

KINHBAC CITY DEVELOPEMENT SHARE HOLDING CORP (KBC) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND37,900	VND51,600	0.00%	Add	PROPERTY

10 August 2022

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Positive**

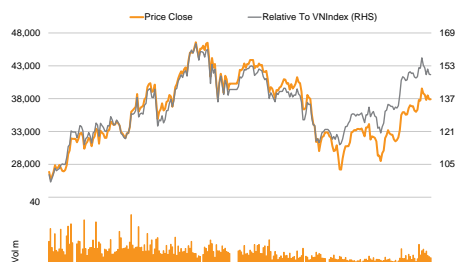
Consensus*: Add:10 Hold:0 Reduce:0

Target price / Consensus: 10.8%

Key changes in the report

- FY22-23F NP revised down by 50.9%/37.7%
- Revise TP down by 15% vs. previous TP

Price performance



Key statistics

52w high (VND)	46,587
52w low (VND)	25,807
3m Avg daily value (VNDmn)	134,555
Market cap (VND bn)	29,092
Free float (%)	36
TTM P/E (x)	11.6
Current P/B (x)	1.7

Ownership

Dang Thanh Tam	14.8%
Kinh Bac Consulting and Investment	8.0%
Others	77.2%

Source: VNDIRECT RESEARCH

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Keep forging ahead

- KBC posted VND1,893bn in 2Q22 net profit (45x yoy) on one-off gain from revaluation, make 1H22 earnings to fulfill 66.1% our FY22F forecast.
- We expect FY22F earnings to grow 359% yoy without the contribution of Trang Cat urban area, coming our worst-case scenario in previous update.
- Reiterate Add with a lower TP of VND51,600/share.

2Q22 recap: core business squeeze, one-off gain save the bottom line

KBC's 2Q22 revenue plunged by 47.3% yoy to VND395.3bn on land sales contraction (-43% yoy to only 8ha). Core gross profit dropped 56% yoy, however, 2Q22 earnings grew 45x yoy to VND1,893bn thanks to a one-off gain from investment revaluation of VND1,975bn. For 1H22, KBC handed over only 16.9ha industrial land (-79.1% yoy) and 3.9ha residential area (+75.2% yoy), leading to a drop of 60.5% yoy in revenue VND1,087bn. 1H22 gross margin squeezed 13.3% pts yoy to 43.9% due to lower contribution of high-margin IP land sales. 1H22 NP rose by 270.9% yoy to VND2,374bn.

We expect no revenue contribution from Trang Cat in FY22F

KBC shared that the negotiations for bulk sales at Trang Cat urban area (UA) project are still ongoing. We cautiously delay the revenue contribution of this project to FY23F, given that 1) the land transfer procedures could take at least 3-6 months and 2) investors could slow land acquisitions in view of uncertainties in the global economy and rising inflation, especially Vietnam developers amid tightening funding on property sector. We revise down FY22-23F NP by 50.9%/37.7% to VND3,593bn (+359.3% yoy)/VND5,333bn (+48.4% yoy).

Industrial property outlook: still running on a full head of steam

We believe industrial property still running on a full head of steam in 2H22-FY23F, fueled by 1) FDI inflow likely stronger in 2H22F while manufacturing expansion trend remains intact; 2) e-commerce boom, increased inventory requirements and supply chain diversification boosting the demand for IP land and 3) infrastructure development, empowered by accelerating public investment will buoy industrial property market. Besides, we see government's strong intention to drive industrial land supply which could support developers to speed up completing legal procedures for their new IPs, in our view.

Reiterate Add with a lower TP of VND51,600

Reiterate Add with a lower TP of VND51,600/share due to slower-than-expected legal procedures of some new IPs and bulk sales schedule at Trang Cat project. Upside risks: KBC can clear legal hurdles for its new projects. Key downside risks 1) worse-than-expected land sales, 2) regulatory delays in new projects, and 3) delays in booking revenue from residential projects.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	2,151	4,246	4,962	13,865
Revenue growth	(33.0%)	97.4%	16.9%	179.4%
Gross margin	32.0%	58.1%	54.5%	62.0%
EBITDA margin	26.0%	41.7%	82.7%	54.1%
Net profit (bn)	224	782	3,593	5,333
Net profit growth	(75.6%)	249.5%	359.3%	48.4%
Recurring profit growth	(75.6%)	249.5%	359.3%	48.4%
Basic EPS	477	1,373	4,681	6,948
Adjusted EPS	477	1,373	4,681	6,948
BVPS	20,650	24,380	23,610	30,558
ROAE	2.3%	6.6%	22.4%	25.7%

Source: VND RESEARCH

KEEP FORGING AHEAD

Investment thesis

We like KBC as:

1) We believe KBC is well-positioned to capture the growing demand for industrial properties in Vietnam thanks to its sizeable available-for-sale land bank and its notable client portfolio including LG Display, Foxconn, Goertek, JA Solar, etc.

2) KBC is now completing legal procedures and ground filling at Trang Cat urban area project (581ha), which has a potential GDV of c.VND50,000bn (based on our estimate). The company plans to transfer 30-50ha of net saleable area per year. KBC also plans to handover 6ha at Phuc Ninh urban area in FY22-23F, contributing VND1,300bn-1,400bn in revenue. These projects should provide strong support for KBC's long-term earnings growth, in our view.

3) We forecast KBC's 2H22F net profit to surge 757% yoy to VND1,219bn on delivery c.100ha (+c.216% yoy) and low base 2H21. We estimate FY23F net profit to increase by 48.4% yoy to VND5,333bn, driven by 1) 228ha IP land sales (+88% yoy) and 2) the contribution of one-off sale gain at Trang Cat urban area.

We lower our TP to VND51,600 (from VND60,700)

1) We revise down 10.0% the fair value of Trang Cat project to reflect (1) slower-than-expected negotiations process for bulk sales; (2) investors could slow land acquisitions in view of uncertainties in the global economy, rising inflation, especially Vietnam developers amid tightening funding on property sector.

2) We see legal procedures for new IPs in Hai Duong and Hung Yen are slower-than-expected. To fairly compensate for risks on project execution, we applied discounts on each project NPV besides a common discount directly on full-RNAV. Different discount levels would be applied to each project, depending on the execution period, land acquisition, and market absorption, resulting in the general full-RNAV discount of 36%.

Figure 1: KBC's valuation

Project Name	Fair value	Method	Note
Nam Son Hap Linh IP	2,827	DCF	Revise up as we understand that KBC leased out only 22.8ha for OPPO (previously 60-70ha) with a rent price of US\$70 (c.50% below the market of US\$130-140 psm/lease term).
Tan Phu Trung IP	2,062	DCF	
Quang Chau IP & expansion	1,183	DCF	
Trang Due 3 IP	4,975	DCF	
Upcoming IPs	8,364	DCF	
Trang Cat urban area	19,696	DCF	Revise down due to (1) slower-than-expected sales schedule; (2) tightening bank loan and stricter corporation bond issuance could slowdown bulk sales of this project.
Phuc Ninh urban area	3,427	DCF	Revise down to reflect violations in Bac Ninh which could prevent the company to clear legal procedures.
Trang Due urban area	869	DCF	
Other	2	BV	
Total	43,405		
Add:			
Cash and cash equivalent	1,262	BV	
Investment in associates	3,349	0.7x P/B	Apply 30% discount to BV to reflect unproductive investments in associate companies and the risk of SDN's projects not being fully sold.
Short term financial investment	1,862	BV	
Construction in progress	850	BV	
Other assets	5,052	BV	
Less:			
Gross debt	6,888	BV	
Minority interest	2,363	BV	
RNAV	46,530		
Discount to RNAV	15%		Revise discount to RNAV to 15% from 10% in previous update to reflect our concerns over increasing debt maturity in FY23F.
Shares outstanding	767,614,700		
Target price (VND/share)	51,600		

Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: Peer comparison for industrial property sector

