

# PV Transportation (PVT)

## 2Q headline beats but operations in line

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Nguyen Vinh Analyst/ Oil & Gas  
vinhn@kbsec.com.vn

**2Q operations largely in line, maintain BUY rating and adjust down target price modestly to VND16,800**

Results from 2Q core operations were largely in line, with day rates for most routes steady and PVT only cutting shipping rates for shipments to Binh Son Refinery (BSR, BUY, TP VND8,100) as part of an *ad hoc* cost sharing agreement. We maintain our BUY rating but adjust down our 12-month target price to VND16,800 or 2.9% lower from VND17,300 due to management's accounting adjustment to retained earnings. Our target price is based on a mid-cycle P/B multiple derived from our 3-stage DDM and ex-growth P/B multiple after lowering 2020E book value by 3.2% to reflect the accounting adjustment to retained earnings.

**Lower days rates for crude shipments to BSR & FSO *Dai Hung Queen* despite strong headline earnings results**

Despite the addition of new ships, 2Q earnings were flat at VND201 billion (down 2.3% YoY) on sales of VND1,829 billion (down by 17.6% YoY) due to lower day rates for crude shipments to BSR's *Dung Quat Refinery* and the *Dai Hung Queen* FSO (Floating Storage Offloading) platform. Headline 2Q earnings beat by 53% mainly due to a one-off jump in financial income (up 73% YoY). Reported gross profit at VND251 billion was in line with our VND259 billion estimate.

**Adjust full-year 2020E earnings higher by 7% on one-off financial income; interest expenses pushed back to 3Q/4Q on delayed new ship purchases**

We increase our full-year 2020E earnings by 7% to VND578 billion or VND2,052 per share from VND535 billion or VND1,902 per share to reflect 2Q's one-off financial income. We also keep overall 2020E interest expenses the same but push back the timing of financing costs to 3Q/4Q with the delayed purchase of new ships due to the coronavirus. Our quarterly forecasts fall by 16% to VND81bn in 3Q and 6% to VND228bn in 4Q. Forecasts for 2021E-2025E remain unchanged.

**Buy** maintain

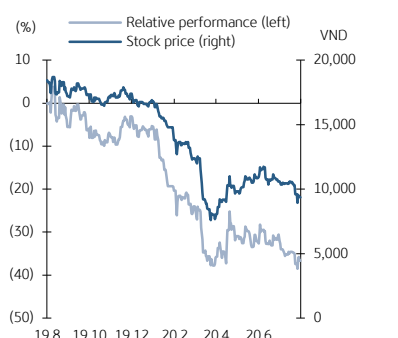
<b>Target Price</b>	<b>VND16,800</b>
Total return (%)	90.4%
Current price (Jul 31)	VND9,350
Consensus target price	VND12,800
Mkt capitalization (USDbn)	USD114mn

<b>Trading data</b>	
Free float (%)	44.0%
Avg trading value (3M)	USD0.65mn
Foreign available (%)	26.4%
Major shareholders (%)	PetroVietnam (51%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	-11.8	-4.9	-32.2	-49.3
Relative	-8.8	-8.4	-20.5	-36.7

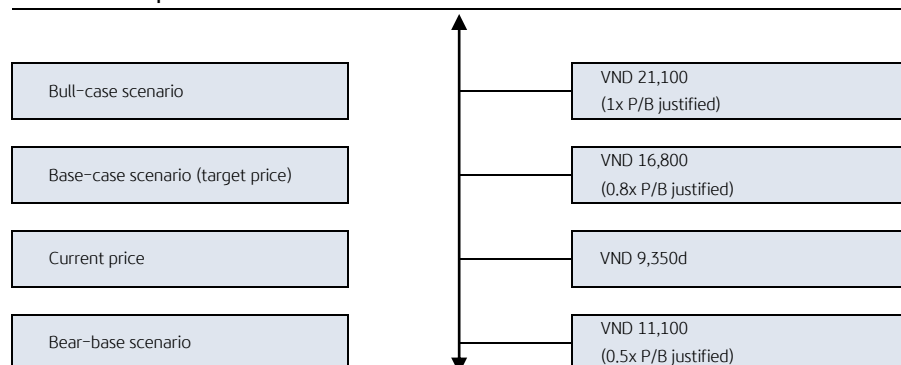
### Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	7,758	7,102	8,561	10,700
EBIT	928	911	1,212	1,681
NP attributable to parent	690	578	699	971
EPS (VND)	2,450	2,052	2,485	3,451
EPS growth (%)	5.8	(16.3)	21.1	38.9
P/E (x)	3.8	4.6	3.8	2.7
EV/EBITDA (x)	2.7	3.1	3.6	3.0
P/B (x)	0.5	0.4	0.4	0.4
ROE (%)	12.7	10.0	11.3	14.3
Div yield (%)	12.9	10.7	12.8	15.0



