048	5,928
EPS growth (%)	6%	2%	14%	17%
P/E (x)	10.1	16.6	18.0	15.3
P/B (x)	2.0	3.4	4.1	3.6
ROE (%)	0.2	0.3	0.3	0.3
Dividend yield (%)	6%	3%	2%	3%



Source: Bloomberg, KB Securities Vietnam

3Q23 performance updates

3Q23 revenue and profit of FPT continued to be positive

3Q23 revenue and NPAT of FPT were VND13,762 billion (+23% YoY) and VND2,076 billion (+18% YoY), corresponding to a GPM of 40%.

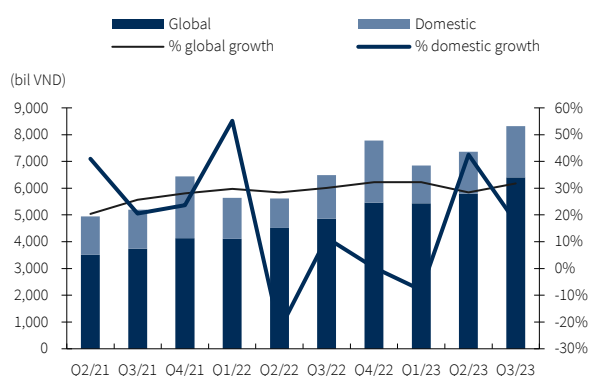
In 9M23, the foreign IT segment continued to lead the growth of the corporation with many large orders. Newly signed revenue reached VND20,700 billion (+23.2% YoY), including 20 projects worth over USD5 million each. FPT managed to maintain high growth in Japan and APAC to offset the slowdown in the US and EU. Telecommunications and education segments grew 15% and 53% respectively.

Table 1. FPT – 9M23 business results

	9M22	9M23	+/-%YoY	KBSV's notes
Revenue (VNDbn)	30,975	37,927	22%	
<i>Foreign IT services</i>	13,479	17,626	31%	<ul style="list-style-type: none"> - Revenue in this segment continues to show growth momentum in all markets. Japan and APAC markets saw the strongest growth (respectively +44.1% YoY and +37.6% YoY). - Digital transformation revenue in 9M23 hit VND7,710 billion (+46% YoY), focusing on new technologies such as cloud and AI/data analytics. - The value of new contracts was VND20,700 billion (+23.2% YoY).
<i>Domestic IT services</i>	4,263	4,891	15%	<ul style="list-style-type: none"> - Domestic businesses face many difficulties, causing investment demand for IT to slow down. Pre-tax profit in this segment only reached VND250 billion in 9M23 (-34.1% YoY).
<i>Telecommunication services</i>	10,243	11,278	10%	
<i>Online advertising</i>	564	413	-27%	
<i>Education, investment, and others</i>	2,425	3,720	53%	
Gross profit (VNDbn)	12,156	14,698	21%	
Gross profit margin (%)	39%	39%		
SG&A costs (VNDbn)	-7,392	-8,616	17%	
SG&A/revenue ratio (%)	24%	23%		
Operating profit (VNDbn)	5,603	6,725	20%	
Financial income (VNDbn)	1,472	1,816	23%	
Financial expenses (VNDbn)	-1,018	-1,191	17%	
Other incomes (net, VNDbn)	62	43	-31%	
Profit before taxes (VNDbn)	5,665	6,768	19%	
Profit after taxes (VNDbn)	4856	5,741	18%	

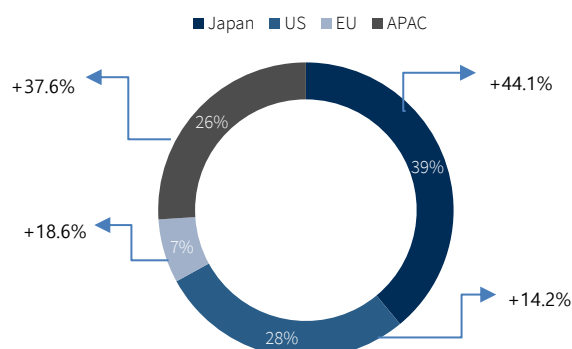
Source: FPT Corporation, KB Securities Vietnam

