July 2023

PC1 GROUP JSC (HSX: PC1)

Cautious with growth expectations ahead

(VND bn)	Q1-FY23	Q4-FY22	+/- qoq	Q1-FY22	+/- yoy
Net revenue	1,505	2,339	-35.6%	1,478	1.8%
NPAT-MI	15	188	-92.2%	133	-89.0%
EBIT	241	440	-45.3%	-295	-18.4%
EBIT margin	16.0%	18.8%	282 bps	20.0%	398 bps

Source: PC1, RongViet Securities

Q1-2023 results – Interest expenses & low hydropower plant output hit earnings

- In Q1/2023, PC1 recorded net revenue and NPAT-MI of VND 1,505 bn (+2% YoY) and VND 14.7 bn (-89% YoY), respectively. Despite the new contributions from the nickel project and Nomura IP, the low profit is reflected in (1) lower earnings contribution from hydropower plants, whose output plummeted by 59% YoY, and (2) higher interest expenses, which totaled VND 202 bn (+81% YoY).

2023 outlook – New earnings contribution from nickel project and Nomura IP are expected to offset earnings from other segments

- For Q2/2023, we forecast net sales and NPAT-MI at VND 1,518 bn (+1% QoQ, +0% YoY) and VND 39 (+166% QoQ, -38% YoY), respectively. Low-profit level due to low contribution from the power segment, particularly hydroelectricity. Meanwhile, power construction and industrial manufacturing will be more active. IP& wind power will continue to remain stable.
- For FY2023, we expect net revenue and NPAT-MI to be VND 8,941 bn (+7.0 % YoY) and VND 457 bn (flat YoY). EPS 2023 is equivalent to 1,561 VND. Profit contributions from the Nickel project and IP segment are expected to offset the profit decline in the power construction and hydropower portfolio. The high-interest expense on floating-rate loans will continue to put pressure on PC1's profitability.
- With an ore containing approximately 7.5 % Ni and an ASP of around $900/ton, we estimate that the nickel project will contribute approximately VND 954 bn and VND 31 bn to PC1's revenue and NPAT in FY2023.
- In 2023, PC1 begins to record revenue and profit from the management, operation, and sales of Nomura IP from Q1. We forecast revenue and gross profit from this segment in 2023 at VND605 bn and VND106 bn, respectively.

Valuation and recommendation

The authorized PDP VIII increases PC1's medium and long-term growth prospects through transmission grid building and renewable energy initiatives. However, we believe that in 2023, the two core segments that contribute the most to PC1's profit structure, namely power construction and power generation, would likely post poorer business results than in the previous year. The year 2023 is also predicted to see contributions from nickel mining and Nomura IP management and operation. We expect the two new projects to make up for the profit gap caused by weaker power construction and power-generating segments, based on a conservative assessment of their contribution to PC1's profit structure.

*Using the sum of the parts (SoP) and P/E methods at a ratio of 70/30, we determine the fair value of PC1 stock at **VND 28,300/share** for a one-year outlook. We believe that the expectation of earnings growth seems priced in. Therefore, with an expected return of **-2%** based on the closing price of 24/07/2023, we recommend **NEUTRAL** to PC1.*

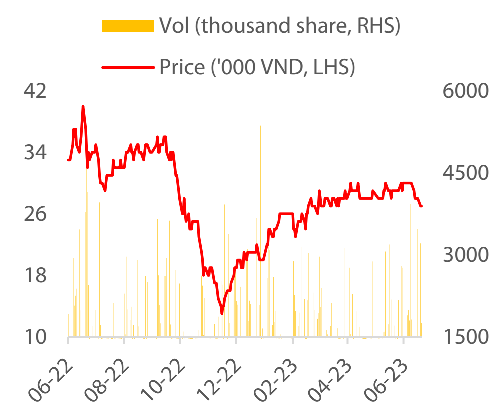
NEUTRAL -2%

Current market price (VND)	29,000
Target price (VND)	28,300
Cash dividend (VND)	0

Stock Info	
Sector	Utilities
Market Cap (VND bn)	7,302
Current Shares O/S	270,433,002
Avg. Daily Volume (in 30 sessions)	2,579,350
Free float (%)	56.7
52 weeks High	36,800
52 weeks Low	12,700
Beta	1.0

