

# **PV Power** (POW)

### Overcome difficulties

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Analyst Nguyen Dinh Thuan

(+84) 24-7303-5333 emailaddress@kbsec.com.vn

3Q23 results are lower than the same period in 2022

PV Power Corporation (POW) recorded VND52 billion (-74% YoY) in 3Q NPAT on revenue of VND5,679 billion (-6% YoY). 9M23 commercial electricity output reached 11,144 million kWH (+11% YoY) thanks to the active mobilization of Ca Mau 1&2 and Vung Ang plants compensating for the sharp decline in hydroelectric plants and Nhon Trach 1&2.

Gas power output is expected to recover in 2024

We expect gas-generated power output to recover well in 2024 to reach 10,487 million kWh (+12% YoY), based on (1) Nhon Trach 2 and Ca Mau 2 plants have completed repairs and been ready for mobilization; (2) the inauguration of Thi Vai LNG terminal (phase 1) will benefit gas sources for power plants in the Southeast region; (3) POW should negotiate with Jadestone partner to buy additional gas from Nam Du - U Minh fields for Ca Mau 1 & 2 power plants after 2028; and (4) The mobilization for thermal power would increase when hydropower declines.

Coal thermal power plant Vung Ang should return to stable operation

Vung Ang thermal power plant has completed repairs and test run in 3Q23 and been ready for mobilization. We expect that the output of Vung Ang power plant can reach 5,763 million kWh (+36.1% YoY) in 2024 given benefits from El Nino and the completion of repairs in 3Q.

BUY recommendation with target price of VND13,700/share

Based on SOTP valuation, business prospects and possible risks of POW, we recommend BUY for POW stock. The target price is VND13,700/share, 18% higher than the price on December 11, 2023.

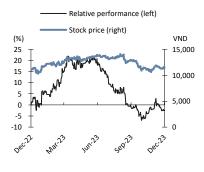
Target price	VND13,700
Upside (%)	18%
Current price (Dec 11, 2023)	VND11,600
Consensus target price	VND14,800
Market cap (VNDtn/USDbn)	26/1.09

Trading data	
Free float	20.0%
3M avg trading value (VNDbn/USDmn)	64.73/2.7
Foreign ownership	6.18%
Major shareholder	PetroVietnam
	(PVN. 79.94%)

	Share price perf	ormance			
20.0%	(%)	1M	3M	6M	12M
64.73/2.7	Absolute	3.1	-10.9	-16.4	2.7
6.18%	Relative	-0.6	-1.2	-17.3	-3.8
roVietnam					

Forecast	earnings	&	valuation
EV-end			

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	24,561	28,224	28,906	33,969
EBIT (VNDbn)	2,400	2,858	1,728	2,673
NPAT of the parent (VNDbn)	1,799	2,061	1,316	1,949
EPS (VND)	757	871	562	832
EPS growth (%)	-24,2	15.1	-35.0	48.0
P/E (x)	23.1	13.4	31.5	21.3
EV/EBITDA (x)	8.4	5.5	11.0	9.6
P/B (x)	1.3	8.0	1.2	1.0
ROE (%)	6.6	7.7	4.3	5.7
Dividend yield (%)	1.7	0.7	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## 3Q23 performance updates

3Q23 revenue and profit decreased compared to the same period

POW recorded VND52 billion (-74% YoY) in 3Q NPAT on revenue of VND5,679 billion (-6% YoY). 9M23 commercial electricity output reached 11,144 million kWH (+11% YoY) thanks to the active mobilization of Ca Mau 1&2 and Vung Ang plants compensating for the sharp decline in hydroelectric plants and Nhon Trach 1&2. Gross profit margin (GPM) decreased to only 6.75% due to (1) high raw material costs in the period that led to a sharp increase in cost of capital compared to revenue; (2) POW no longer recording revenue from exchange rate differences of the PPA of Vung Ang power plant as in 2Q22; and (3) ongoing repairs and maintenance of some power plants in 3Q23.

