

March 15, 2023

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2022 NPAT and net revenue decreased by 31% YoY and 15% respectively

By the end of 2022, PC1 recorded VND8,333 billion in revenue (-15% YoY) and VND614 billion in interest expenses (+95% YoY) as the company started paying interest on loans to invest in three wind power projects in Quang Tri. Therefore, PC1's NPAT decreased 31% YoY to VND527 billion in 2022.

Electricity prices from transitional projects and bright outlook of the industry will benefit PC1

We forecast 2023 new contract value of PC1 to reach VND5,500 billion (plus VND3,726 billion from the previous years), and net revenue may reach VND5,074 billion (+5% YoY). In the short term, as PC1 has completed all of its solar and wind power projects, it will benefit when the electricity price framework for transitional projects is approved. In the medium and long term, the total capacity goal mentioned in the draft Power Master Plan 8 (PMP8) will drive the growth of the electrical installation industry with an estimated CAGR of 11%/year.

Electricity sales should earn VND1,806 billion in revenue in 2023

We forecast that PC1's power sales segment will operate stably with a capacity factor of 50% and 40% for hydropower and wind power, respectively. The segment should bring in VND1,806 billion in revenue in 2023.

Nickel and copper mines would be another growth driver this year

As PC1 sells products at spot prices on the international market and can keep control of mining costs, we estimate nickel and copper mines would contribute VND987 billion to total revenue after coming into operation from 2Q23.

HOLD recommendation, target price VND29,800/share

Using the SOTP, we concluded the fair price for PC1 stocks is VND29,800/share, 10% higher than the closing price on March 14, 2023.

Hold update

Target price VND29,800

Upside	10%
Current price (Mar 14, 2023)	VND 27,200
Consensus target price	VND 31,200
Market cap (VNDbn/USDbn)	7.4/0.3

Trading data

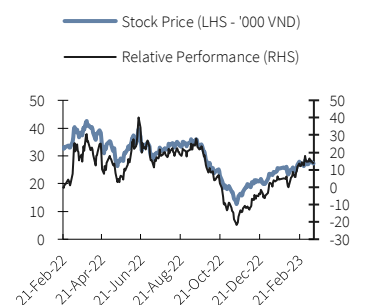
Free float	74
3M avg trading value (VNDbn)	51.6
Foreign ownership	5.2
Major shareholder	Chairman Trinh Van Tuan (21.4%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	11	30	-25	-31
Relative	11	31	-8	-3

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	9,828	8,333	8,816	9,806
Earnings (VNDbn)	905	638	1,093	1,277
NPAT (VNDbn)	764	527	1,005	1,193
EPS (VND)	2,858	1,513	3,158	3,750
EPS growth (%)	7%	-47%	109%	19%
P/E (x)	15.4	16.4	8.6	7.3
P/B (x)	2.3	1.4	1.0	0.9
ROE (%)	46%	9%	13%	14%
Dividend yield (%)	5%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

Business performance

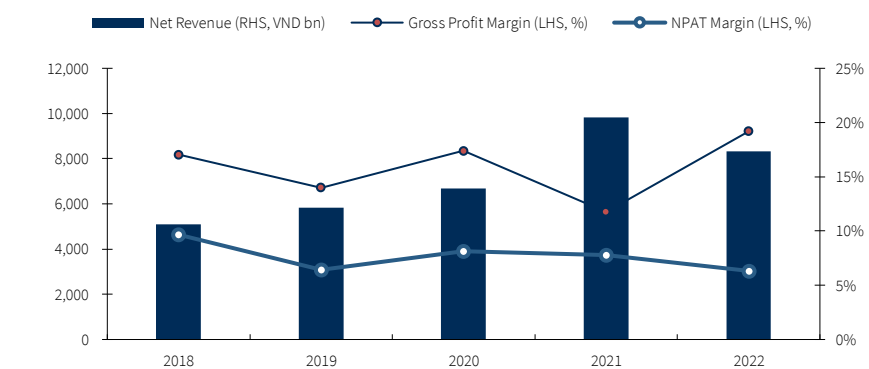
4Q22 revenue reached VND2,339 billion. Full-year NPAT reached VND527 billion (-31% YoY) on revenue of VND8,333 billion (-15% YoY)

PC1's NPAT reached VND527 billion on revenue of VND8,333 billion in 2022. Lower profit is due to an amount of VND614 billion in interest expenses in the year (+95% YoY), arising from a loan of VND3,983 billion in 2021 (to invest in three wind power projects, Lien Lap, Phong Nguyen, and Phong Huy).

