

# PV Drilling (PVD)

## Operating results miss on COVID-19

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**2Q operations miss our cautious estimate; maintain HOLD recommendation and VND9,600 target price**

**Headline 2Q earnings mainly driven by: 1) VND36 billion in bad debt repayments from PVEP; and 2) 65% growth in income from the Baker Hughes joint venture**

**We raise 2020E earnings by 8% to reflect gains from the bad debt repayment but maintain our 2H outlook**

**Hold** maintain

Although headline 2Q earnings beat by 20% on a one-off, operating results missed on the coronavirus-related jump in operating costs for ongoing drilling projects. PVD's 2Q EBIT turned to negative VND12 billion vs our estimate for positive VND26 billion and we revise down our 2020E free cash flow estimate by 16% to VND160 billion from VND VND191 billion to reflect weak operating performance. Our 2021E-2022E forecasts remain unchanged. We keep our 12-month target price unchanged at VND9,600 and maintain our HOLD recommendation.

Headline 2Q earnings were VND61 billion or down 44% YoY but up 27% YoY excluding last year's one-off profit related to the Malaysian withholding tax. Earnings benefitted from: 1) VND36 billion in bad debt repayments from PV Exploration Production (PVEP) that represented 57% of total earnings; and 2) 65% YoY increase in income from the Baker Hughes (BKR US) joint venture. The 2Q gross profit margin fell sharply to 3.9% vs our estimate for 9.6% and 1Q's 9.4% on higher costs for the four jack up rigs operating in Malaysia. Revenue for the quarter was up 46% YoY to VND1,464 billion on a still high utilization rate of 86% for the four owned rigs in Malaysia and 2.4 hired rigs in Vietnam and 9% YoY hike in average day rates for the owned and hired jack up rigs.

Our 2020E earnings forecast increases by 8% after including 2Q's bad debt repayments but we maintain our cautious 2H outlook and expect PVD's full-year utilization to drop to 77% from 89% at the start of the year. We also believe PVD's gross profit margins will normalize in 2H on less impact from the coronavirus.

<b>Target Price</b>	<b>VND9,600</b>
Total return (%)	1.5%
Current price (Aug 4)	VND9,460
Consensus target price	VND11,100
Mkt capitalization (USDmn)	USD172mn

<b>Trading data</b>	
Free float (%)	49.4%
Avg trading value (3M)	USD2.19mn
Foreign available (%)	37.2%
Major shareholders (%)	PetroVietnam (50.46%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	-7.3	2.5	-22.5	-41.2
Relative	-5.0	-5.6	-12.9	-30.9

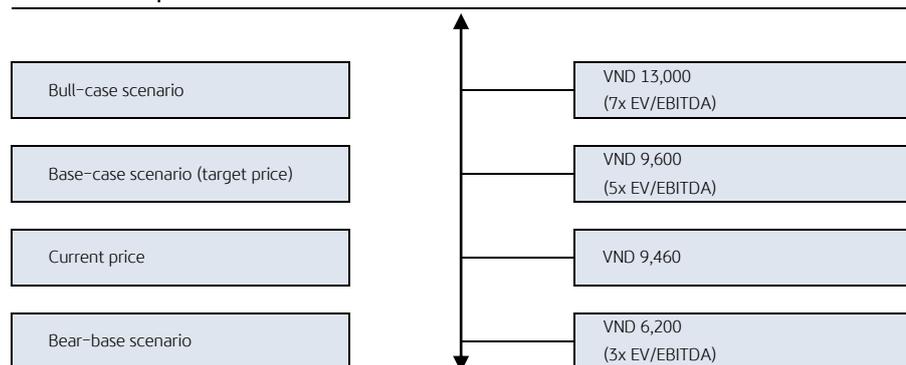
### Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	4,368	5,087	5,709	6,597
EBIT	37	80	135	498
NP attributable to parent	184	143	165	473
EPS (VND)	438	340	392	1,121
EPS growth (%)	(6.3)	(22.3)	15.3	186.3
P/E (x)	21.6	27.8	24.2	8.4
EV/EBITDA (x)	9.1	9.7	8.4	5.3
P/B (x)	0.3	0.3	0.3	0.3
ROE (%)	1.3	1.0	1.2	3.3
Div yield (%)	0.1	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## Investment opinion &amp; risks



