

# Viconship (VSC)

## 2Q22 business performance

September 15, 2022

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**VSC's 2Q revenue is VND512 billion (+7.3 % YoY), fulfilling 51% of the full-year target**

In 2Q22, Vietnam Container Shipping (VSC) recorded VND512 billion (+7.3% YoY) in revenue, gross profit margin (GPM) rose to 35% vs 32% in 2Q21. 1H22 revenue is VND981 billion (+8% YoY) with EBT reaching VND269 billion (+29% YoY), completing 51% of revenue and 54% of 2022's full-year targets.

**VIP Green expects to recover, return to growth momentum**

VIP Green is expected to return to the growth momentum following the general trend of the Hai Phong port cluster, especially when Hai Phong is promoting investment in the construction of seaport infrastructure. In addition, the advantage of location and the ownership of an integrated warehouse and logistics system also help strengthen the competitive advantage of VSC in the region.

**VIMC Dinh Vu should be operated from the end of 3Q and generate profit from 2023**

In September 2021, VSC completed the acquisition of 36% shares of VIMC Dinh Vu (Vinalines owns 51% of the shares), which should be put into operation by the end of 3Q22. With the ability to handle ships of up to 40,000 DWT and the connection to the Hanoi – Hai Phong – Lao Cai – China highway, VIMC Dinh Vu port should start earning profit for VSC from 2023.

**VSC acquired ICD Quang Binh from April 2022, raising the total area of VSC's container yards to 68 ha**

ICD Quang Binh – Dinh Vu was acquired by VSC in April 2022. As one of the largest inland ports in the North, Quang Binh IC will help to improve the efficiency of ports at VSC.

**BUY recommendation with a target price VND48,500/share**

Using the DCF method, we recommend BUY for VSC stocks with a target price of VND48,500/share, 35.1% higher than the closing price on September 15, 2022.

# Buy

**Target price VND48,500**

Upside (%)	35.1%
Current price (September 15, 2022)	35,900
Market cap (VNDbn)	4,354

### Trading data

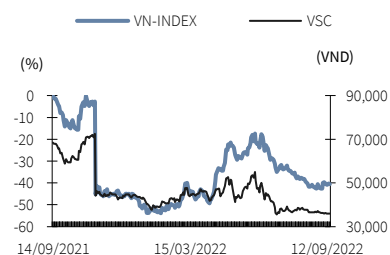
Free float (%)	65
3M avg trading value (VNDbn)	49.61
Foreign ownership (%)	4.89
Major shareholder	Thanh Duc Holding (5.18%)

### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-5	-22	-18	-48
<b>Relative</b>	-3	-24	-4	-41

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	1,689	1,892	2,016	2,156
Earnings/loss (VNDbn)	331	488	579	691
NPAT (VNDbn)	296	414	487	582
EPS (VND)	5,733	3,333	2,993	3,163
EPS growth (%)	47	-42	-10	6
P/E (x)	11.1	6.3	10.8	12.0
P/B (x)	1.4	1.6	1.2	1.2
ROE (%)	13.7	13.8	13.9	12.2



## Business performance

**2Q revenue reached VND512 billion (+7.3% YoY), and profit margin improved to 34.7%**

2Q22 revenue of VSC rose 7.3% YoY to VND512 billion. Of that, revenue from container loading and unloading at the wharf accounted for the largest proportion in total revenue, followed by container lifting at the yard. Cost of goods sold only increased by 3% YoY, leading GPM to grow 34.7% vs 32% in the same period last year. In addition, VSC cut many unnecessary outsourcing segments, prioritized cargo handling at the main port, reduced outsourced output, which resulted in a sharp drop in outsourcing costs compared to the same period last year and supported GPM. 2Q gross profit was up 16% YoY to VND178 billion.

**In 1H22, VSC completed 51% and 54% of revenue and PBT full-year targets**

1H22 revenue hit VND981 billion, up 8% YoY, which was a modest gain because the ports at VSC were limited in capacity, and VSC's cargo throughput tended to be flat. EBT and net profit in the period were VND269 billion and VND184 billion, up 29% YoY and 23% YoY respectively. In the first half of 2022, VSC has completed 51% of revenue and 54% of PBT as planned in the 2022 AGM.