The electrical construction business continues to be the main contributor to PC1's revenue (accounting for 57% of total revenue) with VND4,819 billion (-28% YoY). The decrease in the segment revenue was because the backlog value recorded in 2021 from 2020 was high (VND3,231 billion, accounting for nearly 50% of revenue in 2021), while the backlog value of 2021 only reached VND1,060 billion (equivalent to 22% of full-year revenue).

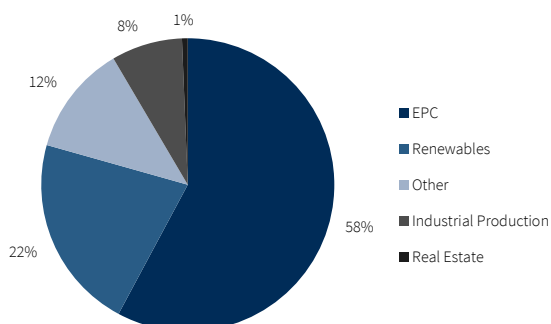
The generation and sale of electricity from renewable sources earned VND1,795 billion (+93% YoY) or 22% of total revenue. Better capacity factor of the wind power sector (33% compared to 19% in 2021) raised revenue of this segment to VND829 billion (x3 YoY). Power generation with high gross margin (GPM) at 55% ~ 60% helped to increase PC1's GPM to 19%, vs 12% in 2021.

Fig 1. PC1 – Revenue, GPM & NPAT margin (VNDbn, %)



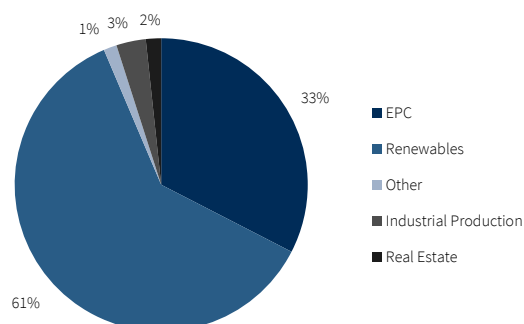
Source: PC1 Group, KB Securities Vietnam

Fig 2. PC1 – Revenue structure in 2022



Source: PC1 Group, KB Securities Vietnam

Fig 3. PC1 – Gross profit structure in 2022



Source: PC1 Group, KB Securities Vietnam

Business catalysts

Electricity construction and installation revenue increased slightly by 5% while waiting for the PMP8 to be approved

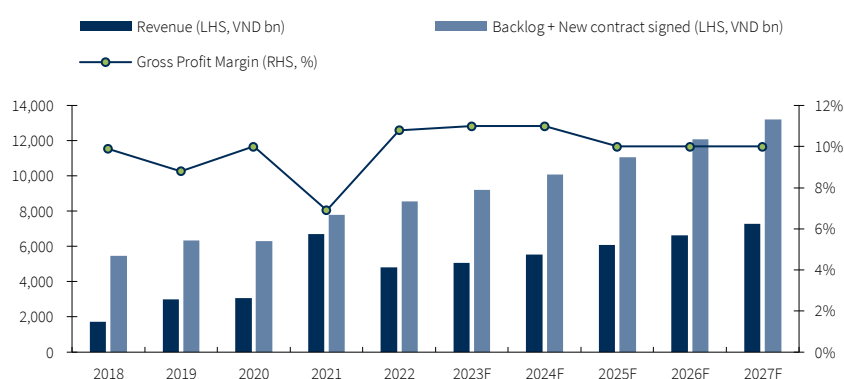
After thriving in 2020 thanks to the trend of solar power investment and the preferential electricity price mechanism in Decision 13/2020/QĐ-TTg, the renewable energy market is experiencing a slowdown while the growth driver, the draft PMP8 has not yet been approved.

