

# Military Bank (MBB)

## Current stock price has reflected difficulties

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**1Q PBT dropped 11% YoY to VND 5,795 billion amid weak credit growth**

Slow credit growth and lower NIM made NII of Military Commercial Joint Stock Bank (MBB) go down 11% YoY. There is a significant deterioration in 1Q asset quality of the bank, shown in a surge in NPLs and a decline in provision buffers (from 117% in 2023 to 80% by the end of 1Q24). High provision costs also caused an 11% YoY decrease in PBT (VND5,795 billion), equal to 19% of our forecast.

**2024F NIM is lowered as 1Q results are below expectations**

KBSV expects CoF to improve more strongly from 2Q, supported by low-interest deposits. The effect of temporary loans (with low yields) that ended in 1Q and bank lending interest rates that hardly reduce further will help undermine the IEA slowdown. NIM of MBB should rebound from 2Q, but we lowered our forecast for full-year NIM by 12bps to 4.75% as 1Q results did not meet expectations.

**The sharp decline in asset quality is only a temporary factor**

Although 1Q asset quality was worse than expected, we believe this is a temporary factor, and bad debt peaked in 1Q, based on: (1) The bank has proactively cut the proportion of loans to risky fields (real estate and corporate bonds) for many consecutive quarters (from 19% of total credit in 1Q22 to 16% in 1Q24). (2) Large customers are expected to see a change in debt groups in 2Q. (3) Economic recovery prospects should be brighter in 2H24.

**Valuation: BUY rating – Price target VND27,000**

We believe that the difficult period with negative information has been reflected in MBB stock prices. The new target price is VND27,000/share.

**Buy** maintain

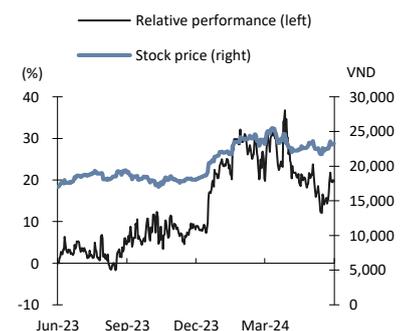
<b>Target price</b>	<b>VND27,000</b>
Upside	16.1%
Current price (Jun 18, 2024)	VND23,250
Consensus target price	VND28,500
Market cap (VNDtn/USDbn)	123.4/4.8

<b>Trading data</b>	
Free float	55%
3M avg trading value (VNDbn/USDmn)	467.2/18.5
Foreign ownership	23.23%
Major shareholder	14.14%

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	0.0	0.2	29.2	36.8
<b>Relative</b>	-0.5	-2.6	10.2	18.2

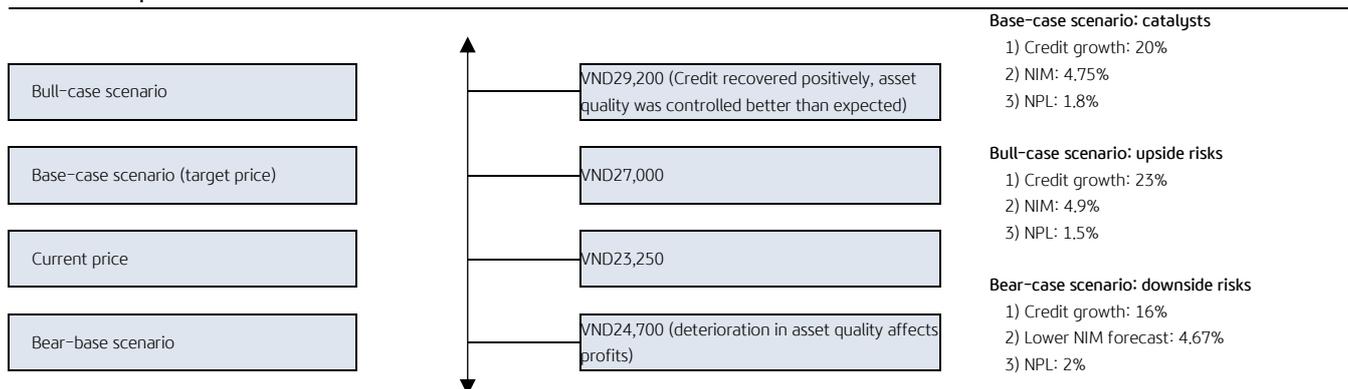
### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	36,023	38,684	46,592	57,607
PPOP (VNDbn)	30,777	32,393	38,751	46,705
NPAT-MI (VNDbn)	18,155	21,054	23,571	28,157
EPS (VND)	3,856	3,966	4,427	5,278
EPS growth (%)	15%	3%	12%	19%
PER (x)	11.4	11.1	9.9	8.3
BVPS (VND)	17,559	18,548	22,323	27,001
PBR (x)	2.51	2.37	1.97	1.63
ROE (%)	25.6%	23.9%	22.1%	21.9%



