



CRUSHED STONE

The Nudge in 2024



Materials

Bracing for growth from 2024F

Housing challenges hinder Southern crushed stone

Based on our analysis, the South's crushed stone industry could cite a slow 2023 due to the gloomy housing property dynamics seen in 2020-22. In addition, the majority of public infrastructure projects are still in the site preparation phase, and hence the demand for construction materials including (crushed stones) could be soft in 2023F. Overall, we urge a prudent stance on the crushed stone market condition in 2023 while staying optimistic in 2024.

Growth momentum could resume from 2024F

We stay bullish about the South's crushed stone growth largely on the revival of consumption growth. In the short term, the infrastructure projects could enter the construction phase in late 23F-2024F and the demand from this segment could boom. We peg demand for crushed stone at roughly 37.3bn m³ of for infrastructure projects, equivalent to an annual consumption growth in each 2024-2030F of 10% compared to 2022. In the mid and long-term, growth prospects are buttressed by the recovery of real estate since the lower urbanization ratio in Vietnam than Asian countries offers abundant room for growth.

The mines in Dong Nai and Binh Duong reap the fruit

We see the earnings upturn in most of the Southern miners in 2024-25. Notably, mines in Bien Hoa, Vinh Cuu (Dong Nai) & Bac Tan Uyen (Binh Duong) could benefit the most driven by the sharp competitive edges in geographical location. Adjacent to HCM and Mekong Delta, they could fill in the gap where demand rises strong and supply grows lax. Additionally, they could supplement significant quantities of materials for a wide variety of infrastructure projects that are about to be implemented.

Recommendation and Ratings: Overweight

We initiate an Overweight rating on the Crushed Stone industry in 12-month horizons spurred by the robust demand growth serving the public infrastructure spending in 2024-2025F. Going forward, the housing property could bounce back, reinforcing the crushed stone consumption growth in 2024-2023F. Standing firm in the market with wealthy reserves, VLB and DHA companies are among our favorite stock picks. We give BUY ratings to VLB (TP: VND45,100, UPSIDE: +47%) and DHA (TP: VND47,000, UPSIDE: +22%) and HOLD to KSB. However, we give close watch on the progress of those projects as the construction could fall shy of the schedule. Hence, growth of top line and EPS could be lower than our estimates.

Overweight

| Company | Rating | TP (VND) |
|---------|--------|----------|
| BBCC | BUY | 45,100 |
| HoaAn | BUY | 47,000 |
| Bimico | HOLD | 17,800 |

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| Hoa An (DHA) | |

What is the report about?

- 2023 The South crushed stone industry Outlook
- Prospect of South crushed stone industry in the period of 2024-2030
- Reasons for Overweight, such as sales growth and profit improvement

I. Executive summary

2023 outlook cites a slow performance

We assess that the South's crushed stone outlook is cloudy for the start of 2023 than 2022. The market condition is weighted by a combination of effects 1) launches of new housing projects in 2022-23F stay dimming 2) in tandem, the construction of ongoing housing development remains temporarily halted and 3) the majority of public infrastructure projects are under the pre-construction phase until 2023. In conclusion, the demand for materials could be soft throughout 2023.

Growth rebounds from 2024

We forecast that the demand for crushed stone could fast pick up as soon as the giant Long Thanh Airport project begins the construction phase. This is anticipated to happen in 2024F announced by the project management unit. Furthermore, the construction of a series of expressways, which is foreseen to commence in 2024F is fueling the hope for demand growth. Besides mid and long-term growth momentum is valid thanks to the recovery of the real estate industry. In the short, medium, and long terms, we are bullish for the crushed stone industry.

The construction of Long Thanh Airport exerts a key impact

Long Thanh Airport is our leading catalyst of the growth conditions in the South's crushed stone industry. The project is built on an extremely large area, up to 5,000 hectares, and attached with in-depth construction techniques. We estimate that the volume of crushed stone for this project could sit at 22mn m³, accounting for ~ 59% of the total volume spent on infrastructure projects in 2023-2030. In addition, 16 other key traffic projects, including: Ring Road 3, Ho Chi Minh City Metro line, 05 expressways in the South-eastern, and 8 expressways in the Mekong delta are another catalyst to trigger the stone consumption with an estimated of nearly 7mn m³. Our calculation of the annual volume each year in 2024-2030 could go up by 10% compared to 2022.