## Base-case scenario: catalysts

- 1) Brent prices above USD55 in 2021E
- 2) Jack up day rates at USD65,000
- 3) Tender Assisted Rigs in 2H21

## Bull-case scenario: upside risk

- 1) Brent prices above USD55 in 2020E
- 2) Jack up day rates above USD70,000
- 3) Tender Assisted Rigs before 2H21

## Bear-case scenario: downside risk

- 1) Coronavirus second wave
- 2) Jack up day rates below USD65,000
- 3) Tender Assisted Rigs after 2H21

## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,087	5,709	5,029	5,709	1.2	0.0
EBIT	80	135	118	135	(32.2)	0.0
OP	100	42	54	42	85.2	0.0
NP after MI	143	165	132	165	8.3	0.0

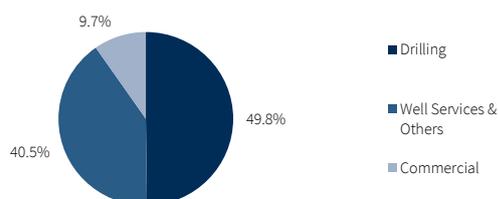
Source: Bloomberg, KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,087	5,709	4,736	4,736	7.4	20.5
EBIT	80	135	162	336	(50.5)	(59.7)
OP	100	42	150	221	(33.5)	(80.8)
NP after MI	143	165	107	120	33.9	37.6

Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

## Peer group comparison

(USDbn, x, %)	Mkt Cap	12m fwd P/E	3y EPS CAGR	12m fwd ROE	12m fwd P/B
PVD VN	0.2	22.7	13.8	0.9	0.3
GAS VN	5.6	14.8	-5.5	17.6	2.5
PLX VN	2.3	20.1	0.0	12.0	2.0
PVS VN	0.2	6.8	-7.5	6.6	0.4
PVD VN	0.8	-6.7	-18.7	2.3	0.6
BSR VN	0.1	5.8	-6.9	9.5	0.5

Source: Bloomberg, KB Securities Vietnam

## Operating performance suffers more than expected from the coronavirus

Headline 2Q earnings were VND61 billion or 20% higher than our estimate largely due to the VND36 billion bad debt repayment from PVEP and 65% YoY jump in gains from the Baker Hughes joint venture. The one-off gain from the bad debt repayment was 57% of total earnings. Operations were hit harder than expected from the coronavirus, with gross profit down 63% YoY to VND57 billion or a gross profit margin of only 3.9% and well below our VND135 billion estimate for a 9.6% gross profit margin. The miss was largely due to higher costs for the four jack up rigs operating in Malaysia arising from the coronavirus (higher execution costs to move equipment and staff to offshore locations). The shortfall in operating performance was made up with PVEP debt repayment and management indicates that PVD is owed another VND112 billion. Whether the sharp rise in income from the Baker Hughes joint venture can be replicated in the coming quarters is uncertain but management believes the JV is the only company in Vietnam that can offer its specialized drilling technology.

**Table 1. PV Drilling (PVD) – 2Q Results & Estimates (VND billion, %)**

(VND bn, %)	2Q19	1Q20	2Q20			YoY	Difference		
			Actual	KBSV est.	Consensus		QoQ	KBSV est.	Consensus
Sales	1,004	1,675	1,464	1,406	na	45.7	-12.6	4.1	na
GP	152	157	57	135	na	-62.6	-63.8	-58.0	na
EBIT	40	63	-12	26	na	-129.5	-118.6	-144.9	na
OP	50	26	63	18	na	24.9	143.2	253.9	na
EBITDA	276	231	215	198	na	-22.3	-7.1	8.6	na
NP after MI	109	24	61	50	na	-44.3	149.8	20.4	na
GPM	15.2	9.4	3.9	9.6	na				
EBIT margin	4.0	3.8	(0.8)	1.9	na				
OPM	5.0	1.5	4.3	1.3	na				
NPM	10.8	1.4	4.1	3.6	na				