Source: Bloomberg, KB Securities Vietnam

## Investment opinion & risks



## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	45,094	60,064	46,592	57,607	3.3	(4.1)
EBIT	36,790	48,436	38,751	46,705	5.3	(3.6)
NP after MI	20,753	29,367	23,081	27,520	11.2	(6.3)

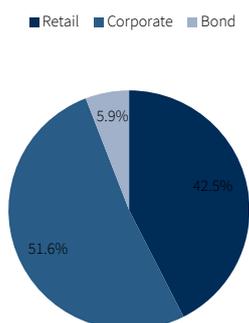
Source: KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	2024E	2025E	2024E	2025E	2024E	2025E
EBIT	46,592	57,607	45,691	58,580	2.0	(1.7)
NP after MI	38,751	46,705	39,158	47,651	(1.0)	(2.0)

Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2023)



Source: Military Bank, KB Securities Vietnam

## Business operation

Military Commercial Joint Stock Bank (MBB) was established in 1994 with the initial purpose of providing financial services to military enterprises. After more than 30 years of development, MBB has now become the bank with the largest scale of assets and credit in the group of private commercial banks. Developed under a corporate model, MBB is at the forefront of digital transformation with the industry-leading number of customers and CASA ratio.

## 1Q24 performance updates

### 1Q PBT dropped 11% YoY to VND 5,795 billion amid weak credit growth

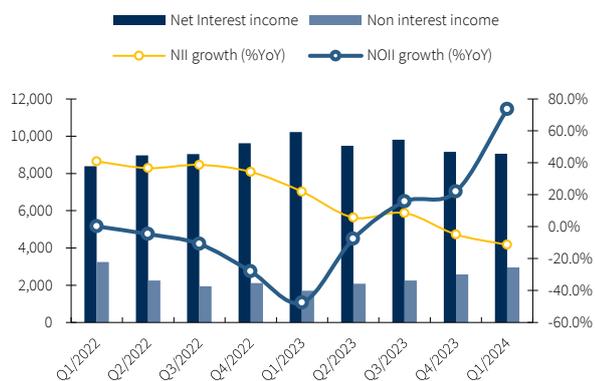
Credit growth was lower than expected, reaching 0.4% in the first quarter and only began to recover in the last 2 months (an additional 1.35% growth in April and May, cumulative growth of 1.75% YTD). Slowing credit growth, along with declining NIM, has affected net interest income (down 11% YoY). Asset quality declined significantly in the first quarter with a sharp increase in bad debt and a relative decline in provision buffers (from 117% in 2023 to 80% by the end of the first quarter of 2024). High provision costs also affected PBT – reaching VND 5,795 billion (-11% YoY), completing 19% of our forecast.