The issuance of Decision 21/QĐ-BCT on electricity generation prices for solar power and transitional wind power projects (without COD in time for Decision 13/2020/QĐ-TTg on solar power prices or Decision No. 39/2018/QĐ-TTg on wind power prices) will encourage investors to quickly complete their projects and start generating power, thereby helping PC1 to quickly process the backlog transferred from 2022 to 2023.

PC1 said the current electricity construction backlog had a large proportion of EVN projects, underground cable power projects, and contracts for the supply and installation of electrical machinery and equipment. Therefore, in the base case, we believe that (1) the acceleration of solar and wind power projects under Decision 21/QĐ-BCT and (2) new contracts signed with other companies on power transmission, supply and installation of electrical equipment will help maintain the value of new contracts at a high level and achieve the objectives.

In this scenario, we forecast the value of new contracts in 2023 will reach VND5,500 billion (corresponding to 90% of PC1's plan). In the optimistic case, assuming that PMP8 is approved in 2023, the new contract value of PC1 can be stable at VND6,000 – 7,000 billion/year or higher in 2024 and 2025. We expect the power construction revenue to reach VND5,704 billion (+5% YoY) in 2023.

Fig 4. PC1 – Revenue, backlog & new contract value, and GPM (VNDbn, %)



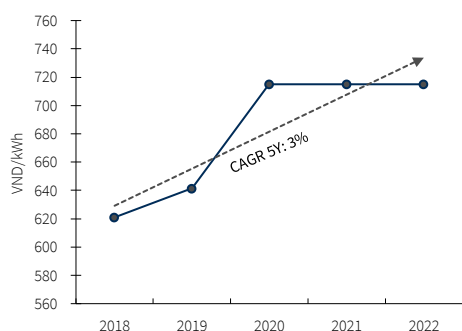
Source: PC1 Group, KB Securities Vietnam

The advantage of the upstream location helps the hydropower plants of PC1 to limit the impacts from El Nino

It is forecast that El Nino may occur between 2023 and 2024, which will lead to a rainfall deficit in the North, Central Highlands and Southeast regions. However, PC1's hydropower projects are located in upstream areas like Cao Bang and Ha Giang, which helps to stabilize capacity, compared to other projects.

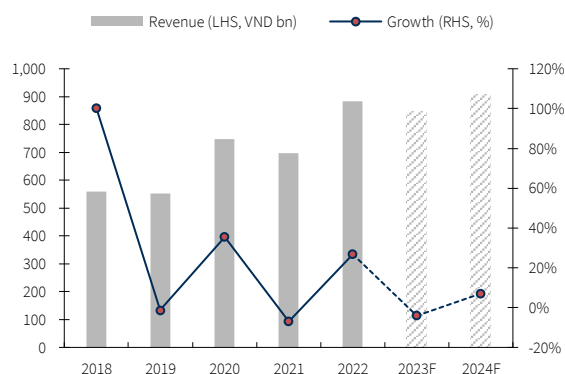
In addition, the avoided-cost tariff (ACT) prices (applicable to hydropower plants with a capacity of less than 30 MW) has a CAGR of 3% in the past five years, showing the stability in PC1's production and generation activities in hydropower projects. With more economical prices compared to coal and solar power, the trading of PC1's hydropower to EVN should take place smoothly this year earn VND847 billion. (-4% YoY) in 2023's revenue before increasing to VND906 billion (+18% YoY) when Bao Lac A power plant comes into operation.

