

Strategic Insight

Embrace the opportunity

Transforming the Direction

The VNIndex exceeds 1,100 points with high liquidity in 2Q23, indicating a bullish market. Moreover, the Vietnamese economy shows positive growth of 4.14% in 2Q23, surpassing expectations. The government's measures to support the economy with an expansionary fiscal policy and looser monetary policy are expected to drive further growth. Hence, we expect the target range for VNIndex in 2H23 to be 1,260-1,340 points.

Vietnam's Economy: Gaining momentum

Although the economic performance picked up in 2Q23 in the late stage of the global interest rate hike, we believe that the acceleration of economic activities will need more time to be material due to the insignificant improvement of external factors and the weakening recovery in domestic consumption. On the upside, public investment will continue to be a spotlight in 3Q23 thanks to the government's effort in realizing the significantly higher workload than last year. In addition, the well-controlled inflation and stable exchange rate provide more space for the monetary authority to follow the easing tendency in the next quarter.

Opportunities are widespread among industries

A number of investment opportunities emerged since 2Q23 in a broader market, which supported by macro factors and reviving market. Of which, opportunities exist in Power and Agriculture, Seafood industries that backed by El-Nino and China consumption themes. Besides, crushed stone industry also offers a lucrative choice from 3Q23 for those investors seeking for rising public spending theme. On the other hand, banking and housing sectors along with other construction materials (steel, cement) are not suitable for fundamental investors as true signals of transform remain anticipated.

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Research Dept

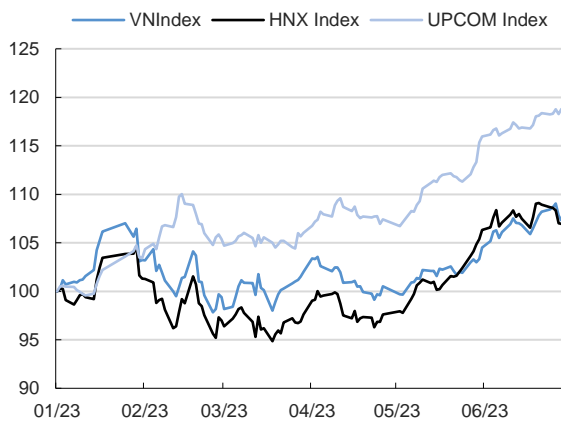
researchdept@kisvn.vn

I. Transforming the Direction

1. Medium-term bullish market

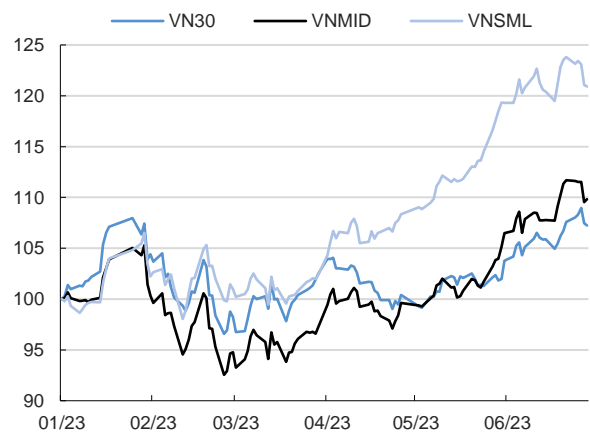
Surpassing the 1,100-point threshold. The market showed stable growth compared to 1Q23. Accordingly, the VNIndex experienced a 5.22% rise in 2Q23, primarily attributed to a strong recovery in Jun. Following the consolidation phase from Feb to May, the VNIndex successfully broke through the significant resistance level of 1,100 points. The main drivers of this uptrend were expansionary monetary policies and economic recovery. Additionally, the VNSML Index demonstrated robust growth (+18.04%) in Jun, while the VN30Index only increased by 4.61%. This means the investors' attention focuses on small-cap stocks.

Figure 1. Vietnam indexes performance



Source: Fiinpro, KIS
Note: start of 01/23 = 100

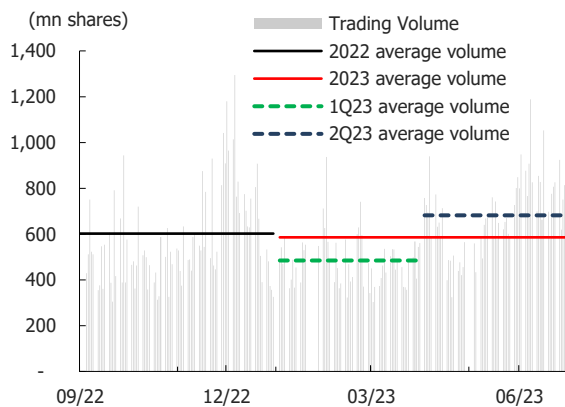
Figure 2. Growth of key indexes of HOSE



Source: Fiinpro, KIS
Note: start of 01/23 = 100

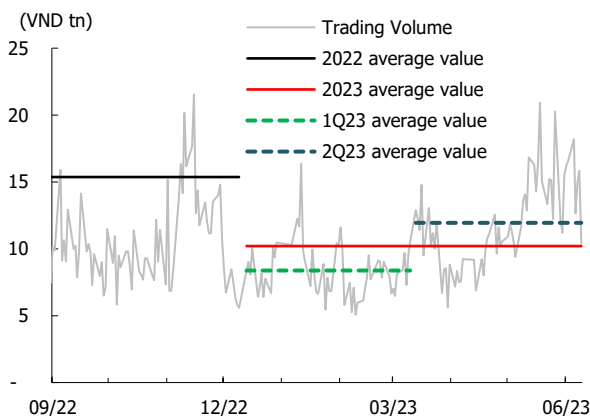
Improve liquidity thanks to the uptrend. Liquidity significantly increased in 2Q23, up more than 40% compared to 1Q23. Specifically, the average trading volume and value reached 682 million shares/ VND11,941bn, up 41%/ 43%, respectively, from the previous quarter. However, when comparing 6M23 to 2022, the average trading volume decreased slightly by 3% while the average trading value experienced a significant decline of 51%.

Figure 3. Trading volume in 2023



Source: Fiinpro, KIS

Figure 4. Trading value in 2023

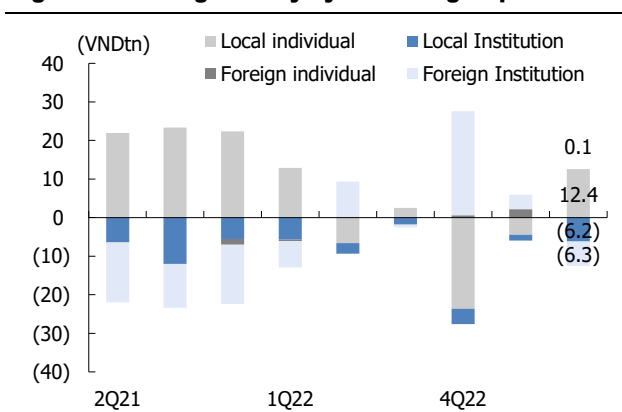


Source: Fiinpro, KIS

Domestic trading activities surge. In 2Q23, domestic trading activity was more active. Net volume was 580 million shares, up 400% QoQ and five times higher than 2Q22. Trading value was VND12.4tn, the highest figure since 1Q22, ending the net sold period of the two nearest quarters.

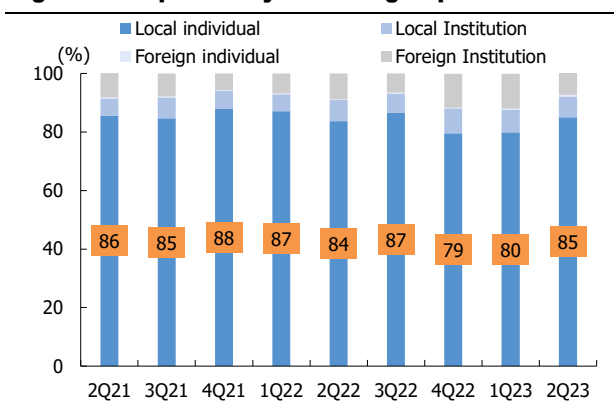
In 2Q23, local institutions ended up being net sold with a net value of VND6.2tn, the highest figure since 3Q21. Besides, foreign institutions' trading activities also improved. Net volume was 260 million shares, up 34% QoQ and nearly four times higher than the same period of 2022. Foreign institution's net sell value was VND6.3tn. On the other side, foreign individuals continued to be insignificant.

Figure 5. Trading activity by investor group



Source: Fiinpro, KIS

Figure 6. Proportion by investor group

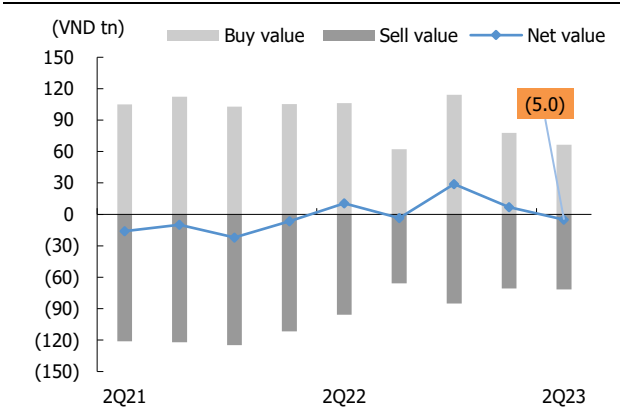


Source: Fiinpro, KIS

2. Foreign trading slows down

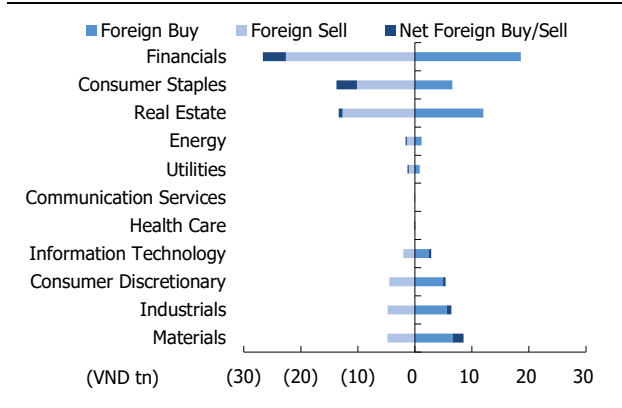
Foreign demand starts to be tightened. In 2Q23, foreign demand kept slowing down whilst supply stayed around the yearly average. Buying value was VND66.5tn, 35% below the yearly average after marking the peak in 4Q22, pushing the market to be net sold with VND5tn. The market kept ending up being net sold with a net sell value of VND5tn whilst demand had faded supply on the two nearest quarters. Breaking down by sector, within 2Q23, the Materials and Industrials sector mainly absorbed foreign demand with net buy values were VND1.9tn and VND0.8tn, respectively. Besides, Consumer Discretionary also attracted foreign demand during this period, recording the net buy value at VND0.4tn.

Figure 7. Net foreign buy/sell by Quarter



Source: KIS, Fiinpro

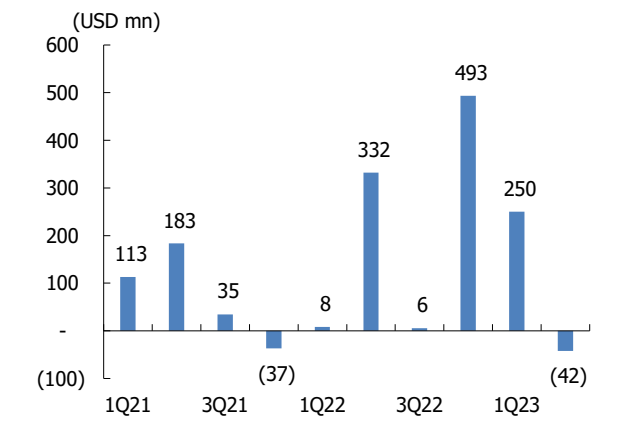
Figure 8. Net foreign buy/sell by sector in 2Q23



Source: KIS, Fiinpro

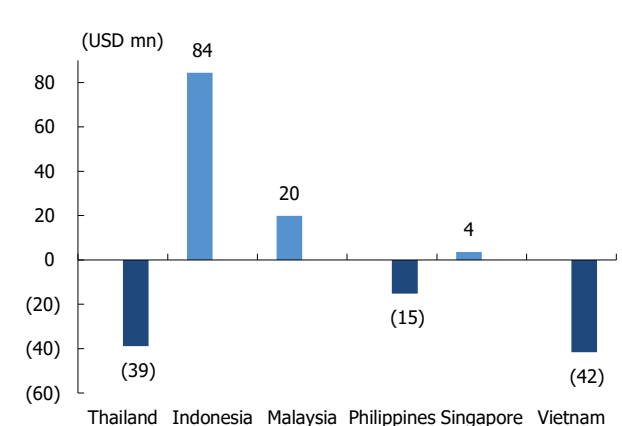
Vietnam is divested the most across SEA. Similar to the foreign trading activity, demand for Vietnam's ETFs has slowed down after reaching the peak in 4Q22. In 2Q23, Vietnam was strongly divested. Net outflow was USD42mn, the highest figure since 1Q20, ending five consecutive quarters of inflow. Notably, Vietnam was divested the most across SEA, followed by Thailand (USD39mn), and Philippines (USD15mn). However, the solid demand on Indonesia and Malaysia entirely covered the strong outflow across these countries.

