

Vinamilk (VNM)

Lower milk powder prices boost GPM

December 4, 2023

Analyst Nguyen Truong Giang
Giangnt1@kbsec.com.vn

Business results improved thanks to higher GPM

By the end of 3Q, Vinamilk (VNM) recorded VND15,636 billion in net revenue, slightly declining 2.8% YoY due to weaker dairy consumption. GPM went up 2.4ppts YoY to 41.9% as milk powder prices fell sharply and continued to stay low. NPAT increased 9.1% YoY to VND 2,533 billion, reaching two-year highs.

The domestic market declined due to weak purchasing power, but VNM has gained more market share

The domestic market continues to face difficulties as the entire dairy industry experiences negative growth. However, VNM has recovered nearly 2ppts in market share of compared to the beginning of the year after changing brand identity and packaging for products and implementing many marketing and promotional campaigns at points of sale. A subsidiary of Vinamilk, Seed Moc Chau Dairy Cattle Corp (MCM), continues to record negative growth due to poor purchasing power in the Northern mountainous market.

Foreign markets began to show positive signals

Total revenue from foreign markets reached VND2,384 billion (+3.5% YoY). The export market improved compared to previous quarters since the political situation in some markets became more stable and there were initial positive signs from the China market. The foreign branch AngkorMilk maintained a stable growth of 10%, while Driftwood was returning to normal growth with YoY flat revenue.

HOLD recommendation – Target price VND76,700

For 2023, we expect VNM to record NPAT of VND8,980 billion (+4.7% YoY) on net revenue of VND60,811 billion (+1.4% YoY). We recommend HOLD for VNM stock with a target price of VND76,700/share.

Hold maintain

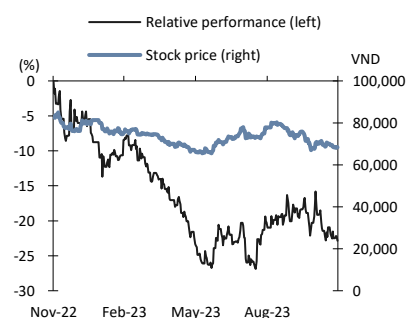
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|-----------------------------|------------------|
| Target price | VND76,700 |
| Upside | 12% |
| Current price (Dec 4, 2023) | VND68,800 |
| Consensus target price | VND87,558 |
| Market cap (VNDtn/USDbn) | 143/5.96 |

| | |
|------------------------------------|------------|
| Trading data | |
| Free float | 35.2% |
| 3M avg trading value (VNDbn/USDmn) | 175.2/7.3 |
| Foreign ownership | 54.7% |
| Major shareholder | SCIC (36%) |

| | | | | |
|--------------------------------|------|-------|------|-------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 0.6 | -11.6 | 1.9 | -17.4 |
| Relative | -3.3 | -3.5 | -0.6 | -21.5 |

Forecast earnings & valuation

| FY-end | 2021 | 2022 | 2023F | 2024F |
|---------------------|--------|--------|--------|--------|
| Net revenue (VNDbn) | 60,919 | 59,956 | 60,811 | 63,816 |
| EBIT (VNDbn) | 11,760 | 9,753 | 9,757 | 11,169 |
| NPAT (VNDbn) | 10,633 | 8,578 | 8,980 | 9,960 |
| EPS (VND thousand) | 4,517 | 3,632 | 4,249 | 4,724 |
| EPS growth (%) | -5% | -20% | 17% | 11% |
| P/E (x) | 17.1 | 21.3 | 18.2 | 16.4 |
| P/B (x) | 4.5 | 4.9 | 4.8 | 4.6 |
| ROE (%) | 30% | 25% | 27% | 29% |
| Dividend yield (%) | 4.5% | 7.1% | 5.7% | 5.3% |



