

PV Power (POW)

Overcome 2022 obstacles to rebound in 2023

September 15, 2022

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2Q22 NPAT & revenue continued to decline over the same period

In 2Q22, POW recorded NPAT & revenue of VND586 billion (-32% YoY) and VND7,463 billion (-6% YoY) respectively. Gross profit margin (GPM) decreased by 1.9 percentage points YoY to 12.45% as the decrease in output from Ca Mau 1 & 2 and Vung Ang 1 thermal power plants could not be offset by impressive business results of Nhon Trach gas thermal power complex.

NT2 would be the mainstay of POW's gas-fired output in the short term

In 1H22, POW's electricity and gas output reached 4,789 million kWh (-4.5% YoY) due to the overhaul of Ca Mau 1 thermal power plant and limited gas supply to Ca Mau thermal power complex. However, we noted that 1H22 output of POW's subsidiary, PV Power Nhon Trach 2 (NT2) grew positively to 2.176 million kWh (+15% YoY) and could offset the lower output of Ca Mau thermal power plant. Therefore, we forecast that POW's 2022 gas-fired power output would gain 23.5% YoY to 9,843 million kWh, driven by NT2.

Compensation will reduce pressure on business results in 2022

We believe that income from compensation to POW would be about VND854 billion, which should support POW's NPAT this year as POW's power plants are facing difficulties in core operations. The total compensation will add more than VND770 billion to 2022F NPAT (34% of the total earnings).

BUY recommendation with a target price of VND18,000/share

After observing POW's SOTP and EV/EBITDA valuation, business outlook and possible risks, we recommend BUY for POW stocks. The target price is VND18,000/share, 26.3% higher than the price on September 15, 2022.

Buy maintain

Target price VND18,000

Upside	36.6%
Current price (Sep 15, 2022)	VND14,250
Consensus target price	VND16,900
Market cap (VNDbn)	33,372

Forecast earnings & valuation

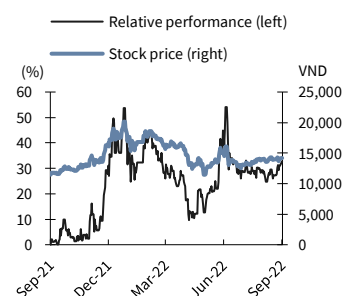
FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	29,732	24,565	28,352	32,587
EBIT (VNDbn)	3,371	2,405	2,065	2,953
NPATMI (VNDbn)	2,365	1,779	1,966	1,969
EPS (VND)	999	760	839	841
EPS growth (%)	-2.8	-23.9	10.0	0.0
P/E (x)	42.5	95.4	23.5	23.4
EV/EBITDA (x)	17.3	33.0	10.7	10.3
P/B (x)	3.2	5.3	1.3	1.2
ROE (%)	8.5	6.3	6.2	5.6
Dividend yield (%)	1.0	0.4	0.0	0.0

Trading data

Free float	20.0%
3M avg trading value (VNDbn)	198.14
Foreign ownership	46.8%
Major shareholder	PetroVietnam (79.94%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	1.1	-7.2	-12.4	23.0
Relative	2.2	-8.8	2.9	32.0



Source: Bloomberg, KB Securities Vietnam

Business operation

2Q22 NPAT & revenue continued to decline over the same period

In 2Q22, POW recorded NPAT & revenue of VND586 billion (-32% YoY) and VND7,463 billion (-6% YoY) respectively. Gross profit margin (GPM) decreased by 1.9 percentage points YoY to 12.45% as the decrease in output from Ca Mau 1 & 2 and Vung Ang 1 thermal power plants could not be offset by impressive business results of Nhon Trach gas thermal power complex.

Power output dropped sharply due to the impact of the Vung Ang thermal power plant incident

Commercial power output in the second quarter of 2022 reached 3,451 million kWh (-29% YoY), of which gas power output reached 2,292 million kWh (-11% YoY), hydroelectricity reached 307 million kWh (+45% YoY) and coal-fired power reached 853 million kWh (-58% YoY). Coal-fired power output dropped sharply due to an incident at unit 1 of Vung Ang thermal power plant starting from September 2021, so Vung Ang thermal power plant has to do an overhaul and repair lasting until 3Q22. This seriously affected the total output of POW. In addition, gas power output continues to decline due to the lack of gas at Ca Mau 1 & 2 thermal power plants, making this plant only able to operate one or two units to meet the output under quantity contracts.

