

Military Bank (MBB)

Confronting short-term headwinds

Analyst **Pham Phuong Linh**

linhpp@kbsec.com.vn

(+84) 24-7303-5333

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MBB is expected to further diversify its credit portfolio towards sustainable growth

We expect MBB to further diversify its credit portfolio, with loan growth projected at 18-20% for the 2025-2027 period, lower than the 2020-2023 period, given a larger total credit base. Wholesale & retail, household business, and processing & manufacturing loans will continue to make up the majority of the loan portfolio, while disbursements to higher-risk sectors, including real estate development loans and corporate bonds, will remain at a moderate level.

NIM would face downward pressure in the near term

KBSV assesses that MBB's NIM will face downward pressure in the short term, leading to revisions in our NIM projections. We project NIM of 4.34% (-45bps YoY) for 2024, with a recovery expected in the 2025-2027 period, alongside improvements in asset quality.

Asset quality should be closely monitored in the time to come

We believe that MBB's asset quality will be impacted by the upcoming expiration of Circular 02, the maturity of bonds extended for two years, and late settlement of customer dues. In the long term, real estate and renewable energy projects that are directly linked to some of MBB's major clients are receiving support from the government. Assuming legal hurdles for these projects are fully addressed in the coming years, MBB will be well-positioned to improve its asset quality and regain its status as a bank with strong asset quality, as it has historically demonstrated.

We recommend BUY for MBB with a target price of VND34,300/share

KBSV has adjusted the valuation timing to the end of 2025. Accordingly, we recommend BUY on MBB with a target price of VND34,300/share, representing a 41% upside potential compared to the closing price on December 12, 2024.

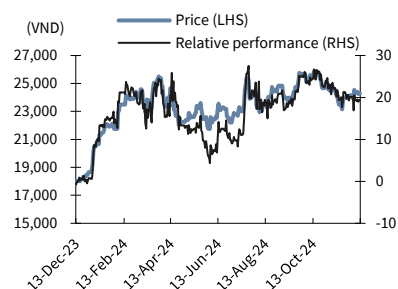
Buy maintain

Target price	VND34,300
Upside	41%
Current price (Dec 12, 2024)	VND24,300
Consensus target price	VND30,600
Market cap (VNDtn/USDbn)	128.9/5.1

Trading data	
Free float	69.0%
3M avg trading value (VNDbn/USDmn)	276.6/11.1
Foreign ownership	23.2%
Major shareholder	Viettel Group (14.14%)

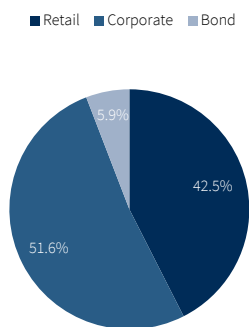
Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.6	1.7	3.2	34.6
Relative	-1.1	0.4	5.8	20.9

Forecast earnings & valuation				
FY-end	2022A	2023A	2024F	2025F
Net interest income (VNDbn)	36,023	38,684	41,219	49,977
PPOP (VNDbn)	30,777	32,393	36,843	43,761
NPAT-MI (VNDbn)	18,155	21,054	22,392	24,031
EPS (VND)	3,856	3,966	4,201	4,487
EPS growth	15%	3%	6%	7%
PER (x)	6.3	6.1	5.8	5.4
BVPS (VND)	17,559	18,548	22,097	25,984
PBR (x)	1.38	1.31	1.10	0.94
ROE	25.6%	23.9%	21.1%	19.2%
Dividend yield	1.35%	1.87%	2.47%	2.47%



Source: Bloomberg, KB Securities Vietnam

Credit portfolio mix (2023)



Source: Military Bank, KB Securities Vietnam

Business operation

Founded in 1994, Military Commercial Joint Stock Bank (MBB) originally concentrated on offering financial services to military enterprises. Over the course of more than three decades, MBB has evolved into the largest private commercial bank in terms of assets and credit base. As a leading digital bank, MBB boasts the largest customer base and the highest CASA ratio in the industry.

Investment Catalysts

Credit growth is expected to remain robust at 18–20% in the 2025–2027 period, driven by a diversified credit portfolio and contributions from both corporate and personal loans.

While NIM may face short-term pressure, it is expected to remain above the industry average, bolstered by the bank's leading CASA position. NIM is forecasted at 4.34% (-45bps YoY) for 2024F but is anticipated to recover in the 2025–2027 period alongside improvements in asset quality.

