March 30th, 2023

Shinhan Securities



Quang Ninh Thermal Power JSC

[Vietnam / Utilities]

Bloomberg Code (QTP VN) | Reuters Code (QTP.HM)

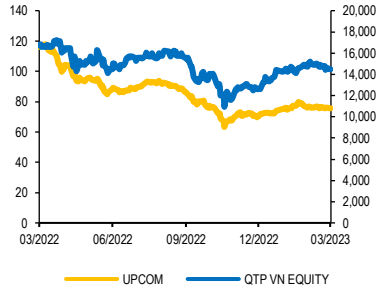
BUY

Initiation Coverage

Target price (12 months)	**VND 18,200**
Current price (30/03/23)	VND 14,600
Upside/downside	25%

VNINDEX	1,055
P/E market (22F, x)	10.0
Market Cap (bn VND)	6,525
Outstanding shares (mn)	450
Free-Floating (mn)	398
52-Wk High/Low (VND)	19,100/10,400
90-day avg. trading volume (mn)	0.34
90-day avg. turnover (bn VND)	4
Foreign ownership (%)	n.a
Major shareholders (%) EVN GENCO1	42.0
Major shareholders (%) PPC	16.0

Performance	3M	6M	12M
Absolute (%)	11.5	-9.9	-20.3
Relative to VN-Index (%)	7.6	-2.2	8.5



Source: Bloomberg

Open account [Analyst]

Nhut Nguyen

☎ (84-28) 6299-7751

✉ nhut.nq@shinhan.com

Ly Bui – Head of Research

☎ (84-28) 6299-8029

✉ ly.btt@shinhan.com

Safe heaven

Initiate coverage with BUY call and target price at VND 18,200

Quang Ninh Thermal Power JSC (UPCOM: QTP) is one of the largest enterprises operating in the thermal power sector listed on the stock exchange. QTP is trading at an attractive price range and has an abundant potential cash dividend. Based on the FCFF and PE methods, we recommend buy QTP at a valuation of VND 18,200. The revenue and NPAT of QTP will increase in the future thank to (1) Quang Ninh 1&2 power plant operating sustainable and the mobilization rate maintained at a high level; (2) The unfavorable weather is forecasted to pass away and the full market price is expected to maintain at the current price; (3) Strong financial health and an abundant potential cash dividend.

Quang Ninh 1&2 power plant operating sustainable and the mobilization rate maintain at a high level

Quang Ninh 1&2 power plant directly supplies electricity to the key economic area of the North, which assures a stable demand. In addition, this power plant is also located in the region with plentiful coal reserves in Vietnam. This is the favorable premise for QTP to run in the background to help the power factor of QTP maintain a high and stable level. In 2023, we forecast the power output of QTP will reach 7,413 million kWh (+5% YoY).

The unfavorable is forecasted to pass away and the full market price is expected to maintain at the current price

The La Nina phenomenon is forecasted to pass away in 2023 after it dominated the weather for 3 consecutive years. We believe the volume of thermal power enterprises will improve this year with a higher mobilization rate. Besides, the power output of the hydropower segment will decrease in non-La Nina years so we believe the full market price will maintain this price level.

Strong financial health and an abundant potential cash dividend

QTP is about to complete debt obligation to the lender after almost a decade, which helps broaden the net profit margin when the enterprise shed the debt burden. Furthermore, QTP does not have an expansion plan so we expect that the company will distribute cash dividends significantly in the following year. In 2023, we believe QTP will pay cash dividends at the rate of 20% after 10% in 2021 and 16% in 2022.

Risks: (1) Input material risks; (2) The demand for electricity consumption is lower than expected; (3) Unfavorable weather; (4) Risk from other peer power sources ; (5) Risk from an accident at the power plant.

Year to Dec.	2021	2022	2023F	2024F	2025F
Revenue (bn VND)	**8,571**	**10,417**	**10,949**	**9,943**	**9,957**
OP (bn VND)	621	815	1,004	877	891
NP (bn VND)	**578**	**770**	**952**	**833**	**846**
EPS (VND)	1,284	1,712	2,116	1,851	1,880
BPS (VND)	13,713	13,709	13,904	14,089	14,278
OPM	9%	9%	9%	8%	8%
NPM	7%	7%	9%	8%	9%
ROE	**9%**	**13%**	**15%**	**13%**	**13%**
PER (x)	11.8	8.5	6.9	7.8	7.7
PBR (x)	1.0	0.9	1.3	1.3	1.3
EV/EBITDA (x)	3.2	3.0	4.6	5.2	5.2

Source: Company data, Shinhan Securities Vietnam

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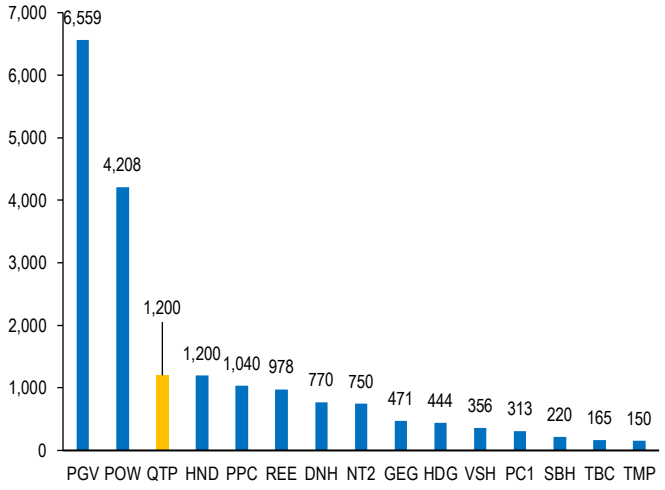
Company background

History of development

Quang Ninh Thermal Power JSC (UPCOM: QTP) was established in 2002 with 5 founders. The shareholder structure of QTP is quite concentrated with 4 major shareholders holding 80% of the total outstanding share of QTP.

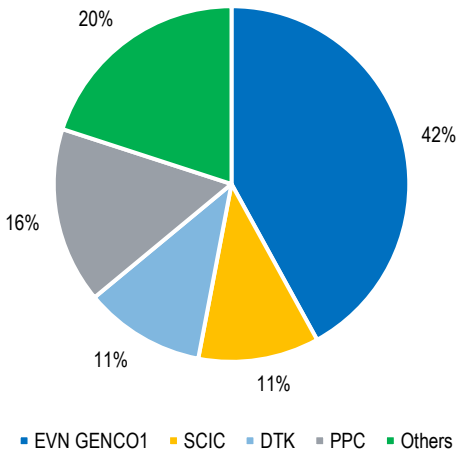
Quang Ninh Thermal Power JSC is officially listed in UPCOM since 2017. Currently, QTP is one of the largest enterprises operating in thermal power. QTP owned the Quang Ninh 1&2 power plant having a total installed capacity of 1,200 MW with an average volume installed at 7.2 billion kWh per year. Quang Ninh 1&2 power plant has 4 engines with a capacity of 300 MW, which was put into operation in 2009, 2010, 2012, and 2023, respectively.

