

KHANG DIEN HOUSE TRADING & INVESTMENT JSC (KDH) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND41,000	VND52,400	0%	Add	PROPERTY

3 June 2022

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

Consensus*: Add:11 Hold:0 Reduce:0

Target price / Consensus: -11.1%

Key changes in the report

- FY22-23F NP down by 13.8%/23.2% vs. previous projection.
- Lower TP by 4.4% vs. old TP.

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	56,800
52w low (VND)	35,046
3m Avg daily value (VNDmn)	54,205
Market cap (VND bn)	27,003
Free float (%)	37
TTM P/E (x)	24.2
Current P/B (x)	2.33

Ownership

Tien Loc Investment Limited	11.1%
Gam Ma Investment Company	9.1%
A Au Investment Trading Company	8.2%
Others	71.6%

Source: VND RESEARCH

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Cautiously optimistic outlook for FY22-23F

- 1Q22 net profit (NP) increased by 46.0% yoy to VND299.5bn on one-off gains, making up 20.4% of our full-year forecast.
- We forecast FY22/23F earnings up by 22.4%/23.9% yoy to VND1,471bn/VND1,823bn on one-off gain and strong property handovers.
- Reiterate Add with a lower target price (TP) of VND52,400.

1Q22 witnessed a contrast between top-line and bottom-line growth

KDH reported 1Q22 revenue down by 82.9% yoy to VND142.7bn due to lower property handovers. However, 1Q22 net profit (NP) surged by 46.0% yoy to VND299.5bn thanks to a VND308bn one-off income from revaluation at Doan Nguyen House business investment Ltd, making up 20.4% of our full-year forecast.

We see increasing headwinds weighing on property sector outlook in 2022

We see increasing headwinds weighing on sector outlook, including: 1) rising interest rate to effect on housing purchasing decisions, 2) material prices hike that could drive up housing prices and 3) tightening bank loans into property sector and stricter supervision in corporate bond issuance. However, we believe that KDH will still enjoy stable earnings growths over FY22-24F given large number of available-for-sale property units and healthy balance sheet.

Lower FY22-23F NP to reflect lower-than-expected presales

KDH planned to launch Classia project (176 landed units) in FY21 but the COVID-19 outbreak restricted construction activities and caused delays in this project launches. KDH's unbilled booking value as of May 2022 secures only 5-10% the property handover revenue which we forecasted for FY22F in previous projection. Coupled with increasing headwinds on property market, we cautiously revise down FY22-23F NP forecast by 13.8%/23.2% vs. old forecast to VND1,471bn (+22.4% yoy)/VND1,823bn (+23.9% yoy).

Reiterate Add with a lower TP of VND52,400

We revise our TP for KDH down by 4.4% to reflect lower-than-expected presales. KDH stock has dropped c.30% from its peak in early 2022; trigger an opportunity to accumulate a property developer with healthy balance sheet and stable earnings growth prospects. Potential upside catalysts in the short term could come from higher-than-expected average selling price for Classia, Clarita and 158 An Duong Vuong projects; our mid- to long-term investment thesis is dependent on whether KDH can clear legal hurdles to start its Tan Tao project. Downside risks are 1) delays in obtaining permits for new launches and 2) continuous upward trend in construction material prices.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	4,617	3,746	3,769	4,721
Revenue growth	62.3%	(18.9%)	0.6%	25.3%
Gross margin	43.3%	48.0%	58.0%	61.1%
EBITDA margin	33.9%	37.4%	45.5%	50.9%
Net profit (bn)	1,153	1,202	1,471	1,823
Net profit growth	26%	4.3%	22.4%	23.9%
Recurring profit growth	30%	9.2%	22.3%	24.0%
Basic EPS	2,117	2,078	2,289	2,835
Adjusted EPS	1,899	1,951	2,147	2,663
BVPS	14,928	17,602	18,046	20,740
ROAE	17.2%	18.0%	22.0%	27.2%

Source: VND RESEARCH

CAUTIOUSLY OPTIMISTIC OUTLOOK FOR FY22-23F

We maintain Add with a lower target price of VND52,400

Investment thesis:

We like KDH as:

- 1) KDH has a sizable land bank of more than 600ha in HCMC. Most projects are located in the Southern HCMC and Thu Duc City which are drawing investors' attention and enjoying housing prices acceleration thanks to infrastructure development;
- 2) KDH's high exposure to the mid-range condo segment as this segment are driven by real end-user demand;
- 3) We expect FY22-23F presales to bounce back strongly on four new project launches with total gross development value (GDV) of VND21,995bn. We believe these projects will achieve high take-up rate, boosted by their sought-after location, legal transparency and shrinking new supply in HCMC.

