

FPT Digital Retail (FRT)

Back to positive trajectory

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2Q 2024 NPAT hit VND48 billion, marking the second consecutive profitable quarter

In 2Q 2024, FPT Digital Retail (FRT) reported net revenue of VND9,272 billion (+28% YoY), with online revenue reaching VND1,658 billion, up 17% YoY. Gross profit stood at VND1,811 billion, resulting in a gross margin of 19.6% (+4.5 pts YoY). Profit after taxes (NPAT) amounted to VND48.5 billion, a significant turnaround from a loss of VND215 billion in 2Q 2023. This represents the second consecutive profitable quarter following three quarters of losses in 2023.

Long Chau remained the main catalyst for FRT's growth

FPT Long Chau generated VND5,900 billion (+65% YoY) or 63% of FRT's total revenue, with average monthly sales per store of VND1.2 billion. In 2Q, Long Chau continued to open 119 new stores towards its target of 400 new stores for the year. The chain's NPAT is estimated at VND110 billion, nearly doubling YoY.

FPT Shop's business performance saw a slight improvement after a delayed restructuring

Although FPT Shop's net revenue ended 2Q 2024 at VND3,372 billion (-7.2% YoY), the gross profit margin (GPM) expanded by 5.6 percentage points (ppts) YoY to 13.8%. After closing 101 underperforming stores and restructuring the product mix, FPT Shop's pre-tax profit (PBT) in 2Q 2024 improved against 1Q 2024, excluding store closure costs.

We recommend a BUY rating for FRT with a target price of VND213,100/share

We project FRT's 2024F net revenue of VND39,528 billion (+23.6% YoY) and profit of VND7,717 billion, with a gross margin of 19.5% (up 3.3 pts YoY). NP after MI is expected at VND301 billion. Given the positive outlook for FPT Long Chau, alongside ambitions to expand its healthcare ecosystem, we recommend a BUY rating for FRT shares with a target price of VND213,100 per share.

Buy maintain

Target price VND213,100

Upside	17.8%
Current price (, 2024)	VND181,600
Consensus target price	VND196,300
Market cap (VNDtn/USDbn)	24.8/1.0

Forecast earnings & valuation

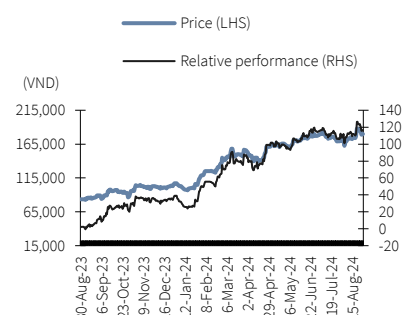
FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	30,166	31,850	39,528	46,159
Operating income/loss (VNDbn)	557	(85)	656	944
NPAT-MI (VNDbn)	390	(346)	301	541
EPS (VND)	2,865	(2,537)	2,066	3,587
EPS growth (%)	-49.0	-188.6	-181.4	73.6
P/E (x)	63.7	-71.9	88.3	50.9
P/B (x)	11.5	16.7	14.2	11.3
ROE (%)	19.4	-19.1	17.0	23.5
Dividend yield (%)	0.2	0.2	0.0	0.1

Trading data

Free float	46.0%
3M avg trading value (VNDbn/USDmn)	99.4/3.9
Foreign ownership	36.3%
Major shareholder	FPT Corp (FPT, 46.64%)

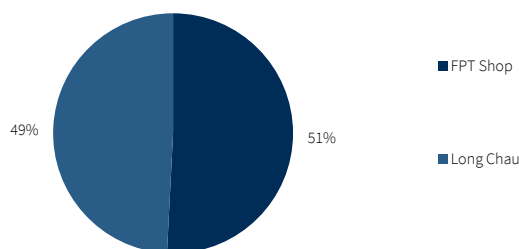
Share price performance

(%)	1M	3M	6M	12M
Absolute	6.3	9.1	24.1	116.1
Relative	3.4	7.9	21.8	110.5



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: FPT Digital Retail, KB Securities Vietnam

Business operation

FPT Digital Retail JSC (FRT), founded in 2012, is a subsidiary of FPT Corporation and operates two major retail chains: FPT Shop and FPT Long Chau. FPT Shop specializes in the sale of smartphones and laptops, holding a market share of approximately 15–20% and ranking second in the industry. FPT Long Chau, a pharmaceutical retail chain, is the first in its sector to achieve profitability and holds the largest market share, estimated at over 20%.

