

2H21 Macro Outlook

Exportation is a bright spot

KBSV's forecasts on Vietnam's 2021 economy are as follows:

We revised 2021 GDP growth down to 5.8% from 6.5%

This reflects the impact of the ongoing fourth wave of the Coronavirus on Ho Chi Minh City, where the Government had to apply the social distancing protocols under the Directive No. 16.

Average CPI fell to 3.2%, under the 4.0% inflation target set by the Government

Domestic demand is weakening from the pandemic. The uptrend of commodity prices slowed down after a strong increase from the beginning of the year to the middle of 2Q, and liveweight hog prices continued to decrease.

Monetary policy is easing moderately

It focused on maintaining low policy rates and keeping credit growth stable and equal to the increase of 12%–14% like the previous period. Deposit and lending interest rates should stay low in the second half of the year. The exchange rate is expected to remain flat when USD supply and demand are in equilibrium.

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Executive Summary

Vietnam's economy showed signs of recovery in 2Q, underpinned by the processing and manufacturing industry. However, the data collected at the end of the quarter showed certain impacts of the Coronavirus latest resurgence which caused many large provinces and cities to implement social distancing, and interrupt the business operations of many businesses and industrial parks, thereby hitting hard on people's lives.

The driving force for domestic growth in 2H21 should come from exports and FDI. However, the speed of large-scale vaccination programs and the time when Vietnam successfully repels the pandemic are two key drivers of the economic growth in the last six months of the year.

Macro stability will continue to be focused and maintained in the coming period. KBSV believes that the exchange and inflation rates will be under control and not exceed the Government limits.

Table 1. Vietnam – Some macro data in 2021

	Unit	KBSV forecast		
		1H2021	Apr-21	Jul-21
GDP growth	% YoY	4.48	6.50	5.80
Headline CPI	% YoY	0.29	3.80	3.20
Credit growth	% YTD	4.2*	12.00	12.00
Policy rate (refinancing rate)	%/year	4.00	4.00	4.00
USD/VND	VND	23,012	23,012	23,012

Source: KB Securities Vietnam

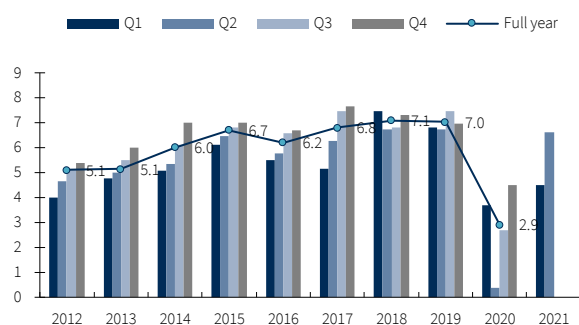
*Note: Data as of April 30, 2021

2Q21 macro highlights

❖ GDP growth:

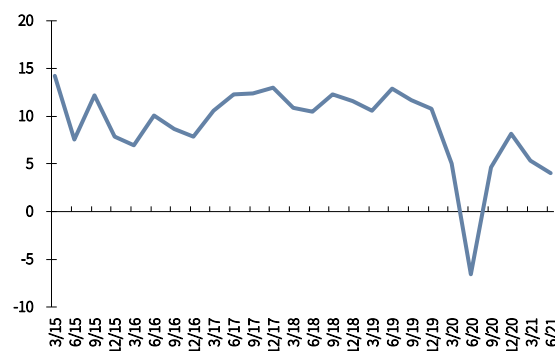
Vietnam economy reached 6.61% growth in 2Q, equal to the 2Q growth from 2017 to 2019. Compared to initial expectations and estimates, with the main reason that the return of the Coronavirus caused many large provinces and cities to implement social distancing, interrupt the business operations of many businesses and industrial parks, and adversely affect people's lives, the increase of 6.61% is still considered an encouraging achievement. For the first six months of the year, Vietnam's GDP rose 5.64% YoY.

Fig 1. Vietnam – GDP growth over the quarters (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – Retailing and services revenue growth (%)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, consumption in 1H21 was significantly affected by the resurgent COVID-19 cases, while private investment and FDI posted more rebounding signals from the low base of the economy in 2020.

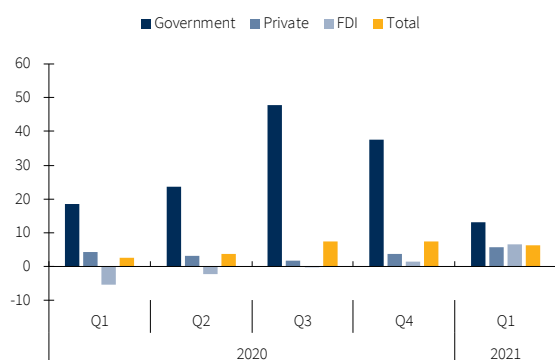
Consumption growth continued to suffer in 2Q21 due to the COVID-19 pandemic

- Final consumption increased 3.18% YoY (smaller than the 4.6% growth in 1Q), while sales growth rose 3.18% YoY. Retail and service revenue increased by 4.04% YoY (down from 5.3% in Q1). This shows that consumption in 2Q has been affected to a certain extent by the developments of the pandemic, although impacts are not as severe as in 2Q last year.