Fig 5. PC1 – ACT power prices (VND/kWh)



Source: PC1 Group, KB Securities Vietnam

Fig 6. PC1 – Hydropower revenue & revenue growth (VNDbn, %)

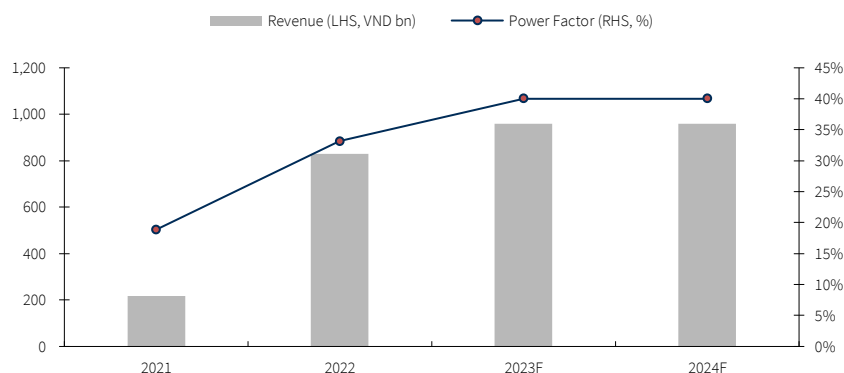


Source: PC1 Group, KB Securities Vietnam

Wind power projects should operate stably with an average capacity factor of 40%

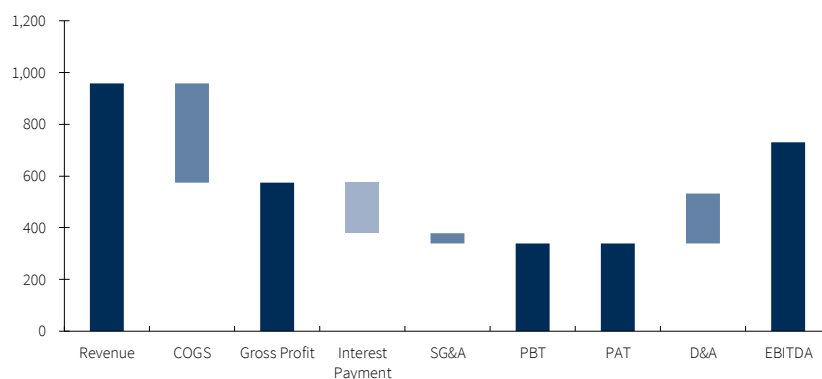
The three wind power projects, Lien Lap, Phong Nguyen, and Phong Huy officially came into operation from the end of 2021 and achieved VND829 billion in revenue (+282% YoY). We project the above projects will continue to operate stably in the future with an average capacity factor of 40%, and electricity sales for 2023 are estimated at VND959 billion (+16% YoY). PC1 is in the process of researching and implementing offshore wind power projects and will give priority to deploying near-shore projects. However, the detailed plan should need the approval of PMP8.

Fig 7. PC1 – Wind power revenue & forecast capacity factor (VNDbn, %)



Source: PC1 Group, KB Securities Vietnam

Fig 8. PC1 – 2023F operational efficiency



Source: PC1 Group, KB Securities Vietnam

Residential projects are behind schedule amid real estate market difficulties

According to PC1, the implementation of residential real estate projects such as Yen Thuong (Gia Lam) or Dinh Cong would be delayed due to the real estate market's capital difficulties, lower purchasing power, and interest-related risks.

In the base case, we think that the implementation time of the two projects will be pushed back to 2024, and a part of revenue will be recorded in 2023. Vinh Hung project also shares the same scenario.

Housing projects are currently in the process of completing legal procedures, and the delay of the above projects does not incur additional costs. In the cautious scenario, given the outstanding loans of real estate corporate bonds to be matured on a large scale (roughly VND120,000 billion) in 2024 and interest rate increases, global inflation may continue to have strong effects on Vietnamese market, we forecast that projects such as Yen Thuong, Dinh Cong and Vinh Hung will be delayed until 2025.

Therefore, PC1 will not have an extra profit from housing projects in 2023.