**Table 1. MBB – Updated business results (VNDbn, %)**

(VNDbn, %)	1Q23	4Q23	1Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	10,227	9,163	9,062	-1.1%	-11.4%	Customer loans grew by 0.7% YTD while corporate bonds decreased by 4.4% YTD, pulling the bank's overall credit growth back to only 0.4% in 1Q. In addition, NIM continued to decline because IEA dropped sharply in the context of MBB lowering lending interest rates to support customers and compete with other banks.
Non-interest income (NOII)	1,703	2,587	2,954	14.2%	73.5%	Contrary to the less positive performance of NII, NOII spiked 73.5% YoY, specifically coming from: - Net fee income (NFI) increased 37.1% YoY. - Other incomes decreased by 22% YoY due to slow debt collection in the quarter. - Securities trading and investment earned VND1,182 billion (vs a modest figure of VND172 billion in the same period last year), compensating for the decrease in the above income sources.
<b>Total operating income (TOI)</b>	<b>11,930</b>	<b>11,750</b>	<b>12,017</b>	<b>2.3%</b>	<b>0.7%</b>	
Operating expenses (OPEX)	(3,568)	(3,876)	(3,514)	-9.3%	-1.5%	
Cost to income ratio (CIR)	29.9%	33.0%	29.2%	-3.7%	-0.7%	
Provision expenses (VNDbn)	(1,850)	(1,587)	(2,707)	70.6%	46.4%	Asset quality seriously declined, causing provision pressure to increase by 46% YoY and 76% QoQ. Despite a sharp increase in provisions, NPL increased even more, forcing the bank to use nearly VND2,000 billion to handle bad debt from the balance sheet.
Profit before taxes (PBT)	6,512	6,287	5,795	-7.8%	-11.0%	
<b>Profit after taxes (NPAT)</b>	<b>5,206</b>	<b>5,045</b>	<b>4,624</b>	<b>-8.3%</b>	<b>-11.2%</b>	
Credit growth (% YTD)	3.8%	28.0%	0.4%			1Q credit grew 0.4% YTD, much lower than our expectation of 20% but consistent with the context in the quarter because: (1) The economy and credit demand recovered slowly. (2) MBB accelerated disbursement in the late 2023 period (with growth of more than 14% in 4Q23, focusing on the last months) to complete the growth target. Temporary loans in 4Q23 due in 1Q24, creating growth pressure in the first months of the year. However, credit should have a stronger recovery in 2Q24 (reaching 1.75% YTD in 5M24). (3) MBB is more cautious in disbursement (total corporate bonds has continuously decreased since 2Q22).
Deposit growth (% YTD)	4.8%	31.1%	-6.2%			
<b>Net interest margin (NIM)</b>	<b>5.60%</b>	<b>4.79%</b>	<b>4.67%</b>	<b>-0.12%</b>	<b>-0.92%</b>	NIM plunged 92bps due to (1) competition in IEA in the context of poor credit growth and (2) slower CoF growth.
<b>Non-performing loan ratio (NPL)</b>	<b>1.76%</b>	<b>1.60%</b>	<b>2.49%</b>	<b>0.88%</b>	<b>0.73%</b>	Substandard, doubtful and bad debts showed a sharp growth. Bad debt doubled compared to the previous quarter after MBB recording late debt payments from an energy company. CIC's involvement also made the bank's NPL rise 0.8%. NPL formation increased again after decreasing slightly in the previous quarter.

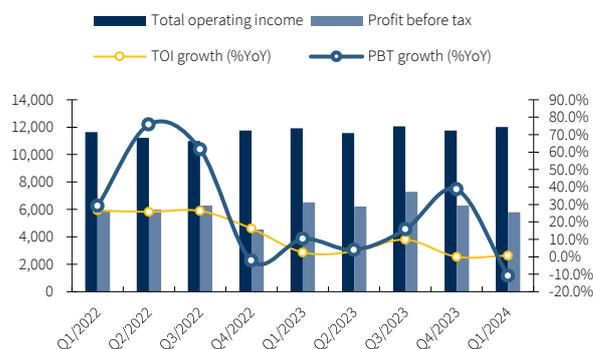
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – NII & NOI by quarter (VNDbn)



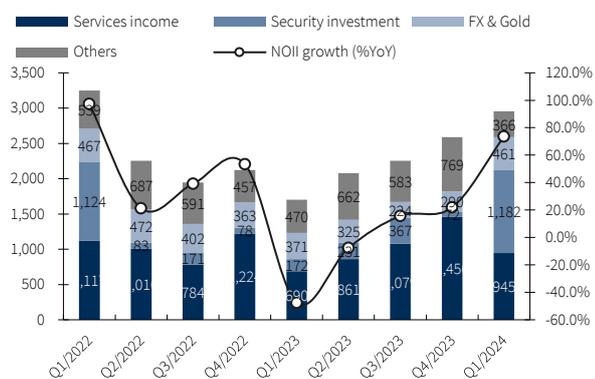
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – TOI & PBT (VNDbn)