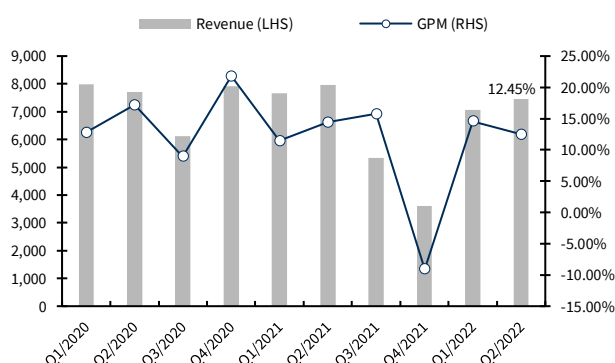
Ca Mau 1 Thermal Power Plant will be overhauled in 3Q22

At the general annual meeting, POW said it would overhaul Ca Mau Thermal Power at 100,000 equivalent operating hours. According to POW, this overhaul will last from June 19 to mid-September 2022. This overhaul and low gas output at about 1.4-2.0 million m³/day strongly affected the operation of Ca Mau 1 & 2 and became the main factor dragging down the output in 2Q despite Nhon Trach 1 & 2 positive results.

The repair of Vung Ang 1 Thermal Power Plant will take longer than expected

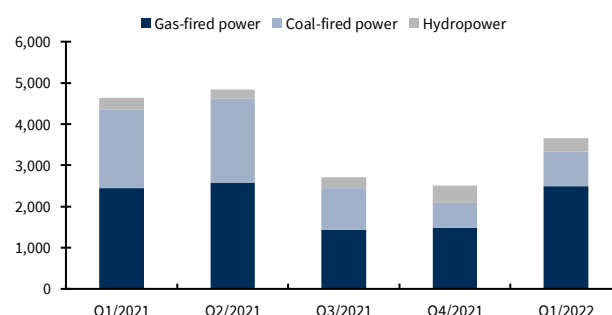
At the company's meeting with analysts, Management said all main malfunctioning equipment of Vung Ang 1 needed to be sent abroad for repair. The Management also expects Vung Ang 1 to complete the repair and fully recover in February 2023. This may take longer than KBSV had expected (previously, we forecast Vung Ang 1 will operate stably again in 4Q22).

Fig 1. POW – Revenue & GPM (VNDbn, %)



Source: PV Power, KB Securities Vietnam

Fig 2. POW – Power output (million kWh)



Source: PV Power, KB Securities Vietnam

Table 1. POW – 1H22 performance

Billion VND	1H2021	1H2022	YoY %	Comments
Output (million kWh)	9,473	7,111	-24.9%	Output dropped sharply due to the impact of the incident at Vung Ang thermal power plant and gas shortage at Ca Mau 1 & 2 thermal power plants
Gas-fired power	5,013	4,789	-4.5%	Output decreased slightly due to gas shortage from Ca Mau 1 & 2 thermal power plants affecting total gas power output
Coal-fired power	3,958	1,682	-57.5%	Impact from the incident of unit 1 of Vung Ang thermal power plant
Hydropower	502	640	27.6%	Favorable hydrological situation helps hydroelectricity to be mobilized
Average selling price (VND/kWh)	1,649	2,042	23.8%	Driven mainly by the increase in input materials prices (gas, coal) leading to higher average selling prices
Gas-fired power	1,762	2,079	18.0%	Gas prices increased driven by Brent oil price increase leading to higher average selling prices of gas power plants
Coal-fired power	1,504	1,762	17.2%	The selling price of coal power is higher due to the higher cost of materials due to the scarcity of coal supply
Hydropower	1,139	1,247	9.5%	Higher average selling price thanks to higher CGM price level
Revenue (billion VND)	15,624	14,524	-7.0%	
Gas-fired power	8,834	9,959	12.7%	
Coal-fired power	5,951	2,964	-50.2%	
Hydropower	571	798	39.7%	
Gross profit	2,026	1,956	-3.4%	
GPM (%)	12.97%	13.47%		Higher gross profit margin thanks to positive price movements on the CGM
SG&A expenses	(380)	(318)	-16.3%	
% SG&A / Revenue	-2.43%	-2.19%		
Operating profit	1,646	1,639		
Financial Income	471	129		
Financial expenses	(368)	(335)		
Net other income	-120	11		
Profit before tax	1,629	1,444	-11.4%	
Profit after tax	1,430	1,390	-2.8%	
NPM (%)	9.15%	9.57%		

