

VINCOM RETAIL JSC (VRE) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND27,900	VND36,600	0.00%	Add	REAL ESTATE

14 September 2021

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

Consensus*: Add:11 Hold:3 Reduce:0

Target price / Consensus: 4.2%

Key changes in the report

➤ Decrease FY21F/22F/23F net profit by 38.4%/18.8%/21.5%.

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	37,800
52w low (VND)	25,300
3m Avg daily value (VNDmn)	123,158
Market cap (VND bn)	63,625
Free float (%)	31
TTM P/E (x)	23.7
Current P/B (x)	2.1

Ownership

SADO Trading Commercial JSC	41.5%
Vingroup JSC	18.8%
Others	39.7%

Source: VND RESEARCH

Analyst(s):



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An expected rebound after social distancing

- Vincom Retail's 1H21 revenue and net profit rose 12.7%/yoy/39.9% yoy to VND3,737bn/VND1,168bn, significantly lower than our expectation.
- VRE's results will be impacted by prolonged social distancing in 2H21F, before growing strongly since 2022F.
- VRE's malls build-out to resume in 4Q21F with Vincom Megamall Smart city and 2 Vincom Plazas at Bac Lieu and My Tho.
- Reiterate Add with a lower TP of VND36,600.

2Q21 results slightly impacted by a re-emergence of Covid-19

2Q21 net revenue slumped 7.3% yoy due to a 67.6% yoy decrease in property inventory sales and a 4.8% yoy increase in leasing revenue thanks to VRE's total gross floor area (GFA) rose 3.5% yoy in 2Q21, while leasing price stay the same level as 2Q21's when VRE launched a VND350bn package to tenants due to 4th outbreak of Covid-19. Financial expense decrease 23.8% yoy, helping 2Q21 net profit increased 12.9% yoy to VND388bn. For 1H21, VRE's revenue and net profit rose 12.7% yoy/39.9% yoy to VND3,737bn/VND1,168bn, below our forecast when completed 32.4%/33.0% our full year projection.

Tough 2H21 due to prolonged social distancing

As expected by the local government, the time to relax social distancing in Hanoi is 21 Sep-21 and in HCMC is 01 Oct-21, thus VRE could propose an additional large support package in 2H21F. As a result, we revise down VRE's FY21F revenue/net profit forecast by 33.4%/38.4% to 1) reflect the additional support package and 2) revise down properties delivery revenue projection.

Awaiting a new normal

With the vaccine widely available, Vietnam economy will gradually reopen since 2022 in a condition of living with pandemic, leading us to anticipate that no social distancing will be implemented in the future. However, 4th Covid-19 wave also post short term challenges for tenants, thus, VRE will maintain a stable rent in FY22/23F. We adjust FY22F/23F revenue down 24.5%/25.3% reflecting 1) stable rent in FY22F/23F and 2) less contribution from property segment as VRE will focus more on leasing business. As a result, VRE's net profit in FY22F/23F decreased by 18.8%/21.5% compared to previous report.

Reiterate Add with DCF-based TP of VND36,600

We lower our TP by 3.7% following an earnings downgrade over FY21-23. However we still like VRE thanks to its well-position to ride on the boom of middle and affluent class in Vietnam. Potential upside catalyst: faster-than-expected mall openings. Downside risks include another wave of the Covid-19 outbreak.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	8,329	7,687	10,497	12,381
Revenue growth	(10.0%)	(7.7%)	36.6%	17.9%
Gross margin	45.9%	44.8%	52.7%	52.9%
EBITDA margin	58.6%	64.7%	67.2%	66.2%
Net profit (bn)	2,382	2,178	3,679	4,406
Net profit growth	(16.4%)	(8.6%)	68.9%	19.8%
Recurring profit growth				
Basic EPS	1,048	958	1,619	1,939
Adjusted EPS	1,048	958	1,619	1,939
BVPS	12,582	12,021	12,101	12,493
ROAE	8.5%	7.6%	13.1%	15.4%

