

**ASIA COMMERCIAL JSB - ACB**
**Add**
**Steady as she goes**

FINANCIALS | Update

Target price (12M)

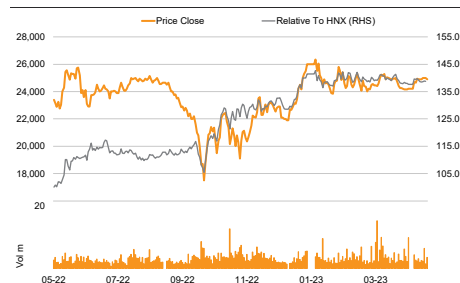
**VND30,000**

Consensus\*: Add:13 Hold:0 Reduce:0

Target price / Consensus: -5.8%

**Key changes in the report**

Previous rating	Add
Previous TP	VND30,000
Current price	VND25,050
52w high (VND)	26,350
52w low (VND)	17,500
3m Avg daily value (VNDmn)	88,889
Market cap (VNDbn)	84,436
Free float	76%
Dividend yield	0.0%
TTM P/E (x)	5.8
Current P/B (x)	1.3

**Price performance**


Source: VND RESEARCH

**Ownership**

Chairman and related parties	11.3%
Dragon Financial Holdings Limited	6.9%
Whistler Investments Limited	5.0%
Others	76.8%

Source: VND RESEARCH

**Analyst(s):**

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- ACB's 1Q23 net profit surged 25.8% yoy to VND4,135bn - filling 26.6% of our FY23F forecast.
- We expect ACB's Net profit (NP) to grow 14-15% yoy over FY23-24F (FY20-22 CAGR of 33.5%).
- Reiterate ADD with unchanged TP of VND30,000.

**Robust 1Q23 earnings growth mostly thanks to better CIR...**

ACB's 1Q23 net profit (NP) surged 25.8% yoy to VND4,135bn (filling 27% of our FY23F forecast) thanks to a healthier CIR (32% vs. 1Q22 of 40%). Although 1Q23 provisioning expenses recorded VND256bn (vs. 1Q22's reversal of VND2.84bn), the provision/PPOP ratio was only 4.7% - much lower than the previous quarters during 2020-21 (except 2022 as a year of provisioning reversal).

**...despite a slowdown in loan growth**

Despite a flat NIM and resilient non-IL growth (+21% yoy), TOI only increased 15.6% yoy - much lower than NP growth due to a slowdown in loan expansion (+8.2% yoy - figure 6). The weakening economy has dampened consumer spending and the ability to fulfill obligations, thus diminishing loan demand. Otherwise, banks will be more conservative to lend this group to minimize bad debt in this circumstance. As a prominent retail banking name, ACB's credit balances narrowed by 1% ytd at end-1Q23. Its asset quality also showed negative signals at end-1Q23 (figure 6). However, we expect things will get better since 2H23 as (1) the SBV had two reductions in its policy rates, marking a reversal in the monetary policy; and (2) more supportive policies come out.

**A solid banking model is still maintained**

ACB is well-known as the most conservative bank, reflected in its sound asset portfolio with no exposure to property developers' corporate bonds (CB). Otherwise, the property loan proportion mainly comes from the mortgage (c.22% at-end FY22), not heavily focusing on developers. In addition, liquidity position has been strengthened as ACB has actively diversified its funding mix to borrow from interbank, CDs besides customer deposits (figure 6). In terms of deposits, individuals tend to "save money" in the context of a high interest rate environment and weak economic growth (individual deposits have continued their growth momentum until Feb-2023 – see our note [here](#)). This trend will benefit the liquidity of banks owning a large proportion of individual deposits like ACB (c.80% funding mix).

**Reiterate ADD with a TP of VND30,000**

We expect ACB's NP to grow 14%/15% yoy in FY23-24F (from 2020-22 CAGR of 33.5%). Currently, ACB's valuation is 1.2x P/B FY23F (vs. average peers of 1.4x), this level still belongs to -1SD range of the 3-year P/B average. Given its capacity to deliver robust profitability and a healthy balance sheet, we believe ACB is still a potential name for investors to accumulate for a sustainable high-growth and high-return in the long run. Our TP is based on the combination of FY23F P/B of 1.4x and residual income valuation approach (COE: 14.8%, LTG: 3%), weighting equally. Downside risks include (1) higher-than-expected interest rates and (2) higher-than-expected bad debt spike.