The mines in Dong Nai and Binh Duong are posed to revive

Based on the above analyses, we forecast that owners of the mines in the South could witness earnings turnaround in 2024-25F. Specifically, we believe that mines in Bien Hoa, Vinh Cuu (Dong Nai) & Bac Tan Uyen (Binh Duong) will get significant benefits the most thanks to the outstanding competitive advantage in geographical location. They could make the most use by supplying crushed stone for HCM & Mekong Delta where the supply of construction stone is extremely scarce. Additionally, they can supply a significant quantity of materials for many different infrastructure projects that are about to be implemented.

OUTPERFORM, VLB & DHA are our favorite stocks

We rate BUY for VLB (TP: VND45,100, UPSIDE +47%) and DHA (TP: VND47,00, UPSIDE +22%) over 12 months. They all are currently owning the best mines in the South with exceptional competitive advantages in terms of location, reserve, and quality. We also offer a HOLD recommendation for the KSB stock with a target price of VND17,000. However, we give close watch on the progress of those projects as the construction could fall shy of the schedule. Hence, growth of top line and EPS could be lower than our estimates.

II. Coverage projection and valuation

Table 1. Coverage valuation

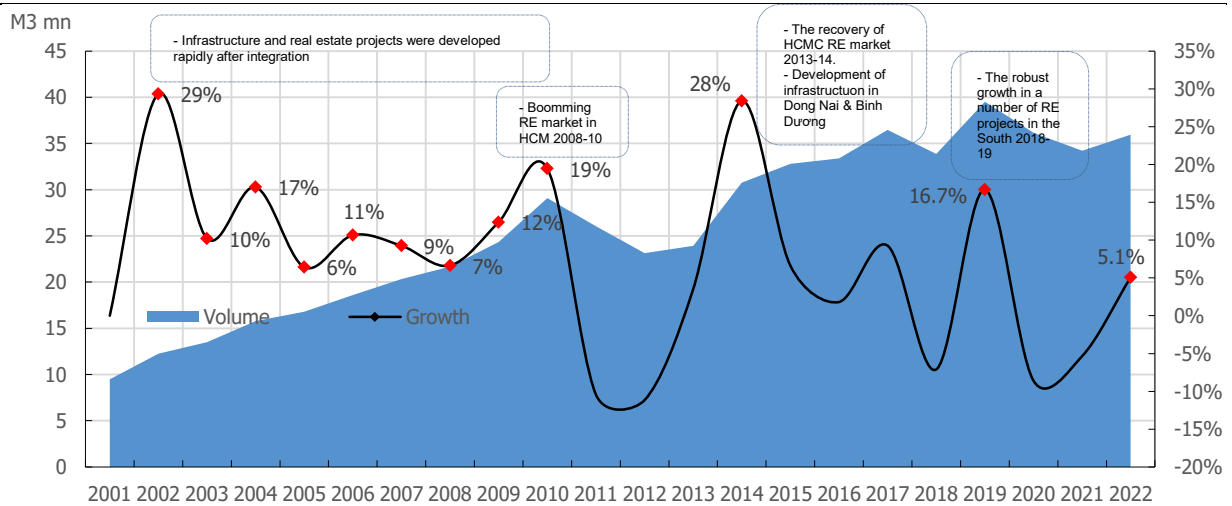
| Recommendation & TP | | | Earnings & Valuation | | | | | | | | | | | |
|---------------------|----------------------|--------|----------------------|----------------------|-------------------|-------------------|--------------|--------------|------------|------------|-----------|-----------|----------------------|-----------|
| Company | | | | Sales (VND bn) | OP (VND bn) | NP (VND bn) | EPS (VND) | BPS (VND) | ROE (%) | ROA (%) | PE (x) | PB (x) | EV/ EBITDA (x) | DY (%) |
| BBCC (VLB) | Recommendation | BUY | 2021A | 942 | 133 | 126 | 2,415 | 14,385 | 18 | 14 | 20.1 | 3.7 | 16.3 | 2 |
| | TP (VND) | 45,100 | 2022A | 1,275 | 224 | (23) | (495) | 11,266 | (4) | (3) | NA | 2.1 | 12.2 | 0 |
| | Price (01 June, VND) | 30,600 | 2023F | 1,153 | 197 | 162 | 3,095 | 11,951 | 30 | 22 | 8.8 | 2.5 | 13.7 | 8 |