Source: PV Power, KB Securities Vietnam

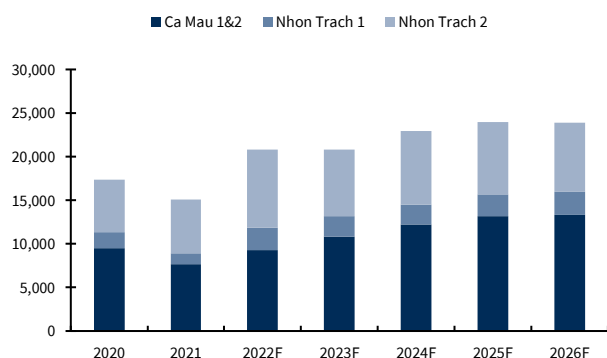
Gas-fired power: NT2 would be the mainstay of POW's gas-fired output in the short term

In 1H22, POW's electricity and gas output reached 4,789 million kWh (-4.5% YoY) due to the overhaul of Ca Mau 1 thermal power plant and limited gas supply to Ca Mau thermal power complex. However, we noted that 1H22 output of POW's subsidiary, PV Power Nhon Trach 2 (NT2) grew positively to 2.176 million kWh (+15% YoY) and could offset the lower output of Ca Mau thermal power plant. Therefore, we forecast that POW's 2022 gas-fired power output would gain 23.5% YoY to 9,843 million kWh, driven by NT2. (See also at [NT2's 2Q22 performance report](#))

We believe that Ca Mau's lack of gas will be a major obstacle to the implementation of power purchase agreements (PPA) and may decrease the attractiveness of POW on the competitive generation market (CGM). The gas shortage may not be completely resolved in 2022. Given the complicated gas trading process and long negotiation time, we suppose that the negotiation to buy more gas from Petronas to supplement Ca Mau thermal power plant will be completed in 2023, which will help the output of Ca Mau 1 & 2 recover. KBSV forecasts that the power output of Ca Mau 1 & 2 thermal power plants will grow 12.7% in 2023 to 5.112 million kWh. This is a strong growth compared to 2022 output growth of around 4.7%.

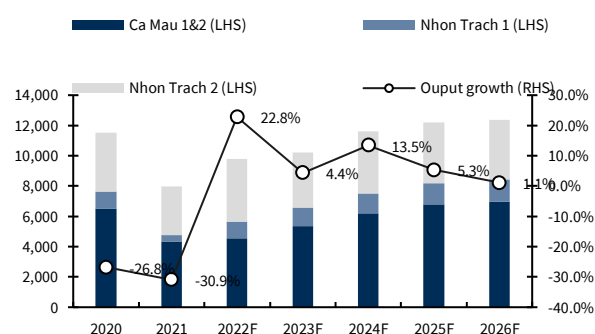
In addition, we see another positive factor for thermal power plants which is the end of La Nina. According to the world meteorological organizations, La Nina, the weather phenomenon benefitting hydro plants, would end by the end of this year (Figure 5). Brent oil price is forecast to cool down in 2023, averaging USD90/barrel, which should help gas-fired power plants increase their competitiveness and be mobilized with higher output. Therefore, we believe that the prospect of POW's power segment will be brighter from 2023 when the technical issues are resolved to optimize the internal factors, and mobilized power source structure would be changed in favor of POW.