Source: Bloomberg, KB Securities Vietnam

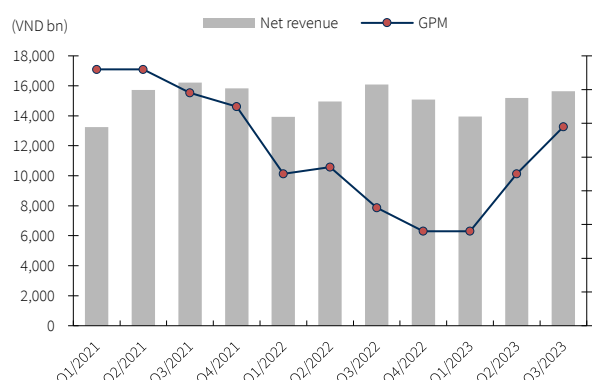
3Q23 performance updates

Table 1. VNM – 3Q23 business results

| | 3Q22 | 3Q23 | +/-%YoY | KBSV's notes |
|-----------------------------|---------------|---------------|--------------|--|
| Revenue (VNDbn) | 16,080 | 15,637 | -2.8% | Revenue witnessed a modest decrease as domestic milk consumption was lower and purchasing power of products could not recover quickly. |
| Domestic sales | 13,775 | 13,253 | -3.8% | Domestic revenue is adversely affected by the overall impact of the entire domestic dairy industry. Despite revenue negative growth, VNM gained more market share in the industry, increasing nearly 2ppts YTD. |
| Exports | 1,187 | 1,246 | 5.0% | Revenue from MCM also decreased slightly by 1.9% YoY, following the industry trend. |
| Overseas subsidiaries | 1,117 | 1,138 | 1.9% | Export revenue increased slightly in 3Q and was flat YoY in 9M23. Export markets such as the Middle East and Southeast Asia all have positive signals, and VNM also reached a distributor agreement with China. |
| Gross profit (VNDbn) | 6,350 | 6,555 | 3.2% | Overseas subsidiaries continued to record positive results. AngkorMilk maintained stable growth of over 10% and Driftwood's growth was flat YoY. |
| Gross profit margin (%) | 39.5% | 41.9% | 6.1% | The prices of the main input material, milk powder, are still anchored at a low level, helping GPM improve sharply by 1.4ppts QoQ and 2.4ppts YoY. This is the strongest increase in GPM after the Covid-19, thereby helping gross profit grow despite the decline in revenue. |
| Financial income (VNDbn) | 359 | 484 | 42.9% | |
| Financial expenses (VNDbn) | -143 | -110 | -22.9% | |
| SG&A (VNDbn) | -3,662 | -3,813 | 4.1% | SG&A costs slightly gained due to increased display and promotional activities to serve consumers. VNM promoted marketing and advertising for products with new packaging. |
| SG&A/revenue ratio (%) | -22.8% | -24.4% | 7.0% | |
| Operating income | 2,889 | 3,086 | 6.8% | |
| Other incomes (net, VNDbn) | -29.05 | -10.48 | -63.9% | |
| PBT (VNDbn) | 2,860 | 3,076 | 7.6% | |
| NPAT (VNDbn) | 2,323 | 2,533 | 9.1% | NPAT reached its highest level since 3Q21. Net profit improved thanks to higher GPM and good optimization of operating costs. |

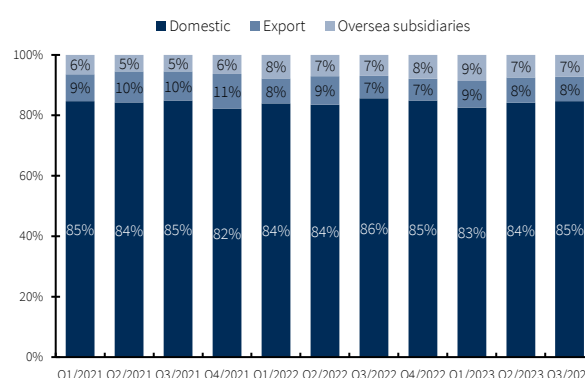
Source: Vinamilk, KB Securities Vietnam

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



Source: Vinamilk, KB Securities Vietnam

Fig 3. VNM – Revenue structure by market



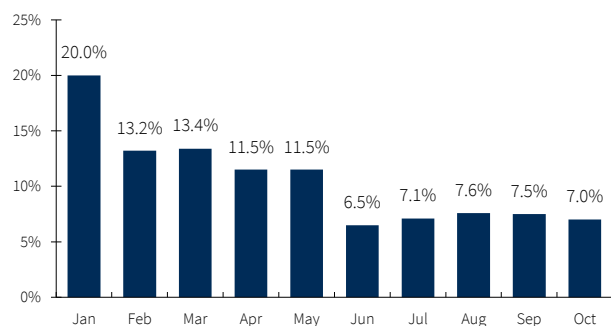
Source: Vinamilk, KB Securities Vietnam

The macroeconomic situation and the dairy industry continued to be unfavorable, affecting VNM business results