Investment Catalysts

FPT Shop would return to profitability in 2H 2024. KBSV expects a mild recovery in the ICT & CE sector and restructuring efforts to start yielding positive results in 2H 2024.

Long Chau will continue to boost market visibility. KBSV anticipates Long Chau will open an additional 400 stores across 2024 and 2025.

FRT will further expand its healthcare ecosystem. In the long term, this ecosystem is intended to encompass services from diagnosis and treatment, over-the-counter (OTC) medication, at-home health monitoring services, to insurance services.

Notes

Please find more details below

Please see more details below

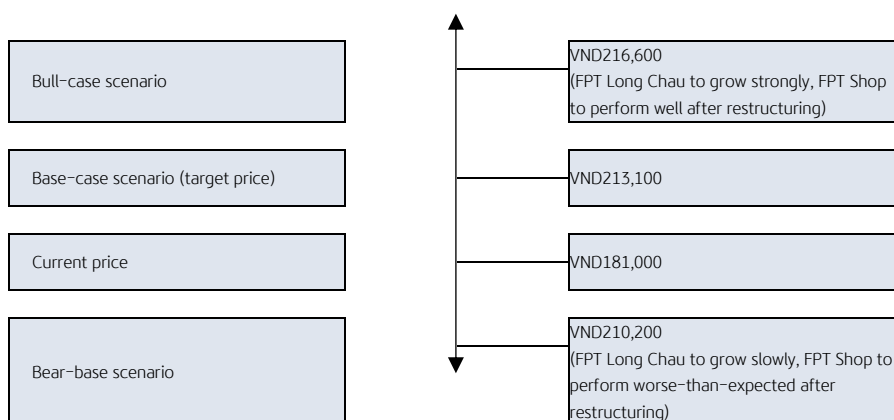
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	39,528	46,159	3%	1%	39,223	47,506	1%	-3%
EBIT	656	944	34%	12%	507	916	29%	3%
NP after MI	301	542	151%	34%	199	514	51%	5%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) FPT Long Chau opens 400 new stores in 2024
- 2) FPT Shop's revenue: -8.7% YoY

Bull-case scenario: upside risk

- 1) FPT Long Chau opens 550 new stores
- 2) FPT Shop's revenue: flat YoY

Bear-case scenario: downside risk

- 1) FPT Long Chau opens 250 new stores
- 2) FPT Shop's revenue: -18.2% YoY

Business performance

Long Chau remained the main catalyst for FRT's growth

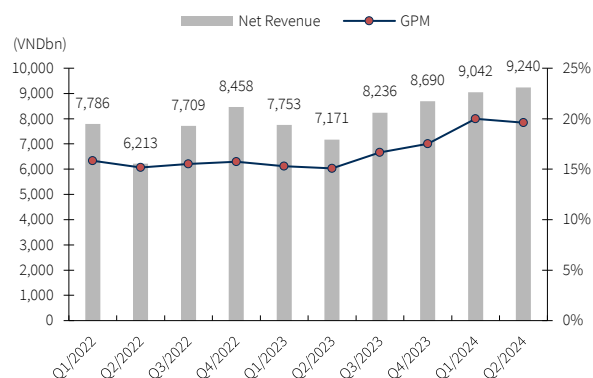
By the end of 2Q 2024, FRT reported net revenue of VND9,240 billion (+29% YoY) and NPAT of VND48.5 billion, marking a strong recovery from a loss of VND215 billion in 2Q 2023. Long Chau remained the primary growth engine, making a significant contribution to the company's overall revenue and earnings. In contrast, FPT Shop continued its losing streak, posting a loss of over VND61 billion, including expenses related to store closures.