Total installed capacity of some listed company 2023 (MW)



Source: Company data, Shinhan Securities Vietnam

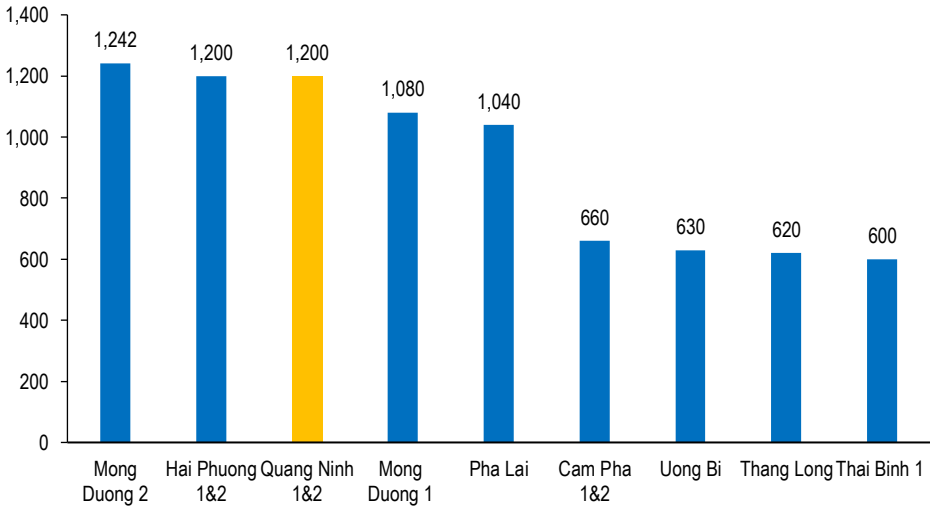
Shareholder structure of QTP



Source: Company data, Shinhan Securities Vietnam

Position of Quang Ninh 1&2 power plant

Total capacity of some power plant in the North (MW)

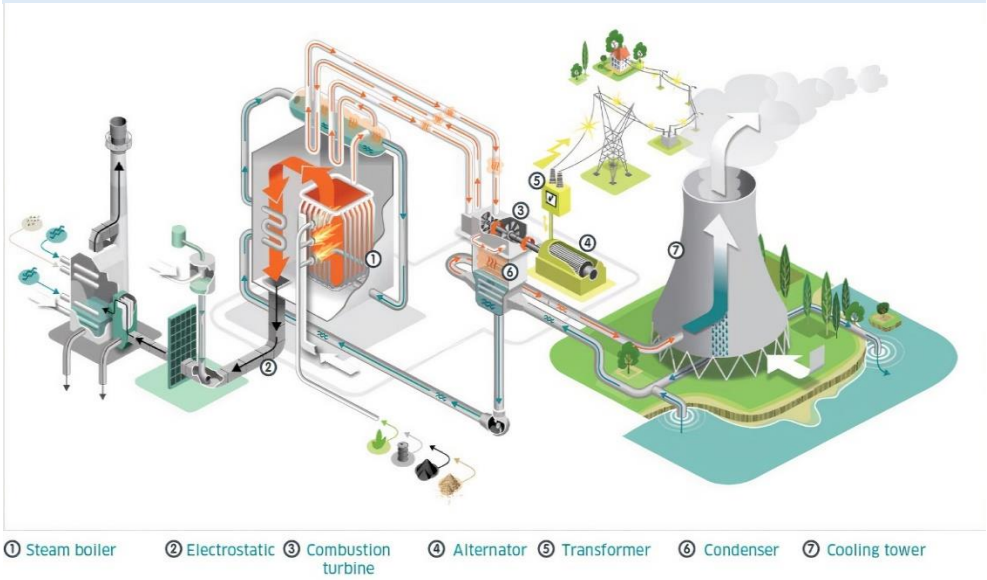


Source: Power draft VIII, Shinhan Securities Vietnam

Quang Ninh 1&2 thermal power plant is one of the largest power plants in the North. This power plant is

located in Ha Long city, Quang Ninh province, which has a huge amount of coal reserves. So, the Quang Ninh 1&2 power plant has a favorable premise to operate and supply to the national grid.

Illustrate operation of thermal power plants



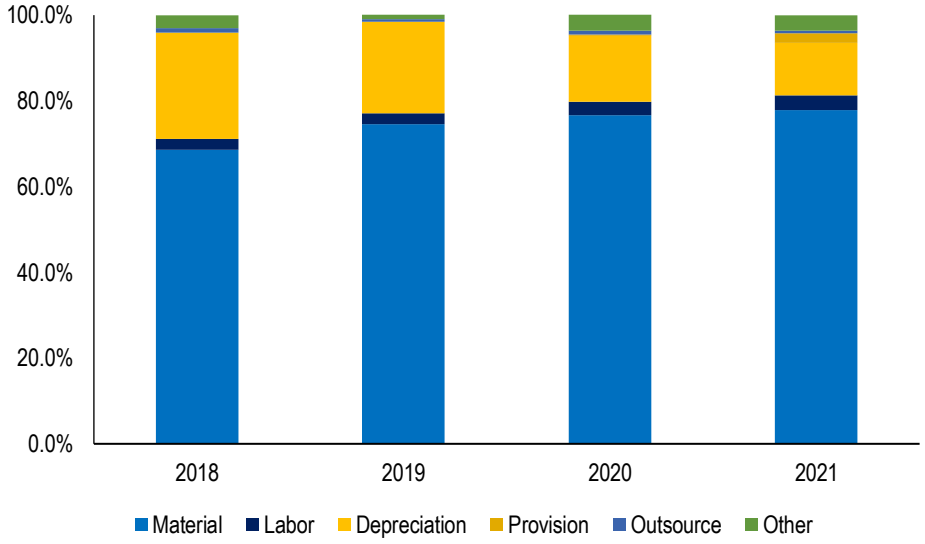
Source: Engie, Shinhan Securities Vietnam