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)			3-year EPS	P/B (x)			ROE (%)		Net D/E as of 2Q22 (%)
		LC\$	LC\$			TTM	FY22F	FY23F	CAGR (%)	Current	FY22F	FY23F	FY22F	FY23F	
					US\$m										
Vietnam Rubber Group	GVR VN	25,250	NA	NR	4,318	21.5	20.6	20.5	3.2	2.1	N/A	N/A	8.1	10.0	(12.7)
Investment & Industrial Development	BCM VN	78,300	NA	NR	3,465	53.1	33.5	18.2	33.8	4.7	4.6	3.8	14.2	22.3	78.4
Viglacera Corp Jsc	VGC VN	58,900	NA	NR	1,129	13.6	16.9	16.3	14.5	3.4	3.5	2.9	27.6	21.6	3.0
Kinh Bac City Development	KBC VN	37,900	51,600	ADD	1,244	11.6	8.1	5.5	30.9	1.7	1.6	1.2	22.4	25.7	30.0
Idico Corp Jsc	IDC VN	62,100	NA	NR	876	10.3	9.9	8.3	19.5	3.8	2.3	2.1	13.0	16.0	17.3
Sonadezi Corp	SNZ VN	39,200	NA	NR	631	16.5	N/A	N/A	N/A	2.6	N/A	N/A	16.1	N/A	12.4
Saigon VRG Investment Corporation	SIP VN	135,000	NA	NR	536	15.0	12.8	N/A	N/A	4.2	3.2	N/A	31.5	27.5	(120.6)
Phuoc Hoa Rubber	PHR VN	68,800	88,000	ADD	399	14.1	8.9	15.8	6.2	2.8	2.7	2.5	37.8	23.9	(52.1)
Sonadezi Chau Duc	SZC VN	53,200	81,100	ADD	227	19.3	15.5	10.3	47.2	3.8	3.2	2.6	24.0	30.2	132.4
Nam Tan Uyen	NTC VN	184,100	NA	NR	189	15.0	7.6	4.8	N/A	7.0	5.3	N/A	44.7	51.1	(180.1)
Long Hau Corp	LHG VN	34,800	NA	NR	74	12.9	8.3	9.1	15.8	1.2	1.9	1.8	9.5	20.7	(60.8)
Viet Nam Rubber	VRG VN	30,000	NA	NR	33	245.9	N/A	N/A	N/A	2.9	N/A	N/A	1.2	N/A	(62.6)
Average						37.4	14.2	12.1	21.4	3.3	3.1	2.4	20.8	24.9	(18.4)

Note: all prices are based on the closing prices on Aug 09 2022. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Sources: VNDIRECT RESEARCH, BLOOMBERG, COMPANY REPORTS

Potential re-rating risks are dependent on whether KBC can clear legal hurdles to expand its further land bank in Hung Yen, Long An, Hai Duong and Bac Giang. KBC's management shared that the company is proceeding to expand its land bank of 1,000ha in Hung Yen, 2,000ha in Long An and 2,000ha in Hai Duong. In addition, we note that KBC is likely to convert Le Minh Xuan 2 and Saigon Nhon Hoi IPs to urban project complying with new decree No.35/2022/ND-CP. We have not reflected these factors in our valuation and forecast yet due to lack of detailed information.

Key downside risks 1) worse-than-expected land sales, 2) regulatory delays in new projects, 3) delays in booking revenue from residential projects and 4) RNAV dilution risks due to 150m new shares in a private placement issued in 2H22F.

Figure 3: Adjustment to our target price basing on private placement price scenarios

Private placement price (VND/share)	Issuance value (VNDbn)	RNAV dilution	Adjusted target price (VND/share)
44,000	6,600	-4.5%	49,200
42,000	6,300	-5.0%	49,000
40,000	6,000	-5.6%	48,600
38,000	5,700	-6.1%	48,400
36,000	5,400	-6.6%	48,100
34,000	5,100	-7.1%	47,900
32,000	4,800	-7.8%	47,500
30,000	4,500	-8.3%	47,300

Sources: VNDIRECT RESEARCH's estimates

2Q22 results: core operations squeeze, one-off gain save the bottom-line

Figure 4: 2Q22 and 1H22 results comparison

	2Q22	2Q21	% yoy chg	1H22	1H21	% yoy chg	As % of FY22 our estimate	Comment
IP leased land area (ha)	8.0	14.1	-43.3%	16.9	80.7	-79.1%	15.0%	
Tan Phu Trung IP	7.7	-		16.6	21.9			
Quang Chau IP	-	7.9		-	40.7			
NSHL IP	0.3	6.2		0.3	16.6			
Residential land area (ha)	0.2	0.9	-74.0%	3.9	2.2	75.2%		
Phuc Ninh Residential Urban Area	-	-		0.02	-			
Trang Due Residential Urban Area	0.2	0.9		3.8	2.2			
Revenue (VNDbn)	395.3	749.8	-47.3%	1,086.9	2,751.8	-60.5%	21.9%	
IP land sales	275.0	267.4	2.8%	592.2	2,061.5	-71.3%		KBC leased out 16.9ha in 1H22 (-79.1% yoy).
IP factory sales	0.0	263.1	-100.0%	-	263.1	-100.0%		
Warehouse, factory leasing	12.5	27.0	-53.7%	25.0	53.3	-53.1%		
Utilities services	78.2	67.1	16.5%	152.5	138.5	10.1%		
Residential property	29.6	125.2	-76.4%	317.2	235.3	34.8%		Driven by the handover of townhouse and villas land area in Trang Due project.
Gross profit (VNDbn)	197.5	448.8	-56.0%	476.6	1,572.1	-69.7%		
Gross profit margin	50.0%	59.9%	-9.9% pts	43.9%	57.1%	-13.3% pts		Due to lower contribution of high-margin IP land and factory sales.
SG&A expenses(VNDbn)	97.2	134.7	-27.8%	241.4	322.1	-25.1%		
Financial income (VNDbn)	90.3	32.7	176.1%	160.3	74.5	115.2%		
Financial expense (VNDbn)	159.5	131.2	21.6%	304.0	225.4	34.9%		Due to a sharp increase in interest expense.
Operating profit (VNDbn)	62.0	219.3	-71.7%	133.1	1,104.2	-87.9%		
Other profit (VNDbn)	1,913.2	(3.6)		2,412.2	(6.4)			The company recorded one-off gains from revaluation at Saigon Da Nang JSC (KBC acquired 28.5% stake in 2Q22).
Pre-tax profit (VNDbn)	1,975.2	215.6	816.1%	2,545.3	1,097.8	131.9%		
Profit after tax (VNDbn)	1,933.7	77.8	23.8x	2,456.7	792.4	210.0%		
Minority interest	40.3	37.0	8.9%	82.9	152.3	-45.6%		
Net profit (VNDbn)	1,893.4	40.8	45.4x	2,373.9	640.0	270.9%	66.1%	

Sources: VNDIRECT RESEARCH, COMPANY REPORT

KBC leased out only 8ha (-43.3% yoy) in 2Q22, of which Tan Phu Trung IP (7.7ha) and Nam Son Hap Linh IP (0.3ha). As a result, 2Q22 revenue plunged by 47.3% yoy to VND395.3bn. However, 2Q22 net profit (NP) reached at VND1,893bn (+45x yoy) thanks to VND1,975bn one-off gains from revaluation at Saigon-Da Nang Investment JSC (SDN). KBC acquired 5.7 million shares of this company as of end-2Q22, increasing ownership rate from 19.5% to 48%. SDN is developing three IPs spanning over 400ha and four urban area projects (c.150ha) in Da Nang.

Figure 5: SDN's key projects

No.	Projects	Location	Land area (ha)	Lease term	Occpancy rate at end- 2Q22 (US\$ psm/lease term)	Rental price
IP projects						
1	Lien Chieu IP	Da Nang	289	1996 - 2046	~50-60%	90-100
2	Hoa Khanh expansion IP	Da Nang	133	2004 - 2054	100%	N/A
Urban area projects						
1	Dragon City Park Green	Da Nang	78			
2	Bau Tram Lakeside Green	Da Nang	46			
3	Residential area for expanded Hoa Khanh IP	Da Nang	12			
4	The Song - Danang Beach Villas Da Nang		12			

Sources: VNDIRECT RESEARCH

For 1H22, KBC handed over only 16.9ha industrial land (-79.1% yoy) and 3.9ha residential area (+75.2% yoy), leading to a drop of 60.5% yoy in revenue VND1,087bn. 1H22 gross margin squeezed 13.3% pts yoy to 43.9% due to lower contribution of high-margin IP land sales. Accumulated, 1H22 NP rose by 270.9% yoy to VND2,374bn, making up 66.1% of our full-year forecast.

