

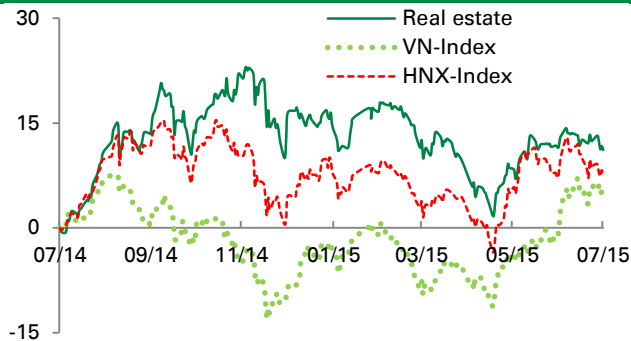
VIETNAM REAL ESTATE INDUSTRY

August 3, 2015



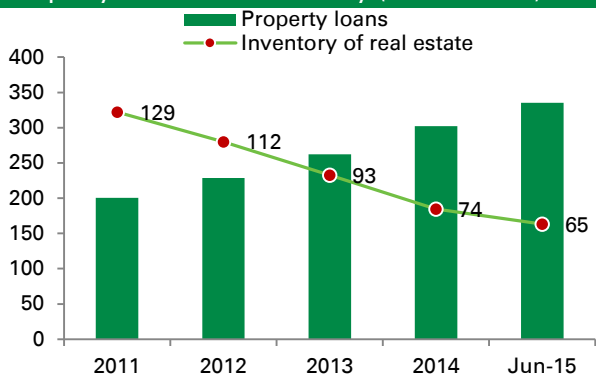
INDUSTRY UPDATE

Stock price index performance (% 1Y change)



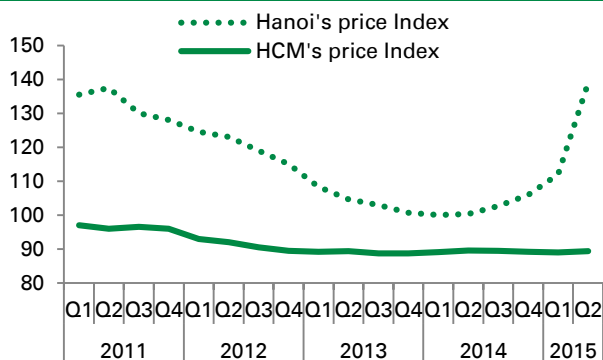
Source: Bloomberg, VPBS collected

Property loans and inventory (VND trillion)



Source: SBV, MOC, VPBS collected

Stock price index performance



Source: Savills Research Q1/2011 – Q2/2015, VPBS collected
Note: Base Index in Q1/2009 = 100

Residential sector: starting to enjoy a growth phase

After a few years of downturn, the real estate sector has showed signs since 2014 of rebounding from the bottom of the cycle. We believe the residential sector, the most popular in the real estate market, has entered a growth phase due to the following:

- ❖ Apartment transactions increased sharply in Q2/2015, with the highest quarterly transaction volume since Q4/2010.
- ❖ Real estate inventory has declined significantly by around 13.7 percent compared with the end of 2014.
- ❖ Credit for real estate has grown 11 percent in 1H2015, higher than overall credit growth of over six percent.
- ❖ Government has implemented several catalysts, including new foreign property ownership rules and infrastructure spending plans.

As of July 31, 2015, the real estate price index had increased by 11.1 percent during the previous twelve months, higher than VN-Index (+4.2 percent) and HNX-Index (+7.4 percent).

Short-term assessment: We believe that developers of middle- and low-end segments will benefit most, especially real estate corporations owning projects in convenient locations such as Districts 2, 9, and 7 (Ho Chi Minh City), and in Hanoi and the surrounding areas. We have a positive view on VIC, NLG, KDH, and DXG.

Long-term investment: In the long-term, as land banks become rarer and costs for land acquisition grow, we believe the best investment returns will come from developers who have already acquired large land banks at low prices. We also believe that enterprises exploiting those segments that can generate stable and long-term cash flows, such as commercial retail, industrial zones, office centers, and shopping malls will be the winners in the long term. We have positive long-term views for VIC, KBC, IJC, and DIG.

Please see important disclosure information at the end of this report

CONTENTS

SECTOR PERFORMANCE UPDATES	3
Apartment transactions increase sharply.....	3
Smaller inventories	3
Strong future supply in the apartment sector	4
Lower interest rates support the real estate sector	5
Foreign capital into real estate is rising	6
KEY CATALYSTS FOR GROWTH.....	7
New foreign property ownership rules	7
Housing stimulus loan packages	7
Key infrastructure project: Metro lines	8
PROPERTY TICKERS ON STOCK MARKET.....	10
INVESTMENT RECOMENDATION	13
<i>Appendix 1 - Proposed metro rail system in HCMC.....</i>	<i>14</i>
<i>Appendix 2 - Metro line 1 and project pipeline</i>	<i>15</i>

SECTOR PERFORMANCE UPDATES

Apartment transactions increase sharply

The increase of both apartment prices and transactions implicates that home buyers are more confident and excited with real estate market.

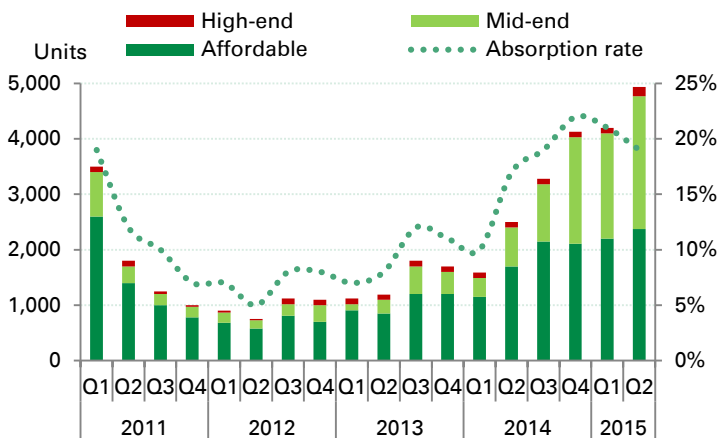
According to preliminary statistics from Savills, apartment sales volume in HCMC was 5,000 units in Q2/2015, up 17 percent q-o-q and 96 percent y-o-y. This is the highest quarterly transaction volume since Q4/2010. The absorption rate in HCMC remained high at 19 percent, down two percentage points q-o-q but up two percentage points y-o-y.

Sales volume in Hanoi for Q2/2015 was 4,630 sold units, down 18 percent q-o-q. The absorption rate in Hanoi was 34 percent, down nine percent q-o-q but up 80 percent y-o-y. In 1H2015, total sales volume in Hanoi reached over 10,000 units, nearly equal to the total sales volume of the whole of 2014.

