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2Q23 business results decreased but achieved 55% of profit plan

Phu Nhuan Jewelry (PNJ) achieved net revenue of VND6,663 billion in 2Q, dropping 17.4% YoY due to low purchasing power vs booming purchasing power in 2Q22. GPM inched from 17.8% to 18% thanks to efforts to optimize goods and increase sales of high-value products. NPAT reached VND338 billion in 2Q (down 8% YoY) and completed 55% of the full-year target in 1H23.

The main business segment declined but it PNJ has gained more market share

Revenue from the main business segments of PNJ all decreased compared to 2Q22. Jewelry retailing posted only VND3,919 billion (-21.3% YoY), while the wholesale segment brought in VND620 billion (-41.5% YoY). PNJ gold bar is the only segment recording revenue growth as this is considered a safe haven. The wholesale segment even dropped much more strongly than the retailing segment, showing that the gold market is facing many difficulties, and PNJ has also captured some market share from small retailers.

The low season has gradually passed, so purchasing power should recover towards the high season

PNJ's business results have been plunging, reflecting weak purchasing power in the low season. However, it bodes well that in June, the retailer posted NPAT growth for the first time in 2023. Business performance should recover in 2H23 thanks to (1) the peak season for weddings and holidays and (2) recovery in purchasing power thanks to stimulus policies and economic support.

BUY recommendation – Target price VND91,600

KBSV's forecast for PNJ's 2023 net sales and NPAT are VND31,939 billion (-5.7% YoY) and VND1,838 billion (+1.4% YoY) respectively. We recommend BUY for PNJ stock with a target price of VND91,600/share.

Buy maintain

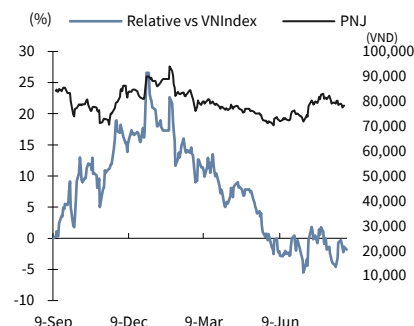
| Target price | VND91,600 |
|------------------------------|-----------|
| Upside | 15% |
| Current price (Aug 28, 2023) | VND79,500 |
| Consensus target price | VND92,748 |
| Market cap (VNDtn/USDbn) | 25.8/1.08 |

| Trading data | |
|------------------------------------|------------------|
| Free float | 52.2% |
| 3M avg trading value (VNDbn/USDmn) | 88.3/3.7 |
| Foreign ownership | 49% |
| Major shareholder | VIETFUND (9.16%) |

| Share price performance | | | | |
|-------------------------|----|----|-----|-----|
| (%) | 1M | 3M | 6M | 12M |
| Absolute | -3 | 9 | -1 | -6 |
| Relative | -1 | 0 | -14 | -2 |

Forecast earnings & valuation

| FY-end | 2021 | 2022 | 2023F | 2024F |
|--------------------------|--------|--------|--------|--------|
| Net revenue (VNDbn) | 19,613 | 33,876 | 31,939 | 37,513 |
| Operating income (VNDbn) | 1,305 | 2,338 | 2,328 | 2,940 |
| NPAT (VNDbn) | 1,033 | 1,811 | 1,838 | 2,321 |
| EPS (VND) | 4,161 | 7,358 | 7,464 | 9,429 |
| EPS growth (%) | -3.4% | 76.8% | 1.4% | 26.3% |
| P/E (x) | 23.5 | 13.4 | 13.5 | 10.9 |
| P/B (x) | 4.0 | 2.9 | 2.6 | 2.2 |
| ROE (%) | 17% | 25% | 20% | 22% |
| Dividend yield (%) | 1.7% | 2.5% | 2.5% | 2.5% |