Figure 6: KBC's key IP projects running out of supply (update as of end-2Q22)

No.	Projects	Location	Open for lease	KBC's ownership	Land area (ha)	Occupancy rate at end-2Q22 (%)	Remaining NLA/NSA at end-2Q22 (ha)	Rental price (US\$ psm/lease term)
Fully occupied								
1	Que Vo 1 IP	Bac Ninh	2003	100%	274	100%	0	N/A
2	Que Vo 2 IP	Bac Ninh	2006	100%	244	100%	0	N/A
3	Trang Due 1 IP	Hai Phong	2008	87%	184	100%	0	N/A
4	Trang Due 2 IP	Hai Phong	2015	87%	190	100%	0	N/A
Remaining IP leasable area								
5	Nam Son Hap Linh IP	Bac Ninh	2021	100%	300	17%	170	130-140
6	Tan Phu Trung IP	HCMC	2010	72%	542	69%	97	150-160
7	Quang Chau IP	Bac Giang	2006	88%	426	97%	9	110-120
Urban area projects								
1	Phuc Ninh project	Bac Ninh	2017	100%	115	6%	42	
2	Trang Due project	Hai Phong	2019	87%	42	63%	8	
3	Trang Cat project	Hai Phong	2022	100%	581	0%	250	

Sources: VNDIRECT RESEARCH

Industrial park business outlook

We expect more than 2,000ha industrial land to be added in FY22-24F

In the context running out of IP supply, we see KBC is aggressively expanding its IP land bank with nearly 20 projects spanning over 5,000ha across Vietnam, especially focusing on Southern and Mekong River to capture the growing industrial land demand in these regions (detailed in Figure 8&9). Up to end-2Q22, the company has received some important approvals for its new projects such as approval in principle for two IPs in Long An namely Tan Tap IP (654ha, total investment cost of VND9,911bn) and Loc Giang IP (466ha, total investment cost of VND5,198bn). In addition, KBC plans to develop some new projects in Thai Nguyen (1,000ha) and Ha Noi (400ha).

Given government's strong intention to drive industrial land supply, we expect the company could clear legal procedures and put more than 2,000ha industrial land into business in the next three years in Hai Phong, Long An, Hung Yen, and Hai Duong.

Figure 7: KBC's upcoming IPs in the Southern Vietnam

No.	Projects	Location	Year of open for sales	KBC's ownership	Land area (ha)	Update as of end-2Q22
Southern Vietnam						
1	Nam Tan Tap IP	Long An	2023F	38%	245	Received approval in principle and establishment certificate in 4Q21. The company is completing site clearance and infrastructure investment. We expect this IP can monetize since 2023F.
2	Tan Tap industrial cluster	Long An	2023F	87%	72	Received master plan of 1/500 in 2Q21 and 3Q21. The company is completing legal procedures, site clearance and infrastructure investment at the same time. We expect these industrial clusters could monetize since 2023F.
3	Phuoc Vinh Dong 1 industrial cluster	Long An	2023F	100%	50	
4	Phuoc Vinh Dong 2 industrial cluster	Long An	2023F	88%	48	
5	Phuoc Vinh Dong 4 industrial cluster	Long An	2023F	72%	50	
6	Tan Tap IP	Long An	2024-25F	65%	654	Received approval in principle in 1Q22. The company is completing legal procedures. We expect this IP can monetize since 2024-25F.
7	Loc Giang IP	Long An	2024-25F	74%	466	Received approval in principle in 2Q22. The company is completing legal procedures. We expect this IP can monetize since 2024-25F.
8	Le Minh Xuan 2 IP	HCMC	2024-25F	22%	320	Considering to convert to urban, service following Decree No.35/2022/ND-CP.
9	Tan Phuoc 2 IP	Tien Giang	2025F onward	N/A	300	Received subdivision planning of 1/2000 in 2Q22. The company is completing legal procedures.
10	Song Hau 2 IP	Hau Giang	2025F onward	N/A	220	Sponsor for zoning planning.
11	Song Hau 3 IP	Hau Giang	2025F onward	N/A	205	Sponsor for zoning planning.
Total					2,630	

Sources: VNDIRECT RESEARCH, COMPANY REPORT

Figure 8: KBC's upcoming IPs in the Northern Vietnam

No.	Projects	Location	Year of open for sales	KBC's ownership	Land area (ha)	Update as of end-2Q22
Northern Vietnam						
1	Expanded Quang Chau IP	Bac Giang	2H22F	88%	90	- KBC has expected to sign a lease of 50ha with a large corporation specializing in manufacturing Apple products in 3Q22. - The company has expected to receive investment approval in 3Q22.
2	Trang Due 3 IP	Hai Phong	1H23F	87%	687	- Expect Hai Phong's general planning approval in 3Q22 to complete legal procedures for this project. - KBC is completing legal procedures and land compensation at the same time, the management shared that 25-30% of land area has been compensated as of 2Q22. - KBC has managed to sign MOU for 115ha at Trang Due 3 IP (of which, 80ha for LG Display Vietnam) with average leasing price of US\$130-140/sqm/lease term. - The company expects to fill 100% in 3-4 years, equivalent to leasing out c.100ha per year.
3	Dang Le industrial cluster	Hung Yen	2023F	75%	75	- Received approval in principle in end-2021.
4	Kim Dong industrial cluster	Hung Yen	2023F	75%	75	- Some customers are asking to rent wholesale 300ha in Hung Yen.
5	Chinh Nghia industrial cluster	Hung Yen	2023F	75%	75	- We note that the company is proceeding to expand its land bank of 1,000ha in Hung Yen in the upcoming years.
6	Kim Thanh IP	Hai Duong	2024-25F	100%	437	- Deputy Prime Minister has agreed to add Binh Giang 2 (303.27ha), Thanh Ha 2 (250ha) and Kim Thanh 2 (437.24ha) in Hai Duong province in end-2021, after more than 3 years awaiting. Before that, 300ha at Binh Giang 1 IP (150ha) and Thanh Ha 1 IP (150ha) had been added to the province's master planning in early-2021.
7	Thanh Ha IP	Hai Duong	2024-25F	100%	400	- We expect KBC to receive approval in principle in 2H22 and start to monetize these IPs since FY24-25F.
8	Binh Giang IP	Hai Duong	2024-25F	100%	453	
Total					2,293	

Sources: VNDIRECT RESEARCH, COMPANY REPORT

We expect c.100ha IP land to be transferred in 2H22F (+216% yoy)

We believe KBC still has been one of the most successful private corporations in attracting FDI, especially large corporations in the field of electronics and high technology. The company attracted US\$3.4bn in FDI, equivalent to 13.1% of Vietnam FDI in 2021, with some notable such as LG Display, Foxconn, Goertek, JA Solar, etc.

In addition, replenishing 2,000ha industrial land puts KBC in good position to capture the growing demand for industrial properties. We see some following potential new leases for KBC's IP space in 2H22F and FY23F:

- **Nam Son Hap Linh IP:** Previously, KBC signed an MOU to lease 62.7ha for US\$70/sqm/lease term with OPPO, equivalent to c.50% below the market of US\$130-140 psm/lease term. We understand that the company has renegotiated with OPPO and leased out only 22.8ha for US\$70/sqm/lease term. KBC has officially signed a leasing contract in Jun 2022 and expects to book VND350-400bn revenue in 3Q22F. Additionally, the company has managed to lease 60ha at this IP for some potential companies in electronic manufacturing, logistics fields in 2H22F.
- **Expanded Quang Chau IP:** KBC has signed a lease of 50ha for US\$120/sqm/lease term with a large corporation specializing in manufacturing Apple products in 2Q22. The company shared that legal procedures of this IP is being completed to put it into business in 4Q22.
- **Trang Due 3 IP:** Despite not put into business, KBC has attracted an MOU for 115ha at Trang Due 3 IP (80ha is for LG). The company expects to fill 100% in 3-4 years, equivalent to leasing out c.100ha per year.
- **Industrial clusters in Long An and Hung Yen:** The company shared some potential customers asking to rent wholesale 300ha in Hung Yen and 100ha in Long An.