Table 1. FRT – 2Q24 business performance

(VNDbn)	2Q 2023	2Q 2024	+/-%YoY	1H 2023	1H 2024	+/-%YoY	Notes
Revenue	7,171	9,240	28.8%	14,924	18,281	22.5%	
– FPT Shop	3,605	3,340	-7.4%	8,118	6,923	-14.7%	The ICT industry has experienced a slow recovery, and FPT Shop has been slower than its competitors in implementing its restructuring efforts.
– FPT Long Chau	3,566	5,900	65.4%	6,806	11,358	66.9%	A total of 119 new stores were opened, bringing the store count to 1,706, with average monthly sales per store reaching VND1.2 billion.
Gross profit	1,081	1,811	67.5%	2,268	3,618	59.6%	
<i>Gross profit margin</i>	15.1%	19.6%	4.5ppts	15.2%	19.8%	4.6ppts	GPM improved thanks to: (1) FPT Shop's restructuring of its product mix, focusing on high-margin items such as electronics and household appliances, and (2) Long Chau's market dominance, which has strengthened its bargaining position with suppliers.
Financial income	10	19	102.2%	26	44	70.8%	Driven by interest income (up 131.3% YoY)
Financial expenses	76	55	-28.3%	163	115	-29.1%	Driven by low-interest loans
SG&A	1,217	1,682	38.2%	2,335	3,365	44.1%	
Operating income/loss	-202	94	n/a	-204	183	n/a	
Profit before taxes (PBT)	-200	72	n/a	-198	161	n/a	
Profit after taxes (NPAT)	-215	48	n/a	-213	109	n/a	Although FPT Shop continued to report losses, FRT maintained positive earnings growth, thanks to the strong contribution from Long Chau.
NP after MI	-219	27	n/a	-224	66	n/a	
<i>NPAT margin</i>	-3.0%	0.5%	3.5ppts	-1.4%	0.6%	2.0ppts	

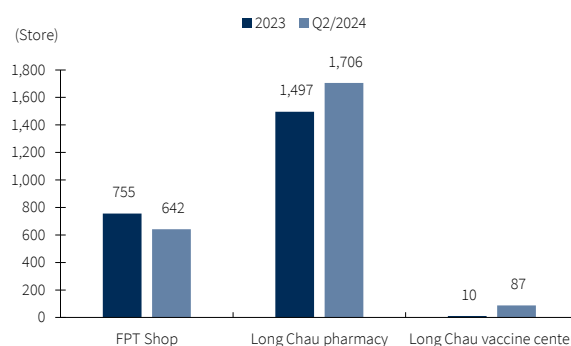
Source: FPT Digital Retail, KB Securities Vietnam

Fig 2. FRT – Net revenue, gross profit margin (VNDbn, %)



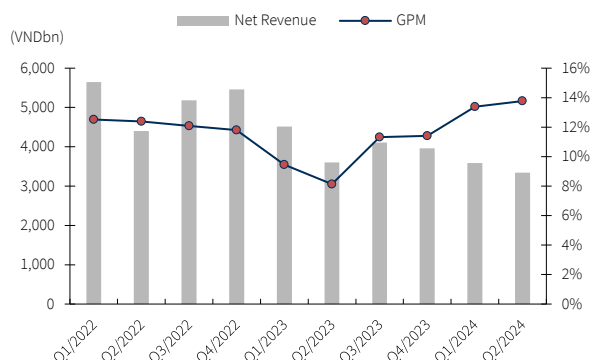
Source: FPT Digital Retail, KB Securities Vietnam

Fig 3. FRT – Number of FPT Shop, FPT Long Chau



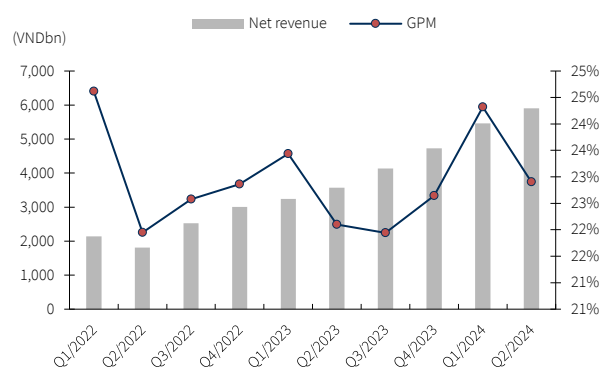
Source: FPT Digital Retail, KB Securities Vietnam