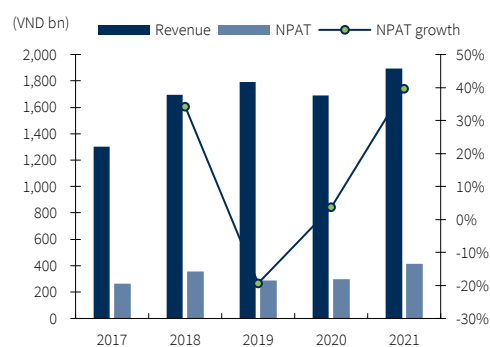
**VSC recorded a loss of VND9 billion from joint ventures and associates in 2Q22**

Financial expenses and SG&A expenses did not change much compared to the same period last year. However, profits from joint ventures and associates recorded a loss of VND9 billion compared to a profit of VND2 billion in 2Q21. We believe that the loss comes from VSC's new investment activities, mainly from the investment in VIMC Dinh Vu as this port is still waiting for a license for loading and unloading services. The only revenue that comes from the container yard rental services was low, while the depreciation and interest expenses were high. As a result, VIMC Dinh Vu pulled VSC's profit down significantly. The company net profit went up 9% YoY to VND93.7 billion.

**VSC has a healthy financial structure with a large amount of cash and low long-term debt**

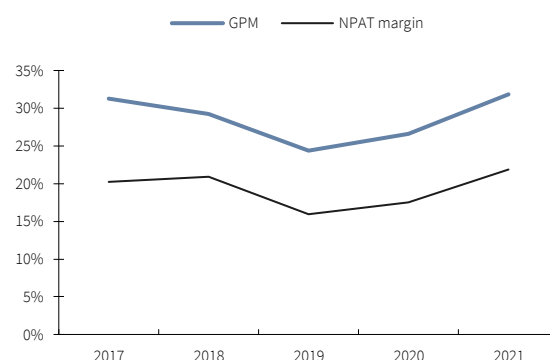
VSC has a healthy financial structure as it maintains a large amount of cash, annual cash flow and low debt. In terms of assets, at the end of 2Q22, VSC's total assets reached VND3,534 billion, up 8.2%YoY. In which, cash and cash equivalents decreased by 42% to VND583 billion. Short-term financial investment VND255 billion, up 2.6 times YoY. In terms of capital, short-term debt increased 24% YoY to VND332 billion. Long-term debt gained to VND32 billion due to the recognition of deferred income tax.

Fig 1. VSC – NPAT &amp; revenue in 2017–2021 (VNDbn)



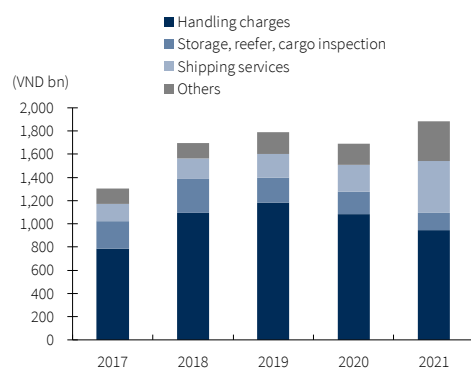
Source: Viconship, KB Securities Vietnam

Fig 2. VSC – GPM &amp; NPAT margin (%)



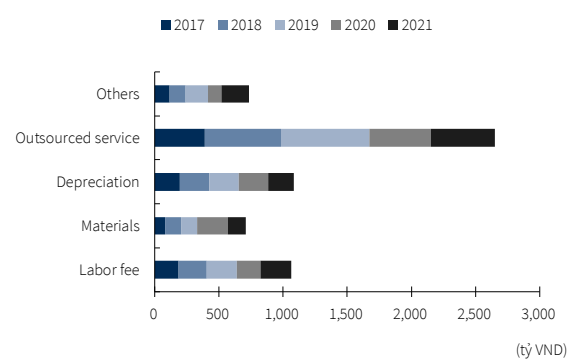
Source: Viconship, KB Securities Vietnam

Fig 3. VSC – Revenue structure in 2017–2021 (VNDbn)



Source: Viconship, KB Securities Vietnam

Fig 4. VSC – Expense structure in 2017–2021 (VNDbn)



Source: Viconship, KB Securities Vietnam

## Investment catalysts

### 1. VIP Green would recover

The competition in the Hai Phong port area is increasingly fierce when the supply is increasing. Gemadept's Nam Dinh Vu 2 will be put into operation in early 2023. Four berths from No. 3 to No. 6 of Lach Huyen port are also entering the start-up phase. However, we still expect VIP Green volume to rebound in 2H22 thanks to the following factors:

#### **Hai Phong promotes investment in industrial parks and seaport infrastructure**

Hai Phong authorities gave investment registration certificates to six projects whose capital reached VND4,600 billion and USD231.5 million, which would promote the development of port operations in Hai Phong area. The Xuan Cau Logistics-Non-Tariff Zone has a total area of more than 700ha and stretches for 6km, adjacent to Hai Phong international gateway ports. The phase 1 of the project should be completed in 2025. The projects that invest in building more wharves and yards, connecting roads behind ports, completing connections to neighboring provinces are also accelerated.

