

VINCOM RETAIL JSC (VRE) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND32,700	VND37,800	0.00%	ADD	REAL ESTATE

4 March 2022

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

Consensus*: Add:12 Hold:2 Reduce:0

Target price / Consensus: 0.6%

Key changes in the report

- Decrease FY22F/23F NP by 30.1%/4.1%
- Increase target price by 3.3%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	36,000
52w low (VND)	26,050
3m Avg daily value (VNDmn)	245,193
Market cap (VND bn)	74,532
Free float (%)	26
TTM P/E (x)	56.6
Current P/B (x)	2.4

Ownership

SADO Trading Commercial JSC	40.5%
Vingroup JSC	18.3%
Others	41.2%

Source: VND RESEARCH

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Strong recovery after pandemic

- VRE's FY21 revenue and net profit fell 29% yoy/45% yoy to VND5,891bn/VND1,314bn, significantly lower than our expectation.
- With footfall recovery of shopping malls since Nov-21, we expect VRE's FY22/23F NP likely to surge 95.4%/64.6% yoy, respectively.
- Reiterate ADD rating with DCF-based TP of VND37,800.

4Q21 result: Gradual recovery from 3Q21

4Q21 revenue fell 58% yoy (+74% qoq) because: (1) leasing revenue decreased 46% yoy, but increased 22% qoq to VND891bn and (2) revenue from property delivery decreased by 72% yoy to VND436bn (20x times qoq) as VRE only handed over 104 units compared to 226 units in 4Q20 (5 units in 3Q21). Thus, in 4Q21, VRE recorded VND122bn in NP (-87% yoy, +5.1x qoq). For FY21, VRE's revenue and NP fell 29% yoy/45% yoy to VND5,891bn/VND1,314bn, equivalent to only 77%/60% of our forecasts.

The crowds are back to the malls

According to data of google mobility, retail mobility recovered to about 80% vs. pre-Covid level in Dec 21 and reached pre-Covid level in Jan 22, before Tet season. It affirmed the quick recovery of Vietnam retail with high vaccine rate. VRE is considering another supporting package for Covid-19-affected tenants in FY22F to assist tenants to recover in FY22F.

Changes in forecasts

We lower FY22/23F revenue by 17.9/5.5% vs previous forecasts as (1) mall leasing business might recover slower-than-our-expectation as we expect VRE will support clients with another package in FY22F; and (2) we also lower the sale of inventory properties in FY22/23F by 48.7%/51.1% as VRE tends to switch its focus to leasing properties. As a result, we lower FY22/23F NP by 30.1%/4.1% versus previous forecasts to VND2,569bn/VND4,228bn (+95.5%/+64.6% yoy).

Reiterate ADD rating with DCF-based TP of VND37,800

We reiterate ADD rating with DCF-based TP of VND37,800 (+3.3% vs previous forecast) on the back of 1) rolling our DCF valuation to 2022, 2) strong recovery in Vietnam's retail industry after pandemic helps us to raise rents price by 1.0 pts % more per year from FY26F and beyond to 3) offset net profit reduction in FY22-23F by 30.1%/4.1% (WACC: 11.7%, risk-free rate: 3%). Re-rating catalysts are 1) faster-than-expected mall openings or recovery in retail, leading to a strong growth in leasing business and 2) a transfer of VRE's mall with a premium value.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	8,329	5,891	8,614	11,699
Revenue growth	(10.0%)	(29.3%)	46.2%	35.8%
Gross margin	45.9%	40.6%	48.0%	54.1%
EBITDA margin	58.6%	61.2%	64.7%	67.9%
Net profit (bn)	2,382	1,314	2,569	4,229
Net profit growth	(16.4%)	(44.8%)	95.5%	64.6%
Recurring profit growth				
Basic EPS	1,048	578	1,131	1,861
Adjusted EPS	1,048	578	1,131	1,861
BVPS	12,582	13,147	14,263	15,579
ROAE	8.5%	4.4%	8.0%	12.2%

Source: VND RESEARCH¹

STRONG RECOVERY AFTER PANDEMIC

Reiterate ADD rating with DCF-based target price of VND37,800

With footfall recovery of shopping malls since Nov-21, we expect VRE's FY22/23F NP likely to surge 95.4%/64.6% yoy, respectively. We believe VRE is worth for long-term investment due to:

- Vincom Retail JSC (VRE) is Vietnam's largest retail property developer with 1.7m sq m gross floor area at End-4Q21, will enjoy a strong growth with the country's surge in modern retail and people's income in the long-term.
- With the recovery of retail consumption and Vietnam's rapid vaccination rate, Covid-19 becomes a common disease to fully reopen the economy. Thereby giving VRE more growth in revenue and net profit potential with increasing in GFA and rental price.