Source: Bloomberg, KB Securities Vietnam

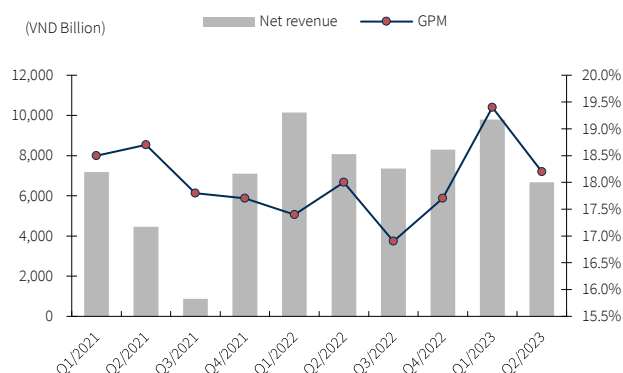
2Q23 performance updates

Table 1. PNJ – 2Q23 business results

| | 2Q22 | 2Q23 | +/-%YoY | KBSV's notes |
|-----------------------------------|----------------|----------------|---------------|--|
| Revenue (VNDbn) | 8,068 | 6,663 | -17.4% | Revenue decreased sharply over the same period due to weak purchasing power and low season. Moreover, high base levels in 2Q22 were attributable to pent-up demand after the pandemic. |
| <i>Jewelry retail</i> | 4,959 | 3,919 | -21.3% | Purchasing power for non-essential products such as gold and jewelry decreased sharply vs high base level over the same period last year. |
| <i>24K gold</i> | 1,934 | 1,971 | 2.1% | 24K gold has always been a favorite asset class of many Vietnamese people, so the purchasing power was not significantly affected. |
| <i>Jewelry wholesale</i> | 1,052 | 620 | -41.5% | Purchasing power dropped sharply, PNJ's wholesale partners also reduced the need to import products, so wholesale revenue dropped sharply. |
| <i>Others</i> | 118 | 206 | 78.9% | |
| Gross profit (VNDbn) | 1,449 | 1,210 | -16.5% | |
| <i>Gross profit margin (%)</i> | 18.0% | 18.2% | 1.1% | Although GPM decreased QoQ as revenue declined while fixed costs in production did not change much, GPM did improve YoY. PNJ's inventory and logistics management became more optimal. |
| Financial income (VNDbn) | 10.4 | 36.7 | 252.9% | |
| Financial expenses (VNDbn) | -22.1 | -39.3 | 77.8% | |
| SG&A (VNDbn) | -934.50 | -772.11 | -17.4% | Selling expenses decreased as PNJ did not cut budgets on marketing campaigns. Instead, the company would target more potential customers with less affected purchasing power. |
| SG&A/Revenue ratio (%) | -12.0% | -12.0% | 0.0% | |
| Operating income (VNDbn) | 503.1 | 434.9 | -13.6% | |
| Other incomes (VNDbn) | -26.1 | 1.2 | -104.6% | |
| Profit before taxes (VNDbn) | 477.0 | 436.1 | -8.6% | |
| Profit after taxes (VNDbn) | 367.0 | 337.6 | -8.0% | Although NPAT decreased slightly YoY, this is a relatively positive result as the whole retailing industry is facing difficulties. |

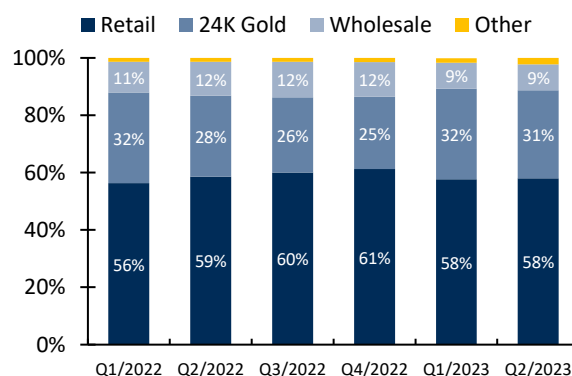
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 2. PNJ – Net revenue & GPM (VNDbn, %)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 3. PNJ – Revenue structure by product

