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Analyst Nguyen Duc Huy
huynd1@kbsec.com.vn

Provision increased sharply, causing 4Q EBT to drop by 2.8%YoY

Military Bank's (MBB) 4Q22 NII gained 34.3%YoY to VND9,630 billion while non-interest income (NOII) dropped 28.1%YoY, making TOI rise 16.2%YoY to VND11,751 billion. However, provision expense surged 78.3%YoY to VND3,585 billion, which made 4Q EBT decrease 2.3% YoY to VND4,538. Full-year EBT increased by 37.5%YoY to VND22,731 billion, beating the target by 12%.

NIM was stable thanks to increasing retail customers and maintaining high CASA

Average earnings yield gained 1.8ppts in 4Q thanks to higher mortgage rates while the average cost of fund (COF) grew by a mere of 1.03ppts. NIM was stable at 5.87% in 4Q and rose 0.16ppts to 5.67% in 2022.

MBB maintained high credit growth for the whole year 2022

Credit growth for the whole year of 2022 is 25.2%, which is under the State Bank (SBV) limit of 26%. Mobilized capital increased by 18.4%, driven by a surge of 15.7% in 4Q deposit. LDR was 76.1%, and SMLR is estimated at 21.3%.

Consolidated asset quality declines due to MCredit

2022 NPL is 1.09%, up 0.19ppts YoY. NPL of the parent bank is 0.88% and NPL of Mcredit is 6.5%. NPL coverage ratio at both parent bank and Mcredit remained high, at 295.4% and 90.3% respectively. Substandard debt doubled YoY, of which Mcredit's debts accounted for 60%.

BUY recommendation with target price of VND24,700/share

Using two methods of valuation P/B and residual income, we set a 1-year target price of MBB stock at VND24,700/share, 42.0% higher than the price on March 17, 2023. In case MBB has to make provision for loans and bonds of Novaland (NVL), the target price may drop to VND23,214/share.

Buy maintain

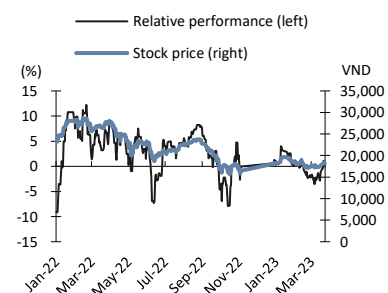
Target price	VND24,700
Upside/Downside	42.0%
Current price (Mar 13, 2023)	17,450
Consensus market price	28,000
Market cap (VNDbn)	80,478

Trading data	
Free float	58.9%
3M avg trading value (VNDbn)	159.82
Foreign ownership	23.23%
Major shareholder	Viettel (18.5%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.6	-3.0	-22.2	-32.7
Relative	-3.0	-2.8	-7.5	-5.9

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	26,200	36,023	45,104	54,491
Pre-provision operating profit (VNDbn)	24,557	30,777	38,954	46,940
NPAT of the parent bank (VNDbn)	12,697	17,483	23,623	28,712
EPS (VND)	3,362	3,856	4,342	4,398
EPS growth (%)	12.3%	14.7%	12.6%	1.3%
PER (x)	9.71	5.87	5.21	5.14
Book value per share (VND)	16,150	17,203	19,181	20,355
PBR (x)	2.02	1.32	1.18	1.11
ROE (%)	23.5%	25.6%	26.4%	24.7%
Dividend yield (%)	35%	20%	20%	20%



Source: Bloomberg, KB Securities Vietnam

Business performance

Provisions increased sharply, causing Q4 EBT to decrease by 2.8%YoY

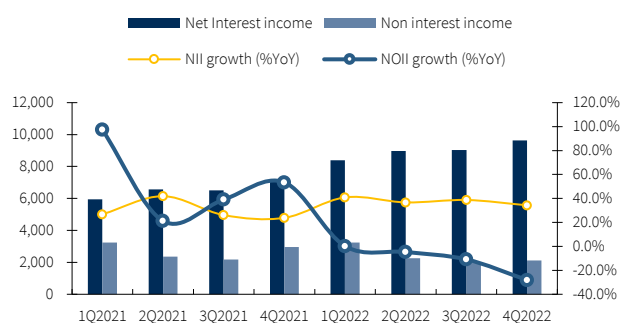
Revenue from core stock activities still maintained a high YoY growth. To be more specific, 4Q NII gained 34.3%YoY to VND9,630 billion. However, NOII saw a decrease of 28.1%YoY, making 4Q TOI grow by a mere of 16.2%YoY to VND11,751 billion. Operating expenses (OPEX) were still well controlled (down 2.7%QoQ or up 4.8%YoY). Of particular note was that MBB made provision of VND3,585 billion in 4Q alone, the largest quarterly provision ever. As a result, 4Q EBT was only VND4,538 billion (-27.9%QoQ and -2.3%YoY). In the whole year of 2022, MBB recorded VND22,731 billion in EBT, still achieving a high growth of about 37.5%YoY thanks to the positive results in 9M22. MBB has achieved 112% of the profit target in 2022 and is very close to the target of becoming a bank with a profit of USD1 billion.