We increase our target price of VRE by 3.3% to VND37,800 on the back of: 1) rolling our DCF valuation to 2022, 2) strong recovery in Vietnam's retail industry after pandemic helps us to raise rents price by 1.0 pts % more per year from FY26F and beyond to 3) offset net profit reduction in FY22-23F by 30.1%/4.1%. Our DCF valuation is based on assumption of WACC: 11.7% and a risk-free rate of 3%.

Figure 1: Discounted Cash Flow (DCF Valuation)

DCF Method	Amount	Unit
PV of Free Cash Flows	32,678	VNDbn
PV of Terminal Value (4.0% growth)	52,918	VNDbn
Enterprise value	85,596	VNDbn
Cash and cash equivalents	3,488	VNDbn
Total debts	(3,158)	VNDbn
Equity Value	85,925	VNDbn
Number of shares	2,272	million
Price per share	37,800	VND/share

Source: VNDIRECT Research

Figure 2: Assumptions

Cost of Capital	
Beta	1.00
Market Risk Premium	10.1%
Cost of Equity	13.1%
Cost of Debt	5.0%
WACC	11.7%

Source: VNDIRECT Research

Downside risks: 1) slower-than-expected mall openings, 2) lower-than-expected occupancy ratio and rental rate and 3) widespread social distancing.
Re-rating catalysts: 1) faster-than-expected mall openings, 2) faster-than-expected recovery in retail, leading to a strong growth in leasing business and 3) a transfer of VRE's mall with a premium value.

Market talk says that VRE would likely transfer one of their shopping malls in HCMC CBD. Although it has not been confirmed by VRE but it is a high possibility, in our view. We observe that VRE currently prioritises Megamalls with proximity to their mega residential projects. Additionally, riding on the warming-up property market, VRE has advantages to close the deal with a premium price. Therefore, if the deal was successful, it could be a catalyst for VRE's share price.

Figure 3: Peer comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS		P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY22F	FY23F	CAGR (%)	TTM	FY22F	FY23F	TTM	FY22F	FY23F	TTM	FY22F	FY23F
Vincom Retail JSC	VRE VN	ADD	32,700	37,800	3,253	56.6	26.9	18.7	-19.8%	2.4	2.3	2.1	4.4%	9.1%	10.8%	3.4%	6.2%	7.5%
SM Prime Holdings Inc	SMPH PM	na	39.25	na	21,954	51.3	34.3	25.7	-4.4%	3.4	3.1	2.8	6.1%	9.5%	11.5%	2.6%	4.4%	5.4%
Central Pattana PCL	CPN TB	na	55.90	63.25	7,770	35.4	28.3	23.2	-13.1%	3.5	3.1	2.8	10.1%	11.5%	12.7%	2.9%	3.6%	4.2%
Pakuwon Jati Tbk PT	PWON IJ	na	44,622	700.0	na	21.0	17.7	13.2	460.0%	1.4	1.4	1.3	7.1%	7.5%	9.3%	3.8%	4.1%	5.2%
Average - Retail real estate peers						35.9	26.8	20.7	147.5%	2.8	2.5	2.3	7.8%	9.5%	11.2%	3.1%	4.1%	5.0%

Data as of 03 Mar 2022

Source: VND RESEARCH, Bloomberg

4Q21 results: Gradual recovery from 3Q21

VRE's 4Q21 revenue fell 58% yoy to VND1,367bn as:

- Leasing revenue in 4Q21 decreased by 46% yoy, but increased by 22% qoq to VND891bn as VRE continued to offer a support package for tenants with a value of VND766bn (compared to VND925bn in 3Q21) mainly in the form of rent exemption, especially for tenants in the entertainment business (eg cinemas, indoor playgrounds, etc.) which are still not allowed to operate in the early stages of the economy re-opening after social distancing.
- Revenue from property delivery decreased by 72% yoy to VND436bn in 4Q21 as VRE only handed over 104 units compared to 226 units in 4Q20, which reflects its business switching focus to the leasing segment.

