

Hoa Phat Group (HPG)

Sustainable growth for medium & long term

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September 5, 2024

1H24 net profit completed 62% of the year's plan

Hoa Phat Group (HPG) posted VND3,320 billion in 2Q24 NPAT (+129% YoY) thanks to (1) sales volume increasing 29% YoY with the recovery of domestic demand and (2) GPM gaining 243bps thanks to raw material costs decreasing faster than prices in 1H24. By the end of June, the company reached 62% of the full-year profit plan.

GPM may reach 12.6%/14.8% in 2024/2025

HPG's GPM may decrease slightly in 3Q due to inventory provisions when iron ore and coke prices fell 8%/16% from the beginning of the quarter. However, in the medium term, product prices will decline more slowly than raw material costs, which will help HPG maintain a high GPM.

Dung Quat 2 should come into operation from 1Q25

Construction of Dung Quat 2 (DQ2) phase 1 & 2 has reached 80%/50% of the plan, which should contribute 1.1 million tons of HRC to the group in 2025.

Domestic consumption output should recover more strongly in 2025

HPG's consumption output has changed, focusing more on the domestic market after a period of export boom (accumulated HRC exports in 7M24 accounted for 32% of total consumption output, compared to 42% in 2023). We expect domestic consumption in 2H24 and 2025 to continue to increase thanks to (1) higher demand during the year–end construction season and (2) the recovery of the residential real estate market. KBSV estimates HPG's total construction steel and HRC consumption will reach 7.8/9.1 million tons in 2024/2025, up 20%/15% YoY.

Valuation: BUY rating – Target price VND31,000

KBSV gave a BUY rating to HPG with a price target of VND31,000, equivalent to a 24% return on the closing price on September 5, 2024.

Buy maintain

Target price	VND31,000
Upside	24%
Current price (Sep 5, 2024)	VND25,050
Consensus target price	VND35,900
Market cap (VNDtn/USDbn)	160.2/6.5

Trading data		
Free float		55.9%
3M avg trading value (VNDbn	/USDmn)	549.9/21.7
Foreign ownership		23.1%
Major shareholder	Chairma	n Tran Dinh Long
		(25.8%)

Share price perio	0			
(%)	1M	3M	6M	12M
Absolute	-3.8	-14.4	-10.5	-5.0
Relative	-8.1	-13.1	-11.0	-6.8

Share price performance

Forecast	earnings	&	valuation
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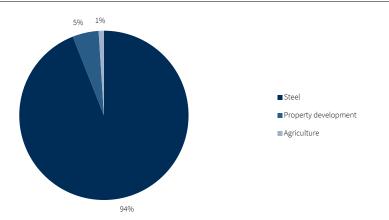
FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	141,409	118,953	134,102	145,647
Operating income/loss (VNDbn)	9,794	7,651	11,969	15,856
NPAT-MI (VNDbn)	8,484	6,835	10,778	13,477
EPS (VND)	1,459	1,175	1,685	2,107
EPS growth (%)	-81%	-19%	43%	25%
P/E (x)	12.3	25.7	14.9	11.9
P/B (x)	1.1	1.7	1.5	1.4
ROE (%)	9%	7%	10%	12%
Dividend yield (%)	3.9%	0.0%	9.1%	0.0%



Source: Bloomberg, KB Securities Vietnam



Revenue composition (2023)



Business operation

Hoa Phat Group (HPG) is a multi-industry enterprise, operating mainly in the field of iron and steel production. It holds the No. 1 market share in domestic construction steel and steel pipe production. HPG is also one of only two enterprises in Vietnam that can produce HRC with a current capacity of 3 million tons/year.

Source: Hoa Phat Group, KB Securities Vietnam

Investment Catalysts

Domestic steel prices decrease more slowly than input material prices, supporting gross profit margins in the medium term. Since the beginning of 3Q24, HPG's steel prices have decreased by an average of 2% while iron ore and coke prices have lost 8%/16%.

average of 2% while iron ore and coke prices have lost 8%/16%.