NIM stable thanks to increasing retail customers and maintaining high CASA

Average earnings yield in gained 0.9ppts QoQ or 1.8ppts YoY to 9.33% in 4Q. Of that, the largest contribution came from lending as the average interest rate from customer loans surged to 10.36% in 4Q thanks to (1) accelerating disbursement at the end of the year after being granted larger credit room by the State Bank of Vietnam (SBV); (2) higher mortgage rate after the adjustment; and (3) MBB's promoted the exploitation of individual customers and SMEs with higher yields.

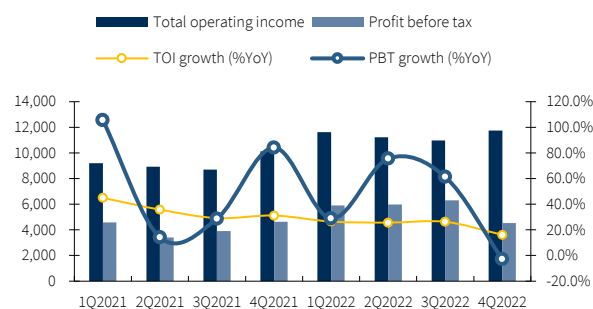
Under the liquidity pressure in the last months of the year and the increase in SBV's policy interest rates, MBB raised the deposit rates in October and November with an increase of 2.1-2.6ppts for terms under one year and 1.6-2.1ppts for medium and long-term deposits. Despite high interest rates, MBB's CASA balance only decreased slightly by 4.2%YoY, showing the solidity of the CASA platform built in the period of 2020-2022 with the promotion of digital transformation and military customer base. MBB has since surpassed Techcombank (TCB) to become the bank with the leading CASA ratio in the banking industry (40%). The cost of mobilizing valuable papers also did not increase too much because MBB actively issued it in the first nine months of the year (before the interest rates increased). As a result, MBB's average deposit cost in 4Q only inched up 0.75ppts QoQ. 4Q NIM has since improved slightly QoQ to 5.87%. NIM for the whole year 2022 reached 5.67%, a sharp increase of 0.63ppts YoY.

Fig 1. MBB – NII & NOII (VNDbn)



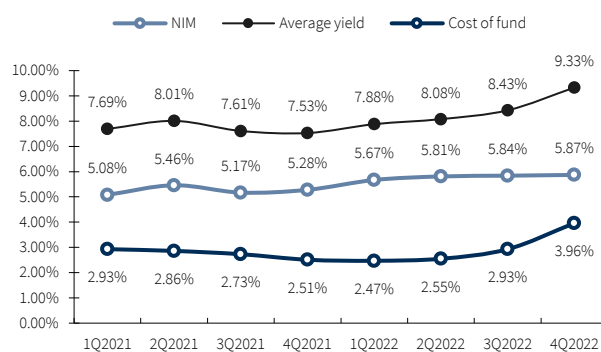
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – TOI & EBT by quarter (VNDbn)



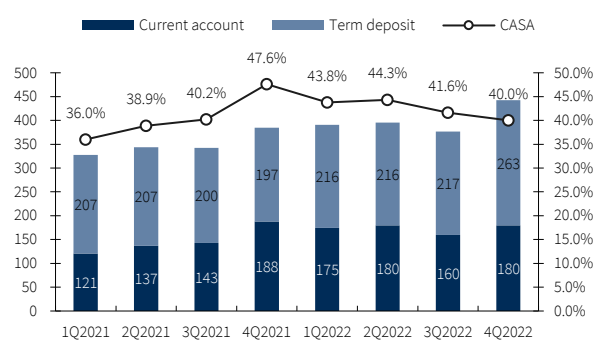
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – NIM by quarter (%)



Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA ratio by quarter (%)

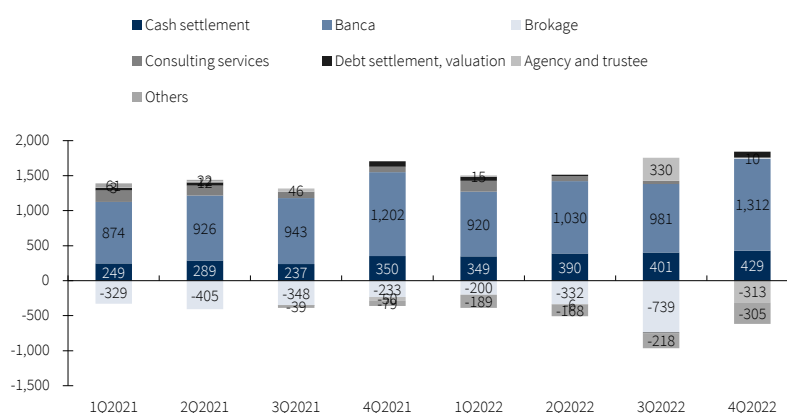


Source: Military Bank, KB Securities Vietnam

Payment services and bancassurance are still the main source of service fee

Net fee income in 4Q reached VND1,224 billion (up 55%QoQ but slightly down 9%YoY). Of that, net fee from payment and treasury activities reached VND429 billion in 4Q (+7%QoQ and 23%YoY) and hit VND1,569 billion for the whole year (+39.5% YoY). Net fee from insurance services reached VND1,312 billion (+34%QoQ and +9%YoY) in 4Q and VND4,243 billion in 2022 (up slightly by 7.6%YoY). We see that net premium of MIG and MB Ageas Life still maintain a positive growth rate in 2022, at 42.1%YoY and 13.6%YoY respectively, however, OPEX of the insurance business tends to grow faster this year, causing gross profit to shrink. For 2023, MIG's activities are still supported by (1) people's care for health insurance products after the Covid-19 pandemic; and (2) cross-selling motor vehicle insurance products, lending scale for buying, selling and repairing cars and motorbikes that account for 25% of MBB's total loan portfolio. MB Ageas Life's life insurance business may face more difficulties as the SBV tightens bancassurance activities. Revenue from brokerage services lost VND1,261 billion (-4.1%YoY) in 2022 due to being eroded by brokerage commission costs.

Fig 5. MBB – NFI by quarter in 2021–2022 (VNDbn)

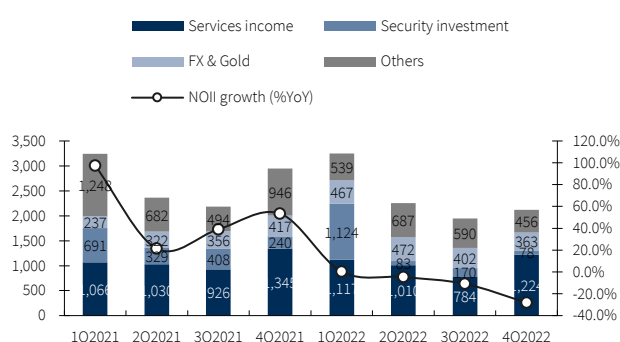


Source: Military Bank, KB Securities Vietnam

4Q NOII decreased by 28.1% YoY

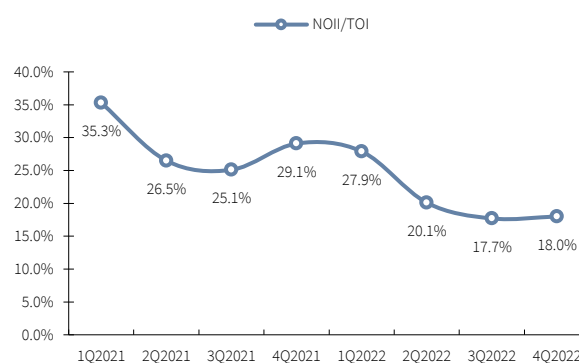
Revenue from foreign exchange and gold trading in 4Q reached VND363 billion (down 9.7%QoQ and -12.9%YoY). MBB recorded a profit of VND78 billion from securities trading and investment in 4Q, down 67.5% YoY. Revenue from other activities reached VND456 billion, down 51.8% YoY. Subdued revenue sources, especially from securities, caused the total NOII in 4Q to decrease by 28% YoY to VND2,121 billion. The NOII/TOI ratio since fell to about 18%, much lower than 29.1% in the same period last year. 2022 NOII declined 10.9%YoY to VND9,566 billion.