VRE's gross profit margin fell 14% pts to 34% due to the tenant support package in 4Q21. Thus, 4Q21 gross profit decreased by 70% to VND464bn.

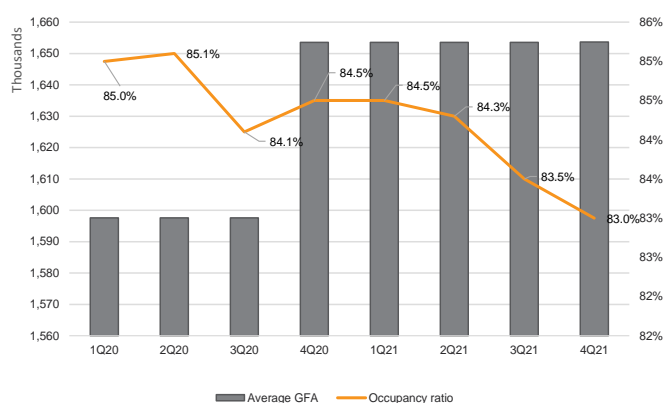
SG&A expenses fell 18% yoy in 4Q21 mainly due to 57% yoy drop in selling expenses as many malls were closed in social distancing areas to offset the increase of 37% in G&A expense due to VRE's increased provision for bad debts of nearly VND80bn in 4Q21.

As a result, in 4Q21, VRE achieved VND891bn in revenue (-58% yoy; +74% qoq) and VND122bn in net profit (-87% yoy, x5.1 times qoq).

For full year 2021, VRE's revenue and net profit fell 29% yoy/45% yoy to VND5,891bn/VND1,314bn, only reached 77%/60% of our 2021 forecast.

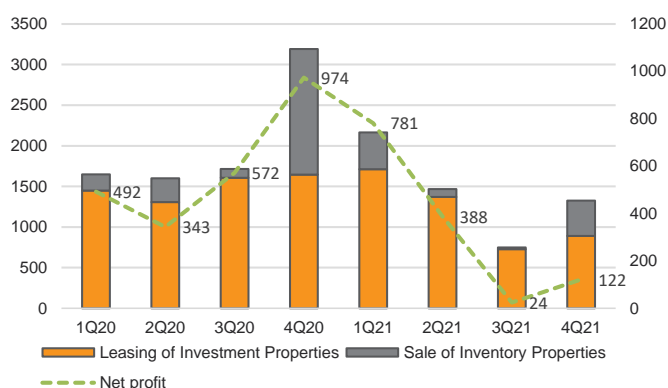
VRE's 2021 results are lower than our forecast because 1) we estimate the support package offered by VRE in 2021 at VND1,424bn, lower than VRE's actual support package at VND2,115bn and 2) VRE's strategy to focus on leasing business and revenue from property delivery was lower than we expected (VND1,004bn compared to our estimate of VND1,397bn).

Figure 4: Average GFA (sq m - LHS) and occupancy ratio (RHS)



Source: VNDIRECT Research, Company reports

Figure 5: Revenue (Unit: VNDbn, LHS) by business and net profit (Unit: VNDbn, RHS) of VRE from 2020 – 2021