Source: Bloomberg, KB Securities Vietnam

## Investment opinion &amp; risks



## Base-case scenario: catalysts

- 1) Brent prices above USD55 in 2021E
- 2) 4Q earnings recovery
- 3) Recovery in freight rates

## Bull-case scenario: upside risk

- 1) Brent prices above USD55 in 2020E
- 2) Strong freight rates
- 3) Correction in used VLCC prices

## Bear-case scenario: downside risk

- 1) Coronavirus second wave
- 2) Weak freight rates
- 3) Spike in used VLCC prices

## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,102	8,561	7,138	8,561	(0.5)	0.0
EBIT	911	1,212	934	1,212	(2.4)	0.0
OP	814	1,001	795	1,001	2.3	(0.0)
NP after MI	578	699	538	699	7.3	(0.0)

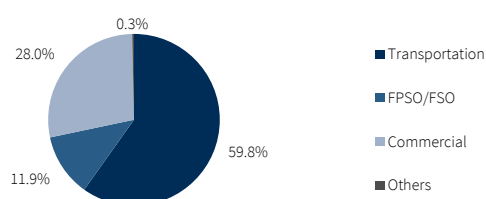
Source: Bloomberg, KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,102	8,561	6,567	7,455	8.1	14.8
EBIT	911	1,212	758	892	20.2	35.8
OP	814	1,001	739	882	10.1	13.5
NP after MI	578	699	437	527	32.2	32.7

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
PVT VN	0.1	5.7	-6.9	9.5	0.5
GAS VN	5.4	14.6	-5.7	17.7	2.5
PLX VN	2.2	19.6	0.0	11.9	1.9
PVS VN	0.2	6.4	-7.5	6.6	0.4
PVD VN	0.2	21.9	13.8	0.9	0.3
BSR VN	0.8	-6.7	-18.7	2.1	0.6

Source: Bloomberg, KB Securities Vietnam

### Headline 2Q earnings beat our forecast by 52.6% due to one-off financial income

Headline 2Q earnings were VND201 billion and 53% higher than our estimate mainly due to the jump in financial income. Gross profit was largely in line with our forecast at VND251 billion and reflects our expectations for a cut in day rates for shipments to Binh Son Refinery's (BSR) *Dung Quat* refinery and lower day rates for the *Dai Hung Queen* FSO (Floating Storage Offloading) platform. PVT agreed to lower shipping rates for crude oil shipments to BSR's *Dung Quat* refinery to help ease BSR's losses arising from the sharp drop in oil and ex-factory product prices during the quarter. This *ad hoc* agreement is likely to continue into 3Q. Lower oil prices during 2Q also led to lower day rates for the *Dai Hung Queen* FSO platform and weakness should also continue into 3Q before rebounding in 4Q, by our estimates. PVT recorded VND108 billion in financial income or up 73% YoY due to what we expect was excess cash holdings due to the delayed purchase of new ships. Financial income should return to normal levels when the new ship purchases are completed in 3Q and 4Q.