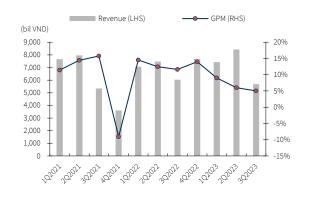
Table 1. POW - 9M23 business results

	9M22	9M23	+/-%YoY	KBSV's notes
Output (million kWh)	10,063	11,145	11%	
Gas thermal power	6,473	7,170	11%	- Hydropower: Hydropower output decreased due to the
Coal thermal power	2,475	3,137	27%	<ul> <li>impact of El Nino, causing low water reserves.</li> <li>Thermal power: Vung Ang 1 coal power plant completed repairs and is strongly mobilized in the context of hydropower decline.</li> </ul>
Hydroelectricity	1,115	838	-25%	<ul> <li>Gas power: Positive output of Ca Mau 1&amp;2 plant compensates for the decrease from Nhon Trach 2 due to machine overhaul shutdown.</li> </ul>
Average output price (VND/kWh)				
Gas thermal power	2,069	2,041	-1%	- The average prices of gas power and coal power were
Coal thermal power	1,855	2,005	8%	mixed due to the influence of input material costs (coal and gas).
Hydroelectricity	1,224	1,108	-9%	<ul> <li>In addition, lower consumption demand in 3Q due to reduced temperature and competition from renewable energy sources also reduced electricity generation prices.</li> </ul>
Revenue (VNDbn)	20,566	21,533	5%	<ul> <li>Positive revenue was attributable to growth in commercial electricity output, offsetting the decrease in average electricity price.</li> </ul>
Gas thermal power	13,396	14,634	9%	
Coal thermal power	4,591	6,288	37%	
Hydroelectricity	1,365	929	-32%	
Gross profit (VNDbn)	2,659	1,454	-45%	
Gross profit margin (%)	13%	6.7%		
SG&A costs (VNDbn)	705	483	-32%	
SG&A to revenue ratio (%)	3.43%	2.24%		
Operating income (VNDbn)	1,954	971	-50%	
Financial income (VNDbn)	22 5	385	71%	- Financial revenue increased thanks to (1) higher interest on bank deposits and (2) increased dividend income.
Financial expenses (VNDbn)	542	489	-10%	
Other incomes (net, VNDbn)	30	129	330%	<ul> <li>Other incomes increased mainly from asset liquidation at the parent company.</li> </ul>
Profit before taxes (VNDbn)	1,693	1,011	-40%	
Profit after taxes (VNDbn)	1,590	883	-45%	

Source: PV Power Corporation, KB Securities Vietnam

Fig 1. POW - Revenue & GPM in 2021-2023 (VNDbn, %)

Fig 2. POW - Power output in 2022-2023 (million kWh)





Source: PV Power Corporation, KB Securities Vietnam

Source: PV Power Corporation, KB Securities Vietnam

Gas power output is expected to recover in 2024

We expect gas-generated power output to recover well in 2024 to reach 10,487 million kWh (+12% YoY), based on (1) Nhon Trach 2 and Ca Mau 2 plants have completed repairs and been ready for mobilization; (2) the inauguration of Thi Vai LNG terminal (phase 1) will benefit gas sources for power plants in the Southeast region; (3) POW should negotiate with Jadestone partner to buy additional gas from Nam Du – U Minh fields for Ca Mau 1 & 2 power plants after 2028; and (4) The mobilization for thermal power would increase when hydropower declines.

Coal thermal power plant Vung Ang should return to stable operation On October 12, 2023 and October 16, 2023, the generator and gas turbine of Nhon Trach 3 Power Plant were put into the foundation. As of November, the overall EPC progress of the Nhon Trach 3&4 project was estimated at 65.6%, 9.5% slower than the plan of 75.1%.

Regarding the capital mobilization for the NT3&4 project, POW signed a loan contract of VND4,000 billion with Vietcombank (VCB) at the end of August 2023. The total investment of the project is USD1.4 billion with an equity/loan capital structure of 25%/75%. POW also plans to raise capital to invest in its projects. We also note that the corporation has about VND3,600 billion in undistributed NPAT and about VND4,000 billion in the development investment fund.

The Nhon Trach 3&4 power plants project is expected to come into operation from the end of 2024–2025, positively contributing to the prospect of the gas power segment. The input of the two plants is imported LNG with a consumption volume of 1.2 million tons/year. The project has a total capacity of 1,600MW and can generate an average of 9 billion kWh/year. Once started, they will help increase POW's total power generation capacity by 36% to 5,705 MW.