Source: VND RESEARCH

AN EXPECTED REBOUND AFTER SOCIAL DISTANCING

Investment thesis

VRE is being affected by the impact of the 4th Covid-19 pandemic, which cause major economic centers to apply social distancing from May-21 till now, but 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-2Q21, will enjoy a strong growth with the country's surge in modern retail and people's income in the long-term.
- With the vaccine widely available, Vietnam economy will quickly reopen since 2022 in a condition of living with the pandemic, leading us to anticipate that no social distancing period will be implemented in the future to bring VRE's result back to growth pace.
- VRE's pipeline planned to expand their total GFA to 4.7m sqm in 2026F, or 2.8x compared to Jun-21 GFA, anchored around marquee mega mall projects, will be the growth engine for VRE's business in the coming period.

We reiterate ADD recommendation with DCF-based TP of VND36,600

We reiterate Add rating with a lower TP of VND36,600 (WACC: 11.7%) to reflect the decrease in FY21F/22F/23F net profit by 38.4%/18.8%/21.5% and beyond, a rollover to 3Q21F valuation, lower risk free rate from 4% to 3%. Our TP based on a conservative forecast in regards of short-term prolonged effects by the Covid-19. The expansion plan and deployment of VRE post-Covid will be updated in our next reports should the progress be accelerated from next year onwards.

Figure 1: Discounted Cash Flow (DCF Valuation)

DCF Method	Amount	Unit
PV of Free Cash Flows	32,480	VNDbn
PV of Terminal Value (4.0% growth)	49,797	VNDbn
Enterprise value	82,277	VNDbn
Cash and cash equivalents	5,229	VNDbn
Total debts	(4,372)	VNDbn
Equity Value	83,134	VNDbn
Shares	2,272	million
Price per share	36,600	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) prolonged social distancing period or another nationwide lockdown.

Re-rating catalysts: 1) faster-than-expected mall openings, and 2) faster-than-expected recovery in retail, leading to a strong growth in leasing business.

Figure 3: Sector comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY21F	FY22F		TTM	FY21F	FY22F	TTM	FY21F	FY22F	TTM	FY21F	FY22F
Vincom Retail JSC	VRE VN	ADD	27,900	36,600	2,785	23.7	23.5	17.8	25.2%	2.1	2.1	2.1	9.3%	6.7%	9.4%	7.1%	4.3%	6.8%
SM Prime Holdings Inc	SMPH PM	na	33.60	na	19,452	50.4	39.3	27.0	-5.9%	3.0	2.9	2.7	6.2%	7.6%	10.2%	2.7%	3.5%	5.3%
Central Pattana PCL	CPN TB	na	53.50	63.25	7,280	25.0	34.3	24.6	-10.4%	3.4	3.1	2.8	14.2%	10.2%	12.1%	4.4%	3.2%	4.2%
Pakuwon Jati Tbk PT	PWON IJ	na	462.0	700.0	1,562	25.4	15.3	12.6	-7.7%	1.5	1.4	1.3	6.2%	8.8%	10.1%	3.3%	6.1%	6.4%
Platinum Group PCL	PLAT TB	na	3.06	na	261	na	na	na	na	1.1	na	na	-5.9%	na	na	-4.1%	na	na
Average - Retail real estate peers						33.6	29.6	21.4	-8.0%	2.3	2.5	2.3	5.2%	8.9%	10.8%	1.6%	4.3%	5.3%

Data as at 13th Sep 2021

Source: VNDIRECT Research, Bloomberg

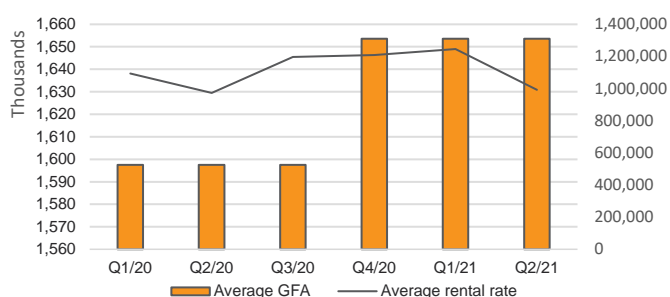
2Q21 results slightly impacted by the pandemic