Table 1. PC1 – Forecasts of residential projects

Projects	Segment	Planned NSA (m2)	Estimated revenue (VNDbn)	Estimated profit (VNDbn)	2023	2024	2025	2026	2027	2028
Yen Thuong (Gia Lam)	High-rise	2,500	150	42						
Dinh Cong	High-rise	7,500	810	228						
Vinh Hung	High-rise	21,600	540	143						
Thang Long	High-rise & low-rise	25,200	1,620	481						

Source: PC1 Group, KB Securities Vietnam

The nickel-copper mine would officially come into operation from 2Q23 and bring in VND987 billion in revenue in 2023

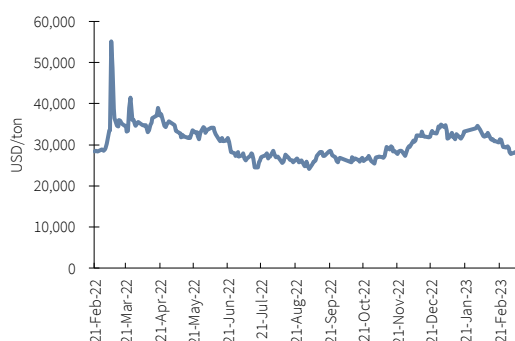
PC1 said that by the end of February 2023, the nickel-copper mining plant in Quang Trung and Ha Tri in Cao Bang has been completed in terms of construction and should be put into operation from the beginning of 2Q23. We estimate that the output of nickel and copper suitable for mining in phase 1 would be 13,130 tons and 3,775 tons respectively, based on an assessment report on the ability to take nickel from Quang Trung and Ha Tri mines.

The prices of nickel and copper products will be based on direct trading contracts on the international market, so PC1 will have a competitive advantage over other exporters thanks to the control and optimization of mining costs. The finished products of nickel ore can be used in many fields of metal production, especially batteries for electric vehicles. The current trend of using electric vehicles would be a big potential to the sales of nickel products.

The average price of nickel products should be USD18,000/ton (lower than the current market price of USD26,000/ton and in a downtrend), PC1 can still keep the GPM high at 27%. Assuming the average price of copper is at USD6,000/ton, we estimate this revenue could reach VND987 billion in 2023 (75% full-year capacity) and then reach VND1,316 billion in 2024 (+33% YoY).

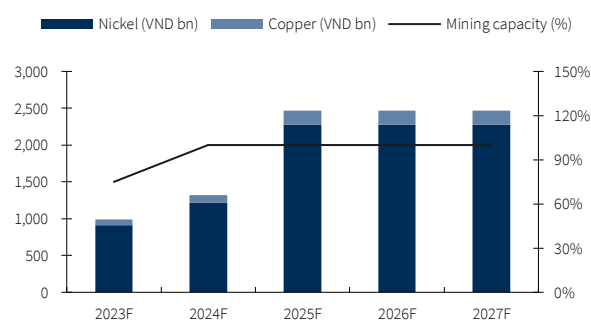
Tan Phat Minerals JSC (PC1 owns 57%) also plans to invest VND1,502 billion in mining in the second phase, which should be able to exploit from 2025 and double the current capacity to 1,500,000 tons/year. To support Tan Phat, PC1 would contribute more capital and/or increase its ownership in the subsidiary.

Fig 9. Shanghai exchange – Nickel direct trading prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 10. PC1 – Forecast revenue from the nickel-copper mine (VNDbn)



Source: National Institute of Mining – Metallurgy Science and Technology, KB Securities Vietnam

Land lease revenue of Yen Phong II-A Industrial Park will be recorded in 2023, estimated at VND1,757 billion

The process of site clearance and infrastructure construction of Yen Phong II-A Industrial Park has been completed, and industrial park will be opened for lease in this year. The rents are expected to fluctuate from USD150 to USD160 USD/m² and increase thanks to more FDI inflows into Vietnam in the future. The project has already received deposits for land lease, but PC1 is considering before signing contracts to balance the two goals of profit and cash flow.

Recently, PC1 also invested in Nomura Asia Investment Ltd., thereby owning 70% of Nomura – Hai Phong Industrial Park. The project has been operated since 1994 and currently has reached 100% occupancy rate. However, the business representative also shared about the potential to expand phase 2 of the industrial park in the near future. When the phase 2 is completed, PC1 can save the cost thanks to the electricity and water infrastructure available in the industrial park and benefit from the PPAs between EVN and partners that are also tenants in the industrial park.

The other two projects, Yen Dung Industrial Park (Bac Giang) and Yen Lenh Industrial Park (Ha Nam), are still in the process of developing a design project and waiting for approval from the Provincial People's Committee. Therefore, we forecast they would be put into operation and leased in 2024 and 2026, respectively in the base case.

