VIETNAM DAIRY PRODUCTS - JSC (HSX: VNM)

Input price hike to pressure profit margin

(VND bn)	1Q-FY21	4Q-FY20	+/- QoQ	1Q-FY20	+/- YoY
Net revenue	13,190	14,425	-8.6%	14,153	-6.8%
PAT	2,597	2,236	16.1%	2,777	-6.5%
EBIT	2,802	2,147	30.5%	3,212	-12.8%
EBIT margin	21.2%	14.9%	+640 bps	22.7%	-146 bps

Source: VNM, Rong Viet Securities

1Q-FY21 – Earnings hit by weakening dairy demand and contracting gross margin

- Vinamilk's revenue was VND 13,190 Bn (~USD 572 mn, -6.8% YoY), mainly dragged down by revenue decrease in the domestic market (posting VND 9,884 Bn or USD 429 Mn, - 9.4% YoY). Export revenue dropped by 2.4% YoY and accounted for 15% of total revenue in 1Q-FY21.
- Gross margin contracted 180 bps YoY due to the YoY increase of imported milk powder price.
- NPAT came in at VND 2,597 Bn (~ USD 113 Mn), decreasing 6.5% YoY in 1Q-FY21.

FY2021 outlook – SG&A expenses cut to save earnings growth

We estimate that Vinamilk's business results will post moderate single-digit growth of both revenue (+0.1% YoY) and NPAT (+1.3% YoY) to VND 59,694 Bn (or USD 2.6 Bn) and VND 11,246 Bn (or USD 487 Mn), respectively, indicating clearly growth deceleration versus the trend in past three years. This is the result of (1) the undermining dairy demand impacted by Covid-19, and (2) unavoidably negative impact of a material price surge on profit margins.

We expect export markets to resume from 2Q-FY21 and to outperform the slow recovery of the domestic market. Moreover, we believe the company will reduce marketing and promotion expenses due to gloomy domestic demand, estimated to decrease by 11% YoY. In our view, the decrease of SG&A expenses is necessary to sustain positive earnings growth in FY2021.

Basing on our concerns about material price increases, Vinamilk's gross margin is estimated to narrow 260 bps for the whole FY2021 as we estimate that average whole milk powder price will increase 34% YoY, mostly promoted by (1) stronger demand of worldwide dairy products and (2) Chinese import acceleration on the back of better dairy demand & domestic supply chain restructuring.

Valuation and recommendation

Although a large market price discount has made VNM share's valuation multiple more attractive, we are still prudent about its upside prospect in FY2021 as the company will likely face a difficult year ahead as well as lacking new investment stories in the long term.

*Based on the 50%:50% valuation mix of DCF and PER, we evaluate VNM share value at VND100,000. At Jun 18th and a market price of VND 92,500, we recommend to **ACCUMULATE** with a total expected return of 13%, including a 4% cash dividend yield.*

ACCUMULATE +13%

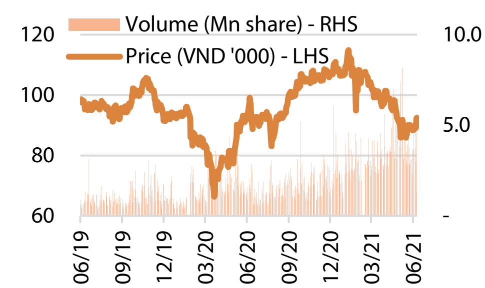
Target price (VND)	100,000
Current market price (VND)	92,500
Expected cash dividend in next 12M (VND)	4,000

Stock Info

Sector	Food & Beverage
Market Cap (VND billion)	192,276
Current Shares O/S (Mn)	2,090
Avg. Daily Volume (in 20 sessions)	4,514,230
Free float (%)	35.2
52 weeks High	117,200
52 weeks Low	86,100
Beta	0.8

	FY2020	Current
EPS	4,770	4,679
EPS Growth (%)	4.9	-2.0
Diluted EPS	4,770	4,679
P/E	20.4	14.8
P/B	6.0	6.0
EV/EBITDA	16.0	10.9
Cash dividend yield (%)	4.1	4.1
ROE (%)	30	32