Table 1. PV Transportation (PVT) – 2Q2020 Quarterly earnings review (VND billion, %)

(VND bn, %)	2Q19	1Q20	2Q20				Difference		
			Actual	KBSV est.	Consensus	YoY	QoQ	KBSV est.	Consensus
Sales	2,220	1,578	1,829	1,865	0	-17.6	15.9	-1.9	na
GP	302	226	251	259	0	-16.8	11.3	-2.8	na
EBIT	254	177	185	208	0	-27.2	4.8	-10.8	na
OP	287	120	270	186	0	-5.8	124.2	44.8	na
EBITDA	539	287	761	453	0	41.1	165.0	68.0	na
NP after MI	205	67	201	131	0	-2.3	197.2	52.6	na
GPM	13.6	14.3	13.7	13.9	na				
EBIT margin	11.5	11.2	10.1	11.1	na				
OPM	12.9	7.6	14.8	10.0	na				
NPM	9.2	4.3	11.0	7.0	na				

Source: Company reports, KB Securities Vietnam

### Raise 2020E earnings by 7% for the one-off financial income and also push back financing costs for new ship purchases to 3Q/4Q

Our 2020E full-year earnings forecasts increase by 7% to VND578 billion or VND2,052 per share from VND535 billion or VND1,902 per share after including 2Q's one-off financial income. Full-year interest expenses remain the same but the timing of additional financing costs are pushed back to 3Q/4Q when we expect management will be able to complete the purchase of its new ships. Our new quarterly earnings forecasts are down 16% to VND81 billion for 3Q and down 6% to VND228 billion for 4Q after these changes. Our 12-month target price is also revised down to VND16,800 from VND17,300 due to management's downward adjustment to retained earnings that lowers our 2020E book value per share by 3% to VND21,003. We generate our target price using a mid-cycle P/B multiple that is the average value from our three-stage dividend discount model (ie, fully growth-loaded valuation) and ex-growth valuation. We continue to believe PVT will likely witness another quarter of weakness in 3Q due to August's maintenance shutdown at BSR – that will also reduce PVT's crude oil shipments – before sustainable recovery takes hold from 4Q onwards and reiterate our Buy recommendation.

**Table 2. PV Transportation (PVT) – 3Q & 4Q 2020E Quarterly revised earnings estimates (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	3Q20E	4Q20E	3Q20E	4Q20E	3Q20E	4Q20E
Revenue	1,569	2,126	1,569	2,126	0.0	0.0
EBIT	163	387	163	387	(0.0)	0.0
OP	106	317	136	352	(21.9)	(10.0)
NP after MI	81	228	97	242	(16.3)	(5.7)

Source: Company reports, KB Securities Vietnam

**Table 3. PV Transportation (PVT) – 2020E & 2021E Yearly revised earnings estimates (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,102	8,561	7,138	8,561	(0.5)	0.0
EBIT	911	1,212	934	1,212	(2.4)	0.0
OP	814	1,001	795	1,001	2.3	0.0
NP after MI	578	699	538	699	7.3	0.0

Source: Company reports, KB Securities Vietnam

**PVT may only be able to complete 6 out of 13 planned new ship purchases due to the coronavirus**

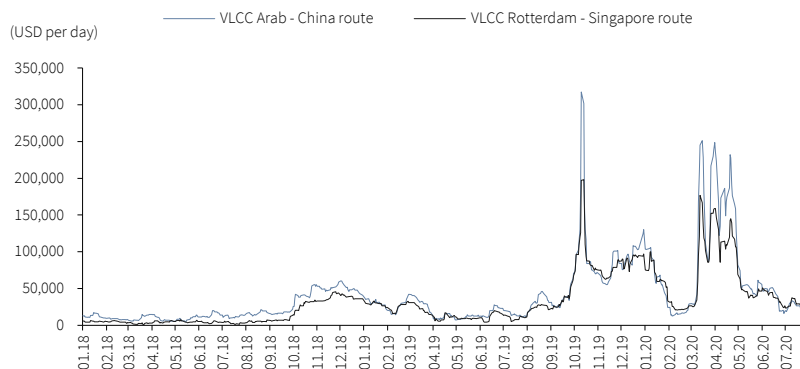
Management originally planned to purchase 13 new ships in 2020E but we believe PVT may only be able to complete purchase of six new vessels this year due to delays from the coronavirus. Of these, the most important ship purchase will be the VLCC (Very Large Crude Carriers) that will be needed to extend its long-term crude oil contract with Nghi Son Refinery (NSR, Unlisted). We expect management will be able to successfully buy a used VLCC within this year with USD42 million ear marked for the purchase. This should allow PVT to boost margins by using its own ship to secure a long-term contract with NSR to transport 2.5 million tons of crude per year. Currently, PVT transports crude to the Nghi Son Refinery using a ship leased from SK Shipping (Unlisted) for low profitability/margins.