For 2023, we forecast PC1's industrial park segment revenue to reach VND1,757 billion in the base scenario, corresponding to a 60% occupancy rate. PC1's subsidiary, Western Pacific, should earn VND49 billion in profit this year.

Table 2. PC1 – Estimates about Western Pacific's industrial park projects (excluding Nomura – Hai Phong)

Project	GFA (ha)	Projected NSA (ha)	Projected Rent Rats (USD/m ²)	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Yen Phong II-A	159	89	150 – 170							
Yen Dung	263	189	120 – 140							
Yen Lenh	691	471	90 – 110							

Source: PC1 Group, KB Securities Vietnam

Table 3. PC1 – Forecast performance of Western Pacific and other affiliates operating in industrial real estate

	2023F	2024F	2025F	2026F	2027F
Revenue (VND bn)	1,757	1,743	1,022	3,901	4,508
Gross Profit (VND bn)	478	575	390	1,942	2,359
PBT (VND bn)	329	445	313	1,610	1,976
PAT (VND bn)	263	356	251	1,288	1,550
Profit/Loss from affiliate companies (VND bn)	49	79	75	388	513

Source: KB Securities Vietnam

Forecast & valuation

Table 4. PC1 – Forecast business results in the base case

No.	Targets	2022	2023F	Change (% YoY)	Assumption
	Net revenue	8,333	8,816	6%	
	Power construction	4,819	5,074	5%	1) Decision 21/QĐ-BCT on “transitional electricity prices” helps to accelerate the completion of PC1’s solar and wind projects, thereby quickly completing the transfer backlog from 2022. 2) It is forecasted that the value of new contracts signed in 2023 will reach VND5,500 billion (corresponding to 90% of the target).
	Industrial production	653	950	45%	1) Industrial production will rebound thanks to the increased demand for construction and completion of solar and wind power projects. The approval of PMP8 should stimulate the demand for steel for power transmission poles. 2) It is forecasted that the value of new contracts signed in 2023 will reach VND900 billion.
1	Renewable energy	1,795	1,806	1%	1) Hydropower plants operate stably thanks to the upstream location with good water storage capacity, limiting the influence of El Nino. Estimated capacity factor is 45-50%. 2) Wind power should operate stably with a capacity factor of 35-40% thanks to the application of preferential FIT prices.
	Residential real estate	53	0	-100%	1) The construction of housing projects including Yen Thuong and Dinh Cong would be delayed until 2024. 2) Real estate projects do not incur costs.
	Mining	0	987	100%	1) Nickel-copper mining officially would be started from 2Q23. 2) Estimated prices are at USD18,000 ~ USD20,000/ton.
	Industrial real estate	0	1,757	100%	1) The occupancy rate of Yen Phong II-A Industrial Park is estimated at 60% with land rental prices ranging from USD150 – USD170/m ² 2) PC1 owns 30% of Western Pacific Joint Stock Company, so the revenue and profit of Western Pacific are not directly recorded in the consolidated financial statements of PC1 but will be shown in the profit/loss of joint ventures and associates.
	Gross profit	1,599	2,003	25%	
	Power construction	520	558	7%	1) PC1 should complete construction and installation contracts with a GPM fluctuating between 10% and 15% 2) The group will also add equipment supply contracts with a GPM of 4-5% 3) It is assumed that the GPM of the power construction segment reaches 10-11%.
	Industrial production	52	95	83%	
2	Renewable energy	976	1,083	11%	It is assumed that hydropower and wind power projects operate stably and have a GPM of 55-60%.
	Residential real estate	27	0	-100%	
	Mining	0	266	100%	It is assumed that GPM from selling nickel is at 25-30%.
	Industrial real estate	0	478	100%	
	<i>Gross profit margin</i>	19%	23%	4%	
3	Financial income	95	131	37%	VND131 billion in unrealized exchange rate losses would be recorded in 2023.
4	Interest expense	614	688	12%	Core interest rate should decline 100 bps in 2023.
5	SG&A expense	353	392	11%	
6	Operating profit	638	1,093	71%	
7	Earnings/loss from affiliates	0	49	100%	Profit from Western Pacific is from leasing industrial land in Yen Phong II-A (Bac Ninh).
8	Profit before taxes (PBT)	598	1,142	91%	
	<i>PBT margin</i>	7%	13%	5.8%	
9	Profit after taxes (PAT)	527	1,005	91%	
	<i>PAT margin</i>	6%	11%	5.1%	
10	NPATMI	450	854	90%	
	<i>NPATMI margin</i>	5%	10%	4.3%	
11	EPS	1,513	3,158	109%	