Signals of recovery from private investment and FDI sectors

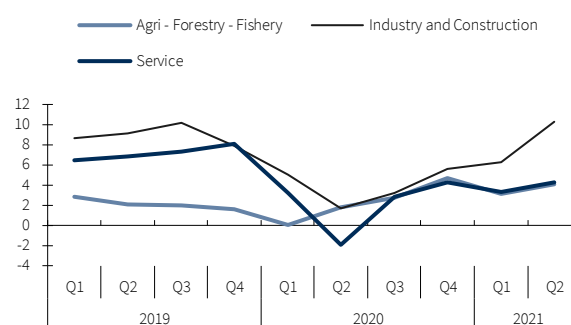
- Social investment capital in 2Q went up 7.8% YoY. Notably, the increase was equally contributed by all three sectors: the State (+8.3% YoY), FDI (+6.9% YoY) and private sector (+8.5% YoY). This is different from the volatility of social investment capital in 2020 when the FDI and private sectors stagnated, while the capital from the state budget spiked 32% YoY every quarter.

Fig 3. Vietnam – Social investment capital growth (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – GDP growth by sectors (%)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial and construction sectors rebounded, while the service sector maintained a low growth rate during the pandemic.

Industrial and construction sectors showed signs of recovery

- Industry and construction grew 10.28% YoY in 2Q (outperforming the growth of 6.3% YoY in 1Q), strongly boosted by the processing and manufacturing industry (+13.84% YoY). This is also consistent with the data showing that there was a breakthrough in export growth of FDI enterprises from the beginning of the year to June 15, 2021 with a total value of VND105.82 billion (+35% YoY). Correspondingly, the turnover of main export products (Figure 6) recorded a surge in machinery, equipment and other auxiliary tools (+68% YoY), computers (+25% YoY), and smartphones (+15.5% YoY). We assess the recovery in export activities of Vietnamese enterprises in general, and FDI enterprises in particular was mainly supported by the recovering demand of major trading partners given vaccine rollout programs.

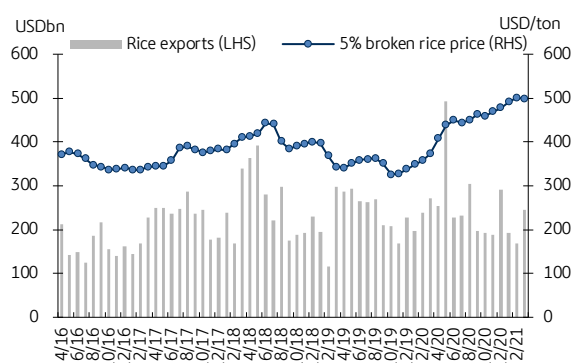
The recovery of timber, fishery and rice exports helps to raise the agro-forestry-fishery sector considerably

- Agriculture, forestry and fishery increased by 4.11% YoY in 2Q (vs 3.2% in 1Q), which is also the highest 2Q growth in the last three years. The prices and export volume of agricultural and fishery products tend to turn up thanks to a strong recovery in demand. 2Q average selling price and export volume of rice increased by 12% and 90% respectively. Meanwhile, export turnover of wood & wood products, and seafood also rose 62% and 13.6% respectively in 1H21.

Services are hit hard by the pandemic

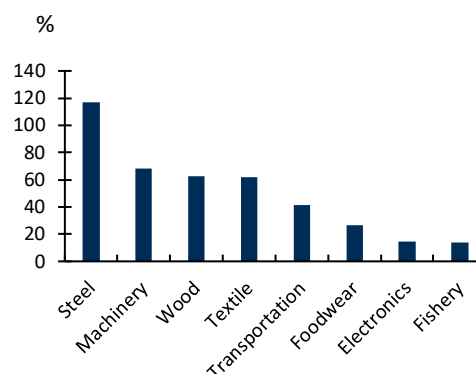
- The service sector grew 4.3% YoY in 2Q (higher than the growth of 3.34% in 1Q but lower than the average growth rate of 6.8% in 2017–2019). The return of COVID-19 caused many negative impacts on hospitality and catering services (-4.5% YoY), arts and entertainment (-4.3% YoY) and logistics (-1.1% YoY). Meanwhile, finance, banking and insurance activities (+9.9% YoY) grew strongly thanks to the good performance of investment channels.

Fig 5. Vietnam – Rice export price and export turnover (USD million, USD/ton)



Source: Vietnam Customs, KB Securities Vietnam

Fig 6. Vietnam – Export growth of some key products (Jan 1 – Jun 15, 2021; %)



Source: Vietnam Customs, KB Securities Vietnam

❖ Inflation is low:

Inflation in the second quarter of 2021 remained low despite a slight acceleration in the last 4 months

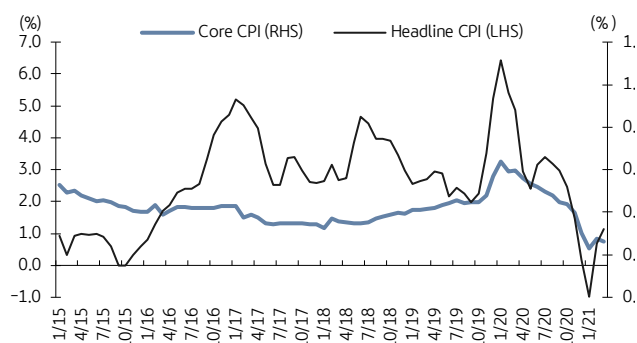
The average CPI in 2Q increased by 0.45% QoQ and 2.67% YoY. 1H21 average CPI rose 1.46% YoY, which is safe compared to the limit of less than 4% mentioned in the Government's Resolution 01/NQ-CP earlier this year. However, the MoM increase in inflation tends to increase gradually in the past four months, corresponding to the period when the price of raw materials (steel, oil and copper) surged from rebounding demand, while the broken supply chain had not yet recovered. Core inflation tends to be similar to headline inflation, the average core CPI rose 0.9% YoY.