### Hydropower is affected by El Nino

In 3Q23, Hua Na hydropower plant proactively balanced operating efficiency and water storage goals for the upcoming dry season. Dakdrinh hydropower plant has less water flowing into the lake than expected, affecting the business operation. 9M23 hydropower output of POW only reached 838 million kWh (– 25% YoY) due to the obvious impacts from El Nino on rainfall and water in reservoirs.

According to forecasts of the International Research Institute for Climate and Society, El Nino has a high probability of continuing in 2024 before switching to a neutral phase. Therefore, we make a conservative forecast for the hydroelectric segment in 2024, in which the output will reach about 1,099 million kWh (-1% YoY).

Coal thermal power plant Vung Ang should return to stable operation Vung Ang thermal power plant has completed repairs and test run in 3Q23 and been ready for mobilization. We expect that the output of Vung Ang power plant can reach 5,763 million kWh (+36.1% YoY) in 2024 given benefits from El Nino and the completion of repairs in 3Q.

In addition, POW is working to unify the amount of investment capital used to calculate the electricity price on the PPA of the Vung Ang 1 plant. Currently, the PPA prices are based on the total investment of VND26,400 billion. However, the revaluation value is about VND29,200 billion. As we are not sure about when POW reaches an agreement, we do not change the forecast PPA price for Vung Ang 1.

## Forecast & valuation

Table 2. POW - 2023-2024F results

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Output (million kWh)	14,078	14,653	4.1%	17,350	18%	
Gas thermal power	9,155	9,303	2%	10,488	13%	<ul> <li>Strong mobilization is thanks to (1) completed repairs and (2) more room for mobilization when hydropower is at a disadvantage.</li> </ul>
Coal thermal power	3,318	4,234	27%	5,763	36%	- Vung Ang 1 can return to full operation in 2024 when repairs are completed.
Hydroelectricity	1,605	1,116	-30%	1,100	-1%	- El Nino continues, lowering the amount of water at hydropower plants and affecting output.
Average output price (VND/kWh)						
Gas thermal power	2,015	2,025	0.5%	1,947	-4%	- It is assumed that input prices will decrease, leading to a slight fall in output prices.
Coal thermal power	1,888	2,012	6%	1,961	-3%	The average coal power price in 2024 may decrease due to expectations of stable coal supply and prices.
Hydroelectricity	1,174	1,112	-5%	1,134	2%	<ul> <li>Average hydroelectric price is upgraded due to price slippage.</li> </ul>
Revenue (VNDbn)	28,224	28,906	2%	33,969	18%	
Gas thermal power	18,449	18,839	2%	20,423	8%	
Coal thermal power	6,265	8,518	36%	11,299	33%	- Coal power revenue should grow on high output prices and strong output YoY.
Hydroelectricity	1,884	1,240	-34%	1,246	0%	3
Gross profit (VNDbn)	3,726	2,617	-30%	3,718	42%	
Gross profit margin (%)	13%	9%		11%		
SG&A costs (VNDbn)	868	889	3%	1,045	18%	
SG&A to revenue ratio (%)	3.10%	3.10%		3.10%		
Operating income (VNDbn)	2,858	1,728	-40%	2,673	55%	
Financial income (VNDbn)	445	637	43%	910	43%	- Financial income increases thanks to abnormal profit recognition and higher cash ratio.
Financial expenses (VNDbn)	592	679	15%	1,085	60%	
Other incomes (net, VNDbn)	44	0		0		
Profit before taxes (VNDbn)	2,809	1,686	-40%	2,498	48%	
Profit after taxes (VNDbn)	2,553	1,533	-40%	2,271	48%	

Source: PV Power Corporation, KB Securities Vietnam

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## Valuation: BUY recommendation with target price of VND13,700

We use the SOTP method for each power plant to give a BUY recommendation for POW with a target price of VND13,700/share, equivalent to an upside of 18% compared to the closing price of VND11,600 on December 11, 2023. We change our valuation mainly based on electricity output prices and commercial electricity output. Our valuation does not include the large LNG thermal power project Nhon Trach 3 & 4 because there is no detailed information about the PPA and the method to calculate LNG price in Vietnam.