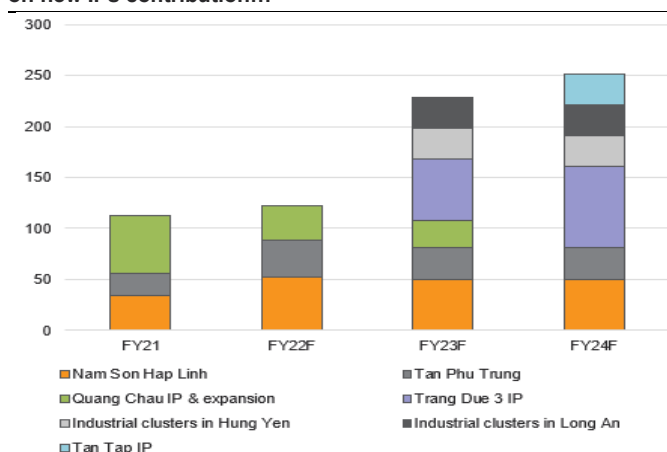
Figure 9: Potential new leases for KBC's IP space in FY22F

Project	Nationality	Industrial park	Area (ha)
Cellphone accessories manufacturing	China	Nam Son Hap Linh	22.8
Electronic manufacturing	Taiwan	Nam Son Hap Linh	15
Logistics and warehouse	Singapore	Nam Son Hap Linh	10
Electronic manufacturing	China	Nam Son Hap Linh	10
Logistics and warehouse	Korea	Nam Son Hap Linh	10
Electronic manufacturing	Singapore	Nam Son Hap Linh	10
High-tech electronic components manufacturing	Taiwan	Quang Chau expansion	40
Electronic components manufacturing	China	Quang Chau expansion	12
High-tech electronic components manufacturing	Taiwan	Quang Chau	9

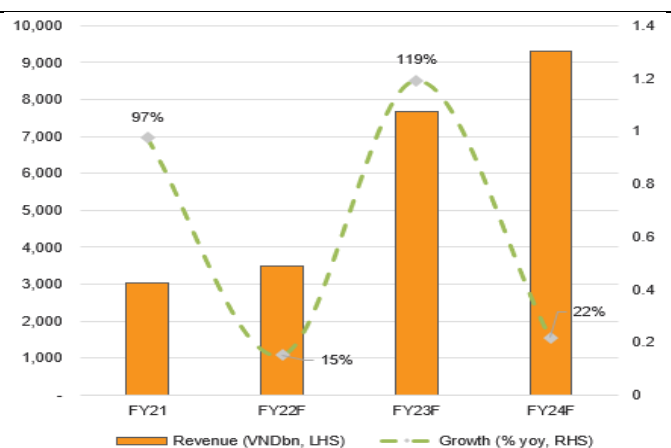
Sources: VNDIRECT RESEARCH, COMPANY REPORT

We expect revenue from IP to grow 15% yoy/119% yoy in FY22F and FY23F, respectively

We forecast KBC's IP land lease area to improve significantly, with +216% yoy/+119% yoy in 2H22F and FY23F, respectively, leading IP revenue to increase by 197.7% yoy to VND2,901bn in 2H22F and +119.2% yoy to VND7,658bn in FY23F.

Figure 10: KBC's IP land sales to improve significantly since FY23F on new IPs contribution...


Sources: COMPANY REPORTS, VNDIRECT RESEARCH

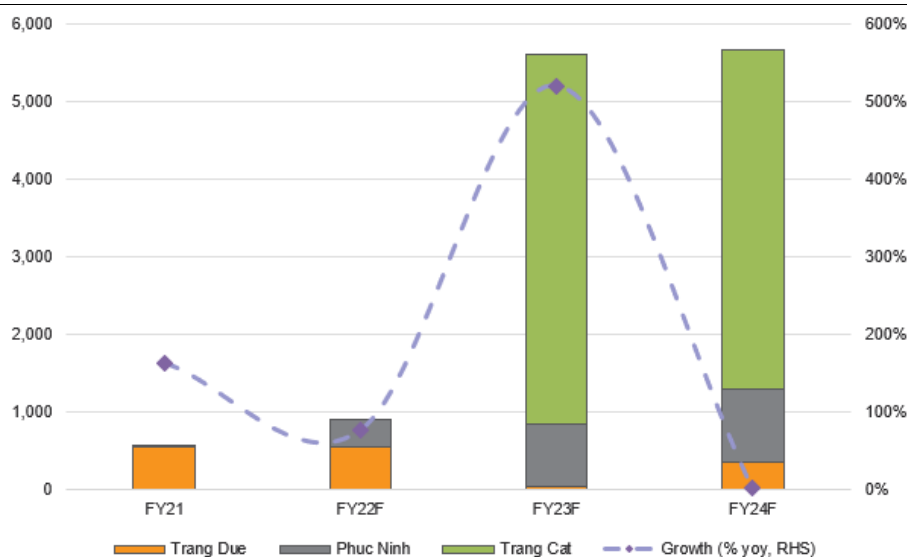
Figure 11: ...to boost a fruitful FY23-24F IP revenue growth


Sources: COMPANY REPORTS, VNDIRECT RESEARCH

Residential property business: slower-than-expected bulk sales schedule at Trang Cat project have dented our confidence for FY22F net profit

We had a site visit for KBC's key projects in the North including Trang Cat, Phuoc Ninh, Trang Due urban area projects, etc. in Jun 2022 (detailed in Appendix 1). We saw Trang Cat urban area project was relatively completed ground filling for the first 30ha, the total of phase 1 of 80ha likely to be done in 3Q22, in line with our expectation. However, the negotiations with some investors from Singapore, the US are still ongoing. Given that the land transfer procedures could take at least 3-6 months and uncertain bulk sales schedules as well as currently tightening funding on property sector, we cautiously delay the revenue contribution of this project to FY23F.

Figure 12: We expect the revenue contribution of Trang Cat urban area project in FY23-24F (VNDbn)



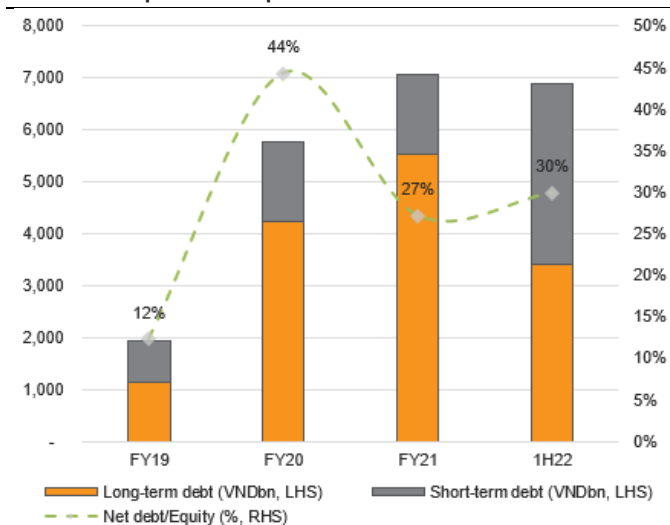
Sources: VNDIRECT RESEARCH

Growing concerns over increasing debt maturity in FY23F

We are concerned over the VND2,900bn corporate bond maturity in 1H23F, especially in the context of tightening bank loans into property sector and stricter supervision on corporate bond issuance. KBC plans to issue a maximum of 150m new shares in a private placement (equivalent to 26.3% of its current share) in 2H22F to raise VND5,000-6,000bn to beef up its working capital, restructure debt, investing in its new projects.

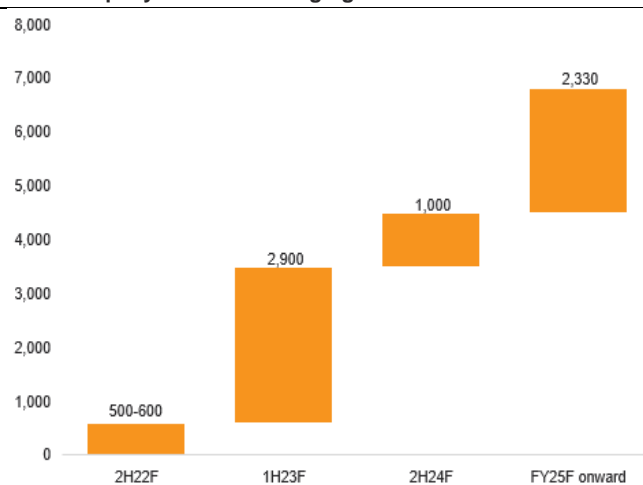
In worst-case scenario that the private placement is unsuccessful, we think the company could face challenging in developing new projects in the short term, but no default risks. KBC has a healthy balance sheet with net debt/equity ratio of 0.3x as of end-2Q22, a low level compared to its peers. We estimate KBC's cash and cash equivalents to reach c.VND2,100bn as of end-FY22F that could be deployed for any distressed opportunities until 1H23F at the earliest.