Figure 4: Results comparison

	Q2/20	Q2/21	yoy	1H20	1H21	yoy	VND's forecast	%vs VND's forecast	Comments
Revenue	1,630	1,510	-7.3%	3,316	3,737	12.7%	11,545	32.4%	Below our forecast.
Leasing of Investment Properties	1307	1370	4.8%	2,756	3,082	11.8%	8855	34.8%	VRE's total gross floor area (GFA) rose 3.5% yoy in 2Q21, while leasing price stay the same level as 2Q21's when VRE launched a VND424bn package to tenants due to 4th outbreak of Covid-19.
Sale of Inventory Properties	294	96	-67.6%	495	548	10.6%	2453	22.3%	Only 16 units handed over in 2Q21 compared to 49 units in 2Q20, lead to the reduction in sale in inventory properties.
COGS	984	881	-10.5%	1,911	1,939	1.5%	-6019	-32.2%	
Gross profit	646	629	-2.5%	1,405	1,798	28.0%	5526	32.5%	
Gross margin	39.6%	41.7%	2.0% pts	42.4%	48.1%	5.7% pts	47.9%	0.2% pts	
Leasing of Investment Properties	45.0%	44.0%	-1.0% pts	45.6%	52.3%	6.7% pts	54.9%	-2.6% pts	
Sale of Inventory Properties	37.0%	63.0%	26.0% pts	49.4%	45.0%	-4.4% pts	30.0%	15.0% pts	
Net financial expense	-42	-32	-23.8%	-74	-84	13.5%	-7.5	1120.0%	
Selling expense	45	52	15.6%	105	144	37.1%	-438	-32.9%	
G&A expense	92	80	-13.0%	182	145	-20.3%	-643	-22.6%	
SG&A	137	132	-3.7%	287	289	0.7%	-1081	-26.7%	Below our forecast due to VRE applies cost-cutting measures during social distancing period since May-21, resulting in a 1.7% pts lower SG&A/Revenue ratio than we forecast.
S/Revenue	2.76%	3.44%	0.7% pts	3.17%	3.85%	0.7% pts	3.79%	0.1% pts	
G&A/Revenue	5.64%	5.30%	-0.3% pts	5.49%	3.88%	-1.6% pts	5.57%	-1.7% pts	
SG&A/Revenue	8.40%	8.74%	0.3% pts	8.66%	7.73%	-0.9% pts	9.36%	-1.6% pts	
Operating profit	509	497	-2.4%	1,117	1,509	35.1%	4445	33.9%	Below our forecast.
Other income	-22	18	-181.8%	22	38	72.7%	38.1	99.7%	
EBT	446	483	8.4%	1,065	1,463	37.4%	4476	32.7%	
NP	343	388	12.9%	835	1,168	39.9%	3535	33.0%	Below our forecast

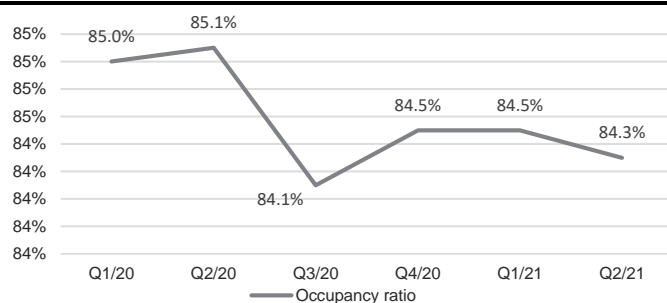
Source: VNDIRECT Research, Company reports

Figure 5: Average GFA (sq m - LHS) and average rental rate (VND - RHS)