Price performance



Major Shareholders (%)	
SCIC	36.0
F&N	20.4
Platinum Victory Pte	10.6
Jardine Matheson Limited	10.6
Others	22.4
Foreign ownership room (%)	100

Toan Dao

(084) 028- 6299 2006 – Ext 1518

toan.dp@vdsc.com.vn

Exhibit 1: 1Q/2021 Results

(VND Bn)	1Q-FY21	4Q-FY20	+/-(QoQ)	1Q-FY20	+/-(YoY)
Net revenue	13,190	14,425	-8.6%	14,153	-6.8%
Gross profit	5,755	6,658	-13.6%	6,606	-12.9%
SG&A	2,953	4,512	-34.5%	3,393	-13.0%
Operating income	2,802	2,147	30.5%	3,212	-12.8%
EBITDA	3,301	2,692	22.6%	3,768	-12.4%
EBIT	2,802	2,147	30.5%	3,212	-12.8%
Financial expenses	6	65	-90.1%	122	-94.8%
- Interest Expenses	*13*	*26*	*-50.1%*	*42*	*-69.3%*
Dep. and amortization	500	545	-8.4%	555	-10.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	3,154	2,672	18.0%	3,358	-6.1%
PAT	2,576	2,185	17.9%	2,765	-6.8%
(*) Adjusted PAT	2,576	2,185	17.9%	2,765	-6.8%

Source: VNM, Rong Viet Securities

Exhibit 2: 1Q/2021 Performance Analysis

Particulars	1Q-FY21	4Q-FY20	+/-(QoQ)	1Q-FY20	+/-(YoY)
Profitability Ratios (%)					
Gross Margin	43.6%	46.2%	-2.5%	46.7%	-3.0%
EBITDA Margin	25.0%	18.7%	6.4%	26.6%	-1.6%
EBIT Margin	21.2%	14.9%	6.4%	22.7%	-1.5%
Net Margin	19.5%	15.1%	4.4%	19.5%	-
Adjusted Net Margin	19.5%	15.1%	4.4%	19.5%	-
Turnover *(x) (*)*					
-Inventories	5.2	6.1	(0.9)	5.6	(0.4)
-Receivables	10.0	10.3	(0.3)	12.3	(2.2)
-Payables	4.4	3.6	0.9	3.9	0.5
Leverage (%)					
Total Debt/ Equity	48.7%	42.2%	6.4%	41.3%	7.4%

Source: VNM, Rong Viet Securities; (*): Quarterly

Exhibit 3: Q2-FY2021 Performance Forecast

(VND Bn)	Q2-FY21	+/- QoQ	+/- YoY
Revenue	14,720	11.6%	-5.0%
Gross profit	6,423	11.6%	-10.0%
EBIT	3,071	9.6%	-9.2%
NPAT	2,730	6.0%	-11.1%

Source: Rong Viet Securities

Assumptions

- We assume revenue to be impacted by Covid-19's resurgence, continuing to post YoY single-digit rate decrease in 2Q-FY21.
- We estimate whole milk powder price to advance 48% YoY and 9% QoQ, causing the gross margin to contract 243 bps YoY in 2Q-FY21.
- Due to higher competition in rural markets against other domestic brands, we expect SGA expense ratio to be 20%, (+38 bps QoQ, -148 bps YoY) in 2Q-FY21.

Update

1Q-FY21 revenue dropped nearly 7.0% YoY due to weak dairy demand amid Covid-19's impact

In 1Q-FY21, the company delivered VND1 3,190 Bn in revenue (or USD 572 mn, -6.8% YoY), mainly dragged down by revenue decrease of the domestic market at -9.4% yoy to post VND 9,884 Bn (or USD 429 Mn). GTNFoods reached VND 622 Bn in revenue (USD 27 Mn, -1.8% YoY) for the period, accounting for nearly 5% of total revenue. Weakening domestic revenue was due to Covid-19 in Feb 2021, undermining both Vietnam's retail expenditure and dairy demand. Per Nielsen, Vietnam dairy value decreased 7.0% YoY and Vietnam FMCG retail value decreased 4.0% YoY in the quarter. In our view, Covid-19's third wave had a more serious impact on the domestic market in 1Q-FY21, due to (1) sooner social distancing in Feb 2021 versus the later imposition in 1Q-FY20 (by the end of Mar 2020) and (2) weakening social purchasing power as the result of accumulated negative impact of two Covid-19 waves occurring last year.