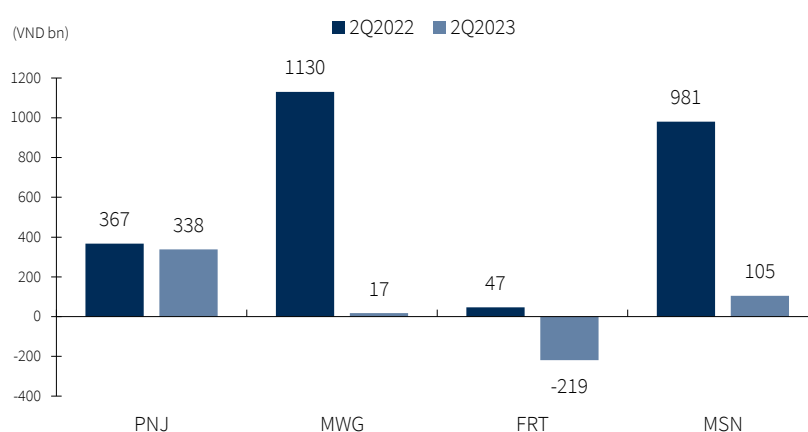


Source: Phu Nhuan Jewelry, KB Securities Vietnam

PNJ continued to generate stable profits while other retailers are facing fierce competition and market share loss to pricing strategies

The first half of 2023 is a difficult time for most retail businesses. The economy is slowing down, and purchasing power is weak, so many businesses must continuously spend advertising costs and reduce the prices of products to keep market share. As a result, many businesses posted lower profits or even reported losses. PNJ, with its product characteristics and the middle or high-class customer base, is less affected by the decline in purchasing power. That, when combined with cost optimization efforts, made PNJ one of the few retailers to maintain most of their profits in the first half of 2023.

Fig 4. Vietnamese retailers – 2Q profit comparison (VNDbn)



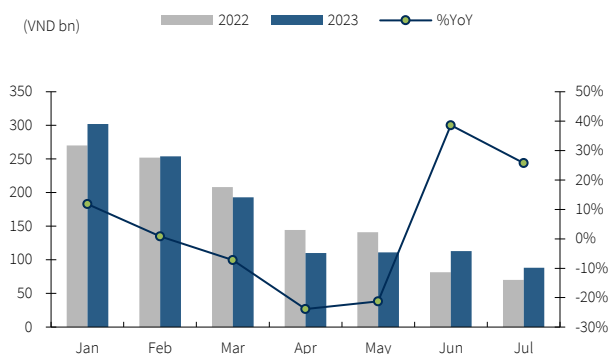
Source: Phu Nhuan Jewelry, KB Securities Vietnam

Monthly business results gradually recovered, welcoming the peak season when purchasing power recovers

In 2Q23, weak purchasing power and high base in 2Q22 made PNJ's business results unfavorable as the retailer did not record NPAT growth from the beginning of the year. However, in June and July, PNJ posted profit growth again, which shows signs of purchasing power recovery.

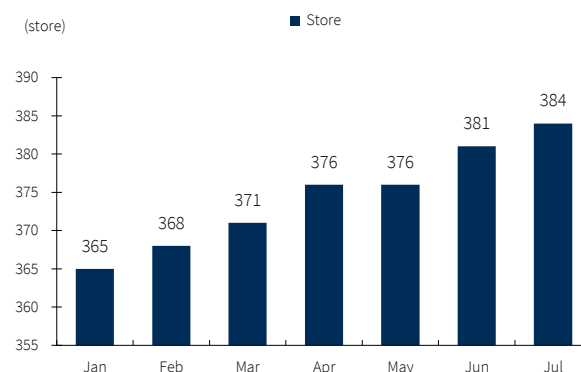
KBSV expects business results to improve thanks to stimulus policies, and economic booster. The Government's lowering policy rates, reducing VAT, increasing basic salary have all been applied since 3Q, but they will take more time to take effect on the economy. We believe that purchasing power will recover but it will be at a slow pace when the domestic and world macroeconomics have not had too many clear positive signals. To prepare for the peak season and the purchasing power rebound, PNJ has also been opening new stores to meet market demand. In the 7M23, PNJ has opened 26 new stores and closed five stores vs the plan to open 25 new stores in 2023.

