

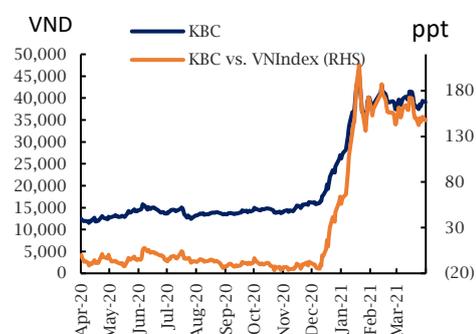
Vietnam: Property
April 8, 2021
KBC VN
BUY
Upside +44%
Close 7 April 2021
Price VND 38,400
12M Target VND 56,200
Investment thesis

- ▶ KBC is a proxy on Vietnam's advantageous position in the global manufacturing diversification story.
- ▶ Substantial urban residential and industrial landbank.
- ▶ Progress in administrative procedures should drive medium-term growth.
- ▶ The stock's valuation has not factored in three key projects, especially Trang Cat Urban Area in Hai Phong.

Our view

- ▶ Several projects have recently emerged from administrative limbo, which has strengthened KBC's fundamental outlook.
- ▶ Financial results are thus set to recover, in contrast to historical underperformance.
- ▶ The re-rating has only just started. We initiate with BUY and we see 47% 12-month TSR.
- ▶ Timing is everything. Investors should consider waiting for details of KBC's capital raising plans, which will be discussed at the AGM on April 10.

Company profile: KBC is an industrial and residential property developer with total consolidated landbank of c. 5.3k ha of industrial land, accounting for nearly 5.5% of total industrial park area in Vietnam. KBC is a known entity among multinational manufacturers such as Samsung, Nokia, LG, and Foxconn. In addition, the company holds c. 939 ha of urban residential area.

Share price performance relative to VN


Market cap	USD 795.96 mn
6M avg. daily turnover	USD 7.11 mn
Outstanding shares	469.76 mn
Free float	64.22%
FINI ownership	21.56%
Major shareholders	42.12%
2020 Net debt / equity	0.45x
2021F P/E (x)	8.59x
2022F P/E (x)	6.31x
2021F P/B (x)	1.73x
2022F P/B (x)	1.45x
FOL Room	27.44%
Dividend yield	2.60%

Source: Company data, Bloomberg, YSVN

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Kinh Bac City Development (KBC VN)

The Giant Has Awakened

Proxy on Vietnam's role in the diversification of global manufacturing. KBC's vast landbank is located in prime industrial regions, a key advantage in the context of surging demand for factory set-up and expansion amid limited supply of industrial park (IP) land. We estimate that KBC has 176ha of available-for-lease area in 2021 and signed MOUs on 60ha of IP area, the latter of which could come into operation as early as 1H21.

Ready for robust growth. We estimate that KBC has prepared 4,321 ha of IP area and 400ha of urban area in addition to the projects that it has already announced. Specifically, KBC established three new subsidiaries in 1Q21 to develop projects in Hung Yen, Vung Tau, and Long An. We believe these projects have considerable potential given their prime locations, limited available land, and increasing demand.

Poised for a re-rating, KBC's financials have underperformed historically due to extended project delays, but the situation has improved. Bulk sales at Trang Cat and positive developments in the administrative procedures at KBC's other projects (e.g, Trang Due IP phase 3, NSHL, and Vung Tau) have fortified the company's outlook.

We initiate coverage with a BUY rating and target price of VND 56,200, implying 46.6% 12-month TSR. KBC is an optimal proxy on Vietnam industrial property, which should be supported by such factors as resilient global demand, diversification of manufacturing from China, and the domestic infrastructure rollout. The stock has returned 59% YTD, but in our view, the re-rating is only just getting started.

Timing is everything. Investors might consider waiting for the details of KBC's capital issuance to be discussed at the AGM on Saturday (April 10).

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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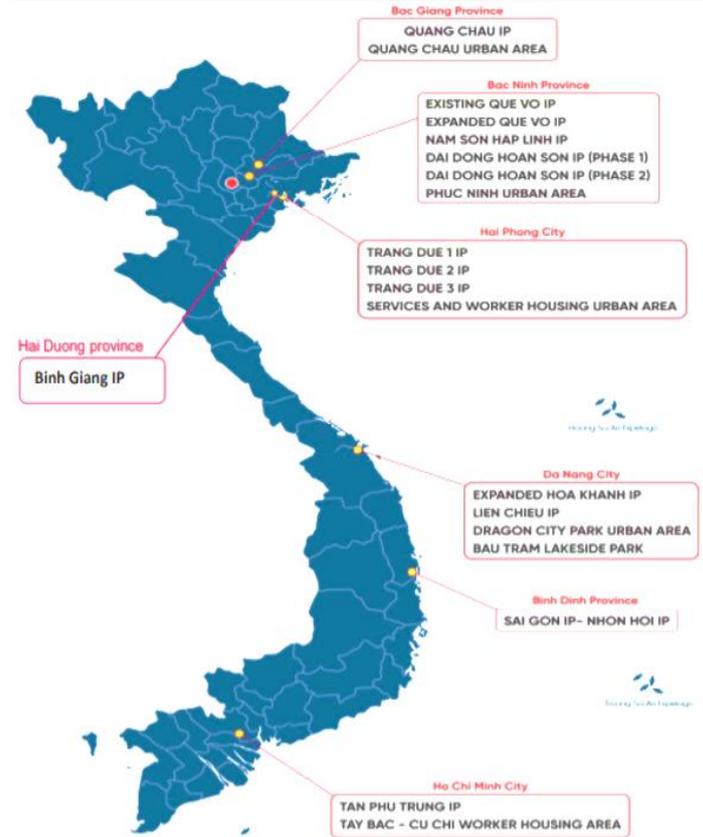
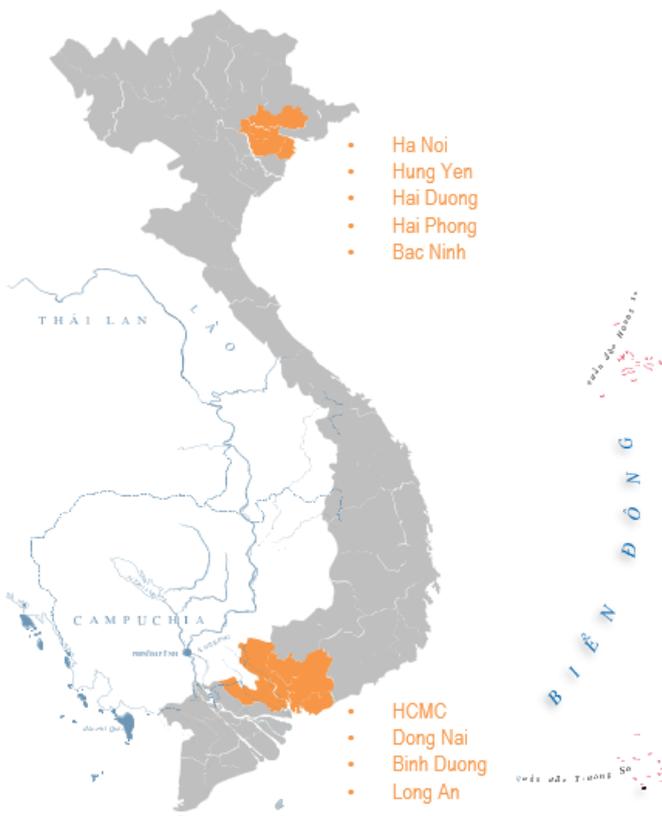
A proxy on the extremely positive outlook for Vietnam industrial property

KBC owns c. 5,278 ha of industrial land and 939 ha of urban residential land

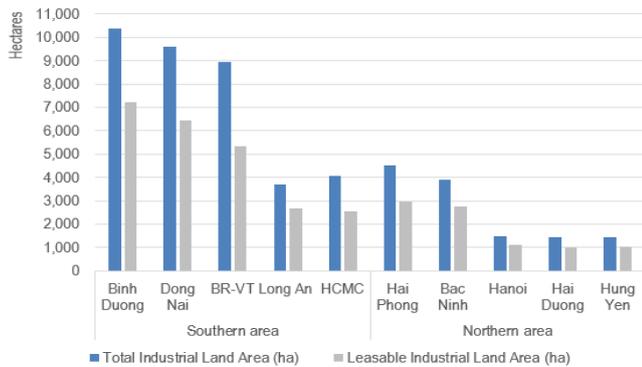
Vast landbank in prime locations. KBC's total consolidated landbank (i.e., land that is under the direct management of KBC and under co-management with subsidiaries and associates) is c. 5,278 ha industrial land and 939 hectares of urban residential land. We believe this scale should secure the company's growth for at least the next 10 years. Its projects are in prime locations in Vietnam's major industrial regions, mostly in tier I cities and provinces.