According to the General Statistics Office (GSO), although the total retail sales of goods and services in recent months are still growing, we can see a clear deceleration with growth slowing down to a single-digit level each month. The slowdown in retail sales of goods and services affected the FMCG industry in general and the dairy industry in particular. In 3Q alone, the FMCG industry decreased by 2% YoY, and the dairy industry dropped 4% YoY. This deceleration directly squeezed VNM's business results.

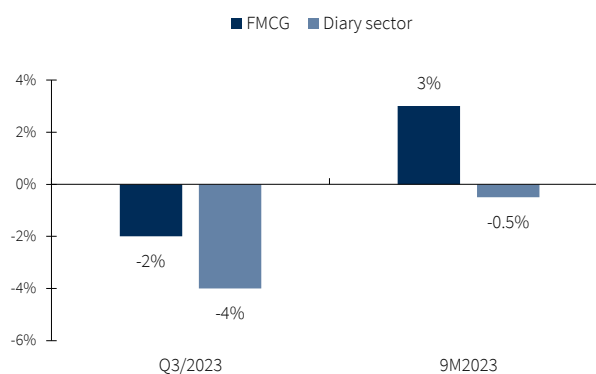
Macroeconomic signals have begun to improve, indexes have shown signs of bottoming, and exports start recovering. It is forecast that purchasing power will recover in the near future, but the recovery speed will be very slow as the economic situation cannot recover in a short time.

Fig 4. VNM – Retail sales of goods and services (% YoY)



Source: Vinamilk, KB Securities Vietnam

Fig 5. Vietnam – FMCG & dairy growth (% YoY)



Source: AC Nielsen, Vinamilk, KB Securities Vietnam

Domestic market share continues to improve after VNM changing brand identity

Parent company VNM recorded a decrease in revenue from domestic market (down 4% YoY) due to the adverse impacts from the entire industry. However, VNM said its market share in September improved by 2ppts compared to January. The reasons for this include:

- (1) VNM completed mass packaging changes for liquid milk products from August 2023. It is expected that in the following quarters, VNM will introduce new packaging for the remaining product lines, which should be completed by mid-2024. Points of sale also organize many marketing activities to increase interaction and attract customers to spread the effects after the brand repositioning event.
- (2) Distribution channels maintained stable business results. Store, E-commerce and special customers channels recorded double-digit growth in revenue. As of the end of 3Q, the company is operating 657 Viet Milk Dream stores, an increase of 11 stores compared to the beginning of the year.
- (3) The Vinamilk brand was recently valued at USD3 billion by Brand Finance, ranking second in the top 100 most valuable brands in Vietnam. With strong brand value, marketing campaigns with different brands have also achieved positive results in terms of communications, thereby promoting sales of products and regaining market share.

MCM recorded 3Q revenue of VND816 billion, slightly dropping 1.9% YoY. The reason is that milk consumption demand in the main market, the Northern mountainous region, has not recovered in line with the general trend of the whole industry.

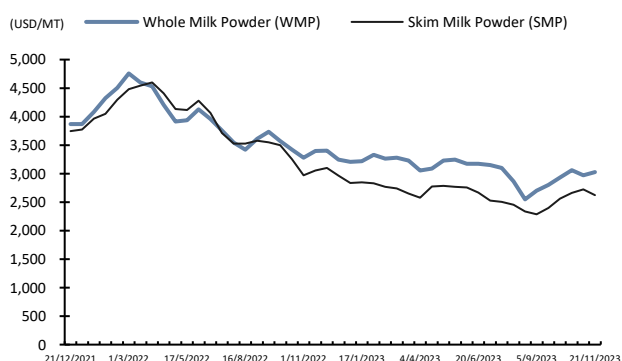
Low milk powder prices benefit 3Q GPM

GPM of VNM has improved since the beginning of the year and gained 2.4ppts YoY or 1.4ppts QoQ to 41.9% in 3Q. This is the highest increase in GPM since Covid-19, and it is expected that the GPM will further improve. The increase was attributable to decreasing and stably low prices of milk powder, the main input material of VNM products. The prices of some other ingredients, sugar and milk purchased from farmers, are still high. The company said it has strict cost management policies to minimize the impact of increasing raw material prices.