Fig 2. FPT – Revenue growth of IT services in 2021–2023 (% YoY)



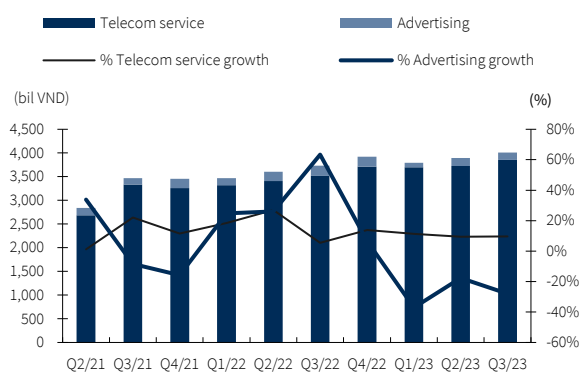
Source: FPT Corporation, KB Securities Vietnam

Fig 3. FPT – Revenue structure of software outsourcing business in 9M23 (% YoY)



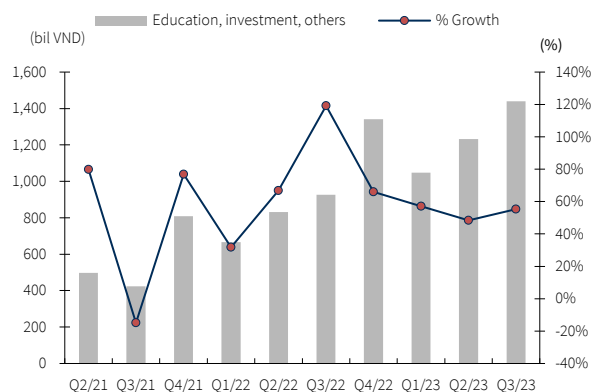
Source: FPT Corporation, KB Securities Vietnam

Fig 4. FPT – Revenue growth of telecommunications in 2021–2023 (% YoY)



Source: FPT Corporation, KB Securities Vietnam

Fig 5. FPT – Revenue growth of education – investment in 2021–2023 (% YoY)



Source: FPT Corporation, KB Securities Vietnam

Foreign IT segment maintains double-digit growth

The expectation of higher global spending on IT services is a driving factor for the IT segment of FPT in 2024. According to Gartner, total global IT spending in 2023 and 2024 will reach USD4.7 billion (+3.5 % YoY) and USD5.07 billion (+8% YoY) respectively.

Accordingly, we forecast that the IT segment of FPT would grow 25% in 2024, based on (1) potential revenue from Japan (+30% YoY) and APAC markets (+30% YoY) thanks to their demand and FPT’s ability to penetrate these two markets; (2) expected improvement in IT spending in the US and EU thanks to better demand for digital transformation, information security and the trend of shifting the model to hybrid working; and (3) advantages from low cost, experience and synergistic benefits from recent M&As.

The foreign IT segment is increasing brand awareness in the US market

FPT has taken many steps to improve its brand presence in the US market. In September, the corporation established a new office in Mexico, which should help focus more on large customers, increasing recognition in Latin America. In October, FPT announced the full acquisition of Cardinal Peak, a 20-year-old technology service provider in the US. The subsidiary recorded was USD6.1 million in 2022 revenue and is providing comprehensive services, including hardware, embedded software, IoT, cloud computing and mobile product development. Cardinal Peak's customer base includes more than 300 companies in many fields such as automobiles, consumer electronics, health care, online content streaming, robotics, and defense-aerospace. Cardinal Peak will create synergistic benefits for FPT thanks to its customer base and high-quality human resources in IoT and cloud computing. After this deal, FPT expects to double revenue from product technical services in the US market. However, the deal may not make a big contribution to FPT's profits in the next two years due to depreciation costs of the investment which has not been announced in detail.