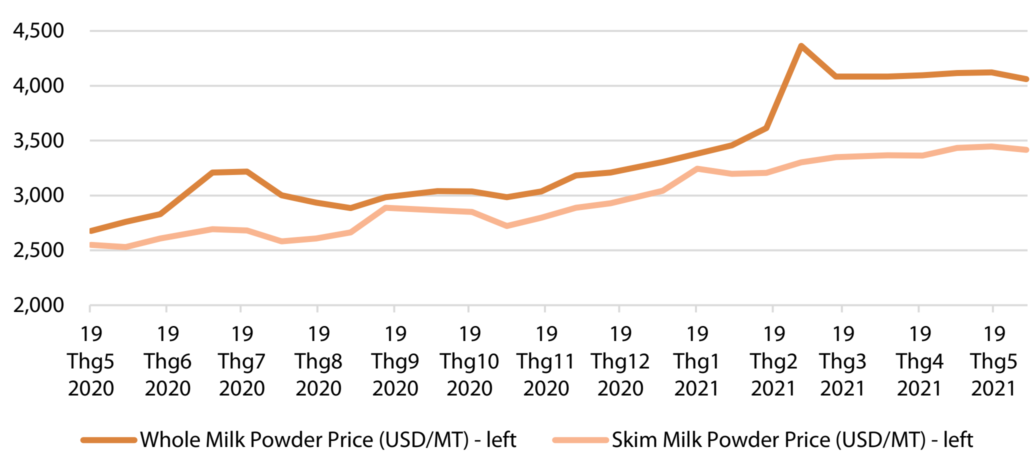
Export revenue dropped by 2.4% yoy to VND 2,012 Bn (or USD 87 Mn) in 1Q21. While export revenue to Iraq increased 7.9% yoy due to extending dairy supply chain disruption in this country, export revenue via subsidiaries (Driftwood, Angkor Milk) decreased 13.7% yoy, mainly caused by double-digit rate decrease of Driftwood's revenue in the context of extending school closure period in the US

1Q-FY21 NPAT decreased 6.5% YoY

In 1Q-FY21, NPAT was VND 2,597 Bn NPAT (or USD 113 Mn, -6.5% YoY). The net income decrease was mostly due to contracting gross margin in the domestic market (-3.7%p yoy) as the result of material prices increase. Per Global Dairy Trade, whole milk powder prices (WMP price) jumped 22.4% YoY and 20.1% QoQ in 1Q21.

In 1Q-FY21, the company recorded VND 2,597 Bn (or USD 113 mn) of NPAT (-6.5% YoY). The NPAT decrease was mostly due to contracting gross margin (-300 bps YoY) as the result of material prices increase. Per Global Dairy Trade, whole milk powder (WMP price) and skim milk powder prices (SMP price) jumped 22.4% YoY and 16.2% YoY in 1Q-FY21, respectively. Noticeably, the SG&A expense ratio decreased 160 bps YoY in 1Q-FY21. The decrease of the SG&A expense ratio, cushioning the negative impact of contracting gross margin, largely contributed to 1Q-FY21 stable net margin (flat at 19.7% YoY).

Figure 1: One year trend of milk powder price



Source: Global Dairy Trade, Rong Viet Securities

FY2021 outlook: NPAT post-MI to flatten YoY on the back of SG&A expenses cut

For 2021, we have a prudent view for Vinamilk's prospects as results will see growth deceleration of both revenue and NPAT, mainly due to (1) the weakening demand of dairy products as the result of Covid-19 waves in Vietnam in 2021 and (2) unavoidably negative impact of material prices surge on profit margins. Particularly, we expect:

Export markets to continue its outperformance versus the domestic market

Export market: More optimistic recovery signal. Since FY2018, export revenue has contributed annually around 15% of Vinamilk's total revenue. We expect export revenue to recover from 2Q-FY21, supported by school re-opening in the US. School channel is the largest revenue contributor in the U.S., accounting for roughly 90% of its export revenue to this market, concentrated mostly in Southern California. We expect schools in California to widely reopen, thanks to the significantly falling number of new daily Covid-19 infection cases. New daily Covid-19 infection cases in California have fallen stably to around four cases per 100,000 residents, the levels enabling all schools to re-open, according to the requirement of California Department of Public Health. We estimate the company's export revenue to the US can increase 12% YoY in 2Q-FY21. Furthermore, exports to Iraq and Cambodia will maintain positive revenue growth as they are less impacted by the pandemic.