Investment projects in the infrastructure of Tien Thanh and Nam Dinh Vu industrial parks were also approved, which raised the demand for freight and created a driving force for development of seaport and shipping activities in Hai Phong.

#### **Cargo throughput at Hai Phong ports recorded an impressive growth**

Currently, ports in Hai Phong are operating at 90% of total capacity. Cargo throughput in Hai Phong in 3Q shows signs of accelerating. 8M22 cargo throughput in this area rose 9% YoY, revenue from Hai Phong port cluster gained 12% YoY, showing that the demand is returning to a positive growth.

#### **VIP Green has the advantage of location and a closed ecosystem**

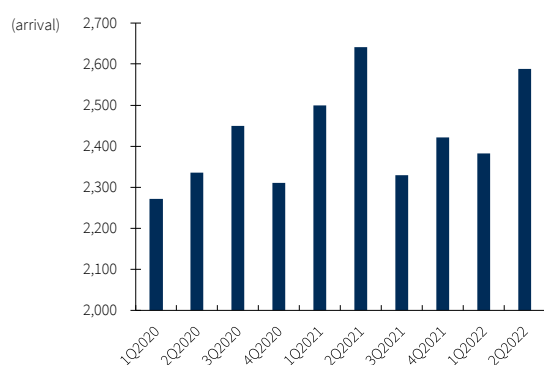
VIP Green Port is located in the middle of the Cam River and not affected by Bach Dang Bridge, so it can handle two large vessels of 42,000 DWT. It may have the advantage of receiving ships transferred from (1) upstream ports (as these ports are affected by Bach Dang Bridge, so they can handle ships with a tonnage of less than 10,000 DWT, while currently shipping lines tend to prefer larger ships) and (2) large downstream ports such as Lach Huyen where port sedimentation is hindering ship docking.

Container transportation services to VSC's yard are mainly performed by Blue Star Shipping, a subsidiary of VSC, which helped to reduce costs for the parent. Along with the integrated warehousing and logistics system, VSC has increased its competitive advantage over other ports in the same region.

#### **Evergreen ensures a stable supply for VIP Green**

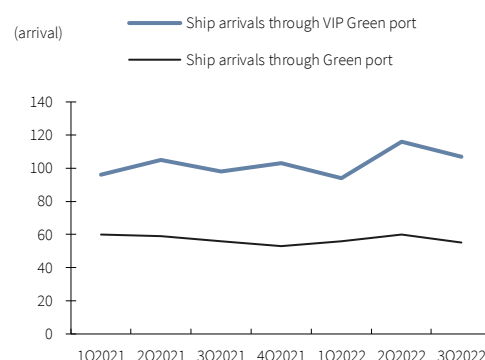
In addition, VIP Green also has a stable supply of goods from Ever Green shipping line, a strategic shareholder currently holding more than 20% of VIP Green's shares. Nearly 50% of VIP Green's revenue comes from Evergreen.

Fig 5. VSC – Ship arrivals through Hai Phong ports (arrival)



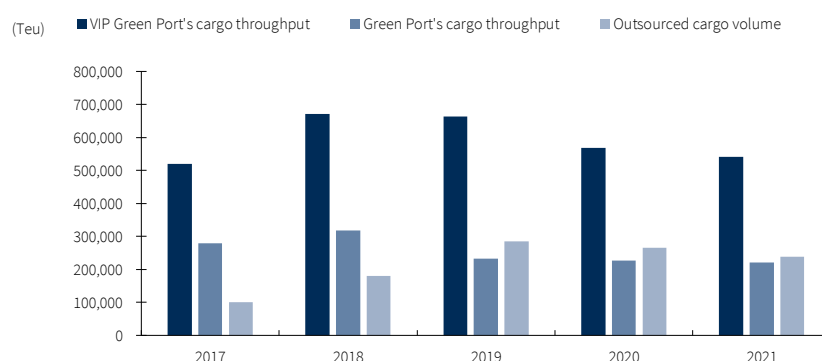
Source: Vinamarine, KB Securities Vietnam