| | Mkt cap. (VND bn) | 1,425 | 2024F | 1,343 | 280 | 227 | 4,351 | 12,914 | 39 | 28 | 6.3 | 2.3 | 9.9 | 11 |
| | | | 2025F | 1,523 | 363 | 294 | 5,628 | 14,159 | 46 | 33 | 4.8 | 2.1 | 7.9 | 14 |
| Bimico (KSB) | Recommendation | HOLD | 2021A | 884 | 295 | 253 | 2,855 | 24,281 | 15 | 6 | 13.1 | 1.9 | 5.7 | 0 |
| | TP (VND) | 17,800 | 2022A | 859 | 224 | 152 | 1,502 | 25,327 | 8 | 4 | 9.4 | 0.7 | 7.5 | 0 |
| | Price (01 June, VND) | 26,600 | 2023F | 715 | 172 | 123 | 1,330 | 26,657 | 6 | 3 | 16.6 | 1.0 | 8.5 | 0 |
| | Mkt cap. (VND bn) | 2,029 | 2024F | 754 | 176 | 129 | 1,403 | 28,061 | 6 | 3 | 15.7 | 0.9 | 9.8 | 0 |
| | | | 2025F | 982 | 239 | 185 | 2,004 | 30,065 | 8 | 4 | 11.0 | 0.9 | 7.5 | 0 |
| Hoa An (DHA) | Recommendation | BUY | 2021A | 337 | 79 | 90 | 5,592 | 30,991 | 15 | 6 | 6.4 | 1.2 | 4.7 | 9 |
| | TP (VND) | 47,000 | 2022A | 388 | 86 | 52 | 3,373 | 29,257 | 8 | 4 | 11.1 | 1.3 | 5.2 | 14 |
| | Price (01 June, VND) | 38,500 | 2023F | 362 | 81 | 79 | 4,879 | 29,137 | 6 | 3 | 7.1 | 1.6 | 5.7 | 14 |
| | Mkt cap. (VND bn) | 567 | 2024F | 427 | 105 | 92 | 5,682 | 29,816 | 6 | 3 | 6.1 | 1.3 | 4.5 | 14 |
| | | | 2025F | 438 | 115 | 100 | 6,203 | 31,016 | 8 | 4 | 5.6 | 1.3 | 4.1 | 14 |

Source: Respective company data, KIS

III. In 2023, the South's crushed stone industry is hit by the real estate

1. The slowdown of real estate in 2022-23 is likely to decline the demand of crushed stone

Figure 1. The crushed stone output mined in the South



Source: Department of Natural Resources and Environment of Southern provinces, KISVN

Crushed stone is naturally heavy and expensive to transport. In addition to the value is modest, mining volume primarily is supplied at local infrastructure and civil works. According to statistics, the South's crushed stone industry only recorded a modest growth over the past five years, with a CAGR 2017-2022 of 1.8% per year. However, the growth rate varies significantly from year to year as a result of the real estate cycle and number of infrastructure projects carried out in that year.