World powdered milk prices are currently low and stable, which is a premise for VNM to continue raising its GPM. We believe that powdered milk prices will continue to stay low in the near future for the following reasons:

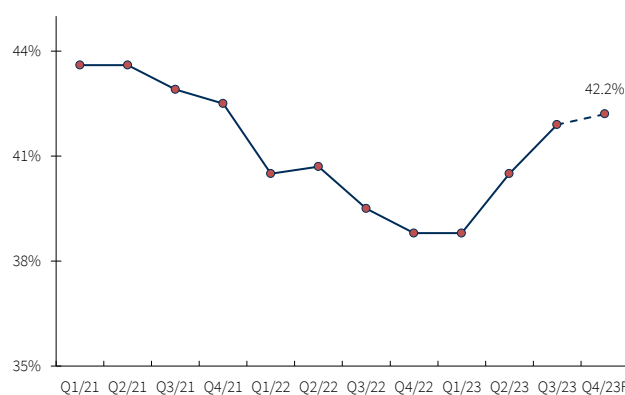
- (1) The demand for imported milk powder in China has plunged recently as the country has continuously increased its dairy herd, contributing to increasing the rate of domestic milk self-sufficiency. Therefore, China's domestic milk output has been rising in recent years.
- (2) The global economy is still unable to recover in a high interest rate environment, so purchasing power cannot recover soon, causing the demand for dairy products to recover slowly.

Fig 6. Global – WMP & SMP prices (USD/Mt)



Source: Global Dairy Trade, KB Securities Vietnam

Fig 7. VNM – GPM in 2023 (%)



Source: Vinamilk, KB Securities Vietnam

In the future, the farm in Laos will go into operation, which, when combined with VNM's continuing to increase the herd of dairy cows, will help to raise the company self-sufficiency to 60%. This will be a driving force to help GPM increase and remain stable from changing external factors. We forecast that 3Q GPM of VNM to slightly rise to 42.2%, bringing GPM for the whole year 2023 to 40.8%.

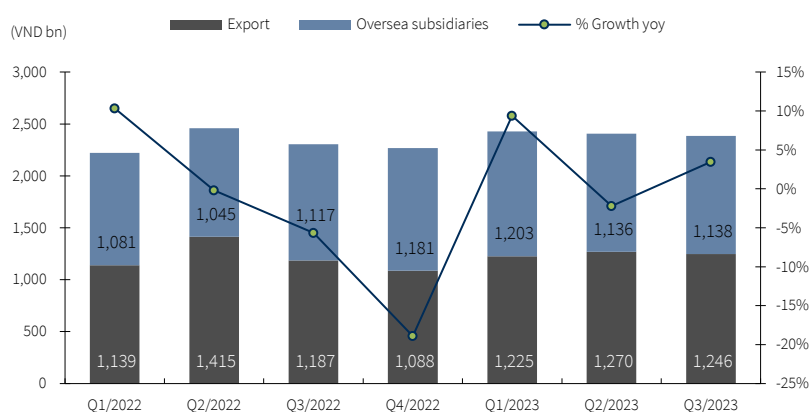
VNM's foreign markets start to improve

VNM's foreign markets have improved compared to previous quarters, with export activities and revenue at foreign branches both growing.

VNM recorded a positive recovery in foreign markets as revenue grew by 5% YoY compared to the previous two quarters, which both had negative growth, thanks to more stable political situation in some countries. In particular, the Middle East and Southeast Asia markets with many developing countries have great potential for stable development in the future. In the Chinese market, VNM has completed signing a cooperation agreement with two leading enterprises on importing and distributing dairy products to this billion-people market. The main product Ong Tho condensed milk is rated high prices at exhibitions held recently.

With foreign branches, the company still has positive growth but the pace is somewhat slower than previous quarters. AngkorMilk in Cambodia continued to maintain growth of 10% YoY, and Driftwood branch in the US was flat YoY.

