ORIENT COMMERCIAL JOINT STOCK BANK (HSX: OCB)

Regaining growth momentum after an unfavorable pause

(VND bn)	Q1-FY23	Q4-FY22	+/-(qoq)	Q1-FY22	+/-(yoy)
Total operating income	2,090	2,649	-21.1%	2,008	4.1%
PPOP	1,326	1,888	-29.8%	1,270	4.4%
PBT	983	1,741	-43.5%	836	17.7%
NPAT	786	1,392	-43.5%	668	17.7%

Source: OCB, RongViet Securities

Q1/2023: Earnings growth driven by core income and credit cost reduction

- Total operating income (TOI) grew more than 4%, led by a 5% YoY in net interest income growth. Specifically, credit growth reached 2% YTD and NIM remained quite resilient, dropping by 20 bps to 3.8%.
- Non-interest income sources, although flat compared to the same period last year, reflected the bank's balancing efforts. Income from foreign exchange activities increased by 276% YoY, offsetting the slowdown in service income and securities income.
- Asset quality continues to be under pressure. Notably, the bank's NPL ratio (TTM) rose by 23 bps to 1.96% in Q1/23. Credit cost margin (TTM) decreased by 10 bps to reach 0.86%.
- Overall, total operating income recorded a modest growth of 4%, yet the 21% YoY reduction in credit cost has boosted PBT by 18% YoY.

2023 – Expected growth towards the year-end

For Q2/2023, we expect total operating income to grow 29.7% YoY, coming from the low base of Q2/2022 – the quarter with the lowest TOI in 2022, when the company recorded a loss of VND 327 bn (USD 14.1 mn) from Government bond investment. At the same time, Q2 credit growth is expected to reach 6% YTD, widening the net interest income by 6.9% YoY.

For the full year of 2023, we forecast credit growth at 14.2%, while NIM will recover compared to Q12023 to reach 3.84%. Thus, net interest income is expected to be VND 7,480 bn (USD 332.7 mn, +7.7% YoY) in 2023. Fee income will be flat with a marginal change of 0.2% YoY, in which income from cards and asset management will offset the decline in insurance activities. Total operating income will increase by circa 12% in 2023, partly due to the low base level of 2022 as being affected by the Government bond investment.

2023 NPAT is forecast to reach VND 4,145 bn (USD 182.8 mn), up 18% YoY, corresponding to an EPS of VND 2,916.

Valuation and recommendation

With a focus on retail banking & SME segments, OCB has expanded its customer base from 1.1 million customers at the end of 2018 to 2.9 million customers by the end of 2022. At the same time, with strong CAR fluctuating around 12%, higher than the industry average, credit growth is maintained at a high level, helping the credit market share expand from 0.7% in 2018 to 1% at the end of 2022. ROE is also anchored at around 20% on average in the 2018-21 period.

OCB's business activities slowed down in 2021-22 as the bank's main customer base are those heavily affected by the Covid-19 pandemic and the economic downturn. With a cautious view, we believe that amid the tough economic condition, some banks concentrating on SME, MSME, or individual customers with low- and middle-income levels, including OCB, may continue to face challenges given the possibility of credit growth and cross-selling of products and services. However, by aggressively narrowing the consumer credit segment in the last two years, we believe the bank's asset quality has improved. In other words, the most difficult quarters in the bank's debt settlement may be over.

Combining the DCF and PBR methods, the fair value of OCB is VND 22,600, corresponding to a PBR of 1.06 times for 2023. Difficulties are expected to ease and the bank will likely regain its growth momentum. The target price is equivalent to a ***BUY*** *recommendation with an expected return of 23% compared to the closing price on July 3, 2023.*

BUY +23%

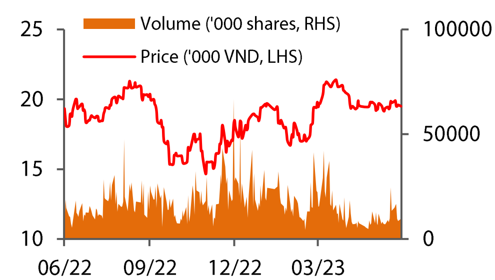
Current market price (VND)	18,350
Target price (VND)	22,600
Cash dividend	-

Stock Info

Sector	Banks
Market Cap (VND billion)	25,137
Current Shares O/S (mn)	1.369
Avg. Daily Volume (in 20 sessions)	710
Free float (%)	55%
52 weeks High	19,400
52 weeks Low	12,300
Beta	-0.2

	2022	TTM
EPS	2,540	2,648
EPS Growth (%)	-20.3	-10.7
Diluted EPS	2,540	2,648
P/E	7.1	6.89
P/B	0.97	0.95
Cash dividend yield (%)	0%	0%
ROE (%)	14.9%	15%

Price performance



Major Shareholders (%)