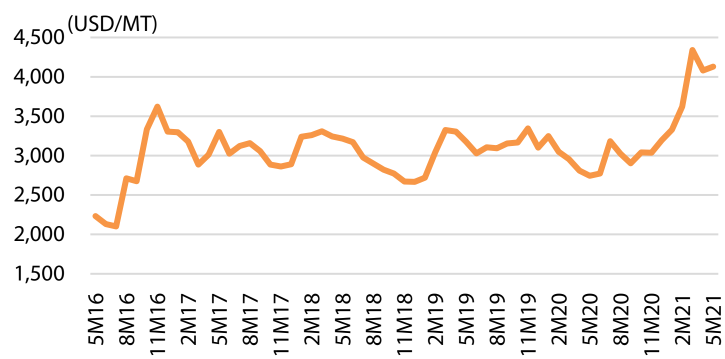
Domestic market: Revenue to flatten YoY. We maintain a cautious view on domestic revenue in 1H21. Revenue growth still remain at negative single-digit rate. On the contrary, revenue recovery will be clearer in 2H21 thanks to well-controlled pandemic spread, selling price increase to offset inflation, as well as Vinamilk's competitive advantages (strong brand, diversified product portfolio and stable dominant market share).

Profit margin has been threatened by material prices surge

In FY2021, we estimate that average WMP import price will remain around USD4,000 USD/MT, increasing 34% yoy, setting up a broadly higher level compared to 2020, based on:

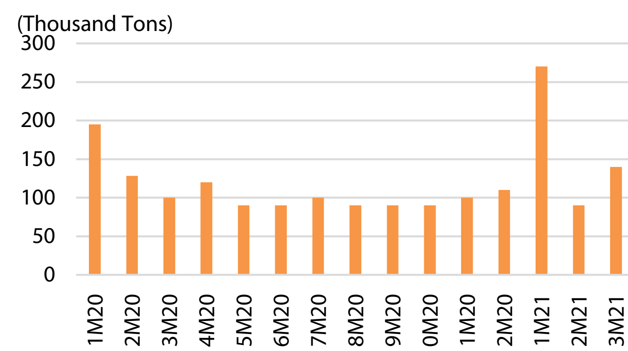
- **Rising worldwide demand of milk powder due to the global economy recovery extending to many key importers**, who run effective Covid-19 vaccination programs and are better in Covid-19's spread control. China will play its role of key price driver with its large volume import, especially on WMP import from New Zealand, the largest WMP Chinese supplier.

Figure 2: WMP price reaches a five year peak



Source: Global Dairy Trade

Figure 3: Chinese import volume of WMP jumped 18% yoy in 1Q-FY21



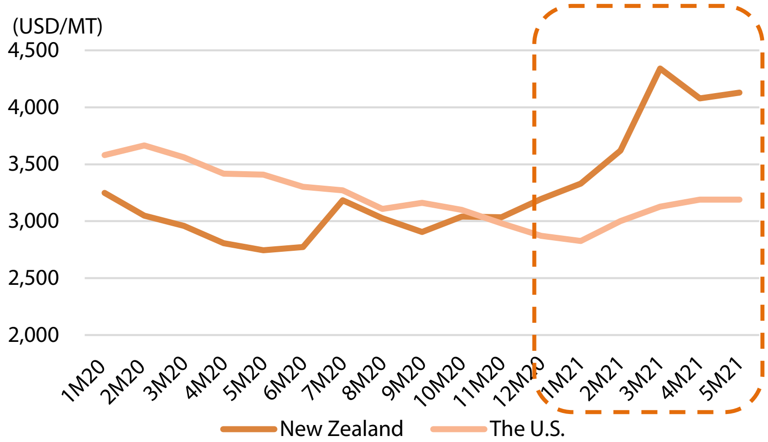
Source: China Custom

- **The shift of Chinese domestic supply chain, from producing domestic WMP to producing directly fluid milk material,** has pulled local milk away from WMP production and accelerate import activity. Therefore, China increased its import volume of WMP to offset the lower domestic production capacity. In 1Q-FY21, New Zealand's WMP export volume to China surged 44% YoY to over 197 thousand tons.