Fig 1: Vietnam's major industrial regions

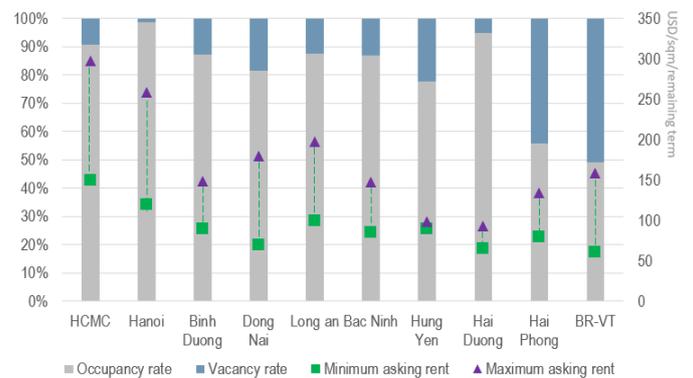
Fig 2: Map of KBC's projects



Supply of industrial property



Occupancy rate and asking rent



Note: Tier I cities / provinces in Northern area : Hanoi, Hung Yen, Bac Ninh, Hai Duong, Hai Phong,

Tier I cities / provinces in Southern area: HCMC, Long An, Dong Nai, Binh Duong.

Source: Company data, Yuanta Vietnam

KBC's growth outlook is fortified by buoyant activity in Vietnam's industrial real estate market amid robust demand for factory set-up and expansion. In our view, industrial property is an optimal sector for investors to obtain exposure to the extremely positive outlook for Vietnam's manufacturing sector. Demand has increased given three major reasons:

- The domestic and world economies are set for a strong recovery from the coronavirus pandemic-induced slump of last year. Additionally, the Vietnam government targets reducing the country's high cost of logistics by investing heavily in transport infrastructure.
- Vietnam's participation in FTAs (14 FTAs are in effect, 1 FTA has been signed, and 2 FTAs are under negotiation) should provide a strong boost to manufacturing and is a key factor in attracting FDI inflows.
- Manufacturers seeking to diversify production away from China to enhance supply chain resilience see Vietnam as a key market for capacity expansion. According to the Ministry of Planning and Investment, over 300 multinational companies are currently considering Vietnam for investment.

In Vietnam's southern region, no new industrial parks were established in 2019–20 despite the surging demand, which has led to rental rates increasing in 2019 (by c.25% YoY) and even in 2020 (+9% YoY) despite the COVID crisis. In the north, rental rates increased by 11% YoY in 2019. However, rental rates only increased by 3% YoY— this may be partially due to the sharply higher supply in 2020 in the north, but we think lease rate increase would still have been higher in the absence of business uncertainties caused by the pandemic.

In the context of surging demand and limited supply, CBRE forecasts the national rental rate to continue rising by +5% YoY if international travel resumes. By contrast, if international travel restrictions remain tight, the real estate management firm expects the rental rate for industrial property to be flat in 2021 and 2022.

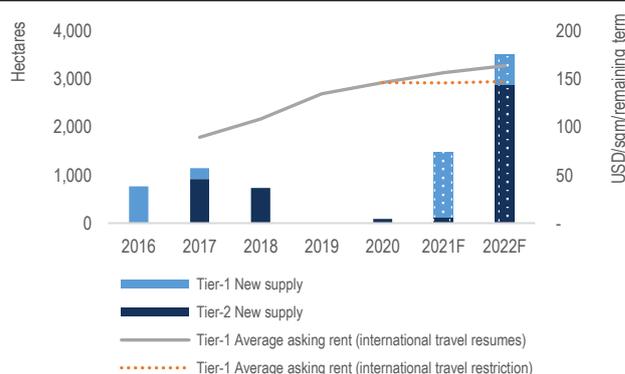
In the context of surging demand and limit supply, CBRE forecasts the rental rate thus keeps going up.

Fig 3: Supply and asking rent in the northern area



Northern Tier-1: Hanoi, Bac Ninh, Hai Duong, Hung Yen, Hai Phong
 Northern Tier-2: Bac Giang, Nam Dinh, Vinh Phuc, Quang Ninh
 Source: CBRE data at the end of 2020, Yuanta Vietnam

Fig 4: Supply and asking rent in the southern area



Southern Tier-1: HCMC, Dong Nai, Binh Duong, Long A
 Southern Tier-2: Binh Thuan, BR-VT, Binh Phuoc, Tay Ninh, Tien Giang, Vinh Long

We estimate that KBC has 176ha of available-for-lease area in 2021, of which the remaining leasable area of Tan Phu Trung IP and Quang Chau IP is c.133ha and 43ha, respectively. Meanwhile, KBC expects to obtain all the necessary approvals to hand over c. 66 ha of the Nam Son Hap Linh IP to lessees there.

KBC plans to invest VND 1tn in working capital for its industrial park projects in 2021. Most of these funds will be used for the Nam Son Hap Linh IP and the remaining for Quang Chau and Trang Due Phase 3. Management expects Trang Due IP (phase 3) to finalize all the necessary approvals this year, enabling it to match the business expansion plans of LG, its key lessee for this project.

In addition to its core industrial property business, KBC owns nine residential projects with total area of 939 hectares, of which the three key projects for 2021E are the Trang Due urban area (UA), Phuc Ninh UA, and Trang Cat UA. KBC plans to invest c. VND 3.3 tn to develop these projects (i.e., c. VND 1.3tn for Phuc Ninh UA and VND 2tn for Trang Cat UA) while selling 18 hectares of the remaining landbank.

c. VND 1.3tn will be used for Phuc Ninh UA and VND 2tn will be used for Trang Cat UA project.

Fig 5: KBC's industrial park project portfolio

No	Projects	Location	Ownership	Total site area (ha)	Total leasable area (ha)	Occupancy rate / Status	Available for lease area
Industrial parks under KBC and its subsidiaries							
1	Nam Son Hap Linh IP	Bac Ninh	100.00%	300	200	Come into operation in 2021	66*
2	Trang Due IP (Phase 3)	Hai Phong	86.50%	687	456	Administrative procedures are in process	
3	Tan Phu Trung IP	HCMC	72.40%	542	314	58.00%	133
4	Quang Chau IP	Bac Giang	88.10%	426	278	85.00%	43
5	Quang Chau Expansion	Bac Giang	88.10%	90	59	Administrative procedures are in the process	-
6	Tan Lap	Long An	86.54%	71	46	Won a contract and design master planning	-
7	Phuoc Vinh Dong 2	Long An	77.93%	49	32	Won a contract and design master planning	-
8	Phuoc Vinh Dong 4	Long An	72.44%	50	32	Won a contract and design master planning	-
Total				1,955	1,248		176
Industrial parks under KBC's joint ventures							
1	Dai Dong Hoan Son P2	Bac Ninh	21.50%	96	67	Under construction	
2	Nhon Hoi	Binh Dinh	10.00%	630	445	2.25%	435
3	Lien Chieu IP	Da Nang	19.50%	289	175	93.40%	12
4	Hoa Khanh	Da Nang	19.50%	133	108	93.40%	7
5	Phuoc Vinh Dong 1	Long An	19.50%	50	32	Won a contract and design master planning	-
Total				1,198	827		454

Source: Company data, Yuanta Vietnam

Tan Phu Trung IP (TPT IP) is located within the jurisdiction of HCMC, which had no new supply in 2020 because industrial park developers have faced persistent difficulties in land compensation and/or site clearance procedures. As such, industrial land area in HCMC is in extremely short supply, and rental rates have persistently trended higher amid the high demand.

In this environment, we strongly believe that TPT IP will be filled soon. The facility's occupancy rate is currently c. 57.6%, and we assume another 43ha will be leased out in 2021 at ASP of c. 130 USD/sqm (the duration of leases vary, but should be roughly 30–40 years), which is a conservative assumption relative to CBRE's average estimates (see Figures 3 and 4).

Fig 6: Tan Phu Trung IP



Location: Greater Ho Chi Minh City, next to National Road 22 (the Trans-Asia highway), near the Vietnam-Cambodia border at Moc Bai via 1A National Highway. By distance, this IP is 25km from central HCMC; 15km from Tan San Nhat Airport; 25km from Saigon Port; and 10km from Highway 1A.
Source: Company data, Yuanta Vietnam

Quang Chau IP (QC IP) is under operation and is currently in the process of leasing to customers. This IP is located in Bac Giang province and has convenient transport connections by road, waterway, and air. Its occupancy rate is c. 85%. Most of the tenants are from Korea, Japan, and Taiwan, and they largely operate in the technology, precision engineering, and food sectors.

The remaining leasable area is c. 43ha and we assume 34ha of land to be leased at around 95 USD/sqm of ASP in 2021. KBC states that several contracts are currently under negotiation. Additionally, the company plans to convert 90ha of residential land use into industrial park land use for a subsequent expansion phase at Quang Chau.