Valuation

To fairly compensate for risks on project execution and presales performance, we applied discounts on each project NPV instead of a common discount directly on full-RNAV due to lack of discount-to-RNAV ratio track record. 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 20%. We revise our TP for KDH down 4.4% to VND52,400 to reflect project launches delays namely The Solina and Clarita to FY23F upon increasing headwinds on property sector outlook.

Potential upside catalysts in the short term could come from higher-than-expected average selling price for Classia, Clarita and 158 An Duong Vuong projects; our mid- to long-term investment thesis is dependent on whether KDH can clear legal hurdles to start its Tan Tao project. **Downside risks** are 1) delays in obtaining permits for new launches and 2) continuous upward trend in construction material prices.

Figure 1: Equity valuation (VNDbn)

Project Name	Fair value	Method	Note
Tan Tao	12,561	DCF	
The Solina	2,959	DCF	Launch delays to FY23F upon increasing headwinds on real estate sector outlook.
Green Village	6,806	DCF	
Clarita	1,605	DCF	Launch delays to FY23F upon increasing headwinds on real estate sector outlook.
Classia	1,956	DCF	
Le Minh Xuan IP	2,677	DCF	
The Privia	1,697	DCF	
Other	1,942	BV	
Total inventory	32,712		
Add:			
Cash and cash equivalent	1,242		
Other assets	3,988		
Less:			
Net debt (exclude CB)	4,434		
Other liabilities	1,822		
Minority interest	656		
RNAV	33,707		
Shares outstanding (m)	643		
Target price (VND/share)	52,400		

SOURCES: VNDIRECT RESEARCH, COMPANY REPORT

Figure 2: Peer comparison

Figure 21-36: Comparison

Company	Ticker	Price Target price		Recom.	Mkt cap	3-year			P/B (x)		ROE (%)		Net D/E as of 1Q22 (%)
		LC\$	LC\$			P/E (x)	EPS	P/B (x)	ROE (%)				
					US\$m	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	
Vinhomes	VHM VN	69,500	115,000	ADD	13,044	8.7	6.2	38.3	1.8	1.4	23.4	25.4	12.7
Novaland	NVL VN	78,900	89,000	ADD	6,631	22.3	11.5	59.1	3.6	2.7	17.7	27.0	117.7
Khang Dien	KDH VN	41,000	52,400	ADD	1,136	18.7	15.4	44.4	2.3	2.0	25.6	35.6	28.7
Nam Long	NLG VN	45,000	56,000	ADD	743	14.4	9.5	45.5	2.5	2.2	22.6	27.4	1.4
Dat Xanh	DXG VN	25,850	25,000	HOLD	677	7.3	3.4	46.3	1.4	1.0	21.7	34.6	15.1
Local peer average						14.3	9.2	46.7	2.3	1.9	22.2	30.0	35.1
Local peer median						14.4	9.5	45.5	2.3	2.0	22.6	27.4	15.1

Note: all prices are based on the closing prices on Jun 02 2022. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Sources: VNDIRECT RESEARCH, COMPANY REPORT