Figure 9. Vietnam ETF net flow



Source: Bloomberg, KIS

Figure 10. The flow of money across SEA countries



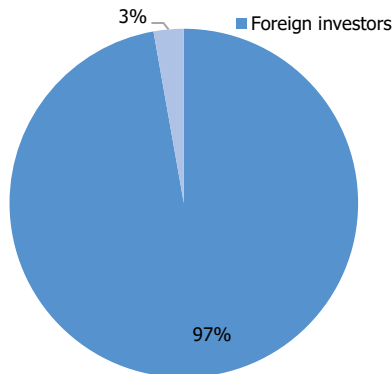
Source: Bloomberg, KIS

Most of Vietnam major ETFs are divested. Breaking down by ETFs, Vietnam recorded the first quarter of outflow since 1Q22. Particularly, more than 35% of major ETFs were divested, and the outflow pressure was high such as VFMVN30 ETF (USD27.5mn) and VanEck Vietnam (USD18.1mn).

Demand on foreign ETFs leads the inflow across Vietnam in 6M23. Although Vietnam was divested in 2Q23, the inflow was active and stayed at a high level in 6M23. Within 6M23, the inflow was occupied on 70% of total major ETFs. However, more than 90% of the total inflow was contributed by foreign ETFs, which the rate hike environment could negatively impact. The inflow across Vietnam started to diminish in 1Q23, marking that the rate hike environment has begun to impact the money flow. Although demand on foreign ETFs remained high in 6M23, the inflow across these ETFs have decreased since 4Q22, and the outflow on 2Q23 is the first sign for the slowdown of

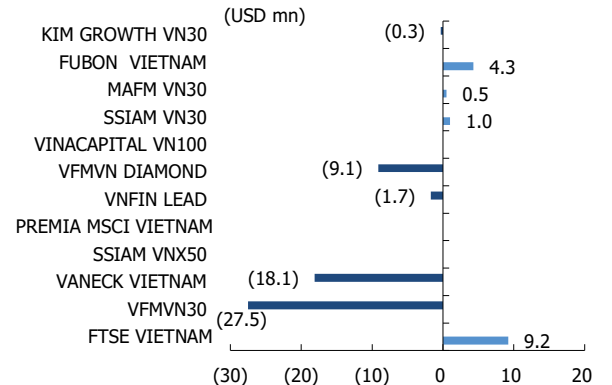
demand on major ETFs. In this case, the inflow across Vietnam could decrease in upcoming quarters due to the diminished of demand on foreign ETFs.

Figure 11. Ownership across Vietnam major ETFs



Source: Bloomberg, KIS

Figure 12. Money flow across Vietnam major ETFs

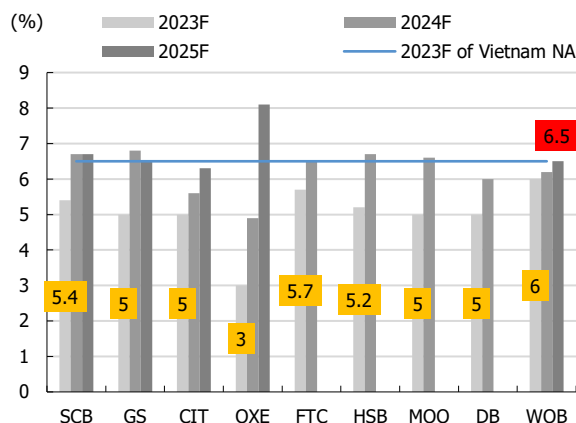


Source: Bloomberg, KIS

3. Transforming the Direction

Improve economic conditions. Despite 2Q23 GDP growth of 4.14%, this figure exceeded analysts' expectations such as 3.7% of Bloomberg Consensus. Moreover, this increase surpasses the GDP growth observed in 1Q23, indicating a potential stabilization of the economy. According to Bloomberg, Vietnam is expected to experience a growth rate of 5.32% in 3Q23 and 5.56% in 4Q23.

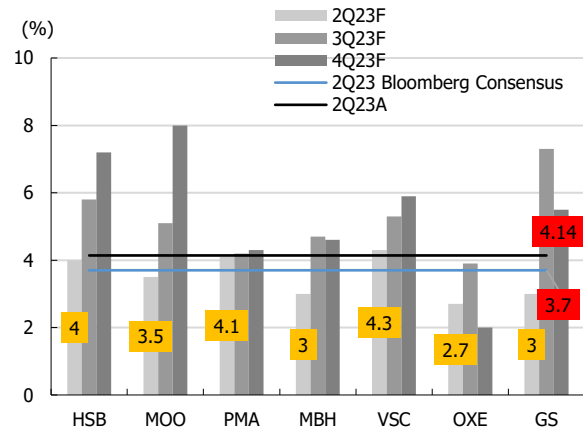
Figure 13. Vietnam economic growth by year



Source: GSO, KIS

Note: SCB: Standard Chartered, GS: Goldman Sachs Group, CIT: Citigroup, OXE: Oxford Economics, FTC: Fitch Ratings, HSB: HSBC Holdings, MOO: Moody's, DB: Deutsche Bank, WOB: World Bank

Figure 14. Vietnam economic growth by quarterly



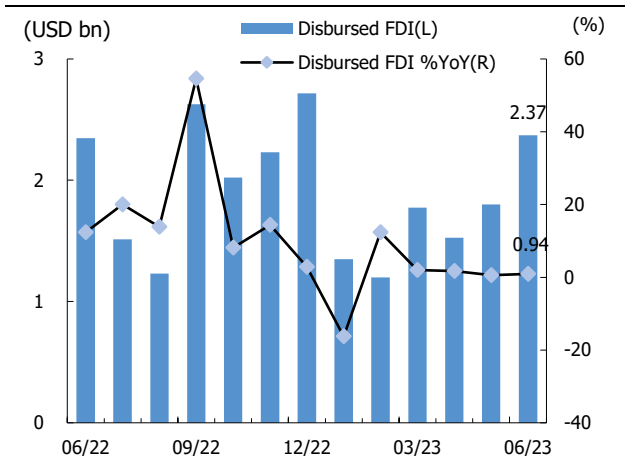
Source: GSO, KIS

Note: HSB: HSBC Holdings, MOO: Moody's, PMA: Pantheon Macroeconomic Advisors, MBH: Maybank Kim Eng Holdings Ltd, VSC: Vietcombank Securities Co Ltd, OXE: Oxford Economics, GS: Goldman Sachs Group

Several factors support the market in 2H23. The government has implemented various measures to bolster the economy, potentially leading to a GDP growth rate of 5.5%. These measures include the following (1) The government implements an expansionary fiscal policy through increased public investment. This has resulted in a significant increase in realized investment capital under the State budget by 20% YoY. (2) The State Bank of Vietnam has adopted a looser monetary policy by reducing operational interest rates. This has led to a reduction in lending interest rates. (3) International tourism continues to recover, with a notable increase in international visitors, particularly

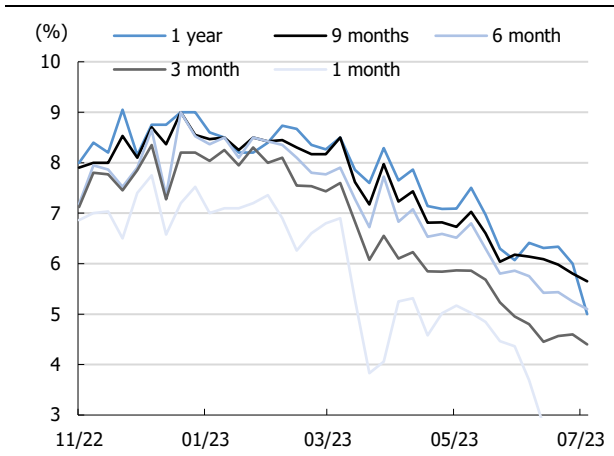
from China. In 6M23, the number of international visitors increased by 13 times compared to last year. (4) Foreign direct investment capital returns to Vietnam, indicating increased confidence in the country's economic prospects.

Figure 15. Monthly disbursed FDI



Source: GSO, KIS

Figure 16. Deposit interest rates

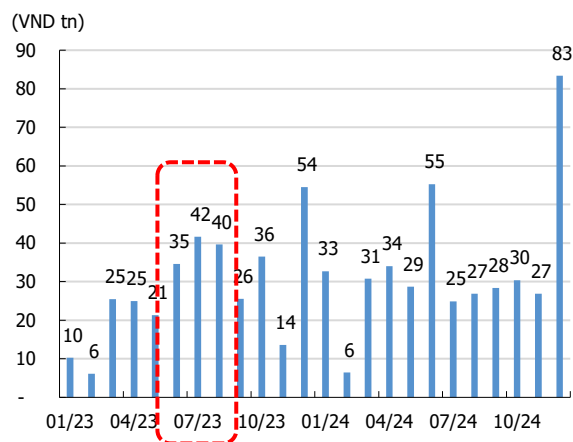


Source: Bloomberg, KIS

Pressure of the corporate bond market. The corporate bond market is poised to exert significant pressure on the financial system soon. Accordingly, there has been a slight improvement in market liquidity for corporate bonds in Mar 2023, but the issued volume remains low with an issue value of VND27tn. This becomes a more challenging situation as a considerable number of corporate bonds are set to mature between Jun and Aug. Specifically, bond maturities are expected to reach VND35tn in Jun, VND42tn in Jul, and VND40tn in Aug. With limited liquidity after Mar, companies have found securing sufficient funds to meet their bond maturities increasingly difficult.

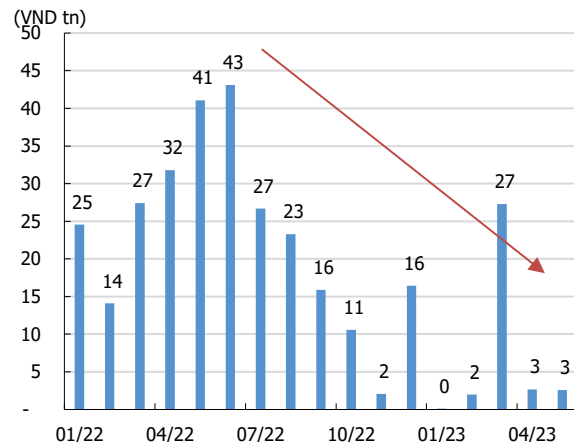
The Real Estate sector will experience the most significant financial strain among the industries due to its substantial bond maturity value. The Real Estate industry alone accounts for approximately VND109tn in bond maturities during the last seven months of the year, making up 44.4% of the total bond maturity amount.

Figure 17. Bond value to maturity by month



Source: VBMA, KIS

Figure 18. Value of corporate bonds issued

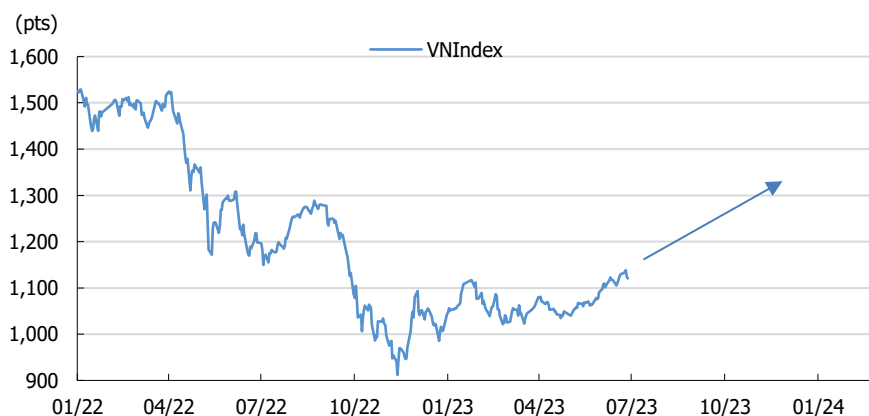


Source: VBMA, KIS

Confirm medium-term uptrend. The VNIndex moved within a narrow range of 1,020 and 1,080 points from Jan, indicating a consolidation phase or rectangle pattern. Therefore, the next uptrend of the index is defined by its breakout in Jun as the index closed above 1,080 points and 1,100 points. Based on the breakout from the rectangle pattern, the short-term target will be in the range of 1,140-1,160 points. The presence of high liquidity since May further confirms this signal.

2H23 target of 1,260-1,340 pts. The larger triangle pattern forms from November 2022 to June 2023, with an upper boundary of 1,100-1,120 points. The triangle pattern is considered neutral, and the breakout last Jun confirms the uptrend. Based on this signal, the medium-term target price range of 1,260-1,340 points in 2H23.