The education segment positively contributes to the corporation growth

The education segment continues to show steady growth. In 9M23, it achieved strong growth in revenue, reaching VND4,435 billion (+43% YoY). We believe that FPT will attract more students thanks to the current large demand. In addition, FPT actively works with many provinces and cities to expand educational facilities across the country. In 3Q23, FPT University launched the Department of semiconductor and circuits, expected to officially start training from 2024. The department has an orientation to provide comprehensive training in semiconductor design and conduct related research to train highly qualified human resources in the industry.

PayTV and Data Center are the growth forces of the telecommunications segment

We maintain the view that the PayTV and Data Center segments will lead telecommunications revenue in the coming years. As the broadband market is saturated, it is difficult for FPT to make robust growth. This segment can bring in stable revenue from existing customers but only record single-digit growth. Regarding PayTV, FPT is focusing on investing in purchasing copyrights for entertainment programs to attract more subscriptions. For the data center, the two data centers in Ho Chi Minh City coming into operation in 2024 is expected to improve profit from telecommunications services as the GPM of data centers is much better than the average of the entire telecoms segment.

Forecast & valuation

Table 6. FPT – 2023–2024F results

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Revenue (VNDbn)	44,010	53,149	21%	62,674	18%	
<i>Foreign IT services</i>	18,935	24,528	30%	30,650	25%	<ul style="list-style-type: none"> - Revenue growth in the Japanese and APAC markets is forecast to reach about 30% in 2024 thanks to large spending on IT, especially digital transformation. - The US and EU markets will recover slightly in 2024. Income from the US and EU markets should be 16% and 17% respectively.
<i>Domestic IT services</i>	6,586	7,113	8%	7,113	0%	<ul style="list-style-type: none"> - Domestic IT services are expected to go sideways in the context of businesses tightening spending due to the general impacts of the economy.
<i>Telecommunication services</i>	13,954	15,275	9%	16,722	9%	<ul style="list-style-type: none"> - Broadband services will keep growing because the market is almost saturated. Growth in this segment will be led by PayTV and Data Center.
<i>Online advertising</i>	775	581	-25%	599	3%	<ul style="list-style-type: none"> - Growth forecast for 2024 is 3%, improving from 2023 low bases.
<i>Education, investment, and others</i>	3,767	5,652	50%	7,591	34%	<ul style="list-style-type: none"> - The education segment is expected to grow positively in 2024 thanks to (1) large learning demand while public schools have not fully met the demand; (2) prospects from FPT's new open education facilities; and (3) benefits from the first generation of students in the field of semiconductor ICs.
Gross profit (VNDbn)	17,167	20,465	19%	24,129	18%	
Gross profit margin (%)	39%	39%		39%		
SG&A costs (VNDbn)	-10,373	-12,224	18%	-14,415	18%	
SG&A/revenue ratio (%)	24%	23%		23%		
Operating profit (VNDbn)	7,589	9,061	19%	10,640	17%	
Financial income (VNDbn)	1,999	2,031	2%	1,966	-3%	
Financial expenses (VNDbn)	-1,687	-1,209	-28%	-1,040	-14%	
Other incomes (net, VNDbn)	73	80	9%	94	18%	
Profit before taxes (VNDbn)	7,662	9,220	20%	10,828	17%	
Profit after taxes (VNDbn)	6,491	7,837	21%	9,204	17%	

Source: FPT Corporation, KB Securities Vietnam

**Valuation: BUY recommendation
with target price of
VND108,500/share**

We use two valuation methods, DCF and P/E comparison (among businesses in the same industry with the same capital scale in developing Asian markets for technology and telecommunications segment). As FPT has no separation between the education and investment segments, we assume the current P/E level is reasonable.

Combining the above two valuation methods with a 50-50 ratio, we find the final reasonable price of FPT at VND108,500/share, 19% higher than the price on November 28, 2023.