Figure 13: KBC has a net debt/equity ratio of 0.3x as of end-2Q22, a low level compared to its peers



Sources: COMPANY REPORTS, VNDIRECT RESEARCH

Figure 14: We see a VND2,900bn corporate bond maturity in 1H23F put the company to face challenging in the short term



Sources: COMPANY REPORTS, VNDIRECT RESEARCH

FY22-24F earnings revision

We believe FY22F core net profit is going to see our worst-case scenario in previous update without the revenue contribution from Trang Cat urban area. We cautiously delay the revenue contribution of this project to FY23F given slower-than-expected negotiations for bulk sales at Trang Cat UA project.

We made the following revisions to our forecasts for FY22-24F:

FY22F:

- We revised down Nam Son Hap Linh IP valued booking to VND1,281bn from VND1,778bn due to lower-than-expected handover to OPPO.
- We postpone the revenue contribution of Hung Yen industrial clusters to FY23F due to slower-than-expected legal procedures.
- We postpone the revenue contribution of Trang Cat urban area project to FY23F due to slower-than-expected bulk sales schedule.
- We revised net other income up to VND2,439bn from a net loss of VND13bn to reflect its one-off gains from revaluation in 1H22.
- Overall, we reduced our FY22F revenue forecast by 71.7% to VND4,962bn (+16.9% yoy) and FY22F net profit by 50.9% to VND3,593bn (+359.3% yoy) from previous projection.

FY23F:

- We expect the contribution of VND954bn in revenue from Long An industrial clusters as these projects are likely to come into operation since FY23F.
- We revised down Trang Cat urban area project valued booking to VND4,776bn from VND9,602bn with the assumption for bulk sales of 30ha in FY23F.
- Overall, we reduce our FY23F revenue forecast by 29.9% to VND13,865bn (+179.4% yoy), and FY23F net profit by 37.7% to VND5,333bn (+48.4% yoy) from previous forecast.

Figure 15: FY22-24F forecast revisions under our new base case

	New			Old			Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Net sales	4,962	13,865	15,612	17,507	19,766	16,036	-71.7%	-29.9%	-2.6%
Gross profit	2,703	8,601	9,478	11,167	12,937	10,215	-75.8%	-33.5%	-7.2%
Gross margin (%)	54.5%	62.0%	60.7%	63.8%	65.4%	63.7%	-9.3% pts	-3.4% pts	-3% pts
SG&A expenses	(683)	(1,008)	(1,129)	(653)	(817)	(930)	4.5%	23.4%	21.4%
Financial income	250	33	90	150	150	107	66.5%	-78.3%	-15.9%
Financial expense	(575)	(406)	(285)	(711)	(489)	(298)	-19.1%	-16.9%	-4.4%
Net other income	2,439	(14)	(11)	(16)	(14)	(11)	N/A	1.2%	3.2%
Operating profit	1,694	7,219	8,154	9,953	11,780	8,877	-83.0%	-38.7%	-8.1%
EBT	4,133	7,205	8,143	9,936	11,767	8,866	-58.4%	-38.8%	-8.2%
Net profit	3,593	5,333	6,049	7,323	8,558	6,501	-50.9%	-37.7%	-7.0%

Source: VNDIRECT RESEARCH

Given the complicated legal procedures at IP projects as well as risks in prolonging the project implementation, we consider three scenarios for our FY22-23F performance estimates, as follow:

Figure 16: FY22-23F performance scenario

Scenario	Assumption	Revenue		Net profit		Target price	Upside
		FY22F	FY23F	FY22F	FY23F		
Best case (previous base case)	<ul style="list-style-type: none"> - The bulk sales deal of 30ha net saleable area per year at Trang Cat project gets completed as planned. - Clear legal procedures for expanded Quang Chau IP, industrial clusters in Hung Yen and Phuc Ninh urban area project to put into business as planned in 2H22F. - Delivery 142ha/228ha of industrial land in FY22-23F. - KBC could put more than 2,500ha industrial land into operation in the next three years namely Trang Due 3 IP, three industrial clusters in Hung Yen and three new IPs in Hai Duong. 	VND8,735bn (+106% yoy)	VND14,902bn (+68.0% yoy)	VND5,263bn (+572.7% yoy)	VND6,175bn (+12.2% yoy)	VND56,000	+47.8%
Base case (previous worst case)	<ul style="list-style-type: none"> - Without the contribution of Trang Cat urban area project. - Clear legal procedures for expanded Quang Chau IP and Phuc Ninh urban area project to put into business in 2H22F. - Delivery 122ha/228ha of industrial land in FY22-23F. - Put more than 2,500ha industrial land into operation in the next three years. 	VND4,962bn (+16.9% yoy)	VND13,865bn (+179.4% yoy)	VND3,593bn (+359.3% yoy)	VND5,333bn (+48.4% yoy)	VND51,600	+36.2%
Worst case (new)	<ul style="list-style-type: none"> - Without the contribution of Trang Cat urban area project. - Delays the contribution of Phuc Ninh urban area and expanded Quang Chau IP to FY23F. - Delivery 88ha/188ha of industrial land in FY22-23F. - Put c.1,500ha industrial land into operation in FY23-24F. 	VND3,636bn (-14.4% yoy)	VND7,672bn (+111.0% yoy)	VND2,891bn (+269.6% yoy)	VND2,329bn (-19.4% yoy)	VND47,000	+24.0%

Sources: VNDIRECT RESEARCH, BLOOMBERG, COMPANY REPORTS

Appendix 1: The current states of KBC's key projects from our site visit as of Jun 2022

Nam Son Hap Linh IP has completed infrastructure for Phase 1, Phase 2 is ongoing

Figure 17: Internal road at Nam Son Hap Linh IP


Source: VNDIRECT RESEARCH

Figure 18: IP zone has been completed ground filling


Source: VNDIRECT RESEARCH

Figure 19: Warehouse project under construction


Source: VNDIRECT RESEARCH

Figure 20: Water treatment factory at Nam Son Hap Linh IP


Source: ECOBAENT, 2021

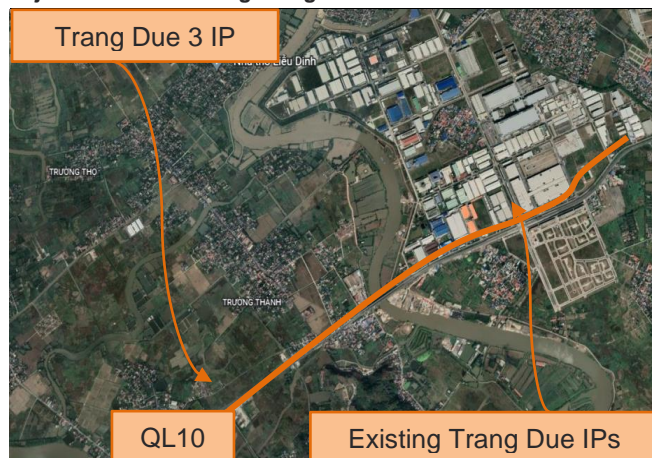
Trang Due 3 IP on completing land compensation and legal procedures at the same time

Figure 21: The current states at Trang Due 3 IP, still on completing land compensation and legal procedures



Source: VNDIRECT RESEARCH

Figure 22: Trang Due 3 IP has sought-after location at QL10, adjacent to two existing Trang Due IPs



Source: VNDIRECT RESEARCH, GOOGLE EARTH 2021

The progress of ground filling at Trang Cat urban area project is in line with our expectations

Figure 23: The road to Trang Cat urban area project



Source: VNDIRECT RESEARCH

Figure 24: Internal road at Trang Cat urban area project



Source: VNDIRECT RESEARCH

Figure 25: The current state of zones has not been filling



Source: VNDIRECT RESEARCH

Figure 26: Zones completed ground filling at Trang Cat urban area project



Source: VNDIRECT RESEARCH

Trang Due urban area project - Hai Phong

Figure 27: The current states of shophouse completed construction



Source: VNDIRECT RESEARCH

Figure 28: The current states of shophouse completed construction



Source: VNDIRECT RESEARCH

Figure 29: Internal road at Trang Due urban area project



Source: VNDIRECT RESEARCH

Figure 30: Some landed houses are under construction at Trang Due urban area project