Gas and pump prices and education prices are the three factors that have the strongest influence on CPI in the first six months of the year

In the first six months of the year, the main factors affecting CPI include:

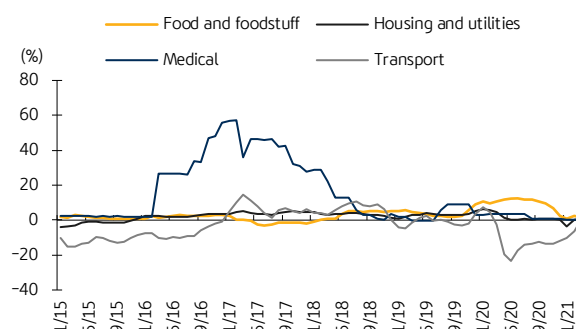
- 1) Food prices decreased by 0.39% YoY, causing the overall CPI to decrease by 0.08 percentage points;
- 2) The Government implemented support packages for Coronavirus-exposed people and producers. For example, the aid package launched by Electricity of Vietnam (EVN) made the average price of electricity in 1H21 go down 3 0.06% YoY, causing the headline CPI to decrease by 0.1 percentage points;
- 3) Domestic pump prices increased by 17.01% YoY, causing the headline CPI to increase by 0.61 percentage points;
- 4) Gas prices increased by 16.51%, making the headline CPI increase by 0.24 percentage points;
- 5) The prices of educational services increased by 4.47% YoY under the impact of tuition fee increase according to the Decree No. 86 /2015/ND-CP, causing the headline CPI to increase by 0.24 percentage points.

Fig 7. Vietnam – Headline and core inflation (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 8. Vietnam – CPI of some key groups (%)



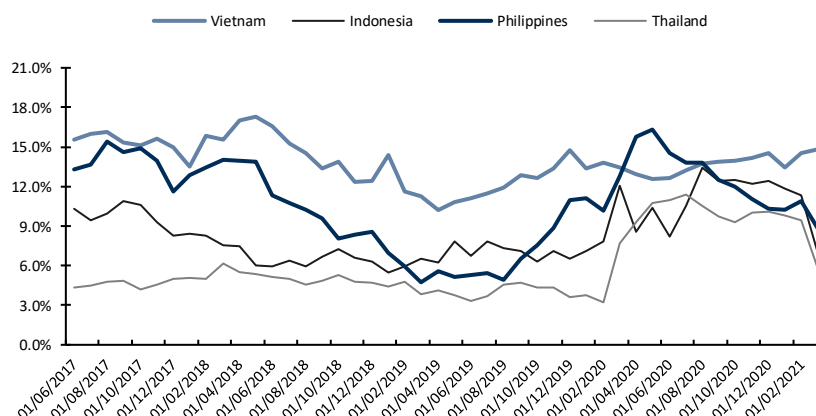
Source: General Statistics Office, KB Securities Vietnam

❖ **Interest rate: Interbank interest rate gained slightly, while deposit rate was stable**

The State Bank maintained a prudently easing policy

Monetary policy in 2Q is still consistent with the cautious loosening policy of the State Bank throughout the period from the first Coronavirus outbreak until now. Specifically, the State Bank’s three times of lowering the policy rate are not as strong as other countries in the region, mainly using resources from commercial banks (through credit packages with preferential interest rates for businesses affected by COVID-19). Meanwhile, the credit ceiling granted by the State Bank to commercial banks this year is lower than the average level of previous years (the loosening of credit room will soon take place in 3Q, but it is highly likely that the new ceiling also will be lower than every year’s), leading to stable M2 growth with a slight downward trend. In general, the State Bank maintained a prudent policy in 1H21 when inflation risks were existing due to the sharp increase in the prices of base commodities and materials.

Fig 9. Regional countries – M2 growth



Source: Bloomberg, KB Securities Vietnam

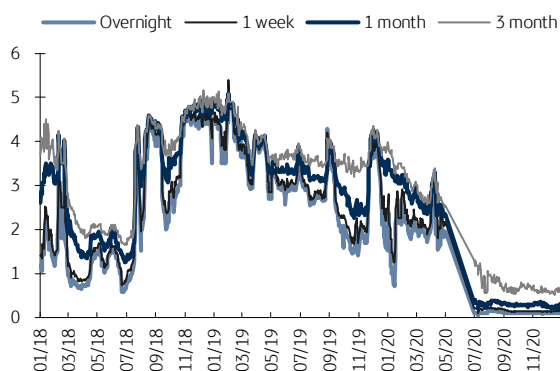
Liquidity is less abundant, causing interbank interest rates to rise again

Interbank interest rates rebounded in 2Q with overnight, one-week and one-month rates gaining 80 bps, 90 bps and 90 bps respectively compared to the end of 1Q. This shows that the liquidity in 2Q was less abundant than that from the beginning of the year due to credit recovery and the absence of VND injection through spot foreign currency purchases. This is also the reason why Government bond yields, though still at historic lows, increased slightly compared to the end of 2020 (Figure 10, 11).