Apartment prices increased approximately four to six percent y-o-y across several projects. High-end and affordable segments, especially projects close to central business districts or near major under-construction infrastructure projects, enjoyed considerable price rises. The Savills HCMC residential price index was stable y-o-y, whereas the Hanoi price index went up sharply in Q2/2015 by 27 points q-o-q and 38.7 points y-o-y due to price increases in more than half of existing projects.

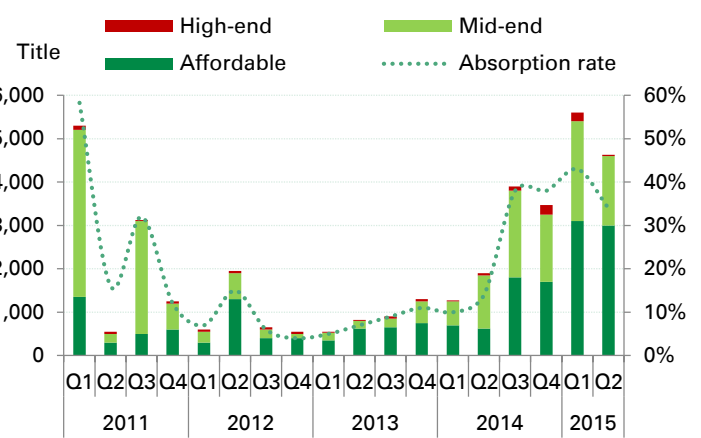
The increase in both apartment prices and transactions implies that home-buyers are more confident and excited with this asset class.

Sold units and absorption rate by grade in HCMC



Source: Savills Research Q1/2011-Q2/2015, VPBS collected

Sold units and absorption rate by grade in Hanoi



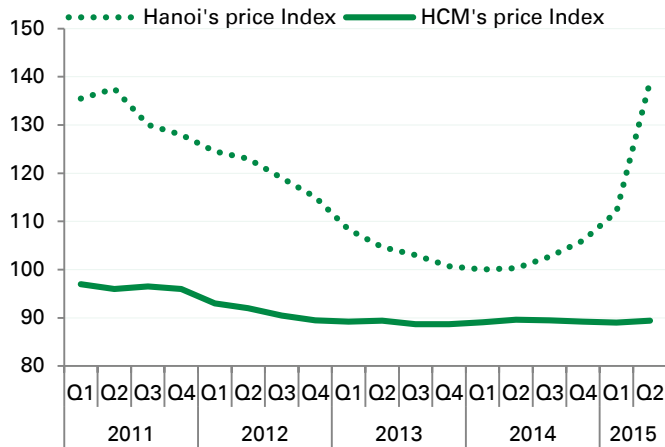
Source: Savills Research Q1/2011-Q2/2015, VPBS collected

Smaller inventories

Real estate inventories have sharply declined by 13.7 percent since the end of 2014. We believe that bad debts and real estate inventories are no longer a big problem for the market.

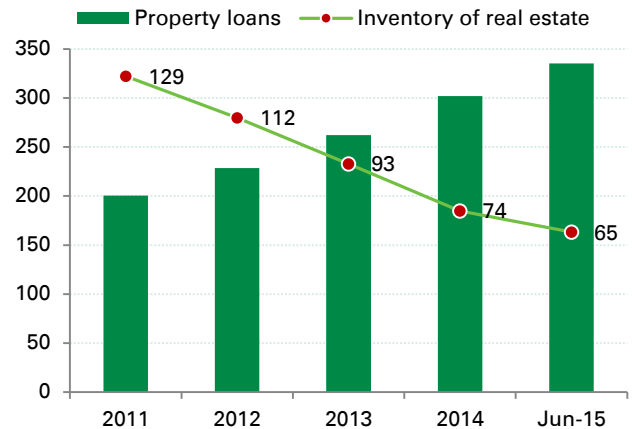
Real estate inventory was around VND63.7 trillion (USD2.9 billion) at the end of July 2015, having sharply declined by 13.7 percent y-t-d, according to the Ministry of Construction. Of this, apartments comprised 11,984 units, worth VND18.4 trillion (USD844 million), and houses comprised 8,790 units, worth VND15.3 trillion (USD702 million). Inventory of housing land lots was 7.9 million m², worth VND25.5 trillion (USD1.2 billion), followed by commercial residential land at 1.6 million m², worth VND4.5 trillion (USD208 million). The real estate market relies heavily on economic performance; we believe that as Vietnam's economic fundamentals have improved, bad debts and real estate inventories have ceased to be a big problem for the market.

Property price indices in HCMC and Hanoi



Source: Savills Research Q1/2011 – Q2/2015, VPBS collected
Note: Base Index in Q1/2009 = 100

Property loans and inventory of real estate (VNDtn)



Source: SBV, MOC, VPBS collected

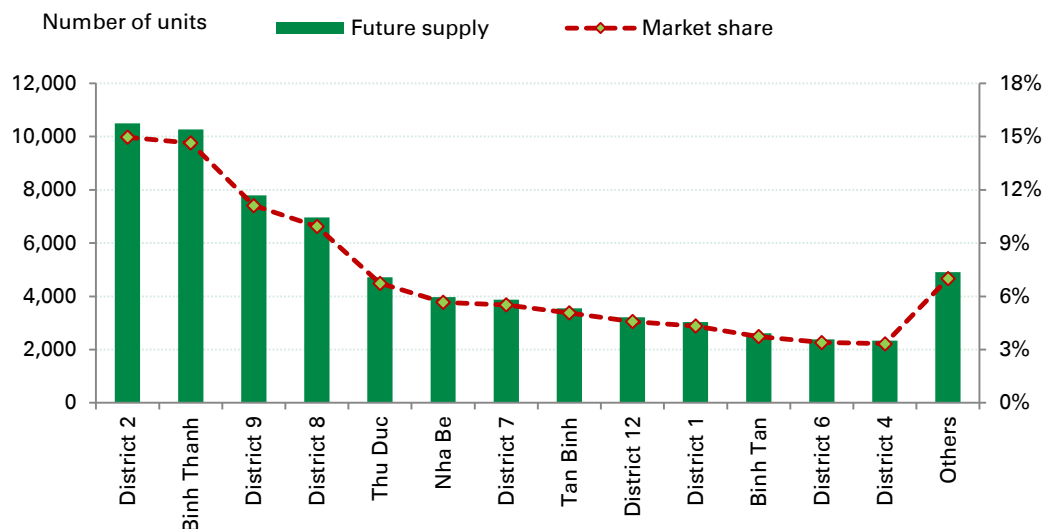
Strong future supply in the apartment sector

There are more than 59,200 units from 90 projects expected to enter the HCMC market between 2H2015 and 2017. The sharp increase of both apartment supply and demand should maintain selling prices at an equilibrium point.