Source: VNDIRECT RESEARCH

Phuc Ninh urban area project

Figure 31: The current states of villas completed construction



Source: VNDIRECT RESEARCH

Figure 32: Internal road and project landscape



Source: VNDIRECT RESEARCH

Figure 33: The current states of another zones


Source: VNDIRECT RESEARCH

Figure 34: The current states of another zones

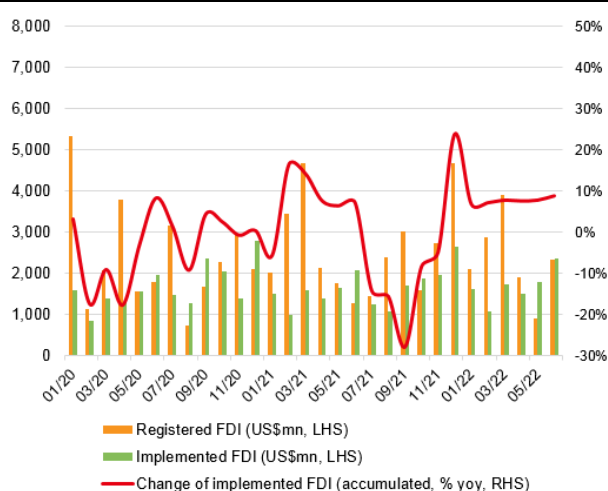

Source: VNDIRECT RESEARCH

2H22-FY23F IP segment outlook: still running on a full head of steam

Expect FDI inflow stronger in 2H22F while manufacturing expansion trend remains intact

According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects reached at US\$10.1bn (+8.9% yoy) in 1H22 (vs. a 6.8% increase in 1H21). On the other hand, registered capital of FDI projects declined by 8.1% yoy to US\$14.0bn in 1H22, mainly due to the fact that in the same period last year, a very large-scale project was recorded such as liquefied natural gas power plant (US\$3.1bn) and the Omon II thermal power plant (US\$1.3bn).

We expect stronger FDI inflow in 2H22F as Vietnam accelerates the economic reopening and many international routes are allowed to resume operations. In addition, Vietnam is still benefiting from the shifting of supply chains out of China, especially after the latter's China zero-Covid policy, in our view. We maintain our forecast from the beginning of this year that registered FDI and implemented FDI in 2022 will grow by 10% yoy and 9% yoy, respectively.

Figure 35: Foreign direct investment


Source: GSO, MPI, VNDIRECT RESEARCH

Figure 36: List of major FDI projects in 1H22

FDI projects	Sectors	Registered capital (US\$bn)	Province/city
Lego's toy factory	Manufacturing	1.3	Binh Duong
Expansion of VSIP Bac Ninh project	Industrial Park	0.9	Bac Ninh
Expansion of Samsung's plant in Thai Nguyen province	Manufacturing	0.9	Thai Nguyen
The manufacturing factory of Goertek Group	Manufacturing	0.3	Nghe An
Commercial and service projects of GE Vietnam	Commercial & Service	0.2	Bac Ninh
Electronic component factory project (JNTC - Korea)	Manufacturing	0.2	Phu Tho

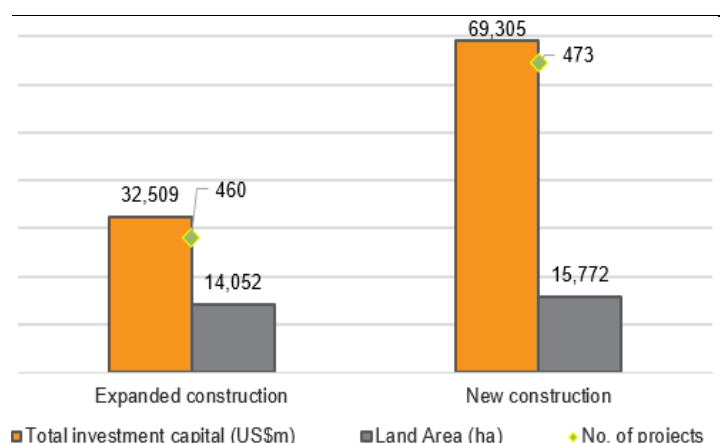
Source: GSO, MPI, VNDIRECT RESEARCH

Besides, according to Houselink, there are 460 expansion projects (14,052ha) and 473 new projects (15,772ha) are under preparation as of end-1Q22, pointing the manufacturing expansion trend remaining strong in 2H22F, in our view.

Figure 37: Vietnam is still a hotspot with low operation costs and tax incentives

	Wage in manufacturing (US\$/month)	Electricity price for business (US\$/kWh)	Construction cost of WH/RBF (US\$/sqm)	Average land price (US\$/sqm/lease term)	CIT (%)	No. of IPs
Myanmar	162	0.110	na	80	25	63
Philippines	205	0.110	na	122	30	323
Vietnam	265	0.077	352	110	20	394
Indonesia	287	0.073	504	238	25	108
Thailand	440	0.121	na	183	20	86
Malaysia	844	0.099	533	225	24	340
China	1,042	0.104	356	na	25	na

Sources: VNDIRECT RESEARCH, SAVILLS, STATISTA, MPI

Figure 38: Robust manufacturing expansion as of 1Q22


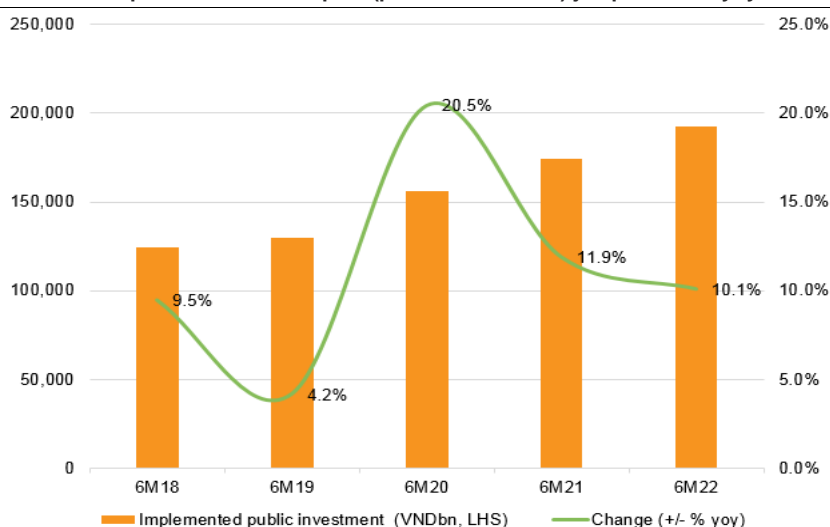
Sources: VNDIRECT RESEARCH, HOUSELINK

Slow down building material prices in 2H22F outlook to support public investment

We see a sharp construction material prices hike such as steel (+c.20% yoy in 1H22), cement (up 7-10% from early-2022) and construction stone due to the impact of the Russia-Ukraine conflict and supply chain disruption. According to GSO, disbursed state capital in 1H22 rose 10.1% yoy to VND192.2tr (below the 11.9% rate seen in 1H21), equivalent to only 35.3% of the full-year target.

However, after a sharp prices hike in 1H22, we see building material prices has been slow down in Jul 2022. Specially, domestic steel price has decreased by 13% compared to end-1Q22 as of end Jul-2022. We expect the selling price of construction steel will gradually decrease in 2H22-2023F which could reduce pressure on gross margin for construction contractors and property developers, thereby speeding up the progress of public investment projects as well as property developers to tame home prices, in our view.