Asset quality is anticipated to strengthen as the government addresses challenges linked to real estate and renewable energy projects involving MBB's major clients.

Notes

Please find more details below

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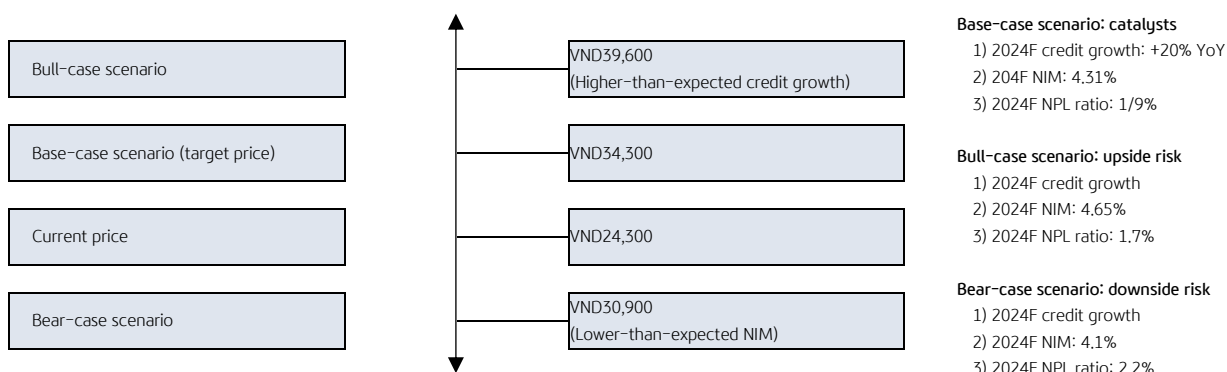
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	41,219	49,977	-4%	-5%	41,056	49,256	0%	1%
EBIT	36,843	43,761	-4%	-2%	36,354	42,379	1%	3%
NP after MI	21,902	23,394	-3%	-4%	21,756	24,490	1%	-4%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Business performance

9M2024 PBT remained relatively unchanged compared to the same period last year

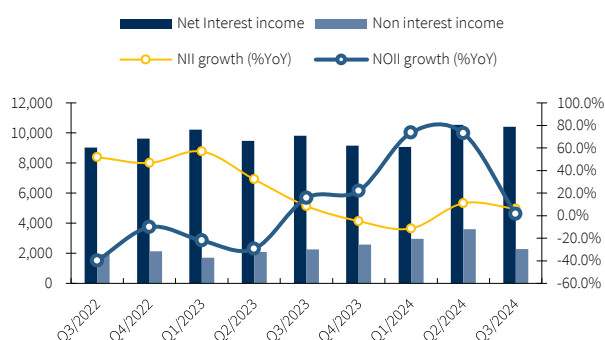
In 3Q2024, credit growth slightly slowed compared to the previous quarter but still reached 13.5% YTD by the end of September, significantly outperforming the industry average. Total operating income (TOI) for the quarter decreased by 10% QoQ, driven by a 34bps QoQ decline in NIM, which impacted net interest income (NII) growth. Meanwhile, non-interest income (NOII) also declined QoQ due to more challenging market conditions. For the first nine months of the year, MBB reported pre-tax profit of VND20,736 billion, up 3.6% YoY. However, asset quality deteriorated in 3Q2024, with the non-performing loan (NPL) ratio rising by 59bps QoQ to 2.2%, which led us to revise down our NPAT growth assumptions for the coming years.