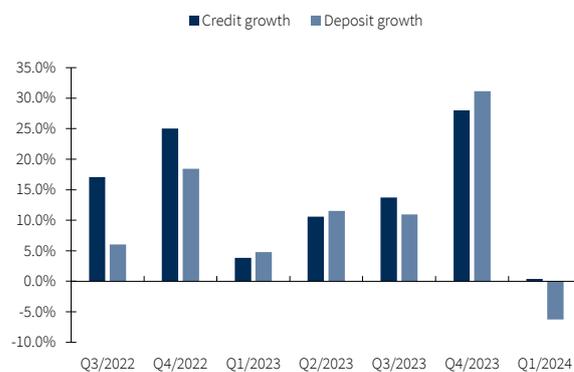
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – NOI breakdown



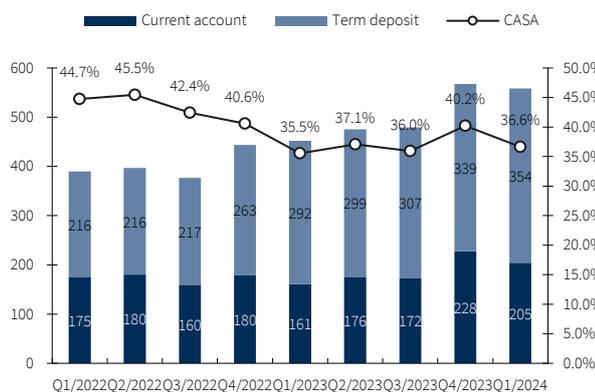
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – Credit growth (%)



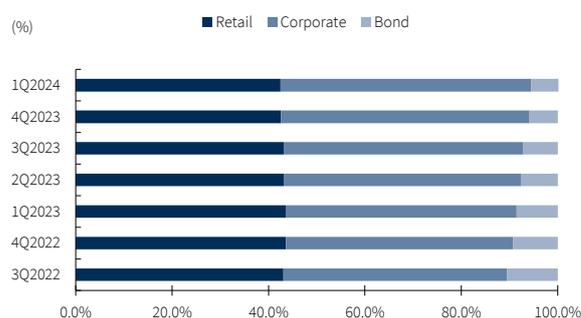
Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – CASA ratio (%)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – Credit breakdown



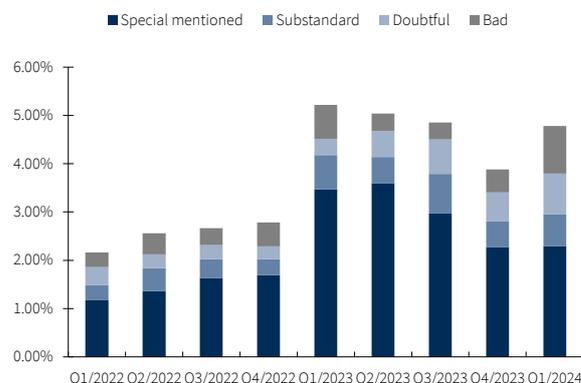
Source: Military Bank, KB Securities Vietnam

Fig 8. MBB – NPL ratio & LLCR (%)



Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – NPL composition



Source: Military Bank, KB Securities Vietnam

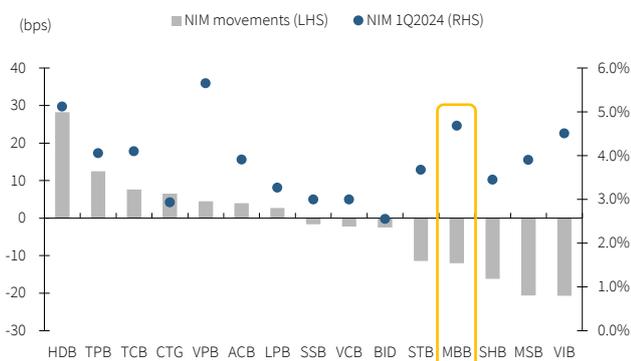
**2024F NIM is lowered as 1Q results are below expectations**