Table 7. FPT – FCFF valuation results

Cost of equity	13%	PV of terminal value (TV)	102,301
Risk free rate	5%	PV of 2023-2027 (PV)	50,205
Market premium	8%	Total present value	152,506
Beta	1	Owner equity	155,858
Terminal growth	5%	Outstanding shares (thousand)	1,270
		Equity/outstanding shares (VND)	110,453

Source: KB Securities Vietnam

Table 8. FPT – P/E comparison

	Target P/E	Revenue contribution	Proportion
IT	27.2	45%	12.2
Telecommunications	15.6	37%	5.8
Education & investment	16.3	19%	3.1
Total			21.1
Target price			106,519

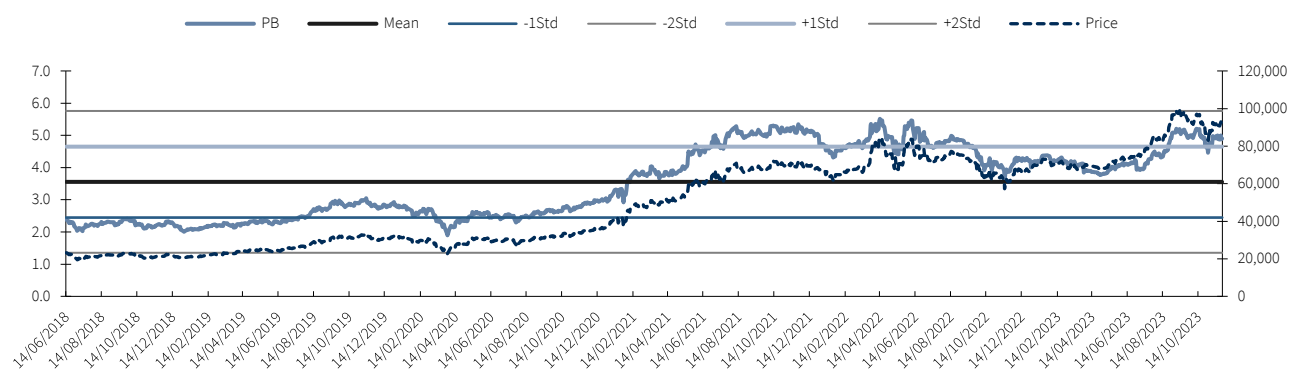
Source: KB Securities Vietnam

Table 9. FPT – Final valuation

Valuation method	Forecast price	Weighting	Fair price
FCFF	110,453	50%	55,227
P/E	106,519	50%	53,259
Target price (rounded)			108,500
Current price			91,100
Upside to target price			19%

Source: KB Securities Vietnam

Fig 10. FPT - P/B in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

Table 11. Asian developing countries – P/E comparison among technological businesses

	Market capitalization (VNDtn)	PE forward	Weight	PE per weight
Persistent Systems Ltd	143	37	10%	3.8
Isoftstone Information Technol	136	28	10%	2.7
Mphasis Ltd	128	25	9%	2.2
Coforge Ltd	100	31	7%	2.3
Tajji Computer Corp Ltd	64	30	5%	1.4
China TransInfo Technology Co	64	29	5%	1.3
Chinasoft International Ltd	60	16	4%	0.7
Cyient Ltd	60	24	4%	1.0
Beijing Ultrapower Software Co	58	18	4%	0.8
CETC Digital Technology Co Ltd	55	21	4%	0.8
Sonata Software Ltd	53	29	4%	1.1
Wonders Information Co Ltd	46	41	3%	1.3
PCI Technology Group Co Ltd	42	33	3%	1.0
Yusys Technologies Co Ltd	41	23	3%	0.7
Digital China Information Serv	40	25	3%	0.7
Beijing eGOVA Co Ltd	40	29	3%	0.8
Fujian Boss Software Developme	37	23	3%	0.6
Happiest Minds Technologies Lt	37	40	3%	1.1
Zensar Technologies Ltd	36	20	3%	0.5
Troy Information Technology Co	34	63	2%	1.5
Richinfo Technology Co Ltd	34	25	2%	0.6
Chengdu Information Technology	32	62	2%	1.4
Beijing Shenzhou Hangtian Soft	32	45	2%	1.0
Northking Information Technolo	29	20	2%	0.4
P/E average				27.2x

Source: Bloomberg, KB Securities Vietnam

Table 12. Asian developing countries – P/E comparison among telecommunications businesses