Figure 19. Forecast of VNIndex



Source: KIS

Start of eighth 3-year cycle. The seventh 3-year cycle of the VNIndex is analyzed with two possible scenarios: (1) a bullish scenario and (2) a bearish scenario, as mentioned in previous reports. In the bullish scenario, it is forecasted that the bottom of the seventh 3-year cycle was formed in Nov 2022. This implies a strong uptrend will emerge in 2H23. However, the bottom of the seventh 3-year cycle has yet to be established for the bearish scenario. It is expected to materialize between May 2023 and Sep 2023, drawing on the previous 1-year cycle's bottom in Jul 2022. The target price range for the next

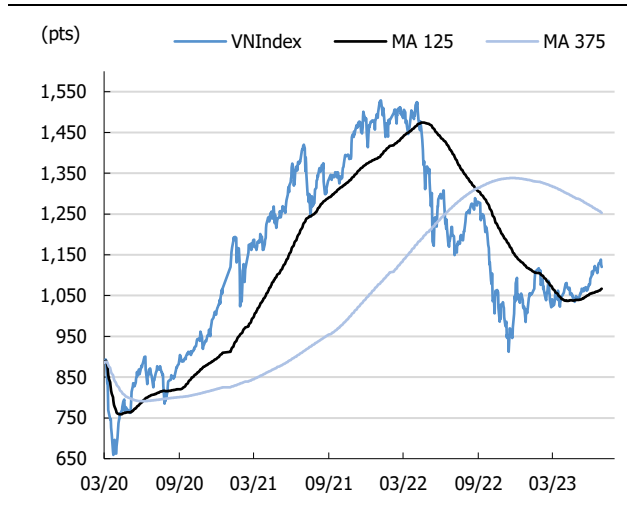
1-year cycle's bottom is projected to be between 780 and 910 points, with further details in the Jan strategy report. Considering the current conditions, the bullish scenario may be confirmed.

Table 1. Bottom and duration of 1-year cycle

No. of 3-year cycle	No. of 1-year cycle	Start bottom	End bottom	Duration (Months)
V	13	12/17/2014	01/21/2016	13
	14	01/21/2016	12/06/2016	10
	15	12/06/2016	07/11/2018	19
VI	16	07/11/2018	01/03/2019	5
	17	01/03/2019	03/24/2020	14
VII	18	03/24/2020	07/19/2021	15
	19	07/19/2021	07/06/2022	11
	20	07/06/2022	05-09/2023*	10-14*

*Expected period to form the 3-year cycle year
Source: KIS

Figure 20. Movement of 1-year cycle



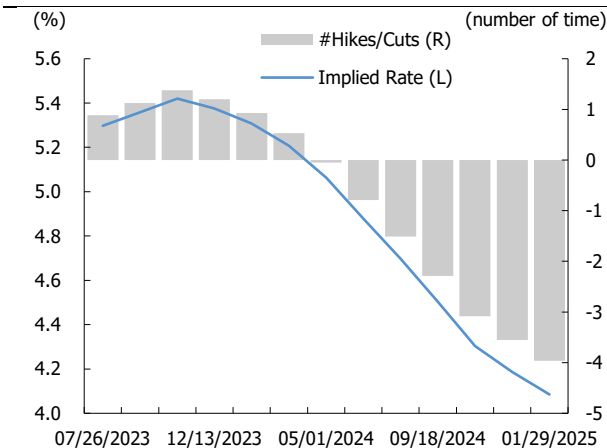
Source: KIS

II. Vietnam's economy: gaining momentum

1. The export performance to improve

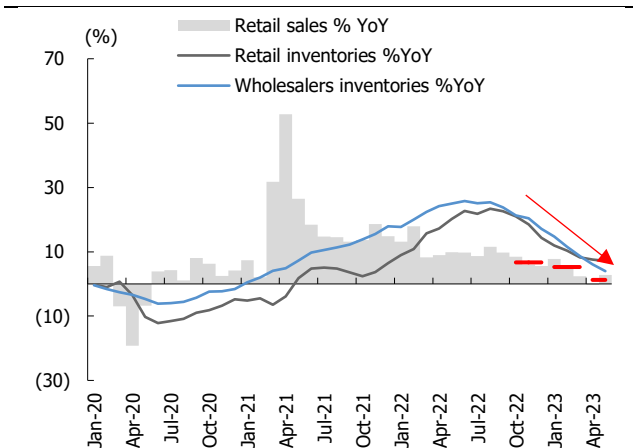
We predict the decline in export value to be softer in 3Q23 but the improvement needs more time to be material. Our concerns related to the slowdown in U.S. consumption and its consequence on Vietnam's export activities persist for 3Q23 although the global tendency of the interest rate hike has eased. It seems that the fed fund rate will increase two more times with a total amount of 50bps for two remaining quarters, leaving the target range of the fed fund rate reaching 5.50%-5.75%, before occurring any adjustments in the beginning of 2024. Under the phenomenon of increasing interest rates, consumption and investment decisions, including building up inventories, will be costly.

Figure 21. Effective fed fund rate trajectory



Source: Bloomberg, KIS

Figure 22. U.S. sales and inventories



Source: Bloomberg, KIS

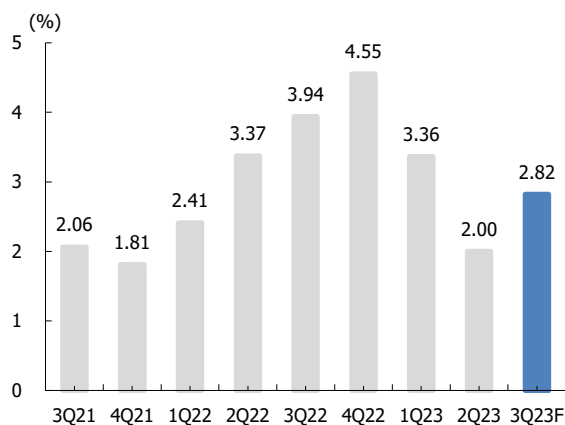
Regarding the current situation, the growth rate of U.S. retail sales kept sliding from around 10% in 2022-mid to 2.80% YoY in May. Sales in 3Q23 seem to slow partly due to the seasonality and the minimal improvement in consumer confidence. Therefore, reducing the excessive inventories will further be the focus of retailers. Related wholesalers and their suppliers in manufacturing hubs, including Vietnam, are more likely to receive fewer new orders, at least at the beginning of 3Q23. Hence, we forecast the production and sales of export-oriented enterprises in Vietnam to experience trivial improvement. For the Euro area, the situation is quite similar, even the ECB's monetary policies are expected to be more hawkish than colleagues under the serious inflation persistency, implying that the improvement for Vietnam's export to the region will take more time to be material.

In the opposite direction, despite its depressed performance in terms of the market assessment, the recovery momentum of China's domestic consumption tends to extend in 3Q23 and partly mitigates the downturn in Vietnam's export activities. Retail sales in China grew by 12.7% YoY, coupled with muted inflation. The current situation implies that supply and demand curves have expanded equivalently after Zerocovid-19. Therefore, we expect that the revenue of Vietnam's goods sold to China could remain its growth momentum for the next quarter.

2. Inflation expected to rise in 3Q23

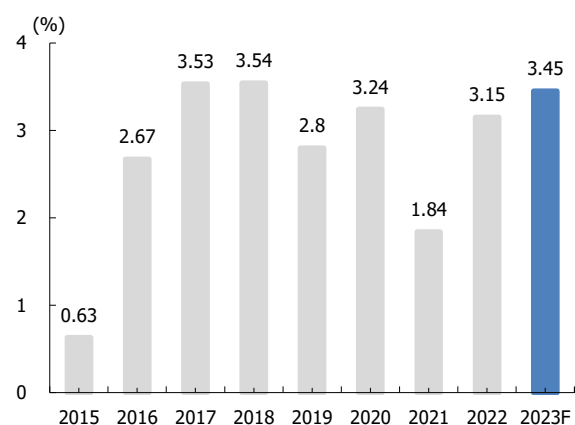
We anticipate that the Consumer Price Index (CPI) will continue to accelerate in the third quarter of 2023 to around 2.8%. Moreover, we have revised our forecast of average CPI from 4.3% in the last forecast to 3.45% due to subdued domestic demand resulting from economic challenges. However, the government is actively advocating fiscal policies that have the potential to contribute to inflationary pressures in the second half of 2023.

Figure 23. Quarterly CPI



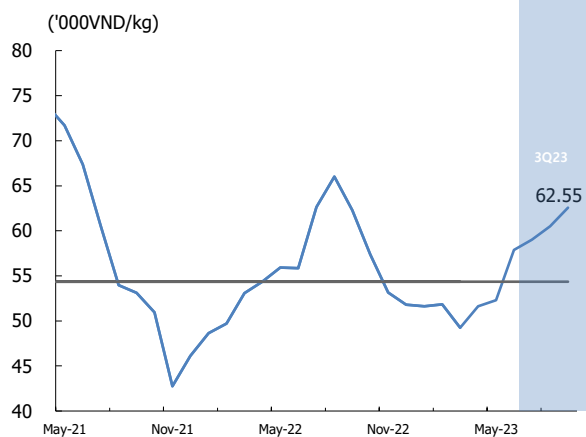
Source: GSO, KIS

Figure 24. Average CPI by year



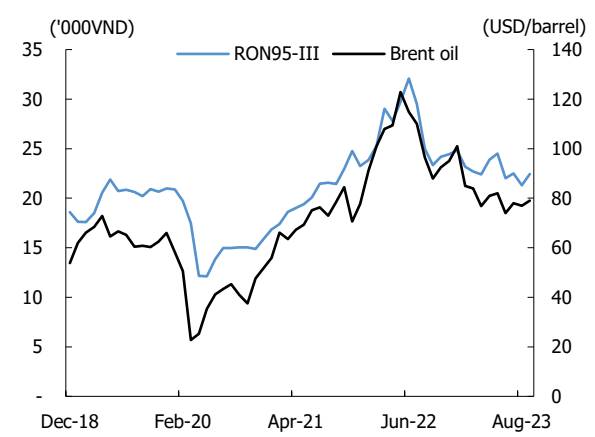
Source: GSO, KIS

Figure 25. Domestic pork price



Source: channuoivietnam, KIS

Figure 26. Domestic gasoline and Brent oil



Source: MoIT, Bloomberg, KIS

According to KIS's forecast, the FFS index (food and foodstuff), which carries the highest weight in the CPI's basket (33.56%) is expected to keep rising in the third quarter of 2023. As aforementioned in previous reports, the increase in prices of live hogs can be attributed to the occurrence of African swine fever in certain areas, starting in March 2023, resulting in a localized decrease in production.

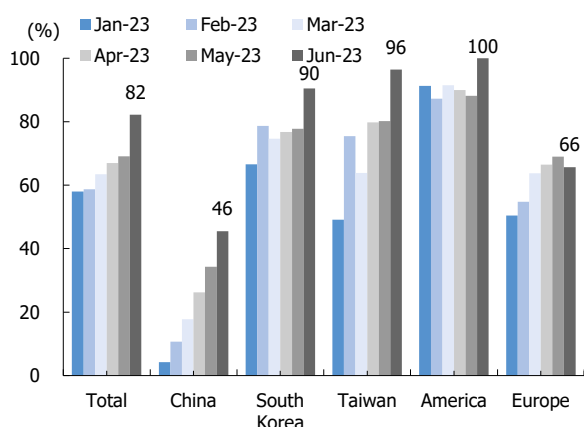
However, the rise in pork prices will be constrained by the current low purchasing power in the market and the financial difficulties faced by consumers. KIS predicts that oil prices won't heavily impact traffic and inflation in the second half of 2023. The Energy Information Administration (EIA) recently lowered their forecast for oil prices from USD85 per barrel to around USD79.50 per barrel by

the end of 2023. China's expected economic rebound, which would have boosted oil prices, is faltering. Furthermore, in the third quarter, the education index will significantly rise as students return to school, mainly due to increased expenses for fees, stationery, and study materials. The National Assembly's Resolution 69/2022/QH15 will raise the base salary for private and public employees by 20.8% from 2H23, impacting inflation in the upcoming quarter.

3. Decelerating retail sales

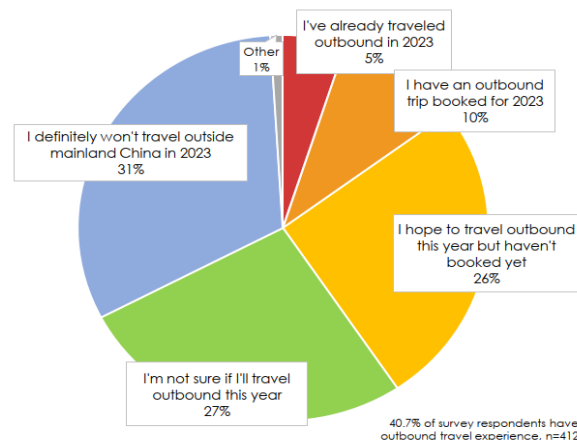
In 3Q23, tourism revenue is expected to be the main driver supporting total retail sales (accounted for 16.14% of total retail sales in 2019) as foreign tourism rebounds. By June 2023, total foreign arrivals to Vietnam reached 82% of the 2019 levels, with significant recovery seen in South Korean, Taiwanese, and American tourists at 90%, 96%, and 100%, respectively. However, the majority of Chinese travelers, accounting for 84%, still have no plans for outbound travel according to a survey by Dragon Trail International. Also, Vietnam is not among the top 10 destinations for Chinese visitors while Thailand is the most desirable travel destination for 31.8% of the respondents. Therefore, the full recovery of Chinese tourists would not materialize in 3Q23, decelerating travel-related revenue growth.