Table 3. POW - SOTP valuation

Valuation	Method	Value of POW
Ca Mau 1&2	DCF	5,923
Nhon Trach 1	DCF	3,016
Nhon Trach 2	DCF	4,324
Hua Na	DCF	3,988
Dakdrinh	DCF	3,265
Vung Ang 1	DCF	13,429
Total enterprise value		33,945
(+) Cash & short-term investments		9,902
(-) Net debt		-9,017
(-) Minority interests		-2,765
Total equity value		32,065
Number of outstanding shares (million shares)		2,341.90
Target price		13,700
Current price (December 11, 2023)		11,600
Upside		18%

Source: KB Securities Vietnam

Fig 3. POW - P/B in 2018-2023 (x)



Source: PV Power Corporation, KB Securities Vietnam

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POW - 2021A-2024F financials

Income Statement (VND billion)	2021	2022	2023F	2024F	(VND billion)	2021	2022	2023F	2024
Net sales	24,561	28,224	28,906	33,969	CURRENT ASSETS	52,977	56,843	67,980	83,76
Cost of sales	-22,021	-24,498	-26,289	-30,251	Cash and cash equivalents	18,420	24,925	36,082	44,60
Gross Profit	2,540	3,726	2,617	3,718	Short-term investments	8,224	8,252	13,929	19,15
Financial income	690	445	637	910	Accounts receivable	531	1,650	1,650	1,65
Financial expenses	-653	-592	-679	-1,085	Inventories	5,799	12,538	9,266	10,23
of which: interest expenses	-510	-438	-516	-824	LONG-TERM ASSETS	1,838	2,086	2,017	2,23
Gain/(loss) from joint ventures (from 2015)	44	23	0	0	Long-term trade receivables	34,557	31,918	31,898	39,1
Selling expenses	-9	0	0	0	Fixed assets	0	0	0	
General and admin expenses	-131	-868	-889	-1,045	Investment properties	31,869	29,155	29,135	36,3
Operating profit/(loss)	2,481	2,734	1,686	2,498	Long-term incomplete assets	405	936	936	9:
Other incomes	20	67	0	0	Long-term investments	0	0	0	
Other expenses	140	23	0	0	TOTAL ASSETS	0	0	0	
Net other income/(expenses)	-120	44	0	0	LIABILITIES	21,852	23,562	31,902	43,8
Income from investments in other entities	0	0	0	0	Current liabilities	16,811	18,326	18,146	20,3
Net accounting profit/(loss) before tax	2,361	2,778	1,686	2,498	Trade accounts payable	7,240	7,346	7,444	8,7
Corporate income tax expenses	-287	-256	-153	-227	Advances from customers	6	4	13	
Net profit/(loss) after tax	2,052	2,553	1,533	2,271	Short-term unrealized revenue	4,769	5,635	5,301	5,8
Minority interests	254	492	217	322	Short-term borrowings	5,040	5,236	13,756	23,4
Attributable to parent company	1,799	2,061	1,316	1,949	Long-term liabilities	0	0	0	
					Long-term trade payables	0	0	0	
Margin ratio					Long-term advances from	0	0	0	
Margin ratio -	2021	2022	2023F	2024F	customers Unrealized revenue	3,689	3,382	11,902	21,6
Grass profit massis	10.3%	13.2%	9.1%	11.0%		31,125	33,281	36,078	39,9
Gross profit margin	21.3%	20.1%	15.0%	16.4%	Long-term borrowings	23,419	23,419	23,419	23,4
EBITDA margin	9.8%	10.1%	6.0%	7.9%	OWNER'S EQUITY  Paid-in capital	0	0	0	25,
EBIT margin	9.5%	10.0%	5.8%	7.4%	·	3,010	3,420	1,533	2,2
Pre-tax profit margin	10.1%	9.7%	5.8%	7.4%	Share premium Undistributed earnings	2,208	3,677	3,869	3,8
Operating profit margin  Net profit margin	8.4%	9.1%	5.3%	6.7%	Minority interests	2,488	2,765	2,982	3,3
Net pront margin					Millority interests	-,:	-,	_,	-,-
Cash Flow Statement					Key ratios				
(VND billion)	2021	2022	2023F	2024F	(x, %, VND)				
Net profit/(loss) before tax	2,319	2,564	1,686	2,498	Multiple	23.1	13.4	31.5	21
Depreciation and amortisation	2,818	2,809	2,606	2,880	P/E	23.1	13.4	31.5	21
Profit/loss from investing activities	0	0	0	0	P/E diluted	1.3	0.8	1.2	1