Source: KB Securities Vietnam

Valuation: HOLD recommendation with target price of VND29,800/share

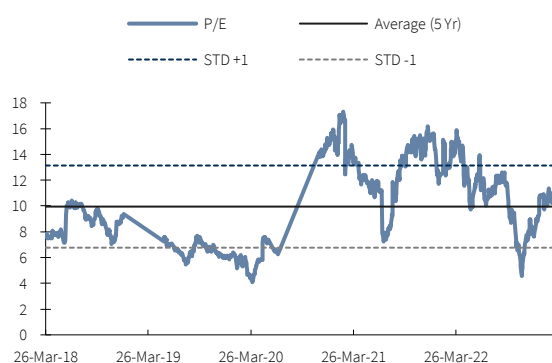
Using a SOTP model, we found the fair value of PC1 is at VND29,800 (10% upside vs the closing price on March 14, 2023). The recent P/E and P/B valuations have also reflected the price potential of PC1.

Table 5. PC1 – Valuation according to SOTP method

Assumptions		
Rf		5.00%
Rpm		8.08%
Beta		1
CAPM		13.08%
WACC		8.96%
Business sector	Method	SOTP
Renewables	DCF	14,413
EPC and Industrial Production	P/E	1,514
Real Estate	DCF	1,213
Industrial Real Estate	DCF	1,157
Mining	DCF	1,638
Sum		19,935
Cash and cash equivalent		2,937
Loans		11,961
NPATMI		1,953
Holding company discount factor		10%
Enterprise Value (VND bn)		8,063
No. of shares (mn)		270
Equity Price (VND/share)		29,813

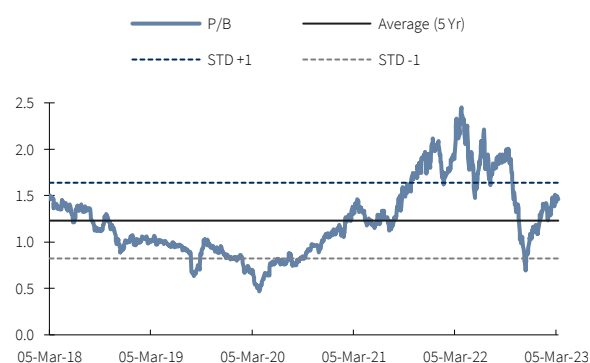
Source: KB Securities Vietnam

Fig 11. PC1 – P/E developments (x)



Source: Bloomberg, KB Securities Vietnam

Fig 12. PC1 – P/B developments (x)