Aozora Bank Limited	15%
TQA Corp	1.13%
Remaining foreign ownership room (%)	0.8%

Chinh Nguyen

(084) 028- 6299 2006 – Ext 1524

chinh.nd@vdsc.com.vn

Exhibit 1: Q1-2023 Results

(VND Bn)	Q1-FY23	Q4-FY22	+/-(qoq)	Q1-FY22	+/-(yoy)
Interest and Similar Income	4,532	3,984	13.8%	3,218	40.9%
Interest and Similar Expenses	-2,781	-2,157	29.0%	-1,548	79.7%
Net Interest Income	**1,751**	**1,827**	**-4.2%**	**1,670**	**4.8%**
Non-interest Income	339	822	-58.7%	338	0.5%
Net fee and commission Income	*123*	*388*	*-68.2%*	*128*	*-3.7%*
Net gain/(loss) from foreign currency and gold dealing	*49*	*80*	*-38.6%*	*13*	*276.1%*
Net gain/(loss) from trading of securities	*0*	*0*		*31*	*-99.6%*
Net gain/(loss) from disposal of investment securities	*129*	*38*	*240.0%*	*109*	*-*
Net other income/expenses	*39*	*317*	*-87.8%*	*57*	*-32.5%*
Income from capital contribution	*0*	*0*	*0*	*0*	*0*
Total operating income	**2,090**	**2,649**	**-21.1%**	**2,008**	**4.1%**
Operating expenses	-764	-760	0.5%	-737	3.6%
Operating profit before provision	1,326	1,888	-29.8%	1,270	4.4%
Provision expenses	-343	-148	132.0%	-435	-21.1%
Profit before tax	**983**	**1,741**	**-43.5%**	**836**	**17.7%**
Corporate income tax	-197	-349	-43.5%	-167	17.7%
NPAT	**786**	**1,392**	**-43.5%**	**668**	**17.7%**
Attributable to parent company	**786**	**1,392**	**-43.5%**	**668**	**17.7%**

Source: OCB, RongViet Securities

Exhibit 2: Q1-2023 Performance Analysis

Particulars	Q1-FY23	Q4-FY22	+/-(qoq)	Q1-FY22	+/-(yoy)
Profitability (TTM)					
NIM	3.8	3.9	-6bps	3.6	23bps
CIR	36.0	36.1	-4bps	28.8	721bps
ROAE	15.0	14.9	4bps	19.8	-489bps
ROAA	1.9	1.9	2bps	2.3	-46bps
Asset Quality					
NPL ratio	3.3	2.2	109bps	2.2	115bps
Bad debt coverage ratio	46.8	59.2	-1245bps	61.0	-1420bps
Equity-to-assets ratio	13.1	13.0	6bps	12.0	112bps
Operating Safety Ratio					
Customer loans-to-total assets ratio	71.7	71.6	10bps	70.1	159bps
Customer LDR	110.7	111.2	-51bps	97.8	1295bps
Adjusted LDR	89.1	91.5	-240bps	91.0	-192bps

Source: OCB, RongViet Securities

Exhibit 3: Q2-2023 Forecast

Particulars (VND Bn)	2Q-FY23	+/- (QoQ)	+/- (YoY)	Comment
NII	1,820	4%	6.9%	In Q2/23, we expect credit growth to reach 6% YTD, helping interest income grow 6.9% YoY. Non-interest income is expected to record a high growth on a low base as the company recorded most of the loss in the Government bond investment in Q22022 leading to a total operating income forecasted to increase by 29.7%. The backup buffer will also be strengthened to help the bank limit the risks that may occur in the near future.
TOI	2,342	12%	29.7%	
PPOP	1,592	20.1%	54.5%	
NPAT	1,036	31.8%	43.4%	

Source: OCB, RongViet Securities

Update

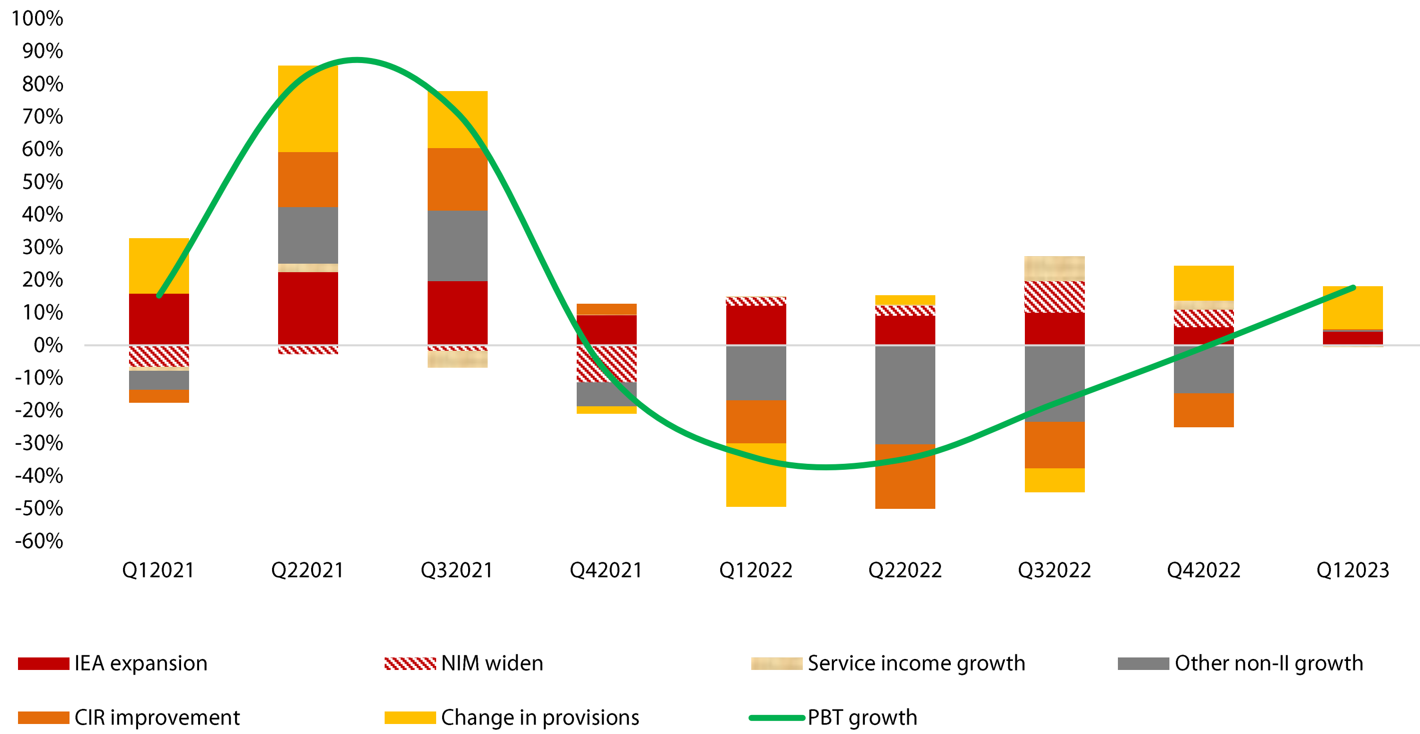
Q1/2023: Earning growth driven by core income and credit cost reduction