Deposit interest rate is stably low

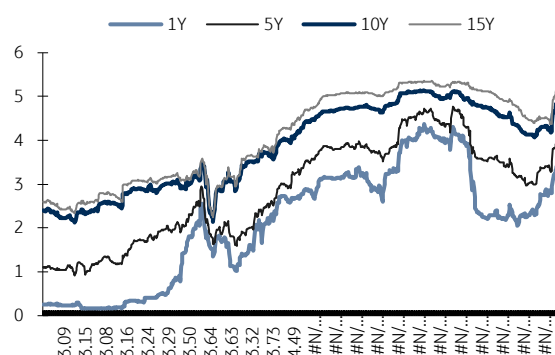
For the whole 2Q, deposit rates tended to move sideways and gained modestly for short terms (of under 12 months), while it inched up for long terms (13 months). However, the volatility range was relatively narrow (<0.25%), which means the deposit interest rate was quite stable and remained at a low level.

Fig 10. Vietnam – Interbank interest rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 11. Vietnam – Government bond yield movement (%)



Source: Bloomberg, KB Securities Vietnam

❖ USD/VND exchange rate: The gap between interbank and unofficial rates

The USD/VND interbank exchange rate was slightly lower

The USD/VND interbank exchange rate was generally flat and decreased slightly in 2Q, reflecting an abundant supply of USD thanks to continued growth of remittances and FDI, making up for the current trade deficit in May and June. Meanwhile, buying foreign currencies has not been promoted as the State Bank switched from buying USD on spot to buying futures with a decreasing frequency from daily to weekly. For the whole quarter, the USD/VND interbank rate decreased by 0.25% from 23,065 to 23,010.

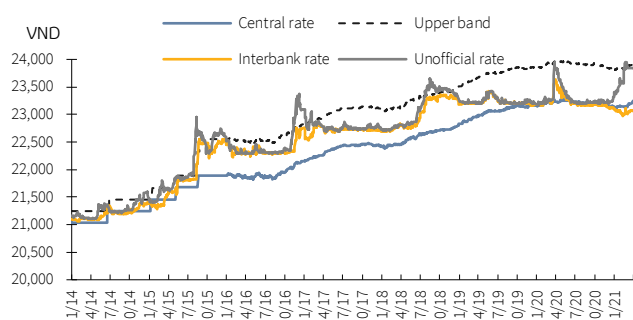
Unofficial exchange rate spiked due to the basis between international and domestic gold prices

The unofficial exchange rate surged in 2Q, contrary to the slight downtrend of the interbank rate. There are two main reasons: 1) domestic – international gold price stayed high (at many times the basis increased to VND7 million/tael), leading to skyrocketing demand for smuggled gold on the unofficial USD source; 2) the appreciation of the USD in the international market after the Fed sent out less dovish messages than expected in the June meeting, had a strong impact on investor sentiment on the unofficial market (although the supply and demand for foreign currency remained stable on the interbank market). 2Q unofficial USD/VND exchange rate increased 2.6% from 23,240 to 23,850.

NEER and REER moved up given the appreciation of the USD

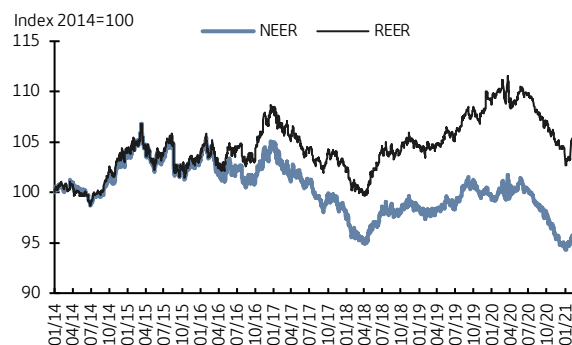
The NEER and REER of VND fluctuated up and down during 2Q before climbing at end of the quarter, corresponding to the time when the USD strengthened after the June meeting of the Fed. However, the NEER and REER of VND are still low and not posing pressure on VND devaluation.

Fig 12. Vietnam – USD/VND rate (VND)



Source: Bloomberg, KB Securities Vietnam

Fig 13. Vietnam – NEER and REER (points)



Source: Bloomberg, KB Securities Vietnam

The State Bank sharply cut the USD purchase price listed on the exchange

On June 8, 2021, the State Bank announced to slash the buying price for USD from VND23,125/USD to VND22,975/USD. This price is applied to foreign currency purchases with a term of six months. This is the largest USD price adjustment in more than a year. We assess this move of the State Bank comes from two main reasons:

- 1) The previous weakness of the USD caused the value of VND (pegged to USD) to decrease sharply compared to the basket of currencies of trading partners (shown by the falling REER and NEER), leading to inflation risks in the context of rising commodity prices. The appreciation of VND would help neutralize the above risk;
- 2) The increase in foreign currency purchases and addition of foreign exchange reserves are no longer so urgent when Vietnam's foreign exchange reserves are already higher than the standard level according to the IMF scale, and the risk of being marked as a manipulator is still existing. The currency shortage from the US still exists, the lowering of the foreign currency purchase price partly reflects the view that the State Bank will be more limited in buying foreign currencies compared to the previous period.