Fig 4. FRT – FPT Shop's net revenue, GPM (VNDbn, %)



Source: FPT Digital Retail, KB Securities Vietnam

Fig 5. FRT – FPT Long Chau's net revenue, GPM (VNDbn, %)



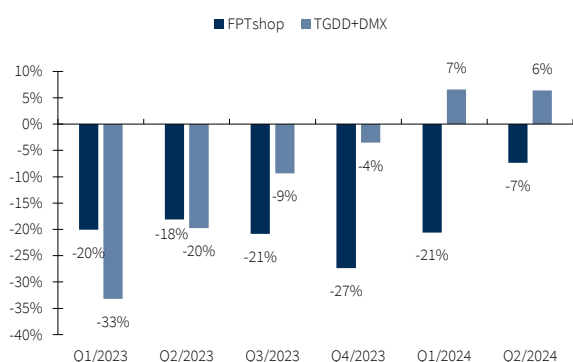
Source: FPT Digital Retail, KB Securities Vietnam

FRT's ICT&CE segment has slowly recovered

Following the end of the price war in 2023, FPT Shop has been trailing its competitors in the recovery process. 2Q 2024 revenue hit VND3,372 billion (-7.2% YoY) (Fig 4), while earnings saw a loss of VND62 billion, marking the sixth consecutive quarter of losses, despite having closed 113 underperforming stores.

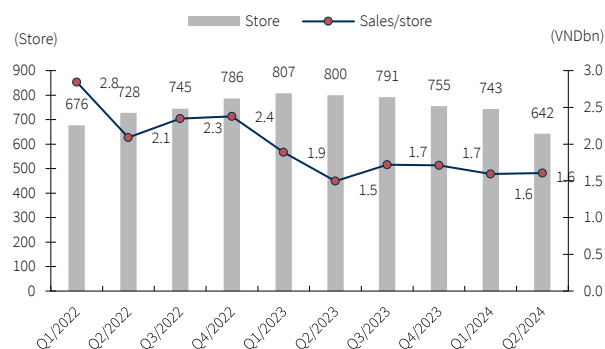
We estimate FPT Shop's 2024F revenue at VND14,893 billion (-8.7% YoY) with a net loss of VND10 billion due to delays in its restructuring strategy. In contrast, FRT's ICT & CE segment is expected to return to a positive trajectory in 2H 2024, driven by favorable macroeconomic and sector trends, including: (1) Vietnam's PMI rising to 54.7 in June and July, signaling a recovery in the manufacturing sector; (2) anticipated increases in consumer income, fueled by a 30% hike in the minimum wage from VND1.8 million to VND2.34 million per month, effective July 1, 2024, alongside a 2% VAT reduction on goods and services until December 31, 2024; and (3) a resurgence in the replacement cycle for phones, laptops, and tablets by late 2024. Additionally, the anticipated launch of the iPhone 16, featuring AI advancements, and the discontinuation of 2G services in September 2024 are likely to drive new phone purchases.

Fig 6. FRT, MWG – Revenue growth of FPT Shop vs. TGDD/DMX (%)



Source: FPT Digital Retail, Mobile World Group, KB Securities Vietnam

Fig 7. FRT – Store count & average sales per store of FPT Shop (store, VNDbn)