Interest expense	510	437	515	822	P/B	1.7	1.0	1.4	1
Operating profit/(loss) before changes in	4,482	5,524	4,521	5,914	D/C	1.3	0.8	1.2	1
Working Capital (Increase)/decrease in receivables	1,848	-4,788	3,272	-971	P/S P/Tangible Book	7.6	8.6	5.8	6
(Increase)/decrease in inventories	-390	-146	69	-221	P/Cash Flow	8.4	5.5	11.0	9
	2,194	1,390	98	1,304	EV/EBITDA	18.2	10.8	27.6	19
Increase/(decrease) in payables	-1,693	1,887	1,887	1,887	•	23.1	13.4	31.5	21
(Increase)/decrease in prepaid expenses	1,000	1,001	1,001	1,001	EV/EBIT	25.1	10	01.0	
Net cash inflows/(outflows) from operating									
activities	5,389	3,178	7,204	6,458	Operating performance				
Purchases of fixed assets and other long	-274	-2,562	-10,117	-11,889	ROE	6.6%	7.7%	4.3%	5.7
term assets Proceeds from disposal of fixed assets	2	2	0	0	ROA	3.9%	4.5%	2.3%	2.7
Loans granted, purchases of debt	_	-		U	NOA	3.370	/0	2.070	
	200	1 400	_	^		7.00/	0.007	4.007	5.3
instruments	-299	-1,438	0	0	ROIC	7.3%	8.0%	4.2%	
instruments Collection of loans, proceeds from sales of	-299 250	-1,438 286	0	0		7.3%	8.0%	4.2%	
instruments  Collection of loans, proceeds from sales of debts instruments	250	286	0	0	Financial structure				
instruments  Collection of loans, proceeds from sales of debts instruments  Investments in other entities	250 0	286 -22	0	0	Financial structure Cash Ratio	SS	0.5	0.9	
instruments Collection of loans, proceeds from sales of debts instruments Investments in other entities Proceeds from divestment in other entities	250 0 338	286 -22 3	0 0 0	0 0 0	Financial structure Cash Ratio Quick Ratio	ss 0.9	0.5 1.2	0.9 1.4	:
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instruments Collection of loans, proceeds from sales of debts instruments Investments in other entities Proceeds from divestment in other entities Dividends and interest received Net cash inflows/(outflows) from investing activities Proceeds from issue of shares Payments for share returns and repurchases Proceeds from borrowings Repayment of borrowings Finance lease principal payments Dividends paid Interests, dividends, profits received Net cash inflows/(outflows) from financing	250 0 338 305 320 0 0 13,617 -17,462 0 -710	286 -22 3 365 -3,367 0 0 8,027 -7,587 0 -199	0 0 365 -9,738 0 0 8,186 0	0 0 0 365 -11,510 0 0 10,274 0 0	Financial structure  Cash Ratio Quick Ratio Current Ratio  LT Debt/Equity LT Debt/Total Assets  Debt/Equity Debt/Total Assets  ST Liabilities/Equity ST Liabilities/Total Assets  Total Liabilities/Equity Total Liabilities/Fotal Assets	\$\$ 0.9 1.1 12% 7% 15% 9% 54% 32% 70%	0.5 1.2 1.4 10% 6% 17% 10% 55% 32% 71%	0.9 1.4 2.0 33% 18% 15% 8% 50% 27% 88%	15 54 26 15 7 51 24
instruments Collection of loans, proceeds from sales of debts instruments Investments in other entities Proceeds from divestment in other entities Dividends and interest received Net cash inflows/(outflows) from investing activities Proceeds from issue of shares Payments for share returns and repurchases Proceeds from borrowings Repayment of borrowings Finance lease principal payments Dividends paid Interests, dividends, profits received Net cash inflows/(outflows) from financing activities	250 0 338 305 320 0 0 13,617 -17,462 0 -710	286 -22 3 365 -3,367 0 8,027 -7,587 0 -199 0	0 0 0 365 -9,738 0 0 8,186 0 0	0 0 0 365 -11,510 0 0 10,274 0 0	Financial structure  Cash Ratio Quick Ratio Current Ratio  LT Debt/Equity LT Debt/Total Assets  Debt/Equity Debt/Total Assets  ST Liabilities/Equity ST Liabilities/Total Assets  Total Liabilities/Equity Total Liabilities/Total Assets	\$\$ 0.9 1.1 12% 7% 15% 9% 54% 32% 70%	0.5 1.2 1.4 10% 6% 17% 10% 55% 32% 71%	0.9 1.4 2.0 33% 18% 15% 8% 50% 27% 88%	15 54 26 15 7 51 24