1Q22 results: Weak 1Q22 revenue, dragged down by lower handovers

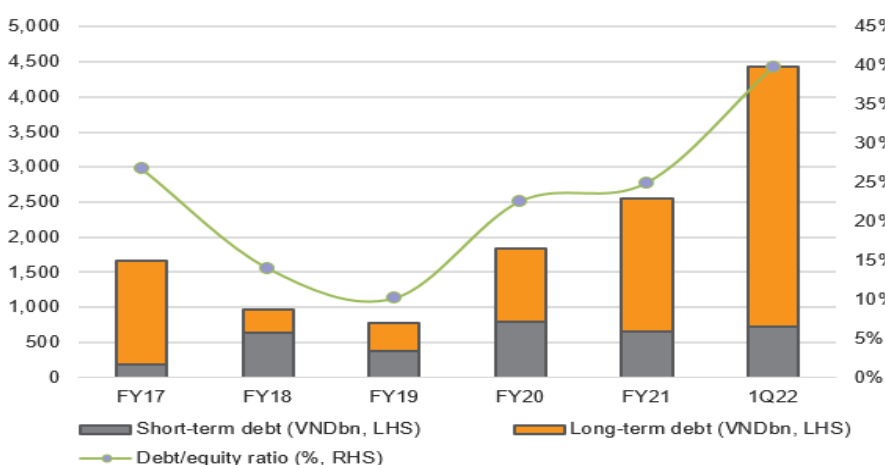
Figure 3: 1Q22 and 1Q21 results comparison

VNDbn	1Q22	1Q21	YoY%	As % of FY22F	
				our forecast	Comments
Revenue	142.7	836.5	-82.9%	3.8%	
Property sales	128.8	826.8	-84.4%		Due to lower property handovers.
Others	13.9	9.7	43.6%		
Gross profit	77.4	358.2	-78.4%		
GPM	54.2%	42.8%	11.4% pts		Normalization due to higher contribution of low-margin Safira condo units in 1Q21.
Selling expense	(13.7)	(20.5)	-32.9%		
G&A expense	(58.5)	(50.9)	14.9%		
Operating profit	4.7	275.2	-98.3%		
Financial income	2.5	5.2	-51.7%		
Financial expense	(3.0)	(16.8)	-82.4%		
Net other income	305.1	(7.0)			Thanks to a VND308bn one-off income from revaluation at Doan Nguyen House business investment LTD.
Pre-tax profit	309.8	268.3	15.5%		
Net profit	299.5	205.1	46.0%	20.4%	

Sources: VNDIRECT RESEARCH, COMPANY REPORT

KDH's debt leverage jumped in 1Q22 given its investment activities and land bank expansion strategy

The land bank expansion and mega project investment pipeline have led to a significant increase in working capital needs. KDH's total debt increased sharply 73.7% yoy to VND4,434bn in 1Q22, leading to an increase of 15% pts yoy in 1Q22 debt-to-equity ratio. In 2H22F, KDH plans to issue corporate bond of VND2,000bn to invest in land compensation, infrastructure and construction costs of The Privia, Classia and Tan Tao projects.

Figure 4: Total debt increase sharply 73.7% yoy with debt-to-equity ratio at 0.4x as of 1Q22


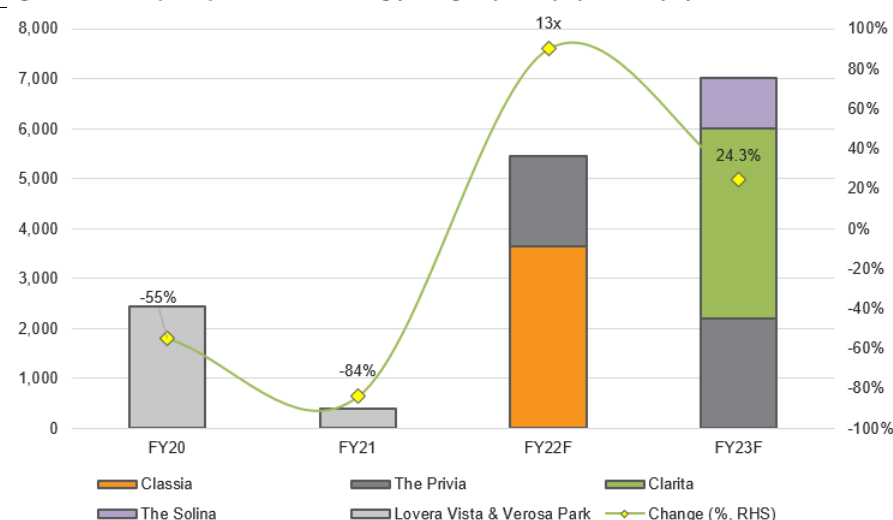
Sources: VNDIRECT RESEARCH, COMPANY REPORT