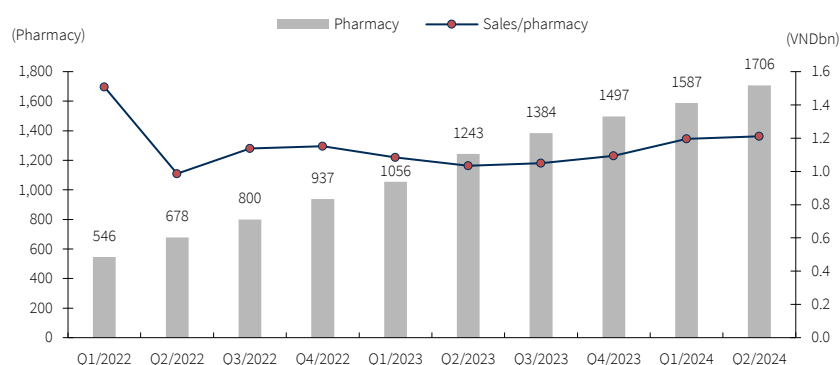


Source: FPT Digital Retail, KB Securities Vietnam

Long Chau would further increase its market penetration

By the end of 2Q 2024, Long Chau reported an average monthly revenue per store of VND1.2 billion (+17.2% YoY) and expanded its pharmacy network to 1,076 stores, adding 209 new stores since the end of 2023. This rapid growth has strengthened Long Chau bargaining position with suppliers, allowing gross profit margin to improve by 0.5 ppts YoY (Fig 5). KBSV estimates that FRT will open an additional 400 pharmacies in 2024, bringing the total to 1,897. We believe that Long Chau Pharmacy, with a 30% market share, can continue to capture share from smaller pharmacies and hospitals due to its extensive medication portfolio compared to smaller pharmacies and greater convenience relative to hospitals.

Fig 8. FRT – Store count, average sales per store of FPT Long Chau (store, VNDbn)



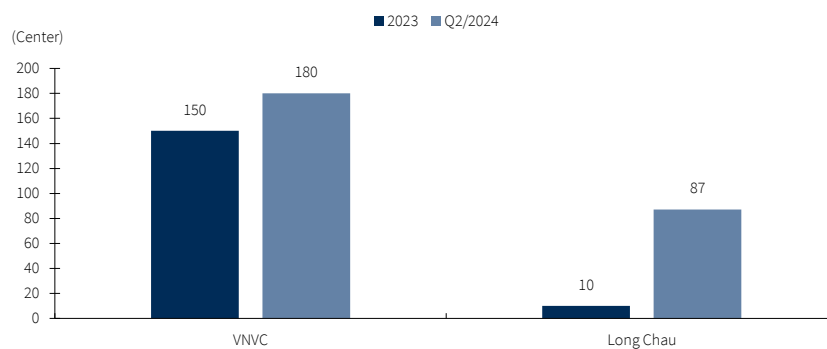
Source: FPT Digital Retail, KB Securities Vietnam

Other services in Long Chau's healthcare ecosystem

FRT aims to develop a comprehensive healthcare ecosystem, aligning with the full health lifecycle of individuals. This ecosystem will cover preventive health centers; consultations, diagnostics, and treatments; over-the-counter (OTC) medication; at-home health monitoring; and health insurance.

- **Long Chau Vaccination Services:** Although Vietnam's vaccine market (valued at VND15 trillion in 2023) remains relatively small, it has substantial long-term growth potential. Long Chau was a late entrant to the vaccination market compared to other players but has a unique advantage by leveraging its base of 15 million loyal pharmacy customers. We therefore maintain our forecast that Long Chau vaccination centers will add 100 new locations in 2024, expanding to 500 centers by 2027.
- **At-Home Health Monitoring Services (via LC247):** Customers simply take a photo of their vital signs monitor and submit it through the LC247 app. Long Chau will then analyze the health data and provide personalized guidance on managing their condition. This service is expected to launch between late 3Q and early 4Q 2024.
- **Insurance Services:** FRT is collaborating with insurance providers such as Bao Viet, IHH, and others to offer insurance-backed medication coverage at Long Chau pharmacies, allowing insured patients to avoid out-of-pocket payments. This service is projected to launch by the end of 2024.