instruments Collection of loans, proceeds from sales of debts instruments Investments in other entities Proceeds from divestment in other entities Dividends and interest received Net cash inflows/(outflows) from investing activities Proceeds from issue of shares Payments for share returns and repurchases Proceeds from borrowings Repayment of borrowings Finance lease principal payments Dividends paid Interests, dividends, profits received Net cash inflows/(outflows) from financing activities Net increase in cash and cash equivalents Cash and cash equivalents at the beginning	250 0 338 305 320 0 0 13,617 -17,462 0 -710 0 -4,555 1,154	286 -22 3 365 -3,367 0 0 8,027 -7,587 0 -199 0 241 53	0 0 365 -9,738 0 0 8,186 0 0 0 8,186 5,652	0 0 0 365 -11,510 0 0 10,274 0 0 0 10,274 5,222	Financial structure  Cash Ratio Quick Ratio Current Ratio  LT Debt/Equity LT Debt/Total Assets  Debt/Equity Debt/Total Assets ST Liabilities/Equity ST Liabilities/Total Assets Total Liabilities/Total Assets  Activity ratios Account Receivable Turnover	ss 0.9 1.1 12% 7% 15% 9% 54% 32% 70% 41%	0.5 1.2 1.4 10% 6% 17% 10% 55% 32% 71% 41%	0.9 1.4 2.0 33% 18% 15% 896 50% 27% 88% 47%	54 26 15 51 24 110 52
instruments Collection of loans, proceeds from sales of debts instruments Investments in other entities Proceeds from divestment in other entities Dividends and interest received Net cash inflows/(outflows) from investing activities Proceeds from issue of shares Payments for share returns and repurchases Proceeds from borrowings Repayment of borrowings Finance lease principal payments Dividends paid	250 0 338 305 320 0 0 13,617 -17,462 0 -710 0	286 -22 3 365 -3,367 0 8,027 -7,587 0 -199 0	0 0 0 365 -9,738 0 0 8,186 0 0	0 0 0 365 -11,510 0 0 10,274 0 0 0	Financial structure  Cash Ratio Quick Ratio Current Ratio  LT Debt/Equity LT Debt/Total Assets  Debt/Equity Debt/Total Assets  ST Liabilities/Equity ST Liabilities/Total Assets  Total Liabilities/Equity Total Liabilities/Total Assets	ss 0.9 1.1 12% 7% 15% 9% 54% 32% 70% 41%	0.5 1.2 1.4 10% 6% 17% 10% 55% 32% 71% 41%	0.9 1.4 2.0 33% 18% 15% 8% 50% 27% 88% 47%	54 26 15 7 51 24 110 52

Source: PV Power Corporation, KB Securities Vietnam

#### KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh - Head of Research

binhnx@kbsec.com.vn

**Equity** 

Banks, Insurance & Securities

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh - Analyst

linhpp@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

Retails & Consumers

Nguyen Truong Giang - Analyst

giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh - Analyst

anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu - Analyst

hieupm@kbsec.com.vn

Research Division

research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh - Head of Macro & Strategy

anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh - Analyst

thanhhd@kbsec.com.vn

Vu Thu Uyen - Analyst

uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong - Analyst

congth@kbsec.com.vn

Nghiem Sy Tien - Analyst

tienns@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	Undernerform the market

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