Figure 27. Inbound tourists by country of origin as % of 2019 levels



Source: GSO, KISVN

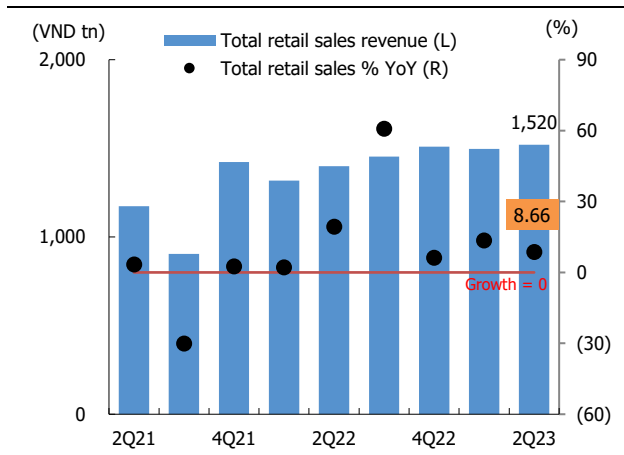
Figure 28. China mainland's 2023 outbound travel plan



Source: Dragon Trail International, KISVN
Note: surveyed data as of April 2023

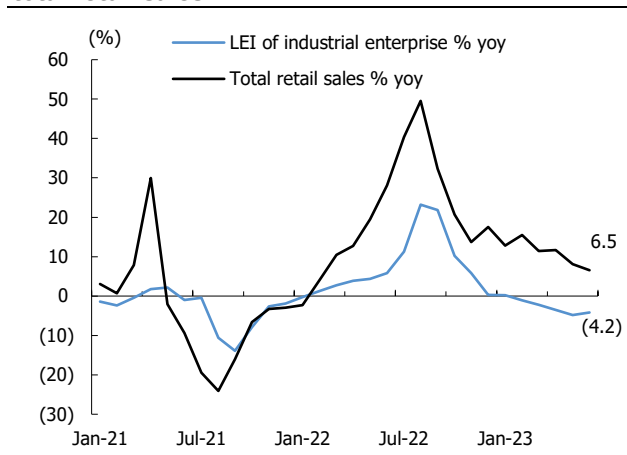
The contraction in the labor employed index (LEI) of industrial enterprises for the past five months would reduce total retail sales (strong correlation of 80.57%) by lowering the disposable income of workers. This trend is expected to continue as weak manufacturing activities persist (PMI underwater for consecutive four months). However, there are some positive factors to consider. The implementation of a 2% VAT cut, amounting to VND 24.00tn, and a 20% increase in the base salary for state workers, both effective in 2H23, could potentially boost retail sales. Despite these positive factors, the overall outlook remains unfavorable, and we anticipate that total retail sales will experience a deceleration in YoY growth, ranging from 6% to 8% in 3Q23.

Figure 29. Quarterly performance of total retail sales



Source: GSO, KISVN

Figure 30. Industrial labor employed index (LEI) vs total retail sales

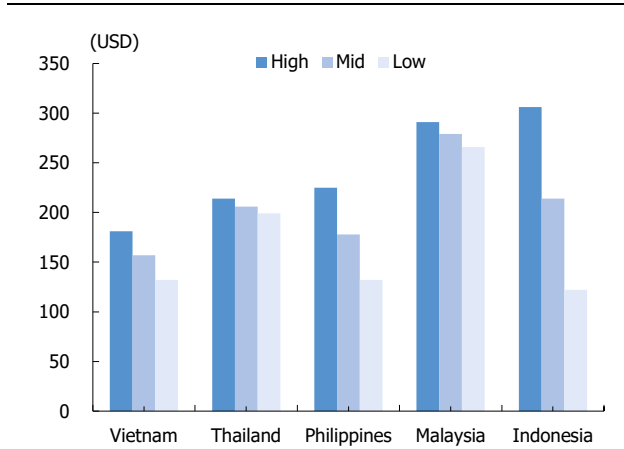


Source: GSO, KISVN

4. Vietnam remains the attractive FDI destination

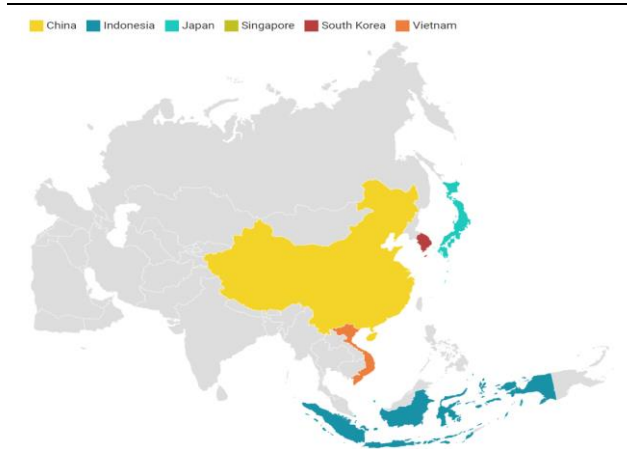
We expect foreign direct investment (FDI) to recover in Vietnam, supported by some factors as follows.

Figure 31. Monthly minimum wages in ASEAN



Source: Asia briefing, KIS

Figure 32. Vietnam strategic location



Source: KIS

- **Public investment for infrastructure development**, along with the recently approved National Power Development Plan VIII, and the supportive policies of the Government for socio-economic recovery and development, will serve as significant driving forces in attracting long-term foreign direct investment (FDI).
- **Cheap labor cost advantage**: Low-cost labor in Vietnam is a magnet for foreign manufacturers compared to its competitors. With a large labor market of around 52 million people and a high labor participation rate of 76%, Vietnam provides a significant workforce. Additionally, the monthly labor cost in Vietnam is approximately USD 171, significantly lower than its competitors.
- **Strategic location**: Vietnam's strategic location in Southeast Asia provides access to major shipping routes and markets in China, Japan,

and South Korea. The Port of Singapore, a vital global trade hub, further enhances Vietnam's trade and logistics capabilities, facilitating the transportation of goods and connecting to over 600 ports worldwide. This advantageous combination of Vietnam's location and Singapore's port capabilities offers substantial benefits for businesses involved in regional and global trade.

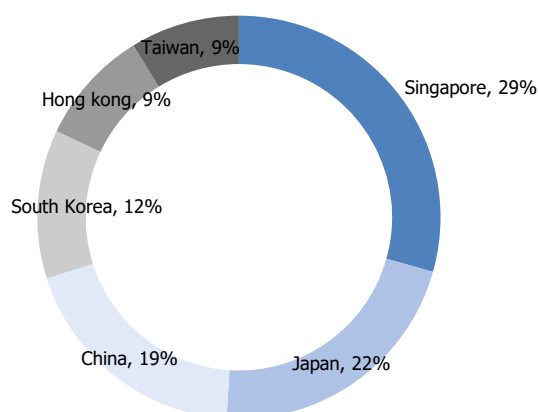
- **The stabilization of USDVND:** According to the March meeting minutes of the Federal Reserve, two additional rate hikes may be necessary this year to address high inflation, potentially raising rates to 5.6%. However, there are currently no significant exchange rate pressures due to various factors. Firstly, Vietnam is expected to receive substantial remittance inflows amounting to VND19.4bn in 2023, as well as USD inflows from recent mergers and acquisitions. Secondly, The State Bank of Vietnam has also purchased around USD6bn, contributing to the abundant supply of dollars. Thirdly, Vietnam's trade surplus in the first half of 2023 was estimated at USD12.25bn, further bolstering USD inflows. These factors play a crucial role in stabilizing the exchange rate and attracting foreign direct investment inflows.

Table 2. Notable FDI projects in Vietnam

Project	Origin country	Sector	As of December 2022 (USDbn)	Location
Samsung	Korea	Electronics	22	Thai Nguyen
Formosa	Taiwan	Steels	13	Ha Tinh
Sumitomo	Japan	Finance	10.3	Ha Noi
LG	Korea	Electronics	5.3	Hai Phong
SCG	Thailand	Chemical	5	Vung Tau
Wintek	Taiwan	Electronics	1.1	Quang Ninh
Gortek	China	Electronics	0.6	Bac Ninh

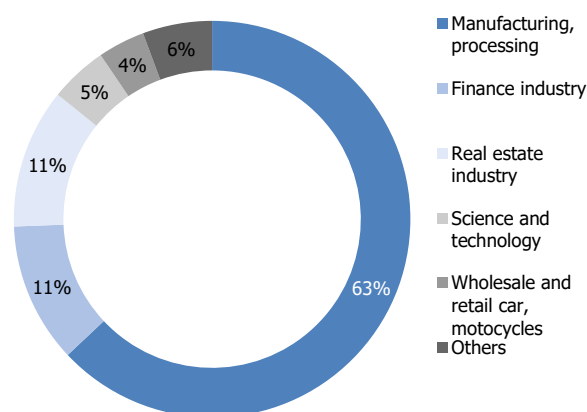
Source: GSO, MPI, KIS

Figure 33. FDI by country



Source: MPI, KIS

Figure 34. FDI by industry



Source: MPI, KIS

The processing and manufacturing sector will continue to be the primary recipient of foreign direct investment (FDI) inflows. The key factor that makes this sector appealing to foreign capital is Vietnam's advantageous position in terms of labor resources, political stability, and extensive economic and international integration.

Global minimum tax rate

In the short term, the implementation of a global minimum tax rate of 15% on FDI starting from 2024 will remain a major challenge for Vietnam. It is anticipated that the tax will cause concern about a strategic disturbance in investment locations, the way multinational companies operate, and FDI attraction strategies.

However, The Government is expected to propose policy solutions and a roadmap for the application of the global minimum tax as follows.

- Provide direct assistance for investment expenses, research and development expenditures, as well as support for the production of prioritized goods to attract investments and stimulate investment in tangible assets and research and development endeavors.
- Extend support for investment costs related to the construction of environmental protection infrastructure and activities aimed at reducing emissions to promote environmental conservation efforts.
- During periods of economic downturn, consider offering support for expenses associated with employee welfare, such as constructing worker dormitories, kindergartens, and medical facilities to cater to the needs of industrial park employees.
- Provide support for expenses aimed at reducing production costs, including subsidies for electricity and transportation for workers.

Macro scorecard

	23-Feb	23-Mar	23-April	23-May	23-Jun	3Q22	4Q22	1Q23	2Q23	2019	2020	2021	2022
Real GDP growth (%)						13.67	5.92	3.21	4.14	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.41	2.35	3.43	1.98	2.57	4.67	8.96	5.45	13.43	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.28	2.32	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	25.88	29.57	27.54	29.05	29.30	96.48	89.50	79.17	83.42	263.6	282.7	335.7	371.85
Import (USD bn)	23.58	28.92	26.03	26.81	26.71	90.71	85.07	75.10	76.01	254.4	263	331.1	360.65
Export growth (%)	10.97	(14.78)	(17.15)	(5.86)	(11.41)	17.22	(6.07)	(11.90)	(14.16)	8.16	7.02	18.74	10.61
Import growth (%)	(6.65)	(11.10)	(20.54)	(18.44)	(16.94)	8.12	(3.90)	(14.67)	(22.30)	7.41	3.81	25.9	8.35
Inflation (%)	4.31	3.35	2.81	2.43	2.00	3.32	4.41	4.18	2.41	2.79	3.24	1.84	3.15
USD/VND	23,785	23,471	23,465	23,477	23,525	23,712	23,633	23,471	23,525	23,173	23,126	22,790	23,650
Credit growth (%)	0.31	1.96	3.04	3.04	3.36	10.47	12.87	1.61	3.36	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.39	3.24	3.21	3.28	3.50	4.39	5.08	3.54	3.50	3.37	2.01	2.11	5.08

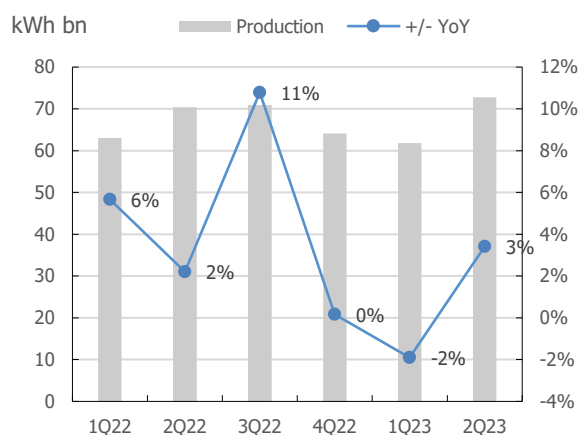
Source: GSO, Bloomberg, FIA, IMF

III. Opportunities are widespread among industries

1. Power: El-Nino favors thermal power in 1H23

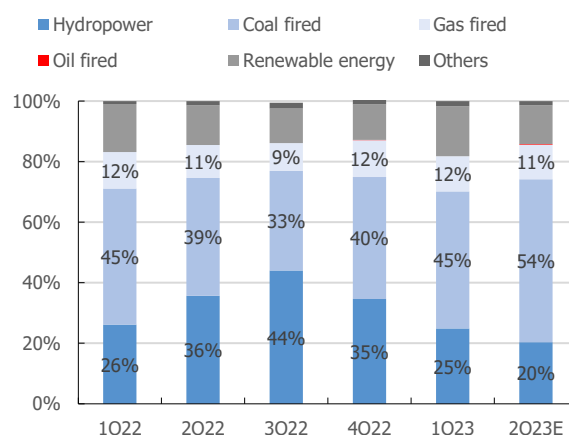
El-Nino favors thermal power in 1H23. EVN cited the country's electricity production output up to 107.42bn kWh, +2.6%yoy in 1H23 but the growth varied from each plant. Of which, we saw the thermal-fired powers yielded the most.