	FY2022	TTM
EPS	1,570	1,226
EPS Growth (%)	-34	-56
Diluted EPS	1,617	1,226
P/E	13.2	22.4
P/B	0.8	1.4
EV/EBITDA	10.0	9.5
Cash dividend yield (%)	0	0
ROE (%)	12.2	6.8

Price performance



Major Shareholders (%)	
Trinh Van Tuan	21.4
BEHS	17.3
Vu Anh Duong	2.2
Foreign ownership room (%)	40.9

Hoai Trinh
(084) 028- 6299 2006 – Ext 1530
hoai.ttt@vdsc.com.vn

Exhibit 1: Q1/2023 Results

(VND Bn)	Q1-FY23	Q4-FY22	+/- (qoq)	Q1-FY22	+/- (yoy)
Net revenue	1,505	2,339	-35.6%	1,478	1.8%
Gross profit	308	508	-39.4%	350	-12.1%
SG&A	67	68	-1.0%	55	22.1%
Operating income	241	440	-45.3%	295	-18.4%
EBITDA	409	602	-32.0%	451	-9.3%
EBIT	241	440	-45.3%	295	-18.4%
Financial expenses	212	163	29.7%	121	74.7%
- Interest Expenses	*202*	*203*	*-0.6%*	*112*	*81.4%*
Dep. and amortization	168	162	3.9%	156	7.9%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	84	294	-71.3%	184	-54.1%
NPAT-MI	15	188	-92.2%	133	-89.0%
Adjusted NPAT-MI for (*)	15	188	-92.2%	133	-89.0%

Source: PC1, RongViet Securities

Exhibit 2: Q1/2023 Performance Analysis

Particulars	Q1-FY23	Q4-FY22	*+/- (qoq)*	Q1-FY22	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	20.4%	21.7%	-126bps	23.7%	-324bps
EBITDA Margin	27.2%	25.7%	144bps	30.5%	-335bps
EBIT Margin	16.0%	18.8%	-282bps	20.0%	-398bps
Net Margin	1.0%	8.0%	-704bps	9.0%	-803bps
Adjusted Net Margin	1.0%	8.0%	-704bps	9.0%	-803bps
Turnover*(x)					
-Inventories	5.3	7.8	-2.5	5	-0.1
-Receivables	2.0	2.8	-0.8	1.9	0.1
-Payables	2.5	3.0	-0.4	2	0.8
Leverage (%)					
Total Liabilities/Equity	68.0%	84.3%	-1.634bps	83.1%	-1.517bps

Source: PC1, RongViet Securities

Exhibit 3: Q2/2023 Performance Forecast

Particulars (VND Bn)	Q2/2023	+/- qoq	+/- yoy
Revenue	1,518	1%	0%
Gross profit	282	-7%	-18%
EBIT	214	-11%	-23%
NPAT-MI	39	166%	-38%

Source: RongViet Securities

Q2/2023 assumptions:

- Power construction and industrial manufacturing activities will be more active in Q2. Meanwhile, power generation will continue to be affected in Q2.
- The management, operation and sale of electricity in Nomura IP will continue to contribute to PC1's profit.
- High interest expenses in Q2 are expected to continue to put pressure on profit.
- NPAT-MI is expected to remain low due to low contribution from the electricity segment, particularly hydropower, while industrial RE and wind power will continue to remain stable in Q2.