Domestic consumption output should continue to improve in the coming time. We expect domestic consumption output to be the growth force in 2H24 and 2025 thanks to (1) increased construction

demand during the year-end construction season and (2) the recovery of the residential real estate

Dung Quat 2 will be put into operation and commercial operation from 1Q25. KBSV estimates that Dung Quat 2 will contribute 1.1 million tons of HRC to HPG in 2025.

Please find more details here

Notes

Please see more details below

Please see more details below

Revised earnings estimates

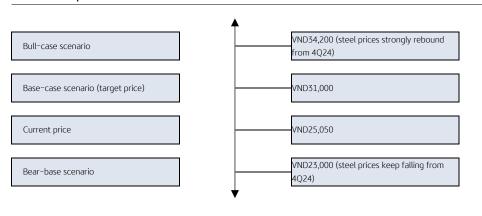
market.

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(VNDbn)	I	KBSV estimates		ious estimates	Consensus*			Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	
Revenue	134,102	145,647	0.5%	-5.0%	134,321	155,260	-0.2%	-6.2%	
EBIT	16,563	20,362	22.9%	10.6%	16,108	20,800	2.8%	-2.1%	
NP after MI	10,778	13,477	5.5%	-3.1%	12,008	15,292	-10.2%	-11.9%	

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) 2024/2025F output: 7.6/8.9 million tons 2) 2024/2025F steel prices: -1%/+1% YoY
- Bull-case scenario: upside risk
 - 1) 2024/2025F output: 7.7/9.2 million tons 2) 2024/2025F steel prices: +1%/+2% YoY

Bear-case scenario: downside risk

1) 2024/2025F output: 7.5/8.7 million tons 2) 2024/2025F steel prices: -3%/+0% YoY



2Q24 performance updates

Table 1. HPG - 1H24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Revenue	29,496	39,556	34%	56,085	70,408	26%	2Q24 sales volume went up 29% YoY
Gross profit	3,195	5,247	64%	4,871	9,401	93%	
Gross profit margin	10.8%	13.3%	243 bps	8.7%	13.4%	467 bps	Raw material costs went down 22% in 1H24 while domestic steel prices fell 2%, helping GPM increase by 243/467bps in 2Q24 and 1H24.
Financial income	740	645	-13%	1,644	1,397	-15%	
Financial expenses	-1,349	-1,065	-21%	-2,679	-2,126	-21%	Interest expenses decreased 40% YoY in 1H24 thanks to low interest rates.
Profit from affiliates	0	0		0	0		
SG&A	-871	-1,136	30%	-1,629	-2,094	29%	Transportation costs climbed 44% YoY in 2Q24.
Operating profit/loss	1,715	3,692	115%	2,207	6,579	198%	
Other income	-13	42	-418%	27	415	1437%	Other income surged 14x YoY in 1H24 due to HPG liquidating fixed assets in 1Q24.
PBT	1,702	3,733	119%	2,234	6,994	213%	
NPAT	1,448	3,320	129%	1,831	6,189	238%	HPG completed 62% of the year's objective.
NP after MI	1,460	3,319	127%	1,858	6,190	233%	
NPAT margin	4.9%	8.4%	344 bps	3.3%	8.8%	548 bps	

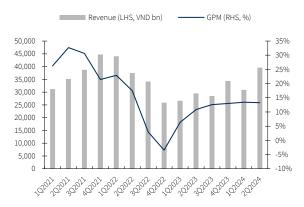
Source: Hoa Phat Group, KB Securities Vietnam

Table 2. HPG - Steel consumption (ton)

(ton)	2Q23	2Q24	+/-%YoY	1H23	1H24	+/-%YoY	Notes
Construction steel	784,036	1,271,321	62%	1,652,036	2,227,735	35%	Domestic consumption increased 48% YoY.
HRC	733,468	724,019	-1%	1,215,468	1,529,575	26%	Domestic consumption increased 40% YoY.
Steel pipes	164,304	187,692	14%	324,304	317,374	-2%	
Galvanized steel	105,754	124,126	17%	175,754	222,089	26%	
Total	1,787,562	2,307,158	29%	3,367,562	4,296,773	28%	