Table 1. MBB – 3Q2024 business performance

(VNDbn)	3Q2023	2Q2024	3Q2024	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	9,812	10,531	10,417	-1.1%	6.2%	Net interest income (NII) in 3Q2024 saw a slight decline compared to the previous quarter but posted a 6% YoY increase, driven by improved credit growth since 2Q2024. However, the sharp contraction in NIM caused NII growth to fall short of our projections.
Non-interest income (NOII)	2,253	3,598	2,287	-36.4%	1.5%	In 3Q2024, non-interest income (NOII) remained stable YoY but declined QoQ due to challenging market conditions: <ul style="list-style-type: none"> - Service fees and commission income decreased by 34% QoQ and 18% YoY, driven by a sharp decline in brokerage income (-26% QoQ) and a modest reduction in bancassurance income (-5% QoQ). - On the other hand, foreign exchange trading posted robust growth, rising 68% QoQ and doubling YoY, despite unfavorable market and exchange rate conditions.
Total operating income (TOI)	12,065	14,129	12,704	-10.1%	5.3%	
Operating expenses	(3,334)	(4,491)	(3,756)	-16.4%	12.7%	Operating expenses were well-controlled, helping to improve the cost-to-income ratio (CIR), which decreased to 30% in 3Q2024.
CIR	27.6%	31.8%	29.6%	-221bps	193bps	
Provision expenses	(1,447)	(2,006)	(1,640)	-18.2%	13.3%	Provision expenses continued to decrease QoQ, even though asset quality worsened. This led to a decline in the loan loss coverage ratio (LLCR) from 102% in 2Q2024 to 69% in 3Q2024.
Profit before tax (PBT)	7,284	7,633	7,308	-4.3%	0.3%	
Net profit after tax (NPAT)	5,821	6,102	5,843	-4.2%	0.4%	
Credit growth (YTD)	13.7%	9.4%	13.5%			Credit growth reached 13.5%, up from 9.4% at the end of 2Q2024, largely driven by corporate lending (+19% YTD), while individual lending also recovered in 3Q2024, reaching 9.4% YTD. Meanwhile, corporate bond lending decreased by 8% YTD.
Deposit growth (YTD)	11.0%	3.6%	9.1%			
NIM	5.03%	4.58%	4.24%	-34bps	-78bps	The rate war among banks continued to impact the yield on interest-earning assets (IEA), while funding costs increased slightly given recent deposit interest rate hikes. NIM decreased by 20bps QoQ.
NPL ratio	1.89%	1.64%	2.23%	59bps	34bps	Asset quality deteriorated considerably in 3Q2024, with a sharp increase in classified loans, particularly Group 3 (+65% QoQ) and Group 5 (+59% QoQ). As a result, the NPL ratio surged to 2.23%, while the LLCR dropped to 69% by the end of the quarter.

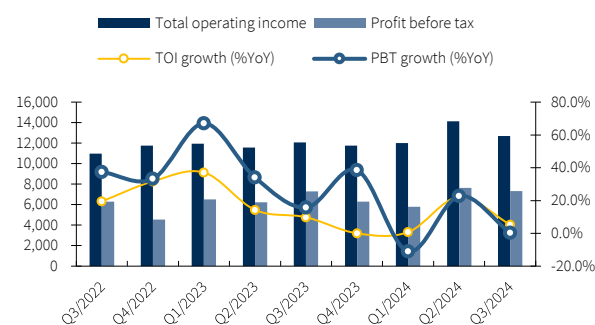
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – NII, NOII growth (VNDbn, %)



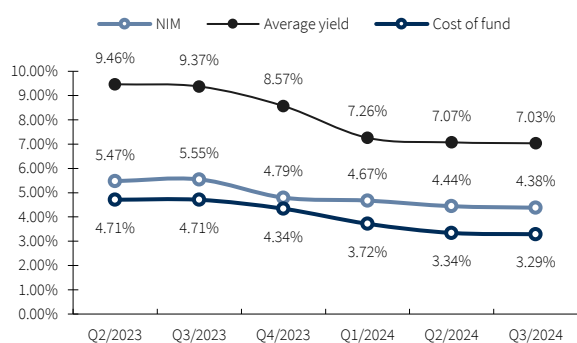
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – TOI, NPAT growth (VNDbn, %)



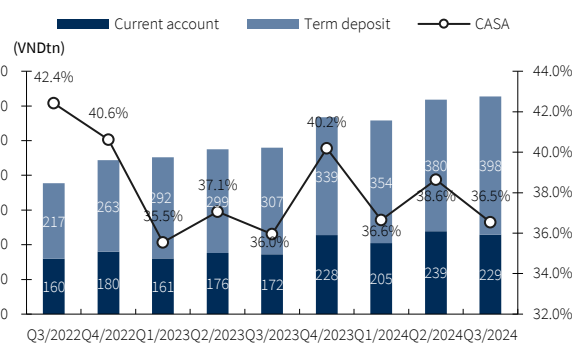
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – NIM, average IEA yield & cost of funds (%)