	Quang Ninh 1&2	Hai Phong 1&2	Vinh Tan 4	Mao Khe	Nhon Trach 2
Power source	Coal-fired thermal	Coal-fired	Coal-fired	Coal-fired thermal	Gas-fired thermal
Capacity (MW)	1,200	1,200	1,200	440	750
Location	Quang Ninh	Hai Phong	Binh Thuan	Quang Ninh	Dong Nai
Year	2009-2013	2009, 2013	2017, 2018	2013	2011
Technology	Burning coal spray	Burning coal	Burning coal	Circulating fluidized	Combined cycle gas
Boiler	Near critical	Near critical	Super critical	Near critical	n.a
Input material	Anthracite coal,	Anthracite coal,	Bitumen coal	Anthracite coal, Mao	Gas from Cuu Long,
Total CapEx (USD billion)	1.55	1.53	1.72	0.74	0.74
CapEx/MW (USD million /MW)	1.29	1.28	1.43	1.67	0.98
Self-consumption rate (%)	8.5	8.7	n.a	9.4	n.a
Fixed cost (USD/kW)	39.97	45.5	37.97	43.96	32.10
Variable cost (USD/MW)	1.02	1.1	0.97	1.29	0.57
Start-up time from warm state	11	n.a	8.5	10	4.8
Start-up time from cold state	15	n.a	10	12	6

Source: Vietnam Technology Handbook 2019, QTP, HND, NT2, PGV, Shinhan Securities Vietnam

Regarding material, the Quang Ninh 1&2 power plant uses 6 A1HG bran coal, 5 A1HG bran coal, 5 B1HG bran coal, and FO oil. QTP signed a contract to buy coal from Vietnam Coal and Mineral Industries Group and Dong Bac Corporation so the supply is more stable and less affected by the fluctuation of global coal prices. The total coal consumption per year of around 3.4 million tons is supplied from Hon Gai mine, Quang Ninh.

Cost of goods sold structure of QTP in the period of 2018-2021



Source: Company data, Shinhan Securities Vietnam

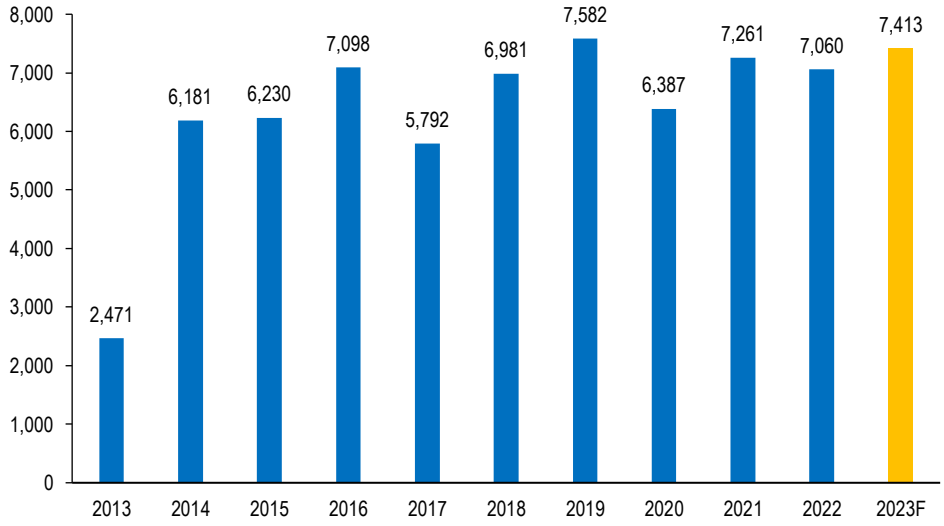
Investment theses & Catalyts

1. Quang Ninh 1&2 power plant operates sustainable and the mobilization rate is maintained at a high level

Adverse weather passes away to robust power output

QTP has a prime location in the key economic area of the North, which assure a sustainable demand. Moreover, QTP has generated power stable for nearly 10 years, the power plant is always chosen to run in the background and a has high mobilization rate.

The power output of QTP in 2012-2023F (million kWh)

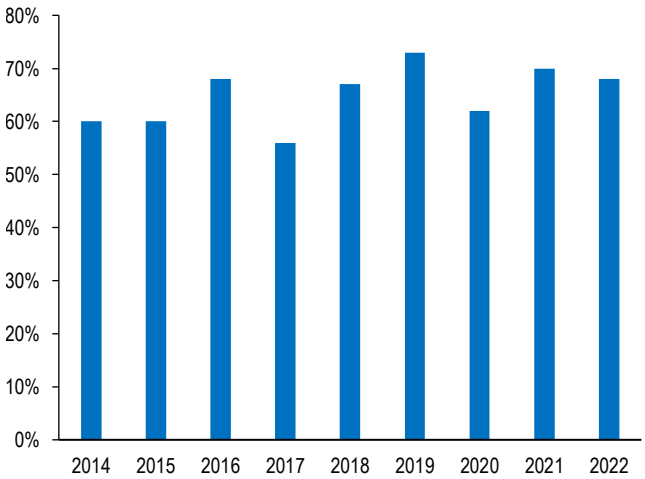


Source: Company data, Shinhan Securities Vietnam

In the power sector, the thermal power segment usually has outstanding power output when the El Nino phenomenon takes the throne. The reason comes from National Load Dispatch Centre always prioritizes output from the hydropower segment because of low cost when the La Nina dominated the weather. Therefore, when the La Nina phenomenon passes, thermal power plants will be mobilized higher, thereby helping to improve output.

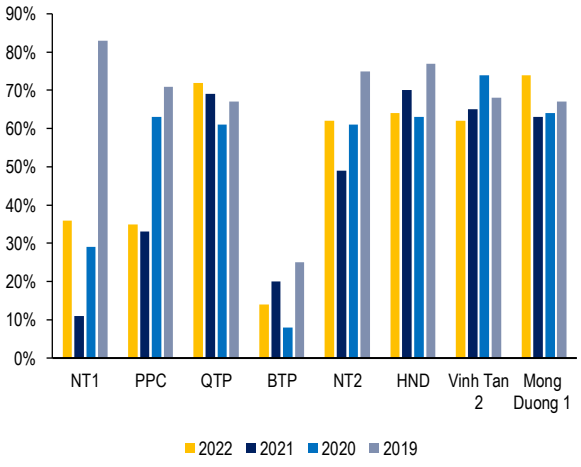
According to the Draft Power Plan VIII, the average power factor of the thermal segment in 2019 was 68%. We believe the power factor of QTP in the following year will fluctuate in the range from 60% to 75%.