**Table 4. PV Transportation (PVT) – Fleet expansion plans, 2020E–2021E (vessels, dry weight tons in thousands)**

Type	Current fleet		New tonnage		Expected fleet size	
	Quantity	DWT (thous)	Quantity	DWT (thous)	Quantity	DWT (thous)
Crude oil tanker	4	418	3	560	7	978
Product carrier	11	190	7	133	18	323
LPG carrier	14	47	2	170	16	217
Bullk carrier	2	85	1	15	3	98
FPSO/FSO	2	199	0	0	2	199
<b>Total</b>	<b>33</b>	<b>938</b>	<b>13</b>	<b>878</b>	<b>46</b>	<b>1,816</b>

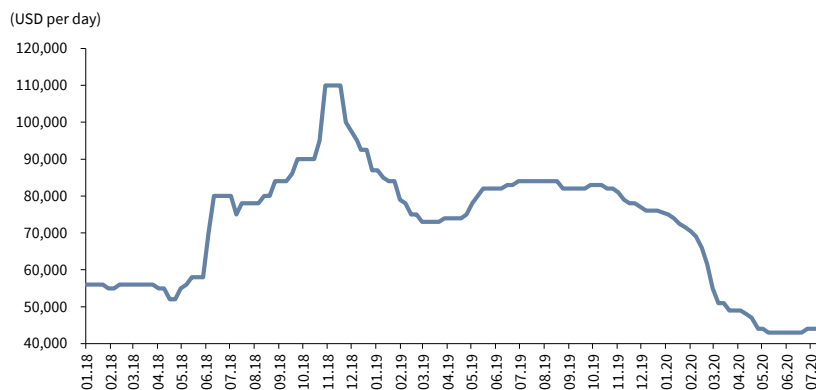
Source: Company reports, KB Securities Vietnam

**Fig 1. PV Transportation (PVT) – VLCC tanker day rates of Arabian Gulf–China route & Rotterdam–Singapore route, Jan 2018–July 2020 (USD)**



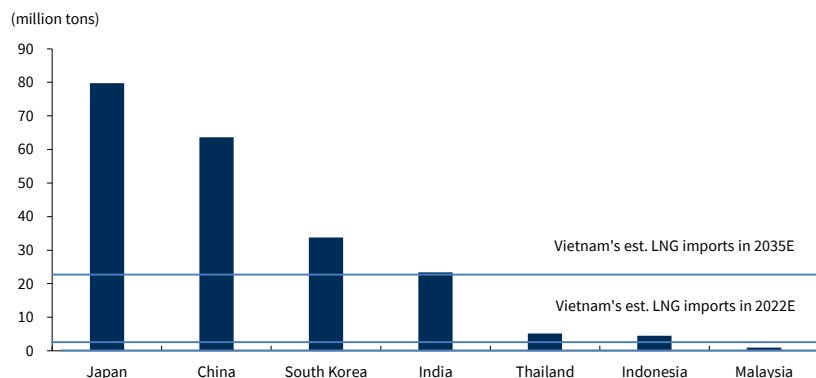
VLCC = Very Large Crude Carrier  
 Source: Bloomberg, KB Securities Vietnam

**Fig 2. PV Transportation (PVT) – US LNG tanker day rates, Jan 2018–Jul 2020 (USD)**



Source: Bloomberg, KB Securities Vietnam

**Fig 3. PV Transportation (PVT) – Asia LNG imports by country, 2019 (million tons)**



Source: Bloomberg, KB Securities Vietnam

## PV Transportation (PVT) – Three-stage dividend discount model

## PV OF DIVIDENDS

Cost of Equity	Sustainable growth						
	0.6%	1.1%	1.6%	2.1%	2.6%	3.1%	3.6%
11.7%	6,442	6,608	6,790	6,991	7,215	7,464	7,744
12.2%	6,127	6,273	6,432	6,607	6,800	7,015	7,255
12.7%	5,842	5,970	6,110	6,263	6,431	6,616	6,823
13.2%	5,581	5,695	5,818	5,952	6,099	6,261	6,439
13.7%	5,344	5,444	5,553	5,671	5,800	5,941	6,096
14.2%	5,126	5,215	5,312	5,416	5,530	5,654	5,789
14.7%	4,926	5,006	5,092	5,184	5,284	5,393	5,512