FY22-FY24F outlook: cautiously optimistic earnings outlook

Expect presales to bounce back strongly on four new project launches

We believe KDH's two project launches in 2H22F namely Classia and The Privia will achieve high take-up rate thanks to their sought-after locations, legally transparent and shrinking new supply in HCMC. We project FY22F presales to surge 13x yoy to VND5,691bn driven by Classia and The Privia project launches. Additionally, KDH has completed the acquisition of two new land banks including Doan Nguyen (6ha in Cat Lai, Thu Duc City) and Nguyen Thu (not yet disclosed any details of project information). We believe these projects will support KDH's earnings outlook in the mid-term.

Figure 5: We expect presales to strongly surge by 13x yoy/24.3% yoy over FY22-23F



Sources: VNDIRECT RESEARCH, COMPANY REPORT

Figure 6: Key development pipeline

Project	Location	Product type	KDH		Execution timeframe*						
			Ownership	Land site (ha)	2020A	2021A	2022F	2023F	2024F	2025F	2026F onward
Tan Tao	Binh Tan, HCMC	Township	100%	330.0							
Green Village	Binh Chanh, HCMC	Township	100%	132.9							
Corona	Binh Chanh, HCMC	Township	100%	17.5							
Le Minh Xuan	Binh Chanh, HCMC	Industrial park	100%	109.9							
158 An Duong Vuong	Binh Tan, HCMC	Condo	100%	1.8							
Clarita	Thu Duc City	Townhouse	100%	5.7							
Classia	Thu Duc City	Townhouse	100%	4.3							

(*) Each project execution timeframe (from first launch to delivery completion) is in grey highlight. Otherwise, no detail project timeframe has been announced by the company.

Sources: VNDIRECT RESEARCH, COMPANY REPORT

KDH's key projects to be implemented in FY22-23F

Figure 7: Classia project



- Location: Thu Duc City
- Total project area: 4.3ha
- Construction density: 36%
- Total units: 176 landed units
- Key components: Townhouse/Villas
- Total gross development value (GDV): VND3,650bn
- Expected launch time: 3Q22F
- Expected handover timeline: 3Q22F

Sources: VNDIRECT RESEARCH, COMPANY REPORT

Figure 8: The Privia project



- Location: Binh Tan, HCMC
- Total project area: 1.8ha
- Construction density: 30%
- Total units: c.1,000-1,100 units
- Key components: Apartments
- GDV: VND3,874bn
- Expected launch time: 4Q22F
- Expected handover timeline: 2024F

Sources: VNDIRECT RESEARCH, COMPANY REPORT

Figure 9: Clarita project



- Location: Thu Duc City
- Total project area: 5.8ha
- Total units: 159 units
- Key components: Townhouse / Villas
- Total GDV: VND3,787bn
- Expected launch time: 2023F
- Expected handover timeline: 2023F.

Sources: VNDIRECT RESEARCH, COMPANY REPORT

Figure 10: The Solina project


- Location: Binh Chanh, HCMC
- Total project area: 16.4ha
- Key components: Apartment / Villas / Townhouse
- Expected launch time: 2023F
- Expected handover timeline: 2024F.

Sources: VNDIRECT RESEARCH, COMPANY REPORT

But increasing headwinds on property sector outlook have dented our confidence

KDH planned to launch Classia project (176 landed units) in FY21 but the COVID-19 outbreak restricted construction activities and caused delays in this project launches. We aware that KDH does not have any new project launches since FY20 due to COVID-19 pandemic and slow legal procedures in HCMC. Thus, KDH's unbilled booking value as of May 2022 secures only 5-10% the property handover revenue we forecasted for FY22F in previous projection.