Total operating income (TOI) reached VND 2,090 bn (USD 92.4 mn) in Q1/23 (+4% YoY) which was largely contributed by net interest income. Specifically:

- Net interest income (NII) was VND 1,751 bn (USD 77.5 mn), up 5% YoY while non-interest income remained flat, at VND 339 bn (USD 15 mn).
- Service income reached VND 123 bn (USD 5.4 mn, -3.7% YoY). In which, card and account management activities witnessed growth and reached VND 37 bn (USD 2 mn, +90% YoY) and VND 36 bn (USD 1.9 mn, +77% YoY) to compensate a 25% YoY decline in income from insurance activities per our estimate due to the tight control over the insurance industry recently.
- Notably, income from investment securities showed a positive return after a period of strong increase in Government bond yields across most tenors in 2022. Entering Q1/2023, Government bond yields cooled down and fell by about 150 bps in the first three months, thereby enabling OCB's segment to be profitable again, reaching VND 129 bn (USD 6 mn, -7.8% YoY).
- Foreign exchange trading reached VND 49 bn (USD 2.2 mn, +276% YoY) while the remaining activities (debt collection, asset liquidation) reached 39 bn VND (USD 1.8 mn, -32% YoY).

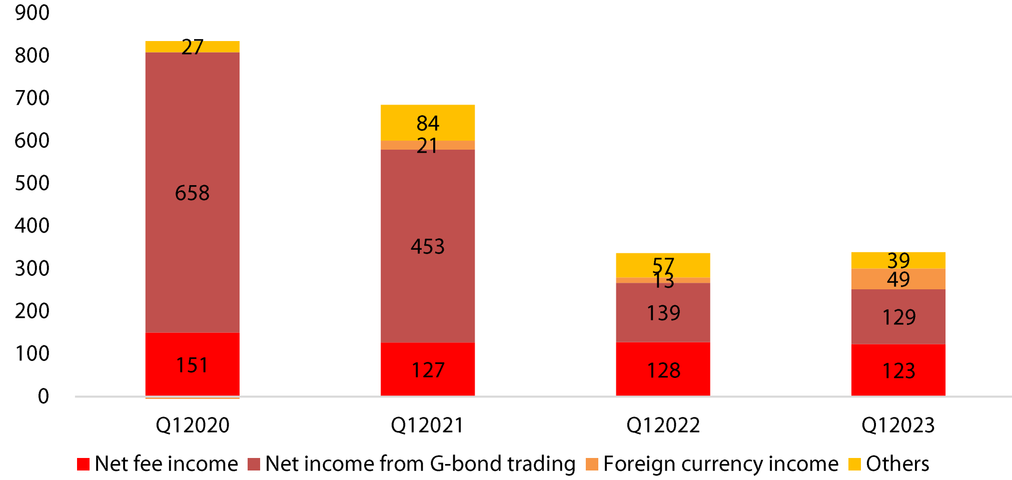
Although total operating income recorded a modest growth, provision expenses became a supportive factor for the bottom-line growth due to a decrease of 21% YoY, contributing 13% of PBT growth. Therefore, PBT managed to achieve a higher growth than TOI, +18% YoY to reach VND 983 bn (USD 43.5 mn).

Figure 1. Quarterly PBT growth factors (%, YoY)



Source: OCB, RongViet Securities

Figure 2: Non-interest income structure in Q1 of each year (billion VND)



Source: OCB, RongViet Securities

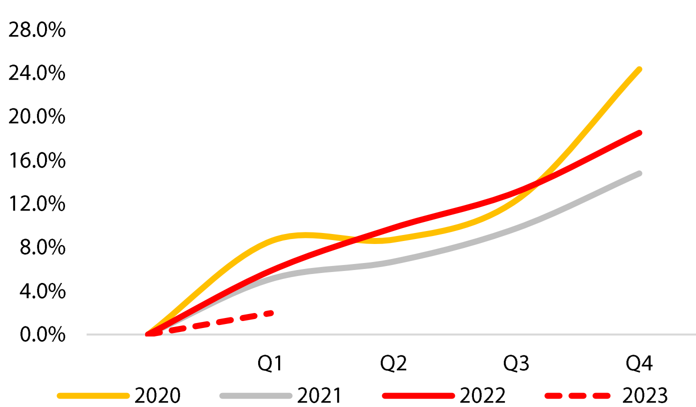
Resilient NIM amid rising cost of funds

In Q1/2023, credit growth reached 2% YTD, quite low compared to other commercial banks in the same tier (except for EIB and VIB which recorded negative credit growth). Yet it was still a suitable level as opposed to the industry average. In which, loans to customers grew by 1.8% YTD while outstanding corporate bonds recorded a higher growth of 10%, however, the proportion of corporate bonds still contributed modestly to credit composition, at 3%.