Fig 7: Quang Chau IP





Location: Bac Giang province, next to National Highway No.1B, with convenient transportation to the Vietnam–China border.
 Source: Company data, Yuanta Vietnam

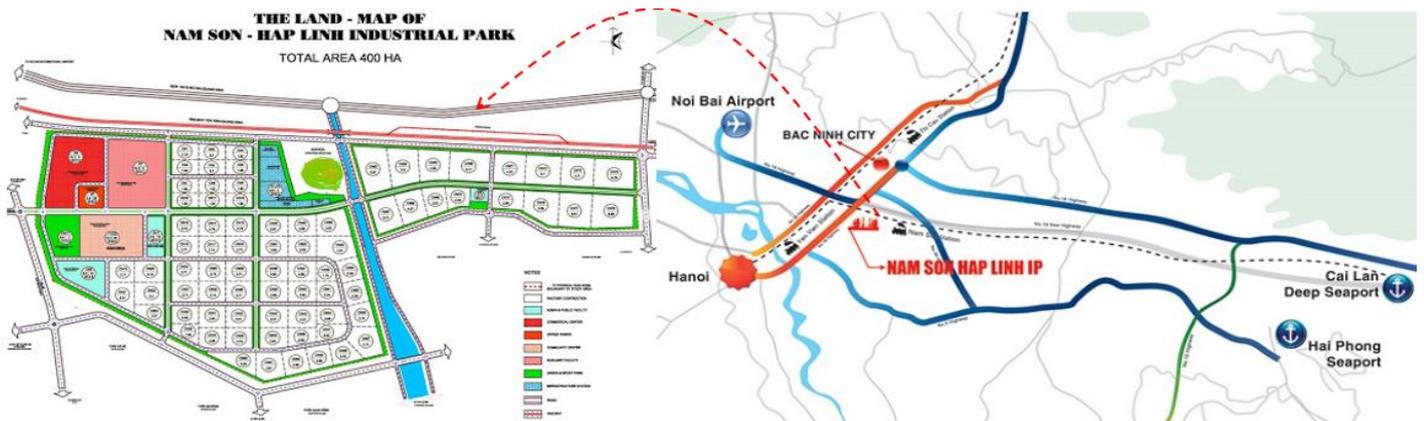
Nam Son Hap Linh (NSHL IP) is located in Hai Phong City adjacent to Highway 18B, which offers convenient transport links to Cai Lan Deep Seaport, Hai Phong Seaport, Noi Bai Airport, and the Vietnam–China border. The IP’s area is 300 hectares, with a leasable area of 200 hectares. At yearend 2020, half of NSHL IP’s land area was cleared, equivalent to c. 65ha of available–for–lease area in 2021.

KBC states that a major Chinese smartphone manufacturer has signed an MOU to rent 60ha at this IP. Because the business scale of this lessee is substantial, the rental rate is only around 70 USD/sqm. Management considers this client to be an anchor tenant that should attract other companies in supportive industrial segments but rental rates for such firms are planned to be at least 130 USD/sqm.

KBC had prepared to deliver 60ha of leasable land area to the tenant in 1H20 but delivery was delayed by administrative procedures. In January 2021, the authorities reduced the IP’s total site area from the previous 432.5ha to 300ha. As of today, KBC is awaiting an amended investment certification from Bac Ninh province, at which point it should be able to finalize this lease.

Administrative procedures have delayed the delivery of 60ha of land area to KBC’s anchor tenant at NSHL IP.

Fig 8: Nam Son Hap Linh IP





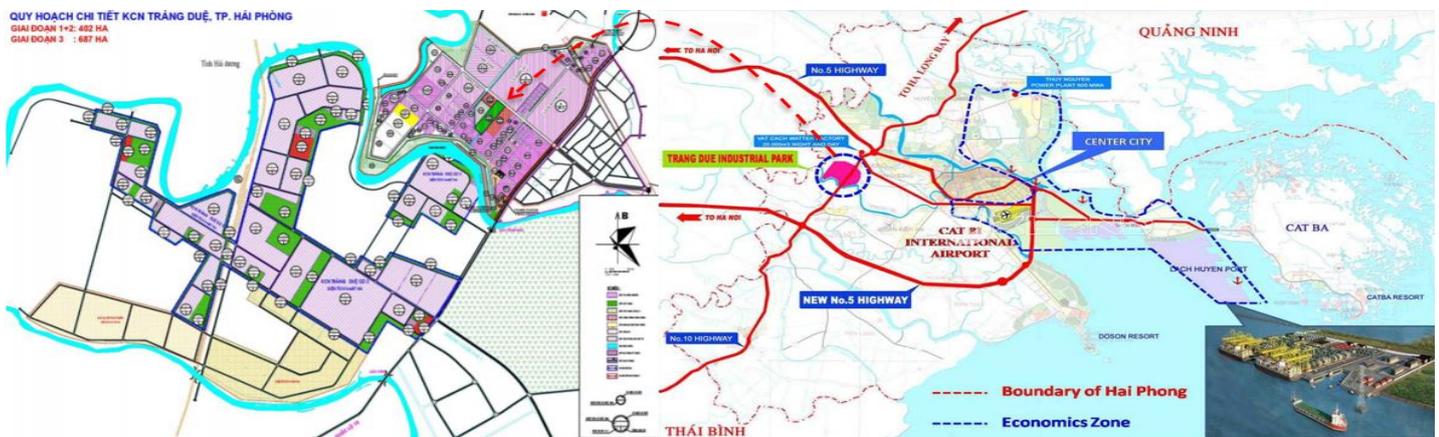
Location: Next to highway No.18B, convenient transportation links to Cai Lan Deep Seaport, Hai Phong Seaport, Noi Bai airport, and the Vietnam-China border.

Source: Company data, Yuanta Vietnam

KBC expects Trang Due IP phase 3 to be approved in 1H21

Trang Due IP (phase 3) is also located in Hai Phong City. Phase 1 (187ha) and phase 2 (214ha) of this project are fully occupied, and phase 3 (687ha—all of the project’s remaining area) is awaiting completion of the administrative procedures. KBC expects phase 3 to be approved in 1H21. We estimate the ASP of phase 3 in 2022 will be at least 100 USD/sqm/remaining term.

Fig 9: Trang Due IP



Location: Hai Phong city, nearby National Highway No.10; 15km from Hai Phong Seaport; nearby the Hanoi-Haiphong Expressway.

Source: Company data, Yuanta Vietnam

Property sales will account for over a half of KBC's revenue from 2021

Land transfers, which have contributed to KBC’s revenues since 2016, are another source of value for the company. KBC’s first two residential property projects, Phuc Ninh UA and Trang Due UA, accounted for just a small part of total revenue in 2016–2020 (i.e., 12%). However, we believe revenue from the residential segment will contribute more substantially to KBC’s revenues from 2021 given that (1) Phuc Ninh UA obtained the required administrative papers at the end of 2020 and (2) bulk sales from Trang Cat UA should ramp up going forward.

Fig 10: KBC's urban area (residential) project portfolio

No	Projects	Location	Owership	Total UA site area (ha)	Land clearance (ha)	Saleable area (ha)	Recognized revenue
Urban area under KBC and its subsidiaries							
1	Trang Cat	Hai Phong	100.00%	585	582	261	
2	Phuc Ninh	Bac Ninh	100.00%	137	80	56	2.5
3	Trang Due	Hai Phong	86.50%	42	42	22	3.6
4	TPT - House for workers	HCMC	72.40%	48	48	TBC	
5	Vien Dong Meridian Towers	Da Nang	100.00%	1	1	TBC	
6	Ha Noi	Hanoi	100.00%	2	2	TBC	
Total				814	755	340*	6
Urban area under KBC's joint ventures							
1	Dragon City Park	Da Nang	19.50%	78	78	NA	
2	Bau Tram Lakeside Park	Da Nang	19.50%	46	46	NA	
3	Bau Tram social housing	Da Nang	19.50%	1	1	NA	
Total				125	125		-

Source: Company data, Yuanta Vietnam

Bac Ninh's GDP per capita is estimated at US\$5,900, which is 2.1x higher than the national average

Bac Ninh's job market is wide open, resulting in a surge in domestic migration and increased housing demand

Phuc Ninh UA is located in Bac Ninh province, which has been approved for central government direct management in 2021–2030 (an event that typically sets off a speculative land boom). The area is a trade hub between Hanoi/Lang Son and China, and it offers easy connectivity with Hai Phong Seaport and the tourism center of Quang Ninh.

The GSO estimates Bac Ninh's regional GDP expanded by 1.5x from 2015 to reach 195.4 tn VND in 2020, accounting for 3% of the national GDP and ranking 7th among all Vietnamese provinces. Bac Ninh's estimated provincial GDP per capita of US\$5,900 is 2.1 times that of the national average, and its economic structure has shifted toward industrialization. In 2020, industry and construction accounted for 74.7% of Bac Ninh's GDP, while services accounted for 22.1% and the remaining sectors (i.e., agriculture, forestry and fisheries) accounted for 3.2% of total GDP. As such, job opportunities in manufacturing especially have blossomed, leading to domestic migration and increased demand for housing.