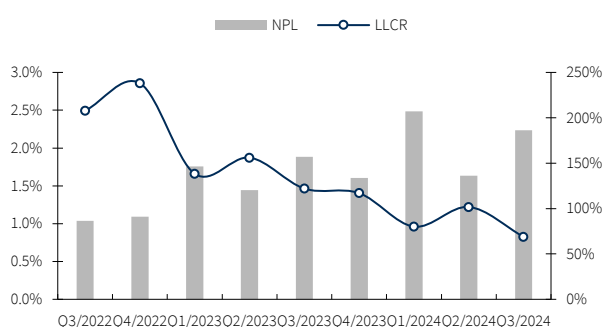
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – Deposit portfolio (VNDtn, %)



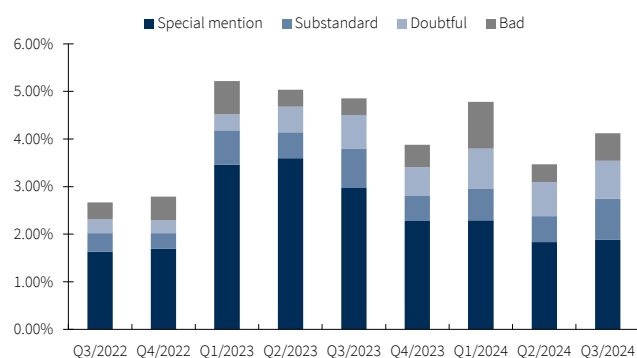
Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – NPL ratio, LLCR (%)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – Credit portfolio composition by percentage (%)



Source: Military Bank, KB Securities Vietnam

MBB is expected to further diversify its credit portfolio towards sustainable growth

Since 2023, corporate customers have been the primary driver of loan growth, while outstanding corporate bond loans have steadily declined, now accounting for only about 5% of the credit portfolio. This indicates a stronger recovery in corporate demand compared to individual customers, potentially driven by a shift from restructured bonds to loans. Despite slower growth earlier this year, personal loans have shown signs of recovery in the past two quarters, achieving 9.4% YTD growth for the first nine months of 2024. We anticipate further recovery in personal loan demand in the final quarter, supported by the upcoming festive season and Lunar New Year. Additionally, given the historically high credit demand in the fourth quarter (MBB's credit growth surged from 13.7% to 28% in 4Q2023), we expect the bank to reach its 20% growth ceiling for this year.

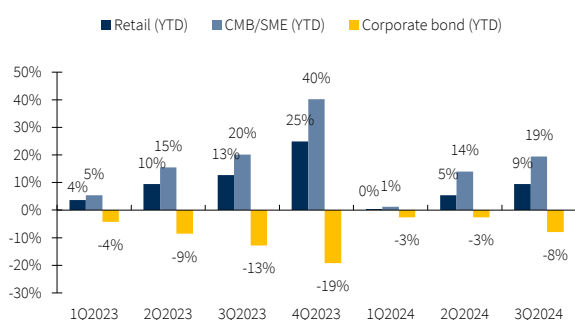
Looking ahead, MBB is expected to further diversify its credit portfolio, with projected loan growth of 18–20% in the 2025–2027 period. This growth rate is lower than the 2020–2023 period due to a larger total credit base. Wholesale & retail, household business, and processing & manufacturing will continue to dominate the loan portfolio, while disbursements to higher-risk sectors, including real estate development loans and corporate bonds, will remain moderate (Figure 10).

MBB completed the mandatory acquisition of the underperforming credit institution OceanBank

In October 2024, MBB successfully acquired OceanBank, a struggling financial institution, as mandated by the State Bank of Vietnam (SBV). MBB will now assume control of OceanBank's operations, aiming to restore its financial health and address accumulated losses in accordance with regulatory standards for credit institutions. As previously reported, MBB's involvement in restructuring a troubled bank positions the institution favorably for higher annual credit growth limits.

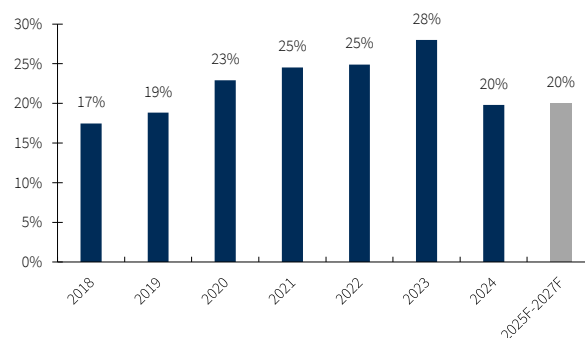
On December 18, 2024, MB officially announced the rebranding of OceanBank to the Modern Bank of Vietnam Limited (MBV). Concurrently, the bank appointed key board members to oversee MBV's operations.