Fig 3. POW – Revenue from gas-fired power plants (VNDbn)



Source: PV Power, KB Securities Vietnam

Fig 4. POW – Output of gas-fired power plants (million kWh)

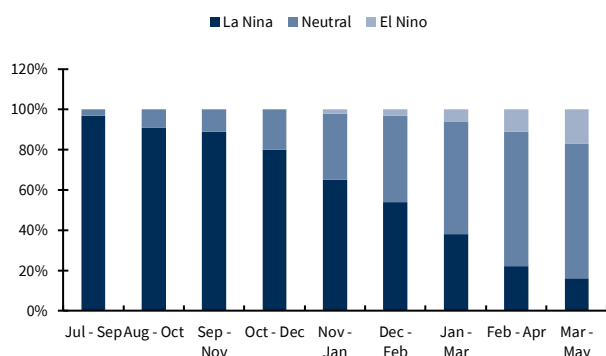


Source: PV Power, KB Securities Vietnam

Hydropower: Hydroelectricity segment should be positive thanks to favorable weather conditions

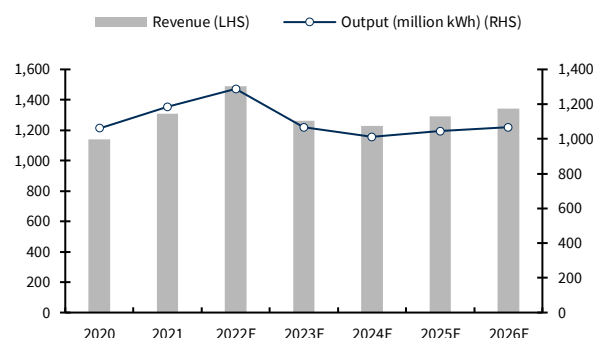
Major meteorological organizations worldwide predict that the La Nina phenomenon will last until the end of 2022, ensuring enough water for hydropower plants. Therefore, the diversified hydropower portfolio will help POW benefit from favorable hydrology throughout the year. In addition, the lack of coal supply for power plants and high gas prices for gas-fired power plants pushed electricity prices on the CGM. It would support hydropower revenue as its sold output usually accounts for 20% of the total commercial power output, and the cost of electricity generated by hydropower is generally low. Therefore, we believe that POW's hydropower segment will continue to grow strongly in 2022.

Fig 5. Global – La Nina & El Nino in 2022 – 2023



Source: IRI, KB Securities Vietnam

Fig 6. POW – Revenue & output from hydro plants (VNDbn, million kWh)

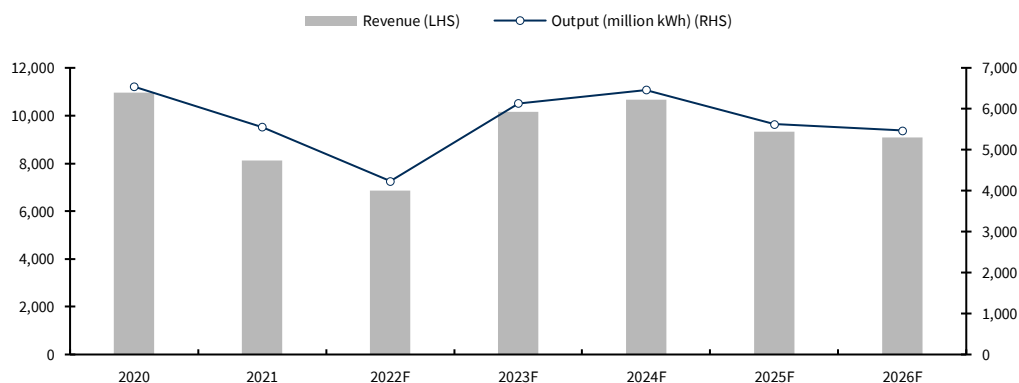


Source: POW, KB Securities Vietnam

Coal-fired power: The outlook is less positive in 2022 but will improve in 2023

In September 2021, POW had to stop unit 1 of the Vung Ang thermal power plant for overhaul. In our report about POW's 1Q22 business results, we supposed the overhaul would finish in November this year, but the POW's Management announced the repair would last longer than expected and the unit should be put in full operation by February 2023. This may strongly affect Vung Ang's output as only half of the units are operated for power generation. In addition, with the pressure of lacking coal supply, we believe that Vung Ang's outlook in 2022 will be less positive. However, Vung Ang's output will rebound in 2023 because (1) the repair of the main machinery is completed, (2) coal supply is guaranteed in 2023 when Vinacomin (HNX: DTK) can find other low-cost sources from foreign countries, and (3) thermal power will be mobilized more because the water condition is no longer suitable for hydropower. From these points of view, we forecast that Vung Ang's commercial power output in 2023 will rebound strongly to reach 6,134 million kWh (+45% YoY), followed by revenue of VND10,161 billion (+48% YoY).