We see Bac Ninh's economic relationship with Hanoi as a similar model to that of Binh Duong *vis a vis* HCMC; both are urban-adjacent provinces focused on industry, construction, and services. Both provinces are also FDI targets: Binh Duong received USD 1.85bn in FDI in 2020 while and Bac Ninh received c. USD 1bn in the same year. The selling price of landed property in Bac Ninh increased by 150–300% in 2017–2019, so projects acquired before this period are well-positioned for substantial gross margins.

Total area of Phuc Ninh Urban Area is 136ha, comprising 6.3ha in Phase 1, 22 ha in Phase 2, and 108 ha in Phase 3. Launched in 2016, the project's Phase1 (3 ha of saleable area) and Phase2 (10.3 ha of saleable area) have been sold out entirely. Total contract value (excluding VAT) is VND 1.6bn, of which VND 327.7bn has been recognized as revenue, with gross margin of over 65%.

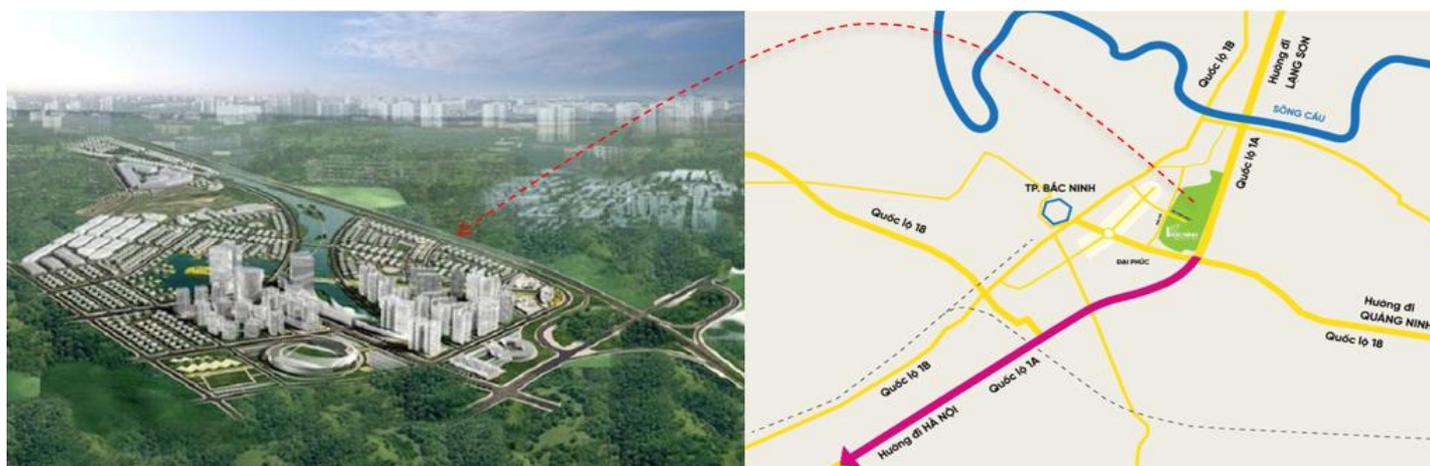
Late in 2020, the Bac Ninh People's Committee assigned its Planning and Investment Department to issue a new investment registration certificate for KBC's Phuc Ninh UA project.

As of 2020, KBC had paid full compensation for 87.5 ha of the total 136ha of this project, and KBC had received approval on 68ha from the Bac Ninh authorities. In addition, the company had paid land use fees on nearly 17.1 ha of this approved portion of the project.

Due to the long implementation period for this project, KBC had to change its master plan to follow new government policies (e.g., on the total area and land-use structure). At the end of 2020, the Bac Ninh Provincial People's Committee agreed to assign its Planning and Investment Department to issue a new investment registration certificate for the Phuc Ninh UA project.

Of course, the land compensation costs have increased during project implementation. Consequently, differences in the compensation paid to landowners have led to difficulties in the process of land clearance. Therefore, we believe that KBC will focus on completing the land compensation and clearance so as to launch Phase 3 as soon as possible. Additionally, KBC is likely to complete all the required administrative procedures for delivery of Phase 1 & 2 land lots and houses to clients in 2021. We thus assume KBC will book the revenues from nearly 6 hectares of saleable area this year.

Fig 11: Phuc Ninh Urban Area



Source: Company data, Yuanta Vietnam

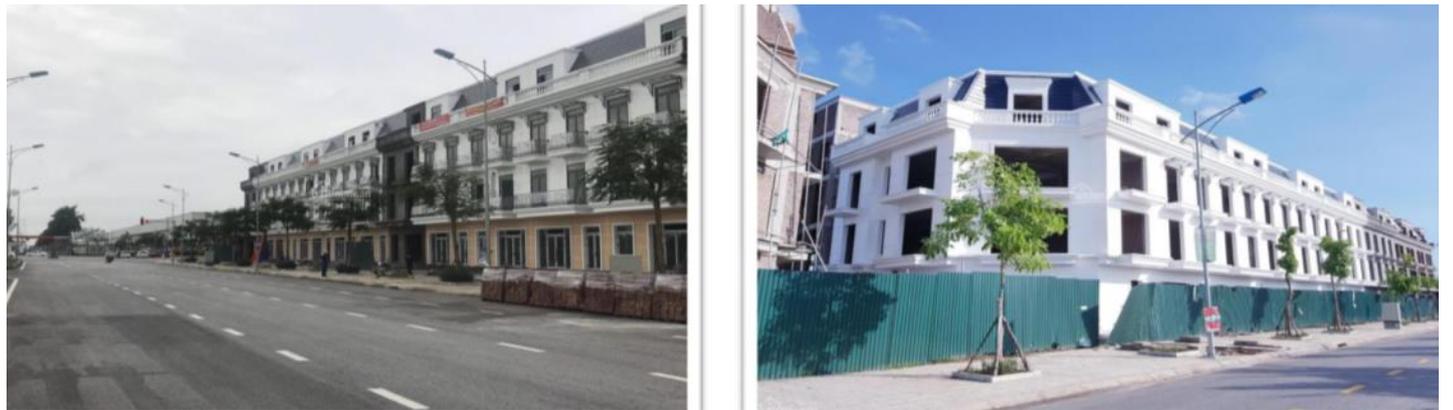
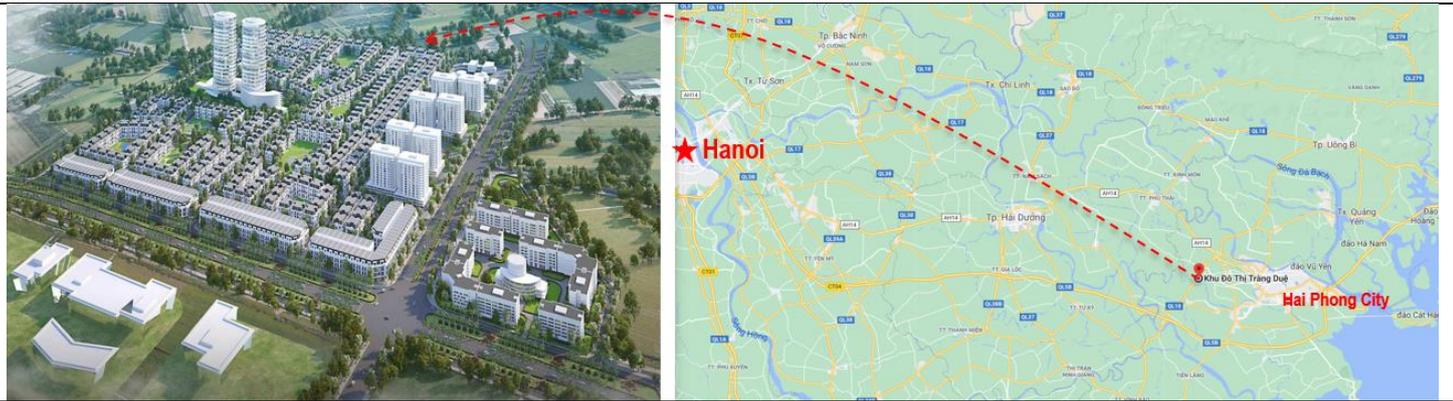
Trang Due UA and Trang Cat UA are located in Hai Phong, a city of over 2mn people that is the main northern gateway to the East Sea. Transport infrastructure connections to Hai Phong are relatively developed after the city's investment of VND 44 tn in transport systems since 2016 (1.8 times higher than its investment in 2011–2015).

Overall, Hai Phong's real estate market has all the elements needed for rapid growth

Hai Phong's GDP ranked 6th among the 63 provinces in 2020. Despite coping with the covid pandemic, its GDP grew 11.22% YoY, the second-highest ranking after Bac Giang province's 13.02% YoY. In addition, the nation's 13th Party Congress approved a GDP growth target of 14.5% for Hai Phong annually in 2021-2025.

The Trang Due UA's area is 42ha, of which c.22.6ha is saleable. KBC recognized VND 189.2bn of revenue from Trang Due urban area in 2020, equivalent to 2.4 ha of urban land. Delivered homes for this project were Pink Books, allowing KBC to record revenue, starting in 2019. We expect continued to launches of tranches and completed unit handovers to homebuyers in 2021.