Fig 8. MBB – Credit growth across customer segments (%YTD)



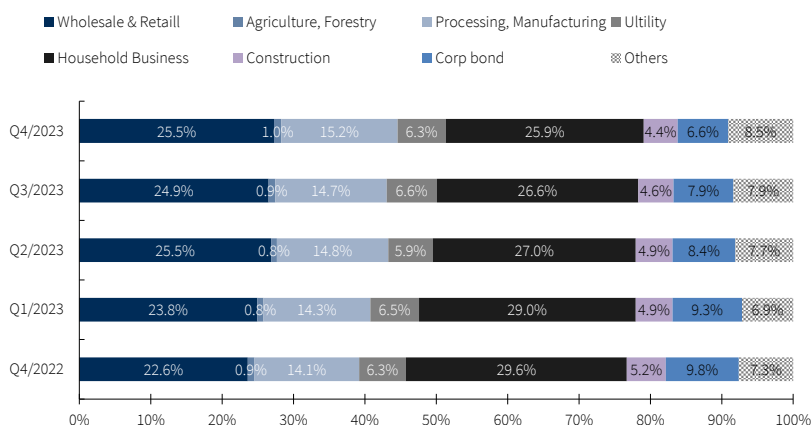
Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – 2018A–2027F credit growth (%)



Source: Military Bank, KB Securities Vietnam

Fig 10. MBB – Credit portfolio by sector (%)



Source: Military Bank, KB Securities Vietnam

Wholesale & retail loans, as well as household business loans, now each account for over 20% of total outstanding loans, emerging as key drivers of credit growth. Real estate development loans are maintained at 6–8% and will remain below 10%. Meanwhile, outstanding corporate bond loans have declined significantly over the past two years, helping to mitigate risks associated with the bank's lending activities.

NIM would face downward pressure in the near term

3Q2024 witnessed a 30bps decline in the yield on interest-earning assets (IEA) due to intense competition and delayed customer payments, which drove the NPL ratio up. Coupled with a slight 3bps increase in funding costs, this caused 3Q2024 NIM to drop by 34bps QoQ to 4.24%, following its rebound to 4.58% in the previous quarter. NIM is expected to face short-term downward pressure, prompting adjustments to our projections. We now forecast NIM at 4.26% (-53bps YoY) for 2024, with a gradual recovery anticipated in 2025–2027 alongside improvements in asset quality.

- 1) IEA yields are projected to decline further over the next 1–2 quarters due to: (i) lending rates likely to remain flat in 1H2025; (ii) a shift in the loan portfolio mix towards corporate customers, whose lending yields are lower than those for individual borrowers; and (iii) asset quality requiring additional time to improve. We anticipate a stronger recovery in lending rates in 2H2025, supported by accelerated disbursements amid an economic rebound, laying the groundwork for NIM recovery.
- 2) Funding costs have decreased at a slower pace than anticipated and could rise again as MBB's deposit rates for 12-month and 6-month terms have increased by 45–60bps from their lowest levels. Higher funding needs during the final months of the year to support rising credit demand will likely keep funding costs elevated. However, MBB's strong CASA position will help mitigate some of the negative effects of rising funding costs.

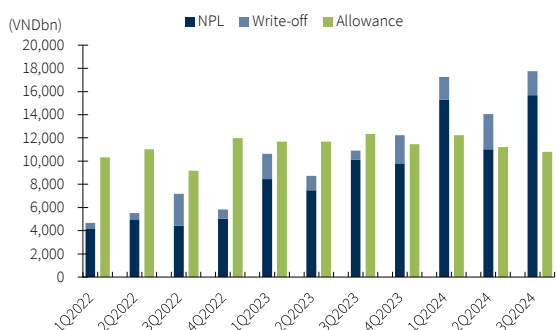
Asset quality should be closely monitored in the time to come

The NPL ratio remained relatively unchanged YoY but surged QoQ, particularly in substandard (Group 3) and bad debts (Group 5), which climbed by 65% and 59% QoQ, respectively. MBB attributed the rise in NPLs to delayed customer payments. Despite the deteriorating asset quality, provision expenses were lower than anticipated. In 3Q2024, provisions for credit losses decreased by 18% QoQ, while the NPL ratio increased by 42% QoQ. This led to a decrease in the bank's LLCR from 102% (2Q) to 69% (3Q). This suggests that the bank have a positive outlook on customers' creditworthiness, anticipating a reclassification of these loans to standard status in the next quarter.