Fig 9. POW – Revenue & output of Vung Ang 1 (VNDbn, million kWh)



Source: PV Power, KB Securities Vietnam

**Compensation income should
reduce pressure on business
results in 2022**

According to the plan announced at the 2022 annual shareholder meeting, the Management expects to receive the compensation for exchange loss of VND584 billion by the end of 2022. Besides, they also added that Vung Ang 1 thermal power plant should receive about VND300 billion this year in compensation from business interruption insurance. We believe that income from compensation to POW would be about VND854 billion, which should support POW's NPAT this year as POW's power plants are facing difficulties in core operations. The total compensation will add more than VND770 billion to 2022F NPAT (34% of the total earnings).

Forecast

**2022F revenue and profit after tax
will grow by 22.6% YoY and 51.9%
YoY**

We estimate POW's revenue and NPAT will reach VND28,352 billion (+15% YoY) and VND2,264 billion (+11% YoY) respectively, based on the following assumptions:

- The average price of Brent oil in 2022 will reach USD105/barrel, leading to the average input gas price up to USD10.2/MMBTU (+28.7% YoY).
- The annual average price on the CGM is VND1,400 /kWh (+40% YoY).
- Vung Ang 1 has not completed its overhaul in 2022.
- Ca Mau 1 & 2 thermal power plants continue to lack input gas.
- POW will record VND300 billion from insurance compensation for Vung Ang 1 and VND584 billion for exchange rate loss from EVN at the end of 2022.

Table 2. POW – 2022F performance

Billion VND	1H2021	1H2022	YoY %	Comments
Output (million kWh)	14,711	15,365	4.4%	
Gas-fired power	7,973	9,843	23.5%	Output recovers thanks to the low base level of 2021 and the need to mobilize to compensate for the coal shortage of coal power plants
Coal-fired power	5,553	4,234	-23.8%	Impact from the accident of unit 1 of Vung Ang thermal power plant and the lack of coal as well as the repair took longer than expected
Hydropower	1,185	1,288	8.7%	The favorable hydrological situation with La Nina lasts until the end of 2022, helping hydroelectricity to be mobilized more before entering the neutral phase in 2023
Average selling price (VND/kWh)				
Gas-fired power	1,888	2,036	7.8%	Gas prices increased sharply due to the impact of the increase in the price of Brent oil leading to higher average selling prices of gas power plants
Coal-fired power	1,464	1,612	10.1%	The selling price of coal power is higher due to the higher cost of input materials due to the scarcity of coal supply
Hydropower	1,105	1,156	4.6%	Higher average selling price thanks to higher CGM price
Revenue (billion VND)	24,565	28,352	15.4%	
Gas-fired power	15,055	20,039	33.1%	
Coal-fired power	8,131	6,824	-16.1%	
Hydropower	1,309	1,489	13.7%	
Gross profit	2,543	2,847	12.0%	
GPM (%)	10.35%	10.04%		Lower gross profit margin due to sharp increase in input materials prices, affecting competitiveness in the competitive power generation market
SG&A expenses	(138)	(782)	466.7%	SG&A costs are high again as factory operations return to normal
% SG&A / Revenue	-0.56%	-2.76%		
Operating profit	2,405	2,065		
Financial Income	697	1,259		We expect that at the end of 2022, POW will record VND 584 billion of FX loss compensation from EVN
Financial expenses	(671)	(794)		Higher interest expense due to capital mobilization to implement Nhon Trach 3 & 4 project
Net other income	-120	300		300 billion VND recorded incident compensation in Vung Ang 1 in 2022
Profit before tax	2,319	2,585	11.5%	
Profit after tax	2,032	2,264	11.4%	
NPM (%)	8.27%	7.99%		