Fig 12: Trang Due UA



Source: Company data, Yuanta Vietnam

Wholesale buyers of Trang Cat UA's subdivisions should help KBC to accelerate capital returns in the next 3-4 years

The Trang Cat UA's area is 584.9ha, of which 260ha is saleable. As at yearend 2020, KBC had cleared and compensated for c.582 hectares (99.5% of the total area). The company also submitted VND 3.5tn in LUR fees, after which the Hai Phong authorities handed over the project's land to KBC.

We expect KBC to focus on completing the project's infrastructure and landscaping, as well as signing several MOUs with wholesale buyers. As such, the related revenue might be recognized starting from 2021 after KBC obtains the required administrative documents (e.g., the LUR certificate). KBC's management expects 50-100ha of Trang Cat will be sold annually within the next 3-4 years.

Fig 13: Trang Cat UA



Source: Company data, Yuanta Vietnam

KBC prepared 4,721 ha for its future development

Preparing for robust growth

2019 and 2020 were busy years for KBC, which won a number of contracts in this period. Based on our observations, KBC prepared 4,721 ha (i.e., 4,321 ha of IP area and 400ha of UA area, excluding other projects that were officially announced before 2020) for its future development in the past two years. We are highly confident in these projects' potential due to their locations in tier I cities and provinces, where ASPs for both residential and industrial land are rising amid a shortage of supply and increased demand.

In early 2021, KBC invested in the establishment of the following three new subsidiaries:

- **Hung Yen Investment and Development Group JSC**, with charter capital of VND 1,800 bn, is 68.65% owned by KBC. For this project, KBC is cooperating with two related companies (i.e., its 86.54%-owned subsidiary Sai Gon-Hai Phong Industrial Park JSC and 21.5%-owned associate Saigon Telecommunication Technology JSC), to develop an industrial park at Binh Giang. This project is located in Hai Huong and Hung Yen provinces and is located near the Hanoi-Haiphong New Highway. Its total area is 860ha, comprising Phases 1 (495ha) and 2 (365ha). KBC contributed VND 1,080bn to this project directly, and its two subsidiaries contributed VND 180bn.
- **Vung Tau Investment Group JSC**, with a charter capital of VND 1tn, is 74.52% owned by KBC. This subsidiary was established to develop the South Vung Tau Urban Area, a project with total area of c. 70 hectares and total investment of an estimated VND4.6tn. In addition, according to Decision No. 3146 / QD-UBND, the People's Committee of Vung Tau has approved KBC's subsidiaries to develop urban area projects in Wards 10 and 11. In addition, this subsidiary will also seek out opportunities to develop industrial parks in Vung Tau. KBC invested VND 745bn in this subsidiary.
- **Long An Investment and Development JSC**, with charter capital of VND 1,500 bn, is over 36% owned by KBC. For this project, KBC is cooperating with two related companies (i.e., its 86.54%-owned subsidiary Sai Gon-Hai Phong Industrial Park JSC and 21.5%-owned associate Saigon Telecommunication Technology JSC). KBC has contributed VND540bn to Long An Investment and Development JSC. This subsidiary will develop urban areas and industrial park projects in Long An.

Fig 14: KBC's future projects

No	Project	Location	Ownership (%)	Total site area (ha)	Total IP site area (ha)	Total UA site area (ha)	Status
1	Quang Chau Expansion	Bac Giang	88.10%	90	90		Under administrative processing
2	Tan Lap	Long An	86.54%	71	71		Won a contract and design mater planning
3	Phuoc Vinh Dong 2	Long An	77.93%	49	49		Won a contract and design mater planning
4	Phuoc Vinh Dong 4	Long An	72.44%	50	50		Won a contract and design mater planning
5	Phuoc Vinh Dong 1	Long An	19.50%	50	50		Won a contract and design mater planning
6	Binh Giang	Hai Duong	68.65%	1,052	802	250	Has designed master planning
7	Long An	Long An	Over 36.00%	616	466	150	Will design master planning in 2021
8	Vung Tau	Vung Tau	74.52%	1,143	1,143		Will design master planning in 2021
9	Ha Noi	Ha Noi	TBC	600	600		Will design master planning in 2021
10	Thai Nguyen	Thai Nguyen	TBC	1,000	1,000		Will design master planning in 2021
Total				4,721	4,321	400	

Note: Tier I cities / provinces in Northern area : Hanoi, Hung Yen, Bac Ninh, Hai Duong, Hai Phong,

Tier I cities / provinces in Southern area: HCMC, Long An, Dong Nai, Binh Duong.

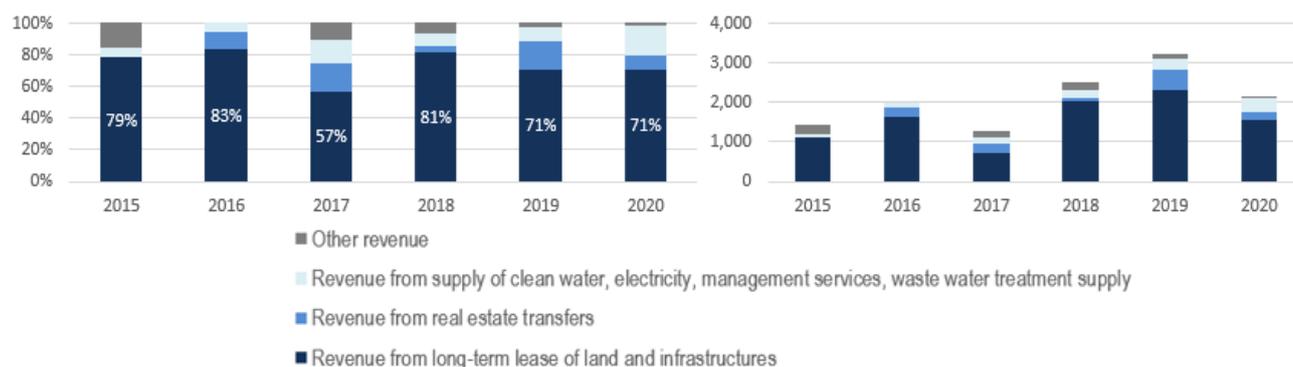
Source: Yuanta Vietnam

Operational results are gradually improving

In 2020, revenue from long-term leases of land and infrastructure was VND 1,537bn, accounting for 71% of total revenues. Quang Chau IP and Tan Phu Trung IP were major revenue contributors, and the occupancy rates at Que Vo IP (Phase 1+2), Trang Due IP (phase 1+2) were both 100%. KBC expects Nam Son Hap Linh IP to begin to contribute to revenues in 2021.

Nam Son Hap Linh IP should contribute to KBC's revenues starting in 2021

Fig 15: KBC's revenue breakdown



Source: Company data, Yuanta Vietnam

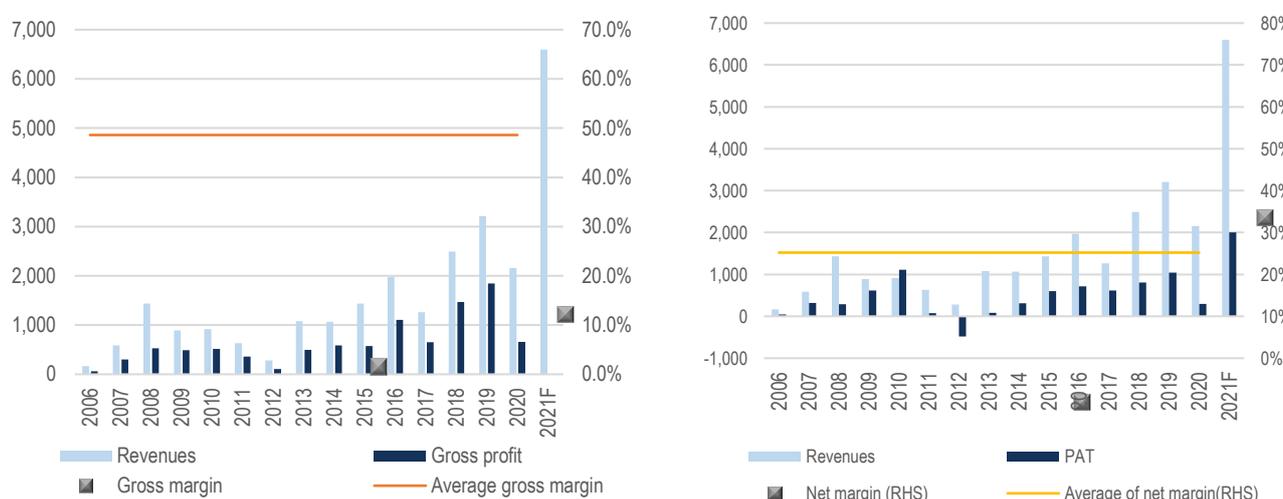
Revenue from real estate sales has been a main driver of historical consolidated revenue. However, the company's urban area projects have more recently been mired in administrative procedures and haven't obtained the licenses that are required to recognize revenue. Consequently, revenue from real estate transfers in 2020 was VND 196bn, one-third of the previous year. In 2020, KBC recognized VND 183bn of revenue from Trang Due UA, equivalent to 2.35ha of saleable land area; and the company recognized only VND 13.3bn of revenue from Phuc Ninh because its administrative papers were only obtained at the end of 2020. However, KBC expects Trang Cat, Trang Due, and Phuc Ninh Urban Areas to contribute to its 2021 consolidated revenue.