Power factor of QTP from 2014 to 2022



Source: Company data, Shinhan Securities Vietnam

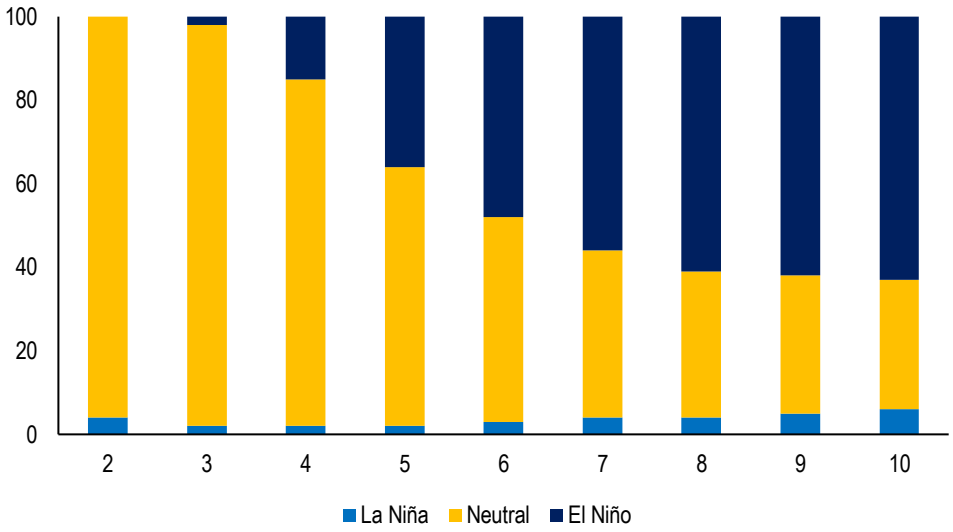
Power factor of thermal power plants in Vietnam from 2019 to 2022



Source: POW, PGV, PPC, QTP, HND, Shinhan Securities Vietnam

Meanwhile, IRI forecasts the neutral status will prevail in the first half of 2023 and the El Nino phenomenon has a high probability to affect the weather in the second half of 2023. Based on that forecast, we estimate the output of QTP will exceed the average volume in 2H2023.

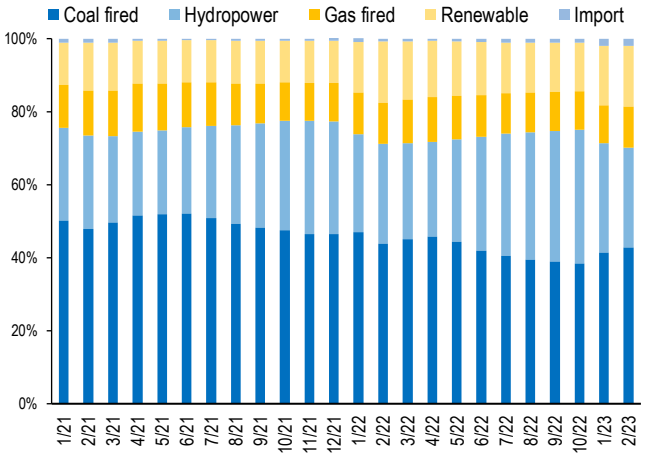
Probability of La Nina, Neutral and El Nino from 2/2023 to 10/2023 (%)



Source: IRI, Shinhan Securities Vietnam

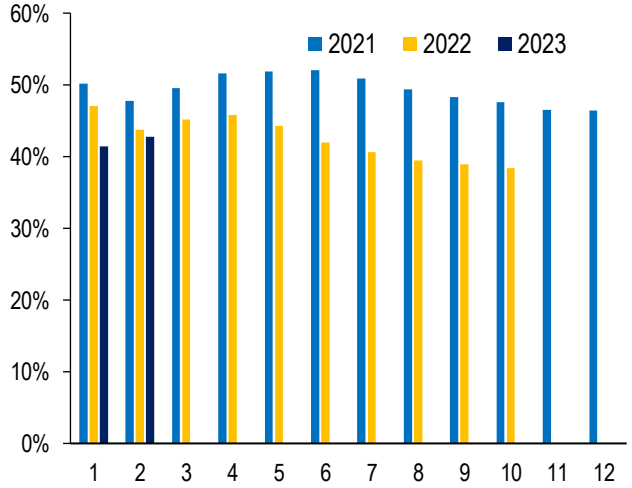
In 2M2023, the data of EVN indicates the mobilization rate from coal-fired thermal power has improved compared with the months at the end of 2022 when the rainy season passes away. We believe this trend will maintain until the end of the dry season of 2023. In general, the thermal power plant has the Qc output selling to EVN based on PPA price around 75%-85% of total power output, the remaining will be sold in the competitive generation market.

Proportion of mobilization from power sources by month from 2021 (%)



Source: EVN, Company data, Shinhan Securities Vietnam

Mobilization rate from coal-fired thermal power by month from 2021 (%)



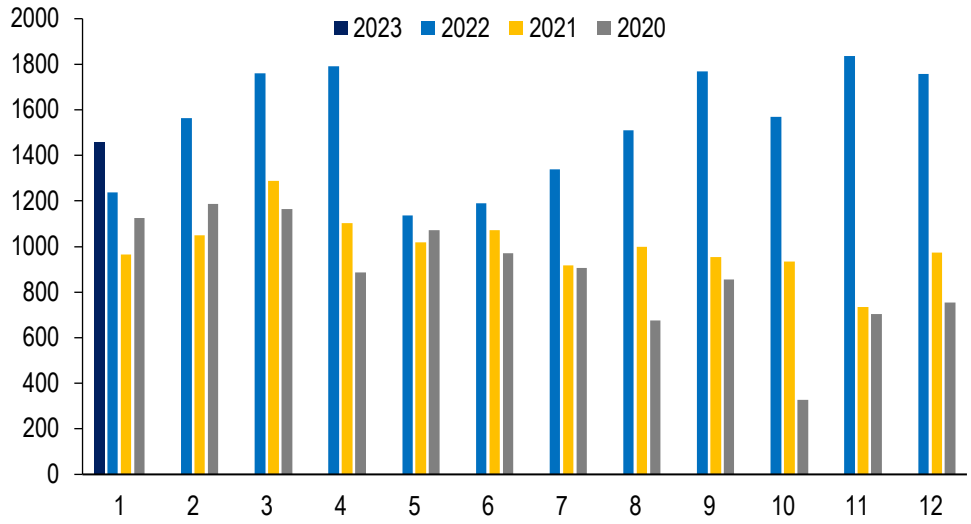
Source: EVN, Company data, Shinhan Securities Vietnam

The full market price is expected to anchor at a high level

The full market price (FMP) in the competitive generation market in 1M2023 is still higher than the average 3 previous years. We expect that the FMP price will continue to stay at a high level with a slight decrease in the near future. However, the FMP price probably lower in the same period of 2022 in the following month. The high base of material price due to Russia – Ukraine war pushed the price of the material to skyrocket last year.

On the other hand, the unfavorable hydrological situation for the hydropower segment will cause difficulties for hydropower plants, affecting negatively the output of this source. Power comes from hydropower and has a strong advantage in the competitive power generation market owing to its low cost.