## PV OF EQUITY PER SHARE

Cost of Equity	Sustainable growth							Ex-growth
	0.6%	1.1%	1.6%	2.1%	2.6%	3.1%	3.6%	
11.7%	22,900	23,500	24,100	24,800	25,600	26,500	27,500	0.5x
12.2%	21,800	22,300	22,900	23,500	24,200	24,900	25,800	11,100
12.7%	20,800	21,200	21,700	22,300	22,800	23,500	24,200	18.7%
13.2%	19,800	20,200	20,700	21,100	21,700	22,200	22,900	Mid-cycle
13.7%	19,000	19,300	19,700	20,200	20,600	21,100	21,700	0.8x
14.2%	18,200	18,500	18,900	19,200	19,600	20,100	20,600	16,800
14.7%	17,500	17,800	18,100	18,400	18,800	19,200	19,600	79.7%

Projected Distributions (VNDbn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Net income	368	416	450	652	690	578	699	971	975	1,176	1,336
Preferred dividend paid – cash	0	0	0	0	0	0	0	0	0	0	0
Preferred dividend per share	0	0	0	0	0	0	0	0	0	0	0
% of par value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Internally-generated capital	368	416	450	652	690	578	699	971	975	1,176	1,336
Less: capital @ 100% D/E	-249	-656	-272	298	445	1,363	1,458	932	362	330	298
Cash for dividends/buybacks	618	1,072	722	354	244	0	0	39	613	846	1,038
Common dividend paid – cash	41	232	305	311	340	281	338	394	450	507	563
Common dividend per share	146	824	1,083	1,106	1,209	1,000	1,200	1,400	1,600	1,800	2,000
% of par value	1.5%	8.2%	10.8%	11.1%	12.1%	10.0%	12.0%	14.0%	16.0%	18.0%	20.0%
Payout ratio	11.2%	55.8%	67.7%	47.7%	49.3%	48.7%	48.3%	40.6%	46.2%	43.1%	42.1%
Net share buybacks	0	0	0	0	0	0	0	0	0	0	0
Total distributions	41	232	305	311	340	281	338	394	450	507	563
Net distribution ratio (%)	11.2%	55.8%	67.7%	47.7%	49.3%	48.7%	48.3%	40.6%	46.2%	43.1%	42.1%
Discount factor	0.00	0.00	0.00	0.00	0.00	1.06	1.20	1.36	1.54	1.75	1.98
Present value	0	0	0	0	0	265	280	289	292	290	284

Cost of equity	Terminal Assumptions	Share Information
Risk free rate	Sustainable ROE	PV of future dividend flows (VNDbn)
Equity risk premium	Dividend payout ratio	PV of terminal value (VNDbn)
Unlevered beta	Sustainable growth	Terminal value as % of firm value
Re-levered beta	Forecast period growth	Current shares outstanding (mn)
Cost of equity	Target gearing	Statutory corporate tax rate
Forecast period	Transition period	

Memorandum (VNDbn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Reported common equity	4,325	4,333	4,662	5,140	5,691	5,862	6,367	7,143	7,868	8,779	9,825
Debt/equity ratio	83.6%	68.4%	57.7%	58.1%	60.3%	81.8%	98.2%	100.6%	95.9%	89.8%	83.2%
Debt	3,618	2,962	2,690	2,988	3,433	4,797	6,255	7,187	7,549	7,879	8,177
YoY % Change	-6.5%	-18.1%	-9.2%	11.1%	14.9%	39.7%	30.4%	14.9%	5.0%	4.4%	3.8%