Fig 6. MBB – NOII structure by quarter (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – NOII/TOI ratio by quarter (%)



Source: Military Bank, KB Securities Vietnam

MBB maintained high credit growth for the whole year 2022

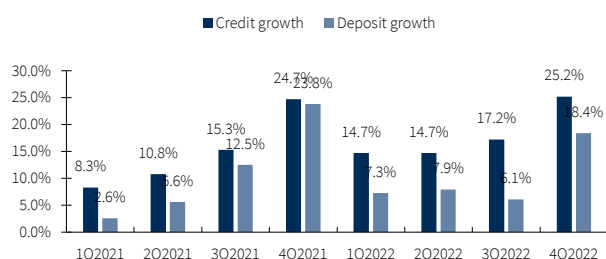
The SBV continued to raise the credit room by 2%, bringing MBB's total room for the whole year to 26% – the second highest in the industry, after VPB. 2022 MBB's credit balance reached VND507,444 billion, up 25.2% YoY. Lending to customers is still the main credit growth driver with an increase of 26.7% YoY. Total loans by the end of 2022 reached VND460,574 billion. The proportions of loans to individual and corporate customers are distributed relatively evenly at 48% and 41%, respectively. MBB's total loans to real estate and construction businesses still surged 35.9% YoY to VND47,802 billion (~11% of total outstanding loans).

The value of MBB's corporate bond portfolio tended to increase strongly in 1H22 and gradually decrease in 2H22 when credit limits were tighter. Like other banks, MBB also had to actively reduce its bond portfolio to focus on boosting lending, so for the whole year, outstanding corporate bonds grew by a mere of 10.6%YoY while gaining 15.8 %YTD in 1H22. By the end of 2022, MBB is the bank holding the largest corporate bonds in the system with VND46 trillion.

MBB boosted deposit mobilization in 4Q to cope with liquidity stress after the incident of SCB and prepare capital to accelerate disbursement in the last months of the year. Deposit mobilization is also easier with high interest rates. Customer deposits in 4Q have since grown by 17.6%QoQ while falling 0.2%YTD in 9M22 (Figure 10). For valuable papers channel, MBB mainly uses certificates of deposit (~73% of total valuable papers) to supplement short-term capital. The bank also issued bonds to supplement medium and long-term capital, but on a smaller scale. Total mobilized capital from valuable papers reached VND96,578 billion, up 44.4%YoY.

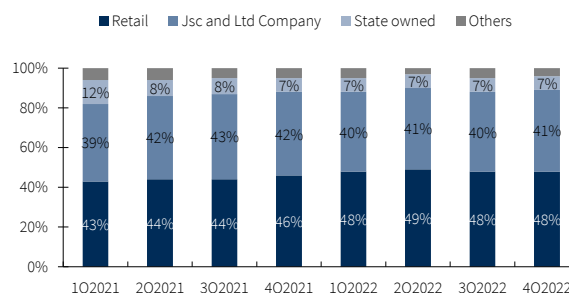
The loan-to-deposited ratio (LDR) declined from a peak of 78.8% in 3Q to 76.1% at the end of 4Q. Short-term capital ratio for medium and long-term loans is estimated at around 21.3%, still under the limit of 34% of the SBV.

Fig 8. MBB – Credit & deposit growth (%YTD)



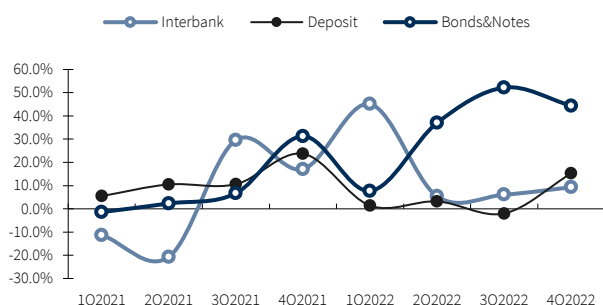
Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – Credit structure by customer group