Source: VNDIRECT Research, Company reports

Figure 6: 4Q21 & FY21 results comparison

(VNDbn)	4Q20	4Q21	%yoy	3Q21	%qoq (4Q21 vs 3Q21)	2020	2021	%yoy	VND's forecast	%vs VND's forecast	Comments
Net revenue	3,253.0	1,367.0	-58%	787.4	74%	8,328.9	5,891.1	-29%	7,687.0	76.6%	Below our forecast.
Leasing	1,645.0	891.0	-46%	728.2	22%	6,008.3	4,700.8	-22%	6,109.0	76.9%	Support package amounted to VND766bn mostly in the form of rent waiver, compared to that of VND45bn in 4Q20. Total support package for tenants in 2021 was VND2,115bn, compared to that of VND865bn in 2020.
Property delivery	1,547.0	435.8	-72%	20.4	2,036%	2,148.7	1,004.3	-53%	1,397.0	71.9%	Only 104 units were handed over in 4Q21 compared to 226 units in 4Q20. For 2021, 235 units were handed compared to 346 units in 2020
COGS	1,681.0	903.0	-46%	657.0	37%	-4,507.6	-3,499.0	-22%	(4,243.0)	82.5%	
Gross profit	1,572.0	464.0	-70%	130.4	256%	3,821.3	2,392.1	-37%	3,444.0	69.5%	Below our forecast.
Leasing	858.0	236.7	-72%	123.8	91%	2,950.6	1,999.4	-32%	2,987.0	66.9%	
Property delivery	740.0	250.9	-66%	11.4	2,101%	1,033.4	508.8	-51%	628.7	80.9%	
GPM (total)	48%	34%	-14.0 pts %	17%	17.0 pts %	46%	41%	-5.0 pts %	45.0%	-4.0 pts %	
GPM (Leasing)	52%	27%	-25.0 pts %	21%	6.0 pts %	49%	43%	-6.0 pts %	49.0%	-6.0 pts %	
GPM (Property delivery)	48%	58%	10.0 pts %	56%	2.0 pts %	48%	51%	3.0 pts %	45.0%	6.0 pts %	
Net financial expenses	-68.0	-4.0	-94%	-10.9	-63%	-191.2	-99.3	-48%	(160.7)	61.8%	
Selling expenses	-185.0	-80.0	-57%	-22.1	262%	-330.0	-201.8	-39%	(277)	72.8%	
G&A expenses	-133.0	-182.0	37%	106.1	-272%	-398.6	-433.2	9%	(295)	146.8%	
SG&A expenses	-318.0	-262.0	-18%	84.0	-412%	-728.6	-634.9	-13%	(572)	111.0%	Above our forecast as VRE increased provision for bad debts of nearly VND80bn
Selling expenses / Revenue	-5.7%	-5.9%	-0.2 pts %	-2.8%	-3.0 pts %	-4.0%	-3.4%	0.6 pts %	3.6%	-7.0 pts %	
G&A expenses / Revenue	-4.1%	-13.3%	-9.2 pts %	13.5%	-27.0 pts %	-4.8%	-7.4%	-2.6 pts %	3.8%	-11.2 pts %	
SG&A expenses / Revenue	-9.8%	-19.2%	-9.4 pts %	10.7%	-30.0 pts %	-8.7%	-10.8%	-2.1 pts %	7.4%	-18.2 pts %	
Operating profit	1186.0	198.0	-83%	35.5	458%	2901.4	1657.9	-43%	2872.0	57.7%	
Other profit	25.0	-17.0	-168%	12.9	-232%	91.3	34.4	-62%	25.4	135.3%	
Pretax profit	1211.0	181.0	-85%	48.4	274%	2992.7	1692.3	-43%	2737.0	61.8%	
Net profit	974.0	122.0	-87%	24.3	403%	2381.9	1314.5	-45%	2178.0	60.4%	Below our forecast.

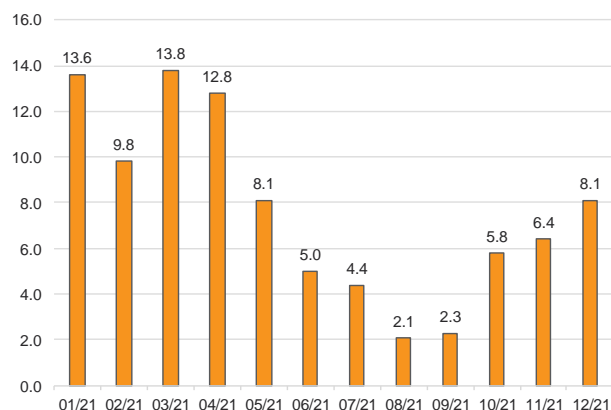
Source: VNDIRECT Research, Company reports