Source: VNDIRECT Research, Company reports

Figure 6: Average occupancy ratio from 2020 - 2021



Source: VNDIRECT Research, Company reports

Tough 2H21F due to prolonged social distancing

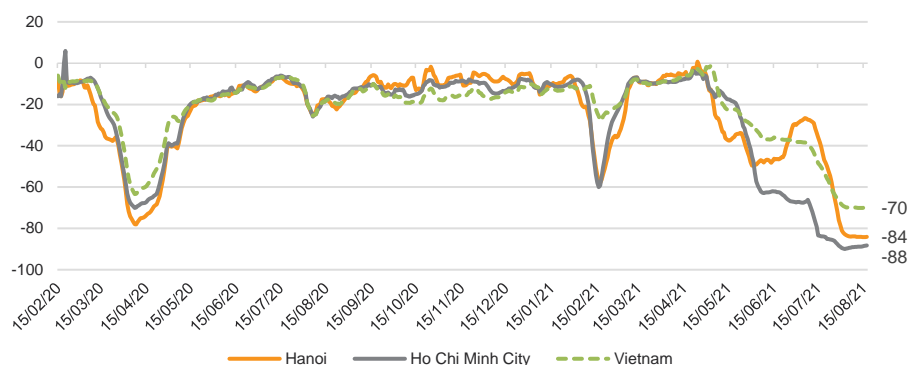
According to Google mobility data, which compares pandemic mobility to pre-Covid-19 levels (Jan 20), Vietnam retail mobility (value the mobility of people to retail places) has reduced more than nationwide social distancing in Apr-20. As at 17 Aug-21, Vietnam retail mobility index decreased by 70% compared to pre-Covid-19 level, of which the index in Hanoi decreased by 84% and in Ho Chi Minh City decreased by 88% compared to pre-Covid-19 level.

To respect and strictly follow the Government's guidance on Covid-19 prevention, VRE's malls have been closed depending on affected

cities/provinces. As of early September, 49 out of 80 malls were closed, mainly from Hanoi, HCMC and Northern provinces.

VRE could provide further supporting package for Covid-19-affected tenants in 2H21F, depending on the severity and length of the Covid-19 pandemic. With the social distancing projected to persist until mid-Sep-21, we believe the VRE supporting package will larger than 1H21 packages. As a result, we reduce VRE's FY21F revenue/net profit projection by 32.6%/40.3% to 1) reflect an increase in the total support packages in FY21F and 2) represent VRE's plan for properties delivery revenue.

Figure 7: Vietnam retail mobility (average 7 days) from 2020 - 21

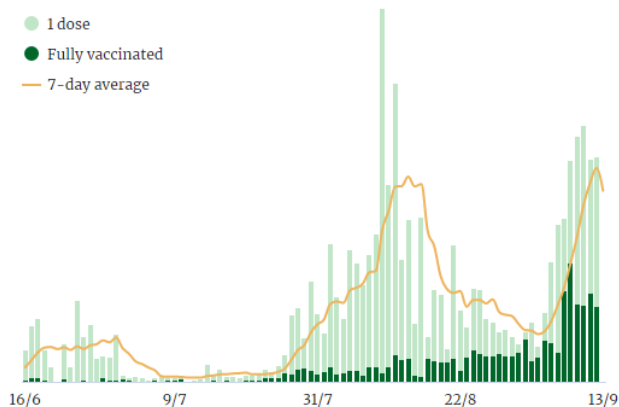


Source: VNDIRECT Research, Google

FY22F – FY23F outlook: All eyes on vaccination

By 14 Sep-21, 29.8m doses of Covid-19 vaccine had been imported, and 24m people had been vaccinated, accounting for 24.8% of Vietnam's entire population. Vaccination rates were notably high in Aug-21, when more than 12.5m doses of vaccine were given. The government expects to import 150m doses of vaccine by the end of 2021, enough to fully inject 70m people.