Fig 9. FRT – Number of VNVC & Long Chau vaccination centers



Source: KB Securities Vietnam

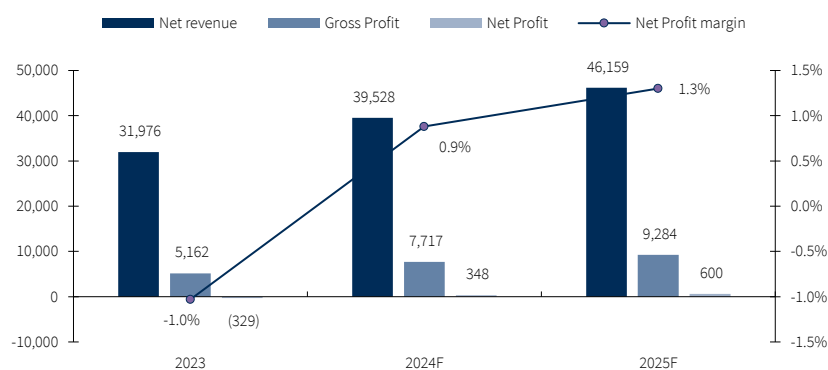
Forecast

Table 10. FRT – 2023A–2025F business performance

(VNDbn)	2023A	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	31,976	39,528	23.6%	46,159	16.8%	
FPT Shop	16,311	14,893	-8.7%	14,976	0.6%	– Average monthly revenue/store is projected to increase by 2.8% and 11.1% YoY in 2024F and 2025F as the ICT&CE industry gradually recovers; however, the impact of the restructuring strategy was not felt until 2H 2024. – Number of stores in 2024 is estimated to reach 624 and remain steady in 2025, with restructuring activities anticipated to conclude in 2H 2024.
FPT Long Chau	15,665	24,635	57.3%	31,183	26.6%	
Gross profit	5,162	7,717	49.5%	9,284	20.3%	– Pharmacies: Average monthly revenue per store is expected to grow by 11.9% and 0.8% YoY in 2024F. An additional 400 pharmacies are projected to open each year, driven by opportunities to expand market share. – Vaccination centers: The number of new centers opened in 2024F and 2025F is projected to be 90 and 150 centers, respectively, with an expected revenue contribution of 1–3%. Gross profit margin improved significantly because (1) FPT Shop added high-margin products such as household appliances, electronics, etc. to its portfolio; (2) Long Chau continued to increase its market share, which would strengthen its bargaining power with suppliers.
<i>Gross profit margin</i>	16.2%	19.5%	3.3ppts	20.1%	0.6ppts	
Financial income	80	123	53.1%	109	-11.1%	
Financial expenses	292	325	11.2%	313	-3.7%	
SG&A	5,246	7,061	34.6%	8,339	18.1%	
Profit before taxes (PBT)	-294	438	n/a	751	71.4%	
Profit after taxes (NPAT)	-329	348	n/a	601	72.4%	Long Chau is expected to continue its strong revenue and earnings growth momentum, making a major contribution to FRT.
NP after MI	-346	301	n/a	542	79.8%	
NPAT margin	-1.0%	0.9%	1.9ppts	1.3%	0.4ppts	

Source: KB Securities Vietnam

Fig 11. FRT – 2023A–2025F business performance



Source: FPT Digital Retail, KB Securities Vietnam

Valuation

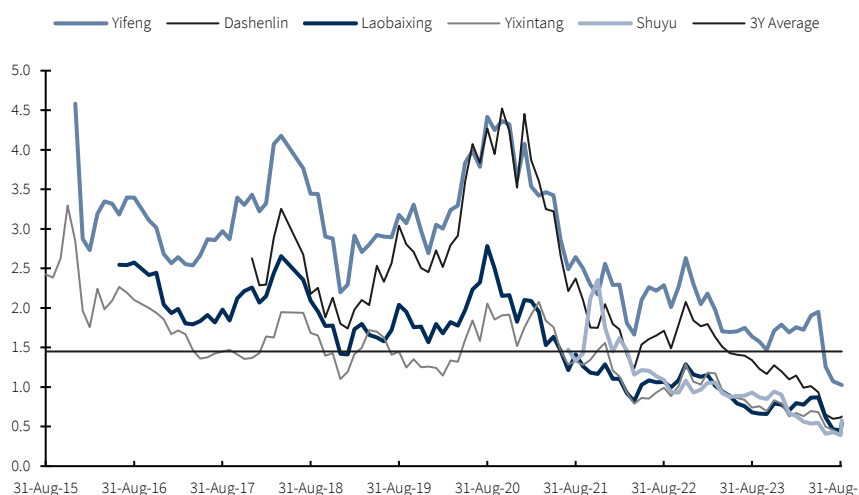
We recommend a BUY rating for FPT with a target price of VND213,100/share

We have valued FRT stock using the sum-of-the-parts (SOTP) approach to determine a fair target price.