The crowds are back to the malls

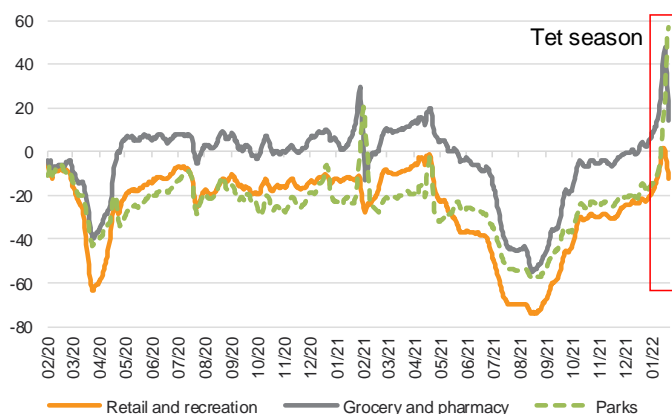
According to data from VRE, the number of footfall to Vincom malls in Dec 21 has recovered to 8.1m visitors, equivalent to May 21 level and nearly 4 times higher than Aug - Sep 21.

The strong recovery of footfall to Vincom malls is similar to that of Google mobility data, which compares pandemic mobility to pre-Covid-19 levels (Jan 20). Based on Google mobility data, Vietnam retail mobility (value the mobility of people to retail places) continued to recover rapidly from Dec 21 to Jan 22 to reach pre-Covid-19 level before Tet season. Thus, we expected footfall to Vincom malls will show a similar move to Google mobility data. In addition, retail sales of Vietnam goods in Jan 22 still maintained an upward momentum and reached VND383.5tn, increased 4.3% yoy, affirmed the quick recovery of Vietnam retail with a high vaccine rate.

With nearly 79m people (accounting for about 79% of the population (as of 03 Mar 2022) having been fully vaccinated, exceeding the target of 70% of the population being vaccinated for herd immunity, from 2022 onwards, VRE will no longer face widespread social distancing.

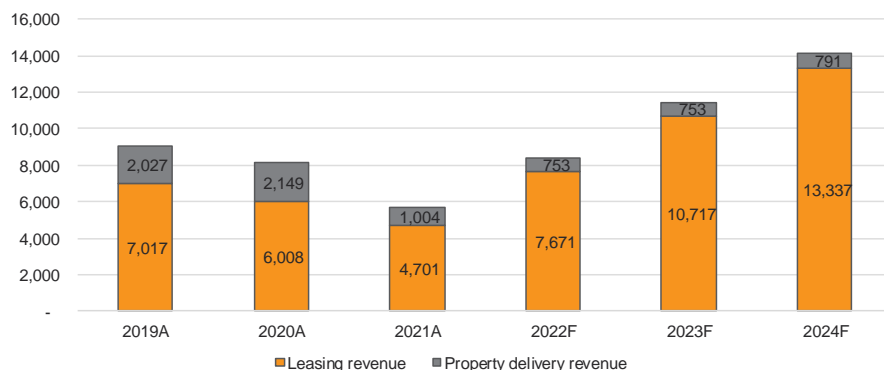
Figure 7: Monthly footfall to Vincom malls (m visitors)


Source: VNDIRECT Research, Company reports

Figure 8: Google mobility (Retail and recreation, grocery and pharmacy, parks) of Vietnam from 2020 - 2021


Source: VNDIRECT Research, Google mobility

However, leasing business of VRE will still be impacted in 2022 as their tenants were affected by Covid-19 in 2021 and need time to recover. VRE is considering another supporting package for Covid-19-affected tenants in FY22F to assist tenants to recover in FY22F and it is expected that in 2023 VRE will not offer support packages. Therefore, the recovery of VRE may not be as strong as our previous forecast. As a result, we revise -13.2%/+1% in VRE's FY22F/FY23F leasing revenue assumption.