Figure 8: Daily Covid-19 vaccination doses from May 21 – Sep 21



Source: VNDIRECT Research, VNExpress

Figure 9: Vaccine data by province as at 14 Sep-21

City/province	Population*	Planned distribution	Actual distribution	Distributed per population	Total people	Percentage	Fully vaccinated	Percentage
HCMC	9M	13.8M	8.7M	62.7%	6.6M	94.9%	1.5M	22.1%
Hanoi	8.1M	11.4M	5.5M	48.0%	5.1M	88.0%	659K	11.5%
Binh Duong	2.5M	3.6M	2.1M	58.7%	1.7M	88.4%	53.5K	2.9%
Dong Nai	3.1M	4.3M	1.8M	40.2%	1.6M	75.5%	74.1K	3.3%
Long An	1.7M	2.4M	1.7M	65.5%	1.4M	10.8%	140.9K	11.2%
Quang Ninh	1.3M	1.8M	535.1K	28.8%	467K	49.9%	164.5K	17.6%
Khanh Hoa	1.2M	1.7M	525.7K	29.5%	460K	51.6%	64.1K	7.2%
Bac Giang	1.8M	2.4M	451.6K	17.8%	388.6K	30.7%	72.1K	5.7%
Bac Ninh	1.4M	1.9M	444.5K	22.8%	309.4K	31.4%	176.4K	17.9%
Dong Thap	1.6M	2.2M	291.1K	12.3%	299.7K	25.4%	34.4K	2.9%

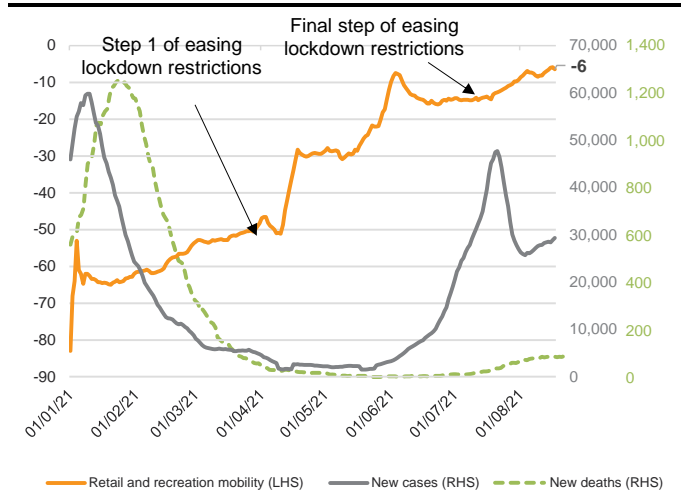
Source: VNDIRECT Research, VNExpress

Consumer demand recovery outlook: A view from UK post social distancing

After reopening the economy and living with the pandemic after most of the population was vaccinated, mobility retail in the UK has nearly returned to pre-pandemic levels (-6% vs pre-Covid-19 level). Accordingly, the UK has conducted a partial reopening of the economy for four months, from the end of Mar 21 until completely removing restriction for all services by Jul 21. Given the current

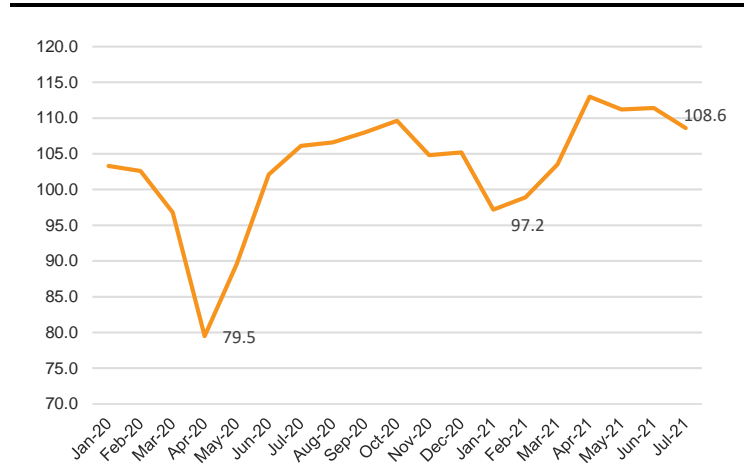
vaccination rate and the Vietnamese government's acceleration of vaccine imports, we anticipate government's plan will be completed on time, allowing Vietnam's economy to completely recover in the new normal situation like UK situation. Therefore, we expect from 2022F onwards, VRE will not need to add any tenants support packages due to social distancing periods.