Fig 8. VNM – Business performance in foreign markets



Source: Vinamilk, KB Securities Vietnam

Forecast & valuation

2023F business performance

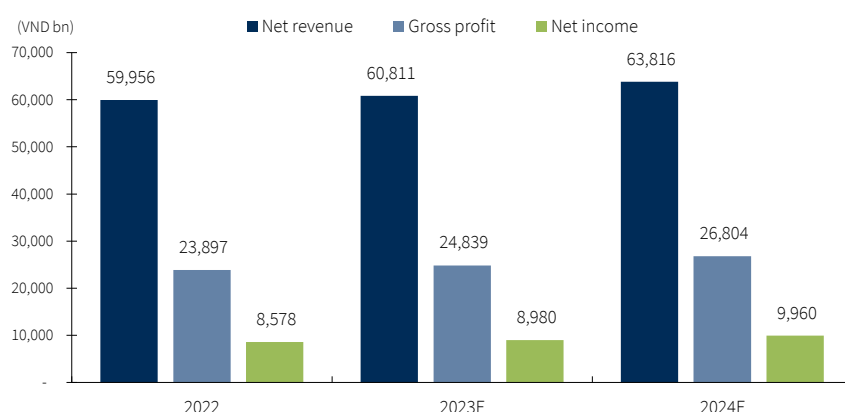
We believe that the dairy industry in the second half of 2023 will continue to grow at a slow pace due to slow recovery in purchasing power. We forecast that VNM's net revenue in 2023 will reach 60,811 billion VND (+1.4% YoY), gross profit margin for the whole year will reach 40.8% due to the decrease in raw milk powder prices and we expect it to stay at a low level in the near future. It is expected that gross profit margin will continue to maintain and improve in the coming time. NPAT reached 8,980 billion VND (+4.7% YoY). In 2024, it is forecast that when purchasing power recovers along with maintaining gross profit margin at a stable level, it is expected that VNM will continue to maintain growth.

Table 9. VNM – 2023F results

| | 2022 | 2023F | +/- YoY | 2024F | +/- YoY | KBSV's notes |
|-----------------------------|---------------|---------------|-------------|---------------|--------------|---|
| Revenue (VNDbn) | 59,956 | 60,811 | 1.4% | 63,816 | 4.9% | |
| Domestic | 50,704 | 51,201 | 1.0% | 53,008 | 3.5% | Revenue should see a modest gain thanks to higher products prices and more market share despite the decrease in output due to lower demand. In the following years, growth will continue to be slow because the industry is gradually becoming saturated. |
| Export | 4,828 | 4,877 | 1.0% | 5,364 | 10.0% | The export market is expected to grow slowly but it has shown signs of recovery and recorded positive signals in many markets, promising stable growth in the future. |
| Overseas branches | 4,424 | 4,733 | 7.0% | 5,443 | 15.0% | Branches continue to operate effectively, and foreign markets increasingly accept VNM products. |
| Gross profit (VNDbn) | 23,897 | 24,839 | 3.9% | 26,804 | 7.9% | |
| Gross profit margin (%) | 39.9% | 40.8% | 2.5% | 42.0% | 2.8% | GPM should improve when input raw material prices were low. Milk powder prices fell sharply and stayed low for a long time, which is forecast to help GPM continue to improve in the near future. |
| SG&A (VNDbn) | (14,144) | (15,081) | 6.6% | (15,635) | 3.7% | SG&A costs remain at a reasonable level, increasing slightly thanks to support activities to promote sales at many points of sale and promote marketing after repositioning the brand. |
| EBIT (VNDbn) | 9,753 | 9,757 | 0.0% | 11,169 | 14.5% | |
| EBT (VNDbn) | 10,496 | 10,951 | 4.3% | 12,147 | 10.9% | |
| NPAT (VNDbn) | 8,578 | 8,980 | 4.7% | 9,960 | 10.9% | Net profit in 2023 will increase slightly in the context of industry difficulties. Profit growth is supported by higher GPM. Brand repositioning is expected to help VNM gain more market share and boost revenue in the coming periods. |

Source: Vinamilk, KB Securities Vietnam

Fig 10. VNM – 2022–2024F business results



Source: Vinamilk, KB Securities Vietnam

Valuation: HOLD recommendation with target price VND76,700

We used two methods (1) FCFF and (2) comparables to find the final fair price for VNM stock.