In addition, we see increasing headwinds weighing on 2022F property sector outlook, including: 1) rising interest rate to effect on housing purchasing decisions, 2) material prices hike that could drive up housing prices and 3) tightening bank loans into property sector and stricter supervision in corporate bond issuance. Thus, we have made the following revisions to our forecasts for FY22-24F:

FY22F:

- We postpone the revenue booking of c.VND741bn from Clarita project to FY23F as the project launch is likely to be delayed to 2023F.
- We revise other income up by 915% from previous forecast to VND362bn to reflect its VND308bn one-off gains from revaluation at Doan Nguyen House business investment Ltd. in 1Q22.
- Overall, we revise FY22F revenue down by 15.6% to VND3,769bn and net profit by 13.8% to VND1,471bn from previous projection.

FY23-24F:

- We postpone the revenue booking from The Solina project to FY24-25F as this project construction is likely to be delayed to FY23F.
- Overall, we revise FY23-24F revenue down by 18.2%/12.7% to VND4,721bn/VND6,325bn and net profit by 23.2%/13.4% to VND1,823bn/VND2,215bn from previous forecast.

Figure 11: FY22-24F forecast revisions

	New			Old			Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Net sales	3,769	4,721	6,325	4,466	5,774	7,244	-15.6%	-18.2%	-12.7%
Gross profit	2,185	2,886	3,437	2,662	3,677	3,956	-17.9%	-21.5%	-13.1%
Gross margin (%)	58.0%	61.1%	54.4%	59.6%	63.7%	54.4%	-1.6%	-2.6%	0.0%
SG&A expenses	(450)	(462)	(509)	(441)	(551)	(587)	2.1%	-16.3%	-13.3%
Operating profit	1,735	2,424	2,929	2,221	3,126	3,359	-21.9%	-22.4%	-12.8%
Other income	362	40	42	36	37	42	915.0%	6.7%	0.0%
EBT	1,889	2,281	2,771	2,137	3,005	3,225	-11.6%	-24.1%	-14.1%
Net profit	1,471	1,823	2,215	1,707	2,372	2,559	-13.8%	-23.2%	-13.4%

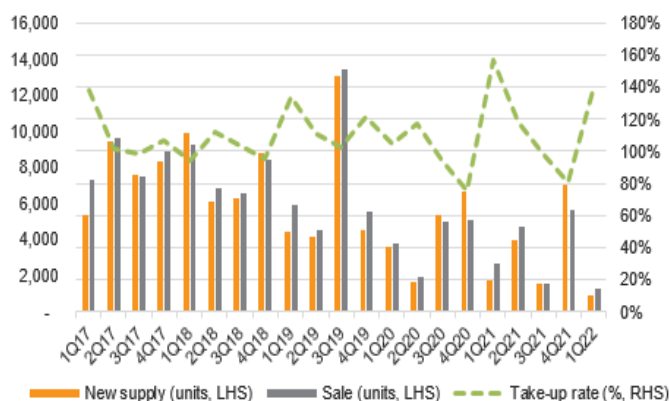
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Appendix

1Q22 HCMC property market: softer prices increase, shrinking new supply

New condo supply to shrink

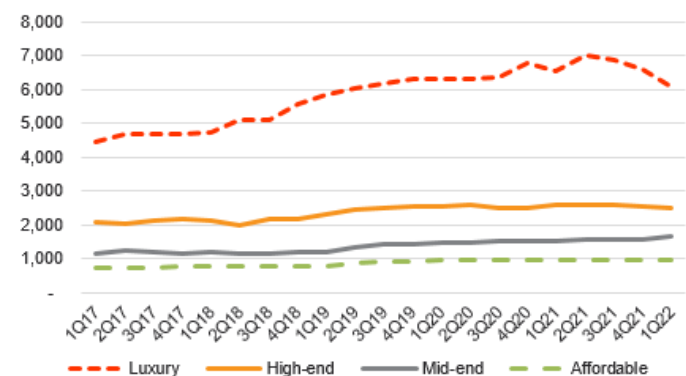
According to CBRE, the 1Q22 HCMC new condo supply plunged by 48% yoy to 884 units from only one high-end project namely Akari City, the lowest quarterly new supply since 2013. 1Q22 primary sales volume fell 53% yoy to 1,247 units due to subdued supply. Meanwhile, take-up rate still stayed positive at 141% (-15% pts yoy). We believe HCMC condo market will recover in the next couple of quarters with new launches of Lancaster Legacy, Urban Green, The 9 Stellars, Peak Garden projects.