Figure 35. Power production



Source: EVN, KISVN

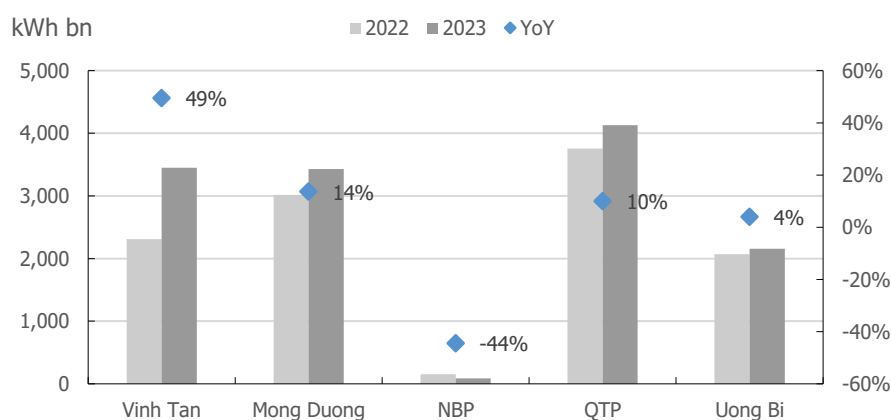
Figure 36. Share of thermal power mobilization increased in 1H23, while decreasing by hydro power



Source: EVN, KISVN

- The El-Nino cycle is advantageous for the thermal power sector. The share of the thermal power volume accounted for 62% of the production structure, a 12% rise (figure 35 & 36). Notably, in 2Q23, National Load Dispatch Centre (NLDC) was compelled to deploy peak loads from the southern oil-fired power plants (Thu Duc, O Mon, Can Tho, and Ca Mau), which have high production costs (the COGS is more than VND6,000 per kWh), to make up for the system output shortfall due to a large supply scarcity in the North. The majority of coal-fired power firms that have disclosed statistics, and they all indicate positive growth of generating output in 1H23: Vinh Tan (5M23) +49%yoy, Mong Duong (5M23) +14%yoy, QTP (1H23) +10%yoy, Uong Bi (1H23) +4%yoy.
- From 3Q22 until the end of 2Q23, hydropower production tended to decline. The hydropower group mobilized 22% on average in 1H23, which was 8% less than the 2022 (30%) (figure 35 & 36).

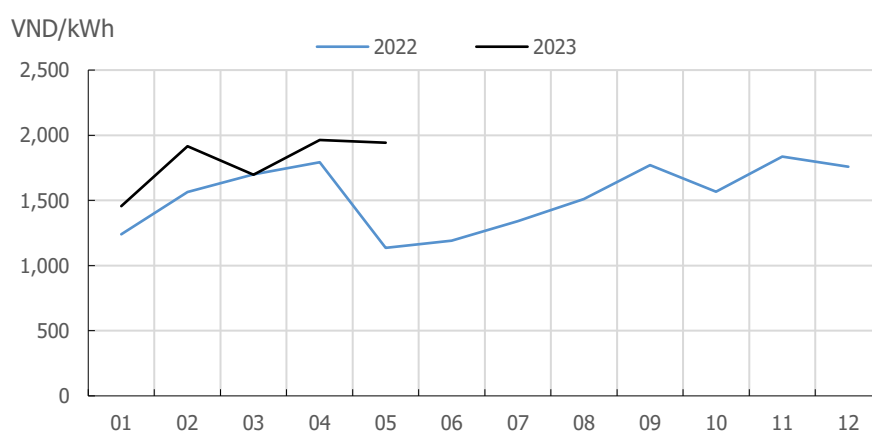
Figure 37. Some coal power plants recorded the production growth in 1H23



Notes: Vinh Tan, Mong Duong, NBP: accumulated data for 5 months, QTP, Uong Bi: accumulated data for 6 months, Source: GENCO 1, GENCO 3, KISVN

In 1H22, the price of CMG is rising. However, a slight decline is forecasted in 3Q23. Due to the increasing load demand amid (1) hydropower groups' supply reduced, and (2) a number of sizable thermal power facilities encountered issues or were undergoing repair, the average CMG price went up by 21.7% yoy to VND1,810 per kWh in 5M23 (figure 38).

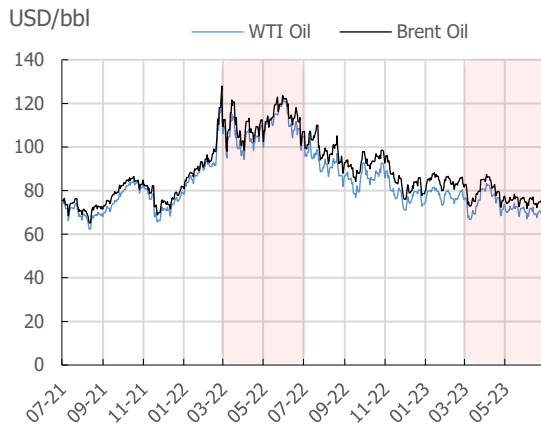
Figure 38. The CMG price has positively trended in the first months of 2023



Source: GENCO 3, KISVN

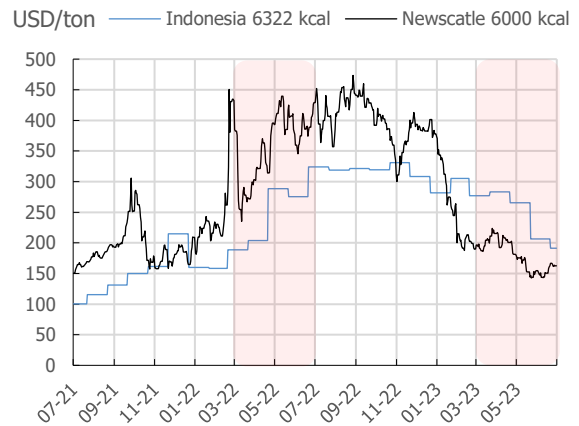
In 3Q23F, we believe that CMG's price could down slightly thanks to a combination (1) some large thermal power plants could operation (Ninh Binh-S2, Mong Duong 1-S2, and Nghi Son 1-S1), improving system reserves. (2) the 2Q23 coal inventory could be anchored at a cheap cost. As of the end of June 23, the price of imported coal from Indonesia and Newcastle was at USD191.3 per ton (-32% YTD, -41%yoy) and USD166.9 per ton (-58%ytd, -56%yoy), respectively (figure 40). That facilitates coal-fired suppliers to offer more competitive prices in 3Q23F.

Figure 39. Oil prices are on downward trend



Source: Bloomberg, KISVN

Figure 40. Thermal coal prices are on downward trend



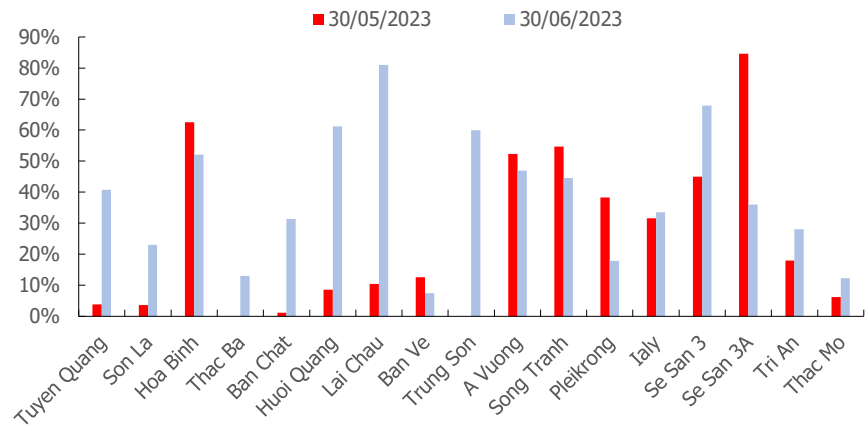
Source: Bloomberg, KISVN

In 2H23, thermal power plants could deliver positive growth. *El-Nino high probability forecast:* The water level in hydroelectric reservoirs increased from the end of June against May (the time of extreme heat) thanks to the rainy season in 3Q23 (figure 41). In comparison to 1H23, it might reduce the mobilization of thermal power in 3Q23. However, we anticipate that the amount of electricity produced by thermal power plants could be higher than 3Q22 as the El-Nino probability could remain high level in 2H23. Most of next months could be higher 90%. It's also a favorable condition to support CMG prices to stay at higher than 2Q22.

Based on the rationales, we forecast the coal power companies could keep robust growth in 3Q23 profit especially, the Northern coal power plants as QTP, HND. In terms of stocks we recommended before, included NT2 (BUY) and GEG (BUY). We don't appreciate on potential for their earnings growth in 3Q23.

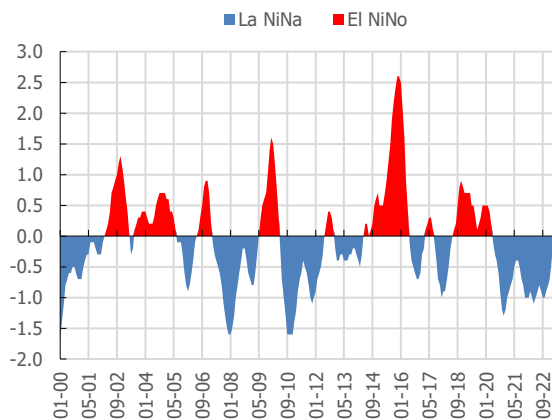
- **NT2:** We maintain BUY rating for long term investment but NT2 might experience some challenges in short-term: (1) volume mobilization is at low level in August 23. Additional, (2) the plan of factory overhaul is from mid-September and overhauling expense is rough VND400 bn which will be depreciated in three years.
- **GEG:** We maintain BUY rating for long term investment but GEG might experience some challenges in short-term: TPD1 project started the operation at the end of June 23 (rainy season) and the price is likely to be low ~ 7 cent US per kWh. Therefore, it couldn't contribute much in revenue and profit in 3Q23 yet. While it's holding a high debt ratio amid high interest rate environment at the moment (~VND9,709 bn, D/E: 1,7x at the end 2Q23). This's likely to keep putting pressure on GEG's earnings in 3Q23.

Figure 41. The useful capacity of hydroelectric reservoirs has improved at the beginning of the rainy season



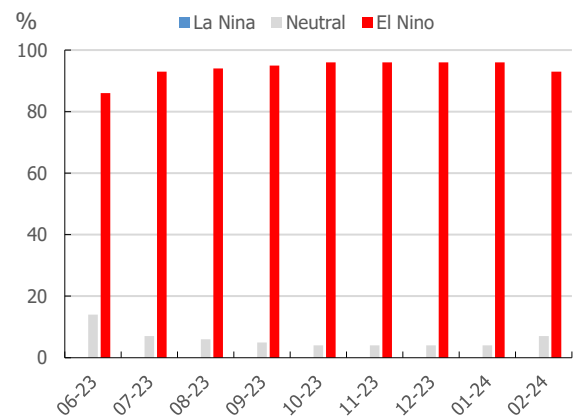
Source: EVN, KISVN estimates

Figure 42. High probability of El-nino in 2023-2024



Source: NOAA.GOV, KISVN

Figure 43. ENSO probability is high in 2H23

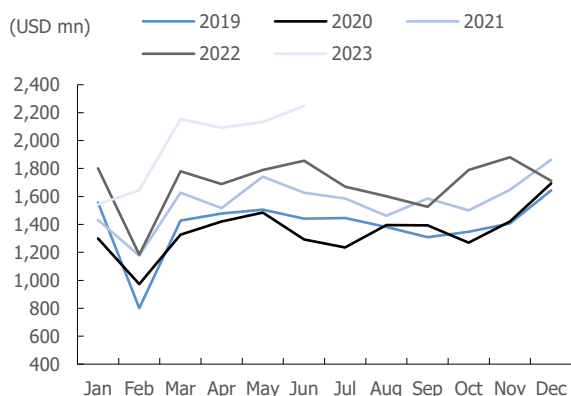


Source: NOAA.GOV, KISVN

2. Agriculture: China reopening boosted agriculture export

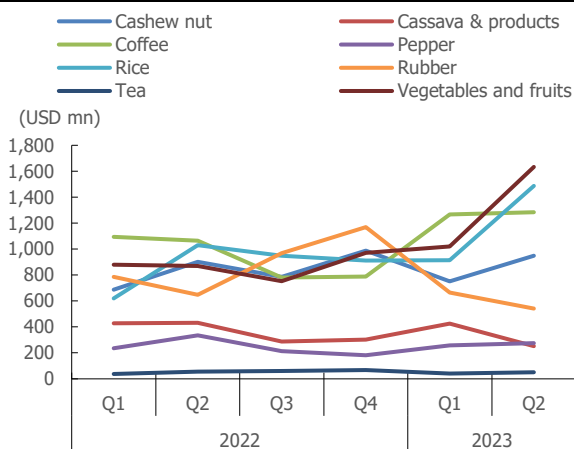
2Q23 crops exporting value upped 21% yoy and 21% qoq to USD6.4bn, contributed by the strong growth of vegetable and rice exporting value. Particularly, vegetable exporting value surged by 110% yoy to USD1.6bn in 2Q23, mainly driven by the rocketing import from China by 248% yoy to USD1.2bn. Cashew also witnessed a recovery of 9% yoy and 26% qoq, mainly to USA, China and Netherlands.