In the near term, we believe that MBB's asset quality will face considerable pressure due to the following factors: **(i) expiration of Circular 02/2023** (The expiration of this circular, which is unlikely to be extended, could lead to an increase in NPLs and provision expenses. Although MBB's restructured loans under this circular represent a relatively small portion of its total loan book (0.5–0.6%), it remains higher than some peer banks.); **(ii) maturity of restructured corporate bonds** (The upcoming maturity of corporate bonds restructured for two years in 2025–2026 poses additional risks); and **(iii) temporary financial difficulties faced by customers** (Customers may experience temporary financial challenges, requiring three to six months to resolve, contingent on the overall economic recovery and the real estate market rebound).

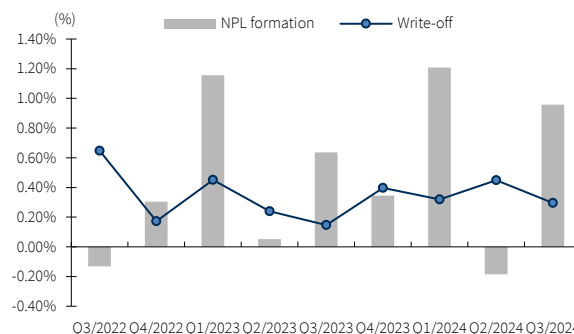
Over the long term, MBB's asset quality is projected to improve, supported by government efforts to address issues related to real estate and renewable energy projects, which are linked to some of MBB's major corporate clients. Assuming legal hurdles for these projects are resolved, MBB is poised to strengthen its asset quality and reclaim its historical position as a bank with robust asset quality.

Fig 11. MBB – NPLs, write-offs, allowance (VNDbn)



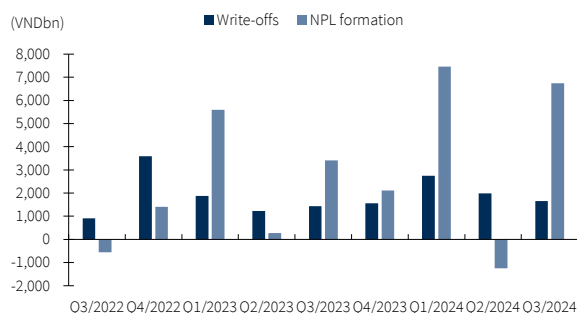
Source: Military Bank, KB Securities Vietnam

Fig 12. MBB – NPL formation rate, write-off ratio (%)



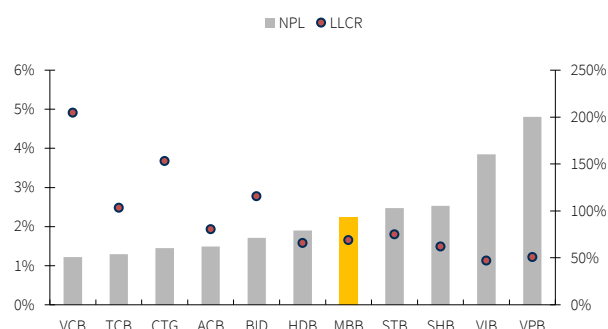
Source: Military Bank, KB Securities Vietnam

Fig 13. MBB – Write-offs, NPL formation (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 14. Vietnam – NPL ratio, LLCR across banks (%)