We maintain our forecast that the implemented state capital to increase by 20-30% compared to the actual implementation in 2021, as growth in the second half of 2022 could pick up from the low base of the same period in 2021. Noted that, public investment grew negatively in the last six months of 2021 due to the 4th wave of COVID-19 pandemic, social distancing, and rising construction material prices

Figure 39: The implemented state capital (public investment) jumped 10.1% yoy in 1H22


Source: VNDIRECT RESEARCH, GSO, SBV, MOF

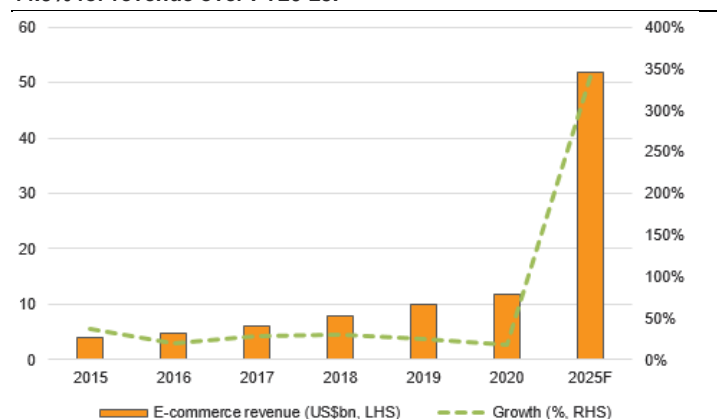
Figure 40: Progress of key transport infrastructure projects in the period of 2021 - 2026

Project	Total investment (VNDbn)	Estimated construction progress							
		2019	2020	2021	2022	2023	2024	2025	2026
Cam Lo - La Son	7,700								
Cao Bo - Mai Son	1,600								
My Thuan Bridge 2	5,000								
Mai Son - Highway 45	12,920								
Vinh Hao - Phan Thiet	10,853								
Phan Thiet - Dau Giay	14,360								
Nghi Son - Dien Chau	8,380								
Highway 45 - Nghi Son	6,330								
Dien Chau - Bai Vot	13,340								
Nha Trang - Cam Lam	7,615								
Cam Lam - Vinh Hao	13,690								
Eleven sub-projects of the North-South expressway (phrase 1)									
Twelve sub-projects of the North-South expressway (phrase 2)	146,990								
Long Thanh International Airport (phrase 1)	109,112								
Total	357,890								

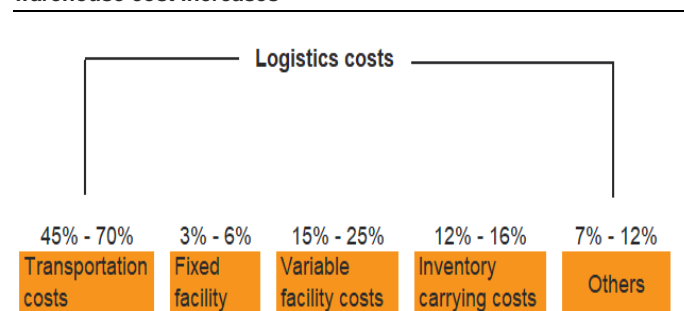
Source: VNDIRECT RESEARCH

E-commerce boom, increased inventory requirements and supply chain diversification boosting the demand for IP land

According to MoIT, Vietnam's e-commerce revenue is booming, with an estimated CARG of 44.9% to US\$52bn in FY20-25F. According to CBRE Asia, the growth in e-commerce will drive the requirement for an additional 350,000sqm of new warehouse space with an approximate e-commerce revenue of US\$25-27bn, translating into an additional more than 700,000sqm in FY25F for Vietnam. Besides, robust demand for goods and the ongoing supply chain disruption heighten the need for additional warehouse space to stockpile goods and mitigate future disruptions as well, according to CBRE Econometric Advisors.

Figure 41: E-commerce boom in Vietnam with an estimated CARG of 44.9% for revenue over FY20-25F


Sources: VNDIRECT RESEARCH, MoIT

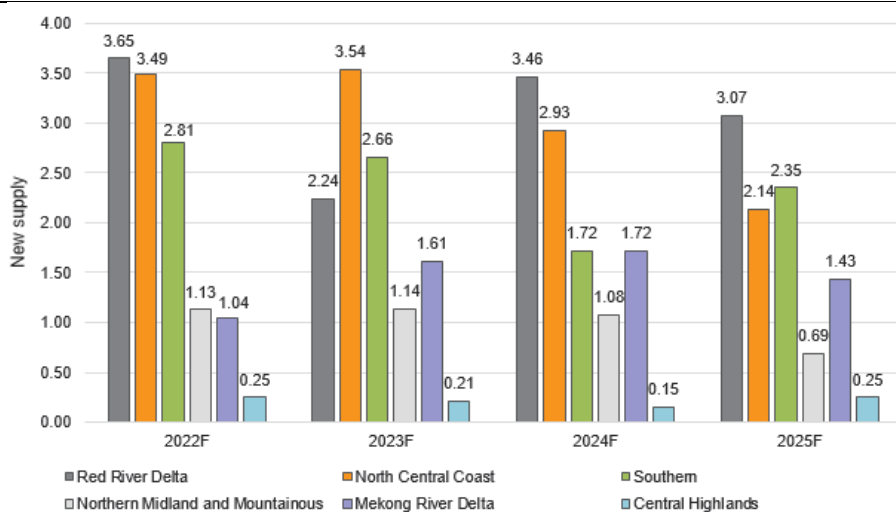
Figure 42: Transportation costs increases are much higher than warehouse cost increases


Sources: VNDIRECT RESEARCH, CBRE APAC

Increasing supply to fulfil the growing demand for industrial property for years

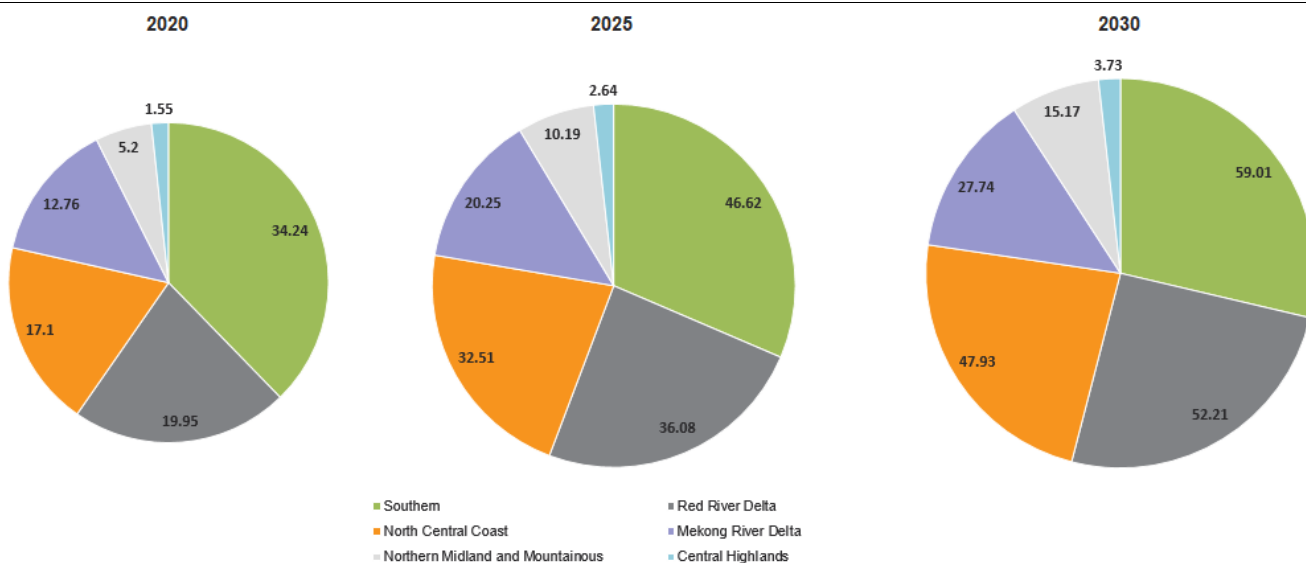
As demand continue to outpace supply, Vietnam speeds up increasing supply to fulfill demand. According to Vietnam industrial zones development master plan 2030, industrial land supply is expected to rise more than 115,000ha to capture the growing demand in the regions, mostly from Red River Delta and North Central Coast.