According to Savills, there are more than 59,200 units from 90 projects expected to enter the HCMC market between 2H2015 and 2017. In Q2/2015, primary stock was 26,000 units, up 27 percent q-o-q and 72 percent y-o-y. Of those, 6,600 units are from new projects entering the primary market, up nine percent q-o-q and 30 percent y-o-y. District 2 and Binh Thanh district are the largest future suppliers, accounting for 30 percent of the total supply between 2015 and 2017, with district 9 the third largest, accounting for 11 percent of total supply over this period.

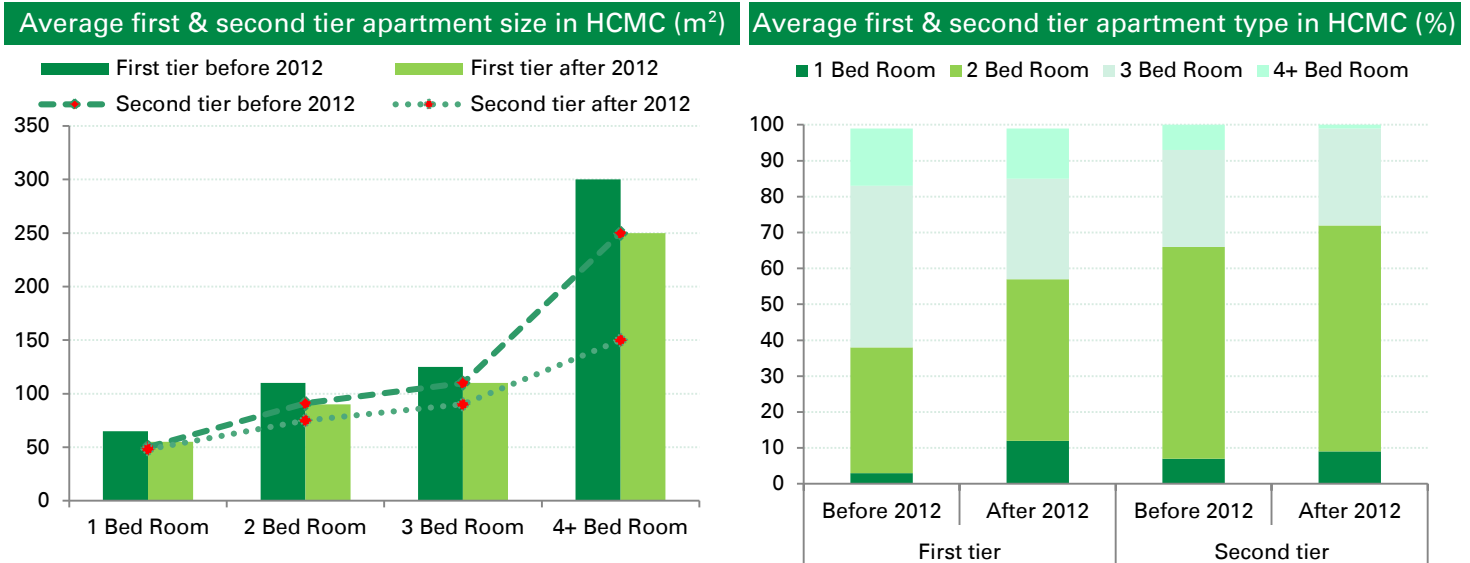
The sharp increase of future supply creates pressure to lower prices. However, demand is also increasing, and home buyers are excited with this asset class, which should maintain selling prices at an equilibrium point. We believe it is unlikely that a real estate bubble will form in the near future.

Future supply by district in 2015-2017



Source: Savills research, VPBS collected

There are sharp changes in both apartment type and size. According to CBRE, the proportion of one and two bedroom types has increased significantly. After 2012, these types accounted for 57 percent of first tier (luxury and high-end) apartments, and 72 percent of second tier (mid-end and affordable) apartments. Before 2012, these numbers were 38 percent for first tier and 66 percent for second tier. Unit sizes have also fallen, to lower entry prices and meet the demands of a wider range of customers.



Note: First tier (luxury and high-end) and second tier (mid-end and affordable) apartments. Source: CBRE Research, VPBS collected

Lower interest rates support the real estate sector

As interest rates fall, interest expenses for bank home loans decrease, creating higher demand for real estate.

Vietnam's economic fundamentals have continued to improve. GDP growth reached 6.0 percent in 2014 and is expected to reach 6.5 percent in 2015. Inflation in 2014 was 1.8 percent, hitting the lowest level in 13 years, and contributing to the considerable decrease in interest rates from 2014, stimulating cash to flow into other asset classes such as real estate.

Interest rates play an important role in real estate markets. Changes in interest rates strongly influence a customer's ability to purchase a residential property. As interest rates fall, interest expenses for bank home loans decrease, creating higher demand for real estate. As of Q2/2015, short-term deposit interest rates are stable at 5.5-6.0 percent per year, less favorable than apartment rental yields, so real estate is also attractive for investment purposes. We believe that apartment transactions will continue to increase in 2H2015.

1H2015 credit growth in the real estate sector was higher than the overall credit growth.

Credit growth in the real estate sector was about 11 percent in 1H2015, higher than overall credit growth of over six percent. Outstanding loans in the property sector at the end of 1H2015 were around VND334 trillion (USD15.7 billion), accounting for 8.3 percent of total credit in the economy.

Investment in Vietnam's property market generally has three main sources: equity, bank loans, and raising capital from customers. Few real estate companies in Vietnam have enough financial capacity to run their projects, and as a consequence are highly dependent on bank loans (over 70 percent). Bad debt issues are now under control, and with the real estate market warming up and credit growth in the real