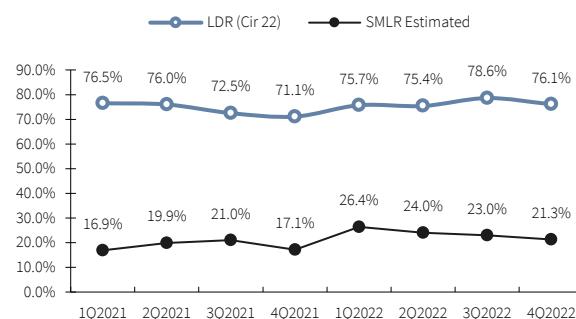
Source: Military Bank, KB Securities Vietnam

Fig 10. MBB – Deposit growth (%YTD)



Source: Military Bank, KB Securities Vietnam

Fig 11. MBB – LDR & short-term capital for medium and long term loans (%)



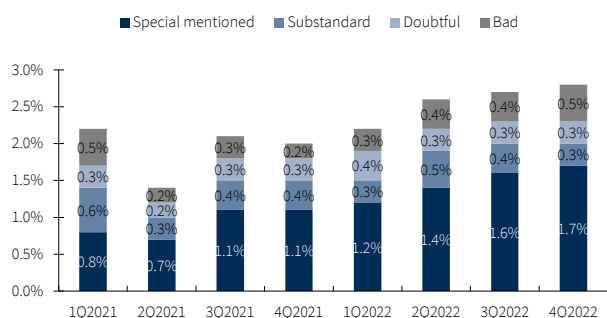
Source: Military Bank, KB Securities Vietnam

Consolidated asset quality declines due to MCredit

We assess that the asset quality of the parent bank remains at a good level while Mcredit's assets are worse due to the general trend of the consumer finance industry and the promotion of lending this year to gain financial market share (Mcredit has surpassed HDSaison to rank third in terms of loan size). The non-performing loan ratio of the parent bank at the end of 2022 was 0.83%, rising 0.15ppts YoY due to lower write-off rate, causing bad debt to increase by 178%YoY. Mcredit's NPL gained 0.29ppts YoY to 6.5%. The bank also actively increased the reserve buffers at both parent bank and Mcredit to 295.4% and 90.3% respectively. Consolidated NPL ratio since then increased slightly by 0.19ppts to 1.09%, and consolidated LLCR was 238% (Figure 14).

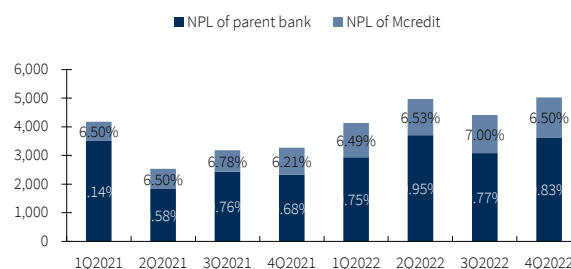
The size of consolidated substandard debts continuously increased in 2022 and accounted for 1.7% of total consolidated loans while the figure at the beginning of the year was only about 1.1% (Figure 12). The increase in substandard loans mainly resulted from Mcredit whose loan balance reached VND4,693 billion (+272%YoY) or 60% of consolidated substandard loans (usually less than 50% in previous periods). The parent bank's outstanding debt has also increased sharply since 3Q22, which was due to the bank's restructuring debt when Circular 14 expires at the end of 2Q22 and less favorable business environment in the context of high interest rates (Figure 15).

Fig 12. MBB – Consolidated NPLs (%)



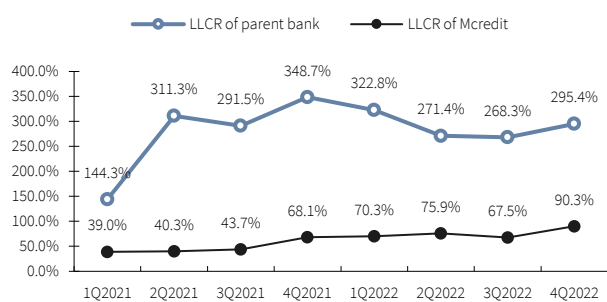
Source: Military Bank, KB Securities Vietnam

Fig 13. MBB – NPLs of the parent bank & Mcredit (%)



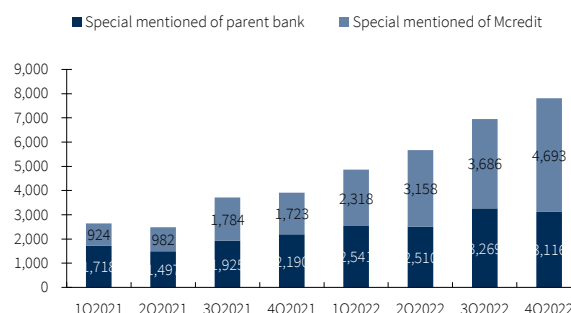
Source: Military Bank, KB Securities Vietnam