Fig 6. VSC – Ship arrivals through Green and VIP Green ports (arrival)



Source: Vinamarine, KB Securities Vietnam

Fig 7. VSC – Cargo throughput at Green and VIP Green ports vs VSC's outsourced cargo volume in 2017–2021 (TEU)

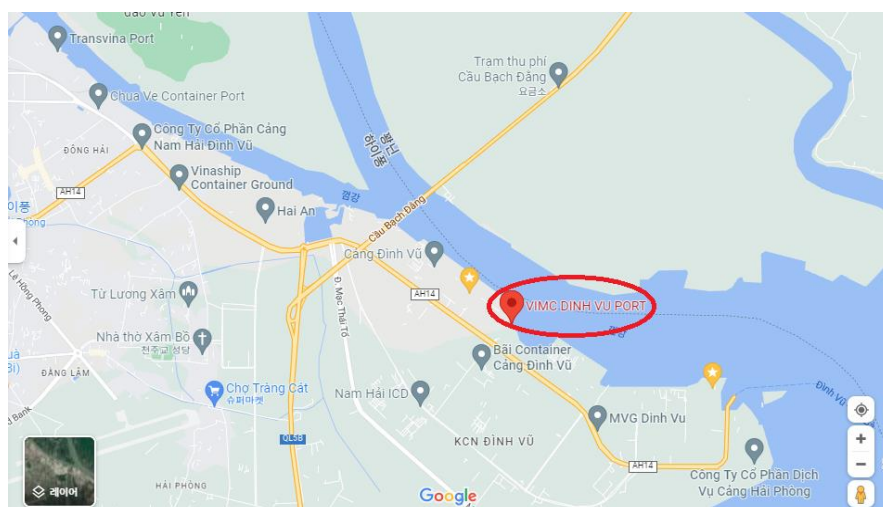


Source: Viconship, KB Securities Vietnam

### VIMC Dinh Vu expects to be profitable from 2023

VSC has completed the acquisition of 36% stake in VIMC Dinh Vu from September 2021. VIMC Dinh Vu is a port located downstream of Cam River with a design capacity of 500,000 Teu. The port has three berths stretching 630m in length and should be operated from the end of 3Q22. VIMC has the advantage of convenient location to easily receive ships of up to 40,000 DWT. Besides, the port area is connected with the Hanoi – Hai Phong – Lao Cai – China highway. We expect VIMC Dinh Vu to reach at least 40% of capacity in 2023 and be able to fill capacity in the next five years, when the trend of using large tonnage ships is increasingly popular among shipping lines. VIMC Dinh Vu is expected to contribute to VSC's profit from 2023 when it comes into stable operation.

Fig 1. VSC – VIMC Dinh Vu



Source: Google map

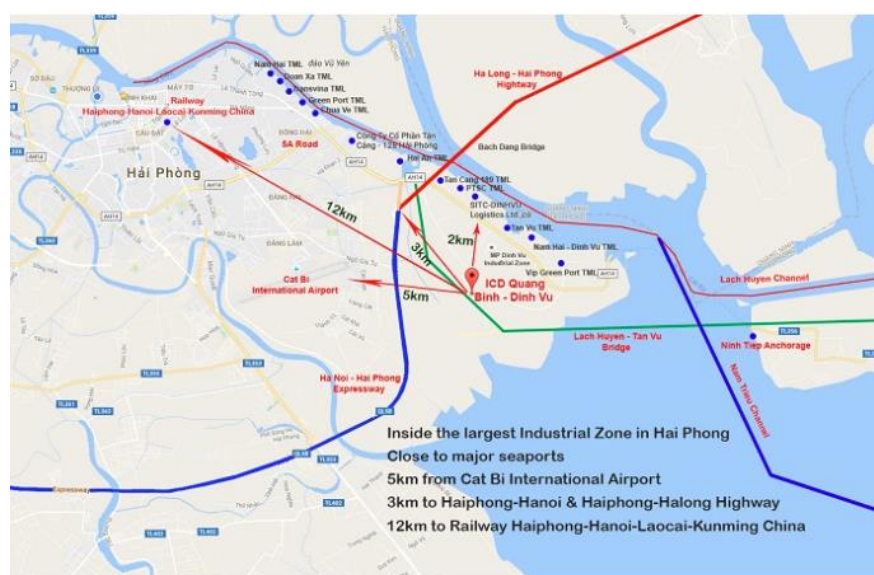
## 2. VSC continuously makes plans for M&A projects, aiming at building large logistics chain

Nearly 50% of VSC's production and business costs are the costs of outsourcing services to partners operating in the logistics industry. VSC's continuous M&A will help expand the company's logistics service value chain, reduce outsourcing costs, and improve profit margins.