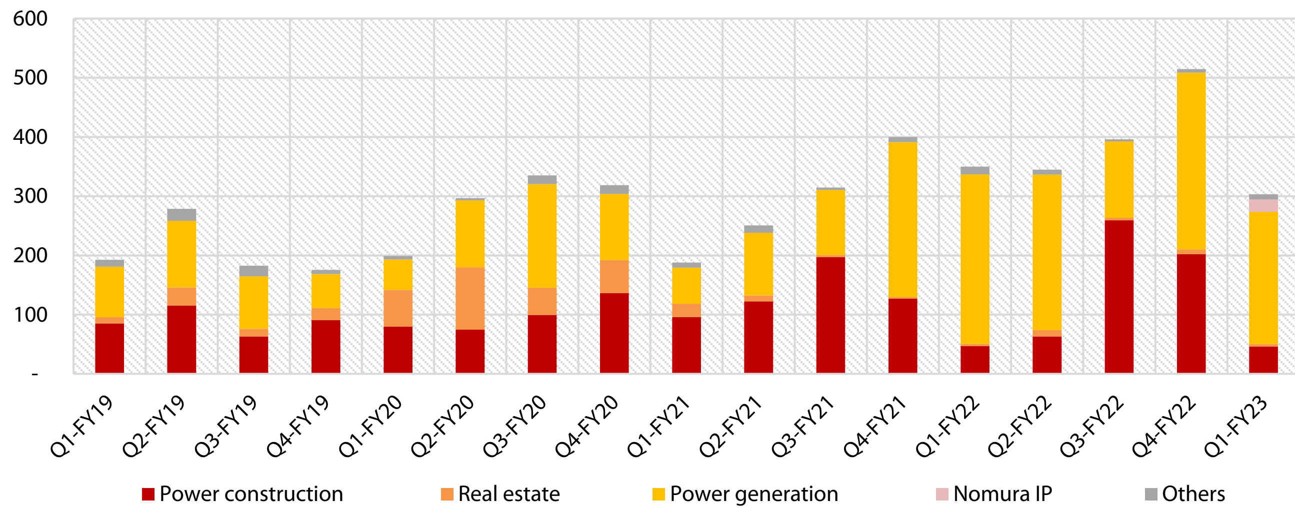
Q1-2023: Interest expenses & low hydropower plant output hit earnings

In Q1/2023, PC1 recorded net revenue and NPAT-MI of VND 1,505 bn (+2% YoY) and VND 14.7 bn (-89% YoY), respectively. Despite the new contributions from the nickel project and Nomura IP, the low profit is reflected in (1) lower earnings contribution from hydropower plants, whose output plummeted by 59% YoY, and (2) higher interest expenses, which totaled VND 202 bn (+81% YoY).

In Q1/2023, power construction & power generation continued to be the two main segments contributing to PC1's profit structure. Regarding power construction, PC1 recorded revenue & gross profit of VND 464 bn (+26% YoY) and VND 43.9 bn (+57% YoY), respectively, with a gross margin of 9.5%. This gross margin is higher YoY but lower than the average in 2022 because projects in Q1 have a higher proportion of contributions from EVN'S projects. Industrial manufacturing in Q1 also slowed down, with revenue and profit dropping sharply, reaching VND 88 bn (-66% YoY) and VND 2.3 bn (-88% YoY).

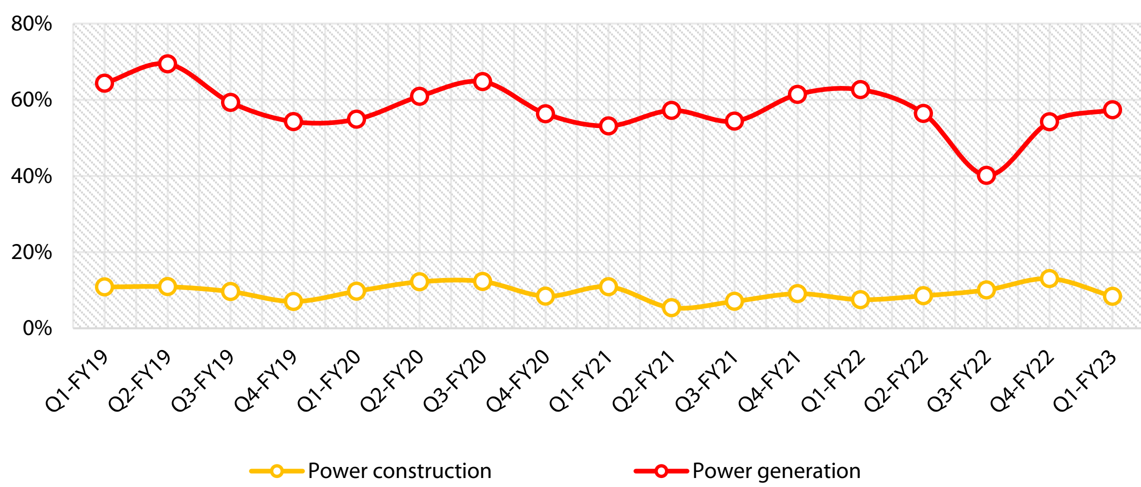
The power generation segment (hydroelectricity & wind power) recorded revenue and gross profit in Q1 of VND 389 bn (-15%YoY) and VND 164 bn (-22% YoY), respectively, mainly due to the 53% YoY the hydroelectric plants. Energy segment gross margin came in at 57% (+1% YoY), hitting an average base thanks to stable contribution from the wind power segment, with output and revenue increasing by 10% YoY and 13% YoY, respectively.