Fig 14. MBB – LLCR of the parent bank & Mcredit (%)



Source: Military Bank, KB Securities Vietnam

Fig 15. MBB – Substandard loans of the parent bank & Mcredit (VNDbn)



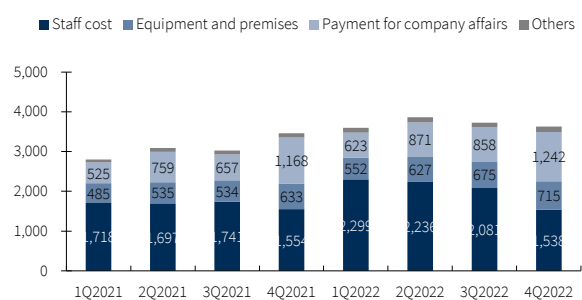
Source: Military Bank, KB Securities Vietnam

MBB continues to boost investment spending on information technology and digital transformation

4Q OPEX reached VND3,628 billion, down slightly by 2.7%QoQ or up 4.8%YoY. 4Q CIR dropped to 30.9% as TOI still recorded higher growth at 16.2%YoY. For the whole year of 2022, MBB's CIR fell to 33% from 34% in 2021. Despite optimizing costs in management, MBB still ensures that employees' incomes increase by 15%/year in the period 2017–2021. In addition to salary costs, expenditure on public administration activities also accounted for a large proportion when MBB prioritized spending on information technology and digital transformation for its customer expansion strategy. The average growth rate in the period 2018–2022 is about 12.7%/year.

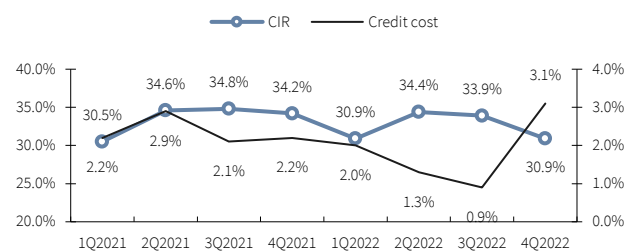
MBB made provision of up to VND3,585 billion in 4Q, the highest quarterly level ever. Credit expenses in 4Q since increased sharply to 3.1% (Figure 17). However, thanks to the low provision expenses in 9M22, the whole year's accumulation reached VND8,048 billion, flat YoY. MBB may still face the risk of increased provision expenses in 2023 when the size of substandard debt at Mcredit tends to climb recently.

Fig 16. MBB – OPEX structure (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 17. MBB – CIR & credit expenses by quarter (%)



Source: KB Securities Vietnam

Forecast & valuation

Forecast of business results in 2023

We give the forecasts for MBB's performance in 2023 as follows:

- We prudently forecast MBB's credit growth should be 21.1% with the following key assumptions: (1) Core lending growth will remain high at around 25% given macroeconomic stability and lower interest rate in 2H22. (2) Bond portfolio should decline due to maturity and no new issuance. (3) The credit room will still be high as MBB is in the group of banks handling weak credit institutions.
- Total mobilized capital is forecasted to increase by 19.7%YoY to ensure smooth disbursement. The corresponding LDR is 79.4%.
- 2023F NIM should go down 0.13ppts to 5.54% although the bank would continue to expand the retail customer base and have better lending rates, the bank will still face high capital costs in 2H23. MBB promotes deposit mobilization for terms of three to six months by the end of 2022, so interest rates will remain high until 2Q.
- NPL forecast is 0.99%, a slight decrease of 0.11ppts compared to the end of 2022. Although substandard debt shows signs of increasing, we believe that with a good reserve buffer (LLCR over 200%), MBB can boost up debt settlement.
- Provision expenses are forecast to gain 25.4%YoY to VND10,093 billion.
- NPAT of the parent company should be VND20,890 billion, up 19.5% YoY.