On the funding side, mobilization growth reached 4.5% YTD, with customer deposits and valuable papers rising by 3% and 9% respectively. In which, CASA ratio continued to drop, following the industry trend, from 11% at the end of 2022 to 8.6%.

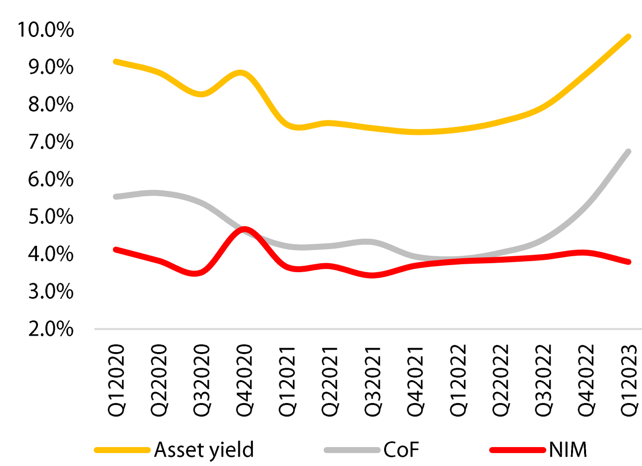
After quarters of increasing in 2022, NIM (annualized) recorded a decrease of 20 bps from 4% in Q4/22, which is still generally a lower level among peers. The decrease of NIM in Q12023 was explained by the fact that deposit rates increased somewhat faster than lending rates, and the bank also allocated its funding more to Government bonds (+4% YoY), credit institutions bonds (+16% YoY) and interbank lending (+10% YoY) which narrowed down the proportion of customer loans from 66% at the end of 2022 to 64.8% in Q12023.

Figure 3: Credit growth (%, YTD)



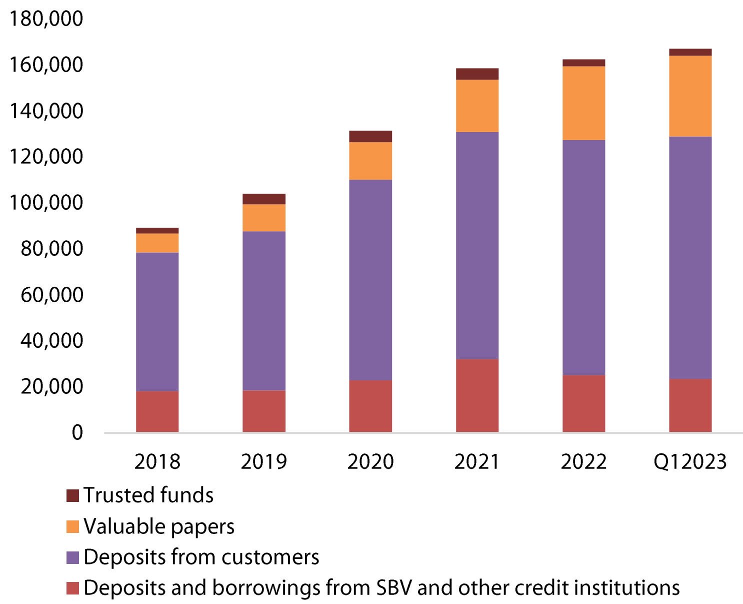
Source: OCB, RongViet Securities

Figure 4: Asset yield, CoF, NIM (%, annualized)



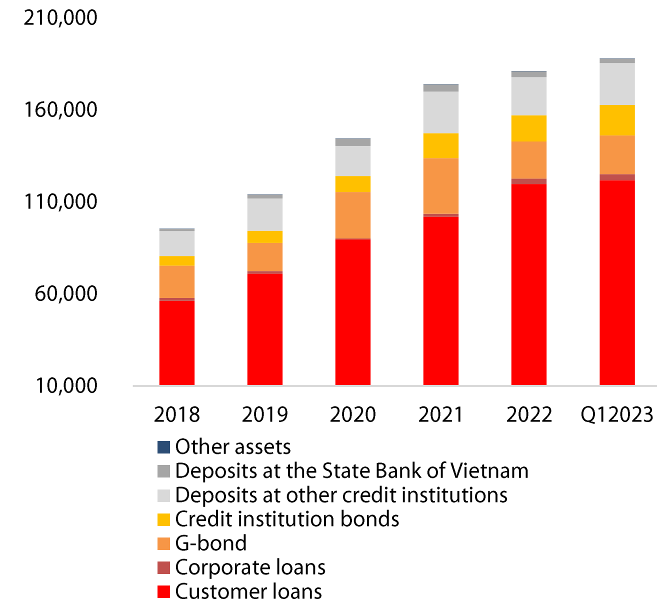
Source: OCB, RongViet Securities

Figure 5: Funding structure (billion VND)