Figure 1: Gross profit by segment (VND bn)



Source: PC1, Rong Viet Securities

Figure 2: Gross margin by key segment



Source: PC1, Rong Viet Securities

2023 Outlook – New earnings contribution from nickel project and Nomura IP are expected to offset earnings from other segments

Nickel project: Expect to contribute to PC1 profit in 2023 with a cautious tone

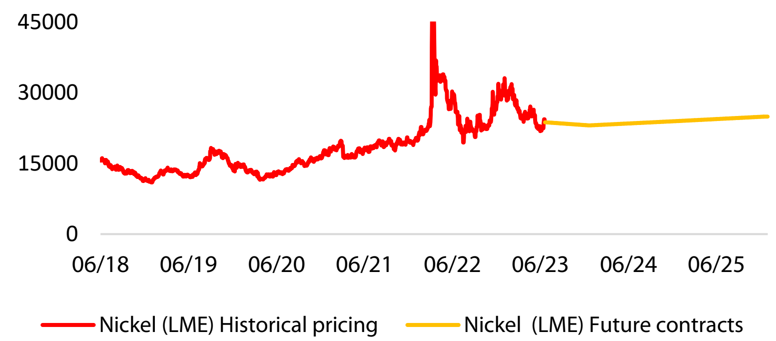
The current Nickel project is operated by PC1's subsidiary, Tan Phat Mineral JSC, of which PC1 holds 57.3%. Currently the company is going into exploitation and production for Phase1. Phase 2 is expected to be deployed with the goal of doubling production in 2025.

After the "jitter" in February (nearly tripled in three days) when supply shortage fears arose due to sanctions of Russia – the world's top nickel provider. Currently, the price of this metal has cooled down and is expected to stabilize in the long term (Fitch Solution/S&P).

Per management, PC1 wlll export 38,000 tons of nickel concentrate ore in 2023 (the first batch might be transported as early as Q3/2023), with a minimum of 5,000 tons per shipment. Trafigura is the present partner, and the selling price is likely to refer to 99.8 percent nickel on the LME. We forecast that the nickel project will contribute around VND 954 bn and VND 31bn to PC1's revenue and NPAT in FY2023, with an ore containing roughly 7.5 percent Ni and an ASP of around $900/ton.

Our forecasts are more conservative than the shared business plan based on (1) mining nickel from mines with large CAPEX, potentially risky in the extraction and refining stages (currently CAPEX of the Nickel mining phase 1 has increased to 2,000 bn VND, higher than the initial estimate of 1,500 bn VND); (2) PC1's nickel ASP is anchored to the price on the LME, the risk comes in times of low prices, while grade II nickel supply is forecast to be in surplus in 2023 due to a sharp drop in stainless steel demand, and (3) batch manufacturing will be reliant on a single partner, Trafigura.

Figure 3: LME Nickel (min 99.8% purity) price plummet to 6-month low of 2023 (USD/tonne)



Source: LME, Capital IQ, Rong Viet Securities

Table 4: Nickel classification

Type I	Mainly composed of electrolytic nickel (cathodes, briquettes, carbonyl, nickel compounds), produced from sulfide ores~ ores that account for about 30% of the world's nickel reserves. The main use is for electric vehicle batteries.
Type II	Eg:Ferrickel, porcine nickel (NPI), and nickel oxide are all produced from laterite nickel ore (latterite) ~ accounting for about 70% of the world's nickel reserves. The primary use is for stainless steel.

Table 5: Types of nickel and its properties

Nickel Ore	Nickel Pig Iron (NPI)	Ferronickel (FeNi)	Nickel Cathode	Nickel Briquettes
				
~0.3%-1.8% Ni	~1.5% - >19% Ni	~20% - >30% Ni	Ni 90%	99.8% Ni min
NPI- cheaper nickel class I alternative: commercially viable in 2005 from China. NPI is produced in relative abundance when compared to class 1 nickel from sulfide ores. PC1 shares the nickel content of the exported ore output Ni content is about 7.5%.				