(1) For the FCFF, we discounted the free cash flow in the FCFF enterprise with the assumptions stated below and gave the target price of VNM stock at VND72,500.

(2) For the comparables, we used a target P/E of 18x, close to the five-year average P/E of VNM. The target EPS is VND4,487/share. We set a target price for this method at VND80,800/share.

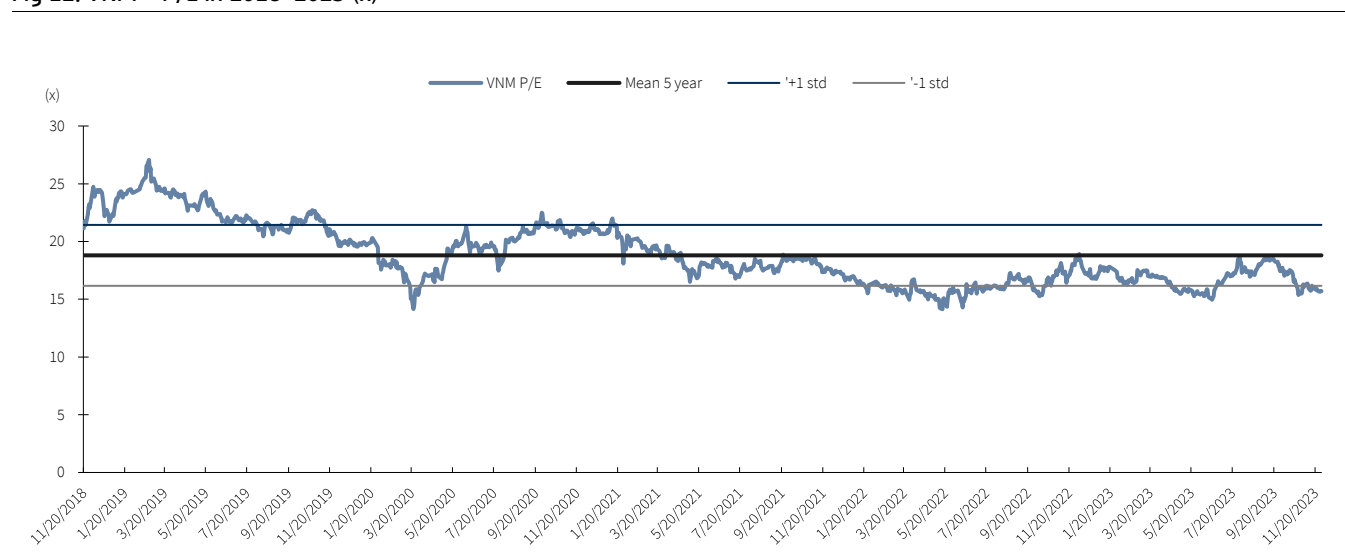
With the proportion used in the valuation model for each method being 50-50, we recommend HOLD for VNM stock with the target price of VND76,700/share, 12% higher than the closing price on December 4, 2023.

Table 11. VNM – FCFF & assumption

| | | | |
|---------------------|--------|------------------------|---------------|
| Cost of equity | 11.25% | PV of terminal value | 101,469 |
| Borrowing cost | 7.00% | PV of FCFF | 37,153 |
| Risk free rate | 5.00% | Cash & equivalents | 3,067 |
| Beta | 0.76 | Short-term investments | 16,419 |
| Terminal growth | 3.0% | Firm value | 158,108 |
| Duration | 5 | Net debt | 6,597 |
| WACC | 10.96% | Equity value | 151,511 |
| | | Outstanding shares | 2,089,955,445 |
| Target price | | | 72,500 |