Figure 44. Export value of crops



Source: GSO, KIS

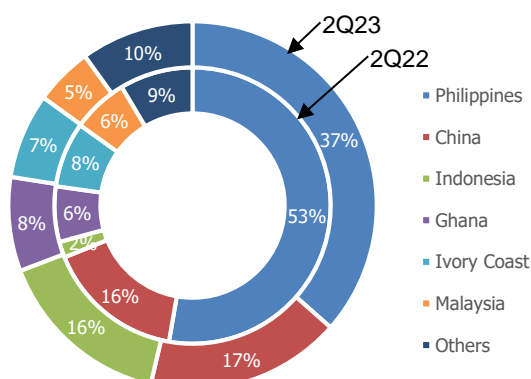
Figure 45. Export value of crops by product



Source: GSO, KIS

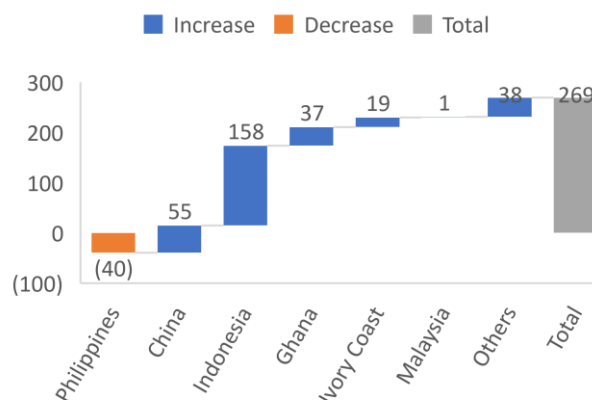
Rice prices kept soaring in 2Q23. Vietnam 5% broken rice reached USD539/tonne, slightly higher than that of Thailand (USD517/tonne) and India (USD410/tonne) in Jun-23. El Nino has started since this Jul-23, with potential droughts in South East Asia and floods in Southern USA. Vietnam can benefit from high global demand and less severe competition as, the 2nd largest rice exporter, Thailand's rice yields were projected to be impacted by the heat in 2023. Projecting an upcoming lower-than-average rainfall, the Kasikorn Research Centre expects the Thailand's rice output in 2023 may drop by 6% yoy to between 25.1 and 25.6 million tonnes. On the other hand, India extended the rice export curbs of broken rice and imposed 20% tax on white rice exporting since Feb-23, except for selective exporting to several African countries and Indonesia. We anticipate that Vietnam will exceed the rice exporting target of 7 million tonnes in 2023, however, hard to reach 8 million due to constant capacity and impact of the heat. Current high rice price is a good base for pre-cultivating terms in cooperation contracts between farmers and corporations for the Summer-Autumn season and Seasonal harvesting season in Vietnam.

Figure 46. Rice exporting value by importer



Source: Vietnam Customs, KIS

Figure 47. Rice yoy export value changes by importers in 2Q23 (USDmn)

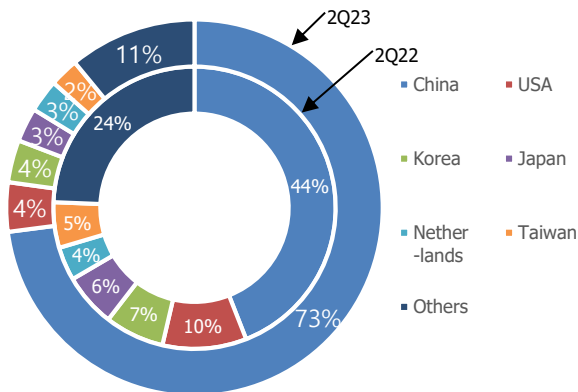


Source: Vietnam Customs, KIS

In 2Q23, vegetable exporting value surged by 88% yoy and 60% qoq to USD1.6bn. China contributed the majority of 71% of agriculture products imported from Vietnam. Key products exported to China in 2Q23 were durian, sweet potatoes, bananas, etc. Especially, decreasing yields of dragon fruit due to drought in China led to high numbers of import orders from Vietnam. Durians

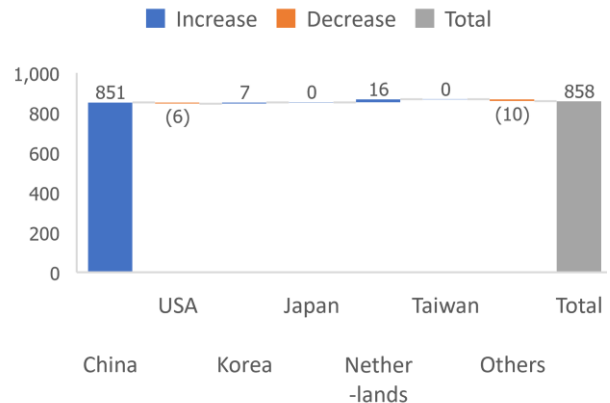
orders to China exploded at high prices, as other planting fields of China's corporations in Laos and Hainan island needed years to be fruitful. The export sales are expected to be at a high level in 3Q23 based on a high number of orders, peak season of tropical fruits mango, orange, jackfruit, avocados etc. and durian in Highlands.

Figure 48. Vegetable exporting value by market



Source: Vietnam Customs, KIS

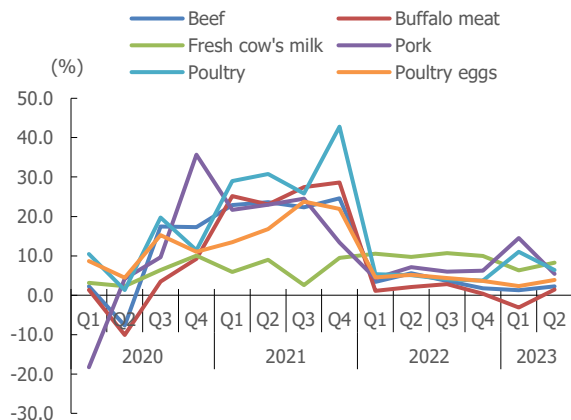
Figure 49. Vegetable yoy export value changes by market in 2Q23 (USDmn)



Source: Vietnam Customs, KIS

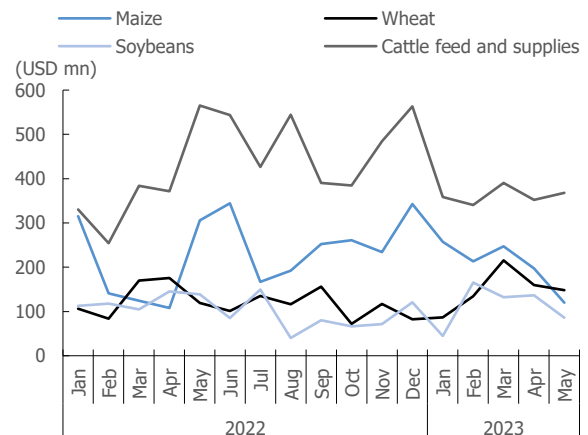
2Q23 feeding industry bounced back from the bottom. Decreased supply encouraged the rise of pork prices from around VND50,000/kg in Apr-23 to VND65,000/kg in the middle of Jul-23. Big corporations can gain market share from canceled households business. 70% of animal supply in Vietnam's feeding is from importing, thus, declining global cereal prices will help widen the gross profit margin. Global maize/wheat/soybean daily price in May-23 fell 22%/30%/18%. We expect the maize price of Argentina, the key maize exporter to Vietnam, will keep falling thanks to recovered yields after La Nina. Wheat prices from Australia, the key wheat exporter to Vietnam declined by 18% yoy in Jun-23 and are expected to back to the long-term average level. Otherwise, lower logistic costs and decreasing interest rates may somehow improve the net profit margin in 3Q23.

Figure 50. Livestock & poultry production yoy growth



Source: GSO, KIS

Figure 51. Imported value of cattle feed and supplies



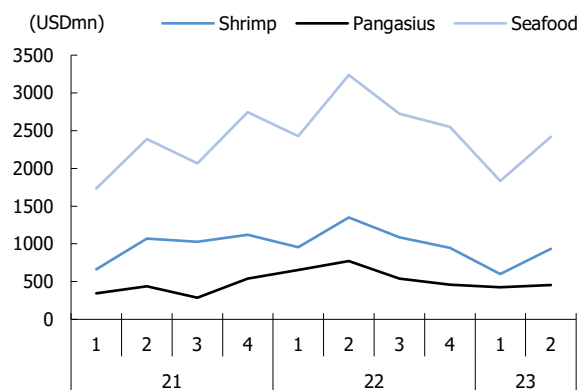
Source: GSO, KIS

3. Seafood: export outlook would be slightly improved

2Q23 seafood export was damped compared to yoy high base. The seafood recorded USD2,418mn in 2Q23, decelerated by 25% yoy since the export value to many markets decreased, especially key markets including US, EU, and China. Of which, shrimp and pangasius products export dropped strongly by 31% yoy and 41% yoy compared to a high base in 2Q22. As a result, we projected seafood sector could slump by 10-40% yoy in revenue to the fall in export volume to key markets.

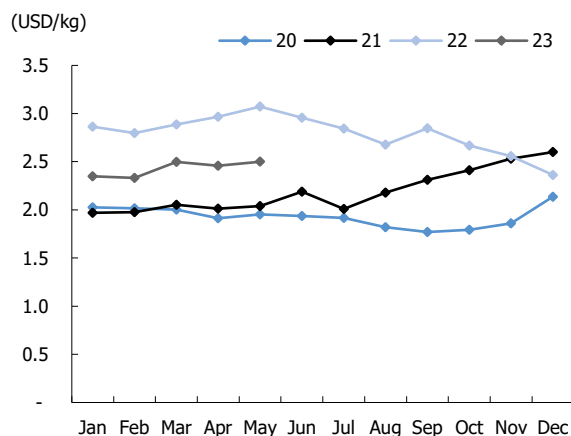
In detail, we estimate that the revenue of VHC is posted VND2,734bn (-35% yoy), and FMC posted VND1,044bn (-26% yoy). Also, the downtrend of selling price yoy outpaced the drop of raw material price yoy, dragging exporters' margins lower yoy. As such, we projected the NPAT of VHC could be VND300bn NPAT (-35% yoy), and FMC is posted at VND48bn (-60% yoy) in 2Q23.

Figure 52. The export value of key products decreased in 2Q23



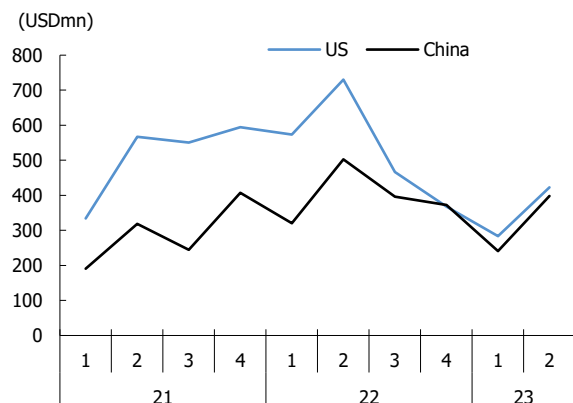
Source: VASEP, GSO, KISVN

Figure 54. 5M23 ASP of pangasius was lower yoy



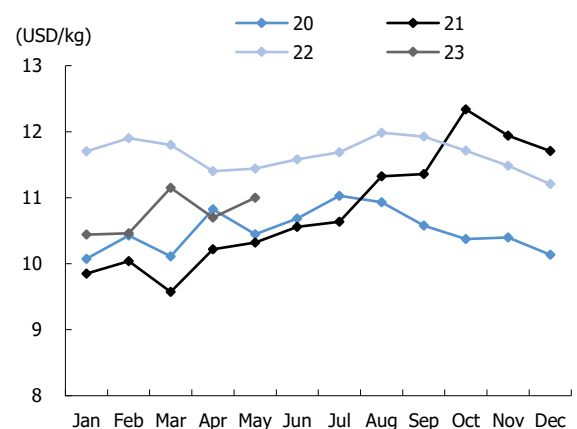
Source: VASEP, KISVN

Figure 53. Export value to key markets decreased yoy in 2Q23 but improved compared to few last quarters



Source: VASEP, GSO, KISVN

Figure 55. 5M23 ASP of shrimp imported to US was lower yoy



Source: NOAA, KISVN

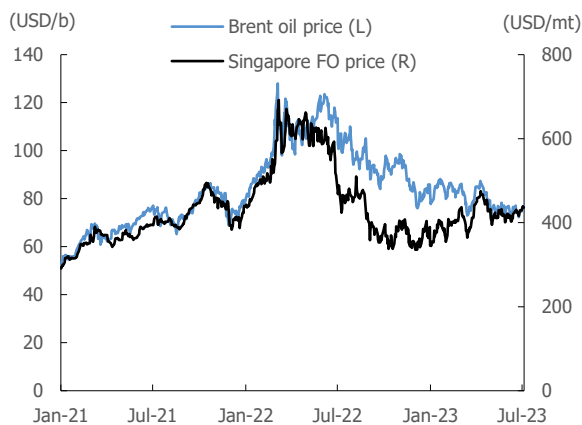
3Q23 seafood export outlook would be slightly improved compared to 1H23. We expect that the seafood demand in US market would gradually improve mainly due to the lower stockpile, compared to 1H23, according to VASEP. However, 1H23 the demand of China market after reopening events was not strong as we expected. As such, amid the unpredictable of Chinese

economy in 2H23, we cautiously consider that the seafood export to this market could slightly growth in 3Q23. We maintain NEUTRAL rating on seafood industry and HOLD rating on VHC, BUY rating on FMC.