  Export price from New Zealand was 8.2% more favorable than that of the US. Coupled with New Zealand's position as China's largest WMP supplier (accounting for 40% of China's total imported WMP volume), we believe Chinese strong demand has directly pointed to a faster surge of New Zealand's WMP price versus that of the US.

  Looking further on this factor, we view that New Zealand's price advantage from across-country price gap will fade from 2Q-FY21 as that country's WMP price is already fluctuated 27% higher than that of the US, implying the ability for New Zealand's WMP to reach an export price peak in 2Q21. Per Global Dairy Trade, the offering price of New Zealand's WMP buy auction for the next six month has been flat compared to the 1Q-FY2021's WMP price peak.

Figure 4: Comparative WMP price overview of New Zealand and the US



Source: Global Dairy Trade, CLAL, Rong Viet Securities

- **New Zealand's whole milk product can benefit from strained China-Australia trade ties.** Relations between China and Australia have declined since the latter called for a probe into the origins of the virus and prohibited Huawei from building its 5G network. Growing diplomatic rift between the two has led to a Chinese tax imposition on imported goods from Australia, including wine, beef, meat, sheep, lobster, wood, cotton, coal… Not dissimilar from this, China is looking to increase tariff on WMP imported from Australia, potentially opening the opportunity to increase the export volume of New Zealand's WMP to China.

We estimate that WMP import price in FY2021's remaining quarters will remain at around the 1Q-FY2021's price peak, leading to a 34% YoY WMP price increase in FY2021. As the company's inventory on hand is lower than 90 days, the impact of high milk material price on Vinamilk's gross margin is unavoidable in the next quarters. Therefore, we predict that the 2021 gross margin will keep contracting to 44.6%, minus 180 bps YoY, the lowest of the past six years.

2021 NPAT post-MI to flatten 1.3% YoY on the back of SG&A expenses decrease

We estimate Vinamilk to deliver VND 59,694 Bn in revenue (+0.1% YoY) in FY2021, led by an export revenue increase of 7% YoY (posting VND 9,419 Bn or USD 408 Mn). On the contrary, we estimate the company's FY2021 domestic revenue at VND 50,275 Bn (or USD 2.4 Bn), decreasing slightly by -1.1% YoY. Although we project gross profit (-3.8% YoY) to be hit by higher material costs, we expect a lower SG&A cost ratio (-241 bps YoY in FY2021), highlighting the decrease of marketing and promotion costs amid weakening dairy demand. This will help the company to complete its FY2021 guidance. Overall, we forecast FY2021 NPAT to reach VND 11,246 Bn (or USD 536 Mn), almost flat YoY, mostly driven by lower operating expenses, which cushion the impact of higher material input prices.

In the period of FY2021F-2025F, we estimate Vinamilk to reach a five year CAGR revenue growth and NPAT post-MI growth of 5.5% and 4.2%, respectively. Particularly, export revenue will achieve five year CAGR revenue growth of 7.3% while domestic revenue will reach five year revenue growth of 5.0%. We expect that milk material prices will cool down from FY2022 as we expect Chinese importers to decrease their imports after FY2020's strong agricultural storage as a precaution against Covid-19's future resurgence. Based on our assumption that WMP prices will decrease around 10% each year to revert to pre-pandemic level, we estimate more favorable material prices from FY2022 to expand the company's gross margin by 700 bps per year in the period of FY2022F-2025F.

Valuation

We use our valuation mix of 50%:50% for DCF:PER to evaluate the stock. Our fair value arrives at VND 100,000 per share, implying a FY2021 PER of 21x. With a cash dividend yield of 4%, we maintain our **ACCUMULATE** recommendation with a total stock return of 13% as of the closing price on Jun 18th.