Source: PV Power, KB Securities Vietnam

Valuation

Buy recommendation with a target price of VND18,000/share

We use the SOTP and the EV/EBITDA methods with a ratio of 50:50 to value POW. We recommend BUY for POW stocks with a target price of VND18,000/share, equivalent to an upside of 26.3% compared to the closing price on September 15, 2022. We lower our valuation compared to the previous report because the output and electricity prices of Ca Mau 1 & 2 and Vung Ang 1 thermal power plants decrease due to problems affecting their operations. In addition, the target EV/EBITDA is also lowered to 8.5x compared to 9x in the previous report to reflect the factors that disrupt the business operations of the two plants. Our valuation will not include the large Nhon Trach 3 & 4 gas-fired power projects as there are no details about their PPAs and the calculation of the selling price of LNG in Vietnam.

Table 3. POW – SOTP valuation

Valuation	Method	Value of POW
Ca Mau 1&2	DCF	8,636
Nhon Trach 1	DCF	2,882
Nhon Trach 2	DCF	6,419
Hua Na	DCF	6,317
Dakdrinh	DCF	6,316
Vung Ang 1	DCF	20,393
Total enterprise value		50,963
(+) Cash & Short term investments		7,171
(-) Net debt		-9,157
(-) Minority interests		-2,785
Total Equity value		46,192
No. of outstanding shares (million shares)		2,341.90
Target price		19,724

Source: KB Securities Vietnam

Table 4. POW – Valuation results

Valuation method	Forecast price	Weight	Weighted forecast price
SOTP	19,724	50%	9,862
EV/EBITDA (9x)	16,219	50%	8,110
Target price (rounded)			
Current price (16/09/2022)			14,250
Upside			26.3%