1. **For the FPT Shop chain**, we apply the Free Cash Flow to Firm (FCFF) method, establishing a target equity value of VND2,247 billion.
2. **For the FPT Long Chau pharmacy chain**, we use a target P/S ratio of 1.45x, which aligns with the 3-year average for large pharmacy chains in China. We consider this valuation relatively conservative compared to the historical valuations of these chains, as they often reached P/S ratios above 2x during their IPO periods. We selected Chinese pharmacy chain as a comparison model due to economic, social, and demographic similarities as well as shared business models. Like Long Chau, Chinese pharmacy chains primarily focus on selling medicine and health supplements. In contrast, pharmacy chains in developed markets like the U.S. and Europe tend to operate in larger store formats and offer a broader range of product, including cosmetics, personal care, and mother-and-baby products, similar to the Pharmacity chain. Given these similarities, we have used the valuation multiples of Chinese pharmacy chains as a benchmark for Long Chau.

We recommend a BUY rating for FRT, with a target price of VND213,100 per share, which is 17.8% above the closing price on September 10, 2024, supported by our expectations for robust growth in the Long Chau pharmacy chain as it develops into a healthcare ecosystem.

Fig 12. China – P/S of major pharmacy chains



Source: Bloomberg, KB Securities Vietnam

Table 13. FRT – FPT Shop’s FCFF model assumptions

Cost of Equity	11.5%	Present value of terminal value	3,055
After-tax cost of debt	3.4%	Present value of future FCFF	1,596
Risk-free rate	4.7%	Cash & cash equivalents	398
Beta	0.87	Short-term investments	1,058
Terminal growth	1.0%	Enterprise value (EV)	6,107
Projected duration	5	Nett debt	3,860
WACC	5.74%		
Equity value			2,247

Source: KB Securities Vietnam

Table 14. FRT – Valuation results

	Valuation method	Enterprise value	% ownership	Contribution to FRT (VNDbn)
FPT Shop	DCF	2,247	100%	2,247
FPT Long Chau	P/S	35,724	75%	26,793
Equity value				29,040
Number of shares outstanding				136,243,415
Target price (VND/share)				213,148