Fig 5. PNJ – NPAT in 7M23 vs 2022 (VNDbn)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 6. PNJ – Number of stores (store)



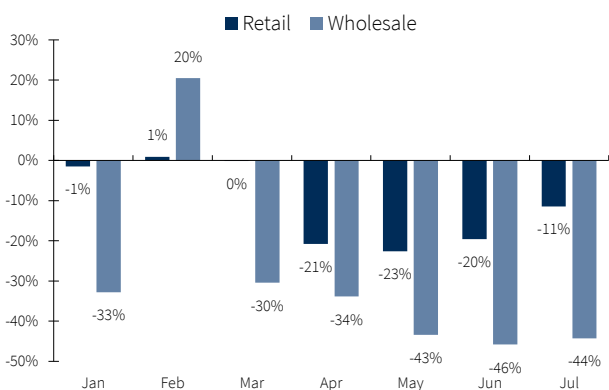
Source: Phu Nhuan Jewelry, KB Securities Vietnam

PNJ increased both market share and gross profit margin

Unlike ICT retailers that are having to compete strongly and accept reducing profit margins to gain market share, PNJ can both increase profit margins and improve market share at the same time. In terms of market share, although specific numbers have not been announced, according to PNJ’s management, they have captured more market share from smaller stores thanks to effective marketing campaigns and PNJ’s pioneering the "marriage proposal trend" in Vietnam. The board of directors believes that the wholesale segment is a barometer for PNJ to evaluate the overall market and then come up with better retailing strategies. The sharp decline in the wholesale to small gold shops compared to the retail segment shows that the gold and silver market in general is facing much more difficulties than PNJ.

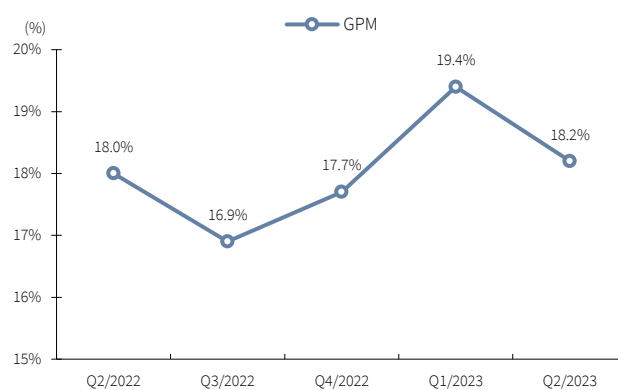
Regarding GPM, by optimizing inventory and supply chain and raising sales of higher-value products, PNJ’s GPM is continuing to improve without losing market share. Customers accept to pay higher prices for PNJ products thanks to the big bonus points in terms of quality, aesthetics, and brand value compared to competitors. Meanwhile, other small retailers have to face fierce competition in weak purchasing period.

Fig 7. PNJ – Retail & wholesale growth in 7M23 (% YoY)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 8. PNJ – GPM growth (%)