Source: KB Securities Vietnam

Source: PV Power, KB Securities Vietnam

Income Statement				
(VND billion)	2020	2021	2022F	2023F
Net sales	29,732	24,565	28,352	32,587
Cost of sales	-25,152	-22,023	-25,505	-28,736
Gross Profit	4,580	2,543	2,847	3,851
Financial income	440	697	1,259	706
Financial expenses	-999	-671	-794	-1,125
of which: interest expenses	-809	-510	-794	-1,125
Gain/(loss) from joint ventures (from 2015)	52	44	44	44
Selling expenses	-35	-9	-9	-10
General and admin expenses	-1,174	-129	-773	-888
Operating profit/(loss)	2,864	2,475	2,574	2,578
Other incomes	30	20	30	30
Other expenses	11	140	19	19
Net other income/(expenses)	19	-120	11	11
Income from investments in other entities	0	0	0	0
Net accounting profit/(loss) before tax	2,883	2,355	2,585	2,589
Corporate income tax expenses	-212	-287	-321	-321
Net profit/(loss) after tax	2,663	2,032	2,264	2,268
Minority interests	298	254	298	299
Attributable to parent company	2,365	1,779	1,966	1,969
Margin ratio				
	2020	2021	2022F	2023F
Gross profit margin	15.4%	10.4%	10.0%	11.8%
EBITDA margin	20.8%	21.3%	17.0%	17.1%
EBIT margin	11.3%	9.8%	7.3%	9.1%
Pre-tax profit margin	9.7%	9.4%	9.1%	7.9%
Operating profit margin	9.6%	10.1%	9.1%	7.9%
Net profit margin	9.0%	8.3%	8.0%	7.0%
Cash Flow Statement				
(VND billion)	2020	2021	2022F	2023F
Net profit/(loss) before tax	2,880	2,319	2,585	2,589
Depreciation and amortisation	2,824	2,818	2,766	2,820
Profit/loss from investing activities	-1,165	-1,165	-1,165	-1,165
Interest expense	809	510	794	1,125
Operating profit/(loss) before changes in Working Capital	7,624	4,482	4,980	5,169
(Increase)/decrease in receivables	1,288	1848	-1,966	-981
(Increase)/decrease in inventories	-240	-390	-398	-126
Increase/(decrease) in payables	707	2,194	-1,402	870
(Increase)/decrease in prepaid expenses	-117	-1,693	-117	-117
Net cash inflows/(outflows) from operating activities	7,908	5,389	-82	3,295
Purchases of fixed assets and other long term assets	-147	-274	-2,835	-9,776
Proceeds from disposal of fixed assets	3	2	0	0
Loans granted, purchases of debt instruments	-601	-299	-299	-299
Collection of loans, proceeds from sales of debts instruments	520	250	250	250
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	338	338	338
Dividends and interest received	374	305	305	305
Net cash inflows/(outflows) from investing activities	149	320	-2,228	-9,169
Proceeds from issue of shares	125	0	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	14,166	13,617	699	8,155
Repayment of borrowings	-19,358	-17,462	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	-1,025	-710	0	0
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-6,072	-4,555	699	8,155
Net increase in cash and cash equivalents	1,986	1,154	-1,611	2,281
Cash and cash equivalents at the beginning of period	5,083	7,070	8,224	6,613
Cash and cash equivalents at the end of period	7,070	8,224	6,613	8,894
Balance Sheet				
(VND billion)	2020	2021	2022F	2023F
CURRENT ASSETS	54,050	52,950	56,587	69,783
Cash and cash equivalents	16,897	16,897	23,137	36,026
Short-term investments	7,070	8,224	6,613	8,894
Accounts receivable	789	531	558	586
Inventories	7,196	5,802	7,768	8,749
LONG-TERM ASSETS	1,728	1,838	2,236	2,362
Long-term trade receivables	37,153	36,053	33,450	33,757
Fixed assets	3	0	0	0
Investment properties	34,614	31,869	29,266	29,213
Long-term incomplete assets	251	395	395	395
Long-term investments	0	0	0	0
TOTAL ASSETS	2	0	0	0
LIABILITIES	22,784	20,817	20,279	29,481
Current liabilities	16,480	16,712	13,259	15,096
Trade accounts payable	4,649	7,228	5,826	6,696
Advances from customers	22	6	13	14
Short-term unrealized revenue	7,019	5,702	3,487	4,277
Short-term borrowings	6,304	4,106	7,020	14,385
Long-term liabilities	0	0	0	0
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	5,391	2,756	5,670	13,035
Long-term borrowings	31,267	32,133	36,308	40,302
OWNER'S EQUITY	23,419	23,419	23,419	23,419
Paid-in capital	0	0	0	0
Share premium	4,302	4,018	7,705	11,398
Undistributed earnings	817	2,209	2,399	2,401
Minority interests	2,729	2,487	2,785	3,084
Key ratios				
Multiple				
P/E	42.5	95.4	23.5	23.5
P/E diluted	42.5	95.4	23.5	23.5
P/B	3.2	5.3	1.3	1.2
P/S	3.3	6.9	1.6	1.4
P/Tangible Book	3.2	5.3	1.3	1.2
P/Cash Flow	12.6	31.5	-553.3	14.0
EV/EBITDA	17.3	33.0	10.7	10.4
EV/EBIT	319	717	25.0	19.5
Operating performance				
ROE	8.5%	6.3%	6.2%	5.6%
ROA	4.9%	3.8%	4.0%	3.3%
ROIC	9.0%	7.1%	5.1%	5.9%
Financial structure				
Cash Ratio	0.5	0.5	0.5	0.6
Quick Ratio	0.9	0.9	1.1	1.2
Current Ratio	1.0	1.0	1.8	2.4
LT Debt/Equity	0.2	0.1	0.2	0.3
LT Debt/Total Assets	0.1	0.1	0.1	0.2
Debt/Equity	0.2	0.2	0.1	0.1
Debt/Total Assets	0.1	0.1	0.1	0.1
ST Liabilities/Equity	0.5	0.5	0.4	0.4
ST Liabilities/Total Assets	0.3	0.3	0.2	0.2
Total Liabilities/Equity	0.7	0.6	0.6	0.7
Total Liabilities/Total Assets	0.4	0.4	0.4	0.4
Activity ratios				
Account Receivable Turnover	3.7	3.8	4.2	4.0
Inventory Turnover	15.9	12.4	11.4	12.2
Account Payable Turnover	6.7	4.1	4.3	

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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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