KBC expects Trang Cat, Trang Due, and Phuc Ninh Urban Areas to contribute to 2021 revenue

Revenue from water, electricity, management services, and wastewater treatment partly supports KBC's cashflow

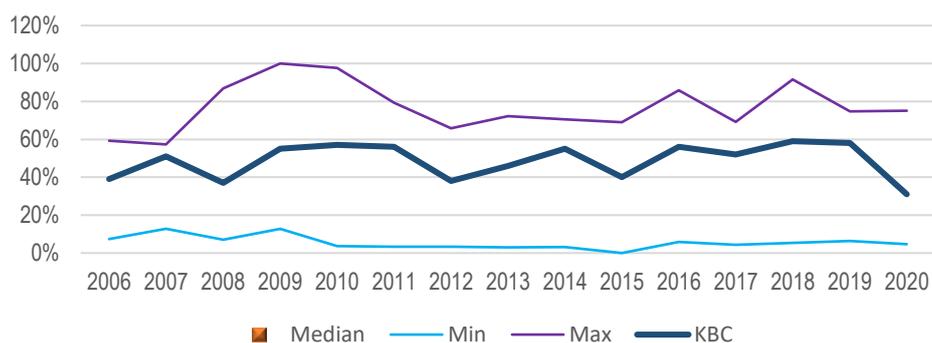
KBC's clean water, electricity, management services, and wastewater treatment segments reached 37% in 2015-2020%. These segments should continue increasing along with leased IP land area. This business partially supports KBC's cashflow.

Fig 16: KBC's earnings margin



Source: Company data, Yuanta Vietnam

Fig 17: KBC's earnings margin vs industry



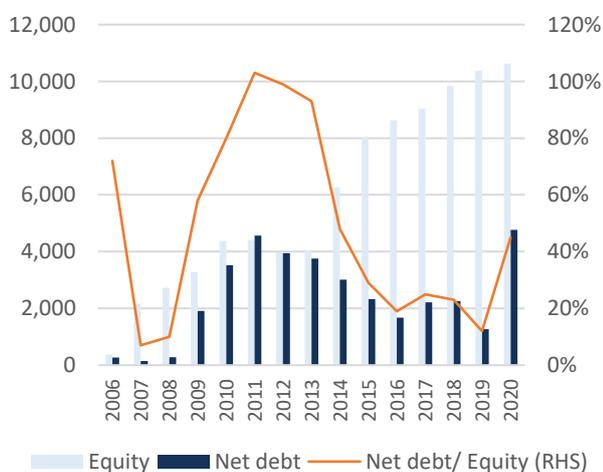
Source: Company data, Yuanta Vietnam

Higher-than-planned development costs tanked 2020 gross margin

The company's gross margin significantly decreased from 57.5% in 2019 to 30.6% in 2020 because of higher than expected development costs for Tan Phu Trung IP and Que Vo IP. Per KBC, these cost increases are typical when a project incurs abnormal costs and at the end period of the project.

Overall, KBC has maintained its gross margin at around 50% since 2006, which is higher than the industry median. However, it is still lower than the margins earned by rubber plantation-related industrial park operators such as NTC VN (average four-year gross margin of 74.4%) when they convert agricultural land to industrial property because their land acquisition costs (e.g., land compensation fees and engineering) are much lower.

Fig 18: KBC's financial leverage



Source: Company data, Yuanta Vietnam

Increasing financial leverage to launch mega projects

In 2020, KBC raised VND 4.5tn in debt, mostly to invest in its pipeline projects (i.e, its inventory value increased by VND 3.8tn, of which the book value of Trang Due UA increased by VND 3.5tn and that of Nam Son Hap Linh IP increased by VND 320bn). KBC's net debt ratio thus significantly increased from 0.12x in 2019 to 0.45x in 2020.

Fig 19: KBC's cash flows

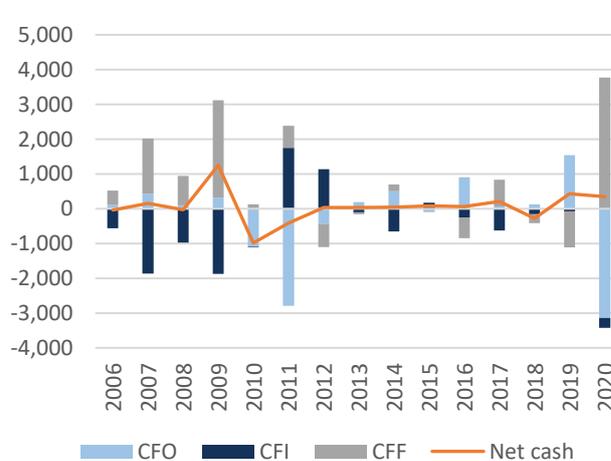
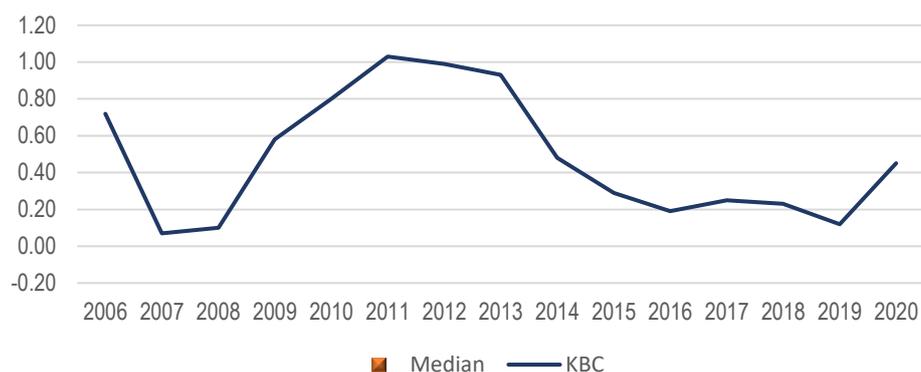


Fig 20: KBC's net debt ratio vs industry



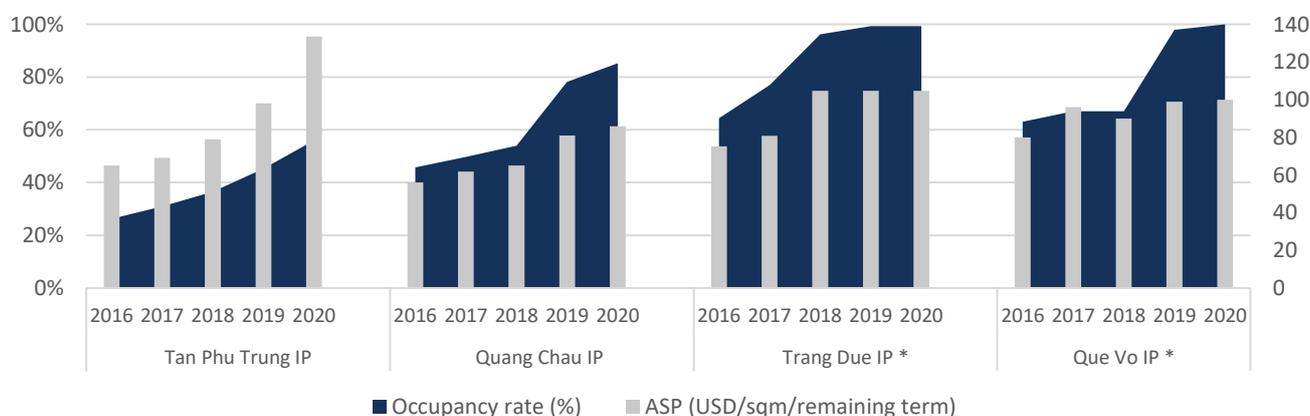
Source: Company data, Yuanta Vietnam

As a result of the increased debt last year, KCB's net debt ratio is much higher than the industry median, for two main reasons:

- The company's inventory projects have been delayed for a long time (e.g., Trang Cat UA was consolidated 10 years ago, and Nam Son Hap Linh IP is in a similar situation) due to prolonged administrative procedures; and
- KBC's early projects (e.g., Que Vo IP, Que Vo IP – expansion, and Trang Due IP – Phase 1) have played a developmental role for less-developed provinces since the 2000s. The leased area of these projects was therefore filled slowly. Hence, the projects have not generated cash inflows, which has led to high financial leverage. Other IP developers such as NTC, MH3, IDV, and SIP typically have a higher ratio of liquid assets (i.e., cash and cash equivalents, and short-term investments) as a proportion to total assets. KBC's profitability ratios thus tend to be lower than those of the industry as a whole.