Source: SMM, Rong Viet Securities

Industrial park real estate: Starting to participate in developing IP, 2023 profit is expected to be contributed by Nomura IP

PC1 owns 30.08 % of Western Pacific, a business involved in the development of LIC projects (logistics industrial clusters). WP presently controls 60.2 % of the YP IIA Bac Ninh project's shares. We forecast that this project will be completed in four years, with leasing beginning in the second half of 2023 assuming a 30% occupancy rate; the lease price is $125/ha. In 2023, revenue and net profit will be VND 899 bn and VND 257 bn, respectively.

WP owns all of the stakes in the Yen Lenh-Ha Nam industrial zone and port cluster. We exclude the projection 2023/2024 since the project has only recently been accepted for the 1/500 construction plan and is preparing for site clearance.

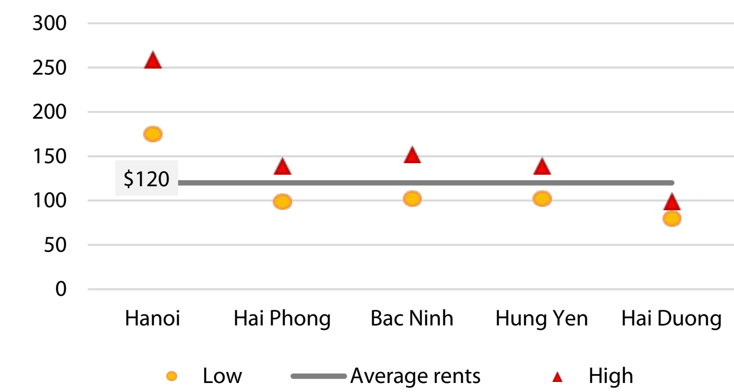
Along with Western Pacific, PC1 also united the long-standing industrial park Nomura. From the first quarter of 2023, PC1 begins to record revenue and profit from the management and operation of Nomura IP. In 2023, we expect net revenue and gross profit from the management, operation, and sale of electricity to the IP to be VND605 bn and VND106 bn, respectively.

Table 6: Information on two industrial parks that WP has developed

Project	Location	Total investment (bn VND)	Total site area (ha)	Leasable area (ha)	Lease prices (USD/sqm/lease term)
Yen Phong IIA	Bac Ninh	1.830	151	100	125
Yen Lenh	Ha Nam	624	69	55	90

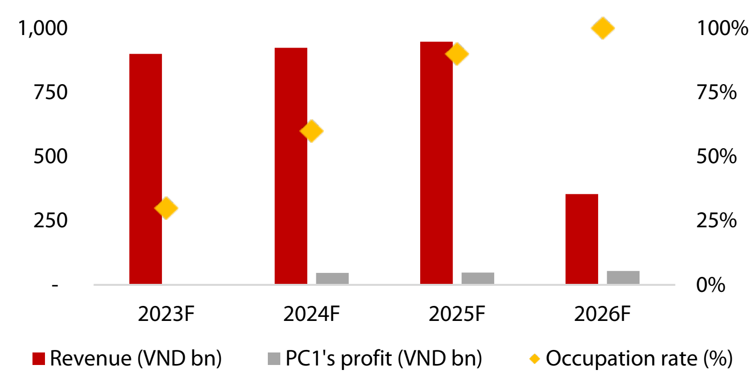
Source: PC1, Rong Viet Securities Company

Figure 4: Asking prices for industrial land (USD/sqm/lease term) in Northern region



Source: CBRE, Rong Viet Securities

Figure 5: Expected contribution of Yen Phong IIA to PC1's earnings



Source: PC1, Rong Viet Securities

Residential real estate: Four projects have yet to complete legal procedures

PC1 currently has four ongoing projects. In June 2023, the Gia Lam project is scheduled to have an investment policy. Because the remaining projects are projected to endure longer, we have not included them in our valuation.

Table 7: Information about residential RE projects

Project	Total area (m2)	Describe
Gia Lam	7,100	54 low-rise apartments
Dinh Cong	15,100	83 low-rise apartments
Vinh Hung	5.160	Mixed-use high-rise buildings (27 floors, 3 basements) & Mixed-use low-rise buildings (5 commercial floors, 1 basement)
Thang Long	20,000	Mixed-use high-rise buildings (27 floors, 3 basements) & Low-rise housing project

Source: PC1, Rong Viet Securities

Construction is predicted to be modest in 2023, but to gain in the medium and long term as a result of PDP8

National Power Development Plan VIII, which was adopted in May 2023, is likely to benefit PC1 in the long run due to increased demand for transmission system building and renewable energy projects. However, we forecast PC1's revenue from the power construction & EPC category will reach VND4,000 bn (-18% YoY) in 2023, with a gross margin of around 10%. (-60 bps). This gross margin is higher than the gross margin of 2021 since the firm concentrates on transmission line and substation construction, but lower than the gross margin of 2022 due to projects in Q1 with a significant share of contributions from EVN projects.