Source: Bloomberg, KB Securities Vietnam

PC1 – 2021A–2024F financials

Income Statement (bn. VND)					Balance Sheet (bn. VND)				
(Standard Report)	2021	2022	2023F	2024F	(Standard Report)	2021	2022	2023F	2024F
Net Revenue	9,828	8,333	8,816	9,806	TỔNG CỘNG TÀI SẢN	18,687	21,604	20,599	23,099
Cost of Goods Sold	-8,673	-6,735	-6,814	-7,531	CURRENT ASSETS	6,589	7,917	5,708	6,800
Gross Profit	1,156	1,599	2,003	2,274	Cash and cash equivalents	2,292	2,937	2,213	1,463
Financial Income	319	95	131	0	Short-term investments	144	655	655	655
Financial Expenditure	-359	-765	-688	-606	Accounts receivable	3,124	3,172	1,765	3,726
Including: Cost of Borrowing	-315	-614	-688	-606	Inventories	904	890	813	693
Profit/(loss) from affiliated companies	86	-10	0	1	LONG-TERM ASSETS	12,098	13,688	14,891	16,300
Selling expenditures	-74	-70	-88	-98	Long-term trade receivables	8	0	0	0
General and administrative expenditures	-223	-211	-264	-294	Fixed assets	10,160	9,521	11,724	13,133
Profit/(loss) from operating	905	638	1,093	1,277	Long-term incomplete assets	380	1,385	385	385
Other income	28	21	0	0	Long-term investments	639	1,527	1,527	1,527
Other expenditures	-36	-61	0	0	Good will (before 2015)	0	0	0	0
Net Other Income	-8	-40	0	0	NỢ PHẢI TRẢ	12,406	14,543	12,532	13,839
Profit/(loss) from affiliated companies	0	0	49	79	Current liabilities	5,799	5,953	3,775	5,730
Profit/(loss) before tax	896	598	1,142	1,356	Trade accounts payable	1,756	1,293	1,160	2,154
Tax	-132	-71	-137	-163	Short-term borrowings	2,800	3,676	1,835	2,394
Profit/(loss) after tax	764	527	1,005	1,193	Other short-term liabilities	1,243	984	779	1,182
					Long-term liabilities	6,607	8,589	8,757	8,110
					Long-term trade payables	0	0	0	0
					Other long-term liabilities	6,238	8,284	8,452	7,804
					Long-term borrowings	370	305	305	305
					OWNER'S EQUITY	6,281	7,062	8,067	9,260
					Paid-in capital	2,352	2,704	2,704	2,704
					Share premium	711	711	711	711
					Other funds	1,913	2,309	2,460	2,639
					Undistributed earnings	1,305	1,337	2,192	3,206
Operating Ratios					Main Ratios (x, %, VND)				
(Standard Report)	2021	2022	2023F	2024F	(Standard Report)	2021	2022	2023F	2024F
Gross Profit Margin	11.8%	19.2%	22.7%	23.2%	Valuation Ratios				
EBITDA Margin	16.1%	22.6%	32.3%	30.7%	P/E	15.4	16.4	8.6	7.3
EBIT Margin	12.4%	15.0%	20.2%	19.2%	P/E (diluted)	15.4	16.4	8.6	7.3
PBT Margin	9.1%	7.2%	13.0%	13.8%	P/B	2.3	1.4	1.0	0.9
Operating Profit Margin	9.2%	7.7%	12.4%	13.0%	P/S	1.5	0.8	1.0	0.9
Net Profit Margin	7.8%	6.3%	11.4%	12.2%	P/Tangible Book	1.1	0.9	1.4	1.9
					P/Cash Flow	53.3	38.3	-37.6	-36.3
					EV/EBITDA	6.6	3.6	2.5	2.4
					EV/EBIT	8.5	5.5	4.0	3.7
					Management Efficiency				
					ROE%	46%	9%	13%	14%
					ROA%	22%	5%	5%	5%
					ROIC%	25%	8%	9%	11%
					Financial Ratios				
					Cash Ratio	0.4	0.5	0.6	0.3
					Quick Ratio	1.0	1.1	1.2	1.0
					Current Ratio	1.3	2.3	3.3	4.3
					Long-term borrowing/Owner's Equity	0.1	0.0	0.0	0.0
					Long-term borrowing/Total Asset	0.0	0.0	0.0	0.0
					Short-term borrowing/Owner's Equity	0.4	0.5	0.2	0.3
					Short-term borrowing/Total Asset	0.0	0.0	0.0	0.0
					Short-term payables/Owner's Equity	0.3	0.2	0.1	0.2
					Short-term payables/Total Asset	0.1	0.1	0.1	0.1
					Total payables/Owner's Equity	0.3	0.2	0.1	0.2
					Total payables/Total Asset	0.1	0.1	0.1	0.1
					Operating Ratios				
					Receivables turnover	33.6	35.7	35.7	30.4
					Inventory turnover	3.2	3.3	3.7	3.5
					Payables turnover	7.2	6.7	7.7	6.7

Source: PC1 Group, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

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

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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