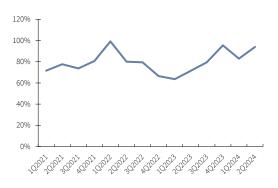
Source: Hoa Phat Group, KB Securities Vietnam

Fig 3. HPG - Revenue & GPM (VNDbn, %)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 4. HPG - Upstream steel capacity (%)



Source: Hoa Phat Group, KB Securities Vietnam

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Raw material costs decrease faster than product prices, helping HPG to maintain high GPM in the medium term Iron ore and coke prices have dropped 8%/16% since the beginning of 3Q (respectively falling 28%/35% YTD) as domestic demand in China is recovering slowly amid large inventories, and export prospects are less positive due to markets increasing protection measures against Chinese steel. The sharp decrease in input material prices will create pressure on HPG's provisioning in 3Q24 (HPG's inventory reached VND40.4 trillion in 2Q24, down 6% QoQ), causing GPM to decline during the period. However, in the medium term, we believe that HPG's GPM will remain high since (1) input costs decrease faster than output prices (domestic steel prices have decreased by 3% YTD, supported by better domestic demand); and (2) HPG's inventory turnover days are tightly controlled, falling to the lowest level since early 2022 (reaching 51 days in 2Q24, compared to 102 days in 2Q22). KBSV estimates HPG's GPM to reach 12.6%/14.8% in 2024/2025.

Fig 5. Vietnam - Input material costs vs steel product prices

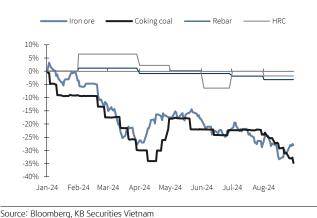
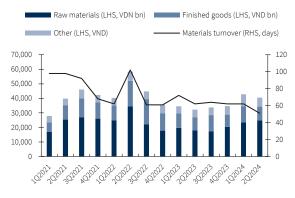


Fig 6. HPG - Inventories (VNDbn)



Source: Hoa Phat Group, KB Securities Vietnam

Domestic demand will continue its recovery in 2H24

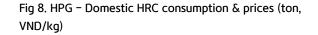
We expect domestic steel consumption to be the main driver of HPG's sales output in the coming time thanks to (1) the gradual recovery of the real estate market and (2) increased steel consumption demand during the year-end construction season. Domestic orders will have better gross profit margins than export orders with lower transportation costs. KBSV estimates HPG's total sales output of construction steel and HRC to reach 7.6/8.9 tons in 2024/2025, up 16%/17% YoY.

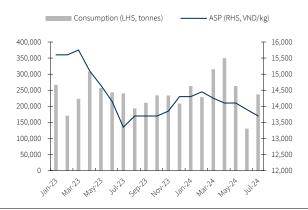
KBSV assesses the probability of AD20 approval at 50–60%

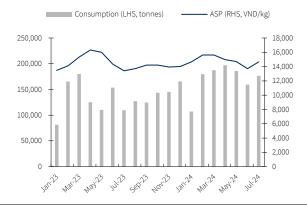
Regarding the proposal to apply anti-dumping measures on HRC imported from China and India (AD20), we believe that the need for trade protection for HRC products is present as the two countries currently account for more than 80% of HRC imported into Vietnam. However, the production and supply capacity of HRC in the domestic market is still limited (estimated total HRC capacity of Formosa and HPG by 2026 is more than 14 million tons/year, lower than the current demand of 15–16 million tons/year, according to VSA). The imposition of anti-dumping tax may hinder domestic enterprises in accessing supply and production. We believe that the probability of AD20 being applied is at an average level (50–60%), so our valuation model excludes the expectation and positive impact of AD20 on HPG's HRC consumption output.