Source: KB Securities Vietnam

Fig 12. VNM – P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

VNM – 2021A–2024F financials

| Income Statement | | | | | Balance Sheet | | | | |
|---|---------------|----------------|---------------|---------------|--------------------------------|---------------|---------------|---------------|--------------|
| (VND Billion) | 2021A | 2022A | 2023F | 2024F | (VND Billion) | 2021A | 2022A | 2023F | 2024 |
| Net sales | 60,919 | 59,956 | 60,811 | 63,816 | Total assets | 53,332 | 48,483 | 47,798 | 50,65 |
| Cost of sales | -34,641 | -36,059 | -35,972 | -37,012 | Current assets | 36,110 | 31,560 | 30,879 | 33,85 |
| Gross profit | 26,278 | 23,897 | 24,839 | 26,804 | Cash & equivalents | 2,349 | 2,300 | 3,066 | 3,62 |
| Financial Income | 1,215 | 1,380 | 1,669 | 1,414 | ST investments | 21,026 | 17,415 | 16,419 | 18,18 |
| Financial Expenses | -202 | -618 | -496 | -500 | Accounts receivable | 4,368 | 4,634 | 4,309 | 4,49 |
| of which: interest expenses | -89 | -166 | -317 | -308 | Inventory | 6,820 | 5,560 | 5,681 | 6,06 |
| Gain/(loss) from joint ventures | -45 | -24 | 0 | 0 | Long-term assets | 17,222 | 16,922 | 16,919 | 16,79 |
| Selling expenses | -12,951 | -12,548 | -13,318 | -13,848 | LT trade receivables | 17 | 38 | 24 | 2 |
| General & admin expenses | -1,567 | -1,596 | -1,764 | -1,787 | Fixed assets | 11,620 | 10,860 | 10,535 | 10,35 |
| Operating profit/(loss) | 12,728 | 10,491 | 10,931 | 12,083 | Investment properties | 835 | 1,471 | 1,564 | 1,48 |
| Net other income/(expenses) | 195 | 4 | 20 | 64 | Liabilities | 17,482 | 15,666 | 14,361 | 15,61 |
| Pretax profit/(loss) | 12,922 | 10,496 | 10,951 | 12,147 | Current liabilities | 17,068 | 15,308 | 13,724 | 15,02 |
| Income tax | -2,290 | -1,918 | -1,971 | -2,186 | Trade accounts payable | 4,214 | 4,284 | 4,110 | 4,69 |
| Net profit/(loss) | 10,633 | 8,578 | 8,980 | 9,960 | Advances from customers | 4 | 4 | 4 | |
| Minority interests | 100 | 62 | 99 | 87 | ST borrowings | 9,382 | 4,867 | 6,326 | 6,86 |
| Net profit after MI | 10,532 | 8,516 | 8,880 | 9,873 | Long-term liabilities | 414 | 358 | 637 | 58 |
| | | | | | LT payables | 0 | 0 | 0 | |
| | | | | | LT borrowings | 76 | 66 | 271 | 21 |
| | | | | | Other LT liabilities | 338 | 292 | 366 | 37 |
| | | | | | Shareholders' equity | 35,850 | 32,817 | 33,437 | 35,03 |
| | | | | | Paid-in capital | 20,900 | 20,900 | 20,900 | 20,90 |
| | | | | | Share premium | 34 | 34 | 34 | 3 |
| | | | | | Undistributed earnings | 7,594 | 3,353 | 2,921 | 3,37 |
| | | | | | Reserve & others | 4,555 | 5,469 | 6,423 | 7,48 |
| | | | | | Minority interest | 2,767 | 2,967 | 3,067 | 3,15 |
| Margin ratio | | | | | Key ratio | | | | |
| | 2021A | 2022A | 2023E | 2024E | (x, %, VND) | | | | |
| Gross profit margin | 43.1% | 39.9% | 40.8% | 42.0% | Multiple | | | | |
| EBITDA margin | 26.2% | 26.5% | 26.9% | 25.0% | P/E | 15.3 | 17.9 | 16.3 | 15. |
| EBIT margin | 21.5% | 18.5% | 18.8% | 19.8% | P/E diluted | 15.3 | 17.9 | 16.3 | 15. |
| Pre-tax profit margin | 21.2% | 17.5% | 18.0% | 19.0% | P/B | 4.5 | 4.7 | 4.4 | 4. |
| Operating profit margin | 20.9% | 17.5% | 18.0% | 18.9% | P/S | 2.7 | 2.6 | 2.4 | 2. |
| Net profit margin | 17.5% | 14.3% | 14.8% | 15.6% | P/Tangible Book | 4.7 | 4.8 | 4.5 | 4. |
| | | | | | P/Cash Flow | 675.2 | (2,541.2) | 190.8 | 283. |