Sources: CBRE, VNDIRECT RESEARCH

Average condo primary prices to cool down across segments (Unit: US\$ psm)

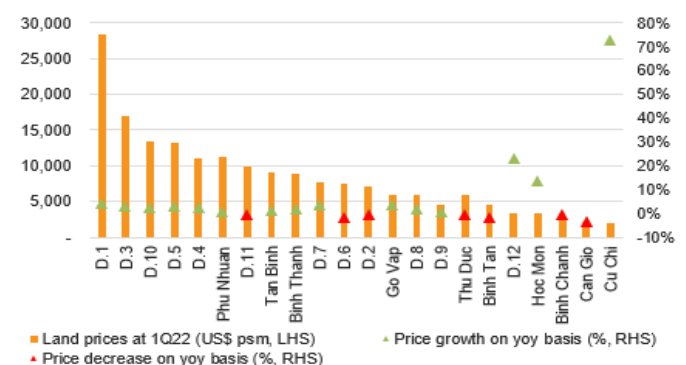
The HCMC condo primary price rose 7.7% yoy on average to US\$2,390 psm in 1Q22, softer than that of +14.6% yoy seen in 1Q21. The luxury and high-end segments declined respectively by 4.8% yoy and 1.2% yoy due to less sought-after locations. While the mid-end segments kept rising significantly 7.2% yoy (vs. +4.4% yoy in 1Q21) due to its limited supply over the last two years.



Sources: CBRE, VNDIRECT RESEARCH

Land secondary prices in the Northwest of HCMC dramatically to surge in 1Q22 (Unit: US\$ psm)

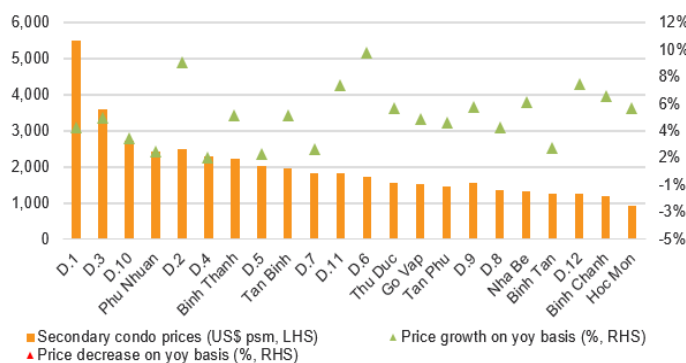
We see a dramatically surge in the Northwest of HCMC, especially Cu Chi district (+72.7% yoy, +116.5% within two years) following a proposal to be upgraded to City. Meanwhile, Hoc Mon district continued to record a double-digit price growth of 13.5% yoy (+51.8% within two years). While land price in the others showed a slowdown in 1Q22, fluctuating in the range of +/- 5% yoy.



Sources: VNDIRECT RESEARCH

Condo secondary prices in 1Q22 still grew healthily (Unit: US\$ psm)

Due to limited new condo supply in 1Q22, condo secondary market is likely to draw investors' attention with secondary price rising across HCMC, up 4.4% yoy on average in 1Q22 (vs. +3.2% yoy in 1Q21).



Sources: VNDIRECT RESEARCH

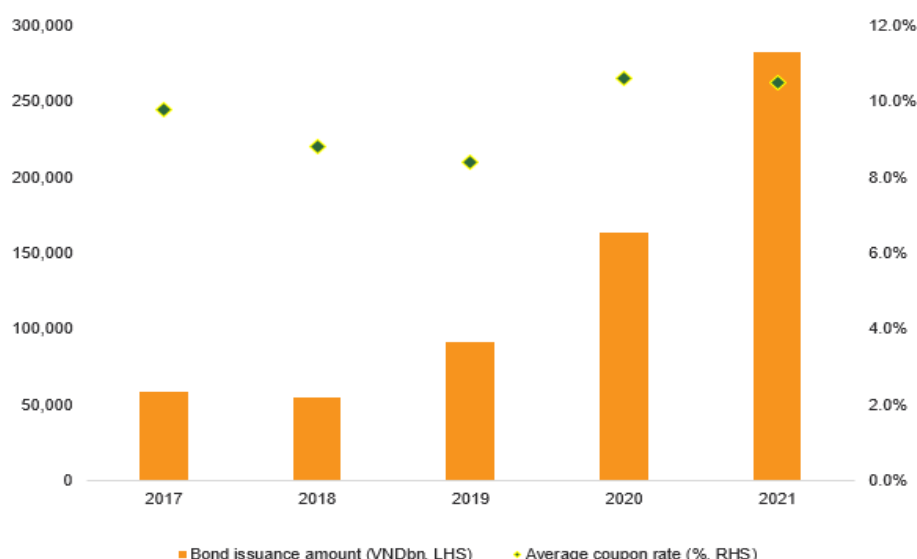
Property developers might face challenges in funding in the next couple of quarters