Fig 7. HPG – Domestic construction steel consumption & prices (ton, VND/kg)





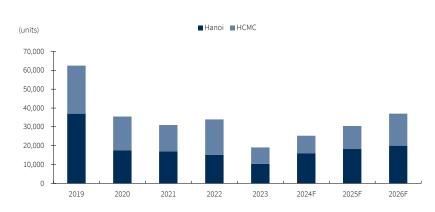


Source: Vietnam Steel Association, FlinPro, KB Securities Vietnam

Source: Vietnam Steel Association, FlinPro, KB Securities Vietnam

The early application of the Land Law (amended) and the Real Estate Business Law (amended) will help shorten the time for legal completion of projects, improve supply, and create conditions for the real estate market to develop more sustainably. We expect the number of newly licensed housing projects to increase more strongly in 2025, helping to boost domestic steel consumption demand.

Fig 9. Hanoi & HCM - Forecast supplies of apartments (unit)



Source: CBRE, KB Securities Vietnam

Dung Quat 2 should operate and contribute to HPG's revenue from 1Q25 The construction progress of phase 1 and 2 of DQ2 is currently at 80%/50% respectively, ensuring the implementation progress for phase 1 to come into operation and start commercial operations from 1Q25 with the first blast furnace (capacity of 2.3 million tons/year). As of the end of 2Q24, the value of unfinished basic construction of DQ2 was recorded at VND42.4 trillion (+58% QoQ).



Dung Quat 2 Iron and Steel Complex has two blast furnaces. Its main products are HRC and high-quality steel with a total capacity of 4.6 million tons/year. According to the orientation of the BoD, 70% of HRC produced will serve domestic consumption needs, and the remaining 30% is for exportation.

Fig 10. HPG - Production capacity (million tons)



Source: Hoa Phat Group, KB Securities Vietnam

High inventories in China put pressure on steel prices

China's steel export prospects are expected to decline in the coming time as major markets such as the US and EU increase trade defense measures. This has caused steel prices in China to fall by an average of 11% since the beginning of 3Q24 to stimulate domestic consumption demand amid high steel inventories (estimated figures for August 2024 are 13.6 million tons, down 5% MoM but up 6%/4% YoY). With high inventories while falling EBITDA, we believe that manufacturers will prioritize reducing inventories and optimizing capacity in the coming time. This could put further pressure on steel prices in the short term and will stabilize later when supply and demand in China's domestic steel market rebalance. In the negative scenario, HPG's GPM may be affected when DQ2 comes into operation while HRC prices continue to decline, the blast furnace has not been operated at full capacity, and the enterprise begins to record depreciation costs. Therefore, the development of HRC prices is a factor that needs to be monitored in the coming time to assess the impact on DQ2's profitability in 2025.

Fig 11. China - HRC inventories (million tons)



Fig 12. China - GPM & EBITDA of blast furnaces (%)



Source: Bloomberg, KB Securities Vietnam

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Forecast & valuation

Table 12. HPG - 2024-2025F results

(VNDbn, %)	2023	2024	+/-%YoY	2025	+/-%YoY	Assumptions
Revenue	118,953	134,102	13%	145,647	9%	Sales volume should gain 17% YoY in 2025, driven by (1) domestic demand recovery and (2) DQ2 coming into operation.
Gross profit	12,938	16,888	31%	21,588	28%	
Gross profit margin	10.9%	12.6%	172 bps	14.8%	223 bps	2025F GPM rises 223bps thanks to gradual recovery of steel prices, and low raw material costs after sharp decline in 2024.
Deposit interests	2,071	1,665	-20%	1,525	-8%	
Interest expenses	-3,585	-2,275	-37%	-2,888	27%	Lending interest rates rebounds in 2025.
Exchange gain/loss, others	-184	-182	-1%	0	-100%	Exchange rates are stable in 2025.
Profit from affiliates	0	0		0		
SG&A	-3,269	-4,004	23%	-4,369	9%	
Operating profit/loss	7,651	11,969	56%	15,856	32%	
Other income	142	0	-100%	0		
PBT	7,793	12,384	59%	15,856	28%	
NPAT	6,800	10,778	58%	13,477	25%	
NP after MI	6,835	10,778	58%	13,477	25%	
NPAT margin	5.7%	8.0%	229 bps	9.3%	122 bps	

Source: Hoa Phat Group, KB Securities Vietnam



Valuation: BUY rating - Target price VND31,000

We adjust HPG's 2024/2025FY NPAT forecast by +5.5%/-3.1% YoY, respectively, based on (1) lower interest expenses due to a lower interest rate environment than initially assumed, and lower forecast for exchange loss after the exchange rate cools down from the beginning of 3Q. Since the beginning of 3Q24, HPG's share price has decreased by 11%, currently trading at P/B of 1.5x (-0.5 Std from the five-year average).