Fig 21: Filling leasing area has been faster since 2015

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Que Vo IP	66.0%	81.0%	82.0%	83.0%	83.0%	89.0%	89.0%	93.0%	95.0%	96.0%	97.0%	97.5%	100.0%
Que Vo IP (Expansion)	4.0%	6.0%	21.0%	41.0%	43.0%	46.0%	58.0%	61.0%	63.0%	63.0%	67.0%	97.9%	100.0%
Trang Due IP (Phase 1)		4.0%	15.0%	32.0%	33.0%	33.0%	70.0%	92.0%	92.0%	99.0%	99.0%	99.0%	100.0%
Trang Due 2 (Phase 2)									28.0%	64.0%	76.9%	96.2%	100.0%



Trang Due IP*: Trang Due IP (phase 2); Que Vo IP*: Que Vo IP* (Expansion phase)
Source: Company data, Yuanta Vietnam

Located in Bắc Ninh province, Que Vo IP was KBC's first project. It came into operation in 2003 and took 12 years to reach over 90% occupancy. This is because Bac Ninh's economy in the 2000s was dependant on agriculture, its infrastructure capacity was constrained, and FDI enterprises faced myriad policy barriers to investment there. However, the authorities have since prioritized transport infrastructure and issued new policies to attract FDI flows and drive overall development.

As a result, Bắc Ninh's urbanization rate increased from 9.7% in 2000 to 28.6% in 2015, and the government targets urbanization of 55% in 2025. Moreover, Industry and construction have replaced agriculture as the key driver of provincial GDP.

We discuss Bac Ninh as an exemplary case study for economic development and also to convey our understanding of Quo Vo IP's historical development. Other provinces and cities in the north, such as Hai Phong and Hai Duong, have followed a similar historical development path and have posted high economic growth since the early 2010s.

Therefore, we expect KBC reach 90% occupancy rates for its new IPs within the first six years of operations. Filling the remaining 10% vacancy should take 1 to 5 years, during which KBC will provide ready-built factories for new SME customers and for the expansion of existing lessees' capacity. The leasing process has become much faster since 2015 as FDI has surged (and the ongoing shift in global supply chains away from overconcentration in China has accelerated this process since 2018).

We expect KBC to achieve 90% occupancy at its new IPs within the first 6 years of operations

Fig 22: KBC's ROE vs industry

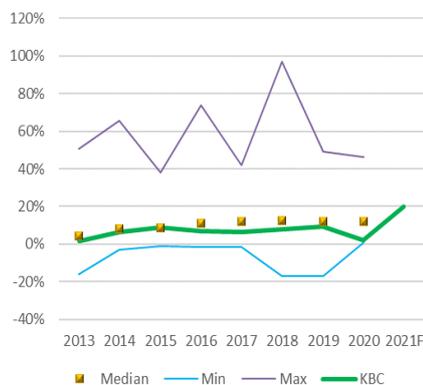
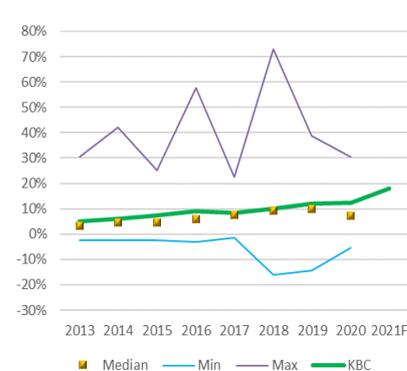


Fig 23: KBC's ROA vs industry



Fig 24: KBC's ROIC vs industry



Source: Company data, Yuanta Vietnam

Given KBC's large expected capital investments in new projects in upcoming years, we expect its financial leverage to remain higher than the industry median. However, as mentioned previously, its new landbank is prime location and its administrative approvals for new projects should be forthcoming more quickly than in prior years. In such an environment, we think that KBC's debt ratios are at reasonable levels, and we believe KBC should be able to accelerate capital returns and improve its profitability ratios going forward.

Fig 25: Potential projects for lease KBC group's industrial parks in 2020

<p>Cellphone accessories manufacturing – China - Location: Nam Son Hap Linh IP (Bắc Ninh) - Area: 62ha</p>	<p>Logistics Project– China - Location: Quang Chau IP (Bắc Giang) - Area: 15-20ha</p>
<p>Agriculture machinery manufacturing Project– Korea - Location: Quang Chau IP (Bắc Giang) - Area: 30ha</p>	<p>Optical module manufacturing Project– Taiwan - Location: Quang Chau IP (Bắc Giang) - Area: 10ha</p>
<p>Electric bicycle project – China - Location: Quang Chau IP (Bắc Giang) - Area: 50ha</p>	<p>Logistics Project– Korea - Location: Nam Son Hap Linh IP (Bắc Ninh) - Area: 7ha</p>
<p>Water heater project – Germany - Quang Chau IP (Bắc Giang)/ Nam Son Hap Linh IP (Bac Ninh) - Area: 5ha</p>	<p>Logistics Project – Japan - Location: Nam Son Hap Linh IP (Bắc Ninh) - Area: 4ha</p>

Source: Company data, Yuanta Vietnam

Business plan for 2021: KBC targets 2021 revenues to rise by 3.1 times YoY to reach VND 6,6tn and profit after tax to rise by 6.7 times to reach VND 2tn. The company plans to spend VND 3tn to VND 5tn to invest in its pipeline projects through borrowing from banks and issuing corporate bonds. The details are as follows:

- **Nam Son Hap Linh IP:** Expand the compensation area, complete the infrastructure, build wastewater treatment facilities, and deliver land to lessees who sign MOU contracts.
- **Quang Chau IP:** Pay compensation fees for the remaining area (20ha), convert 90ha of residential land into industrial park land, and construct a number of ready-built factories for lessees.
- **Tan Phu Trung IP:** Maintain the leased area at least equal to the previous year's level and complete compensation for the full area.
- **Trang Cat UA:** Build infrastructure to sell to other developers.
- **Trang Due UA:** Complete the project's infrastructure and landscaping, and launch new tranches.
- **Phuc Ninh UA:** Complete the infrastructure in the project's expanded compensation area, finish the landscaping and interior facilities (e.g., for the schools), retain full administrative papers to deliver to homebuyers, and pay compensation fees for the remaining area.
- **Other projects:** Accelerate the administrative approval process of IP and UA projects in Hung Yen, Hai Duong, Long An, Vung Tau, and formulate plans to develop Trang Due IP (phase 3) and projects in Long An (i.e., a 219.8 ha IP project and 43.5ha of residential land for workers).

Pipeline projects should boost the longer term operation.

Valuation

Projects moving out of limbo and into the development stage have driven KBC's shares higher since early December

We see 44% upside to our target price, which is based on a conservative valuation approach

KBC's YTD return is c. 50% thank to many positive signals of eased project delays. (1) Trang Cat UA has been delayed since 2010, but the project has taken a big step forward in the administrative procedures by receiving LUR certification. KBC thus could officially launch the project in 2021. (2) KBC management has given positive signals that Trang Due industrial park phase 3 may obtain its investment license soon. (3) KBC has acquired numerous potential projects for its pipeline (e.g., Vung Tau UA, Vung Tau IP, and the projects in Long An).

Our target price for KBC is at VND 55,200/share, which is 44% higher than the closing price on 7 April 2021. Therefore, our initial recommendation on KBC is BUY.

Overall we believe our current target price for KBC is highly conservative. We have only factored nine of KBC's projects (i.e., the five industrial parks and four urban area projects) into our DCF model.

The other 1,238 ha of industrial park and 176ha of urban area are included in the overall valuation, but only at book value. Additionally, we do not factor in any value for future projects (i.e., the 3,826ha of industrial park land, 330ha of urban area, or KBC's ability to source additional landbank/develop subsequent projects as an ongoing concern). This is not an aggressive valuation approach.

However, our valuation appears to be more optimistic than the consensus. We think a key difference may be that we include three projects (i.e., Trang Due IP (phase 3), Binh Giang IP and Vung Tau UA) into our valuation, whereas the Street may not have done so yet. However, this suggests valuation upgrades are likely in the relatively near term. Based on these projects' recent developments, we see few reasons for ignoring these projects and limited probability of negative events that would drive substantial downside to our valuation.

Fig 26: KBC's industrial park project portfolio

No	Project	Ownership rate	Valuation approach	Project NPV (VND bn)	Effective NPV (VND bn)	Proportion of valuation
1	Nam Son Hap Linh IP	100.0%	DCF	1,079	1,079	3.9%
2	Trang Due IP (Phase 3)	86.5%	DCF	2,962	2,562	9.3%
3	Tan Phu Trung IP	72.4%	DCF	1,549	1,121	4.1%
4	Quang Chau IP	88.1%	DCF	780	687	2.5%
5	Binh Giang IP (Phase 1)	75.1%	DCF	214	161	0.6%
6	Trang Cat UA	100.0%	DCF	18,388	18,388	66.7%
7	Phuc Ninh UA	100.0%	DCF	1,771	1,771	6.4%
8	Trang Due UA	86.5%	DCF	1,490	1,289	4.7%
9	Vung Tau UA	74.5%	DCF	696	519	1.9%
Total project NPV (VND bn)					27,577	
Adjusted net other assets (VND bn)					-1,621	
NAV (VND bn)					25,956	
Number of shares (bn)					0.47	
Fair Value Per Share (VND)					55,200	

Source: Yuanta Vietnam

As exhibited in Figure 26, Trang Cat UA is a very high component of total NAV (67%), which merits the following detailed explanation.