Source: Military Bank, KB Securities Vietnam

Forecast & Valuation

Table 15. MBB – 2023A–2025F business performance

(VNDbn)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Net interest income (NII)	38,684	41,219	7%	49,977	21%	While we maintain our credit growth projections, we have revised our net interest income (NII) forecast downward due to the anticipated flat or slightly declining NIM in the fourth quarter of 2024. We expect growth momentum in 2025 to be driven by both a recovery in loan growth and an improvement in NIM compared to 2024.
Non-interest income (NOII)	8,622	11,792	37%	12,629	7%	We have revised down projections for service fees and foreign exchange trading due to heightened exchange rate pressures in 4Q2024.
Total operating income (TOI)	47,306	53,011	12%	62,605	18%	
Pre-provision operating profit (PPOP)	32,393	36,843	14%	43,761	19%	
Provision expenses	(6,087)	(8,852)	45%	(13,722)	55%	We have made slight adjustments to the 2024 projection due to lower-than-expected provisioning, which, however, implies an increase in provisioning for 2025.
Profit before tax (PBT)	26,306	27,990	6%	30,039	7%	
Net interest margin (NIM)	4.79%	4.26%	-53bps	4.44%	18bps	We have lowered our NIM expectations due to weaker-than-expected performance in 3Q2024. NIM is projected to stabilize in 4Q2024 and gradually recover in 2025.
Average IEA yield	8.57%	7.27%	-130bps	7.56%	29bps	
Average cost of funds	4.34%	3.44%	-90bps	3.56%	12bps	
Cost-to-income ratio (CIR)	31.5%	30.5%	-102bps	30.1%	-40bps	
NPL ratio	1.60%	2.00%	40bps	1.75%	-25bps	We have raised the projected NPL ratio by 30bps compared to our latest assumption, reflecting the negative developments in asset quality.
Total assets	944,954	1,048,418	11%	1,268,964	21%	
Equity	96,711	115,214	19%	135,480	18%	

Source: Military Bank, KB Securities Vietnam

Valuation

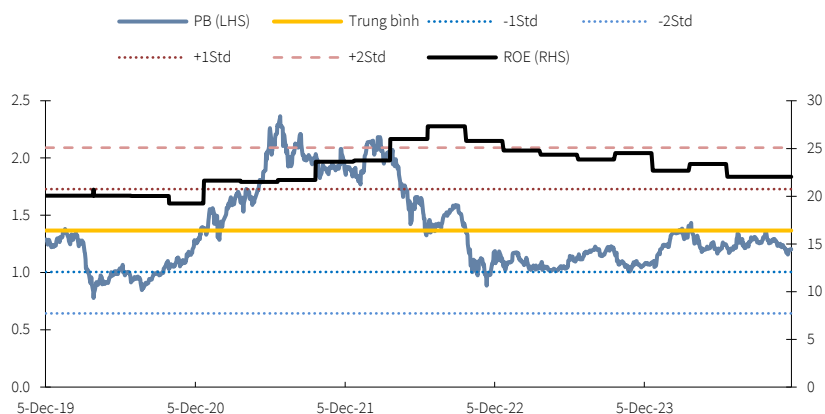
We recommend BUY for MBB with a target price of VND34,300/share

We combined two valuation approaches, P/B and residual income, to derive a fair value for MBB.

- 1) P/B valuation
Considering persistent risks to asset quality and short-term NIM pressure, we have adjusted MBB's target P/B multiple for 2025 to 1.3x.
- 2) Residual income valuation
Additionally, we incorporated the residual income discounting method to account for systemic risks and long-term expectations.

After aligning the valuation horizon to the end of 2025, we reaffirm our BUY recommendation for MBB, setting a revised target price of VND34,300 per share. This represents a potential upside of 41% from the closing price on December 12, 2024.

Fig 16. MBB – ROE & P/B in 2019–2024



Source: Bloomberg, KB Securities Vietnam

Table 17. MBB – Residual income valuation

(VNDbn)	2025F	2026F	2027F
NPAT	24,031	29,308	37,563
Excessed return	3,157	4,527	7,643
Required rate of return (re)	15%		
Growth (g)	3.0%		
Terminal value	28,721		
Present value (PV)	182,039		
Value per share	34,913		

Source: KB Securities Vietnam

Table 18. MBB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
Residual income	34,913	50%	16,889
P/B	33,779	50%	17,456
Target price			34,300