Applying two valuation methods, EV/EBITDA and P/E, with targets of 9x/13x respectively, we determine the fair value of HPG for FY2025 at VND31,000/share (P/E and P/B forward FY2025 are 14.7x/1.7x), corresponding to a return of 24% compared to the closing price on September 5, 2024.

Table 15, HPG - Final valuation

Method	Target	Valuation	Weight	Target price
EV/EBITDA	9	34,800	50%	17,400
P/E	13	27,300	50%	13,650
Target price				31,000

Source: KB Securities Vietnam

Fig 16. HPG - ROE & P/B (%, x)



Source: FiinProX, KB Securities Vietnam



HPG - 2022A-2025F financials

ncome Statement					Balance Sheet			
bn. VND)					(bn. VND)			
Standard Report)	2021	2022	2023F	2024F	(Standard Report)	2021	2022	2023F
let Revenue	141,409	118,953	134,102	145,647	TOTAL ASSET	170,336	187,783	202,850
Cost of Goods Sold	-124,646	-106,015	-117,214	-124,059	CURRENT ASSETS	80,515	82,716	83,682
ross Profit	16,763	12,938	16,888	21,588	Cash and cash equivalents	8,325	12,267	10,791
eposits income	1,822	1,953	1,542	1,525	Short-term investments	26,268	22,162	15,315
cost of borrowing	-3,084	-3,585	-2,275	-2,888	Accounts receivable	9,893	10,702	12,095
rofit/(loss) from FX, other	-1,863	-184	-182	0	Inventories	34,491	34,504	39,917
rofit/(loss) from affiliated companies	-1	0	0	0	LONG-TERM ASSETS	89,821	105,066	119,168
elling expenditures	-3,685	-3,269	-4,004	-4,369	Long-term trade receivables	894	1,881	1,119
G&A	9,794	7,651	11,969	15,856	Fixed assets	70,833	72,014	89,682
et Other Income	129	142	0	0	Long-term incomplete assets	13,363	26,083	22,780
rofit/(loss) from affiliated companies	0	0	0	0	Long-term investments	1	40	137
rofit/(loss) before tax	9,923	7,793	12,384	15,856	Good will (before 2015)	0	0	0
ony (toss) before tax	-1,479	-992	-1,606	-2,378	TOTAL LIABILITIES	74,223	84,946	95,109
					Current liabilities			
rofit/(loss) after tax	8,444	6,800	10,778	13,477		62,385	71,513	68,136
inority Interest	-39	-35	0	0	Trade accounts payable	11,107	12,387	15,744
PATMI	8,484	6,835	10,778	13,477	Short-term borrowings	46,749	54,982	47,149
					Other short-term liabilities	4,530	4,144	5,243
					Long-term liabilities	11,837	13,433	26,973
					Long-term trade payables	0	2,324	3,797
					Other long-term liabilities	11,152	10,399	22,266
perating Ratios					Long-term borrowings	686	709	909
5)	2021	2022	2023F	2024F	OWNER'S EQUITY	96,113	102,836	107,741
ross Profit Margin	11.9%	10.9%	12.6%	14.8%	Paid-in capital	58,148	58,148	63,963
BITDA Margin	14.0%	13.7%	15.0%	17.0%	Share premium	3,212	3,212	3,212
BIT Margin	9.1%	8.0%	9.6%	11.8%	Other funds	814	818	818
BT Margin	7.0%	6.6%	9.2%	10.9%	Undistributed earnings	33,834	40,593	39,683
pearating Profit Margin	6.9%	6.4%	8.9%	10.9%	State capital	0	0	0
et Profit Margin	6.0%	5.7%	8.0%	9.3%	Interest of non-controlling shareholders	106	66	66
Cash Flow Statement					Main Ratios			
Standard Report)	2021	2022	2023F	2024F	(x, %, VND)	2021	2022	2023F