Financial summary (VND)	12-21A	12-22A	12-23E	12-24E
Net interest income (bn)	18,945	23,534	26,046	30,370
Net interest margin	4.0%	4.3%	4.1%	4.2%
Total operating income (bn)	23,564	28,790	31,181	36,412
Total provision charges (bn)	(3,336)	(71)	(816)	(914)
Net profit (bn)	9,603	13,688	15,557	17,908
Net profit growth	25.0%	42.5%	13.7%	15.1%
Adjusted EPS	3,498	4,454	4,562	5,258
BVPS	16,618	17,303	20,959	26,261
ROAE	23.9%	26.5%	24.1%	22.5%

Source: VNDIRECT RESEARCH

## Steady as she goes

### Reiterate Add with unchanged TP of VND30,000

Combining with a 50% of P/B approach (1.4x P/B FY23F) and 50% residual income approach (COE: 14.8%, LTG: 3%), we derive a TP of VND30,000 for ACB. Currently, ACB's valuation is 1.2x P/B FY23F (vs. average peers of 1.4x), this level still belongs to -1SD range of the 3-year P/B average. Given its capacity to deliver robust profitability and a healthy balance sheet, we believe ACB is still a potential name for investors to accumulate for a sustainable high-growth and high-return in the long run. Our TP is based on the combination of FY23F P/B of 1.4x and residual income valuation approach (COE: 14.8%, LTG: 3%), weighting equally. Downside risks include (1) higher-than-expected interest rates and (2) higher-than-expected bad debt spike.

**Figure 1: Key assumptions of residual income valuation**

Assumptions	2023F	2024F	2025F	2026F	2027F	Terminal year
Risk free rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	0.98	0.98	0.98	0.98	0.98	0.98
Cost of equity	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%
Long-term growth rate						3.0%
Opening shareholder's equity	58,439					
PV of RI (5 years)	25,475					
PV of Terminal value	20,964					
Implied EV	104,878					
No. of o/s shares (m shares)	3,377					
Implied value per share (VND/share)	31,053					

Source: VNDIRECT RESEARCH

**Figure 2: Target price calculation, based on our estimates**

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	31,053	15,526
P/B multiple (at 1.4x FY23F BVPS)	50%	28,924	14,462
Target price (VND/share)			29,988
Target price (VND/share, rounded)			<b>30,000</b>

Source: VNDIRECT RESEARCH

**Figure 1: Vietnam bank comparison (price as of 19/05)**

/2023)

Banks	Bloomberg Code	Price Latest	Target Price	Recommendation	Market cap (US\$bn)	P/B (x)					3-yr fw CAGR		ROE %		ROA %	
						Current	FY23F	T12M	FY23F		EPS %		FY22	FY23F	FY22	FY23F
		LC	LC													
Vietcombank	VCB VN	94,200	91,000	HOLD	19.0	3.1	2.6	14.4	13.2	11.4%	23.6%	19.3%	1.9%	1.6%		
Vietinbank	CTG VN	28,000	35,900	ADD	5.7	1.2	1.1	8.0	9.6	13.3%	16.1%	16.8%	1.0%	1.1%		
Vietnam Prosperity JSB	VPB VN	19,300	25,700	ADD	5.5	1.3	1.2	10.7	7.6	13.3%	12.9%	16.3%	1.9%	2.5%		
Techcombank	TCB VN	29,650	42,000	ADD	4.4	0.9	0.8	5.4	4.8	12.3%	17.8%	17.9%	2.9%	3.0%		
Military Commercial JSB	MBB VN	18,650	29,300	ADD	3.6	1.0	0.9	4.7	4.5	16.5%	24.8%	23.1%	2.5%	2.6%		
Asia Commercial JS Bank	ACB VN	24,950	30,000	ADD	3.6	1.3	1.2	5.8	5.8	15.4%	26.3%	24.1%	2.6%	2.4%		
HDBank	HDB VN	19,400	25,000	ADD	2.1	1.2	1.1	6.2	7.6	17.9%	22.6%	23.2%	1.9%	2.2%		
Vietnam International Commercial JSB	VIB VN	21,400	27,000	ADD	1.9	1.4	1.2	5.1	4.6	15.5%	29.7%	29.3%	2.5%	2.6%		
Tien Phong Commercial JSB	TPB VN	23,450	31,000	ADD	1.6	1.1	1.0	5.8	5.2	16.0%	20.9%	20.2%	2.0%	2.1%		
LienViet Post Bank	LPB VN	14,000	17,400	ADD	1.0	1.0	0.9	5.1	5.8	6.8%	19.9%	17.5%	1.4%	1.3%		
Average						1.4	1.2	7.1	6.9	13.8%	21.5%	20.8%	2.1%	2.1%		
Median						1.2	1.1	5.8	5.8	13.8%	21.5%	20.2%	2.0%	2.2%		