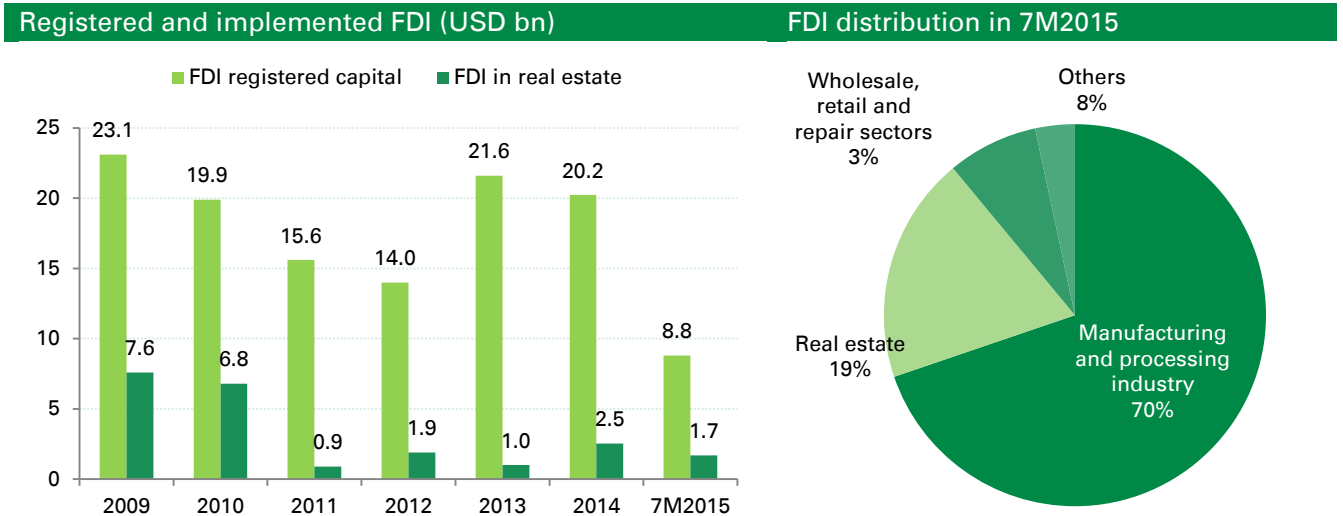
estate sector increasing, we believe the sector has passed its nadir and is starting to enjoy a growth phase.

Circular 36, effective from February 2, 2015, reduced the risk factor applicable to lending for real estate investments from 250 percent to 150 percent. This implies that the State Bank of Vietnam wants to allow more room for credit growth in the real estate sector, increasing fund flows to the real estate market. Before Circular 36, Circular 13 had set the risk factor for real estate investments at 250 percent, which had negative effects on the real estate market from 2010.

Foreign capital into real estate is rising

According to the Foreign Investment Agency of the Ministry of Planning and Investment, foreign direct investment (FDI) into the real estate sector in Vietnam increased strongly in the first seven months of 2015. The real estate sector attracted USD1.69 billion, accounted for 19.2 percent of the total FDI of USD8.8 billion. FDI in the real estate went up sharply by 49.5 percent although the total FDI decreased 7.6 percent y-o-y.

This increase in FDI affirms the attractiveness of real estate market thanks to the recent improvements on the Revised Housing Law and the Real Estate Business Law.



Source: GSO, Ministry of Planning and Investment, VPBS collected

KEY CATALYSTS FOR GROWTH

New foreign property ownership rules

The Revised Housing Law (new foreign property ownership rules) will have a positive long-term impact on the property market.

The Revised Housing Law became effective on July 1, 2015, as discussed in previous reports. All foreign companies, Vietnamese branches and representative offices of overseas companies, investment funds (excluding businesses in the property sector), banks, and all foreign individuals who have been granted a visa to live in Vietnam, have the right to own houses in Vietnam.

Key points of Housing Law

Buyer of houses in Vietnam	Housing Law 2005	Housing Law (amended): effective on July 1, 2015
Overseas Vietnamese	Overseas individuals who have lived in Vietnam for six consecutive months can own one house or one apartment.	Overseas Vietnamese individuals, who are granted a visa to Vietnam, have the right to own houses without any restrictions on the number and type of housing.
Foreign individuals and organizations	Not allowed to own	<ul style="list-style-type: none"> - All foreign companies, investment funds, banks, Vietnamese branches and representative offices of overseas companies (no business in property sector), and all foreign individuals, who are granted a visa to live in Vietnam, have the right to own houses in Vietnam. - The total number of dwelling units owned by foreigners must not exceed 30% of the total units in one condominium complex, or not exceed 250 landed property units in one particular administrative (or the equivalent of) ward. - The tenure allowed to foreign individuals buying homes is a 50-year leasehold with renewal possibility upon expiration. For foreign organizations, the number of owned houses must not exceed the maximum time limit stated in the investment certificate for these organizations.

Source: VPBS collected

We believe that these new features will have a positive long-term impact on the property market. At the end of 2014, there were 76,309 foreigners working in Vietnam (according to the Ministry of Labor, Invalids, and Social Affairs). These potential customers will help the property market to stabilize and should reduce inventory and bad debt in the real estate sector, especially for high-end and medium apartments. However, a decree to guide the enforcement of the revised Housing Law has not yet been promulgated. Foreign individual and institutional investors who want to own houses in Vietnam must still wait for this decree, expected in the near future.

Housing stimulus loan packages

Developers in the affordable housing sector benefit from housing stimulus loan packages.

The Government launched a housing stimulus loan package worth VND30 trillion (USD1.38 billion) in 2013 to support housing developers, low-income home buyers, and government employees. After two years, disbursement has been slow and has not met expectations. Around VND10 trillion (USD459 million), or 30 percent of the package, has been disbursed as of July 2015 according to Ministry of Construction. The package may not be fully disbursed by the Government's target date of June 1, 2016. The main reasons relate to unclear requirements for social and commercial home buyers to obtain a loan, and complicated lending procedures. Local authorities must verify that social home buyers have a monthly income less than VND9 million (USD413) and have not owned a house before. In addition, they must prove their financial ability to pay debts. Some banks also applied unmandated monthly income requirements for commercial home buyers. Houses being purchased must be smaller

than 70m² per unit and with a selling price less than VND15 million (USD688) per m², or less than VND1.05 billion (USD48,187) per unit. The supply of such apartments is insufficient for the current huge demand from low-income home buyers.

The government proposed policy reforms to accelerate the disbursement of the loan package. The interest rate was reduced from six to five percent, and loan period extended from 10 to 15 years. More banks were allowed participate; previously, loans were disbursed through five State-owned commercial banks, but the new circular (Circular 32) permits commercial joint stock banks to lend under the stimulus package. We expect the rate of loan disbursement to increase with the 14 commercial banks that have joined, and the approach of the planned date for disbursement to end, June 1, 2016.

In May 2015, the Government announced plans to launch another housing stimulus loan package worth VND20 trillion (USD0.92 billion) to support the affordable housing sector. The interest rate would be seven percent, and the loan period 10 years, applying not only to low-income but also other home buyers. This package would remove many of the difficult requirements of the earlier program.