Source: KB Securities Vietnam

MBB – 2022A–2025F summarized financials & forecasts

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	41,219	49,977	Loans	354,797	448,599	599,579	717,112	860,522
Interest income	38,465	52,486	69,143	70,278	85,071	Marketable securities	7,575	4,106	44,251	15,071	18,417
Interest expense	(12,265)	(16,463)	(30,459)	(29,059)	(35,094)	Cash (ex. Reserves)	3,475	3,744	3,675	4,927	6,021
Fees & commissions	4,367	4,136	4,085	4,532	6,345	Interest earning assets	574,482	697,256	916,370	1,017,280	1,233,234
Other non-interest income	3,254	2,142	2,428	2,557	2,615	Fixed assets & other assets	38,176	38,836	34,928	41,043	47,978
Total operating income	36,934	45,593	47,306	53,011	62,605	Total assets	607,140	728,532	944,954	1,048,418	1,268,964
SG&A expenses	(12,377)	(14,816)	(14,913)	(16,168)	(18,844)	Customer deposits	384,692	443,606	567,533	660,593	807,257
Pre-provisioning OP	24,557	30,777	32,393	36,843	43,761	Borrowings & call money/repos	68,886	98,581	129,263	132,118	157,790
Provision for credit losses	(8,030)	(8,048)	(6,087)	(8,852)	(13,722)	Interest bearing liabilities	513,400	607,335	796,615	891,812	1,078,076
Other income	4,211	3,026	3,458	3,652	3,718	Other liabilities	31,254	41,584	51,628	41,392	55,407
Other expense	(956)	(884)	(1,030)	(1,096)	(1,103)	Total liabilities	544,654	648,919	848,242	933,203	1,133,483
Pre-tax income	16,527	22,729	26,306	27,990	30,039	Charter capital	37,783	45,340	52,141	52,141	52,141
Income tax expense	(3,306)	(4,574)	(5,252)	(5,598)	(6,008)	Capital surplus	869	869	869	869	869
NP	13,221	18,155	21,054	22,392	24,031	Retained earnings	12,915	19,064	25,560	44,333	64,599
Minority interest profit	(524)	(672)	(377)	(490)	(637)	Capital adjustments	-	-	-	-	-
Parent NP	12,697	17,483	20,677	21,902	23,394	Total shareholders' equity	62,486	79,613	96,711	115,214	135,480
Financial Indicators						Valuation					
(%)	2021	2022	2023	2024F	2025F	(VND, X, %)	2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	23.5%	25.6%	23.9%	21.1%	19.2%	EPS	3,361	3,856	3,966	4,201	4,487
ROA	2.4%	2.7%	2.5%	2.2%	2.1%	BVPS	16,538	17,559	18,548	22,097	25,984
Pre-provision ROE	34.9%	34.6%	29.4%	27.8%	27.9%	Tangible BVPS	16,140	17,197	18,226	21,737	25,582
Pre-provision ROA	3.6%	3.7%	3.1%	3.0%	3.0%	Valuations					
Net interest margin (NIM)	5.0%	5.7%	4.8%	4.3%	4.4%	PER	7.2	6.3	6.1	5.8	5.4
Efficiency						PBR	1.5	1.4	1.3	1.1	0.9
Pure Loan to deposit ratio	94.5%	103.8%	107.7%	111.0%	109.0%	Dividend yield	2.5%	2.5%	2.5%	2.5%	2.5%
Cost-income ratio	33.5%	32.5%	31.5%	30.5%	30.1%	ROE	23.5%	25.6%	23.9%	21.1%	19.2%
Growth						Capital Adequacy					
Asset growth	22.7%	20.0%	29.7%	10.9%	21.0%	CAR	10.4%	11.3%	11.4%	>11%	>11%
Loan growth	20.7%	26.4%	33.7%	19.6%	20.0%	Asset Quality					
PPOP growth	46.1%	25.3%	5.3%	13.7%	18.8%	NPL ratio (substandard)	0.9%	1.1%	1.6%	2.0%	1.8%
Parent NP growth	53.7%	37.7%	18.3%	5.9%	6.8%	Coverage ratio (substandard)	133.2%	174.1%	122.1%	110.1%	125.9%
EPS growth	13.8%	14.7%	2.8%	5.9%	6.8%	NPL ratio (precautionary)	2.0%	2.8%	3.9%	3.8%	3.6%
BVPS growth	-7.6%	6.2%	5.6%	19.1%	17.6%	Coverage ratio (precautionary)	60.6%	68.2%	50.5%	57.9%	62.1%

Source: Company Report, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Research Division

research@kbsec.com.vn

Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

Financials

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Consumer

Nguyen Duc Quan – Analyst

quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

Real Estate

Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

Industrials & Materials

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of macro & strategy

anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannnd@kbsec.com.vn

Energy, Utilities & IT

Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst

anhnv3@kbsec.com.vn

Support Team

Nguyen Cam Tho – Assistant

thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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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