Source: Company reports, KB Securities Vietnam

## We revise up 2020E earnings by 8% to reflect the one-off debt repayment and expect operations to normalize in 2H

Our 2020E earnings increase by 8% to VND143 billion or VND340 per share after including 2Q's bad debt repayment from VND132 billion or VND314 per share. After discussions with management, we believe the contraction in 2Q's gross profit margin was largely due to the coronavirus and the impact may be contained to the current quarter. We expect gross profit margins to normalize in 2H and leave our 2H outlook unchanged.

**Table 2. PV Drilling (PVD) – 2020E & 2021E Revised & Previous Estimates (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,087	5,709	5,029	5,709	1.2	0.0
EBIT	80	135	118	135	(32.2)	0.0
OP	100	42	54	42	85.2	0.0
NP after MI	143	165	132	165	8.3	0.0

Source: Company reports, KB Securities Vietnam

**Table 3. PV Drilling (PVD) – 2020E & 2021E Estimated & Consensus Estimates (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,087	5,709	4,736	4,736	7.4	20.5
EBIT	80	135	162	336	(50.6)	(59.8)
OP	100	42	150	221	(33.3)	(81.0)
NP after MI	143	165	107	120	33.6	37.5

Source: Company reports, KB Securities Vietnam

Table 4. PV Drilling (PVD) – 2020E Quarterly Revised &amp; Previous Estimates (VND billion, %)

(VND bn, %)	Revised				Previous			
	1Q20	2Q20	3Q20E	4Q20E	1Q20	2Q20	3Q20E	4Q20E
Sales	1,675	1,464	909	1,039	1,675	1,406	909	1,039
GP	157	57	120	105	157	135	120	105
EBIT	63	(12)	13	16	63	26	13	16
OP	26	63	10	1	26	18	10	1
EBITDA	236	111	180	160	236	172	157	160
NP after MI	24	61	32	27	24	50	31	27
GPM	9.4	3.9	13.2	10.1	9.4	9.6	13.2	10.1
EBIT margin	3.8	(0.8)	1.4	1.5	3.8	1.9	1.4	1.5
OPM	1.5	4.3	1.1	0.1	1.5	1.3	1.1	0.1
NPM	14.1	7.6	19.8	15.4	14.1	12.2	17.2	15.4

Source: Company reports, KB Securities Vietnam

**We continue to expect a tougher operating environment into 2H with crude oil prices below Vietnam's USD55.00 breakeven**

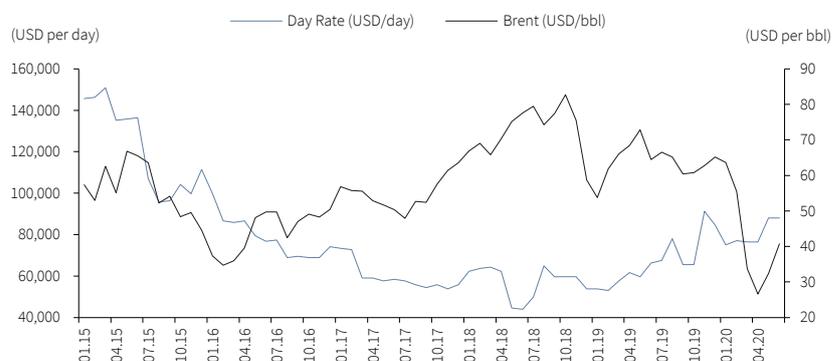
Given our expectations for crude oil to trade at depressed levels for the remainder of 2020E, PVD will likely face a tough operating environment in 2H. We maintain our assumption for the utilization rate of PVD's four owned rigs to fall to 79% in 2020E and only improve to 85% in 2021E. Management has already warned that weak oil prices will force the delay of some of PVD's Malaysian drilling contracts and lead to more production cuts in 3Q. Moreover, we do not expect the TAD (Tender Assisted Drilling) rig to come online until 2H 2021E and day rates for this project to come in weak at only USD85,000-90,000 per day.