1Q IEA sharply dropped by 131bps QoQ due to (1) slow credit disbursement; (2) the application of support packages and competitive interest rates to promote growth; (3) the surge in NPLs, meaning customers were slow to pay interest on loans; (4) temporary loans in with low yields in 4Q23 that matured in 1Q24. Meanwhile, the CoF saw a decline of 40bps QoQ, much lower than the IEA's reduction and the CoF reduction of other banks, implying that cost management of MBB is not really effective. This resulted in a decrease in NIM (from 4.8% in 2023-end to 4.68% in 1Q24), but MBB is still in the group of banks with the highest NIM in the system (Figure 10).

KBSV expects CoF to improve more strongly from 2Q, supported by low-interest deposits. Most of the deposits with high interest rates in 2023 matured in 4Q23 and 1Q24 and will be re-rated at new interest rates which are relatively low at the moment, helping CoF to decrease faster from 2H24. There is also a possibility that deposit interest rates may increase again, but the increase in 2024 is still not significant, and it will take six to 12 months to be reflected in the CoF.

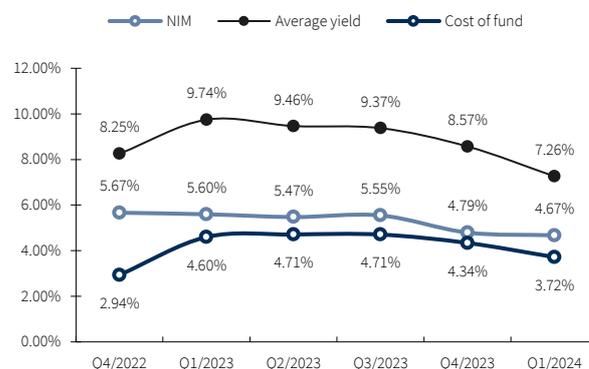
For IEA, the effect of temporary loans (with low yields) that ended in 1Q and bank lending interest rates that hardly reduce further will help undermine the IEA slowdown. NIM of MBB should rebound from 2Q or 3Q, but we lowered our forecast for full-year NIM by 12bps to 4.75% as 1Q results did not meet expectations.

Fig 10. Vietnam banks – NIM & NIM growth (%)



Source: Vietnam banks, KB Securities Vietnam

Fig 11. MBB – NIM growth by quarter (%)



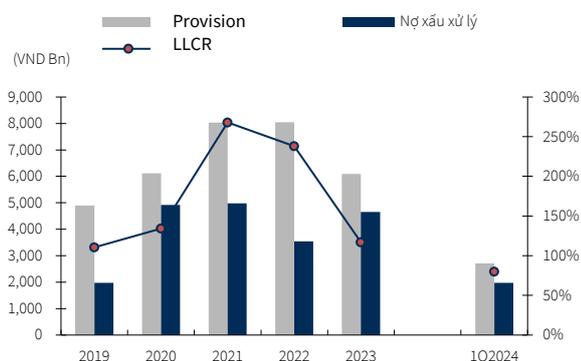
Source: Military Bank, KB Securities Vietnam

**The sharp decline in asset quality is only a temporary factor**

MBB's 1Q24 loan loss coverage ratio (LLCR) has fallen from the peak of 268% in 2021 to 80% due to (1) a sudden increase in NPL ratio and (2) a large portion of provisions in the 2021–2022 period to handle bad debts from 2023 (Figure 12 & 13). In a recent meeting, the management of MBB said that they are quite confident that the asset quality would be improved in 2Q after a large corporate customer with overdue debt at other banks will be classified back into the standard loan group. We will continue to tail this customer's debts and assess the impact on the asset quality of MBB. In case the sudden bad debts due to CIC in the first quarter are classified as standard loans again, it is estimated that MBB's NPL will decrease by about 20%. With the lower provision buffer and weaker asset quality amid a difficult economic situation, the provision pressure will be quite large if the bank wants to improve the buffer and ability to handle bad debts for the period 2025–2026, which will likely affect its income.