вт	9,923	7,793	12,384	15,856	Valuation Ratios			
epreciation	6,814	6,773	7,242	7,568	P/E	12.3	25.7	14.9
rofit/(loss) from investing	-1,822	-1,076	0	0	P/E (diluted)	12.3	25.7	14.9
ost of borrowing	3,084	3,585	2,275	2,888	P/B	1.1	1.7	1.5
rofit/(loss) before changes in WC	19,199	16,275	21,901	26,312	P/S	0.0	0.0	0.0
ncrease)/decrease in receivables	4,723	-5,604	-632	-4,065	P/Tangible Book	1.5	2.4	1.8
ncrease)/decrease in inventory	8,022	1,026	-5,413	-1,516	P/Cash Flow	8.6	18.6	10.5
ncrease/(decrease) in payables	-14,681	2,586	4,829	2,008	EV/EBITDA	7.8	14.0	10.7
ncrease)/decrase in pre-paid expenses	-19	-75	0	0	EV/EBIT	13.1	19.4	13.2
					EV/EUII	13.1	15.4	13.2
ellable securities, cost of borrowing, tax	-5,053 12,192	-4,737 9.472	-5,485 15,201	-5,557 17 192	Management Efficiency			
pearting Cash Flow	12,192	9,472	15,201	17,182	Management Efficiency	001	707	*001
Purchases of fixed assets and other long term assets	-17,966	-17,353	-27,479	-20,548	ROE%	9%	7%	10%
Proceeds from disposal of fixed assets	14	208	17	0	ROA%	5%	4%	6%
Loans granted, purchases of debt instruments	-55,506	-39,788	0	0	ROIC%	6%	496	6%
Collection of loans, proceeds from sales of debts instruments	47,413	43,287	6,751	0	Financial Ratios			
Investments in other entities	-372	0	0	0	Cash Ratio	0.1	0.2	0.2
Proceeds from divestment in other entities	0	-526	0	0	Quick Ratio	0.7	0.6	0.6
Dividends and interest received	1,706	1,371	0	0	Current Ratio	1.3	1.2	1.2
vesting Cash Flow	-24,712	-12,801	-20,711	-20,548	Long-term borrowing/Owner's Equity	0.1	0.1	0.2
Proceeds from issue of shares	4	1	5,815	0	Long-term borrowing/Total Asset	0.1	0.1	0.1
Payments for share returns and repurchases	0	-2	0	0	Short-term borrowing/Owner's Equity	0.5	0.5	0.4
Proceeds from borrowings	135,257	127,142	4,034	2,000	Short-term borrowing/Total Asset	0.3	0.3	0.2
Repayment of borrowings	-134,631	-119,859	0	0	Short-term payables/Owner's Equity	0.2	0.2	0.2
Finance lease principal payments	0	0	0	0	Short-term payables/Total Asset	0.1	0.1	0.1
Dividends paid	-2,247	-8	-5,815	0	Total payables/Owner's Equity	0.2	0.2	0.2
Interests, dividends, profits received	-2,2-1	0	-5,015	0	Total payables/Total Asset	0.1	0.1	0.1
nancing Cash Flow	-1,617	7,273	4,034	2,000	Operating Ratios	0.2	0.1	0.1
et increase in cash and cash equivalents	-1,617	3,944	-1,476	-1,366	Receivables turnover	3.3	3.1	3.2
ash and cash equivalents at the beginning o period	22,471	8,325	12,267	10,791	Inventory turnover	3.3	3.1	3.2
ush and cash equivalents at the end of period	8,325	12,267	10,791	9,425	Payables turnover	6.1	10.0	8.3
THE P. DOA PHAT GROUP KK SPOURITIES VIOTEAM								

Source: Hoa Phat Group, 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)

	Sell:
+15% or more +15% to -15% -15% or r	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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