Table 5. PV Drilling &amp; Well Services (PVD) – Jackup &amp; Tender Assisted Rig (TAD) Projects, Jan 20–Dec 21E

Names	Types	2020E												2021E											
		1Q			2Q			3Q			4Q			1Q			2Q			3Q			4Q		
		1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
PVD I	Jackup	Hibicus												No official plan											
PVD II	Jackup	Petronas						Not announced						Petronas						No official plan					
PVD III	Jackup	Repsol						Cambodia						Kris Energy & Repsol						No official plan					
PVD VI	Jackup	Sapura						Rosneft						No official plan											
PVD V	TAD	Idle												Brunei Shell Petroleum											

Source: Company reports &amp; KB Securities Vietnam

Fig 1. PV Drilling &amp; Well Services (PVD) – Southeast Asia jackup drilling day rates, Jan 15–Jun 20 (USD per day, USD per barrel)



Source: IHS Markit, KB Securities Vietnam

## PV Drilling (PVD) – Discounted cash flow model

	Terminal value (VND in billions)					Terminal value (US\$ in millions)				
	4,557	6,076	7,595	9,114	10,633	197	262	328	395	459
	Present value of firm					Present value of firm				
WACC	3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
14.0%	5,469	6,258	7,047	7,835	8,624	234	268	302	336	370
15.0%	5,368	6,123	6,878	7,633	8,388	229	262	295	327	360
16.0%	5,272	5,995	6,718	7,441	8,164	225	257	288	319	350
17.0%	5,181	5,873	6,566	7,259	7,952	221	251	281	311	341
18.0%	5,094	5,758	6,422	7,086	7,750	218	246	275	304	332
	Present value of equity per share					Present value of equity per share				
WACC	3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
14.0%	6,600	8,500	10,400	12,200	14,100	0.30	0.40	0.40	0.50	0.60
15.0%	6,400	8,200	10,000	11,800	13,600	0.30	0.30	0.40	0.50	0.60
16.0%	6,200	7,900	9,600	11,300	13,000	0.30	0.30	0.40	0.50	0.60
17.0%	5,900	7,600	9,200	10,900	12,500	0.30	0.30	0.40	0.50	0.50
18.0%	5,700	7,300	8,900	10,500	12,000	0.20	0.30	0.40	0.40	0.50

Projected Unlevered Free Cash Flows (VNDbn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	2,939	2,146	161	-396	100	37	80	135	498	486	591	650
Taxes on EBIT @ 20.0%	588	429	32	-79	20	7	16	27	100	97	118	130
Earnings before interest	2,351	1,717	129	-317	80	29	64	108	398	388	473	520
Depreciation & provisions	1,162	1,643	921	791	501	576	588	788	970	1,021	997	966
(Profit)/loss from investing	-387	-372	-231	-143	-163	-223	-145	-154	-167	-180	-194	-210
Other adj for oper activities	-180	-1	-462	-707	-154	-153	88	139	220	226	238	242
Cash flow from operations	2,946	2,987	356	-376	263	229	595	881	1,421	1,456	1,513	1,519
Change in working capital	113	-252	641	139	-193	-450	269	-141	-21	-13	-14	-9
Capital expenditures	-1,801	-4,418	-635	-55	-163	-44	-651	-336	-212	-200	-187	-174
Decrease in investments	342	16	-6	64	-27	-63	-52	-56	-61	-65	-71	-76
<b>Unlevered free cash flow</b>	<b>1,599</b>	<b>-1,667</b>	<b>356</b>	<b>-228</b>	<b>-119</b>	<b>-328</b>	<b>160</b>	<b>347</b>	<b>1,127</b>	<b>1,177</b>	<b>1,242</b>	<b>1,259</b>
Forecasted exchange rate	21,388	22,445	22,761	22,698	23,175	23,173	23,266	23,359	23,453	23,547	23,641	23,736
Unlevered FCF (US\$m)	75	-74	16	-10	-5	-14	7	15	48	50	53	53