Source: KB Securities Vietnam

FRT – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND billion)	2022	2023	2024F	2025F	(VND billion)	2022	2023	2024F	2025F
Net sales	30,166	31,850	39,528	46,159	TOTAL ASSETS	10,524	13,098	13,164	14,862
Cost of sales	-25,463	-26,688	-31,811	-36,876	CURRENT ASSETS	9,327	11,415	10,925	12,195
Gross Profit	4,703	5,162	7,717	9,284	Cash and cash equivalents	746	961	729	728
Financial income	174	80	123	109	Short-term investments	1,119	1,194	1,194	1,194
Financial expenses	-256	-292	-325	-313	Accounts receivable	538	394	388	144
of which: interest expenses	-232	-285	-317	-306	Inventories	6,484	8,427	8,285	9,801
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	LONG-TERM ASSETS	1,197	1,683	2,239	2,667
Selling expenses	-3,259	-4,170	-5,612	-6,628	Long-term trade receivables	170	179	335	402
General and admin expenses	-887	-1,076	-1,449	-1,711	Fixed assets	847	1,308	1,707	2,069
Operating profit/(loss)	474	-297	454	741	Long-term incomplete assets	2	1	1	1
Other incomes	16	22	16	16	LIABILITIES	8,474	11,379	11,117	12,307
Other expenses	5	20	31	6	Current liabilities	8,474	11,379	11,116	12,306
Net other income/(expenses)	12	2	-16	10	Trade accounts payable	2,307	2,274	3,112	3,635
Income from investments in other entities	0	0	0	0	Advances from customers	35	23	30	32
Net accounting profit/(loss) before tax	486	-294	438	751	Short-term borrowings	5,363	8,108	6,970	7,607
Corporate income tax expenses	88	35	-90	-150	Long-term liabilities	0	1	1	1
Net profit/(loss) after tax	398	-329	348	600	Long-term trade payables	0	0	0	0
Minority interests	8	16	47	59	Unrealized revenue	0	0	0	0
Attributable to parent company	390	-346	301	541	Long-term borrowings	0	0	0	0
					OWNER'S EQUITY	2,049	1,719	2,047	2,556
					Paid-in capital	1,185	1,362	1,362	1,362
					Share premium	0	0	0	0
					Undistributed earnings	824	237	517	967
					Other funds	41	120	0	0
					Minority interests	0	0	167	226
Margin ratio	2022	2023	2024F	2025F	Key ratios				
Gross profit margin	15,6%	16,2%	19,5%	20,1%	(x, %, VND)	2022A	2023E	2024E	2025E
EBITDA margin	2,2%	0,5%	2,1%	2,5%	Multiple				
EBIT margin	1,8%	-0,3%	1,7%	2,0%	P/E	63.0	-71.2	87.4	50.3
Pre-tax profit margin	1,6%	-0,9%	1,1%	1,6%	P/E diluted	63.0	-71.2	87.4	50.3
Operating profit margin	1,6%	-0,9%	1,1%	1,6%	P/B	11.4	16.5	14.1	11.2
Net profit margin	1,3%	-1,0%	0,9%	1,3%	P/S	0.7	0.8	0.6	0.5
					P/Tangible Book	11.4	16.5	14.1	11.2
					P/Cash Flow	-14.2	-13.2	16.5	1,295.5
					EV/EBITDA	38.7	213.7	37.8	27.6
					EV/EBIT	46.7	-375.8	47.3	33.6
Cash Flow Statement	2022	2023	2024F	2025F	Operating performance				
(VND billion)	2022	2023	2024F	2025F	ROE%	19.4%	-19.1%	17.0%	23.5%
Net profit/(loss) before tax	486	-294	438	751	ROA%	3.8%	-2.5%	2.6%	4.0%
Depreciation and amortisation	115	233	165	204	ROIC%	8.3%	-1.0%	7.9%	10.0%
Profit/loss from investing activities	-152	-48	0	0					
Interest expense	232	285	317	306	Financial structure				
Operating profit/(loss) before changes in Working Capital	680	176	920	1,260	Cash Ratio	0.2	0.2	0.2	0.2
(Increase)/decrease in receivables	-93	27	7	244	Quick Ratio	0.3	0.2	0.2	0.2
(Increase)/decrease in inventories	-1,550	-1,945	142	-1,516	Current Ratio	1.1	1.0	1.0	1.0
Increase/(decrease) in payables	36	176	837	523	LT Debt/Equity	0.0	0.0	0.0	0.0
(Increase)/decrease in prepaid expenses	-226	13	0	0	LT Debt/Total Assets	0.0	0.0	0.0	0.0
Trading securities, loan interest expenses, taxes, others	-355	-305	-414	-492	Debt/Equity	2.6	4.7	3.4	3.0
Net cash inflows/(outflows) from operating activities	-1,508	-1,857	1,492	19	Debt/Total Assets	0.5	0.6	0.5	0.5
Purchases of fixed assets and other long term assets	-518	-705	-565	-566	ST Liabilities/Equity	4.1	6.6	5.4	4.8
Proceeds from disposal of fixed assets	0	0	0	0	ST Liabilities/Total Assets	0.8	0.9	0.8	0.8
Loans granted, purchases of debt instruments	-6,940	-2,551	0	0	Total Liabilities/Equity	4.1	6.6	5.4	4.8
Collection of loans, proceeds from sales of debts instruments	9,162	2,516	0	0	Total Liabilities/Total Assets	0.8	0.9	0.8	0.8
Investments in other entities	-2	0	0	0					
Proceeds from divestment in other entities	0	0	0	0	Activity ratios				
Dividends and interest received	0	0	0	0	Account Receivable Turnover	23.9	68.3	101.1	173.6
Net cash inflows/(outflows) from investing activities	833	1,081	-584	-619	Inventory Turnover	4.5	3.6	3.8	4.1
Proceeds from issue of shares	11	58	0	0	Account Payable Turnover	13.0	13.9	14.7	13.7
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	13,422	16,942	0	637					
Repayment of borrowings	-14,106	-14,197	-1,138	0					
Finance lease principal payments	0	0	0	0					
Dividends paid	-39	-59	-1	-39					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-712	2,744	-1,139	598					
Net increase in cash and cash equivalents	-360	215	-232	-1					
Cash and cash equivalents at the beginning of period	1,105	746	961	729					
Cash and cash equivalents at the end of period	746	961	729	728					

Source: FPT Digital Retail, 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:	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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