Trang Cat Urban Area project valuation. We estimate KBC's total investment in this project of VND 13.5tn (i.e., VND 3.5bn in land clearance fees, over VND 3.5tn in land use rights (LUR) fees, and the remainder in construction costs). This cost is equivalent to VND 5mn/sqm of saleable area, whereas the market price in the area

around the project is c.VND15mn/sqm. As of December 2020, the company had fully paid the c. VND 7tn of land clearance and LUR fees for this project.

Management indicates that another developer offered to purchase Trang Cat UA at USD 700mn (c. VND 16,310bn) when the company was close to completely paying the land clearance costs, but KBC refused the offer. The company instead has chosen to develop the project through the land engineering phase and then sell buildable land to sub developers. This offer price appears reasonable to us given that the buyer could have still obtained roughly 43% gross margin after developing and selling units to retail clients (we assume the buyer would have paid the same LUR fees and other development costs as KBC has paid).

KBC believes the value of project should be USD 1.4 billion once the LUR certificate is granted and ground engineering is complete. However, we have taken a more conservative view than management's in our DCF method by assuming that the project will be sold out within six years at ASP of VND 17.5mn per sqm. Our fair value for the project is thus VND 19.8tn (c.US\$850 million) or 39% below KBC's more optimistic appraisal.

For comparison purposes, if we were to adopt KBC's aggressive assessment of the value of Trang Cat instead of our conservative estimate, the total value of the company would be VND 40,188 tn (US\$ 1.72bn) and the stock's fair value would be VND85,500 per share, implying 123% upside from the current share price.

Adopting KBC's aggressive assessment of the value of Trang Cat, the stock's fair value would be VND85,500 per share, implying 123% upside from the current share price

Key risks to our positive view

1) **Cashflow might be slower than our expectations**, for the following four reasons:

- **The coronavirus pandemic and efforts to contain it have triggered cracks in the global supply chain.** Obviously, the resilience of domestic and world economies remains uncertain. More specifically, the ability of prospective tenants to set up new factories is questionable if they can not travel to Vietnam. As such, if business travel restrictions remain in place for the long term, demand for industrial park land and leasing rates could decline.
- **Increased competition from regional peers.** Vietnam is not the sole manufacturing alternative to China. Based on CBRE's regional research, neighboring countries are also rapidly establishing new industrial parks to attract FDI flows.
- **The development of transport infrastructure** may not keep up with the increased industrial activity in Vietnam, potentially leading to even greater increases in the nation's already-high logistics costs. Failing to address the infrastructure constraints in a timely manner would have a deleterious impact on Vietnam's comparative advantages relative to other countries.
- **Delays in administrative procedures** may last for longer than our expectations. However, this risk currently is not high, in our view because the crucial administrative approvals (e.g., LUR certification, 1/500 scale master plan) of KBC's major projects have already been issued.

2) **Higher-than-sector-median balance sheet leverage.** Currently, KBC is using high financial leverage to develop a number of projects, but mostly for the development of Trang Cat UA. Although we think that this is "good debt" that will result in rapid and substantial returns to shareholders, the project presents some level of concentration risk. Therefore, any negative impact on cashflow from Trang Cat Urban Area could significantly ramp up KBC's balance sheet risk.

3) **Dilution from private issuance.** The company plans to raise equity capital via private placement. Details are still hazy, but the stated purpose is to increase working capital, restructure its loans, and contribute additional capital to its subsidiaries. The specifics of the plan will be discussed at the company's AGM on April 10, after which we intend to consider the implications of dilution and reduced balance sheet leverage in greater detail.

INCOME STATEMENT (VND'bn)	2019A	2020E	2021E	2022E
Net sales	3,210	2,154	6,822	9,504
Cost of sales	(1,363)	(1,495)	(2,992)	(3,942)
Gross Profit	1,847	659	3,830	5,562
Selling expenses	(142)	(52)	(157)	(271)
General and admin expenses	(172)	(262)	(558)	(804)
Operating profit/(loss)	1,533	345	3,115	4,487
Financial income	80	332	86	86
Financial expenses	(223)	(249)	(444)	(796)
Gain/(loss) from joint ventures	-	2	11	11
Net other income/(expenses)	(27)	-	20	-
Profit/(loss) before tax	1,363	430	2,788	3,788
Income tax expenses	(323)	(133)	(558)	(758)
Net profit/(loss) after tax	1,040	297	2,230	3,030
Minority interests	(122)	(91)	(113)	(149)
Attributable to parent company	918	206	2,117	2,881
EPS basis reported, VND	1,955	890	4,447	6,053
EPS fully diluted, VND	1,955	890	4,447	6,053

FINANCIAL RATIO	2019A	2020E	2021E	2022E
Growth (%)				
Revenue, growth	29%	-33%	217%	39%
Operating Income, growth	32%	-77%	803%	44%
PBT, growth	30%	-68%	548%	36%
EPS, growth	23%	-54%	400%	36%
Total Assets, growth	-3%	43%	19%	28%
Equity, growth	6%	2%	10%	19%
Profitability (%)				
Gross Profit Margin	58%	31%	56%	59%
Operating Profit Margin	48%	16%	46%	47%
Net Margin	32%	14%	33%	32%
ROE	10%	3%	20%	24%
ROA	6%	1%	9%	9%
ROIC	13%	4%	17%	19%

Efficiency (x)				
Receivable Turnover	0.57x	0.35x	1.31x	2.47x
Inventory Turnover	0.17x	0.16x	0.23x	0.25x
Payable Turnover	1.87x	1.63x	2.47x	1.46x
Liquidity (x)				
Current ratio	3.42x	3.10x	3.98x	3.22x
Quick Ratio	1.51x	1.41x	1.41x	1.33x
Financial Structure (x)				
Total liabilities/Equity	0.58x	1.22x	1.40x	1.59x
Total liabilities/Total Assets	0.37x	0.55x	0.58x	0.61x
Debt/Equity	0.19x	0.54x	0.88x	0.91x

Source: KBC, Yuanta Vietnam

BALANCE SHEET (VND'bn)	2019A	2020E	2021E	2022E
Total assets	16,433	23,569	28,153	36,125
Current Assets	13,912	21,209	23,475	29,497
Cash & cash equivalents	652	999	2,607	6,281
ST Investment	3	1,990	1,990	1,990
Accounts receivable	5,493	6,675	3,740	3,942
Inventories	7,548	11,303	14,574	16,492
Other current assets	216	242	564	792
Long-term Assets	2,521	2,360	4,678	6,628
Long-term trade receivables	128	161	487	549
Net fixed assets	254	256	257	251
LT Investment	861	660	1,660	2,660
LT assets other	1,278	1,283	2,274	3,168
Total Resources	16,433	23,569	28,153	36,125
Total Liabilities	6,053	12,939	16,421	22,190
Advances from customers	414	894	922	3,529
Accounts payable	371	155	449	483
ST debts	804	1,547	1,176	1,362
Other ST liabilities	2,479	4,236	3,358	3,797
Long term debt	1,122	4,218	9,140	11,386
Other LT debt	863	1,889	1,376	1,633
Shareholder's equity	10,380	10,630	11,732	13,935
Paid in capital	4,757	4,757	4,757	4,757
Share premium	989	989	989	989
Retained earnings	4,099	4,299	5,293	7,347
Other equity	(362)	(362)	(368)	(368)
Minority interest	898	948	1,061	1,210

CASH FLOW (VND'bn)	2019A	2020E	2021E	2022E
Begin cash of the year	224	652	999	2,998
Net profit before tax	1,364	430	2,788	3,788
Adjustments	175	(29)	444	796
Change in Working Capital	0	(3,542)	(2,216)	(822)
Cash from Operations	1,539	(3,141)	1,016	3,762
Capital Expenditures	(275)	(45)	(1)	6
Investments	0	0	(1,000)	(1,000)
Change in other	200	(241)	(1,830)	(699)
Cash from investments	(75)	(286)	(2,831)	(1,693)
Dividend Paid	(455)	(62)	(476)	(476)
Proceeds from issue of shares	0	0		
Net change in debt	(582)	3,837	4,551	2,432
Change in other	0	0	(261)	(351)
Cash from financing	(1,037)	3,775	3,814	1,605
Effect of FX differences	0	0	0	0
Net change in Cash	427	348	1,999	3,674
Ending cash balance	652	999	2,998	6,672

Appendix A: Important Disclosures

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HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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