Firm Value Calculations					
WACC	16.0%	PV of future cash flows (VNDbn)	3,227	2020E Total debt (VNDbn)	4,521
DCF period	5 Yrs	PV of terminal value (VNDbn)	3,616	2020E Cash (VNDbn)	1,849
Terminal EBITDA (VNDbn)	1,519	PV of Firm (VNDbn)	6,843	Terminal value as % of firm value	53.8%
Terminal multiple (x)	5.0x	Current exchange rate (VND)	23,180	Current shares outstanding (mn)	421.5

Cost Of Capital Calculations					
WACC	16.0%	Re-levered beta	1.693	Risk free rate	3.0%
Cost of equity	18.1%	Debt beta	0.449	Market risk premium	8.9%
Cost of debt	7.0%	Unlevered beta	1.459	Target gearing	20.0%
		Statutory corporate tax rate	20.0%	Debt premium	4.0%

Memorandum												
(VNDbn, USDmn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	1.08	1.25	1.45	1.68	1.95	2.26
Present value in VND	0	0	0	0	0	0	149	278	778	701	637	557
Present value in US\$	0	0	0	0	0	0	6	12	33	30	27	23

Source: Company reports, KB Securities Vietnam

## PV Drilling (PVD) – Summarized financials &amp; forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	4,368	5,087	5,709	6,597	Total assets	20,892	21,200	23,670	24,418
Cost of sales	3,918	4,648	5,034	5,455	Current assets	5,705	5,883	8,651	10,044
Gross Profit	450	438	675	1,141	Cash & equivalents	1,890	1,849	1,823	1,940
Financial income	165	168	199	215	ST investments	1,033	1,789	3,460	4,567
Financial expenses	241	258	351	391	Accounts receivable	1,907	1,563	2,345	2,462
of which: interest expenses	158	140	201	230	Inventory	835	645	967	1,015
Gain/(loss) from joint ventures	111	110	59	63	Other current assets	39	37	56	59
Selling expenses	17	9	11	13	Long-term assets	15,187	15,317	15,019	14,373
General & admin expenses	397	349	528	630	LT trade receivables	15	14	20	21
Operating profit/(loss)	71	100	42	385	Fixed assets	13,936	13,775	13,272	12,375
Other income	130	111	171	198	Investment properties	0	0	0	0
Other expense	12	48	17	20	LT incomplete assets	28	233	284	424
Net other income/(expenses)	118	63	154	178	LT investments	1,051	1,192	1,287	1,390
Pretax profit/(loss)	189	163	197	563	Goodwill	0	0	0	0
Income tax	17	37	39	113	Other LT assets	157	104	156	164
Net profit/(loss)	172	126	157	450	Liabilities	6,923	7,114	9,427	9,724
Minority interests	(12)	(18)	(8)	(23)	Current liabilities	2,862	2,921	4,809	4,957
Net profit after MI	184	143	165	473	Trade accounts payable	1,305	1,141	1,712	1,798
					Advances from customers	18	45	68	71
					ST borrowings	521	869	1,769	1,769
					Special reserves	96	77	77	77
					Other current liabilities	923	789	1,184	1,243
					Long-term liabilities	4,061	4,193	4,618	4,767
					LT payables	0	0	0	0
					LT borrowings	3,230	3,653	3,808	3,916
					Other LT liabilities	831	540	810	851
					Shareholders' equity	13,968	14,086	14,243	14,693
					Paid-in capital	4,215	4,215	4,215	4,215
					Share premium	2,434	2,434	2,434	2,434
					Treasury stock	(21)	(21)	(21)	(21)
					Undistributed earnings	3,805	1,956	2,114	2,564
					Reserve & others	3,288	5,260	5,260	5,260