2021 Macro outlook

❖ 2021F GDP growth

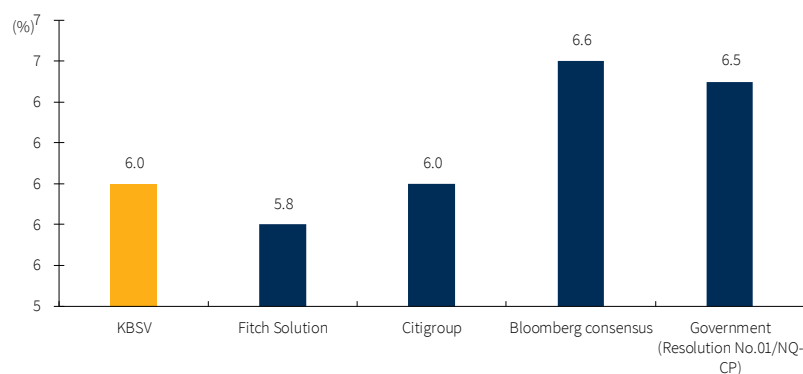
2021F economic growth is 6%

We lowered our forecast for 2021 GDP growth from 6.5% (in April 2021 report) to 5.8%, reflecting the impact of the ongoing fourth wave of the Coronavirus on Ho Chi Minh City, where the Government had to apply the social distancing protocols under the Directive No. 16.

In particular, export growth, especially in the field of processing-manufacturing and traditional industries (textiles, footwear, wood and fishery), is expected to rebound thanks to the increasing consumption demand in developed countries. This is the main driving force for the economy in the last six months of the year, besides other motivations such as FDI attraction and public disbursement. On the other hand, it is difficult for domestic demand to recover because the pandemic still has many potential risks to the economic growth prospects in 2H21.

In general, the speed of implementing the large-scale vaccination program and the time when Vietnam successfully repels the current pandemic are two key factors affecting the economic growth in the last six months of the year.

Fig 14. Vietnam – Forecast GDP growth in 201 (%)



Source: International Monetary Fund, World Bank, Asia Development Bank, Bloomberg, KB Securities Vietnam

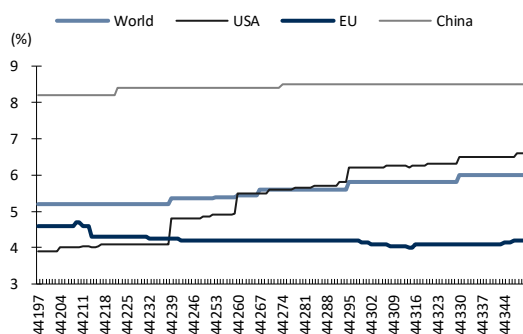
Export should continue to be a bright spot in the last six months of the year

Vietnam export turnover in 1H21 reached USD157.63 billion (+28.4% YoY). Data from the General Department of Customs also shows that most of the traditional exports to major trading partners recorded a sharp gain over the same period in the first four months of the year (Figure 16). The driving forces for Vietnam's export growth in 1H21 and for the whole year of 2021 are:

- 1) The vaccine program is being implemented effectively, the reopening of major economies leads to an increase in the demand for imported goods and services;
- 2) With signed FTAs coming into effect (CPTPP, EVFTA, UKFTA and RCEP), domestic exporters are gradually grasping competitive advantages when benefiting from preferential tariff levels;
- 3) The prices of exports, especially Vietnam's key products (iron and steel, agricultural and fishery products) tend to increase, which would serve as an incentive for export value.

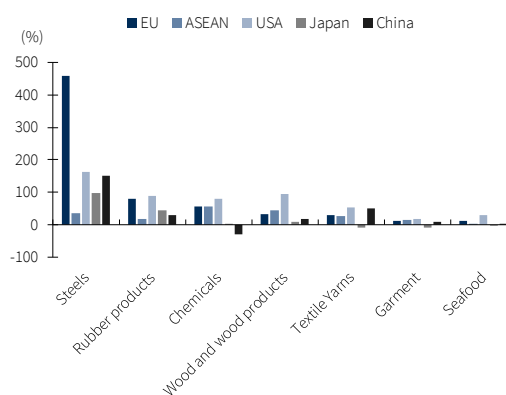
The risk of slowing export growth may be raised by two factors: 1) COVID-19 resurgence, especially in industrial zones and big cities. This could decrease the production capacity; and 2) The shortage of ships and empty containers and the increase in sea freight rates which have not shown any signs of cooling down.