Figure 10: UK retail mobility (average 7 days), new Covid-19 cases and deaths in 2021



Source: VNDIRECT Research, VNExpress

Figure 11: UK's retail sales volumes fell by 2.5% in July 2021, when compared with June 2021, but were 5.8% higher than in February 2020, before the impact of coronavirus

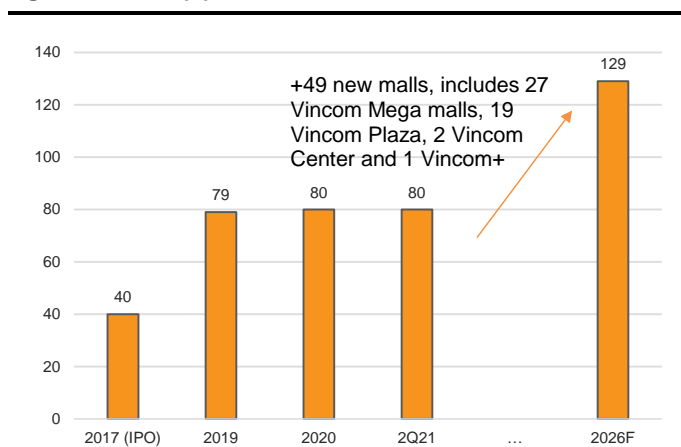


Index 2018 = 100
Source: ONS.GOV.UK

VRE maintains a strong GFA expansion plan until 2026F

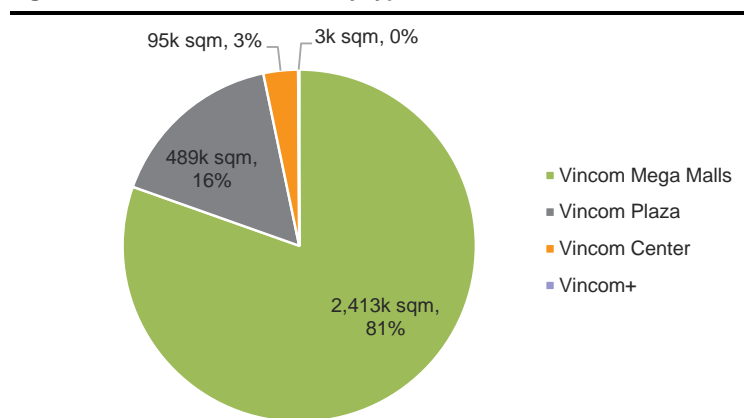
VRE has released and still focus in their plan to expand their total GFA to 4.7m sqm in 2026F, anchored around marque mega mall projects. As new pipeline of VRE, they will operate 49 new shopping malls, including 27 Vincom Mega malls, 19 Vincom Plaza, 2 Vincom Center and 1 Vincom+ to bring the total number of operating malls to 129 malls in 2026F, with the GFA is 2.8x compared with 2Q21 GFA. Despite the Covid-19 effect, we believe that VRE still solidify its leading position by launching new quality products by end of this year. We will update more on the GFA expansion reflecting the Company's new pipeline in our next reports.

Figure 12: VRE's pipeline until 2026F



Source: VNDIRECT Research, Company reports

Figure 13: New GFA breakdown by type of mall in 2021-26F



Source: VNDIRECT Research, Company reports

Changes in forecasts

We lower FY21F/22F/23F revenue by 33.4%/24.5%/25.3% vs previous forecast as:

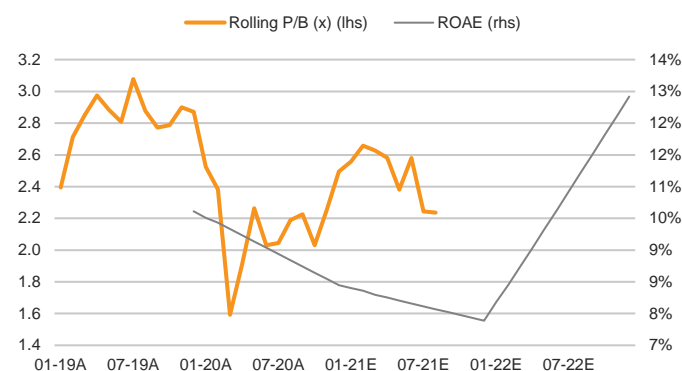
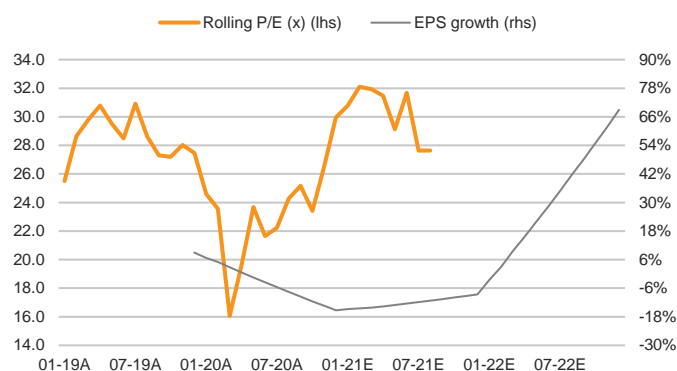
- Lower leasing of investment properties in FY21F/22F/23F by 31.0%/19.4%/20.2% to reflect 1) an increase in FY21F supporting package and 2) lower rental rate by 7.3%/9.0% in FY22F/23F as VRE is unlikely to raise rents in FY22F/23F like our previous forecast to support the tenants which are affected by the 4th wave of Covid-19.
- Lower sale of inventory properties in FY21F/22F/23F by 43%/45.6%/48.1% due to VRE's strategy to focus and leasing of investment properties.

As the result, we lower FY21F/22F/23F net profit by 38.4%/18.8%/21.5%.

Figure 14: FY21-23F earnings revision

	Old			New			%chg vs old forecast		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	11,545	13,911	16,567	7,687	10,497	12,381	-33.4%	-24.5%	-25.3%
Leasing of Investment Properties	8,855	10,964	13,299	6,109	8,840	10,612	-31.0%	-19.4%	-20.2%
Sale of Inventory Properties	2,453	2,698	2,968	1,397	1,467	1,540	-43.0%	-45.6%	-48.1%
COGS	(6,019)	(6,967)	(8,098)	(4,243)	(4,961)	(5,832)	-29.5%	-28.8%	-28.0%
Gross Profit	5,526	6,944	8,469	3,444	5,536	6,549	-37.7%	-20.3%	-22.7%
GM	47.9%	49.9%	51.1%	44.8%	52.7%	52.9%	-3.1% pts	2.8% pts	1.8% pts
Leasing of Investment Properties	54.9%	56.6%	57.7%	48.9%	57.2%	58.0%	-6.0% pts	0.6% pts	0.3% pts
Sale of Inventory Properties	30.0%	30.0%	30.0%	45.0%	45.0%	40.0%	15.0% pts	15.0% pts	10.0% pts
Selling expenses	(438)	(502)	(577)	(277)	(398)	(471)	-36.8%	-20.7%	-18.4%
General and admin expenses	(643)	(767)	(897)	(295)	(427)	(512)	-54.1%	-44.3%	-42.9%
SG&A	(1,081)	(1,269)	(1,474)	(572)	(825)	(983)	-47.1%	-35.0%	-33.3%
S/R	3.79%	3.61%	3.48%	3.60%	3.79%	3.80%	-0.2% pts	0.2% pts	0.3% pts
G&A/R	5.57%	5.51%	5.41%	3.84%	4.07%	4.14%	-1.7% pts	-1.4% pts	-1.3% pts
SG&A/R	9.36%	9.12%	8.89%	7.44%	7.86%	7.94%	-1.9% pts	-1.3% pts	-1.0% pts
Operating profit	4,445	5,675	6,995	2,872	4,711	5,566	-35.4%	-17.0%	-20.4%
Net other income/(expenses)	38.1	45.9	54.7	25.4	34.6	40.8	-33.3%	-24.6%	-25.4%
Profit before tax	4,476	5,733	7,140	2,737	4,623	5,536	-38.9%	-19.4%	-22.5%
Net profit	3,535	4,528	5,639	2,178	3,679	4,406	-38.4%	-18.8%	-21.5%