Table 1: Valuation summary

Method	Fair value (VND/share)	Weighting	Contribution (VND/share)	Comments
FCFE	111,656	50%	55,828	• Please refer to Table 2 and Table 3 for more details.
PER	88,220	50%	44,110	• We apply a target PER of 18.2, a PEG of 5.0, equaling to the average level of FY2016-2020 and regarding FY2021 a forward PER of 19. • We apply a PER multiple at a 26% discount compared to its peer group and lower than its 5-year-average PER of 22x. It is likely to deliver (1) flat YoY EPS growth in FY2021, while its peer group is estimated to reach one year double-digit EPS growth (around 27% YoY, per Bloomberg estimates) and (2) lower CAGR in next 5Y compared to that in last 5Y.
Target price			**100,000**	

Source: Rong Viet Securities

Table 2: FCFE valuation summary

Cost of Capital		FCFE (Five-year)	
Risk free rate (%)	1.1	Present Value of FCFE	34,753
Beta	0.8	Present Value of Terminal Value (5.4% growth)	198,603
Equity Risk Premium (%)	10.1	Equity Value (VND)	233,355
Cost of Equity (%)	8.8	Share outstanding (Mn)	2,090
		Implied Price per Share (VND)	**111,656**

Source: Rong Viet Securities; VND Bn

Table 3: Five year FCFE projection (VND Bn)

	2020	2021F	2022F	2023F	2024F	2025F
Net income	**11,099**	**11,246**	**11,581**	**11,928**	**12,573**	**13,266**
+ D&A	2,817	1,972	2,149	2,328	3,008	2,684
+ Interest * (1-T)	119	122	117	111	110	110
- Financial income	1,581	1,428	1,479	1,521	1,576	1,648
- WCInv	2,762	-413	202	219	233	248
- FCInv	810	3,955	4,113	4,280	4,457	4,643
FCFF	**8,882**	**8,371**	**8,053**	**8,346**	**9,425**	**9,522**
- Interest * (1-T)	119	122	117	111	110	110
+ Net borrowing	2,009	10	10	-	-	-
FCFE	**10,772**	**8,259**	**7,946**	**8,235**	**9,315**	**9,413**
Present Value of FCFE		**7,872**	**6,961**	**6,629**	**6,891**	**6,399**

Source: Rong Viet Securities

Table 4: Comparable peers

	Country	Market cap (USD Mn)	FY2020 Revenue (USD Mn)	FY2020 NPAT (USD Mn)	Forward PER	FY2021 EPS Growth
600887 CH Equity	China	36,376	10,552	1,027	26.6	15.2%
2319 HK Equity	Hong Kong	21,173	11,031	511	27.6	30.5%
2269 JP Equity	Japan	9,625	8,548	603	14.5	2.4%
2270 JP Equity	Japan	1,481	5,764	127	10.6	26.0%
2264 JP Equity	Japan	2,753	5,484	194	8.0	3.0%
DLM MK Equity	Malaysia	540	262	18	23.6	30.0%
600597 CH Equity	China	3,028	3,659	93	28.4	13.3%
Weighted Average		**9,557**	**9,678**	**728**	**24.5**	**18%**
VNM VN Equity (*)	**Viet Nam**	**8,088**	**2,582**	**480**	**18.5**	**1.3%**

Source: Bloomberg; (*) Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021E	FY2022F
Revenue	56,318	59,636	59,694	62,893
COGS	29,746	31,968	33,072	34,470
Gross profit	**26,572**	**27,669**	**26,622**	**28,423**
Selling Expense	12,993	13,447	12,326	13,553
G&A Expense	1,396	1,958	1,654	1,743
Finance Income	807	1,581	1,428	1,479
Finance Expenses	187	309	313	308
Other profits	-7	-17	59	59
PBT	**12,796**	**13,519**	**13,816**	**14,358**
Prov. of Tax	2,241	2,283	2,390	2,556
Minority's Interest	-27	137	180	221
PAT to Equity S/H	**10,581**	**11,099**	**11,246**	**11,581**
EBIT	12,182	12,263	12,642	13,127
EBITDA	14,131	14,472	14,613	15,277