Fig 15. Major economies – 2021F economic growth (%)



Source: KB Securities Vietnam

Fig 16. Major economies – 4M21 export growth YoY (%)



Source: KB Securities Vietnam

Table 3. Vietnam – Tariff removal process under EVFTA and CPTPP

	Products	Current tariff	Tariff cut schedule
EVFTA	Footwear	8%	0 – 8Y
	Textile	12%	0 – 6Y
	Fisheries	8% (catfish) & 20% (shrimp)	4Y (catfish); Immediate (shrimps)
	Coffee	0% (unroasted); 7.5% (roasted)	Immediate
	Timber	0% (interior); 7% (wooden planks)	6Y
CPTPP	Coffee		Immediate except for Mexico (5-10Y)
	Textile		0 – 4Y (Canada), Immediate (Japan), 16Y (Mexico)
	Timber		Immediate except for Japan (15Y)
	Fisheries		Immediate (Canada, Japan), 3Y (Mexico)
	Footwear		Immediate (Canada), 0-16Y (Japan)

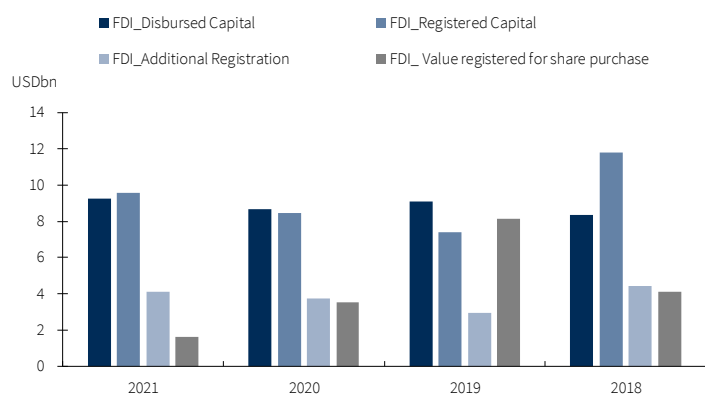
Source: KB Securities Vietnam

FDI attraction is expected to continue to grow strongly in the last six months

According to the Ministry of Planning and Investment, 1H21 newly registered FDI capital of 804 newly licensed projects reached USD9.55 billion (+13.2% YoY), adjusted capital of 460 projects was USD4.12 billion (+10.6% YoY); contributed capital and bought shares of 1,855 projects reached 1.61 billion USD (-54.3% YoY). Thus, except for the decrease in capital contribution and share purchase in 1H21 (similar to the net selling activities of foreign investors on the stock market), new and additional registered capital in Vietnam both increased sharply compared to the same period last year thanks to the economic openness.

In general, thanks to effective anti-pandemic achievements and many new FTAs, Vietnam has been and will continue to be an attractive destination for multinational corporations as the need to diversify the supply chain (moving out of China) increased.

Fig 27. Vietnam – 1H21 FDI (USDbn)



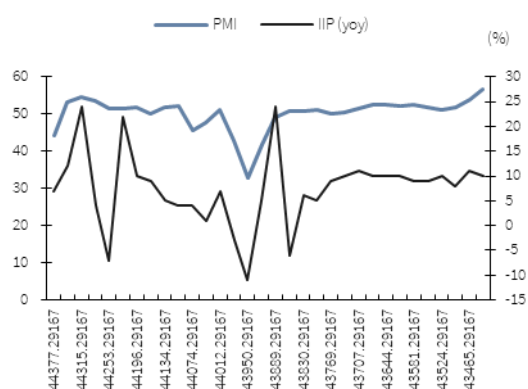
Source: FiinPro, KB Securities Vietnam

On the other hand, the resurgent Coronavirus infections and slow implementation of the vaccination program are the main risks to economic growth.

The outbreak of Covid-19 in Ho Chi Minh City negatively impacted domestic consumption

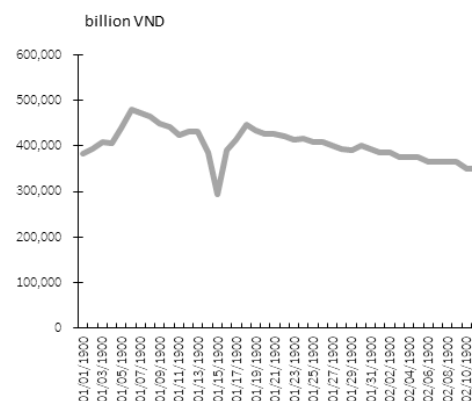
The fourth wave of the pandemic returned from early 2Q and quickly spread throughout the country, especially in Ho Chi Minh City, Bac Giang and Bac Ninh, where many industrial parks locate. We are afraid that this would badly affect data related to production and consumption as production and business activities are stagnant, people's income population declines, and economic activities become less active.

Fig 18. Vietnam – IIP and PMI (%)



Source: General Statistics Office, IHS Markit, KB Securities Vietnam

Fig 19. Vietnam – Total retail sales and services (VNDbn)



Source: Finpro, KB Securities Vietnam

PMI, IIP and total retail sales of goods and services all dropped in June

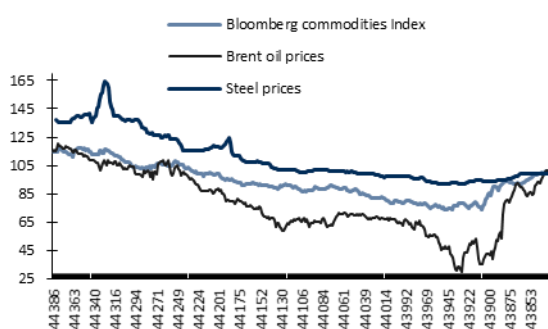
Vietnam's PMI plummeted from 53.1 points in May to 44.1 points in June, reflecting the sharpest decline in business condition in more than a year, and ending a string of gains of above 50 points on this index for six consecutive months. Notably, the IHS Markit survey showed that output and new orders fell at the fastest rates since the first outbreak of the pandemic in early 2020, with companies also recording falls in jobs and purchasing activities.