We expect this stimulus would disburse faster and more efficiently than the previous package. Should the new stimulus be implemented, we expect that with the attractive interest rate and easier requirements, sale volumes in the middle and low end apartment segments would increase sharply. Housing developers in this segment such as Nam Long Investment Corporation (NLG), Thu Duc Housing Development Corporation (TDH), and Dat Xanh Real Estate Service & Construction Corporation (DXG) would benefit from this policy in the short-term.

However, in the next three to five years, the affordable housing sector may face strong competition from social housing projects, as well as a sharp increase in supply. According to the Ministry of Construction, as of June 2015 there are 60 projects nationwide with 38,897 units registered to change from commercial to social housing projects. Social house buyers can sell their apartments after five years from the time the contract is signed. With a low purchase price, social housing owners have an incentive to sell their residences to take a short-term profit.

Key infrastructure project: Metro lines

Real estate located near planned metro lines attracts customer interest.

With the market warming up, real estate located near planned metro lines attracts customer interest due to the positive future impact of these projects.

In Hanoi, under plans for capital construction by 2030, and vision to 2050, Hanoi will have eight urban railways. Two projects already started are the Nhon-Hanoi station and Cat Linh – Ha Dong railway line. The first, Metro line 2A running between Cat Linh and Ha Dong, is expected to begin running in June 2016.

Developing an urban transport system in HCMC is a high priority for the Government, as HCMC accounted for 21.7 percent of national GDP in 2014. The HCMC metro master plan comprises six metro rail transit lines with a total length of 109 km, as well as two monorail routes and a tramway.

Four priority metro lines in HCMC are identified as:

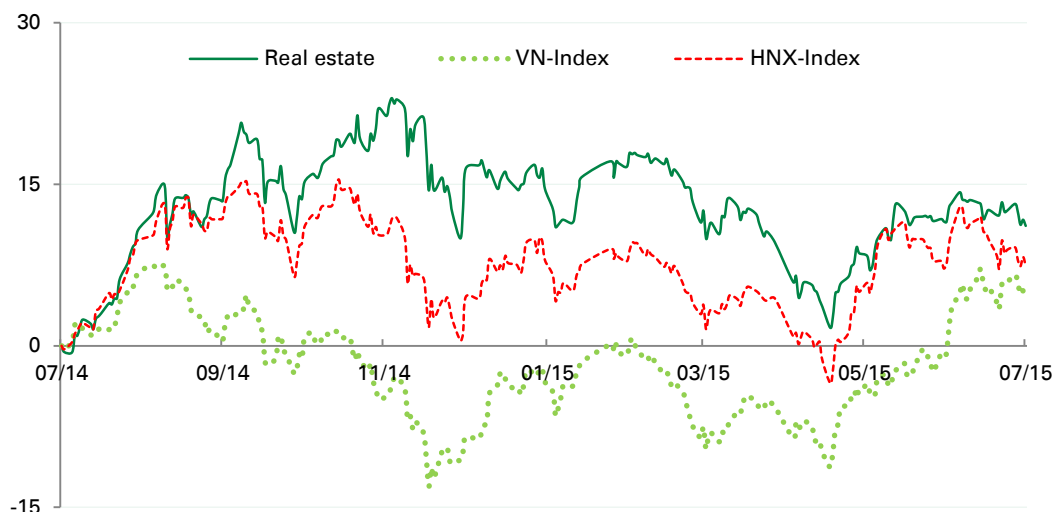
- ❖ Line 1: Ben Thanh-Suoi Tien, 19.7 km
- ❖ Line 2: Ben Thanh-Tham Luong, 11.3 km, with planned extensions in both directions
- ❖ Line 3: Mien Dong-Phu Lam, 13km, with planned northern extension
- ❖ Line 4: Nga Sau Go Vap-Khanh Hoi, 11.3 km, with planned extensions in both directions

The first, Metro Line 1, will have a total length of 19.7 km, running between Ben Thanh in the city center and Suoi Tien in the city's north-east. It includes the construction of 11 stations for the 17.2 km above-ground section and three stations for the 2.5 km underground line. The 17.2 km section is scheduled to be completed and begin running in 2018.

According to CBRE's report in April 2015, high-end residential apartment prices in District 2 increased from an average of USD1,490 per m² in 2012 to USD1,650 at present, up 11 percent compared to just three percent citywide. The number of units sold in District 2 increased sharply from 329 units in 2012 to 3,710 units today. Housing units closer to public transportation access enjoy a higher market value, easily explained by the lower cost of transport to the main work and shopping areas in the city. Research from CBRE shows that the premium for home prices in locations close to public transport ranges from six percent up to 45 percent. Infrastructure is always a key factor in real-estate development. We believe that the real estate sector, especially the residential sector in HCMC, will enjoy a growth phase from the strong increase in Government investment in infrastructure.

PROPERTY TICKERS ON STOCK MARKET

VN-Index vs. real estate price index (% 1Y change)



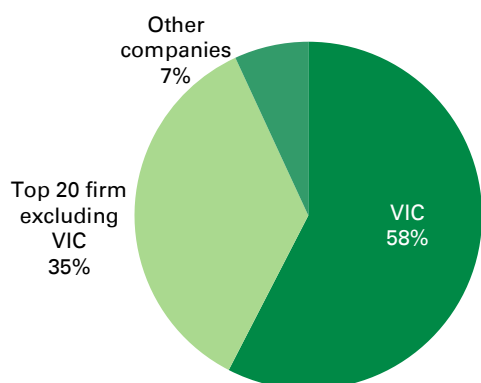
Source: Bloomberg, VPBS collected
 Note: The real estate price index was built from the peer selection in the below table, with equal weighting given to each company in the list.

As of July 31, 2015, the real estate price index had increased by 11.1 percent during the previous twelve months, higher than VN-Index (+4.2 percent) and HNX-Index (+7.4 percent).

There are currently 60 Vietnamese enterprises listing their operations purely in the real estate sector, the combined market capitalization of which was VND138 trillion (USD6.35 billion) as of July 31, 2015, accounting for 10.5 percent of the total capitalization of the stock market.

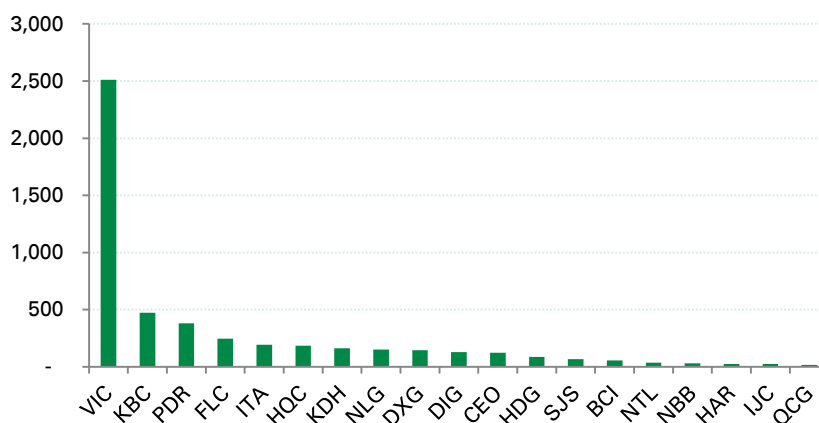
The 20 largest listed real estate stocks by market capitalization accounted for 93 percent of total market capitalization and 85 percent of total net incomes in the sector. Vingroup JSC (VIC) currently has the largest market capitalization and profits, accounting for 58 percent of market capitalization and 43 percent of net income of the industry in Q1/2015.