**In April 2022, VSC acquired ICD Quang Binh – Dinh Vu, raising the total container yard area to 62ha**

Last April, VSC redeemed 43.2 million shares (98.7% capital) of Quang Binh – Dinh Vu ICD port from Quang Binh Import & Export (QBS) for VND432 billion and expected to consolidate business results from 3Q22. Quang Binh ICD will help VSC increase the operational efficiency of both Geen and VIP Green ports. Quang Binh – Dinh Vu ICD has a total exploitation area of more than 26ha and a capacity up to 140,000 Teus/year. It is one of the largest inland ports in the North that have connection to roads and seaports. After the acquisition of the port, VSC owned six container yards with a total area of 68ha, including one depot of 4.6 ha in Da Nang, and one in Hai Phong with 63 ha. VIP Green has four depots located within a radius of 4km. The total area is 50ha, much larger than the 21ha area of Nam Hai ICD of Nam Dinh Vu.

Fig 2. VSC – Quang Binh – Dinh Vu ICD



Source: Quang Binh Import &amp; Export

**VSC continues to study the investment plan in Cat Hai deep-water port**

VSC is considering the investment plan in Cat Hai deep-water port, which is expected to start construction in 2023 and put into operation no sooner than 2025. Cat Hai is a deep-water port located close to Lach Huyen port. It has a large channel depth and should become a competitor to HICT in the large tonnage segment. However, Cat Hai port has not been approved yet, so we have not included the project in VSC's forecast.

### 3. Private placement plan

**VSC plans to issue additional 40 million shares for VND20,000/share, raising charter capital to VND1,612 billion. The two chosen strategic investors should have 20 million shares each**

The general meeting of shareholders held in September emphasized the need to increase charter capital for the expansion of the operating scale and improving the financial capacity of the company. VSC plans to issue additional 40 million shares or 33% of outstanding shares for VND20,000 per share, 45% discount from current market price and 20% discount on value books per share at the end of the 2Q. After the issuance, the charter capital should increase from VND1,212 billion to VND1,612 billion. Two strategic investors Port Services & Investment and Thai Bao Import-Export Service & Investment are expected to receive 20 million shares each.

- The company expects to mobilize VND800 billion from the issuance and would spend VND600 billion on raising ownership in Vinaship (VNA) to 49% of charter capital, VND100 billion to increase capital for the subsidiary Green Logistics Center, and VND100 billion to supplement working capital for production and business activities of the company.

- In case the two strategic investors refuse a part of shares, VSC will redistribute those shares to investors who meet the requirements. If at the end of the offering period, the expected amount is not collected, VSC should supplement the missing capital through credit loans and bond issuance.

**Investors should be cautious as a completed private placement will make the share dilution reach a high of 33%**

At the shareholders' meeting, the company also mentioned that it needed to do M&A with shipping companies to complete the supply chain. VSC has ambitions to own a fleet that is among the top in Southeast Asia and Asia given the room to raise market share in Vietnam's container fleet is still large. According to VSC, the time to implement the M&A should be in 4Q22, if it is later, it may lose the opportunity to another competitor. The company would mobilize capital via private placement which may be the most suitable method for VSC to mobilize money timely.

If the private placement is completed, it may make share dilution increase to 33%. We currently hold a cautious view on the private placement plan due to the lack of information on VSC's M&A projects.

## Risks

### **Risk of world economic recession**

As the Russia-Ukraine war shows no sign of ending, the global CPI increases, the risk of recession and the economic slow growth in many countries, especially major trading partners of Vietnam such as the EU and the US, will lead to more tightening spending. The global producers' reducing output and lower trade demand will be a risk to the port industry.

### **Higher competition in Hai Phong port areas**

The current direct competitor of VIP Green is Nam Dinh Vu port of GMD. In early 2023, Nam Dinh Vu 2 would come into operation. Oversupply and higher competition in Hai Phong port area may negatively affect the output of Green and VIP Green ports.