Meanwhile, the IIP achieved a relatively good increase of 11.45% YoY in 2Q, but turned down with April, May and June growth of only +24%, +12% and +7% respectively. This showed the growing impact of the current COVID-19 wave. Similarly, the total retail sales of consumer goods and services (Figure 19) also decreased steadily since the beginning of the year, with stronger drops in 2Q. In June alone, retail sales of goods, revenue from hospitality and catering services, and tourism revenue simultaneously decreased by -7%; -17.8%; and -55.4% from May.

❖ 2021F inflation

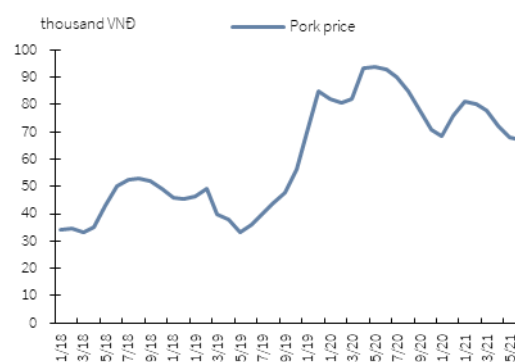
We lower our inflation forecast for 2021 to 3.2% (from 3.8% in 1Q report), reflecting weak domestic demand amid pandemic and the decline in commodity prices after a strong uptrend from the beginning of the year to the middle of 2Q, while liveweight hog prices continued a downward trend.

Fig 20. Vietnam – 2021 commodity prices (standardized to 100)



Source: World Bank, KB Securities Vietnam

Fig 21. Vietnam – Liveweight hog prices in Northern area (VND/kg)



Source: KB Securities Vietnam

Commodity prices should be more stably in 2H21

The Bloomberg Commodity Index, which tracks price movements of commodities around the world, has slowed down since the strong rise in the beginning of the year and moved sideways from 2Q. We believe that the period of the strongest increase in world commodity prices is over and the general trend will be flat or correct until the end of the year when the supply starts to recover, the supply chain is restored, while the consumer demand stabilizes and the positive impacts from fiscal support packages in major countries gradually fade away. More specifically, the domestic steel prices – the main input construction material cooled down thanks to the adjustment of the world billet prices, while the petrol prices should remain unchanged in the next few adjustment periods, similar to the stable movements of world oil prices after the previous surge.

Pork prices fell sharply

The prices of liveweight hog prices at the moment reached two-year lows of around VND65,000 – 67,000/kg in the North, falling from the peak of VND94,000/kg more than one year ago. This is partly caused by weakening demand when the pandemic hinders gathering activities, catering services and tourism, while domestic supply is steady and imported goods increase. China's pork prices also slumped after Chinese farmers massively increased their herds after a supply shortage last year caused by the African swine fever.

Table 4. Vietnam – 2021F average CPI

No.	Groups	Weights (%)	+/- (% YoY)	Contribution to overall CPI (%)
1	Food and foodstuff			
	Grains	4.46	5.5	0.25
	Foodstuff	22.6	2.5	0.57
	Outdoor eating	9.06	5	0.45
2	Beverages and tobacco	3.59	1.5	0.05
3	Clothing and footwear	6.37	1	0.06
4	Housing, water, electricity, gas and other fuels	15.73	3	0.47
5	Furniture, household equipment and maintenance	7.31	2	0.15
6	Health	5.04	3.5	0.18
7	Transport	9.37	6.5	0.61
8	Communication	2.89	-0.1	0.00
9	Education	5.99	5	0.30
10	Entertainment	4.29	1	0.04
11	Miscellaneous goods and services	3.3	3	0.10
Total				3.22

Source: KB Securities Vietnam

❖ 2021F interest rates

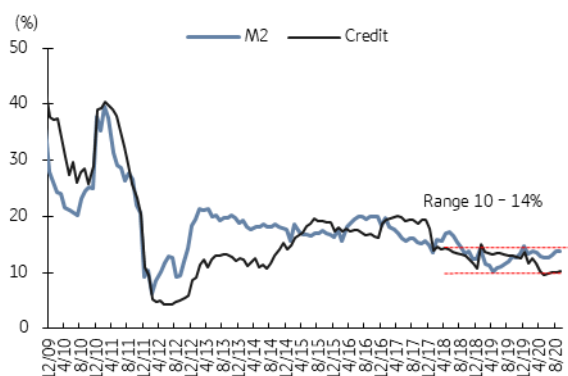
Prudent monetary policy is maintained

Although inflation pressure lowered compared to the end of 1Q, the State Bank may hardly change its viewpoint about the current monetary policy and would maintain the moderately easing policy (low policy rates), while target credit growth will be stable equivalent to the growth rate in the pre-pandemic period (around 12%-14%). The fact that a large amount of VND (estimated at about VND175,000 billion) will flow into the system's liquidity at the beginning of 3Q through the USD forward transaction conducted at the beginning of the year, which will help the system's liquidity return to its current ample state, interbank interest rates cooled down and OMO channel would be infrequently used in 2H21.