Full market price (FMP) on the competitive generation market (CGM) by month (VND/kWh)

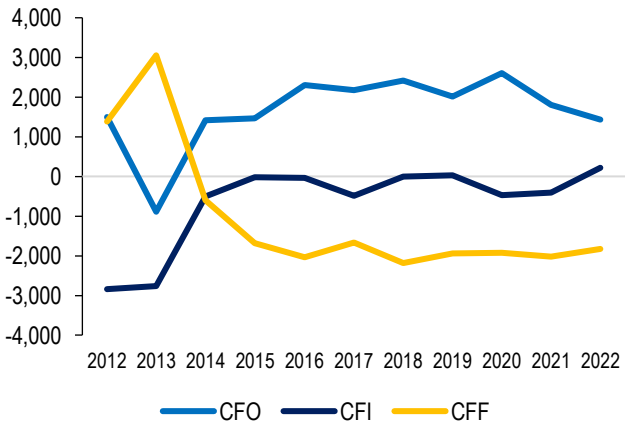


Source: PGV, Shinhan Securities Vietnam

2. Strong financial heath, potential cash dividend

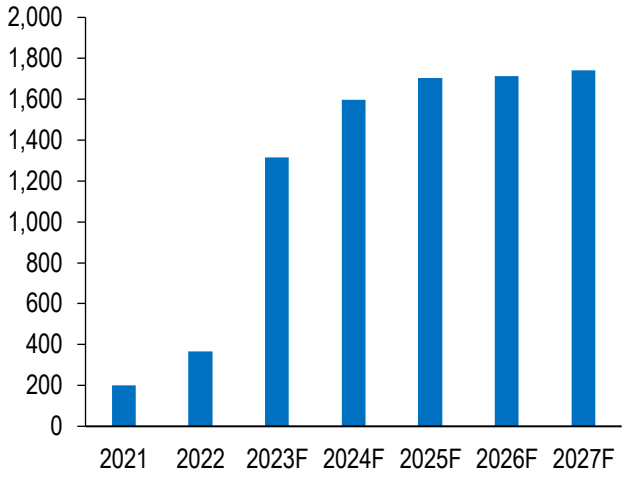
In 2021 and 2022, QTP actively paid a cash dividend to shareholders at the rate of 10% and 16%, respectively. The expansion payout policy occurs when the company nearly complete all obligation to long-term debt.

QTP's cash flow for the period 2012-2022 (VND billion)



Source: Company data, Shinhan Securities Vietnam

FCFE forecast for the period 2021-2027F (VND billion)



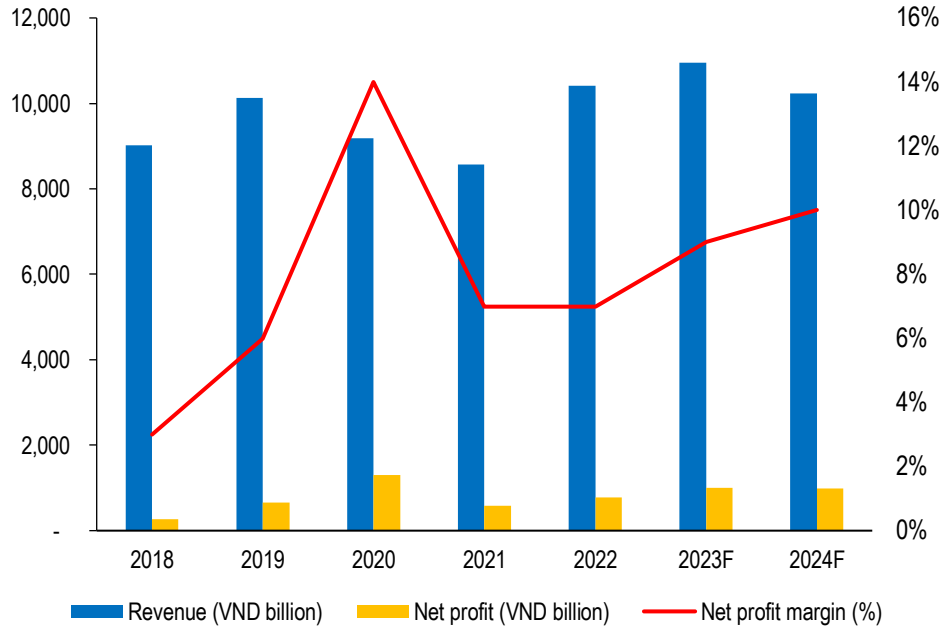
Source: Company data, Shinhan Securities Vietnam

Based on that trend, we estimate QTP will complete all long-term debt obligations in 2024, which reduce the debt burden of the enterprise and broaden the net profit margin. Furthermore, QTP can distribute more cash dividends to the shareholder when the company must not pay a principal of over VND1,000 billion per year.

Earning estimates

In 2023, we forecast the revenue of QTP will increase by 5% YoY to VND 10,949 billion, the net profit will reach VND 954 billion (+24% YoY). Specifically, the volume will increase by 5% thank to the mobilization rate improvement when La Nina passes away and the average selling price is estimated sideway.

Forecast of QTP's revenue, net profit and net profit margin



Source: Company data, Shinhan Securities Vietnam

QTP's revenue and profit outlook (2021-2025F)

(Unit: billion VND)	2021	2022	2023F	2024F	2025F
Net revenue	8,571	10,417	10,949	9,943	9,957
Gross profit	990	1,086	1,197	1,014	1,025
Operating profit	621	815	1,004	887	902
Net profit	578	770	954	843	857
Profit margin (%)					
Gross profit margin	12%	10%	11%	10%	10%
Operating profit margin	7%	8%	9%	9%	9%
Net profit margin	7%	7%	9%	8%	9%
Growth (%YoY)					
Net Revenue	-7%	22%	5%	-9%	0%
Operating profit	-46%	10%	10%	-15%	1%
Net profit	-55%	31%	23%	-12%	2%

Source: Company data, Shinhan Securities Vietnam

Recommendation and Valuation

Recommended Buy with target price VND 18,200

We offer an initial valuation for Quang Ninh Thermal Power JSC with a buy recommendation and a target price of VND 18,200, equivalent to an increase of 25% compared to the current market price. From a long-term perspective, QTP is an investment that can be considered for the following reasons:

1. Quang Ninh 1&2 power plant operates sustainable and the mobilization rate is maintai ned at high level;
2. The adverse weather has passed and the overall selling price is expected to stay high;
3. Strong financial heath, potential cash dividend.

Valuation method

We apply Discounted Cash Flow (DCF) and SoTP valuation methods with weights of 50% and 50% respectively to value QTP.

FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	952	833	846	919	938
Plus: After-tax interest expense	31	0	0	0	0
Plus: Depreciation & Amortization	961	906	898	378	204
Minus: Change in working capital	175	-142	2	-98	44
Minus: CapEx	7	7	7	7	7
Free Cash Flow (FCF)	**1,762**	**1,874**	**1,735**	**1,388**	**1,091**
Discount rate	0.87	0.76	0.66	0.58	0.51
PV of FCF	1,533	1,424	1,145	805	556
Growth rate	0%				
Present value of long-term value	3,811				
Enterprise value	9,274				
Debt	1,092				
Cash and cash equivalents	24				
Number of shares outstanding (billion)	0.45				
Target price (VND)	**18,236**				

Source: Company data, Shinhan Securities Vietnam

Weighted Average Cost of Capital (WACC)	
WACC (%)	**14.6**
Risk-free rate (%)	4.0
Equity risk premium (%)	11.3
Beta	1.0
Debt cost (%)	9
The cost of equity(%)	15.3
Debt-to-equity ratio	0.12
Total debt (VND billion)	1,092

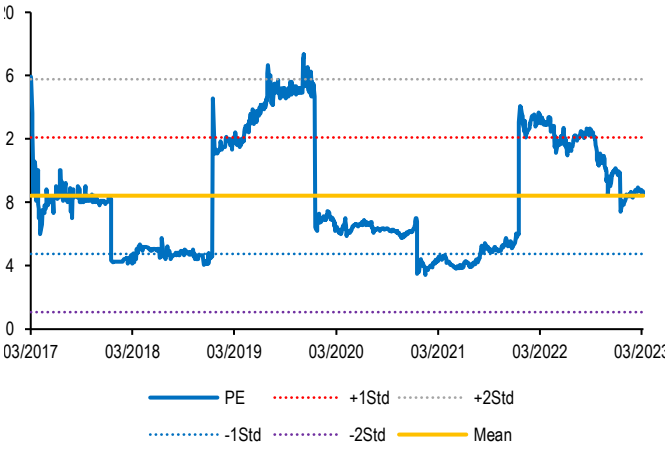
Source: Company data, Shinhan Securities Vietnam

Multiple valuation

Ticker	PE	Market Cap	EPS Growth (%)	ROA (%)	ROE (%)
QTP VN EQUITY	9.5	346.3	68.3	12.6	19.5
POW VN EQUITY	14.8	1299.2	15.1	3.8	7
PGV VM EQUITY	8.2	878.8	-19.6	3.8	14.7
SPCG TB Equity	6.2	421	-7.2	9.7	13.2
SSP TB Equity	7.6	335.1	-0.3	6	20.9
579 HK Equity	5.2	2006.4	2.8	3.5	10
PE target	8.6				
EPS forward	2,116				
Target price(VND)	**18,171**				

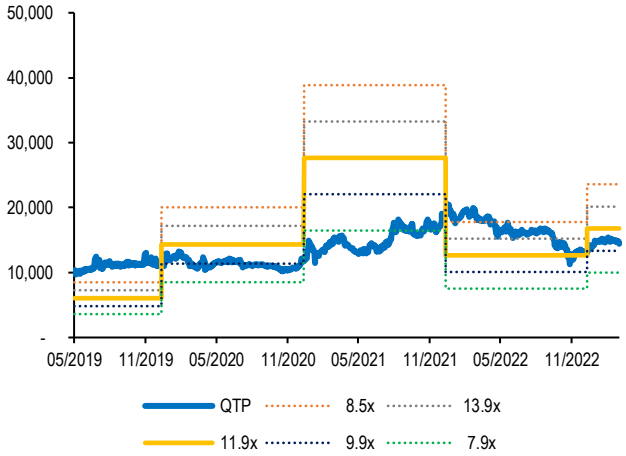
Source: Bloomberg, Shinhan Securities Vietnam

PER of QTP 2017-2022 (x)



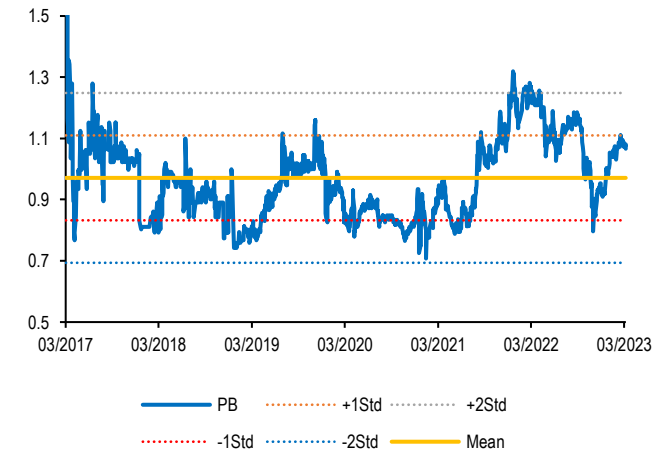
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of QTP (x)



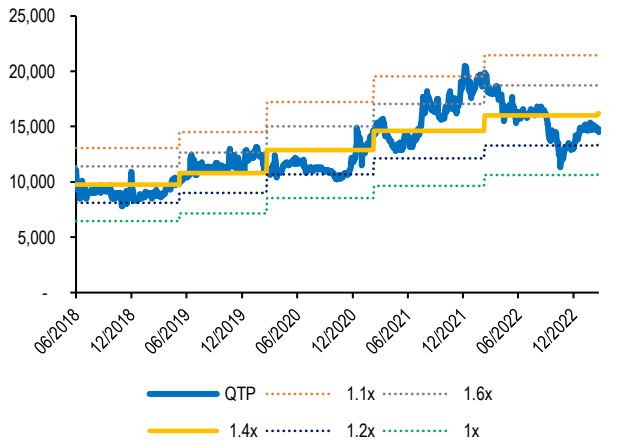
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of QTP 2017-2022 (x)



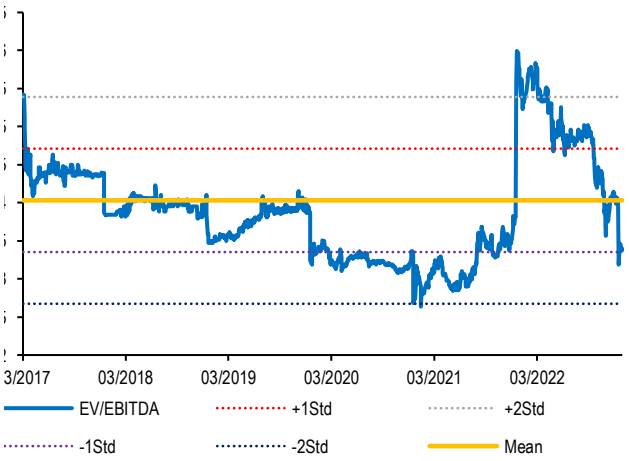
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of QTP (x)