For the past few years, the State Bank of Vietnam (SBV) has gradually directed the credit flows into manufacturing, services, agriculture, etc. and decreased the lending exposure to property sector. The Circular 22/2019/TT-NHNN, which was effective since 2020, required commercial banks to reduce the ratio of short-term funding used for medium to long term-loan ratio down to 34% by Oct 2021 and 30% by Oct 2022. Consequently, credit growth into property sector has slowed down from 26% at end-FY18 to 12% at end-FY21 and possibly decelerates to 9-10% in FY22F. In Apr 2022, in order to curb property speculation, SBV has required banks to closely monitor credit into the real estate sector, and curb credit to those investing in premium properties, tourism and resort properties, and those hoarding properties.

Besides, the government also has urged caution on corporate bonds market due to growing risks of violations reported in issuances and auction of land use rights. According to our market research, property corporate bonds, accounting for 40% of new issuance, experienced strong growths with 73.1% yoy and 25.2% yoy in 2021 and 1Q22, respectively. In order to mitigate any further risks and enhance the market transparency, the Ministry of Finance has reviewed the legal framework with more stricter requirements for issuers, especially in private placement. SBV shall supervise and inspect credit institutions investing in corporate bonds, providing underwriting securities, investment, and distribution services for corporate bonds, especially bonds of real estate enterprises, enterprises with large issuance volume and high interest rates, or negative business results and no collateral. Thus, we believe that corporate bond issuance, and especially in real estate sector will be tightly squeezed in the next couple of quarters.

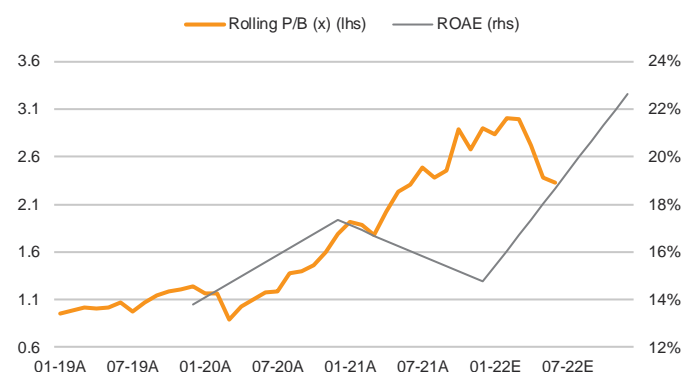
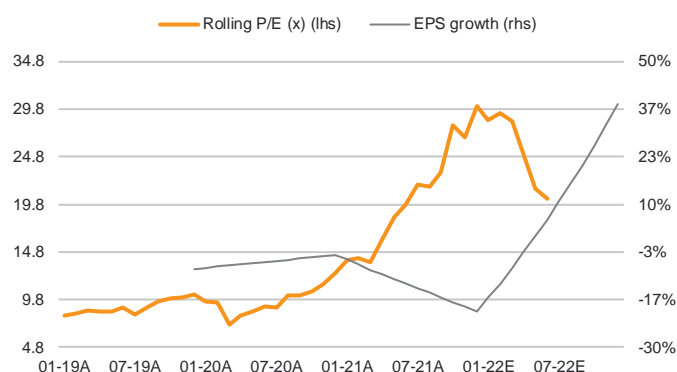
In the context of tightening bank loans into property sector and stricter supervision in corporate bond issuance, we believe developers will face challenges.