Table 1. #KBChart&TableTitle

	2021	2022	2023F	%YoY2022	%YoY2023
Net interest income	26,200	36,023	42,634	37.5%	18.4%
Net fee income	4,367	4,136	7,699	-5.3%	86.1%
Total operating income	36,934	45,593	54,781	23.4%	20.2%
Provision expenses	-8,030	-8,048	-10,093	0.2%	25.4%
NPAT of the parent bank	12,697	17,483	20,890	37.7%	19.5%
NIM	5.04%	5.67%	5.54%	0.63ppts	-0.13ppts
Average earnings yield	7.40%	8.26%	8.51%	0.86ppts	0.21ppts
Average costs of fund	2.66%	2.95%	3.44%	0.29ppts	0.49ppts
CIR	33.5%	32.5%	32.0%	-1ppts	-0.5ppts
NPL	0.90%	1.10%	0.99%	0.2ppts	-0.11ppts
Total assets	607,140	728,532	880,176	20.0%	20.8%
Owner equity	62,486	79,613	103,476	27.4%	30.0%

Source: KB Securities Vietnam

Valuation – BUY recommendation, price 24,700 VND/share

We combine two valuation methods, P/B and residual income, to find a fair price for MBB stock.

(1) Method of P/B valuation (Figure 16)

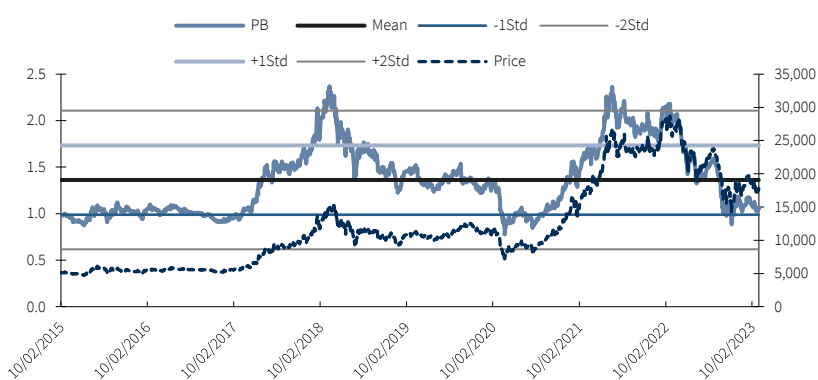
MBB owns a comprehensive financial ecosystem, good asset quality, high operational efficiency and has experienced rapid growth over the years thanks to its leadership in digital transformation. MBB's current PB valuation trades at 0.98x, which reflects investors' concerns about the real estate lending and bond portfolio. In addition, PB valuation is also attractive for a bank with a top ROE in the industry. The bank's target P/B forecast will trade around 1.3x, equivalent to the average PB for the period 2015 to present.

(2) Method of residual income (Table 2)

In addition, we incorporate the residual income of discounting to reflect systematic risk and long-term expectations.

Combining the above two valuation methods with the ratio of 50–50, we get the final fair price for MBB stock at VND24,700/share, 42.0% higher than the closing price on March 17, 2023 (Table 3). We raise our new price target by 9.6% as CASA's solid foundation in 2022 and asset yields will continue to improve. Some of the risks that may arise to reduce our forecasts include: (1) The customer's ability to recover is not as expected, causing asset quality to deteriorate; and (2) There are risks related to the counterparty Novaland (NVL) (Table 4).

Figure 28. MBB – Share prices & P/B from 2015 to present (VND, x)



Source: Bloomberg

Table 2. MBB – Share price valuation according to residual income model (VND)

	2023F	2024F	2025F	2026F	2027F
NPAT (VNDbn)	21,693	23,265	29,686	38,361	49,746
Surplus profit (VNDbn)	3,610	1,405	2,631	4,578	7,235
Cost of capital ((VNDbn))	16.7%				
Growth (%)	3%				
Final value (VND)	25,130				
Total present value (VND)	36,721				
MBB share value (VND)	25,302				

Source: KB Securities Vietnam

Table 3. MBB – Final valuation & target price (VND)

Valuation method	Forecast price	Weight	Price per weight
Surplus profit	25,302	50%	12,651
P/B	24,262	50%	12,131
Target price			24,782

Source: KB Securities Vietnam

Risks from partners NVL directly affect the valuation

MBB officially signed a strategic cooperation agreement with NVL in providing financial and banking services and solutions for the group and its member companies in 2021. MBB's main goal is to expand the retail customer base through NVL's personal home loans. By the end of 2022, MBB's outstanding loans at NVL are mainly long-term with a value of about VND3,100 billion. In addition, MBB is also holding about 6,177 billion bonds of NVL. NVL has recently been struggling in paying interest to bondholders, so this could be a potential risk affecting our target valuation for MBB. The provision rates for corporate bonds will depend on the capacity and orientation of each bank. We set the target price in the base scenario (without provisioning for NVL's debt) at VND24,782/share. In the most negative case, the target price should fall to VND23,214/share (Table 1). In addition, MBB can also use its solid reserve buffer (~VND12,000 billion) to settle NVL's debt.