For industrial manufacturing activities, we forecast that PC1's revenue and gross profit in 2023 will reach VND 600 bn (-7.0% YoY) and VND 66 bn (+21% YoY) with a projected gross margin to improve slightly at 10.9% (+259 bps) due to the downward trend in input steel prices.

Table 8: Projection of spread array of PC1

VND bn	2019	2020	2021	2022	2023F
Backlog from previous year	2.898	3.033	3.231	1.838	4.174
New contract signed	2.952	3.238	5,321	7,200	4.356
Revenue	3,000	3.040	6.714	4,864	4.009
Backlog transfer to next year	3.033	3.231	1.838	4.174	4.521

Source: PC1, Rong Viet Securities

Power segment: The main contributor to profit structure is forecasted to be affected in 2023/2024

PC1 currently operates 10 power plants, including 169MW of 7 hydropower plants (under 30MW) (mainly of the parent company) and 144 MW of wind power with 3 plants (from subsidiaries). Elnino is projected to have an effect on the volume of hydroelectric plants.

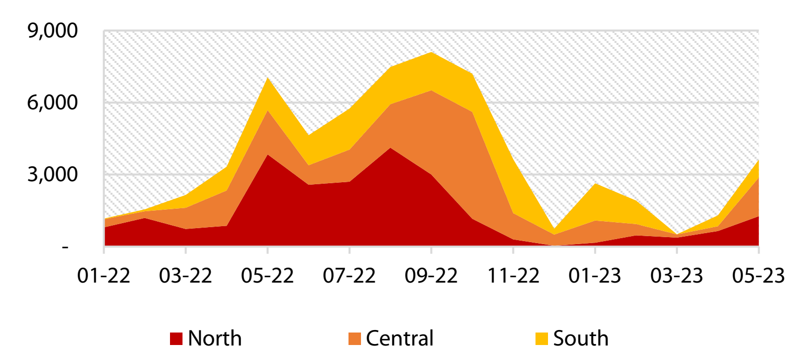
In Q1/2023, hydropower plants showed signs of being affected in Q1/2023, after exiting a period of good hydrological circumstances, with a production of only 40 million kWh (-59.2 % YoY). Hydroelectricity's revenue barely amounted to VND 105 bn (-48.5 % YoY). We forecast PC1's revenue and gross profit to reach VND 1,633 bn (-4.8 % YoY) and VND 8851 bn (-11.4 % YoY) in 2023, assuming the hydropower portfolio will be affected by the Elino, while wind power plants continue to operate with stable capacity and contribute positively to the power segment's business results.

Table 9: 2023F of power generation output and revenue

		Q1/2023				2023F			
Power portfolio	**Capacity (MW)**	**Output (mn kWh)**	**%YoY**	**Revenue (VND bn)**	**% YoY**	**Output (mn kWh)**	**%YoY**	**Revenue (bn VND)**	**% YoY**
Hydropower	169	40	-59%	105	-49%	591	-12%	770	-13%
Wind	144	142	10%	285	13%	425	2%	863	4%
Total	**312**	**181**	**-20%**	**389**	**-15%**	**1.016**	**-6%**	**1.633**	**-5%**