Source: OCB, RongViet Securities

Figure 6: Interest-earning asset structure (billion VND)

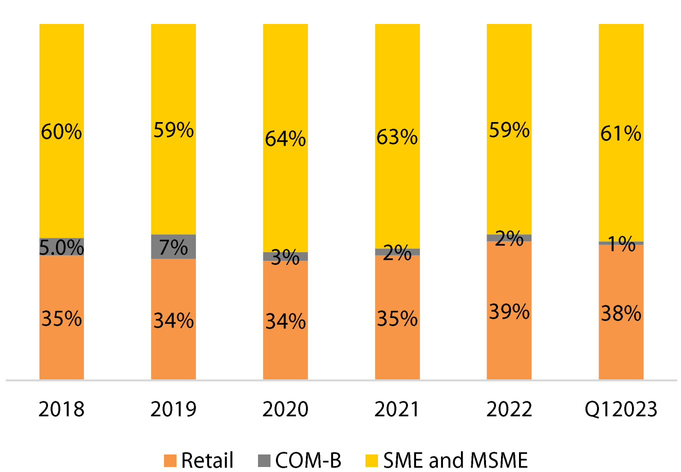


Source: OCB, RongViet Securities

Escalating non-performing loans to put pressure on provision expenses

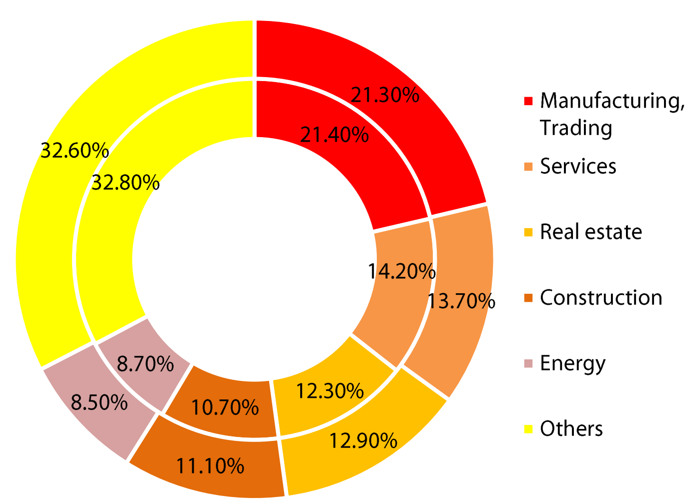
NPL ratio from customer loans in Q1/23 jumped to the highest level in the past five years, reaching 3.3% from 2.2% at the end of Q4/22. We believe that the NPL ratio has returned to a high level recently on the grounds that most of OCB's customers are small and medium enterprises (SMEs) and middle-income individual customers in commercial, trade and production sectors, which are the most vulnerable customer groups to be affected by the economic downturn.

Figure 7: Loan portfolio by customer segment (%)



Source: OCB, RongViet Securities

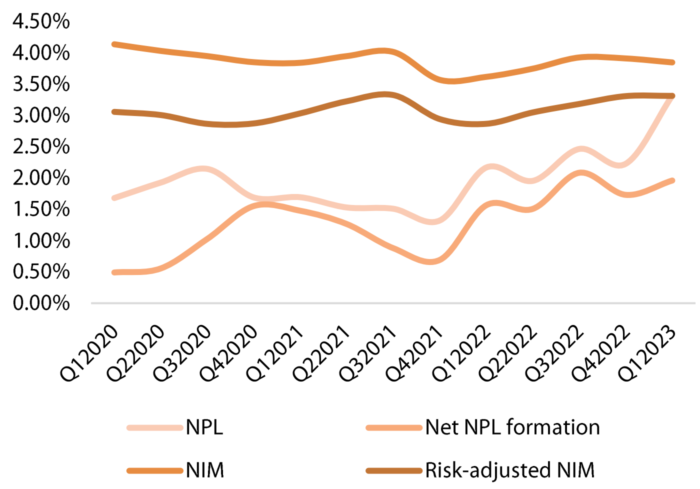
Figure 8: Loan portfolio by industry in Q1 2023 (outer) and 2022 (inner)



Source: OCB, RongViet Securities

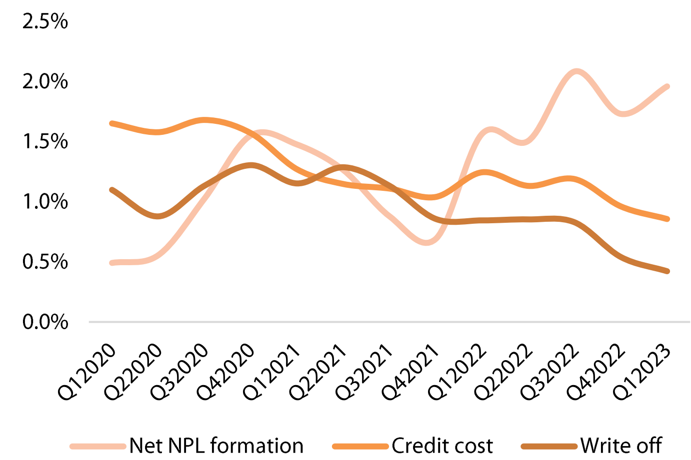
This can be seen as the NPL formation rate (TTM) picked up at 1.96% in Q1/23, a high level in the past three years, resembling the figure of Q3/22 when the bank's balance sheet somewhat reflected the actual impact of COVID-19 restructured loans. At the same time, debt write-off (TTM) in the period reached 0.42%, the lowest level since 2019. In the coming time, the roll forward rate as well as the resilience of these debt groups should be closely paid attention to due to its impact on credit costs and asset quality.