Market capitalization proportion



Source: Bloomberg, VPBS collected

LTM net income of top market capitalization (VND bn)



Source: Bloomberg, VPBS collected

By performing a statistical analysis from Q1/2013 to Q1/2015 for the 20 largest market capitalizations, except VIC, we can identify some key points as follows:

- ❖ Gross profit and net income hit bottom in Q2/2013 with negative earnings, and have increased sharply since Q3/2014, suggesting the sector has passed its nadir. Real estate companies usually record the highest earnings in Q4 and the lowest in Q1. In Q1/2015, net income of the top 20 companies sharply increased by 160 percent y-o-y. The top three companies contributing to this improvement were KBC, FLC, and KDH.
- ❖ Total debts tended to decrease from Q1/2014. In Q1/2015, long-term borrowing went down strongly by 12 percent q-o-q, whereas short-term borrowing increased by 9 percent q-o-q. Total debts went down slightly by 7 percent q-o-q. Interest expenses, which were a burden and significantly eroded profitability of real estate companies from 2011 to 2013, decreased strongly from Q3/2014. Successful deleverage is a signal confirming the real estate sector has turned the corner.
- ❖ Inventories rose slightly during Q1/2013-Q3/2014, but went up sharply in Q4/2014. In Q1/2015, inventories increased slightly by 2 percent q-o-q. Those supplies are being absorbed well with the warming of the real estate market and the sharp increase of credit growth in the real estate sector, as mentioned above.
- ❖ Total outstanding shares increased sharply in 7M2015 by 23 percent. Companies want to raise capital to develop more projects and take advantage of the warming real estate market. We believe that increasing equities and decreasing debts are good signals for the long-term development of real estate companies. However, the sharp capital increase over a short period may cause stock dilution and corporate governance risks.

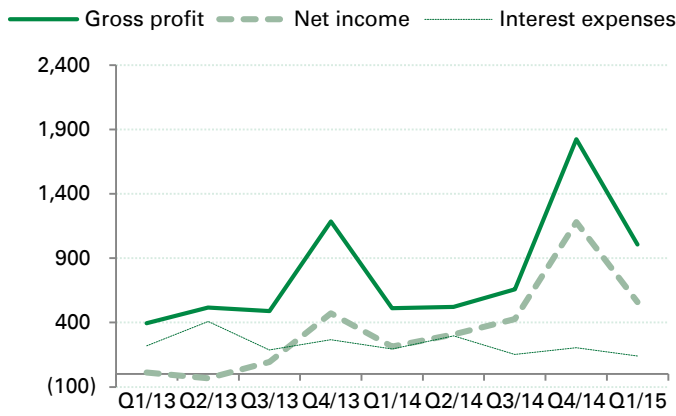
Top 20 property listed companies by market capitalization

Ticker	Market cap	Net revenues			Gross profits			Net income				ROA	ROE	Debt to equity	LTM P/E	LTM P/B
		Q1/14	Q1/15	% y-o-y	Q1/14	Q1/15	% y-o-y	Q1/14	Q1/15	% y-o-y	% target					
VIC	79,371	6,175	6,394	4%	2,410	2,243	-7%	1,076	428	-60%	14%	2.9%	13.8%	163%	28.08	3.79
KBC	7,469	154	544	254%	74	260	253%	13	158	11x	21%	3.6%	8.7%	75%	13.0	1.11
ITA	5,281	51	444	777%	26	107	303%	20	49	153%	11%	1.7%	2.3%	23%	24.4	0.58
FLC	4,239	360	652	81%	22	91	314%	35	93	167%	10%	8.4%	11.8%	22%	6.4	0.78
PDR	3,794	19	104	437%	6	38	565%	0	25	104x	11%	1.1%	4.6%	189%	45.6	2.03
IJC	2,989	85	142	67%	44	66	49%	19	34	80%	13%	4.3%	8.0%	64%	12.2	0.96
KDH	2,734	80	179	126%	29	56	92%	10	52	408%	26%	4.8%	8.4%	86%	11.4	1.14
NLG	2,690	48	175	267%	10	58	464%	(22)	34	NM	19%	3.8%	8.2%	32%	15.3	1.23
SJS	2,288	7	41	486%	5	25	408%	4	9	110%	4%	2.9%	9.6%	79%	14.2	1.30
DXG	2,173	92	172	86%	49	100	103%	21	37	72%	15%	9.1%	17.0%	12%	8.8	1.60
DIG	2,145	183	111	-39%	40	25	-37%	16	0	-97%	1%	0.5%	1.0%	62%	87.2	0.89
QCG	1,898	42	43	3%	10	6	-39%	2	1	-64%	1%	0.8%	1.8%	47%	16.0	0.50
HDG	1,863	188	113	-40%	20	18	-8%	12	4	-62%	2%	5.3%	16.0%	6%	14.7	2.17
BCI	1,734	74	22	-70%	21	13	-40%	21	10	-54%	8%	2.6%	4.9%	25%	20.1	0.97
SCR	1,614	332	31	-91%	102	7	-93%	14	2	-84%	3%	0.3%	0.6%	93%	94.8	0.62
HQC	1,473	4	257	70x	0	41	794x	1	31	24x	10%	1.9%	4.9%	44%	13.5	0.54
NBB	1,367	32	39	21%	8	17	99%	24	1	-97%	1%	0.4%	1.0%	69%	89.7	1.07
CEO	933	38	174	354%	15	82	451%	6	37	499%	22%	N/A	N/A	100%	N/A	1.11
NTL	866	41	22	-46%	7	5	-27%	9	2	-79%	2%	2.2%	3.5%	0%	29.3	1.02
HAR	764	28	25	-11%	9	11	19%	6	6	16%	12%	5.2%	5.8%	2%	10.7	0.64
Median				74%			95%			72%	10%	2.9%	5.8%	54%	15.3	1.05