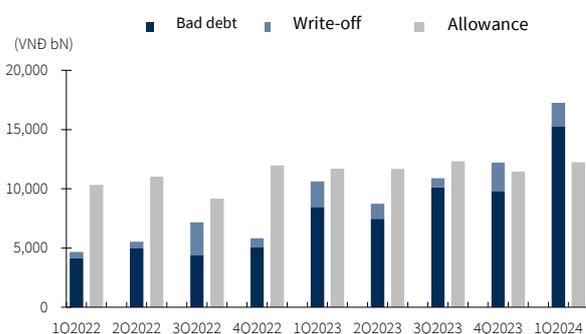
Although 1Q asset quality was worse than expected, we believe this is a temporary factor, and bad debt peaked in 1Q, based on: (1) The bank has proactively cut the proportion of loans to risky fields (real estate and corporate bonds) for many consecutive quarters (from 19% of total credit in 1Q22 to 16% in 1Q24). (2) Large customers are expected to see a change in debt groups in 2Q. (3) Economic recovery prospects should be brighter in 2H24.

Fig 12. MBB – Provision & NPL handled (VNDbn)



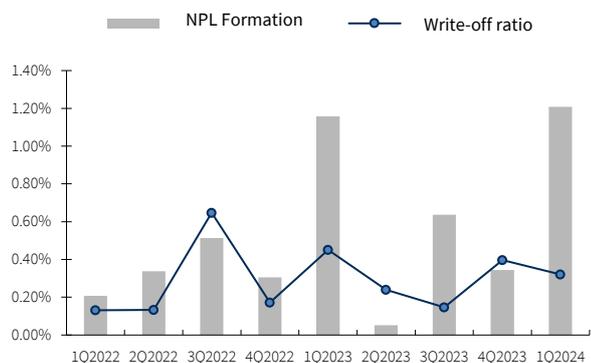
Source: Military Bank, KB Securities Vietnam

Fig 13. MBB – NPLs & NPL handled (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 14. MBB – NPL & NPL formation (%)



Source: Military Bank, KB Securities Vietnam

Fig 15. Vietnam banks – Asset quality

	NPL		+/-bps (QoQ)	NPL adjusted G2		+/-bps (QoQ)	LLCR		QoQ
	4Q2023	1Q2024		4Q2023	1Q2024		4Q2023	1Q2024	
BID	1.3%	1.5%	25	2.8%	3.6%	73	182%	153%	-28%
VCB	1.0%	1.2%	24	1.4%	1.8%	36	230%	200%	-30%
CTC	1.1%	1.3%	22	2.7%	2.0%	-26	167%	151%	-12%
<b>MBB</b>	1.6%	2.5%	88	3.9%	4.8%	90	117%	80%	-37%
TCB	1.2%	1.1%	-3	2.0%	2.2%	21	102%	106%	4%
VPB	5.0%	4.8%	-17	11.9%	13.1%	124	52%	53%	2%
ACB	1.2%	1.5%	24	1.9%	2.2%	37	91%	79%	-12%
STB	2.3%	2.3%	0	3.0%	3.1%	13	69%	73%	4%
SHB	2.8%	3.0%	17	4.1%	4.5%	41	78%	69%	-9%
HDB	1.8%	2.2%	45	7.0%	7.0%	-7	66%	57%	-9%
VIB	3.1%	3.6%	45	8.7%	9.2%	53	51%	50%	-1%
LPB	1.3%	1.4%	5	2.5%	2.2%	-28	94%	89%	-5%
TPB	2.0%	2.2%	19	4.9%	4.9%	6	64%	60%	-4%
MSB	2.9%	3.2%	31	4.6%	4.9%	29	55%	54%	-2%
EIB	2.7%	2.9%	21	4.0%	4.1%	10	41%	37%	-4%
OCB	2.8%	2.9%	12	4.8%	5.5%	67	50%	55%	5%