### **Risk of delay in Cat Hai project approval**

The delay in applying for approval to start construction of Cat Hai deep-water port project will affect the company's medium and long-term business expansion plan.

### **Risk of dilution of earnings per share**

VSC has continuously increased its capital by issuing more shares in recent years. In the upcoming private placement of 40 million shares, the charter capital should rise VND400 billion. New projects can take a long time to achieve expected returns. In case that revenue and profit have not increased to keep pace with the growth rate of charter capital, the company's earnings per share will be lower.



## Forecast & valuation

We expect VSC's 2022 revenue and NPAT to reach VND2,016 billion (+7%) and VND487 billion (+18%). Gross profit margin is high at 33%

We expect VSC's 2022F NPAT and revenue would reach VND487 billion (+18%YoY) and VND2,016 billion (+7%YoY) respectively. The cargo throughput via Green port should be flat, and VIP Green port's output may gain modestly by 5%. Profit margin is high at 33%, compared to 31.8% in 2021 due to a decrease in outsourced output, thereby reducing outsourcing costs and positively affecting COGS. Associates' profit is flat as VIMC will start container handling services from 4Q22, compensating for the loss recorded in 3Q22. 2022 forward EPS is VND2,933/share, and forward P/E is 10.8x.

Table 1. VSC – 2019A–2023F results

	2019	2020	2021	2022F	2023F
Net sales	1,793	1,689	1,892	2,016	2,156
Cost of sales	1,356	1,240	1,290	1,345	1,414
Gross Profit	437	449	602	671	742
Gain/loss from financial investment	-7	9	11	41	63
SG&A	97	129	129	138	147
Net other income/expense	-3	5	-6	0	0
Gain/loss from joint venture	12	2	4	4	33
Net profit/loss before tax	342	336	483	573	684
Tax	56	39	69	86	103
<b>Net profit/loss after tax</b>	<b>286</b>	<b>296</b>	<b>414</b>	<b>487</b>	<b>582</b>

Source: Viconship, KB Securities Vietnam

BUY recommendation with a target price of VND48,500 apiece

Based on the development potential of seaport services and profitability from Viconship's projects, KBSV uses DCF method to determine target price for VSC. We give a BUY recommendation for VSC stocks with a target price of VND48,500/share, 35.1% higher than the price of VND35,900 on September 15, 2022.

Table 2. VSC – Share valuation

Equity value (VND bn)	5,890
Share outstanding	121,269,397
<b>Target price</b>	<b>48,500</b>
Current price	35,900
Upside	35.1%