Source: VNDIRECT Research

Valuation

Income statement

(VNDbn)	12-21E	12-22E	12-23E
Net revenue	7,687	10,497	12,381
Cost of sales	(4,243)	(4,961)	(5,832)
Gen & admin expenses	(295)	(427)	(512)
Selling expenses	(277)	(398)	(471)
Operating profit	2,872	4,711	5,566
Operating EBITDA	4,731	6,719	7,807
Depreciation and amortisation	(1,859)	(2,008)	(2,241)
Operating EBIT	2,872	4,711	5,566
Interest income	220	300	354
Financial expense	(381)	(423)	(425)
Net other income	25	35	41
Income from associates & JVs	0	0	0
Pre-tax profit	2,736	4,623	5,536
Tax expense	(558)	(943)	(1,129)
Minority interest	0	(1)	(1)
Net profit	2,178	3,679	4,406
Adj. net profit to ordinary	2,178	3,679	4,406
Ordinary dividends	(3,493)	(3,493)	(3,493)
Retained earnings	(1,315)	186	913

Balance sheet

(VNDbn)	12-21E	12-22E	12-23E
Cash and equivalents	4,571	2,868	654
Short term investments	74	101	119
Accounts receivables	423	563	665
Inventories	679	713	748
Other current assets	1,153	1,575	1,857
Total current assets	6,900	5,820	4,043
Fixed assets	1,214	1,378	1,673
Total investments	592	808	954
Other long-term assets	30,862	33,408	36,026
Total assets	39,568	41,414	42,696
Short-term debt	77	105	124
Accounts payable	696	814	956
Other current liabilities	5,299	5,915	6,555
Total current liabilities	6,072	6,834	7,635
Total long-term debt	4,295	4,995	4,322
Other liabilities	1,171	1,369	1,610
Share capital	23,288	23,288	23,288
Retained earnings reserve	6,655	6,870	7,796
Shareholders' equity	27,995	28,181	29,093
Minority interest	35	35	36
Total liabilities & equity	39,568	41,414	42,696

Cash flow statement

(VNDbn)	12-21E	12-22E	12-23E
Pretax profit	2,736	4,623	5,536
Depreciation & amortisation	1,865	2,017	2,248
Tax paid			
Other adjustments	(2,855)	(723)	(860)
Change in working capital	1,844	143	373
Cash flow from operations	3,590	6,060	7,297
Capex	(2,340)	(4,159)	(4,574)
Proceeds from assets sales	14	15	17
Others	1,236	(241)	(161)
Other non-current assets changes	2,274	(287)	(251)
Cash flow from investing activities	1,184	(4,672)	(4,969)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	218	728	(654)
Other financing cash flow	(66)	198	240
Dividends paid	(3,493)	(3,493)	(3,493)
Cash flow from financing activities	(3,341)	(2,567)	(3,907)
Cash and equivalents at beginning of period	3,051	4,571	2,868
Total cash generated	1,433	(1,179)	(1,579)
Cash and equivalents at the end of period	4,484	3,392	1,289

Key ratios

	12-21E	12-22E	12-23E
Dupont			
Net profit margin	28.3%	35.0%	35.6%
Asset turnover	0.19	0.26	0.29
ROAA	5.5%	9.1%	10.5%
Avg assets/avg equity	1.38	1.44	1.47
ROAE	7.6%	13.1%	15.4%
Efficiency			
Days account receivable	16.6	16.8	16.8
Days inventory	58.4	52.5	46.8
Days creditor	59.9	59.9	59.8
Fixed asset turnover	5.86	8.10	8.11
ROIC	6.7%	11.0%	13.1%
Liquidity			
Current ratio	1.1	0.9	0.5
Quick ratio	1.0	0.7	0.4
Cash ratio	0.8	0.4	0.1
Cash cycle	15.1	9.4	3.8
Growth rate (yoy)			
Revenue growth	(7.7%)	36.6%	17.9%
Operating profit growth	(7.1%)	64.0%	18.1%
Net profit growth	(8.6%)	68.9%	19.8%
EPS growth	(8.6%)	68.9%	19.8%

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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