Figure 9: Our projection for VRE revenue in FY22-24F (Unit: VNDbn)


Source: VNDIRECT Research, Google

Changes in forecasts

We lower FY22F/23F revenue by 17.9/5.5% vs previous forecast as:

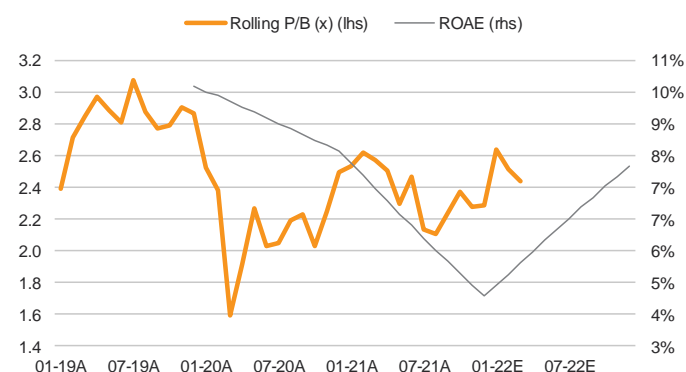
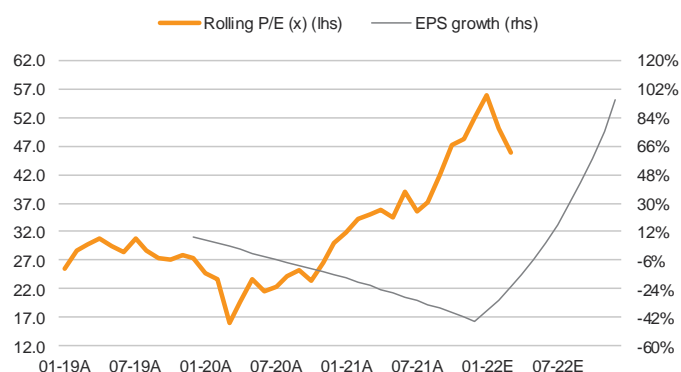
- Adjust leasing revenue in FY22F/23F by -13.2%/+1% to reflect a supporting package as same as 2020 in FY22F.
- Lower sale of inventory properties in FY22F/23F by 48.7%/51.1% due to VRE's strategy to focus on leasing of investment properties and reduction in sale of inventory properties is stronger than our previous forecast.

As a result, we lower FY22F/23F net profit by 30.1%/4.1%.

Figure 10: FY22-23F earnings revision

			Old		New		%chg vs old forecast		
	2020A	2021A	2022F	2023F	2022F	2023F	2022F	2023F	2024F
Net sales	8,329	5,891	10,497	12,381	8,614	11,699	-17.9%	-5.5%	14,396
Leasing of Investment Properties	6,008	4,701	8,840	10,612	7,671	10,717	-13.2%	1.0%	13,337
Sale of Inventory Properties	2,149	1,004	1,467	1,540	753	753	-48.7%	-51.1%	791
COGS	(4,508)	(3,499)	(4,961)	(5,832)	(4,475)	(5,373)	-9.8%	-7.9%	(6,350)
Gross Profit	3,821	2,392	5,536	6,549	4,139	6,326	-25.2%	-3.4%	8,046
GM	45.9%	40.6%	52.7%	52.9%	48.0%	54.1%	-4.7%	1.2%	55.9%
Leasing of Investment Properties	49.1%	62.8%	57.2%	58.0%	51.9%	58.2%	-5.3 pts %	0.2 pts %	59.9%
Sale of Inventory Properties	48.1%	103.0%	45.0%	40.0%	45.0%	40.0%	0.0 pts %	0.0 pts %	40.0%
Net financial expenses	(191.2)	(99.3)	(122.4)	(70.9)	(106.4)	(28.3)	-13.1%	-60.1%	106.7
Selling expenses	(330)	(202)	(398)	(471)	(387)	(473)	-2.8%	0.4%	(569)
General and admin expenses	(399)	(433)	(427)	(512)	(444)	(550)	4.0%	7.4%	(656)
SG&A expenses	(729)	(635)	(825)	(983)	(831)	(1,023)	0.7%	4.1%	(1,225)
S/R	3.96%	3.43%	3.79%	3.80%	4.49%	4.04%	0.7 pts %	0.2 pts %	3.95%
G&A/R	4.79%	7.35%	4.07%	4.14%	5.15%	4.70%	1.1 pts %	0.6 pts %	4.56%
SG&A/R	8.75%	10.78%	7.86%	7.94%	9.64%	8.74%	1.8 pts %	0.8 pts %	8.51%
Operating profit/(loss)	3,093	1,757	4,711	5,566	3,308	5,303	-29.8%	-4.7%	6,821
Net other income/(expenses)	91.3	34.4	34.6	40.8	28.4	38.6	-17.9%	-5.4%	47.5
Profit before tax	2,993	1,692	4,623	5,536	3,230	5,313	-30.1%	-4.0%	6,975
Tax rate	20%	22%	20%	20%	20%	20%	0.0%	0.0%	20%
Net profit	2,382	1,315	3,679	4,406	2,571	4,229	-30.1%	-4.0%	5,551
%yoy					95.5%	64.5%			30.5%