Figure 9: NPL, Net NPL formation, and NIM (%, TTM)



Source: OCB, RongViet Securities

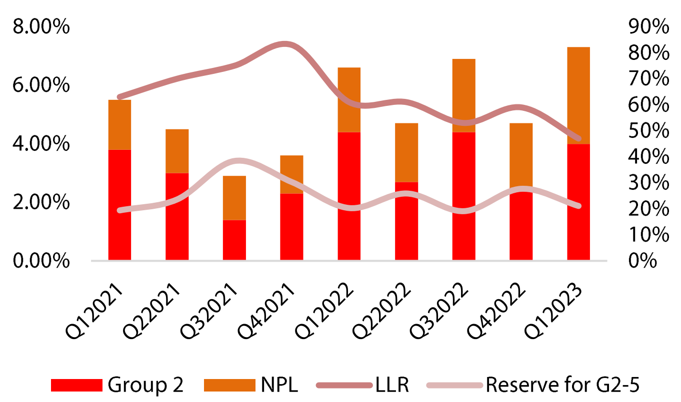
Figure 10: Net NPL formation, credit cost, loan write-offs (%, TTM)



Source: OCB, RongViet Securities

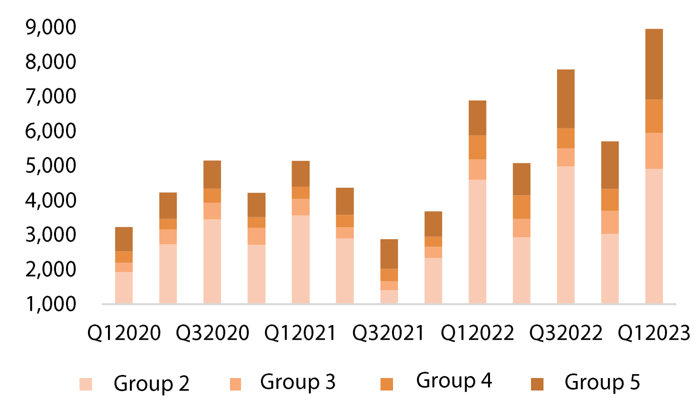
Regarding the provisioning buffer, the NPL coverage ratio was reduced to 47% in Q1/23 from 59% in Q4/22, which was attributed to the high NPL ratio recorded during the period. The fact that credit expenses in Q1/23 dropped 21% YoY helped risk-adjusted NIM (TTM) to remain flat from Q42022, albeit annualized NIM fell slightly. The bank's provisioning buffer has become somewhat thin compared to the industry average, but is on par with other retail-oriented banks such as VIB and VPB. We believe that given the uncertain economic landscape, the supplement of a "thick" provisioning buffer will allow the bank to stand still in the challenges ahead.

Figure 11: Asset quality ratios (%)



Source: OCB, RongViet Securities

Figure 12: Breakdown of Group 2 debt and NPL (billion VND)



Source: OCB, RongViet Securities

2023F-2024F Outlook: Expected recovery in credit demand coupled with non-interest income expansion

OCB has announced its business plan for 2023 with a 20% credit growth and 37% earnings growth. The bank has completed 16% of the PBT target in Q1. We reckon that the 2023 plan is somehow of a challenge in the current economic context with weak credit demand and potential risks of rising credit costs in the coming time.

Exhibit 4: 2023 Guidelines

	1Q2023	2023 Guidelines	Actual 1Q2023 versus 2023 Guidelines	Actual 2022	Actual 2022 versus 2022 Guidelines
Credit growth	2%	20%		18.5%	
NPL ratio*	2.5%	<3%		1.71%	
PBT (VND bn)	983	6,000	16%	4,389	62%

*****NPL ratio calculated according to Circular 11*

Source: OCB, RongViet Securities

Based on Q1 business results, combined with a cautious view that commercial production activities will likely recover from the second half of 2023, we forecast OCB's 2023 whole-year credit growth to reach 14.2%. Deposit growth is respectively at 13% while total deposits from offshore funding and valuable papers are estimated to increase by 15%, resulting in a 13% growth in total mobilization. We expect credit demand to witness rosier prospects in 2024 with a credit growth of 19.4% and deposit growth of 15%.

NIM in 2023 is forecast at 3.84%, recovering from Q1 but decreasing by 10 bps compared to 2022. The rationale for this forecast includes the fact that deposit rates will be alleviated somewhat faster when the SBV reduced operating interest rates while lending yields records certain lag in interest rate repricing. Cost of funds should start to decrease from Q22023 but the 2023 level may still be at around 5.8%, higher than 4.5% in 2022. In the base case, we expect the situation to be more positive from 2024 and NIM will improve to 3.9% as the bank continues expanding the proportion of individual customers loans to help OCB obtain better asset yields. Based on the above assumptions, we forecast net interest income in 2023 and 2024 to grow by 7.7% and 19.4%, respectively.