Source: Vietnam banks, KB Securities Vietnam

## Forecast & valuation

Table 16. MBB – 2024–2025F results

(VNDbn, %)	2023A	2024F	% YoY 2023	2025F	%YoY 2024	Notes
NII	38,684	46,592	20%	57,607	24%	Despite low credit growth in 1Q, we still maintain our expectation that MBB will have outstanding growth of 20% for the whole year 2024 because (1) the impact from temporary loans will no longer exist in 2Q; (2) credit in the past two months has been positive again (up 1.3% in April and May); and (3) the economy should be better in 2H24. We changed our forecast as follows: – NFI decreases by 3% because the bancassurance segment is expected to continue to be gloomy in 2024. – Projections for incomes from foreign exchange activities and securities trading activities increase when MBB boosts profits from bond trading to compensate for the decline in other NOI sources. – Other incomes should see a 10% contraction due to more difficult debt collection activities in 2024.
NOII	8,622	10,395	21%	10,675	3%	
TOI	47,306	56,987	20%	68,282	20%	
Pre-provision operating profit (PPOP)	32,393	38,751	20%	46,705	21%	
Provision expenses	(6,087)	(9,288)	53%	(11,509)	24%	The forecast is downgraded as there should be refunds after large customers' debts are classified as standard. However, the pressure on provisioning for the period 2024–2026 is still big.
PBT	26,306	29,464	12%	35,197	19%	
NIM	4.79%	4.75%	–5bps	4.98%	23bps	Lowering 2024F NIM reflects lower-than-expected 1Q performance. In addition, the current large growth will boost competitiveness, thereby creating a challenge for IEA's recovery.
Average IEA	8.57%	7.42%	–115bps	7.76%	34bps	
Average CoF	4.34%	3.05%	–129bps	3.17%	12bps	
CIR	31.5%	32.0%	48bps	31.6%	–40bps	
NPL	1.60%	1.80%	10bps	1.70%	–10bps	Investors should be more cautious with NPL ratio as they need to monitor more loans from large customer groups.
Total assets	944,954	1,077,009	14%	1,305,475	21%	
Equity	96,711	116,393	20%	140,785	21%	

Source: Military Bank, KB Securities Vietnam

### Valuation: BUY rating – Price target VND27,000

KBSV used P/B and residual income (50–50 weight for each method) to value MBB shares. We maintain our 2024 target P/B at 1.2x, lower than the five-year average of 1.3x as we no longer adjust for potential asset quality risks.

We believe that the difficult period with negative information has been reflected in MBB stock prices. It is expected that business results will have a better recovery from 2Q24. Therefore, we gave a BUY rating to MBB shares with a new target price at VND27,000/share, equal to a potential return of 16% compared to the closing price on June 18, 2024.

**Downside risks:** The possibility to return to standard debts of customers is not as expected, making asset quality still a big challenge for MBB, affecting the bank's 2024 profit.

**Fig 17. MBB – P/B & ROE (x, %)**



Source: Bloomberg, KB Securities Vietnam

**Table 18. MBB – 2024 valuation according to residual income method**

(VNDbn)	2024F	2025F	2026F
NPAT	23,571	28,157	31,988
Excessed return	5,523	6,251	7,720
Required rate of return (re)	14.56%		
Growth (g)	3%		
Terminal value	20,973		
Total present value (PV)	141,658		
<b>Value per share</b>	<b>27,168</b>		

Source: KB Securities Vietnam

**Table 19. MBB – Final valuation & price target (VND)**

Valuation method	Forecast price	Weighting	Price per weight
Residual income	27,168	50%	13,584
P/B	26,787	50%	13,394
<b>Target price (VND)</b>			<b>27,000</b>