4. Oil & Gas: Earnings dropped sharply yoy in 2Q23

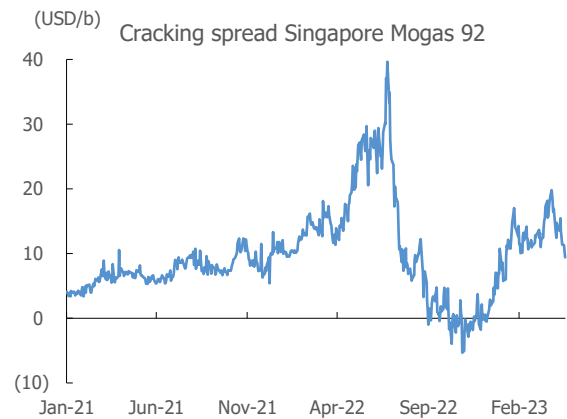
Cooling down oil prices in 2Q23. The futures price for Brent crude oil was at USD75/barrel (USD/b) as of end Jun-23, and averaged at USD77.7/b in 2Q23, USD5/b drop vs 1Q23 average of USD80/b. Average crude oil prices were lower by 30.6% yoy vs 2Q22 average, reflecting concerns over the health of the global economy. Prices were pressured lower by weak industrial activity and higher interest rates, that have led to worry about a downward shift in oil demand growth.

Figure 56. Brent oil prices eased in 2Q23



Source: Bloomberg, KISVN

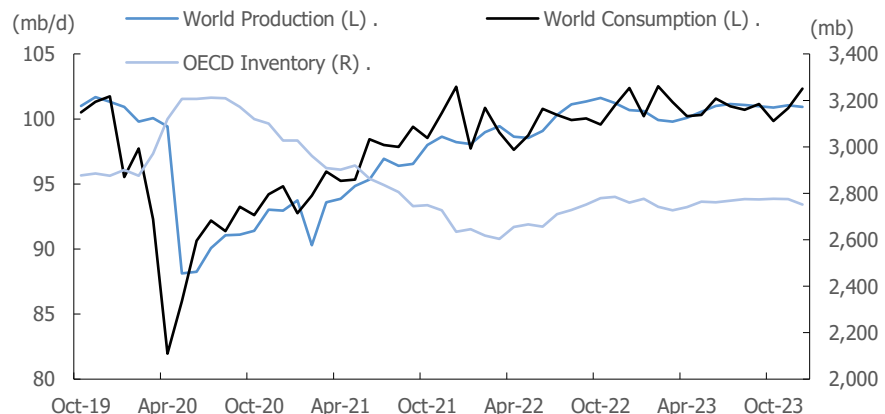
Figure 57. Crack spreads recovered strongly in 1H23



Source: Bloomberg, KISVN

Global oil demand accelerated, led by China's recovery. In May, IEA projects world oil demand to rise by 2.2 mb/d yoy to 102 mb/d in 2023F backed by non-OECD gains, especially China's demand recovery, while the OECD is set to return to growth in 2Q23, its average 2023 increase of 350 kb/d. IEA forecasts global oil supply to expand by 1.2 mb/d for the whole of 2023, though OPEC+ oil supply is set to fall by 850 kb/d in 2H23F. IEA estimates OECD oil stocks to fell to a six-month low of 2,753 mb in late 2Q23.

Figure 58. Crude oil supply-demand of the world

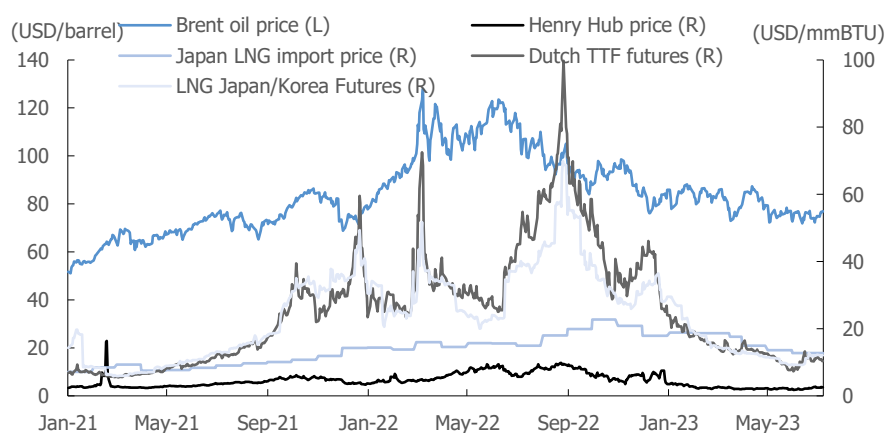


Source: Bloomberg, KISVN

GAS's prelim earning plunged strongly yoy due to oil price ease in 2Q23.

GAS released 2Q23's a prelim VND23.9tn revenue (-13.7% yoy), and VND2.6tn NPAT (-49% yoy) due the lack of favorable comparison base. For 1H23, GAS achieves a VND45.1tn revenue (-16.9% yoy), and a VND6.0tn PAT (-30.2% yoy), fulfilling 49% and 46% our forecast, amid the softened dry gas volume of 3.9bn m3 (-2.5% yoy) due to weakening of gas fields. Besides, Spot and future Asia LNG prices declined by 80% yoy from the peak in 2Q22 to nearly USD 10/MMBTU as of end-Jun, 23 due to less competition from Europe together with loosening regional supply demand fundamentals. Favorable LNG prices spurred GAS to import LNG in early July to fill high demand in Vietnam and we view that is the long-term growth key driver of GAS.

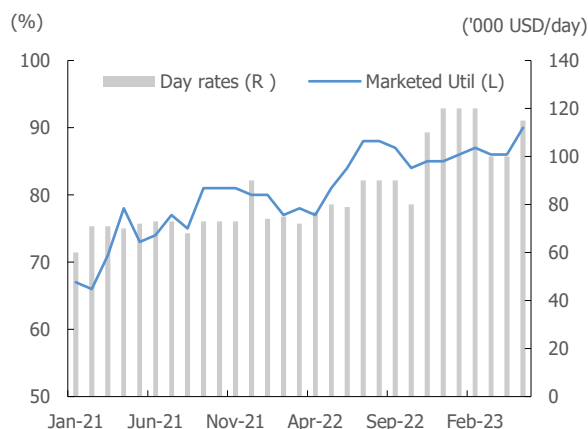
Figure 59. LNG prices dropped sharply in 1H23



Source: Bloomberg, KISVN

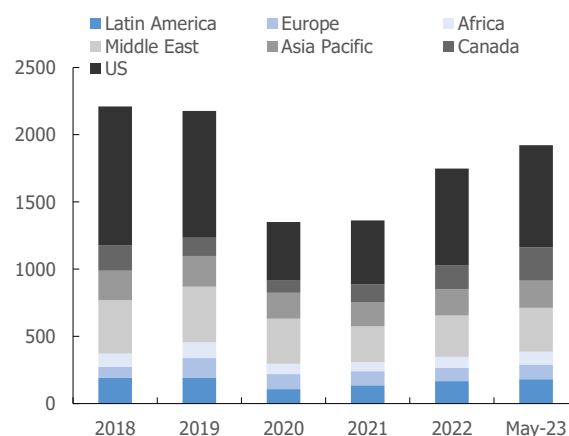
Stock prices could continue to be positive in 3Q23F. Midstream and downstream stocks such as GAS and BSR underperformed the VN-index in 2Q23 due to the peaked earnings effect in 2Q22. In contrast, upstream companies such as PVD and PVS outperformed due to Block B – O Mon approval expectations, wind offshore potential as well as high jack-up date rate. We believe that Midstream and downstream stock prices will improve in 3Q23F due to the fading dropped earnings effect while upstream stocks could keep positives. We maintain OVERWEIGHT rating on O&G industry and BUY rating on PVD, GAS.

Figure 60. Southeast Asia Jack-ups 361-400 IC rates increased in 1H23



Source: IHS Markit, KISVN

Figure 61. US leads growth of rig count in 2023

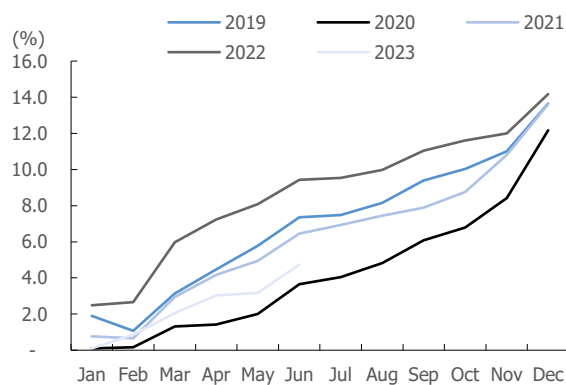


Source: Bloomberg, KISVN

5. Banking: Faster 3Q23 credit growth and gradual NIM recovery

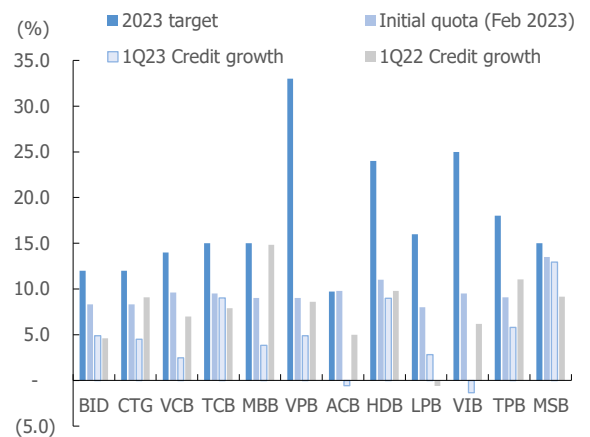
Estimated 1H23 credit growth rises 4.73%YTD, significantly lower than the 2023 target of 14%-15%, 1st credit quota of 11% and the same period in previous years. Expected 3Q23 credit growth could rise faster than 1H23 at lower rate than 3Q22. We attribute the credit growth revival to (1) gradual recovery in industrial production (with the trough of 1Q23) (2) the lending rate decline, the tax reduction/extension and supportive policies (3) higher demand from the construction sector with the public investment disbursement.

Figure 62. Slow credit growth to the economy



Source: SBV, KISVN

Figure 63. Credit growth by banks



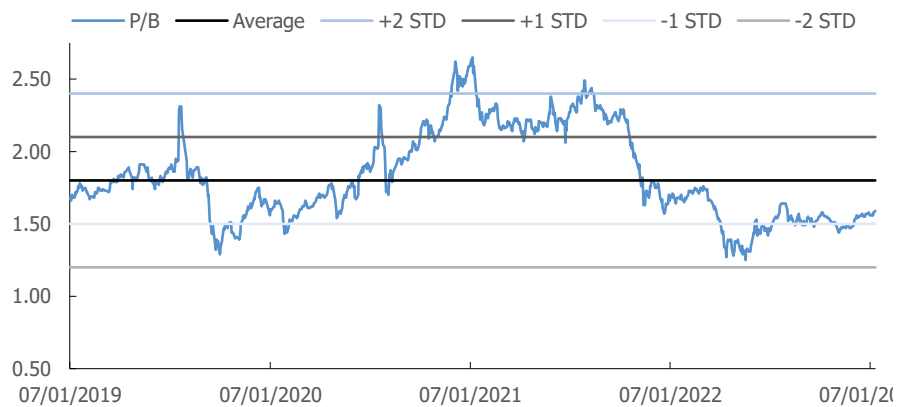
Source: Banks, Fiinpro, KISVN

The deposit rate slump facilitates the lower COF, CASA improvement, and gradual NIM recovery. However, SOBs' NIM recovery could be lower by the supportive package of interest rate reduction. The deposit rates retreated steeply since 2Q23 by 0.3%-2.7% YTD amid the lending rates go down less. The non-term deposit rates slid by 0.1-0.9% YTD, pushing cost of fund to go downward much lower.

2Q23 and 3Q23 NPL could be under control thanks to the circular 02/2023 and the government's supportive policies. Besides, the government have issued Decree No. 08/2023/ND-CP (e.g. Suspension of retail professional investors, independent issuer credit rating) and resolution No 33/2023/NQ-CP (difficult solutions for the real estate market) to create conditions for easier capital mobilization and project developments. Thereby, the expected bond and real estate market recovery could result in recovered corporate bond investment and real estate credit demand.