Thanks to the strengthening of the retail sector, service income is also forecasted to increase by 0.2% and 24.5% respectively for 2023 and 2024, contributing 10, 6% and 11% to total operating income, with a diversified structure thanks to strong growth in income from card services and wealth management that offset the slowdown the insurance segment. Income from trading and investment securities is forecasted to return to the profitable zone, accounting for about 6% of TOI in 2023 and 2024 compared to around 20% in the 2020-2021 period.

Operating costs will gradually be better controlled due to digital transformation in sales channels and internal processes, while the annual investment budget allocated for technology infrastructure might not generate significant adverse effects. Accordingly, CIR will decrease to 31% in 2023 and 32.6% in 2024 from 36.1% in 2022.

The economic recovery is expected to help improve the bank's asset quality with NPL ratio from customer loans falling from 3.3% at the end of Q1 to 2.62% at the end of 2023 before improving to 2.27% in 2024. Net NPL formation rate will decrease slightly compared to Q12023 to 1.64% for the whole year, followed by a continuous enhancement to 0.82% in 2024 given the expectation of a brighter economic prospect. From that, we forecast provision expenses to reach VND 1,401 bn (USD 61.8 mn, +31.2% yoy) in 2023 and VND 1,335 bn (USD 58.7 mn, -4.7% yoy) in 2024, corresponding to a credit cost margin of 1.09% in 2023 before falling to 0.9% in 2024, thereby maintaining a “thicker” provisioning buffer to cushion possible “shocks”.

Altogether, we forecast consolidated PBT to grow by 18.2% YoY and 24.2% YoY in 2023 and 2024, respectively, to reach VND 5,186 bn (USD 227.8 mn) and 6,440 bn (USD 283.7 mn). ROA will improve from 2.0% in 2023 to 2.1% while ROE will reach 15.2% and 16.1% in 2023 and 2024, respectively.

Valuation and recommendation

In our opinion, OCB's 2023 forward PE/PB are 6.4 and 0.9, respectively, 53% lower than the average of 26 listed banks (except VCB) and 48% lower than the average of commercial banks.

Exhibit 5: Performance, valuation ratios of selected banks

Bank	Market cap (billion VND)	ROA (%)	ROE (%)	Trailing P/E ratio (12 months)	Trailing P/B ratio (12 months)	CAR (%)
CTG	140,328	1.30	17.70	8.29	1.25	9
BID	220,046	0.95	18.74	10.97	2.10	9.07
VCB	472,778	2.00	25.70	15.29	3.27	10.3
MBB	89,093	2.60	24.50	4.96	1.10	11.7
TCB	113,079	2.90	17.80	5.90	0.97	15.0
ACB	84,090	2.50	26.30	5.79	1.34	13.4
VPB	130,907	1.90	12.00	10.84	1.32	19.0
HDB	47,035	2.10	23.50	5.94	1.20	12.5
OCB	25,069	1.90	14.90	6.91	0.96	13.1

Source: Bloomberg, RongViet Securities, listed banks' FS (as of 20/6/2023)

We determine the fair value of OCB using (1) discounted cash flow methods to reflect medium and long-term business results, coupled with (2) comparative valuation based on P/ B forecast. Overall, we estimate the fair value of OCB at **VND22,600/share**, equivalent to a forward P/B for the one-year timeframe of 1.06x. This price is equivalent to an expected return of **23%** compared to the closing price on **July 3rd, 2023**. Therefore, we recommend to **BUY** OCB.

Exhibit 6: Valuation methods and target price of OCB

Method	Price	Weight	Average
Discount Cash flow	21,819	50%	10,900
Forward PB	23,563	50%	11,700
Fair value			**22,600**

Source: RongViet Securities

Figure 13: P/B

Source: Bloomberg, RongViet Securities

VND Bn

INCOME STATEMENT	FY2021A	FY2022A	FY2023E	FY2024F
Interest and Similar Income	11,720	14,068	17,398	19,489
Interest and Similar Expenses	-5,955	-7,120	-9,918	-10,559
Net Interest Income	**5,766**	**6,948**	**7,480**	**8,930**
Non-interest Income	3,154	1,586	2,068	2,631
Net fee and commission Income	785	1,014	1,016	1,266
Net gain/(loss) from foreign currency and gold dealing	100	145	122	134
Net gain/(loss) from trading of securities	124	-77	66	79
Net gain/(loss) from disposal of investment securities	1,745	-140	500	618
Net other income/expenses	401	644	363	534
Income from capital contribution	0	0	0	0
Total operating income	**8,919**	**8,534**	**9,548**	**11,561**
Operating expenses	-2,403	-3,077	-2,961	-3,785
Operating profit before provision	6,516	5,457	6,587	7,775
Provision expenses	**-998**	**-1,067**	**-1,401**	**-1,335**
Profit before tax	**5,519**	**4,389**	**5,186**	**6,440**
Corporate income tax	-1,114	-880	-1,041	-1,294
NPAT	**4,405**	**3,510**	**4,145**	**5,146**
Attributable to parent company	**4,405**	**3,510**	**4,145**	**5,146**