Source: Company reports, KB Securities Vietnam

## PV Transportation (PVT) – Summarized financials &amp; forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	7,758	7,102	8,561	10,700	Total assets	10,997	13,228	15,415	17,385
Cost of sales	6,567	5,975	7,159	8,818	Current assets	3,841	4,742	4,607	6,635
Gross Profit	1,191	1,127	1,402	1,882	Cash & equivalents	1,208	1,274	1,312	1,903
Financial income	221	160	153	156	ST investments	1,479	2,073	1,984	3,171
Financial expenses	193	271	363	439	Accounts receivable	865	1,177	1,019	1,183
of which: interest expenses	169	218	329	403	Inventory	127	115	121	158
Gain/(loss) from joint ventures	34	14	0	0	Other current assets	162	102	170	221
Selling expenses	14	8	9	11	Long-term assets	7,157	8,486	10,808	10,750
General & admin expenses	249	208	182	191	LT trade receivables	14	26	27	35
Operating profit/(loss)	990	814	1,001	1,398	Fixed assets	6,781	6,545	7,043	7,847
Other income	34	50	63	79	Investment properties	0	0	0	0
Other expense	7	14	10	13	LT incomplete assets	0	1,543	3,353	2,424
Net other income/(expenses)	26	37	53	66	LT investments	199	203	207	211
Pretax profit/(loss)	1,016	850	1,054	1,464	Goodwill	0	0	0	0
Income tax	195	168	211	294	Other LT assets	163	170	179	232
Net profit/(loss)	821	683	843	1,170	Liabilities	5,306	7,316	8,999	10,193
Minority interests	131	105	143	199	Current liabilities	2,523	2,973	3,357	3,511
Net profit after MI	690	578	699	971	Trade accounts payable	796	1,106	1,161	1,072
					Advances from customers	49	35	49	63
					ST borrowings	1,015	1,027	1,027	1,027
					Special reserves	107	150	150	150
					Other current liabilities	557	655	971	1,199
					Long-term liabilities	2,784	4,343	5,641	6,681
					LT payables	236	445	279	347
					LT borrowings	2,419	3,770	5,228	6,160
					Other LT liabilities	129	128	134	174
					Shareholders' equity	5,691	5,911	6,416	7,192
					Paid-in capital	2,814	2,814	2,814	2,814
					Share premium	0	0	0	0
					Treasury stock	0	0	0	0
					Undistributed earnings	991	1,015	1,520	2,296
					Reserve & others	576	773	773	773
					Minority interests	1,310	1,308	1,308	1,308
					Total liabilities & equity	10,997	13,228	15,415	17,385
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	3.1	(8.5)	20.5	25.0	Valuations				
EBIT growth	15.7	(1.8)	33.0	38.7	P/E	3.8	4.6	3.8	2.7
EBITDA growth	19.7	10.7	7.5	24.2	P/E diluted	3.8	4.6	3.8	2.7
NP after MI growth	5.8	(16.3)	21.1	38.9	P/B	0.5	0.4	0.4	0.4
Gross profit margin	15.4	15.9	16.4	17.6	P/S	0.3	0.4	0.3	0.2
EBITDA margin	23.0	27.8	24.8	24.6	EV/EBITDA	1.5	1.3	1.2	1.0
EBIT margin	12.0	12.8	14.2	15.7	EV/EBIT	2.8	2.9	2.2	1.6
Pre-tax profit margin	13.1	12.0	12.3	13.7	Dividend yield, ordinary (%)	12.9	10.7	12.8	15.0
Net profit margin	8.9	8.1	8.2	9.1	EPS	2,450	2,052	2,485	3,451
					BVPS	20,221	21,004	22,797	25,555
					SPS	27,567	25,235	30,418	38,020
					DPS (annual, ordinary)	1,209	1,000	1,200	1,400
					Dividend payout ratio (%)	49.3	48.7	48.3	40.6
					Operating performance				
					ROE	12.7	10.0	11.3	14.3
					ROA	6.5	4.8	4.9	5.9
					ROIC	10.9	9.0	9.8	11.8
					Financial structure				
					Total liab/equity	93.2	123.8	140.3	141.7
					Net debt/equity	39.1	59.6	77.0	73.5
					Current ratio (x)	1.5	1.6	1.4	1.9
					Interest coverage (x)	5.5	4.2	3.7	4.2
					Activity ratios				
					Asset turnover	0.7	0.6	0.6	0.7
					Receivables turnover	7.9	7.0	7.8	9.7
					Inventory turnover	55.8	58.6	72.3	76.7
					Payables turnover	8.2	7.2	7.3	9.1
Cash flow									
(VNDbn)	2019A	2020E	2021E	2022E					
Net profit	821	683	843	1,170					
Plus: depreciation & amort	863	1,106	909	953					
Plus: investing (profit)/loss	(195)	(202)	(240)	(245)					
Change in working capital	(51)	352	301	(37)					
(Inc)/dec – receivables	218	(324)	157	(172)					
(Inc)/dec – inventory	24	12	(6)	(36)					
(Inc)/dec – other curr assets	(3)	60	(68)	(51)					
Inc/(dec) – payables	(253)	520	(111)	(21)					
Inc/(dec) – advances	31	(14)	14	15					
Inc/(dec) – other curr liab	(49)	99	315	228					
Other adj for operations	19	2	(140)	(118)					
Operating cash flow	1,179	1,225	1,558	1,182					
ST investments	93	(594)	89	(1,187)					
Capital expenditures	(2,008)	(2,369)	(3,218)	(829)					
Investment properties	0	0	0	0					
Investment in subsidiaries	(9)	(4)	(4)	(4)					
Other assets	(36)	(7)	(9)	(54)					
Other adj for investments	437	538	80	82					
Investing cash flow	(1,523)	(2,436)	(3,061)	(1,992)					
Free cash flow	(829)	(1,144)	(1,660)	353					
Issuance/(repayment) of debt	94	1,351	1,458	932					
ST debt	351	12	0	0					
Other liabilities	60	(1)	6	40					
Issuance/(retirement) of equity	0	0	0	0					
Dividends paid	(340)	(281)	(338)	(394)					
Less: changes in equity	71	(181)	(0)	0					
Other adj for financing	37	378	415	822					
Financing cash flow	274	1,277	1,542	1,400					
Net increase in cash & equivalents	(70)	66	38	590					
Cash & equivalents – beginning	1,278	1,208	1,274	1,312					
Cash & equivalents – ending	1,208	1,274	1,312	1,903					