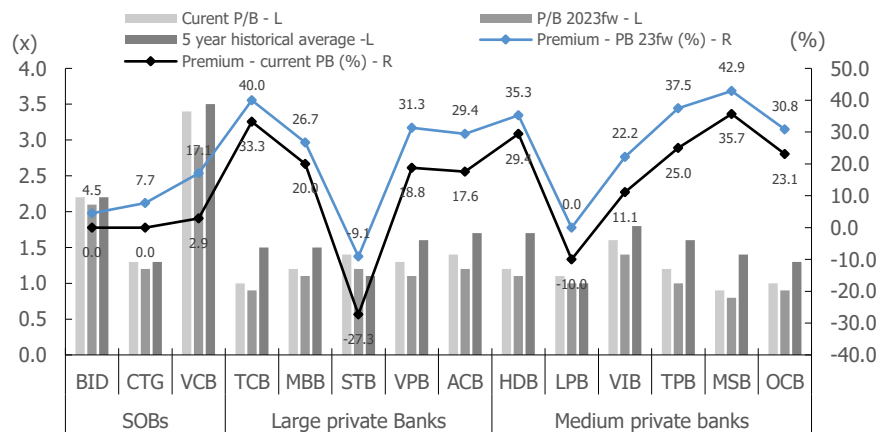
Bank stock prices could rise up when the news of 2Q23 earnings growth or rumor of selling a strategic stake such as VCB, BID, LPB, and SHB could go widespread. VPB, TCB, HDB, MSB, and OCB hit by the economic slowdown, the real estate market, and the bond market could rally in tandem with broad market recovery.

Figure 64. Sector's low P/B valuation



Source: Fiinpro, KISVN

Figure 65. P/B valuation by banks



Source: Bloomberg, KISVN

6. Steel: Export channel supported sales volume

2Q23 sales volume trails our expectation. The total sales volume in April and May was 4mn tonnes -8.8% yoy, fulfilling 63.3% our 2Q23 forecast. The sales volume in June could come in at around 2.3mn tonnes, bringing 2Q23 total sales volume to 6.3mn tonnes (+17% mom, +9% yoy), in our view. The increase in total sales volume was attributed to the strong export volume, compensating the sluggish domestic demand.

Relieve on ASP prices thanks to cheaper input costs. As discussing in our 1Q23 earning note, we forecast the input prices (coking coal, iron ores) remain accommodative in 3Q23 when the demand in the biggest market-China remains tedious. Dim demand along with bargaining input costs could support soften domestic ASPs. Construction steel price (at end of June) inched down by 7.9% vs end of Mar-23 while HRC price dropped by 15.3% compared to the price at end of Mar-23.

Figure 66. Input costs are expected to remain low in 3Q23

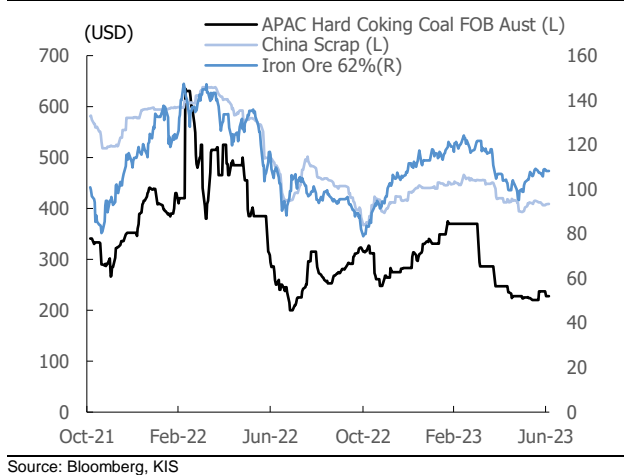
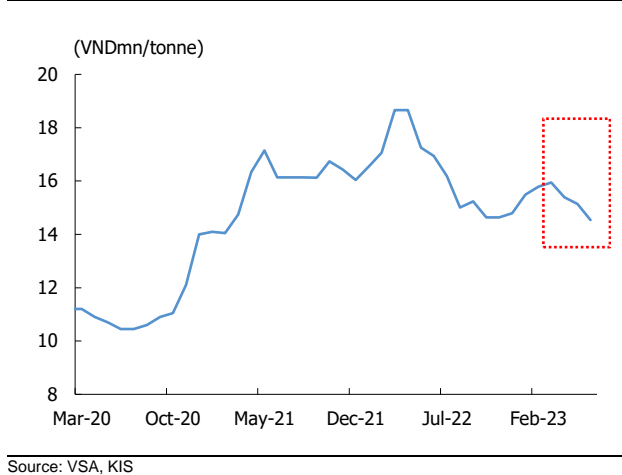


Figure 67. Selling prices were in down trend in 2Q23



Low season in 3Q23. Due to rainy season, we expect to see lower total sales volume in 3Q23. We foresee the total sales volume could be 5.8mn tonnes versus 6.36mn tonnes in 2Q23 (our forecast) but upped by 8% yoy thanks to low base in 2022. A weak ASP and low volume could erode producers' top and bottom lines, however, we still expect to see the positive profit thanks to low input costs. We envisage the lights of hope in steel industry from 4Q23F with the rising ASPs and better demand from 1Q24F. We maintain NEUTRAL rating on steel industry and HOLD rating on HPG, NKG, HSG.

7. Cement: Demand stays weak

2Q23 sales volume was still weak. The total domestic sales volume in 2Q23 was estimated at 15.9mn tonnes -8.9% yoy while the total export volume was 7.86mn tonnes +2.6% yoy according to the estimates of Vietnam Customs and the Ministry of Construction. The total sales volume in 2Q23 was 23.8mn tonnes, +0.2%yoy. The demand was still weak despite the slight overall increase due to the impact of issues related to domestic and China property market whilst China is the biggest cement & clinker export market.

Easing input costs could improve margins. As the thermal coal price decreased since the peak in August 2022, we expect the industry players' margins improve qoq in 2Q23 compared to 1Q23 when the margin was severely hit by high input cost. Without significant up-side surprise in 3Q23 for global thermal coal prices envisaged, we believe the margin expansion stays solid in 3Q23 for the cement industry.

Off-peak season in 3Q23F. Similar to other construction materials, total sales volume of cement could be lower in 3Q23 due to rainy season. However, the El Nino could boost the number of sunny days in 2Q23, spurring the cement consumption. We forecast the total sales volume sit at 23.8mn tonnes (+8% yoy, -0.0% qoq). As we mentioned above, the low input cost could expand industry margins in 3Q23 while the domestic demand could rebound from 4Q23. We maintain NEUTRAL rating on cement industry and HOLD rating on HT1, BCC.

Figure 68. Coal prices have significant declined since August 22

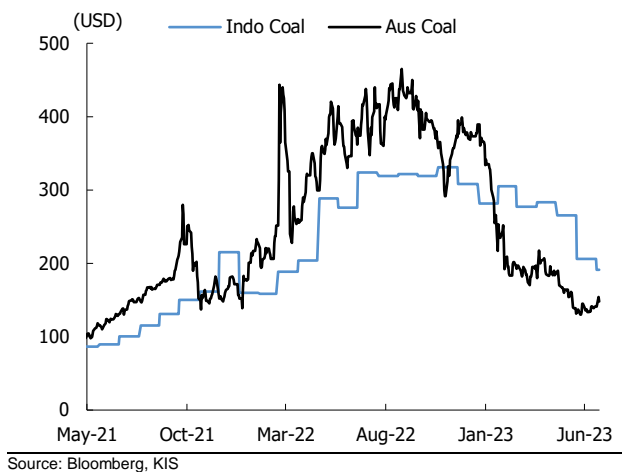
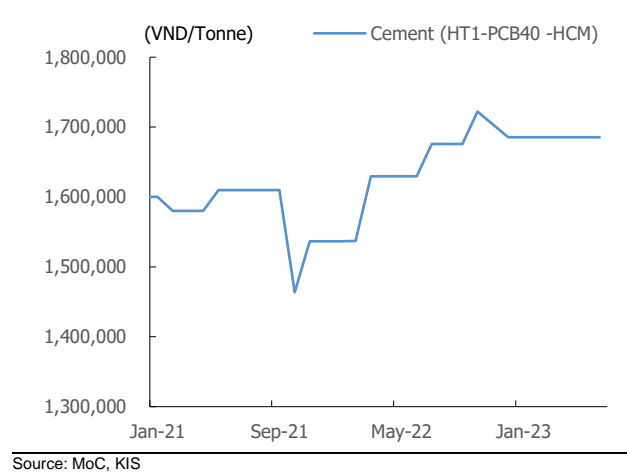


Figure 69. The cement price was stable in 2023



8. Housing: Hope is solidly affirmed

The trust has not been restored. The newly-issued real estate bond issuance accumulated to VND31.5tn, falling shy of 27.9% yoy in 1H23 and largely centered on some Materise-wide group. Despite the dim performance of the bond issuance landscape, we believe the revival could be seen clearly in 3Q23 thanks to the upcoming issuance of VHM's bond. However, that could be not sufficient to compensate for the subscribers' trust. The overdue payment (principal, interest) acceleration weighted the corporate bond market issuance.

Figure 70. Bond issuance: Real estate

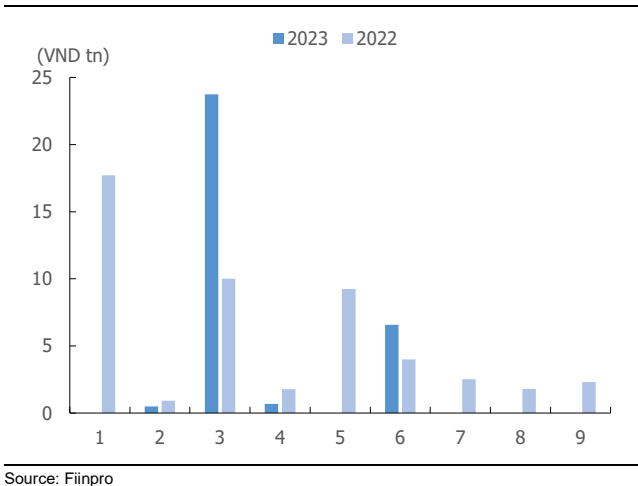
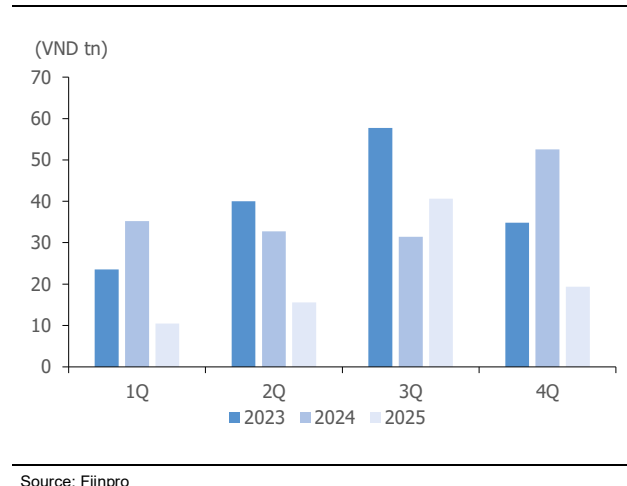


Figure 71. Due bond in real estate: Huge property bond due in 2H23F is a burden



2Q23 business results could be mixed but resilient thanks to VHM's savior. In contrast to tepid-as-expected 2Q23, we foresee the market could be buoyant or excited with numerous activities in marketing campaigns/sales events. In light of the 2Q23F business result forecast, we still anticipate VHM take the lead with its bullish yoy growth despite the qoq fall in 2Q23. The loss persists in some distressed companies naming NVL, NRC, and DXG. The remainders including PDR, NLG, and KDH could deliver a tepid yoy earnings growth as most of the growth is skewed in favor of 4Q23F.

The sub-government ramps up to tackle the licensing policies. After witnessing numerous solutions from the government 1Q23-2Q23, the province/sub-governments in charge of granting policies are more decisive

to resolve the prolonged issues of housing projects. The Binh Thuan, Dong Nai provinces, and Ho Chi Minh City are in cooperation with relevant ministries to untie the master plan of DIG, NLG, and NVL's projects. We are more bullish about the prosperous outlook of HCMC's pending projects which could unleash up to 100,000 housing units in 2024-25F.

The winner takes it all. The price market bounced steeply in 2Q23 thanks to some rescue signals from the sub-government. PDR, DXG, NLG, DIG are among the top gainers. But some still lagged behind their fundamental value including VHM (BUY), KDH (BUY), and NLG (BUY). We think those giants are among the most beneficiaries thanks to their proven track record and profound brand names. Despite our shining hopes for the real estate market revival, we remain conservative about the effectiveness of those accommodative solutions from the sub-governments. Furthermore, the investor's sentiments weighed on the property market bottlenecks have yet been cleared. Our NEUTRAL rating persists.

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VIET NAM

JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA

YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK

DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG

DAN SONG, Managing Director, Head of HK Sales (dan.song@kisasia.com +852 2530 8914)
GREGORY KIM, Sales (greg.kim@kisasia.com, +822 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE

ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON

Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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