Source: VNDIRECT RESEARCH

## 1Q23 recap: slightly above expectations

Figure 4: Results comparison (VNDbn unless otherwise noted)

Profit & Loss statement	1Q23	1Q22	% yoy	FY23F forecasts	2022	% yoy	% of VND forecasts	Comments
Net interest income (NII)	6,215	5,441	14.2%	26,046	23,534	10.7%	23.9%	In line with our forecast
Non-interest income (Non-II)	1,705	1,409	21.0%	5,135	5,257	-2.3%	33.2%	Higher than our forecast
Total Operating Income	7,920	6,850	15.6%	31,181	28,790	8.3%	25.4%	
Operation expenses	(2,508)	(2,739)	-8.4%	(10,913)	(11,605)	-6.0%	23.0%	
Pre-provision profit	5,413	4,111	31.7%	20,268	17,185	17.9%	26.7%	
Provision expenses	(256)	3	n.a	(816)	(71)	1052.9%	31.4%	1Q22 aggressively reversed provisions
Pre-tax profit	5,157	4,114	25.3%	19,451	17,114	13.7%	26.5%	
Net profit	4,135	3,288	25.8%	15,557	13,688	13.7%	26.6%	Slightly higher than our forecast

Source: ACB, VNDIRECT RESEARCH

Figure 5: ACB's key ratios by quarters

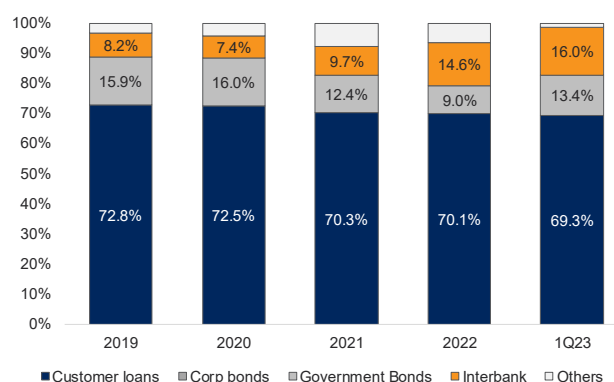
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
NII/TOI	78.1%	75.9%	81.0%	85.0%	81.7%	80.1%	79.4%	80.3%	79.4%	81.0%	85.1%	81.4%	78.5%
Non-II/TOI	21.9%	24.1%	19.0%	15.0%	18.3%	19.9%	20.6%	19.7%	20.6%	19.0%	14.9%	18.6%	21.5%
NIM (annualised)	3.68%	3.47%	3.50%	3.65%	4.29%	4.34%	4.21%	4.01%	4.22%	4.23%	4.30%	4.26%	4.20%
CIR	53.9%	43.1%	38.6%	33.9%	34.6%	25.6%	39.6%	40.5%	40.0%	32.9%	35.6%	51.3%	31.7%
NPL ratio	0.7%	0.7%	0.8%	0.6%	0.9%	0.7%	0.8%	0.8%	0.8%	0.8%	1.0%	0.7%	1.0%
Loan loss reserve (LLR)	148.3%	144.1%	117.5%	160.3%	120.4%	207.7%	197.7%	209.4%	187.8%	185.1%	137.8%	159.3%	116.6%
Credit cost (annualised)	0.14%	0.39%	0.33%	0.32%	0.76%	1.22%	1.16%	0.99%	0.00%	-0.14%	-0.06%	0.02%	0.25%
Provisions/PPOP	4.59%	18.83%	5.88%	7.20%	16.33%	29.91%	23.87%	14.75%	-0.07%	-5.75%	1.98%	6.49%	4.73%
ROAA (trailing 12m)	1.6%	1.6%	1.7%	1.9%	2.1%	2.2%	2.1%	2.0%	2.1%	2.3%	2.5%	2.5%	2.5%
ROAE (trailing 12m)	24.0%	22.4%	22.8%	24.6%	25.9%	27.3%	25.7%	23.9%	24.3%	25.8%	27.2%	26.4%	26.2%