Figure 12: Bond issuance by real estate developers saw spectacular since 2019



Sources: VNDIRECT RESEARCH, FIINPRO

Valuation



Income statement

(VNDbn)	12-21E	12-22E	12-23E
Net revenue	3,738	3,769	4,721
Cost of sales	(1,945)	(1,585)	(1,835)
Gen & admin expenses	(183)	(208)	(191)
Selling expenses	(201)	(242)	(271)
Operating profit	1,408	1,735	2,424
Operating EBITDA	1,419	1,753	2,444
Depreciation and amortisation	10	19	19
Operating EBIT	1,408	1,735	2,424
Interest income	20	24	44
Financial expense	(72)	(136)	(127)
Net other income	184	267	(61)
Income from associates & JVs	0	0	0
Pre-tax profit	1,540	1,889	2,281
Tax expense	(335)	(416)	(456)
Minority interest	(2)	(2)	(2)
Net profit	1,202	1,471	1,823
Adj. net profit to ordinary	1,129	1,380	1,712
Ordinary dividends	0	0	0
Retained earnings	1,202	1,471	1,823

Balance sheet

(VNDbn)	12-21E	12-22E	12-23E
Cash and equivalents	1,365	2,274	3,832
Short term investments	69	69	69
Accounts receivables	649	654	820
Inventories	7,748	13,019	14,748
Other current assets	35	37	38
Total current assets	13,399	19,363	23,120
Fixed assets	792	860	936
Total investments	14	14	14
Other long-term assets	86	128	167
Total assets	14,349	20,417	24,283
Short-term debt	648	637	574
Accounts payable	155	126	146
Other current liabilities	1,231	2,535	3,686
Total current liabilities	2,064	3,323	4,434
Total long-term debt	1,905	5,294	6,310
Other liabilities	159	160	165
Share capital	6,429	6,429	6,429
Retained earnings reserve	2,342	3,759	5,490
Shareholders' equity	10,186	11,603	13,334
Minority interest	-	-	-
Total liabilities & equity	14,349	20,417	24,283

Cash flow statement

(VNDbn)	12-21E	12-22E	12-23E
Pretax profit	1,540	1,889	2,281
Depreciation & amortisation	10	19	19
Tax paid	(335)	(416)	(456)
Other adjustments	(340)	(367)	(311)
Change in working capital	(2,676)	(3,828)	(858)
Cash flow from operations	(2,015)	(2,676)	651
Capex	(49)	(81)	(89)
Proceeds from assets sales	0	0	0
Others	(50)	24	44
Other non-current assets changes	0	0	0
Cash flow from investing activities	(99)	(57)	(45)
New share issuance	936	0	0
Shares buyback	0	0	0
Net borrowings	2,174	3,379	952
Other financing cash flow	(1,467)	0	0
Dividends paid	0	0	0
Cash flow from financing activities	1,644	3,379	952
Cash and equivalents at beginning of period	1,836	1,365	2,274
Total cash generated	(470)	646	1,558
Cash and equivalents at the end of period	1,365	2,011	3,832

Key ratios

	12-21E	12-22E	12-23E
Dupont			
Net profit margin	32.2%	39.1%	38.7%
Asset turnover	0.34	0.34	0.43
ROAA	10.9%	13.4%	16.6%
Avg assets/avg equity	1.64	1.64	1.64
ROAE	18.0%	22.0%	27.2%
Efficiency			
Days account receivable	63.4	63.4	63.4
Days inventory	1,453.7	2,998.9	2,933.7
Days creditor	29.0	29.0	29.0
Fixed asset turnover	4.82	4.86	6.09
ROIC	9.4%	8.4%	9.0%
Liquidity			
Current ratio	6.5	5.8	5.2
Quick ratio	2.7	1.9	1.9
Cash ratio	0.7	0.7	0.9
Cash cycle	1,488.0	3,033.2	2,968.1
Growth rate (yoy)			
Revenue growth	(18.9%)	0.6%	25.3%
Operating profit growth	-	-	-
Net profit growth	4.3%	22.4%	23.9%
EPS growth	4.3%	22.4%	23.9%

Source: VNDIRECT 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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