Source: VNDIRECT Research

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	5,891	8,614	11,699
Cost of sales	(3,499)	(4,475)	(5,373)
Gen & admin expenses	(433)	(444)	(550)
Selling expenses	(202)	(387)	(473)
Operating profit	1,757	3,308	5,303
Operating EBITDA	3,185	5,284	7,551
Depreciation and amortisation	(1,428)	(1,976)	(2,248)
Operating EBIT	1,757	3,308	5,303
Interest income	387	258	351
Financial expense	(486)	(365)	(379)
Net other income	34	28	39
Income from associates & JVs	0	0	0
Pre-tax profit	1,692	3,229	5,314
Tax expense	(377)	(659)	(1,084)
Minority interest	(1)	(1)	(1)
Net profit	1,314	2,569	4,229
Adj. net profit to ordinary	1,314	2,569	4,229
Ordinary dividends	0	0	(1,164)
Retained earnings	1,314	2,569	3,065

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	3,297	7,531	6,879
Short term investments	190	83	112
Accounts receivables	1,488	474	633
Inventories	583	366	366
Other current assets	2,338	1,292	1,755
Total current assets	7,896	9,746	9,745
Fixed assets	1,694	1,167	1,589
Total investments	7	663	902
Other long-term assets	28,278	33,711	36,790
Total assets	37,875	45,287	49,026
Short-term debt	20	59	59
Accounts payable	526	734	881
Other current liabilities	2,344	5,526	6,406
Total current liabilities	2,890	6,319	7,346
Total long-term debt	3,138	4,483	3,881
Other liabilities	1,195	1,235	1,483
Share capital	23,288	23,288	23,288
Retained earnings reserve	9,289	11,883	14,979
Shareholders' equity	30,617	33,215	36,280
Minority interest	35	35	36
Total liabilities & equity	37,875	45,287	49,026

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,692	3,229	5,314
Depreciation & amortisation	1,482	1,980	2,255
Tax paid			
Other adjustments	1,854	(3,255)	2,049
Change in working capital	(3,344)	5,581	415
Cash flow from operations	1,684	7,535	10,033
Capex	(1,567)	(4,622)	(4,898)
Proceeds from assets sales	915	15	17
Others	0	(547)	(264)
Other non-current assets changes	1,814	889	(527)
Cash flow from investing activities	1,162	(4,265)	(5,672)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(2,600)	951	(571)
Other financing cash flow	0	40	248
Dividends paid	0	0	(1,164)
Cash flow from financing activities	(2,600)	991	(1,487)
Cash and equivalents at beginning of period	3,051	3,297	7,531
Total cash generated	246	4,261	2,874
Cash and equivalents at the end of period	3,297	7,558	10,405

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	22.3%	29.8%	36.1%
Asset turnover	0.15	0.21	0.25
ROAA	3.4%	6.2%	9.0%
Avg assets/avg equity	1.30	1.30	1.36
ROAE	4.4%	8.0%	12.2%
Efficiency			
Days account receivable	80.7	16.7	16.8
Days inventory	60.8	29.9	24.9
Days creditor	54.9	59.9	59.8
Fixed asset turnover	3.80	6.02	8.49
ROIC	3.9%	6.8%	10.5%
Liquidity			
Current ratio	2.7	1.5	1.3
Quick ratio	2.5	1.5	1.3
Cash ratio	1.2	1.2	1.0
Cash cycle	86.6	(13.3)	(18.1)
Growth rate (yoy)			
Revenue growth	(29.3%)	46.2%	35.8%
Operating profit growth	(43.2%)	88.3%	60.3%
Net profit growth	(44.8%)	95.5%	64.6%
EPS growth	(44.8%)	95.5%	64.6%

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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