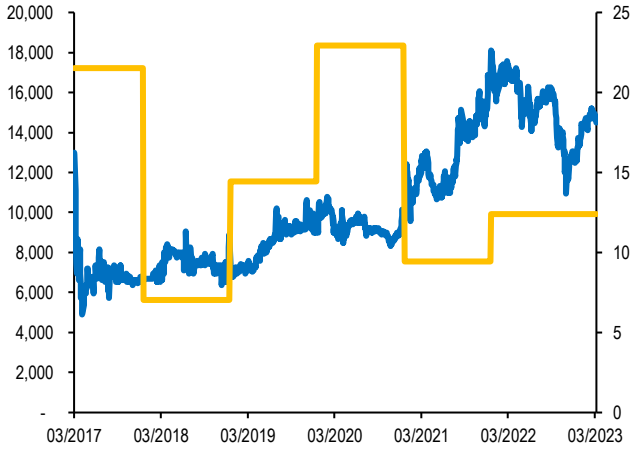
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of QTP 2017-2022 (x)



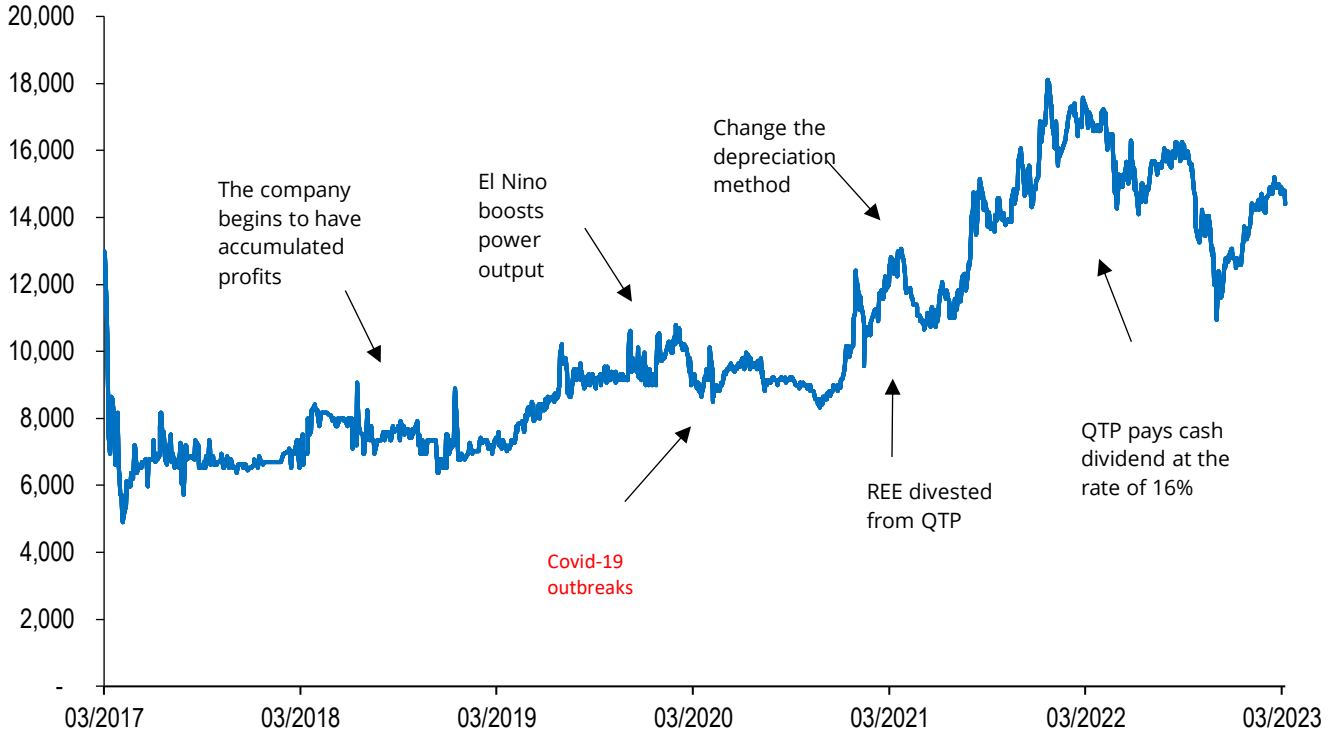
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of price of QTP and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Event chart of QTP



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Material risks

Risks from the use of imported blended coal fuel source when there is a shortage of coal with high cost causing difficulties in operation, and adjustment of the optimal mode in the power production process can increase production costs. Besides, the increase in coal price may cause QTP's profit margin to decrease as raw material costs always account for 70%-80% of the COGS of this business.

Demand for power consumption grows lower than expected

In recent years, the Covid-19 pandemic, the outbreak of war, and supply chain disruptions have caused the global economy to falter. In 2023, the risk of a global recession is increasing, which will directly affect power demand.

Risk of adverse weather

Due to the different price structures of different types of power, hydropower enterprises will be given priority to generate electricity in the years affected by La Nina thanks to the advantage in low-cost. Therefore, thermal power enterprises will often have less positive power output. Besides, La Nina phenomenon usually lasts from 6-18 months but there is no crystal clear cycle, specifically in the period of 2020-2022 when La Nina continuously affects for a long time.

Risks from competing power sources

In recent years, the government has accelerated the development of renewable energy sources and this trend is expected to continue into the future. Therefore, QTP faces the risk of competition from other generators.

Risk of factory accident

During operation, coal-fired power plants have periodic minor and overhaul cycles. However, the risk of factory accident is inevitable. In the past, PPC's Pha Lai Thermal Power Plant and POW's Vung Ang 1 Thermal Power Plant had accidents.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**10,507**	**8,909**	**8,048**	**7,344**	**7,041**
Current assets	4,269	3,639	3,731	3,981	4,577
Cash & equivalents	836	206	24	119	500
Short-term financial asset	502	952	772	766	1,193
Accounts receivable	2,415	2,055	2,544	2,658	2,486
Inventories	516	426	391	438	398
Non-current assets	6,238	5,270	4,317	3,363	2,464
Net fixed assets	6,160	5,195	4,241	3,287	2,388
Investment assets	0	0	0	2	2
Other long-term assets	72	70	71	71	71
Total liabilities	**4,419**	**2,739**	**1,880**	**1,087**	**701**
Current liabilities	2,005	1,329	1,559	1,082	696
Accounts payable	653	549	748	766	696
Short-term borrowings	1,336	750	776	316	0
Others	16	30	35	0	0
Non-current liabilities	2,414	1,410	321	5	5
Long-term borrowings	2,414	1,405	316	0	0
Other financial liabilities	0	5	5	5	5
Total shareholders' equity	**6,089**	**6,171**	**6,169**	**6,257**	**6,340**
Capital stock	4,500	4,500	4,500	4,500	4,500
Capital surplus	231	231	231	231	231
Other capital	13	274	274	274	274
Retained earnings	1,345	1,166	1,164	1,252	1,335
Non-controlling interest equity	0	0	0	0	0
*Total debt	3,750	2,155	1,092	316	0
*Net debt (cash)	2,412	997	296	(569)	(1,693)