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Forecast & valuation

Forecasted business results in 2023

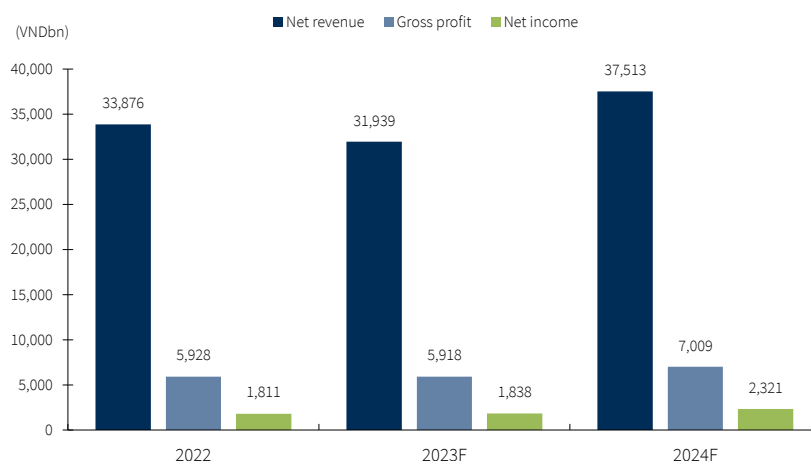
We believe that the retail industry in general and jewelry retail in particular will recover in the second half of the year in line with the economic rebound, loosening monetary and fiscal policies. However, the recovery speed should be slow due to the policy lag. Besides, major economies in the world are facing many difficulties that affect domestic economy. We forecast that PNJ's net revenue will reach VND31,939 billion (-5.7% YoY), and GPM for the whole year will reach 18.5% (+1ppt from 17.5% in 2022) thanks to changes in product structure and inventory and supply chain optimization. NPAT should be VND1,838 billion (+1% YoY). Although revenue may decrease, we forecast that PNJ will still end 2023 with positive growth, approaching the yearly plan thanks to efforts in cost optimization.

Table 9. PNJ – 2023–2024F results

| | 2022 | 2023F | +/- % YoY | 2024F | +/- YoY | KBSV's notes |
|-----------------------------------|---------------|---------------|--------------|---------------|--------------|--|
| Net revenue (VNDbn) | 33,876 | 31,939 | -5.7% | 37,513 | 17.5% | |
| <i>Jewelry Retail</i> | 20,732 | 19,281 | -7.0% | 23,137 | 20.0% | The decrease in purchasing power directly affects jewelry retailing, but PNJ continuously implements marketing policies, attracts new customers, opens more stores to increase coverage to prepare for the future rebound in purchasing power. |
| <i>24K Gold</i> | 8,571 | 8,999 | 5.0% | 10,169 | 13.0% | The gold bar segment specifically does not fluctuate much because Vietnamese people still like to hoard gold bars. |
| <i>Jewelry wholesale</i> | 4,065 | 3,049 | -25.0% | 3,506 | 15.0% | PNJ's wholesale partners face many common difficulties due to weak purchasing power and have to reduce jewelry imports from PNJ. |
| <i>Others</i> | 508 | 610 | 20.0% | 701 | 15.0% | |
| Gross profit (VNDbn) | 5,928 | 5,918 | -0.2% | 7,009 | 18.4% | |
| <i>Gross profit margin (%)</i> | 17.5% | 18.5% | 5.9% | 18.7% | 0.8% | Gross profit margin should improve due to changes in goods structure and increased efficiency in inventory and logistics system management. |
| SG&A (VNDbn) | -3,502 | -3,449 | -1.5% | -3,939 | 14.2% | PNJ tries to improve marketing efficiency by targeting the right audience and not advertising widely to optimize costs. |
| SG&A/Revenue ratio (%) | -10.3% | -10.8% | 4.5% | -10.5% | -2.8% | |
| EBIT (VNDbn) | 2,426 | 2,469 | 1.8% | 3,070 | 24.4% | |
| EBT (VNDbn) | 2,313 | 2,317 | 0.2% | 2,927 | 26.3% | |
| Profit after taxes (VNDbn) | 1,811 | 1,838 | 1.4% | 2,321 | 26.3% | Net profit should be flat in 2023 and bounce back in 2024 when the economy and purchasing power recover. |

Source: Phu Nhuan Jewelry, KB Securities Vietnam

Fig 10. PNJ – 2022A–2024F results



Source: Phu Nhuan Jewelry, KB Securities Vietnam

Valuation: BUY recommendation – target price VND91,600

We price PNJ stock by two methods, (1) FCFF and (2) comparables.

(1) For the FCFF, we set a target price of PNJ stock at VND99,200/share, based on the below assumptions (Table 11).