Source: ACB, VNDIRECT RESEARCH

Figure 6: ACB's key balance sheet KPIs analysis

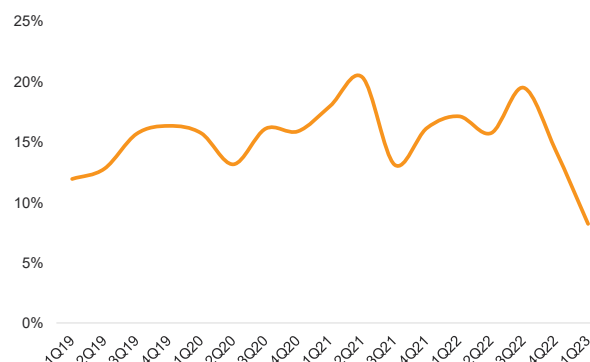
### Earning asset (IEA) mix

- ACB's earnings asset only grew 0.5% ytd at end-1Q23, in which an interbank increased 10% ytd and government bond (GB) surged 49% ytd. However, loans to customers decreased by 1% ytd to make up 69% IEA mix (vs. 70% at end-FY22).
- ACB is still a net-borrower in the interbank market.
- ACB does not include CB in its IEA mix.



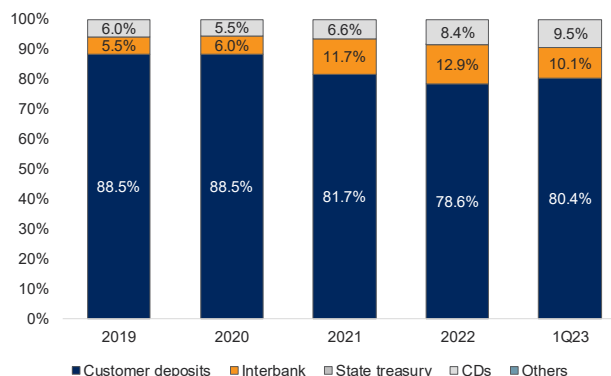
### Credit mix vs. growth

- Credit balances narrowed 1% ytd at end-1Q23 mostly due to individuals lending segment (c.-5% ytd).
- The weakening economy has dampened consumer spending and the ability to fulfill debt obligations, diminishing loan demand. On the other hand, banks will be more conservative to lend this group to minimize bad debt risks in this circumstance.



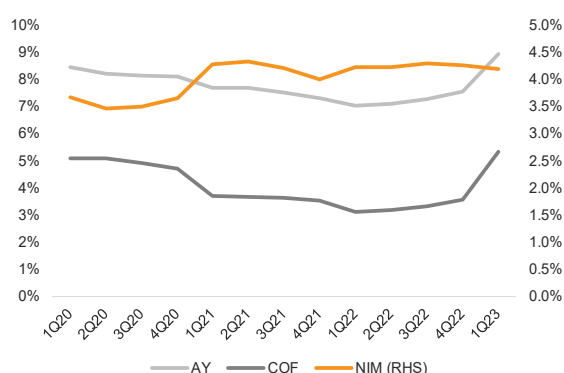
### Funding mix, deposit and CASA

- ACB's deposit growth: 2.1% ytd (vs. flat growth of total funding). Instead of relying on customer deposit channels, ACB is trying to diversify its funding mix i.e. increasing interbank and CDs sources during recent years.
- LDR has been maintained at 78% at end-1Q23 (the same level as at end-FY2; regulatory threshold of 85%).
- CASA reduced to 20% (from 23% at end-2022), as individuals keep withdrawing their idle money to meet their financial situations and/or switch to term deposits in the context of a high-interest rate environment and weakening economic growth.