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**9,182**	**8,571**	**10,417**	**10,949**	**9,943**
Growth (%)	*-9.3*	*-6.7*	*21.5*	*5.1*	*-9.2*
COGS	(7,348)	(7,581)	(9,331)	(9,752)	(8,929)
Gross profit	**1,834**	**990**	**1,086**	**1,197**	**1,014**
GPM (%)	*20.0*	*11.6*	*10.4*	*10.9*	*10.2*
SG&A	(105)	(256)	(112)	(208)	(189)
Operating profit	**1,729**	**734**	**974**	**989**	**825**
Growth (%)	*107.8*	*(55.1)*	*31.2*	*23.2*	*(12.6)*
OPM (%)	*18.8*	*8.6*	*9.4*	*9.0*	*8.3*
Non-operating profit	(354)	(117)	(163)	15	52
Financial income	48	82	34	47	52
Financial expense	(396)	(195)	(193)	(32)	0
In which: interest expenses	(308)	(195)	(133)	(32)	0
Net other non-operating profit	(6)	(4)	(4)	0	0
Pre-tax profit	**1,375**	**617**	**811**	**1,004**	**877**
Income tax	(69)	(39)	(41)	(52)	(44)
Net profit	**1,306**	**578**	**770**	**952**	**833**
Growth (%)	*100.6*	*(55.7)*	*33.2*	*23.6*	*(12.5)*
NPM (%)	*14.2*	*6.7*	*7.4*	*8.7*	*8.4*
Controlling interest	1,306	578	770	952	833
Non-controlling interest	0	0	0	0	0
EBIT	**1,683**	**812**	**944**	**1,036**	**877**
Growth (%)	*54.3*	*(51.8)*	*16.3*	*9.7*	*(15.3)*
EBIT Margin (%)	*18.3*	*9.5*	*9.1*	*9.5*	*8.8*
EBITDA	**2,832**	**1,784**	**1,903**	**1,997**	**1,783**
Growth (%)	*(5.5)*	*(37.0)*	*6.7*	*4.9*	*(10.7)*
EBITDA margin (%)	*30.8*	*20.8*	*18.3*	*18.2*	*17.9*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**2,604**	**1,802**	**1,434**	**1,691**	**1,829**
Net profit	1,306	578	770	952	833
D&A expense	1,149	972	959	961	906
(Gain) from investing activities	(44)	(52)	(34)	(47)	(52)
Change in working capital	(102)	362	(252)	(175)	142
Others	295	(58)	(9)	-	-
Cash flow from investments	**(465)**	**(407)**	**217**	**44**	**(382)**
Change in fixed assets	(1)	(5)	(4)	40	45
Change in investment assets	(500)	(450)	180	4	(427)
Others	36	48	41	-	-
Cash flow from financing	**(1,924)**	**(2,025)**	**(1,833)**	**(1,640)**	**(1,066)**
Change in equity	-	-	-	-	-
Net borrowing	(1,834)	(1,576)	(1,118)	(776)	(316)
Dividends	(90)	(449)	(715)	(864)	(750)
Change in total cash	**215**	**(630)**	**(182)**	**95**	**381**
Beginning cash	621	836	206	24	119
Change in FX rates	-	-	-	-	-
Ending cash	836	206	24	119	500

Source: Company data, Shinhan Securities Vietnam

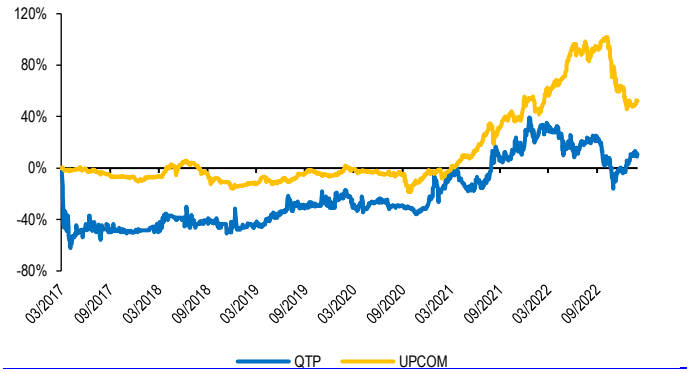
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	2,901	1,284	1,712	2,116	1,851
BPS (VND)	13,531	13,713	13,709	13,904	14,089
PER (x)	11.8	8.5	6.9	7.8	7.7
PBR (x)	1.0	0.9	1.3	1.3	1.3
EV/EBITDA (x)	3.4	3.2	3.0	4.6	5.2
Dividend payout ratio (%)	7.0	78.0	93.0	90.0	90.0
Dividend yield (%)	2.0	6.0	11.0	11.0	11.0
Profitability					
EBITDA margin (%)	30.8	20.8	18.3	18.2	17.9
OPM (%)	18.8	8.6	9.4	9.0	8.3
NPM (%)	14.2	6.7	7.4	8.7	8.4
ROA (%)	12.4	6.5	9.6	13.0	11.8
ROE (%)	21.4	9.4	12.5	15.2	13.1
Stability					
Debt to equity ratio (%)	61.6	34.9	17.7	5.1	0.0
Net debt ratio (%)	85.2	55.9	15.6	(28.5)	(95.0)
Cash ratio (%)	66.7	87.1	51.1	81.8	243.2
Interest coverage ratio (x)	5.5	4.2	7.1	32.4	n.a
Activity (%)					
Working capital turnover (times)	22.3	18.5	20.0	17.3	15.9
Inventory turnover (days)	15.2	16.1	22.8	23.5	21.4
Receivable turnover (days)	4.0	3.8	4.6	4.2	3.9

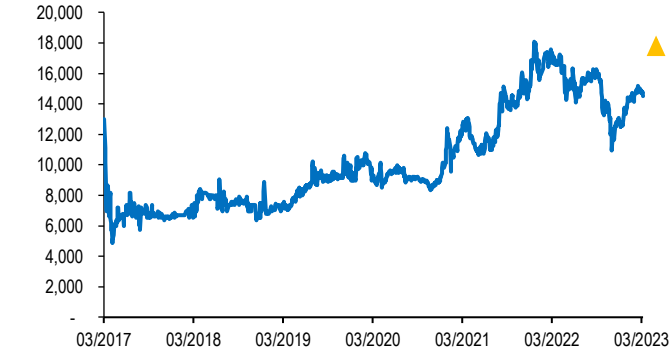
Source: Company data, Shinhan Securities Vietnam

QTP Group JSC (QTP VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
30/03/2023 (Initiation)	BUY	18,200	18.4	4.3/39.3

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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Shinhan Investment Network

SEOUL

Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

NEW YORK

Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

Hong Kong

Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

Indonesia

PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599

Shanghai

Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

Ho Chi Minh

Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai StQTPt,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

Ha Noi

Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District, Hanoi, Vietnam.
Tel : (84-8) 6299-8000