(2) With the comparables approach, we use a target P/E of 15x, which is close to the five-year average P/E. Target EPS is VND5,452. We set a target price for this method at VND84,000/share.

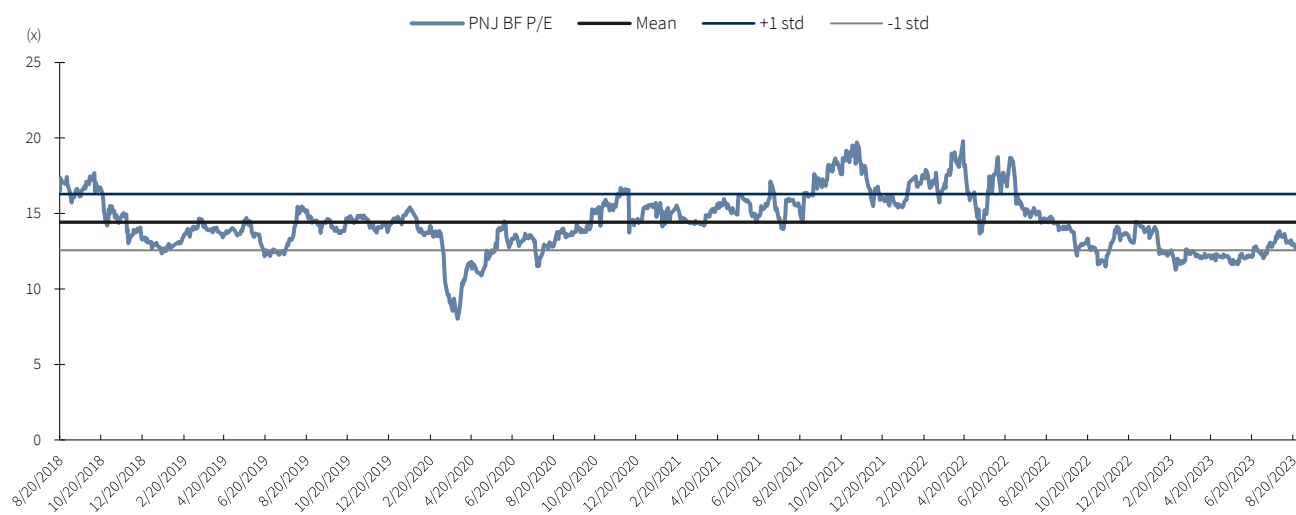
With the weight used in the valuation model for each method of 50–50, we recommend BUY for PNJ stock with a target price of VND91,600.

Table 11. PNJ – FCFF and assumptions

| | | | |
|---------------------|--------|---------------------------------|------------------|
| Cost of equity | 12.40% | Present value of terminal value | 24,317 |
| Cost of debt | 8.00% | Present value of FCFF | 7,116 |
| Risk-free rate | 5.00% | Cash and cash equivalents | 1,030 |
| Beta | 0.9 | Short term investment | 319 |
| Long term growth | 4% | Enterprise value | 32,783 |
| Projection time | 5 | Debts | 2,044 |
| WACC | 11.20% | Company value | 30,739 |
| | | Outstanding shares | 327,999,629 |
| Target price | | | VND99,200 |

Source: KB Securities Vietnam

Fig 12. PNJ – P/E movements in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