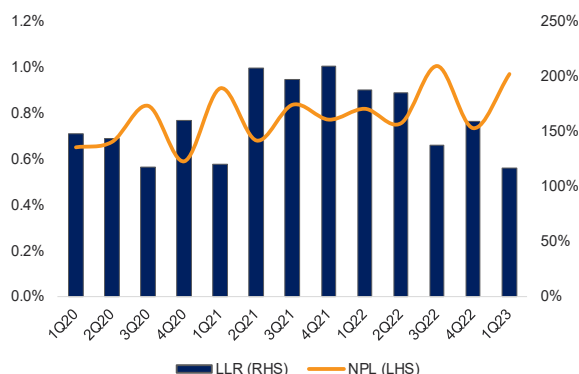
### NIM performance

- ACB's annualized NIM has shrunk in 1Q23 due to widen COF due to higher interest rates and strong CASA outflows.
- The rising COF will continue until at least 2H23. As we attribute that the interest rate will cool down, coupled with economic recovery, CASA flows may come back gradually and a "further room to expand" retail lending mix will appear. This will help ACB elevate its NIM in 2H23 onward, in our view.



### Asset quality

- ACB's bad debt rose 31.5% ytd, in which group-3 and group-4 debt was 94% and 1.5 times higher compared to the level at end-FY22, respectively.
- The NPL ratio was 0.9% (vs. 0.6% at end-FY22). LLR went down to 117% (vs. 159% at end-FY22). The bank's asset quality has deteriorated with the reason as we mentioned before, but it is still manageable.



Source: ACB, VNDIRECT RESEARCH

### We take prudent FY23-24F earnings forecast for ACB

Due to the sector headwinds and the scrutiny in CB and property markets, ACB's NP growth will inevitably be hindered in FY23-24F, in which:

- Credit growth will slow down to 13-17% in FY23-24F (vs. FY20-22 CAGR of 15%).
- NIM will shrink 13bps in FY23F to 4.1%-4.2% in FY23-24F.
- ACB will have to ramp up provisions to defend with possible bad debt spike, after a year of provisioning reversal in 2022, leading to a 10 times yoy growth in provisioning expenses.

In conclusion, we expect ACB's NP to grow 14-15% yoy on average during FY23-24F (FY20-22 CAGR of 33.5%).

**Figure 7: Profit & loss statement key KPIs**

(In VND bn, otherwise noted)	2019	2020	2021	2022	2023F	2024F	CAGR 2020 - 22	CAGR 2022 - 24F
NII	12,112	14,582	18,945	23,534	26,046	30,370	27.0%	13.6%
% yoy	16.9%	20.4%	29.9%	24.2%	10.7%	16.6%		
Non-II	3,985	3,579	4,619	5,257	5,135	6,042	21.2%	7.2%
% yoy	8.6%	-10.2%	29.1%	13.8%	-2.3%	17.7%		
TOI	16,097	18,161	23,564	28,790	31,181	36,412	25.9%	12.5%
% yoy	14.7%	12.8%	29.7%	22.2%	8.3%	16.8%		
G&A expenses	8,308	7,624	8,230	11,605	10,913	13,108	23.4%	6.3%
% yoy	23.8%	-8.2%	7.9%	41.0%	-6.0%	20.1%		
Operating profit before provision	7,790	10,537	15,334	17,185	20,268	23,304	27.7%	16.4%
% yoy	6.4%	35.3%	45.5%	12.1%	17.9%	15.0%		
Provisions for bad debts	274	941	3,336	71	816	914	-72.6%	259.2%
% yoy	-70.6%	243.7%	254.5%	-97.9%	1052.9%	11.9%		
PBT	7,516	9,596	11,998	17,114	19,451	22,390	33.5%	14.4%
% yoy	17.6%	27.7%	25.0%	42.6%	13.7%	15.1%		
NP	6,010	7,683	9,603	13,688	15,557	17,908	33.5%	14.4%
% yoy	17.0%	27.8%	25.0%	42.5%	13.7%	15.1%		