| | | | | | EV/EBITDA | 13.6 | 13.2 | 11.9 | 12. |
| | | | | | EV/EBIT | 15.8 | 15.8 | 13.5 | 13. |
| Cash flow statement | | | | | Operating Performance | | | | |
| (VND Billion) | 2021A | 2022A | 2023E | 2024E | ROE% | 31% | 25% | 27% | 29% |
| Net profit | 12,922 | 10,496 | 10,951 | 12,147 | ROA% | 21% | 17% | 19% | 20% |
| Plus: depreciation & amort | 2,121 | 2,095 | 1,492 | 1,560 | ROIC% | 35% | 33% | 33% | 36% |
| Plus: investing (profit)/loss | -987 | -1,098 | -1,183 | -998 | Financial Structure | | | | |
| Interest Expense | -89 | -166 | -317 | -308 | Cash ratio | 0.1 | 0.2 | 0.2 | 0. |
| Change in working capital | 13,967 | 11,326 | 10,943 | 12,401 | Quick Ratio | 1.7 | 1.7 | 1.8 | 1. |
| (Inc)/dec - receivables | -517 | -288 | 566 | -234 | Current Ratio | 2.1 | 2.1 | 2.2 | 2. |
| (Inc)/dec - inventory | -2,261 | 851 | -121 | -388 | LT Debt/Equity | 0.0 | 0.0 | 0.0 | 0. |
| Inc/(dec) - payables | 1,484 | -386 | -2,969 | 772 | LT Debt/Total assets | 0.0 | 0.0 | 0.0 | 0. |
| Inc/(dec) - advances | 0 | -73 | 32 | -68 | ST Debt/Equity | 0.3 | 0.1 | 0.2 | 0. |
| Other adj for operations | 0 | 0 | 0 | 0 | ST Debt/Total assets | 0.2 | 0.1 | 0.1 | 0. |
| Operating cash flow | 9,432 | 8,827 | 6,810 | 10,610 | ST liabilities/Equity | 0.2 | 0.3 | 0.2 | 0. |
| Purchase of Fixed Assets and long-term assets | -1,531 | -1,457 | -1,211 | -1,255 | ST liabilities/Total assets | 0.2 | 0.2 | 0.2 | 0. |
| Proceeds from disposal of fixed assets | 134 | 137 | 0 | 0 | Total liabilities/Equity | 0.2 | 0.3 | 0.2 | 0. |
| Loans granted, purchases of debt instruments | -3,514 | 0 | 0 | -1,769 | Total liabilities/Total assets | 0.2 | 0.2 | 0.2 | 0. |
| Collection of loans, proceeds from sales of debts instruments | 0 | 3,635 | 996 | 0 | Activity Ratio | | | | |
| Investments in other entities | -23 | -43 | -316 | -147 | Account receivable turnover | 13.9 | 12.9 | 14.1 | 14. |
| Proceed from divestment in other entities | 1 | 0 | 0 | 0 | Inventory turnover | 5.1 | 6.5 | 6.3 | 6. |
| Dividends and interest received | 1,000 | 1,201 | 1,183 | 998 | Account payable turnover | 8.7 | 8.1 | 8.8 | 8. |
| Investing cash flow | -3,933 | 3,473 | 652 | -2,173 | | | | | |
| Proceeds from issue of shares | 318 | 338 | 0 | 0 | | | | | |
| Payment for share returns and repurchase | 0 | 0 | 0 | 0 | | | | | |
| Proceeds from borrowings | 9,597 | 6,258 | 8,534 | 8,722 | | | | | |
| Repayment of borrowings | -7,551 | -10,789 | -6,867 | -8,259 | | | | | |
| Finance lease principal payments | 0 | 0 | 0 | 0 | | | | | |
| Dividends paid | -7,621 | -8,167 | -8,360 | -8,360 | | | | | |
| Interests, dividends, profits received | 0 | 0 | 0 | 0 | | | | | |
| Financing cash flow | -5,257 | -12,360 | -6,696 | -7,877 | | | | | |
| Net increase in cash & equivalents | 241 | -61 | 767 | 560 | | | | | |
| Cash & equivalents - beginning | 2,111 | 2,349 | 2,300 | 3,066 | | | | | |
| Cash & equivalents - ending | 2,349 | 2,300 | 3,066 | 3,626 | | | | | |

Source: Vinamilk, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@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

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@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
tienss@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 | Underperform the market |

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