PNJ – 2021A–2024F financials

| Income statement | | | | | Balance Sheet | | | | |
|---|---------|---------|---------|---------|--------------------------------|--------|--------|--------|-------|
| (VNDbn) | 2021 | 2022 | 2023F | 2024F | (VNDbn) | 2021 | 2022 | 2023F | 2024 |
| Net sales | 19,613 | 33,876 | 31,939 | 37,513 | Total assets | 10,619 | 13,337 | 13,447 | 15,64 |
| Cost of sales | -16,040 | -27,949 | -26,021 | -30,504 | Current assets | 9,292 | 11,966 | 12,040 | 14,13 |
| Gross Profit | 3,573 | 5,928 | 5,918 | 7,009 | Cash & equivalents | 355 | 880 | 1,030 | 1,61 |
| Financial income | 16 | 54 | 22 | 25 | ST investments | 0 | 200 | 319 | 59 |
| Financial expenses | -118 | -141 | -162 | -156 | Accounts receivable | 60 | 57 | 71 | 7 |
| of which: interest expenses | -104 | -94 | -142 | -132 | Inventory | 8,755 | 10,508 | 10,408 | 11,59 |
| Gain/(loss) from joint ventures | 0 | 0 | 0 | 0 | Long-term assets | 1,327 | 1,371 | 1,407 | 1,51 |
| Selling expenses | -1,694 | -2,828 | -2,747 | -3,114 | LT trade receivables | 84 | 94 | 103 | 11 |
| General & admin expenses | -472 | -674 | -703 | -825 | Fixed assets | 259 | 240 | 245 | 28 |
| Operating profit/(loss) | 1,305 | 2,338 | 2,328 | 2,940 | Investment properties | 31 | 31 | 31 | 3 |
| Net other income/(expenses) | -18 | -25 | -11 | -13 | Liabilities | 4,606 | 4,893 | 3,849 | 4,42 |
| Pretax profit/(loss) | 1,287 | 2,313 | 2,317 | 2,927 | Current liabilities | 4,563 | 4,883 | 3,817 | 4,38 |
| Income tax | -254 | -502 | -479 | -606 | Trade accounts payable | 680 | 277 | 319 | 37 |
| Net profit/(loss) | 1,033 | 1,811 | 1,838 | 2,321 | Advances from customers | 0 | 0 | 0 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | ST borrowings | 2,722 | 2,683 | 2,044 | 2,60 |
| Net profit after MI | 1,033 | 1,811 | 1,838 | 2,321 | Long-term liabilities | 43 | 10 | 32 | 3 |
| | | | | | LT payables | 0 | 0 | 0 | 0 |
| | | | | | LT borrowings | 43 | 10 | 32 | 3 |
| | | | | | Other LT liabilities | 0 | 0 | 0 | 0 |
| | | | | | Shareholders' equity | 6,013 | 8,444 | 9,598 | 11,22 |
| | | | | | Paid-in capital | 2,276 | 2,462 | 3,282 | 3,28 |
| | | | | | Share premium | 991 | 2,251 | 1,431 | 1,43 |
| | | | | | Undistributed earnings | 1,950 | 2,522 | 3,272 | 4,39 |
| | | | | | Reserve & others | 801 | 1,212 | 1,616 | 2,12 |
| | | | | | Minority interest | 0 | 0 | 0 | 0 |
| Operating ratios | | | | | Key ratio | | | | |
| | 2021 | 2022 | 2023F | 2024F | (x, %, VND) | | | | |
| Gross profit margin | 18.2% | 17.5% | 18.5% | 18.7% | Multiple | | | | |
| EBITDA margin | 7.6% | 7.4% | 8.0% | 8.4% | P/E | 23.5 | 13.4 | 13.5 | 10. |
| EBIT margin | 7.2% | 7.2% | 7.8% | 8.2% | P/E diluted | 23.5 | 13.4 | 13.5 | 10. |
| Net Operating margin | 6.7% | 6.9% | 7.3% | 7.8% | P/B | 4.0 | 2.9 | 2.6 | 2. |
| Pre-tax profit margin | 6.6% | 6.8% | 7.3% | 7.8% | P/S | 1.2 | 0.7 | 0.7 | 0. |
| Net profit margin | 5.3% | 5.3% | 5.8% | 6.2% | P/Tangible Book | 4.5 | 3.1 | 2.8 | 2. |