Source: Viconship, KB Securities Vietnam

## VSC – 2020A-2023F financials

Income Statement				
(VND billion)	2020	2021	2022F	2023F
Net sales	1,689	1,892	2,016	2,156
Cost of sales	1,240	1,290	1,345	1,414
Gross Profit	449	602	671	742
Financial income	11	13	41	63
Financial expenses	2	2	0	0
of which: interest expenses	0	0	0	0
Gain/(loss) from joint ventures	2	4	4	33
Selling expenses	56	48	51	55
General and admin expenses	73	81	87	93
Operating profit/(loss)	331	488	579	691
Other incomes	5	13	0	0
Other expenses	1	19	0	0
Net other income/(expenses)	5	-6	-6	-7
Net accounting profit/(loss) before tax	336	483	573	684
Corporate income tax expenses	39	69	86	103
Net profit/(loss) after tax	296	414	487	582
Minority interests	57	64	83	99
Attributable to parent company	240	350	404	483
Margin ratio (%)	2020	2021	2022F	2023F
Gross profit margin	26.6%	31.8%	33.3%	34.4%
EBITDA margin	33.5%	39.9%	44.5%	49.7%
EBIT margin	19.9%	25.5%	28.4%	31.7%
Pre-tax profit margin	19.9%	25.5%	28.4%	31.7%
Operating profit margin	19.6%	25.8%	28.7%	32.0%
Net profit margin	26.6%	31.8%	33.3%	34.4%
Cash Flow Statement				
(VND billion)	2020	2021	2022F	2023F
Net profit/(loss) before tax	336	483	573	684
Depreciation and amortisation	233	200	196	229
Profit/loss from investing activities	14	17	0	0
Interest expense	0	0	0	0
Operating profit/(loss) before changes in Working Capital	555	667	769	913
(Increase)/decrease in receivables	-22	70	-51	-20
(Increase)/decrease in inventories	2	3	-3	-1
Increase/(decrease) in payables	42	-1	40	-30
(Increase)/decrease in prepaid expenses	13	16	3	0
Interest expense	-31	-42	0	0
Net cash inflows/(outflows) from operating activities	529	645	653	762
Purchases of fixed assets and other long term assets	-95	-92	-143	-153
Proceeds from disposal of fixed assets	1	0	0	0
Loans granted, purchases of debt instruments	-4	-444	0	0
Collection of loans, proceeds from sales of debts instruments	0	353	0	0
Investments in other entities	0	-392	0	-350
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	12	15	0	0
Net cash inflows/(outflows) from investing activities	-86	-562	-143	-503
Proceeds from issue of shares	0	549	110	800
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	0	0	0	0
Repayment of borrowings	-76	0	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	-171	-112	-97	-116
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-247	437	13	684
Net increase in cash and cash equivalents	197	520	523	944
Cash and cash equivalents at the beginning of period	297	493	1,014	1,536
Cash and cash equivalents at the end of period	493	1,014	1,536	2,480
Balance Sheet				
(VND billion)	2020	2021	2022F	2023F
TOTAL ASSETS	2,458	3,266	3,816	5,061
CURRENT ASSETS	896	1,442	2,045	3,017
Cash and cash equivalents	493	1,014	1,536	2,480
Short-term investments	8	99	99	99
Accounts receivable	268	232	284	303
Inventories	24	21	24	26
LONG-TERM ASSETS	1,562	1,824	1,770	2,044
Long-term trade receivables	1	2	2	2
Fixed assets	922	811	757	681
Long-term incomplete assets	0	2	2	2
Long-term investments	118	506	506	856
Goodwill	0	0	0	0
LIABILITIES	287	270	318	298
Current liabilities	287	269	318	298
Trade accounts payable	105	81	121	91
Short-term unrealized revenue	0	0	0	0
Short-term borrowings	0	0	0	0
Long-term liabilities	0	1	0	0
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	0	0	0	0
Long-term borrowings	0	0	0	0
OWNER'S EQUITY	2,171	2,996	3,496	4,761
Paid-in capital	551	1,100	1,211	1,611
Share premium	36	36	36	436
Undistributed earnings	413	660	0	0
Other funds	0	0	0	0
Minority interests	0	0	0	0
Key ratios				
(x, %, VND)	2020	2021	2022F	2023F
Multiple				
P/E	11.1	6.3	10.8	12.0
P/E diluted	11.1	6.3	10.8	12.0
P/B	1.4	1.6	1.2	1.2
P/S	1.8	2.5	2.2	2.7
P/Tangible Book	1.4	1.6	1.2	1.2
P/Cash Flow	5.7	7.4	6.7	7.6
EV/EBITDA	5.4	6.4	4.9	5.4
EV/EBIT	9.0	9.9	7.6	8.5
Operating performance				
ROE	13.7%	13.8%	13.9%	12.2%
ROA	12.1%	12.7%	12.8%	11.5%
ROIC	20.0%	24.3%	29.2%	30.0%
Financial structure				
Cash Ratio	174.3%	413.4%	513.8%	865.0%
Quick Ratio	76.9%	111.0%	105.0%	101.9%
Current Ratio	267.6%	499.8%	602.9%	966.8%
LT Debt/Equity	0.0%	0.0%	0.0%	0.0%
LT Debt/Total Assets	0.0%	0.0%	0.0%	0.0%
ST Debt/Equity	0.0%	0.0%	0.0%	0.0%
ST Debt/Total Assets	0.0%	0.0%	0.0%	0.0%
ST Liabilities/Equity	13.2%	9.0%	9.1%	6.3%
ST Liabilities/Total Assets	11.7%	8.2%	8.3%	5.9%
Total Liabilities/Equity	13.2%	9.0%	9.1%	6.3%
Total Liabilities/Total Assets	11.7%	8.3%	8.3%	5.9%
Activity ratios				
Account Receivable Turnover	6.3	8.1	7.1	7.1
Inventory Turnover	50.6	61.1	55.4	55.4
Account Payable Turnover	12.9	13.9	13.4	13.4

Source: Viconship, KB Securities Vietnam

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## Investment ratings & definitions

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### 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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