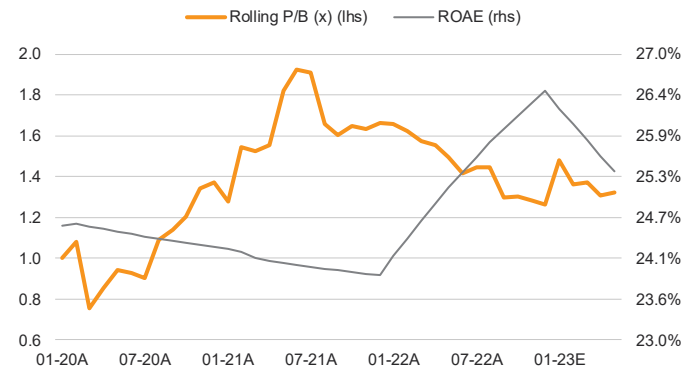
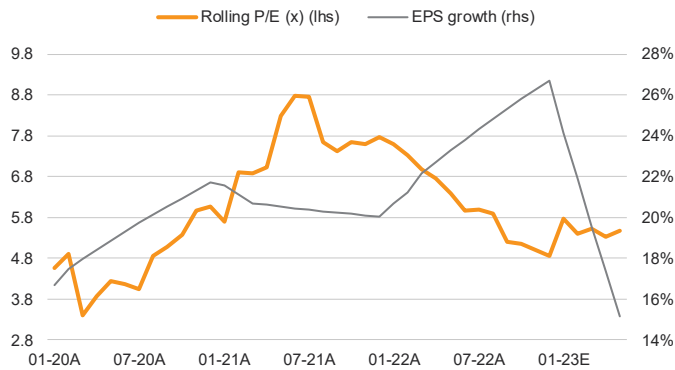
Source: VNDIRECT RESEARCH

**Figure 8: Balance sheet key KPIs**

(In VND bn, otherwise noted)	2019	2020	2021	2022	2023F	2024F	CAGR 2020 - 22	CAGR 2022 - 24F
Interest-earning assets (excl. provisions) "IEAs"	365,956	426,438	509,180	585,252	665,332	775,101	17.2%	15.1%
% yoy	17.3%	16.5%	19.4%	14.9%	13.7%	16.5%		
Gross loans to customers	266,165	308,529	356,051	408,857	462,331	540,758	15.1%	15.0%
% yoy	16.6%	15.9%	16.2%	14.3%	13.1%	16.8%		
Interbank deposit and loans	30,342	31,671	49,819	85,971	98,867	113,697	64.8%	15.0%
% yoy	61.7%	4.4%	57.3%	72.6%	15.0%	15.0%		
Securities	59,408	70,007	70,742	76,666	88,223	101,524	4.6%	15.1%
% yoy	8.0%	17.8%	1.1%	8.4%	15.1%	15.1%		
Interest-bearing liabilities "IBLs"	348,365	399,237	464,949	526,664	593,038	683,195	14.9%	13.9%
% yoy	15.2%	14.6%	16.5%	13.3%	12.6%	15.2%		
Customer deposit	308,129	353,196	379,921	413,953	476,046	561,734	8.3%	16.5%
% yoy	14.1%	14.6%	7.6%	9.0%	15.0%	18.0%		
CDs and valuable papers	20,831	22,050	30,548	44,304	45,190	46,094	41.7%	2.0%
% yoy	151.2%	5.9%	38.5%	45.0%	2.0%	2.0%		
Deposit and loan from other banks	19,249	23,875	54,394	67,841	71,233	74,795	68.6%	5.0%
% yoy	-7.1%	24.0%	127.8%	24.7%	5.0%	5.0%		

Source: VNDIRECT RESEARCH

## Valuation



### Income statement

(VNDbn)	12-22A	12-23E	12-24E
Net interest income	23,534	26,046	30,370
Non interest income	5,257	5,135	6,042
<b>Total operating income</b>	<b>28,790</b>	<b>31,181</b>	<b>36,412</b>
Total operating costs	(11,605)	(10,913)	(13,108)
<b>Pre-provision operating profit</b>	<b>17,185</b>	<b>20,268</b>	<b>23,304</b>
<b>Total provision charges</b>	<b>(71)</b>	<b>(816)</b>	<b>(914)</b>
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>17,114</b>	<b>19,451</b>	<b>22,390</b>
Tax expense	(3,426)	(3,894)	(4,482)
<b>Profit after tax</b>	<b>13,688</b>	<b>15,557</b>	<b>17,908</b>
Minority interest	0	0	0
<b>Net profit</b>	<b>13,688</b>	<b>15,557</b>	<b>17,908</b>