					Minority interests	247	241	241	241
					Total liabilities & equity	20,892	21,200	23,670	24,418
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	(20.6)	16.4	12.2	15.5	Valuations				
EBIT growth	(63.2)	119.1	68.9	267.3	P/E	21.5	27.7	24.0	8.4
EBITDA growth	8.3	6.7	34.4	58.8	P/E diluted	21.3	27.4	23.8	8.3
NP after MI growth	(6.3)	(22.3)	15.3	186.3	P/B	0.3	0.3	0.3	0.3
Gross profit margin	10.3	8.6	11.8	17.3	P/S	0.9	0.8	0.7	0.6
EBITDA margin	14.7	13.5	16.2	22.2	EV/EBITDA	6.2	5.8	4.3	2.7
EBIT margin	0.8	1.6	2.4	7.5	EV/EBIT	108.4	49.5	29.3	8.0
Pre-tax profit margin	4.3	3.2	3.4	8.5	Dividend yield, ordinary (%)	0.1	0.0	0.0	0.0
Net profit margin	4.2	2.8	2.9	7.2	EPS	438	340	392	1,121
					BVPS	33,136	33,415	33,788	34,856
					SPS	10,362	12,066	13,543	15,648
					DPS (annual, ordinary)	7	0	0	0
					Dividend payout ratio (%)	1.5	0.0	0.0	0.0
Cash flow					Operating performance				
(VNDbn)	2019A	2020E	2021E	2022E	ROE	1.3	1.0	1.2	3.3
Net profit	172	126	157	450	ROA	0.9	0.7	0.7	2.0
Plus: depreciation & amort	576	588	788	970	ROIC	0.2	0.4	0.6	2.3
Plus: investing (profit)/loss	(223)	(145)	(154)	(167)	Financial structure				
Change in working capital	(450)	269	(141)	(21)	Total liab/equity	49.6	50.5	66.2	66.2
(Inc)/dec – receivables	(294)	345	(788)	(118)	Net debt/equity	13.3	19.0	26.3	25.5
(Inc)/dec – inventory	(76)	191	(322)	(48)	Current ratio (x)	2.0	2.0	1.8	2.0
(Inc)/dec – other curr assets	(15)	2	(19)	(3)	Interest coverage (x)	0.2	0.6	0.7	2.2
Inc/(dec) – payables	(34)	(164)	571	86	Activity ratios				
Inc/(dec) – advances	(12)	28	23	3	Asset turnover	0.2	0.2	0.3	0.3
Inc/(dec) – other curr liab	(19)	(133)	395	59	Receivables turnover	2.5	2.9	2.9	2.7
Other adj for operations	(1)	(462)	(707)	(154)	Inventory turnover	5.5	6.9	7.1	6.7
Operating cash flow	(77)	925	789	1,452	Payables turnover	3.2	4.1	3.8	3.6
ST investments	(21)	(756)	(1,671)	(1,107)					
Capital expenditures	(44)	(651)	(336)	(212)					
Investment properties	0	0	0	0					
Investment in subsidiaries	(63)	(52)	(56)	(61)					
Other assets	(356)	(36)	(91)	(50)					
Other adj for investments	262	970	1,035	1,117					
Investing cash flow	(223)	(525)	(1,120)	(313)					
Free cash flow	(122)	274	452	1,240					
Issuance/(repayment) of debt	(247)	423	155	108					
ST debt	158	348	900	0					
Other liabilities	(46)	(291)	270	41					
Issuance/(retirement) of equity	383	0	0	0					
Dividends paid	(3)	0	0	0					
Less: changes in equity	(434)	(8)	0	(0)					
Other adj for financing	114	(912)	(1,019)	(1,171)					
Financing cash flow	(75)	(441)	306	(1,022)					
Net increase in cash & equivalents	(375)	(41)	(26)	117					
Cash & equivalents – beginning	2,265	1,890	1,849	1,823					
Cash & equivalents – ending	1,890	1,849	1,823	1,940					

Source: Company reports, KB Securities Vietnam

## KB SECURITIES VIETNAM RESEARCH

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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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