	Market capitalization (VNDtn)	PE forward	Weight	PE per weight
Far EasTone Telecommunications	199	23	10%	2.3
Maxis Bhd	163	23	8%	1.8
Intouch Holdings PCL	155	18	8%	1.4
Indus Towers Ltd	146	9	7%	0.6
Tata Communications Ltd	146	30	7%	2.2
PLDT Inc	119	9	6%	0.5
Indosat Tbk PT	114	15	6%	0.8
Axiata Group Bhd	113	26	6%	1.5
Globe Telecom Inc	110	13	5%	0.7
Telekom Malaysia Bhd	105	13	5%	0.7
Dayamitra Telekomunikasi PT	91	25	4%	1.1
GrameenPhone Ltd	85	11	4%	0.5
Sarana Menara Nusantara Tbk PT	78	13	4%	0.5
China Communications Services	76	6	4%	0.2
China Bester Group Telecom Co	51	60	3%	1.5
TIME dotCom Bhd	49	19	2%	0.5
XL Axiata Tbk PT	43	17	2%	0.3
Montnets Cloud Technology Grou	43	34	2%	0.7
Jasmine Broadband Internet Inf	36	8	2%	0.1
Robi Axiata Ltd	35	35	2%	0.6
Route Mobile Ltd	28	22	1%	0.3
Railtel Corp of India Ltd	27	31	1%	0.4
Converge Information and Commu	26	7	1%	0.1
P/E average				15x

Source: Bloomberg, KB Securities Vietnam

FPT – 2021A–2024F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2021	2022	2023F	2024F		2021	2022	2023F	2024F
Net sales	35,657	44,010	53,149	62,674	CURRENT ASSETS	53,698	51,650	60,144	66,453
Cost of sales	22,025	26,842	32,687	38,545	Cash and cash equivalents	35,118	30,938	39,196	43,952
Gross Profit	13,632	17,167	20,463	24,129	Short-term investments	5,418	6,440	8,069	9,526
Financial income	1,271	1,999	2,031	1,966	Accounts receivable	20,731	13,047	13,047	13,047
Financial expenses	-1,144	-1,687	-1,209	-1,040	Inventories	6,882	8,503	10,193	12,020
of which: interest expenses	-484	-646	-1,209	-1,040	LONG-TERM ASSETS	1,507	1,966	2,418	2,851
Gain/(loss) from joint ventures (from 2015)	687	484	57	312	Long-term trade receivables	18,580	20,713	20,949	22,501
Selling expenses	-3,605	-4,526	-5,315	-6,267	Fixed assets	167	225	225	225
General and admin expenses	-4,612	-5,846	-6,909	-8,148	Investment properties	10,399	12,033	13,341	14,893
Operating profit/(loss)	6,228	7,589	9,061	10,640	Long-term incomplete assets	0	0	0	0
Other incomes	133	184	213	251	Long-term investments	3,102	3,238	3,228	3,228
Other expenses	-25	-111	-133	-157	TOTAL ASSETS	466.0	407.9	407.9	407.9
Net other income/(expenses)	109	73	80	94	LIABILITIES	32,280	26,294	30,945	32,736
Income from investments in other entities	0	0	0	0	Current liabilities	29,761	24,521	29,100	30,791
Net accounting profit/(loss) before tax	6,337	7,662	9,220	10,828	Trade accounts payable	2,866	3,209	4,828	5,493
Corporate income tax expenses	-988	-1,171	-1,383	-1,624	Advances from customers	711	491	491	491
Net profit/(loss) after tax	5,349	6,491	7,837	9,204	Short-term unrealized revenue	17,799	10,904	11,851	11,325
Minority interests	1,012	1,181	1,426	1,675	Short-term borrowings	2,519	1,773	1,845	1,945
Attributable to parent company	4,337	5,310	6,411	7,529	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	95	115	115	115
					Unrealized revenue	2,296	1,478	1,578	1,678
					Long-term borrowings	21,418	25,356	29,200	33,717
					OWNER'S EQUITY	9,076	10,970	10,970	10,970
					Paid-in capital	50	50	50	50
					Share premium	7,000	7,712	11,558	16,075
					Undistributed earnings	3	3	3	3
					Minority interests	3,477	4,310	4,310	4,310