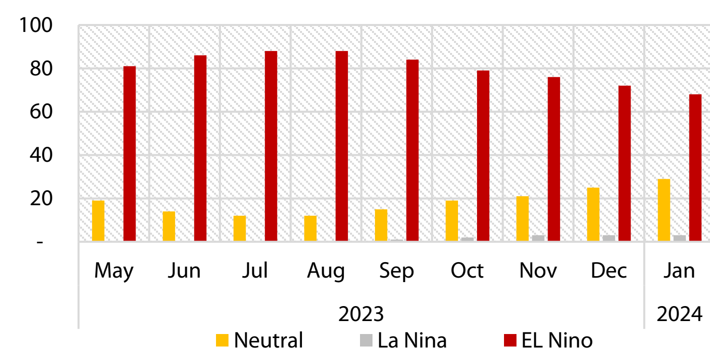
Source: PC1, Rong Viet Securities

Figure 6: Rainfall is low compared to 2022



Source: Rong Viet Securities. Accumulated rainfall from measuring stations

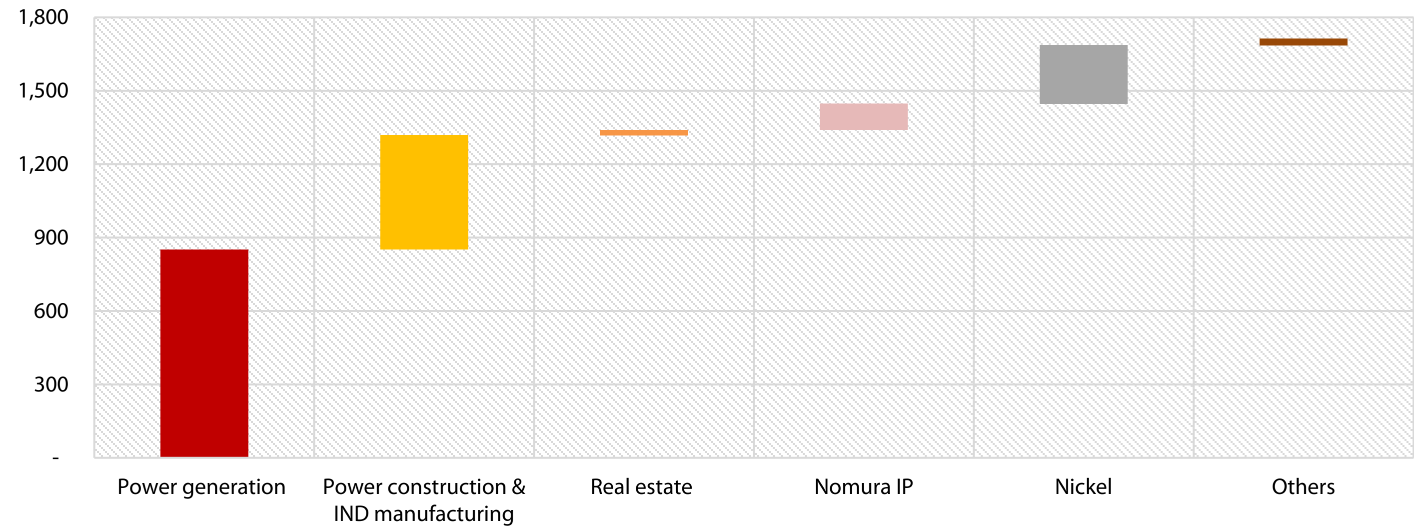
Figure 7: Probabilistic ENSO forecast



Source: NOAA, Viet Rong Securities

Overall, for the whole year of 2023, we expect net revenue and NPAT-MI to be VND 8,941 bn (+7.0 % YoY) and VND 457 bn (flat YoY). EPS 2023 is equivalent to 1,561 VND. Profit contributions from the Nickel project and IP segment are expected to offset the profit decline in the power construction and hydropower portfolio. The high-interest expense on floating-rate loans will continue to put pressure on PC1's profitability.

Figure 8: 2023F gross profit contribution by segment (VND bn)



Source: PC1, Rong Viet Securities

Valuation

We use the Sum of Components (SoP) and P/E methods with weighted 70%/30%, respectively, to value PC1.

With the Total Components (SoP) method, we apply P/E method for power construction & industrial manufacturing segment, FCFE for power generation and real estate development, NAV for IP real estate, FCFF for minerals.. In which, the power generation segment with long-term growth potential accounts for most of the company's value. From there, the total component method gives the price of VND 28,900.

With the P/E method, we average the period from mid-2023 to mid-2024, to assess the short-term potential of the company at a price of VND 26,950.

Using the sum of the parts (SoP) and P/E methods at a ratio of 70/30, we determine the fair value of PC1 stock at VND **28,300/share** for a one-year outlook. We believe that the expectation of earnings growth seems priced in. Therefore, with an expected return of**-2%** based on the closing price of 24/07/2023, we recommend **NEUTRAL** to PC1.