### Balance sheet

(VNDbn)	12-22A	12-23E	12-24E
Gross loans to customers	413,706	467,736	546,522
Loans to banks	85,971	98,867	113,697
<b>Total gross loans</b>	<b>499,678</b>	<b>566,603</b>	<b>660,220</b>
Securities - total	76,666	88,223	101,524
Other interest earning assets	13,758	16,509	19,811
<b>Total gross IEAs</b>	<b>590,101</b>	<b>671,335</b>	<b>781,554</b>
<b>Total provisions</b>	<b>(4,850)</b>	<b>(6,003)</b>	<b>(6,453)</b>
<b>Net loans to customers</b>	<b>408,857</b>	<b>462,331</b>	<b>540,758</b>
<b>Total net IEAs</b>	<b>585,252</b>	<b>665,332</b>	<b>775,101</b>
Cash and deposits	8,461	8,842	9,240
Total investments	324	338	354
Other assets	13,839	14,462	15,112
<b>Total non-IEAs</b>	<b>22,624</b>	<b>23,642</b>	<b>24,706</b>
<b>Total assets</b>	<b>607,875</b>	<b>688,973</b>	<b>799,807</b>
Customer deposits	413,953	476,046	561,734
Cds outstanding	44,304	45,190	46,094
Customer interest-bearing liabilities	458,257	521,236	607,828
Bank deposits	506	506	506
Broad deposits	458,763	521,742	608,334
Other interest-bearing liabilities	67,901	71,296	74,861
<b>Total IBLs</b>	<b>526,664</b>	<b>593,038</b>	<b>683,195</b>
Deferred tax liability			
Other non-interest bearing liabilities	22,772	25,147	27,916
<b>Total non-IBLs</b>	<b>22,772</b>	<b>25,147</b>	<b>27,916</b>
<b>Total liabilities</b>	<b>549,437</b>	<b>618,185</b>	<b>711,111</b>
Share capital	33,774	38,834	38,834
Additional paid-in capital	272	272	272
Treasury shares	0	0	0
Retained earnings reserve	15,172	22,462	40,370
Other reserves	9,220	9,220	9,220
<b>Shareholders' equity</b>	<b>58,439</b>	<b>70,788</b>	<b>88,696</b>
Minority interest	0	0	0
<b>Total equity</b>	<b>58,439</b>	<b>70,788</b>	<b>88,696</b>
<b>Total liabilities &amp; equity</b>	<b>607,875</b>	<b>688,973</b>	<b>799,807</b>

	12-22A	12-23E	12-24E
<b>Growth rate (yoy)</b>			
Cust deposit growth	9.0%	15.0%	18.0%
Gross cust loan growth	14.3%	13.1%	16.8%
Net interest income growth	24.2%	10.7%	16.6%
Pre provision operating profit growth	12.1%	17.9%	15.0%
Net profit growth	42.5%	13.7%	15.1%
Growth in IEAs	14.9%	13.7%	16.5%
<b>Share value</b>			
Basic EPS (VND)	4,503	4,606	5,302
BVPS (VND)	17,303	20,959	26,261
DPS (VND)	0	0	0
EPS growth	26.7%	2.3%	15.1%

### Key ratios

	12-22A	12-23E	12-24E
Net interest margin	4.3%	4.1%	4.2%
Cost-income ratio	(40.3%)	(35.0%)	(36.0%)
Reported NPLs / gross cust loans	0.7%	1.0%	1.0%
Reported NPLs / net cust loans	0.7%	1.0%	1.0%
GP charge / average cust loans	0.0%	0.2%	0.2%
Total CAR	14.1%	14.8%	15.7%
Loan deposit ratio	90.3%	89.7%	89.9%
<b>Margins and spreads</b>			
Return on IEAs	7.4%	8.3%	8.0%
Cost of funds	3.5%	4.6%	4.4%
Interest return on average assets	4.1%	4.0%	4.1%
ROAE	26.5%	24.1%	22.5%

Source: VND RESEARCH



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## RECOMMENDATION FRAMEWORK

### Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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