Margin ratio				
	2021A	2022A	2023F	2024F
Gross profit margin	38.2%	39.0%	38.5%	38.5%
EBITDA margin	19.2%	19.1%	19.5%	19.1%
EBIT margin	19.1%	18.9%	19.6%	18.9%
Pre-tax profit margin	17.8%	17.4%	17.3%	17.3%
Operating profit margin	17.5%	17.2%	17.0%	17.0%
Net profit margin	15.0%	14.7%	14.7%	14.7%

Cash Flow Statement (VND billion)				
	2021A	2022A	2023F	2024F
Net profit/(loss) before tax	6,337	7,662	9,220	10,828
Depreciation and amortization	1,644	1,833	1,800	2,005
Profit/loss from investing activities	-1,700	-1,987	-1,987	-1,987
Interest expense	484	646	1,209	1,040
Operating profit/(loss) before changes in Working Capital	7,053	9,042	10,241	11,886
(Increase)/decrease in receivables	-694	-1,949	-1,621	-1,690
(Increase)/decrease in inventories	-218	-498	-458	-452
Increase/(decrease) in payables	1,910	1,300	343	1,619
(Increase)/decrease in prepaid expenses	-376	-634	-634	-634
Net cash inflows/(outflows) from operating activities	5,840	5,054	6,852	9,281
Purchases of fixed assets and other long-term assets	-2,911	-3,215	-3,720	-4,387
Proceeds from disposal of fixed assets	3	6	0	0
Loans granted, purchases of debt instruments	-35,827	-32,995	0	0
Collection of loans, proceeds from sales of debts instruments	27,590	40,669	0	0
Investments in other entities	-451	-557	0	0
Proceeds from divestment in other entities	0	56	0	0
Dividends and interest received	1,183	1,794	0	0
Net cash inflows/(outflows) from investing activities	-10,413	5,757	-3,720	-4,387
Proceeds from issue of shares	88	77	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	34,464	28,120	1,046	0
Repayment of borrowings	-26,931	-35,740	0	-526
Finance lease principal payments	-1	-8	0	0
Dividends paid	-2,254	-2,222	-2,564	-3,012
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	5,365	-9,773	-1,518	-3,437
Net increase in cash and cash equivalents	791	1,038	1,614	1,456
Cash and cash equivalents at the beginning of period	4,686	5,418	6,456	8,069
Cash and cash equivalents at the end of period	5,478	6,456	8,069	9,526

Key ratios (x, %, VND)				
Multiple				
P/E	10.1	16.6	18.0	15.3
P/E diluted	10.1	16.6	18.0	15.3
P/B	2.0	3.4	4.1	3.6
P/S	1.1	1.8	2.2	1.8
P/Tangible Book	2.0	3.4	4.1	3.6
P/Cash Flow	6.8	16.0	16.8	12.4
EV/EBITDA	8.0	10.0	11.4	10.1
EV/EBIT	9.9	12.3	13.4	11.8

Operating performance				
ROE	25%	26%	27%	27%
ROA	8%	10%	11%	11%
ROIC	19%	26%	30%	32%

Financial structure				
Cash Ratio	0.31	0.27	0.21	0.21
Quick Ratio	0.71	0.66	0.63	0.77
Current Ratio	1.45	1.27	1.18	1.13
LT Debt/Equity	11%	6%	5%	5%
LT Debt/Total Assets	4%	3%	3%	3%
Debt/Equity	83%	43%	41%	34%
Debt/Total Assets	33%	21%	20%	17%
ST Liabilities/Equity	139%	97%	100%	91%
ST Liabilities/Total Assets	55%	47%	48%	46%
Total Liabilities/Equity	151%	104%	106%	97%
Total Liabilities/Total Assets	60%	51%	51%	49%

Activity ratios				
Account Receivable Turnover	5.2	5.2	5.2	5.2
Inventory Turnover	14.6	13.7	13.5	13.5
Account Payable Turnover	7.8	8.5	6.9	7.1

Source: FPT Corporation, 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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