Source: Company reports, KB Securities Vietnam

## KB SECURITIES VIETNAM RESEARCH

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**Head of Research – Nguyen Xuan Binh**

binhnx@kbsec.com.vn

### **Macro/Strategy**

**Head of Macro & Strategy – Tran Duc Anh**

anhtd@kbsec.com.vn

**Macro Analyst – Thai Thi Viet Trinh**

trinhhtt@kbsec.com.vn

**Market Strategist – Le Anh Tung**

tungla@kbsec.com.vn

### **Equity (Hanoi)**

**Head of Equity Research (Hanoi) – Duong Duc Hieu**

hieudd@kbsec.com.vn

**Information Technology & Logistics Analyst – Nguyen Anh Tung**

tungna@kbsec.com.vn

**Property Analyst – Pham Hoang Bao Nga**

ngaphb@kbsec.com.vn

**Power & Construction Material Analyst – Le Thanh Cong**

congltt@kbsec.com.vn

**Financials Analyst – Nguyen Thi Thu Huyen**

huyenntt@kbsec.com.vn

### **Equity (Ho Chi Minh)**

**Head of Equity Research (Ho Chi Minh) – Harrison Kim**

harrison.kim@kbf.com

**Consumer & Retailing Analyst – Dao Phuc Phuong Dung**

dungdpp@kbsec.com.vn

**Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh**

danhnt@kbsec.com.vn

**Oil & Gas & Chemicals Analyst – Nguyen Vinh**

vinhn@kbsec.com.vn

### **Research Marketing**

**Korea Marketing Analyst – Seon Yeong Shin**

shin.sy@kbsec.com.vn



## KB SECURITIES VIETNAM (KBSV)

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### Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

## 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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