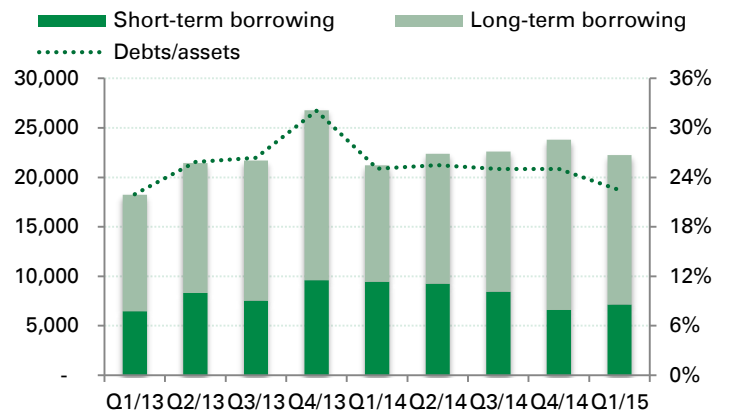
Unit: VND billion. Data as of 7/31/2015. Source: Bloomberg, company's financial statements, VPBS collected

20 largest market cap property companies excluding VIC

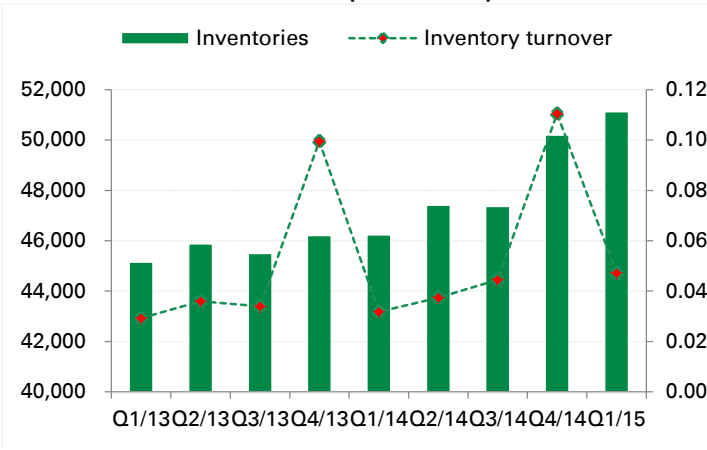
Profits (VND billion)



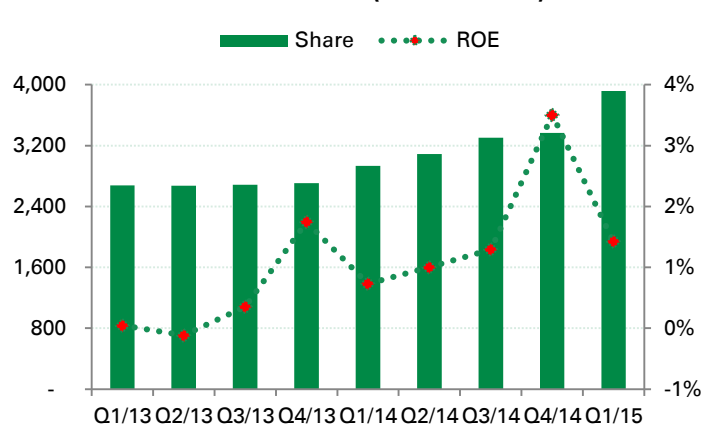
Debts (VND billion)



Inventories (VND billion)



Number of shares (million shares)



Source: Bloomberg, company's financial statements, VPBS collected

INVESTMENT RECOMENDATION

In the short term, we believe that developers of middle and low-end segments, especially real estate corporations owning projects in convenient locations such as in Districts 2, 9, and 7 in Ho Chi Minh City, and in Hanoi and the surrounding areas, will benefit.

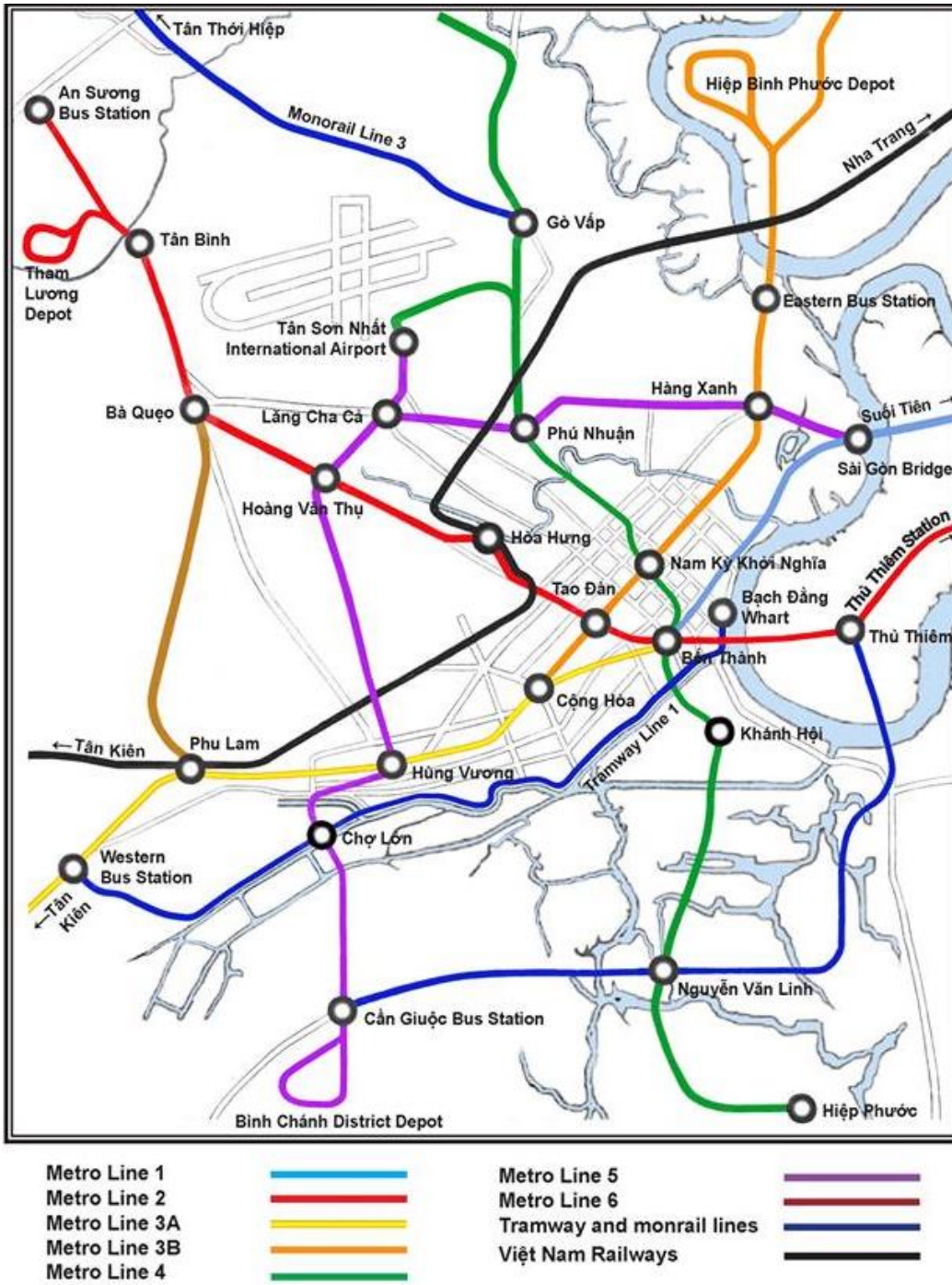
In general, we recommend investors look at four indicators when considering investing in property stocks:

- ❖ *Product segment*: based on our analysis of market performance and trends, we believe the affordable housing segment will become the hottest in 2015-2016. Thus, we have a positive view of businesses owning affordable condo apartments and land plots projects which are well located in HCMC and Hanoi and offering reasonable prices, such as Nam Long Investment Corporation (NLG), Thu Duc Housing Development Corporation (TDH), and Dat Xanh Real Estate Service & Construction Corporation (DXG).
- ❖ *Land bank*: development of infrastructure such as metro lines gives real estate corporations owning land bank in convenient locations significant benefits. Such corporations include Vingroup JSC (VIC), Khang Dien Investment & Trading House JSC (KDH), and Song Da Urban and Industrial Zone Investment & Development JSC (SJS).
- ❖ *Discount to NAV*: we believe the attractive real estate stocks are those trading at the large discount to NAV.
- ❖ *Healthy financial situation*: sufficient financial health to avoid delays to current project development and preserve the ability to raise capital.

In the long term, land banks become rare and costs for land acquisition increase. We believe the best investment returns will come from developers who already own cheap and large land banks, not only in HCMC and Hanoi, but also in Tier I and II cities such as Hai Phong, Da Nang, Vung Tau, and Binh Duong. We have a positive long-term view on Vingroup JSC (VIC), Becamex Infrastructure Development JSC (IJC) and Development Investment Construction JSC (DIG).

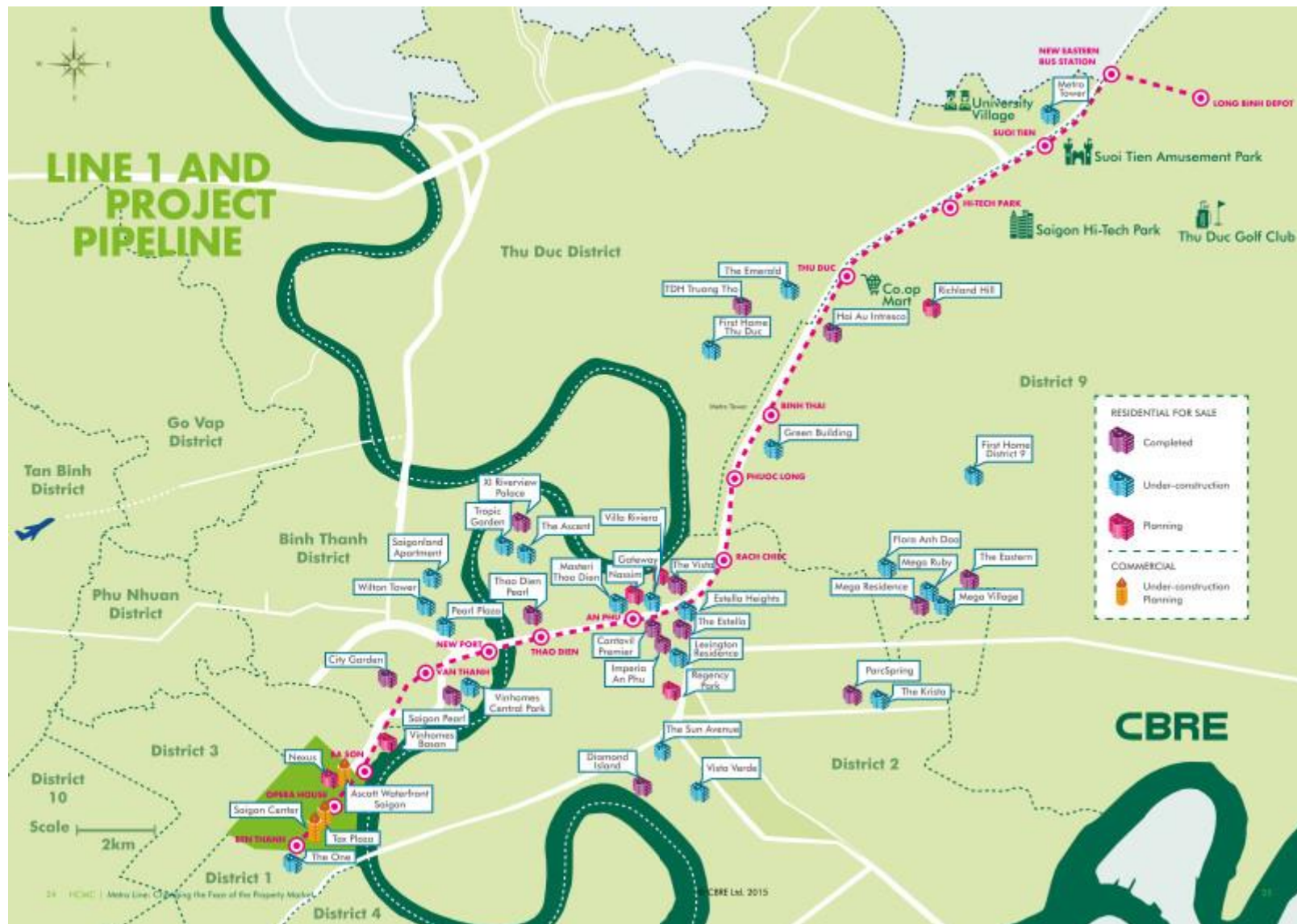
In addition, we believe enterprises exploiting segments that can generate stable and long-term cash flows such as commercial retail, industrial zones, office centers, and shopping malls, will have positive investment returns. Vingroup JSC (VIC) and Kinh Bac City Development Share Holding Corporation (KBC) should be considered for a long-term investment perspective.

Appendix 1 - Proposed metro rail system in HCMC



Source: Saigoneer

Appendix 2 - Metro line 1 and project pipeline



Source: CBRE

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