| | | | | | P/Cash Flow | -376 | 46 | -48 | 5 |
| | | | | | EV/EBITDA | 18.0 | 10.4 | 10.4 | 8. |
| | | | | | EV/EBIT | 18.9 | 10.7 | 10.7 | 8. |
| Cash flow statement | | | | | Operating Performance | | | | |
| (VNDbn) | 2022 | 2022 | 2023F | 2024F | ROE% | 17% | 25% | 20% | 22% |
| Net profit | 1,287 | 2,313 | 2,317 | 2,927 | ROA% | 10% | 15% | 14% | 16% |
| Plus: depreciation & amort | 75 | 80 | 70 | 79 | ROIC% | 12% | 18% | 17% | 19% |
| Plus: investing (profit)/loss | -29 | -21 | 0 | 0 | Financial Structure | | | | |
| Interest Expense | 104 | 94 | 142 | 132 | Cash ratio | 0.1 | 0.2 | 0.3 | 0. |
| Change in working capital | 1,438 | 2,466 | 2,529 | 3,138 | Quick Ratio | 0.1 | 0.3 | 0.4 | 0. |
| (Inc)/dec - receivables | -16 | -52 | 99 | -30 | Current Ratio | 2.0 | 2.5 | 3.2 | 3. |
| (Inc)/dec - inventory | -2,141 | -1,753 | 100 | -1,183 | LT Debt/Equity | 0.00 | 0.00 | 0.00 | 0.0 |
| Inc/(dec) - payables | 351 | 77 | -432 | -25 | LT Debt/Total assets | 0.0 | 0.0 | 0.0 | 0. |
| Inc/(dec) - advances | 5 | -60 | -9 | -30 | ST Debt/Equity | 0 | 0 | 0 | 0 |
| Other adj for operations | -383 | -597 | -625 | -737 | ST Debt/Total assets | 0.26 | 0.20 | 0.15 | 0.1 |
| Operating cash flow | -717 | 101 | 1,661 | 1,132 | ST liabilities/Equity | 0.3 | 0.3 | 0.2 | 0. |
| Purchase of Fixed Assets and longterm assets | -63 | -52 | -97 | -173 | ST liabilities/Total assest | 0.2 | 0.2 | 0.1 | 0. |
| Proceeds from disposal of fixed assets | 13 | 1 | 0 | 0 | Total liabilities/Equity | 0.3 | 0.3 | 0.2 | 0. |
| Loans granted, purchases of debt instruments | 0 | -540 | -119 | -281 | Total liabilities/Total assets | 0.2 | 0.2 | 0.1 | 0. |
| Collection of loans, proceeds from sales of debts instruments | 0 | 200 | 0 | 0 | Activity Ratio | | | | |
| Investments in other entities | 0 | 0 | 0 | 0 | Account receivable turnover | 327 | 582 | 500 | 50 |
| Proceed from divestment in other entities | 0 | 0 | 0 | 0 | Inventory turnover | 2 | 3 | 2 | |
| Dividends and interest received | 2 | 20 | 0 | 0 | Account payable turnover | 24 | 62 | 87 | 9 |
| Investing cash flow | -49 | -371 | -216 | -454 | | | | | |
| Proceeds from issue of shares | 0 | 1,447 | 0 | 0 | | | | | |
| Payment for share returns and repurchase | -2 | 0 | 0 | 0 | | | | | |
| Proceeds from borrowings | 7,756 | 6,261 | 5,749 | 8,253 | | | | | |
| Repayment of borrowings | -6,876 | -6,300 | -6,388 | -7,690 | | | | | |
| Finance lease principal payments | 0 | 0 | 0 | 0 | | | | | |
| Dividends paid | -177 | -617 | -656 | -656 | | | | | |
| Interests, dividends, profits received | 0 | 0 | 0 | 0 | | | | | |
| Financing cash flow | 702 | 792 | -1,295 | -94 | | | | | |
| Net increase in cash & equivalents | -64 | 522 | 150 | 585 | | | | | |
| Cash & equivalents - beginning | 422 | 355 | 880 | 1,030 | | | | | |
| Cash & equivalents - ending | 358 | 880 | 1,030 | 1,615 | | | | | |

Source: Phu Nhuan Jewelry, 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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