Figure 43: Vietnam industrial zones development master plan for 2022-25: big emphasis on new supply in Red River Delta and North Central Coast ('000ha)



Sources: VND RESEARCH, MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

Figure 44: Vietnam industrial zones development master plan 2030: add more than 115,000ha industrial land, focusing on Red River Delta and North Central Coast ('000ha)



Sources: VNDIRECT RESEARCH, MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT

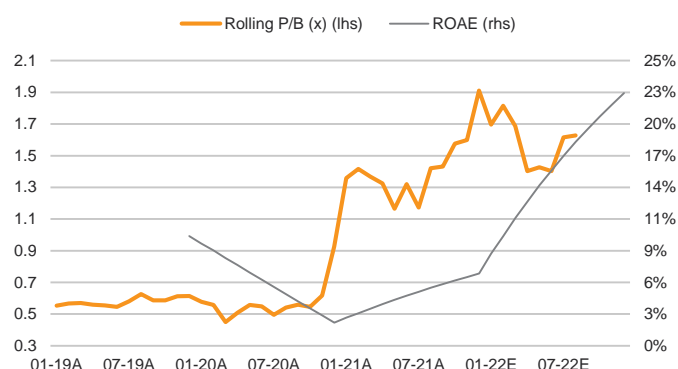
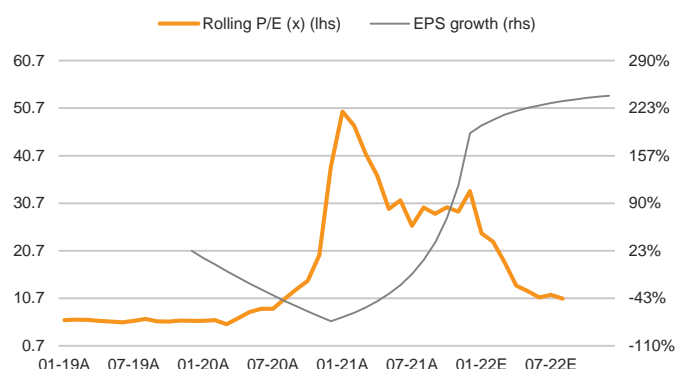
New legal framework for investment and development activities in IPs and EZs

New decree No.35/2022/NĐ-CP regarding IPs and EZs management issued on 28 May 22, affected from 15 Jul 22, is expected to create a legal framework for investment and development activities in IPs and EZs.

Notable amendment/supplement in Decree No.35/2022/NĐ-CP	VNDIRECT's comment
Abolish the procedures for establishing industrial zones (Clause 6, Article 6).	Shorten time and simplify regulations on investment in industrial zones.

<p>Supplement and clarify conditions for investment and business in industrial parks infrastructure (occupancy rate, IP size, investors' capacity, and other conditions) (Article 9,10). Notably:</p> <ul style="list-style-type: none"> + Average minimum occupancy rate of 60% for new IPs would be not applied if meet conditions in Clause 6, Article 9. + Industrial parks with total land area of over 500ha would be invested in phases, each phase must not exceed 500ha. + The minimum land fund for houses, service works and public utilities for employees is 2% of the total area of industrial zones. 	<ul style="list-style-type: none"> - Loosening regulations for occupancy rate limitation to create opportunities for IP developers with strong performance to invest new industrial park projects. - Area limitation conditions may create some barriers for developers to invest IP of over 1,000ha as well as attracting giant FDI.
<p>Empowerment to Provincial People's Committee and other local authorities. Notably:</p> <ul style="list-style-type: none"> + "Provincial People's Committees shall decide to adjust the location and the size for construction planning area of industrial parks..." (Clause 7, Article 7). 	<p>Withdrawing the steps of adjustment procedures when not having to submit the dossier to the Central Authority would shorten time, save costs and simplify regulations on investment in industrial zones.</p>
<p>Stipulate conditions for converting IP to urban, service project (Article 13).</p>	<p>Create conditions for IPs which are ineffective, located in the central urban development areas and cause environmental pollution such as Bien Hoa 1 IP to convert function.</p>
<p>Remove clause: "Functional zones for urban - services could only be deployed at the same time or after completing the construction investment of basic infrastructure works of the industrial park." (Article 35).</p>	<p>Encourage developers to be more flexible in investing and developing.</p>
<p>Clearly classify the types of industrial zones, including supporting industrial zones, specialized industrial zones, high-tech industrial zones; industrial park - urban - service development.</p>	<p>Create a clear corridor for business to orient IP development model.</p>
<p>Policy on support and cooperation in the development of eco-industrial parks (Chapter 4):</p> <ul style="list-style-type: none"> + Give more detailed guidance on the establishment, construction criteria, infrastructure for eco-industrial parks + Supplement support from the Provincial People's Committee + Supplement the obligations of the IZs and EZs Management Boards +Supplemented policies to encourage and give significant incentives to investors in the construction and development 	<p>Create conditions and encourage for sustainable IP development to minimize adverse environmental impact following Vietnam's commitment to reach net zero emissions by 2050.</p>

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	4,246	4,962	13,865
Cost of sales	(1,779)	(2,259)	(5,264)
Gen & admin expenses	(429)	(417)	(442)
Selling expenses	(190)	(266)	(566)
Operating profit	1,849	2,020	7,593
Operating EBITDA	1,773	1,960	7,531
Depreciation and amortisation	76	60	62
Operating EBIT	1,849	2,020	7,593
Interest income	170	250	33
Financial expense	(541)	(575)	(406)
Net other income	(127)	2,439	(14)
Income from associates & JVs	14	0	0
Pre-tax profit	1,364	4,133	7,205
Tax expense	(410)	(403)	(1,585)
Minority interest	(172)	(138)	(287)
Net profit	782	3,593	5,333
Adj. net profit to ordinary	782	3,593	5,333
Ordinary dividends	0	0	0
Retained earnings	782	3,593	5,333

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	2,562	2,081	407
Short term investments	2,016	2,013	2,014
Accounts receivables	9,346	10,604	14,329
Inventories	11,515	13,398	16,686
Other current assets	245	258	270
Total current assets	25,684	28,353	33,705
Fixed assets	1,323	1,442	1,482
Total investments	1,900	4,784	4,784
Other long-term assets	1,697	1,896	1,884
Total assets	30,604	36,475	41,855
Short-term debt	1,515	2,900	1,500
Accounts payable	152	193	450
Other current liabilities	4,844	5,942	7,835
Total current liabilities	6,511	9,035	9,786
Total long-term debt	5,539	4,606	3,608
Other liabilities	2,382	2,292	2,299
Share capital	5,757	7,676	7,676
Retained earnings reserve	5,099	6,773	12,106
Shareholders' equity	13,891	18,123	23,457
Minority interest	2,280	2,418	2,705
Total liabilities & equity	30,604	36,475	41,855

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,364	4,133	7,205
Depreciation & amortisation	76	60	62
Tax paid	(322)	(493)	(1,577)
Other adjustments	(76)	(2,762)	(28)
Change in working capital	(2,268)	(2,226)	(4,875)
Cash flow from operations	(1,227)	(1,288)	787
Capex	(240)	(166)	(90)
Proceeds from assets sales	0	0	0
Others	(2,911)	156	33
Other non-current assets changes	0	0	0
Cash flow from investing activities	(3,151)	(10)	(58)
New share issuance	4,583	0	0
Shares buyback	0	364	0
Net borrowings	4,641	452	0
Other financing cash flow	(3,309)	0	(2,398)
Dividends paid	(24)	0	(5)
Cash flow from financing activities	5,891	816	(2,403)
Cash and equivalents at beginning of period	1,050	2,562	2,081
Total cash generated	1,513	(482)	(1,674)
Cash and equivalents at the end of period	2,562	2,081	407

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	18.4%	72.4%	38.5%
Asset turnover	0.16	0.15	0.35
ROAA	2.9%	10.7%	13.6%
Avg assets/avg equity	2.31	2.10	1.88
ROAE	6.6%	22.4%	25.7%
Efficiency			
Days account receivable	165.7	111.7	51.6
Days inventory	2,362.6	2,165.2	1,156.9
Days creditor	31.2	31.2	31.2
Fixed asset turnover	3.47	3.59	9.48
ROIC	3.4%	12.8%	17.1%
Liquidity			
Current ratio	3.9	3.1	3.4
Quick ratio	2.2	1.7	1.7
Cash ratio	0.7	0.5	0.2
Cash cycle	2,497.1	2,245.6	1,177.4
Growth rate (yoy)			
Revenue growth	97.4%	16.9%	179.4%
Operating profit growth	404.9%	9.3%	275.9%
Net profit growth	249.5%	359.3%	48.4%
EPS growth	188.1%	240.9%	48.4%

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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