%

FINANCIAL RATIO	FY2021A	FY2022A	FY2023E	FY2024F
Growth				
Customer loans	13.8	17.1	14.6	19.7
Customer deposit	13.3	3.4	13.0	15.0
Net interest income	15.7	20.5	7.7	19.4
Operating income	11.3	-4.3	11.9	21.1
NPAT	24.6	-20.3	18.1	24.2
Total Assets	21.0	5.2	15.9	17.1
Equity	25.1	15.9	16.4	17.5
Profitability				
NIM	3.64	3.94	3.84	3.90
CIR	26.9	36.1	31.0	32.7
ROAE	22.5	14.9	15.2	16.1
ROAA	2.6	1.9	2.0	2.1
Asset Quality				
NPL ratio	1.3	2.2	2.6	2.3
Bad debt coverage ratio	82.7	59.2	50.0	54.3
Equity-to-Asset ratio	11.8	13.0	13.1	13.1
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	67.0	71.6	70.9	72.1
Customer LDR	103.3	117.2	118.8	123.6

VND Bn

BALANCE SHEET	FY2021A	FY2022A	FY2023E	FY2024F
Cash and precious metals	714	793	912	1,561
Balances with the SBV	3,853	3,225	4,504	5,179
Placements with and loans to other credit institutions	22,595	20,636	23,938	27,768
Trading securities, net	4,565	143	1,648	1,977
Derivatives and other financial assets	126	360	243	301
Loans and advances to customers, net	100,935	118,221	135,461	162,104
Investment securities	40,968	37,333	44,636	50,639
Investment in other entities and long-term investments	0	0	0	0
Fixed assets	555	584	675	790
Investment properties	0	0	0	0
Other assets	10,181	12,699	12,826	12,954
TOTAL ASSETS	**184,491**	**193,994**	**224,841**	**263,275**
Due to Gov and borrowings from SBV	131	2,595	959	1,228
Deposits and borrowings from other credit institutions	32,038	22,630	30,551	38,189
Deposits from customers	98,805	102,211	115,499	132,824
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international & other institutions	4,996	3,168	4,277	5,347
Convertible bonds/CDs and other valuable papers issued	22,629	32,023	36,826	42,350
Other liabilities	6,900	7,495	8,556	9,897
Total liabilities	**162,686**	**168,722**	**195,426**	**228,713**
Shareholder's equity	**21,805**	**25,272**	**29,415**	**34,561**
Capital	15,402	15,402	15,402	15,402
Reserves	2,267	2,793	3,716	4,863
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	4,137	7,077	10,298	14,297
Minority interest	0	0	0	0
LIABILITIES AND SHAREHOLDER'S EQUITY	**184,491**	**193,994**	**224,841**	**263,275**

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FOOTNOTES	FY2021A	FY2022A	FY2023E	FY2024F
Interest Income	**11,641**	**14,068**	**17,398**	**19,489**
From customers	9,666	11,844	14,547	16,458
From other Cis	89	419	718	632
From fixed-income investment	1,308	1,336	1,551	1,740
From guarantee	0	0	0	0
From other activities	578	469	582	658
Interest Expenses	**-5,955**	**-7,120**	**-9,918**	**-10,559**
To customers	-4,629	-5,387	-7,176	-7,449
To other Cis	-246	-397	-435	-534
To fixed-income investment	-966	-1,162	-2,050	-2,310
To other activities	-113	-174	-256	-266
Operating expenses	**-2,403**	**-3,077**	**-2,961**	**-3,785**
Provision expenses	**-998**	**-1,067**	**-1,401**	**-1,335**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tam Pham
Manager
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance
- Construction materials

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst
an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1541)
- Food & Beverage
- Automotive & Spare parts

Lam Do
Senior Analyst
lam.dt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Real Estate

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Retails
- Fishery
- F&B

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities
- Bank

Quan Cao
Analyst
quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)
- Sea ports
- Pharmaceuticals

Hoai Trinh
Analyst
hoai.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1545)
- Utilities
- Textiles

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1546)
- Industrial RE
- Market Strategy

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Chinh Nguyen
Analyst
chinh.nd@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Trinh Nguyen
Senior Consultant
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Khanh Bui
Assistant
khanh.bdc@vdsc.com.vn
+ 84 28 6299 2006

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OPERATING NETWORK

HEADQUARTER IN HO CHI MINH CITY
Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du,
Ben Thanh Ward, District 1, Ho Chi Minh City
T (+84) 28 6299 2006 E info@vdsc.com.vn
F (+84) 28 6291 7986 W www.vdsc.com.vn
Tax code 0304734965

HANOI BRANCH
10th floor, Eurowindow Tower, 2 Ton That Tung,
Trung Tu Ward, Dong Da District, Hanoi
T (+84) 24 6288 2006
F (+84) 24 6288 2008

NHA TRANG BRANCH
7th floor, 76 Quang Trung, Loc Tho Ward,
Nha Trang City, Khanh Hoa
T (+84) 25 8382 0006
F (+84) 25 8382 0008

CAN THO BRANCH
8th floor, Sacombank Tower, 95-97-99, Vo Van Tan,
Tan An Ward, Ninh Kieu District, Can Tho City
T (+84) 29 2381 7578
F (+84) 29 2381 8387

VUNG TAU BRANCH
2nd floor, VCCI Building, 155 Nguyen Thai Hoc,
Ward 7, Vung Tau City, Ba Ria – Vung Tau Province
T (+84) 25 4777 2006

BINH DUONG BRANCH
3rd floor, Becamex Tower, 230 Binh Duong Avenue,
Phu Hoa Ward, Thu Dau Mot City, Binh Duong Province
T (+84) 27 4777 2006

DONG NAI BRANCH
8th floor, TTC Plaza, 53-55 Vo Thi Sau,
Quyet Thang Ward, Bien Hoa City, Dong Nai Province
T (+84) 25 1777 2006