Source: KB Securities Vietnam

## MBB – 2022A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	26,200	36,023	38,684	46,592	57,607	Loans	354,797	448,599	599,579	720,024	865,787
Interest income	38,465	52,486	69,143	72,805	89,755	Marketable securities	7,575	4,106	44,251	37,621	45,571
Interest expense	(12,265)	(16,463)	(30,459)	(26,213)	(32,148)	Cash (ex. Reserves)	3,475	3,744	3,675	5,132	6,217
Fees & commissions	4,367	4,136	4,085	3,547	4,611	Interest earning assets	574,482	697,256	916,370	1,046,324	1,268,099
Other non-interest income	3,254	2,142	2,428	1,096	1,867	Fixed assets & other assets	38,176	38,836	34,928	40,540	47,843
Total operating income	36,934	45,593	47,306	56,987	68,282	Total assets	607,140	728,532	944,954	1,077,009	1,305,475
SG&A expenses	(12,377)	(14,816)	(14,913)	(18,236)	(21,577)	Customer deposits	384,692	443,606	567,533	688,144	833,563
Pre-provisioning OP	24,557	30,777	32,393	38,751	46,705	Borrowings & call money/repos	68,886	98,591	129,263	129,897	155,125
Provision for credit losses	(8,030)	(8,048)	(6,087)	(9,288)	(11,509)	Interest bearing liabilities	513,400	607,335	796,615	921,274	1,105,400
Other income	4,211	3,026	3,458	1,826	2,786	Other liabilities	31,254	41,584	51,628	39,556	59,786
Other expense	(956)	(884)	(1,030)	(730)	(919)	Total liabilities	544,654	648,919	848,242	960,830	1,165,185
Pre-tax income	16,527	22,729	26,306	29,464	35,197	Charter capital	37,783	45,340	52,141	52,141	52,141
Income tax expense	(3,306)	(4,574)	(5,252)	(5,893)	(7,039)	Capital surplus	869	869	869	869	869
NP	13,221	18,155	21,054	23,571	28,157	Retained earnings	12,915	19,064	25,560	45,512	69,904
Minority interest profit	(524)	(672)	(377)	(490)	(637)	Capital adjustments	-	-	-	-	-
Parent NP	12,697	17,483	20,677	23,081	27,520	Total shareholders' equity	62,486	79,613	96,711	116,393	140,785

Financial Indicators						Định giá					
(%)	2021	2022	2023	2024F	2025F	(VND, X, %)	2021	2022	2023	2024F	2025F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	23.5%	25.6%	23.9%	22.1%	21.9%	EPS	3,361	3,856	3,966	4,427	5,278
ROA	2.4%	2.7%	2.5%	2.3%	2.4%	BVPS	16,538	17,559	18,548	22,323	27,001
Pre-provision ROE	34.9%	34.6%	29.4%	29.1%	29.1%	Tangible BVPS	16,140	17,197	18,226	21,962	26,598
Pre-provision ROA	3.6%	3.7%	3.1%	3.1%	3.1%	<b>Valuations</b>					
Net interest margin (NIM)	5.0%	5.7%	4.8%	4.7%	5.0%	PER	13.1	11.4	11.1	9.9	8.3
<b>Efficiency</b>						PBR	2.7	2.5	2.4	2.0	1.6
Pure Loan to deposit ratio	94.5%	103.8%	107.7%	107.0%	106.0%	ROE	23.5%	25.6%	23.9%	22.1%	21.9%
Cost-income ratio	33.5%	32.5%	31.5%	32.0%	31.6%	<b>Capital Adequacy</b>					
<b>Growth</b>						CAR	10.4%	11.3%	11.4%	>11.4%	>11.4%
Asset growth	22.7%	20.0%	29.7%	14.0%	21.2%	<b>Asset Quality</b>					
Loan growth	20.7%	26.4%	33.7%	20.1%	20.2%	NPL ratio (substandard)	0.9%	1.1%	1.6%	1.9%	1.7%
PPOP growth	46.1%	25.3%	5.3%	19.6%	20.5%	Coverage ratio (substandard)	133.2%	174.1%	122.1%	116.4%	118.4%
Parent NP growth	53.7%	37.7%	18.3%	11.6%	19.2%	NPL ratio (precautionary)	2.0%	2.8%	3.9%	3.7%	3.5%
EPS growth	13.8%	14.7%	2.8%	11.6%	19.2%	Coverage ratio (precautionary)	60.6%	68.2%	50.5%	59.8%	57.5%
BVPS growth	-7.6%	6.2%	5.6%	20.4%	21.0%						

Source: Military Bank, 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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