Credit demand is affected by the current pandemic, and interest rates are unlikely to increase sharply

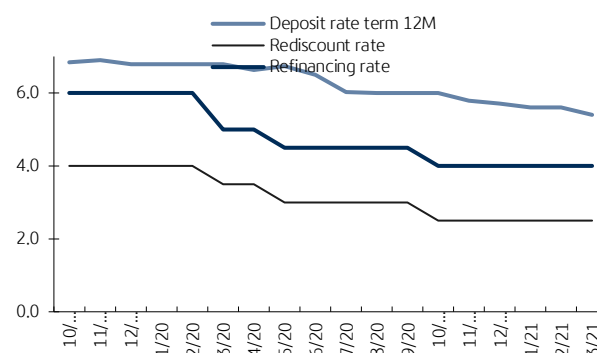
While credit supply may not see any significant fluctuations given prudent operating policies and moderate support of the State Bank, credit demand is likely to be hit by the Coronavirus. The data on production and consumption activities were weaker in June and do not rule out the possibility of further decline in 3Q or the following quarters if the pandemic is not contained. Of the three scenarios proposed by the State Bank for credit growth in 2021, the most negative scenario is that the pandemic lasts until the end of the year, and credit growth is likely to be in the range of 7-8%. Thus, while credit supply is stable, system liquidity is abundant, weak credit demand and low inflation risk will make it difficult for deposit and lending interest rates to rise sharply. However, the roadmap to tighten the short-term deposit ratio for medium and long-term loans, which will take effect in October 2021, will strengthen the level of deposit competition and may cause deposit interest rates for long terms to inch up 0.1-0.25%.

Fig 22. Vietnam – M2 and credit growth (%)



Source: State Bank, KB Securities Vietnam

Fig 23. Vietnam – Deposit and policy rates (%)



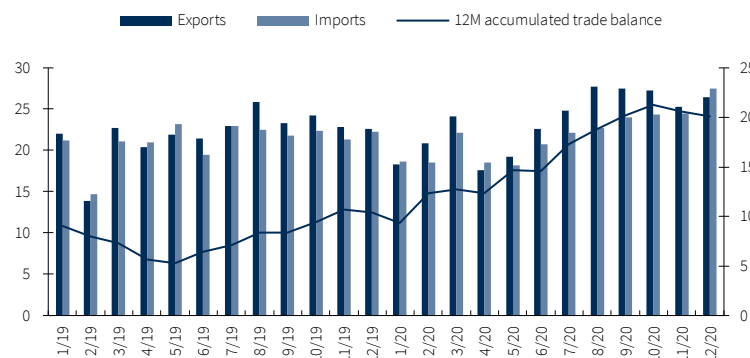
Source: State Bank, KB Securities Vietnam

❖ 2021F exchange rate

The USD/VND exchange rate in 2H21 is projected to be flat and move in a narrow range

The exchange rate is should remain stable in the last six months when the supply and demand for USD continue to be stably low. Specifically, the supply of USD should remain ample thanks to FDI inflows and remittances, while the recent actions of the State Bank (strongly lowering the buying prices of USD) switching from buying foreign currencies for spot to buying for a six-month term show that it will limit the amount of USD purchased compared to the previous period. The trade balance, despite having a trade deficit in all three months of 2Q, is expected to soon turn to a surplus when exports accelerate again, given domestic enterprises have imported enough input materials to boost production for 3Q orders.

Fig 24. Vietnam – Imports and exports

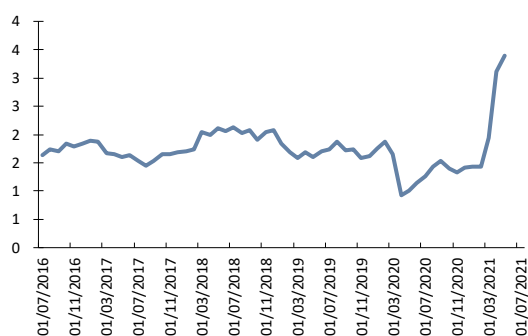


Source: Fiinpro, KB Securities Vietnam

The risk of the Fed changing its monetary policy will affect the exchange rate

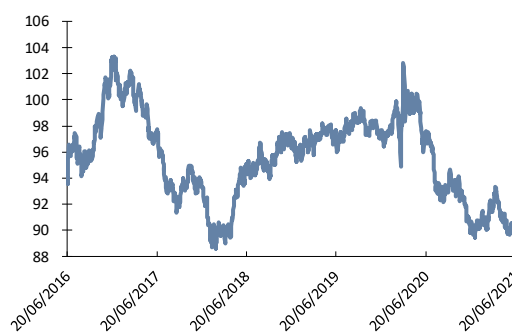
The risk of an increase in the exchange rate may appear in the scenario which the Fed announces the reduction of the monthly asset purchase program, sending out signals about accelerating interest rate hikes under inflationary pressure during the Jackson Hole conference in August or in the September policy meeting. If this happens, the dollar is likely to rise again and reverse the downtrend that started at the end of March last year, which will put more depreciation pressure on the VND. However, at the moment, we believe this case is unlikely as inflation in the US is only temporary and will soon cool down in the near future without the Fed’s intervene.

Fig 25. US – Inflation rate (PCE)



Source: State Bank, KB Securities Vietnam

Fig 26. US – USD movements (DXY)



Source: State Bank, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

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

Buy:	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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