Table 10: PC1's Valuation

Method	Valuation	Weight	Weighted average
PE(14.x)	26,950	30%	8,085
SoP	28,900	70%	20,230
Total		**100%**	**28,300**

Source: PC1, Rong Viet Securities

VND Bn

INCOME STATEMENT	FY2021	FY2022	FY2023E	FY2024F
Revenue	**9,828**	**8,358**	**8,942**	**9,652**
COGS	8,673	6,763	7,256	7,873
Gross profit	**1,156**	**1,595**	**1,685**	**1,779**
Selling Expense	56	-8	37	40
G&A Expense	241	285	268	290
Finance Income	319	95	160	143
Finance Expense	359	767	807	735
Other profits	-8	-41	-25	-33
PBT	**896**	**605**	**726**	**901**
Prov. of Tax	132	69	100	121
Minority's Interest	69	77	168	198
PAT to Equity S/H	**695**	**460**	**457**	**582**
EBIT	859	1,318	1,381	1,449
EBITDA	1,223	1,944	2,866	3,098

%

FINANCIAL RATIO	FY2021	FY2022	FY2023E	FY2024F
Growth (%)				
Revenue	47.2	-15.0	7.0	7.9
Operating Income	10.9	59.0	47.4	8.1
EBITDA	4.3	53.4	4.8	5.0
PAT	35.5	-33.8	-0.6	27.3
Total Assets	74.3	16.4	-1.2	1.0
Equity	17.9	8.8	8.6	10.1
Profitability (%)				
Gross margin				
EBITDA margin	11.8	19.1	18.8	18.4
EBIT margin	12.4	23.3	32.0	32.1
Net margin	8.7	15.8	15.4	15.0
ROA	7.1	5.5	5.1	6.0
ROE	4.7	2.3	2.1	2.7
Efficiency	16.0	9.4	8.6	10.0
Receivable Turnover				
Inventory Turnover	3.1	2.6	2.5	2.5
Payable Turnover	9.6	7.6	7.0	7.0
Liquidity	3.0	3.2	3.6	4.0
Current				
Quick	1.2	1.4	1.6	1.7
Finance Structure (%)	1.0	1.2	1.4	1.5
Total Debt/Equity				
Current Debt/Equity	192.2	233.8	200.8	173.8
Long-term Debt/Equity	59.5	71.9	63.2	59.4

VND Bn

BALANCE SHEET	FY2021	FY2022	FY2023E	FY2024F
Cash and cash equivalents	2,292	2,581	2,162	2,137
Short-term investments	144	1,006	1,809	1,899
Accounts receivable	3,124	3,174	3,577	3,861
Inventories	904	890	1,034	1,119
Other current assets	126	261	288	345
Property, plant & equipment	9,806	10,249	9,222	9,116
Acquired intangible assets	1,220	1,553	1,373	1,179
Long-term investments	639	1,538	1,539	1,556
Other non-current assets	432	501	501	501
Total assets	**18,687**	**21,754**	**21,504**	**21,714**
Accounts payable	2,864	2,126	2,032	1,968
Short-term borrowings	2,800	3,677	3,515	3,639
Long-term borrowings	6,238	8,284	7,647	6,998
Other non-current liabilities	370	347	364	383
Bonus and Welfare fund	135	147	162	181
Technology-science, dev. fund	0	0	0	0
Total liabilities	**12,406**	**14,582**	**13,721**	**13,169**
Common stock and APIC	3,063	3,415	3,415	3,415
Treasury stock (enter as -)	0	0	0	0
Retained earnings	1,305	1,345	1,767	2,304
Other comprehensive income	89	95	95	95
Inv. and Dev. Fund	244	261	281	307
Total equity	**4,701**	**5,116**	**5,558**	**6,122**
Minority Interest	**1,580**	**2,057**	**2.225**	**2.423**

VALUATION RATIO (*)	FY2021	FY2022	FY2023E	FY2024F
EPS (VND)	2,546	1,570	1,561	1,988
P/E (x)	7.8	13.2	18.6	14.6
BV (dong)	17,384	18,918	20,554	22,636
P/B (x)	0.8	0.8	1.3	1.2
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	0	0	0	0

VALUATION MODEL	*Price*	*Weight*	*Average*
P/E	26,950	30%	8,085
SoP	28,900	70%	20,230
Target price (VND)	**28,300**	**100%**	

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
12/2022	26,000	BUY	Intermediate

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%

ABOUT US

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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

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 (1526)
- Food & Beverage
- Automotive & Spare parts

Lam Do
Senior Analyst
lam.dt@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Real Estate

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Industrial RE
- Market Strategy

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1526)
- Retails
- Fishery
- F&B

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

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

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