%

FINANCIAL RATIO	FY2019	FY2020	FY2021E	FY2022F
Growth (%)				
Revenue	7.1	5.9	0.1	5.4
Operating Income	10.1	2.4	1.0	4.5
EBITDA	8.7	0.7	3.1	3.8
PAT	3.5	4.9	1.3	3.0
Total Assets	19.6	8.4	7.0	4.7
Equity	6.7	13.8	5.6	6.2
Profitability (%)				
Gross margin	47.2	46.4	44.6	45.2
EBITDA margin	25.1	24.3	24.5	24.3
EBIT margin	21.6	20.6	21.2	20.9
Net margin	18.8	18.6	18.8	18.4
ROA	23.8	23.0	21.8	21.5
ROE	38.5	35.5	34.0	33.0
Efficiency				
Receivable Turnover	12.5	11.5	11.1	11.1
Inventory Turnover	6.0	6.5	5.9	5.9
Payable Turnover	3.5	5.0	4.3	4.3
Liquidity				
Current	1.8	2.2	2.1	2.1
Quick	1.4	1.8	1.7	1.7
Finance Structure (%)				
Total Debt/Equity	19.9	23.9	22.7	21.4
Current Debt/Equity	19.5	23.4	22.4	21.4
Long-term Debt/Equity	0.4	0.5	0.3	-

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021E	FY2022F
Cash and cash equivalents	2,665	2,111	3,156	3,645
Short-term investments	12,436	17,314	17,314	17,314
Account receivable	4,503	5,187	5,372	5,660
Inventories	4,983	4,905	5,622	5,860
Other current assets	134	148	156	164
Property, plant & equipment	14,500	13,571	15,564	17,541
Acquired intangible assets	3,516	3,195	2,583	1,958
Long-term investments	987	973	977	981
Other non-current assets	726	758	796	836
Total assets	**44,450**	**48,164**	**51,540**	**53,958**
Accounts payable	8,457	6,337	7,653	7,976
Short-term borrowings	5,351	7,316	7,411	7,505
Long-term borrowings	123	167	84	-
Other non-current liabilities	403	405	426	447
Bonus and Welfare fund	634	559	559	559
Technology-science, dev. fund	-	-	-	-
Total liabilities	**14,969**	**14,785**	**16,132**	**16,487**
Common stock and APIC	17,417	20,900	20,900	20,900
Treasury stock (enter as -)	-12	-12	-12	-12
Retained earnings	7,875	6,910	7,547	8,451
Other comprehensive income	23	213	213	213
Inv. and Dev. Fund	2,200	3,286	4,411	5,569
Total equity	**27,504**	**31,297**	**33,059**	**35,122**
Minority Interest	**2,227**	**2,350**	**2,350**	**2,350**

VALUATION RATIO (*)	FY2019	FY2020	FY2021E	FY2022F
EPS (dong)	4,565	4,770	4,843	4,987
P/E (x)	22.4	20.4	18.2	18.2
BV (dong)	17,070	16,099	15,818	16,805
P/B (x)	7.2	6.0	5.8	5.5
DPS (dong/cp)	4,000	4,000	4,000	4,000
Dividend yield (%)	3.3	4.1	4.3	4.3

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	111,656	50%	55,828
P/E	88,220	50%	44,110
Target price (VND)			**100,000**

Target price (VND) **100,000**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
May 2021	102,300	ACCUMULATE	1-year
Jun 2021	100,000	ACCUMULATE	1-year

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

RongViet Securities Corporation (RongViet) was established in 2007. licensed to perform the complete range of securities services including brokerage. financial investment. underwriting. financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders. also our strategic partners. are reputable institutions. i.e Eximbank. Viet Dragon Fund Management. etc... Along with a team of the professional and dynamic staffs. RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially. RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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
- Market Strategy

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

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

Toan Dao
Manager
toan.dp@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- F&B

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Automobile and spares
- Agriculture
- Industrial Park

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Building Materials
- Pharmaceutical

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

Kiet Tran
Analyst
kiet.tht@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Real Estate
- Market Strategy

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance

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

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

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

Trang Tran
Assistant
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

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