Table 4. MBB – Analysis of the provision rate for NVL and target price

	23,021	Provision for loans				
		0%	5%	20%	50%	100%
Provision for bonds	0%	24,782	24,755	24,676	24,517	24,252
	20%	24,574	24,548	24,468	24,309	24,045
	40%	24,366	24,340	24,261	24,102	23,837
	60%	24,159	24,132	24,053	23,894	23,629
	80%	23,951	23,925	23,845	23,686	23,421
	100%	23,743	23,717	23,637	23,479	23,214

Source: KB Securities Vietnam

MBB – 2021A–2024F financials

Income Statement					Balance Sheet				
(Bn VND)	2020	2021	2022F	2023F	(Bn VND)	2020	2021	2022F	2023F
Interest and Similar Income	32,767	38,465	52,486	65,525	TOTAL ASSETS	494,982	607,140	728,532	880,597
Interest and Similar Expenses	(12,490)	(12,265)	(16,463)	(22,883)	Cash and precious metals	3,109	3,475	3,744	4,530
Net Interest Income	20,278	26,200	36,023	42,642	Balances with the SBV	17,297	38,051	39,655	49,252
Fees and Commission income	8,228	12,308	14,244	18,563	Placements with and loans to other credit inst	47,889	35,983	32,937	40,183
Fees and Commission expenses	(4,653)	(7,941)	(10,108)	(10,864)	Trading securities, net	3,085	7,575	4,106	5,699
Net Fee and Commission Income	3,576	4,367	4,136	7,699	Derivatives and other financial assets	37	274	70	352
Net gain/(loss) from foreign currency and gol	786	1,331	1,704	1,602	Loans and advances to customers, net	293,943	354,797	448,599	561,578
Net gain/(loss) from trading of trading secur	85	221	141	127	Debts purchase	0	2	1,007	0
Net gain/(loss) from disposal of investment s	866	1,446	1,315	1,118	Investment securities	99,714	128,806	159,580	172,595
Net Other income/(expenses)	1,680	3,254	2,142	1,499	Investment in other entities and LT investmer	885	803	625	704
Dividends income	93	115	132	102	Fixed assets	4,311	4,678	5,074	5,900
Total operating income	27,362	36,934	45,593	54,789	Investment properties.	248	269	236	352
General and Admin expenses	(10,555)	(12,377)	(14,816)	(17,532)	Other assets	24,465	32,426	32,901	39,539
Operating Profit Before Provision for Credit L	16,807	24,557	30,777	37,257	LIABILITIES AND SHAREHOLDER'S EQUITY	494,982	607,140	728,532	880,597
Provision for credit losses	(6,118)	(8,030)	(8,048)	(11,477)	Total liabilities	444,883	544,654	648,919	778,223
Profit before tax	10,688	16,527	22,729	25,780	Due to Gov and Loans from SBV	15	262	32	0
Corporate income tax	(2,082)	(3,306)	(4,574)	(5,188)	Deposits and Loans from other credit instit	50,876	59,560	65,117	79,638
Net profit for the year	8,606	13,221	18,155	20,592	Deposits from customers	310,960	384,692	443,606	511,034
Minority interest	(343)	(524)	(672)	(762)	CBs/CDs and other valuable papers issued	50,924	66,887	96,578	135,596
Attributable to parent company	8,263	12,697	17,483	19,830	Other liabilities	31,900	31,254	41,584	51,955
					Shareholder's equity	50,099	62,486	79,613	102,375
					Charter capital	27,988	37,783	45,340	54,408
					Share premium	1,178	869	869	869
					Reserves	6,225	7,341	9,289	11,966
					Retained Earnings	12,956	12,915	19,064	28,313
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	2,993	3,362	3,856	3,645
					Book value per share	17,463	16,150	17,203	18,460
					Valuation ratio				
					PER	6.91	7.39	4.53	4.79
					PBR	1.18	1.54	1.02	0.95
					Dividend yield	18.0%	35.0%	20%	20%

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Oil & Gas, Utilities

Nguyen Dinh Thuan – Analyst
thuand@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@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:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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