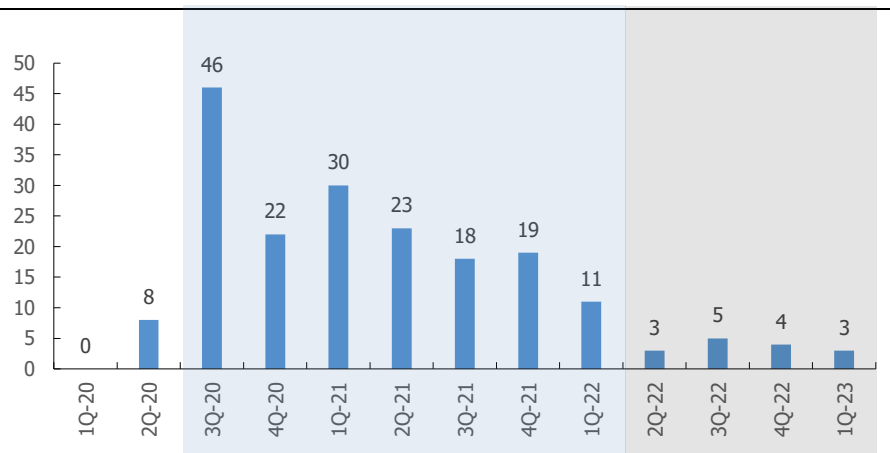
Notably, in 2022, although a number of negative events severely impacted on the real estate market. The crushed stone output recorded +7% yoy in 2022 thanks to and (1) the numerous real estate projects that were implemented in the period of 4Q2021-1Q2022 after being long-delayed by Covid-19, besides (2) the low base of 2021,

2023 - Less positive Outlook

In 2023, based on our analysis, we forecast that the south's crushed stone industry is like to run into several challenges in 1Q23 due to the current gloomy of real estate market. In addition to, the majority of public infrastructure projects are still in the site preparation phase as of now, so the demand for materials has not been significantly boosted in construction.

- A considerable drop in the number of newly licensed projects in 2022 compared to 2021 (figure 2). In 2022, the three most crucial elements of the real estate industry - capital accessibility, interest rates, and the legal framework - will all encounter numerous challenges. In this context, the overall number of commercial housing projects nationwide and in the south both dramatically declined compared to the prior year. In the South, only 22 commercial housing projects licensed for construction in 2022, which is only 25% as many as in 2021. The tranquil pattern still continued into 2023, when only 3 projects were licensed in 1Q2023.

Figure 2. A number of RE projects are lienced in the South



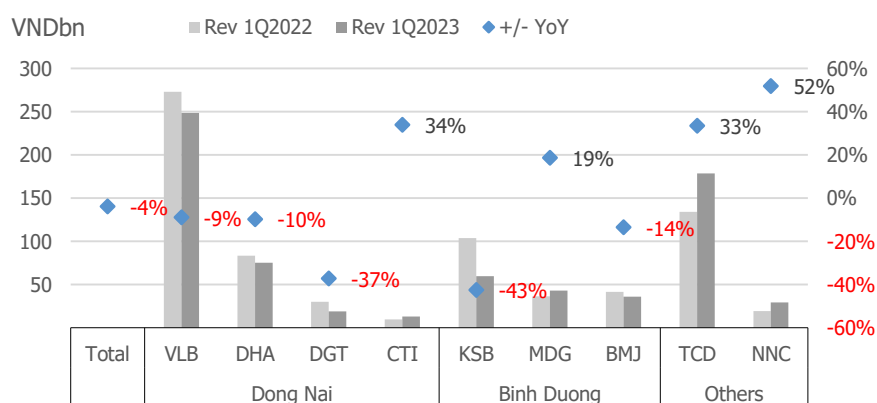
Source: Ministry of construction, KISVN

Activities of real estate project development are slowing significantly in 2023

- In addition, *progress of projects to be deployed before 2022 are also slowing down dramatically at the present time.* Typically, large-scale projects such as Aquacity (1,000ha, Bien Hoa), Vinhomes Grand Park (272ha, District 9), Gem Sky World (92ha, Long Thanh) ... are decreasing the demand in crushed stone.
- Lastly, *infrastructure projects are expected to bring an engine of growth for the crushed stone industry in 2023. Up to now, the majority of them are still in the site preparation phase and contractor selection.* As a result, even while the demand for stone is rising, it is still low in comparison to its potential. Moreover, the situation is expected to keep going into the third quarter of 2023.

Figure 3. Business outcome in 1Q23

1Q2023-business results showed partly challenges in 2023

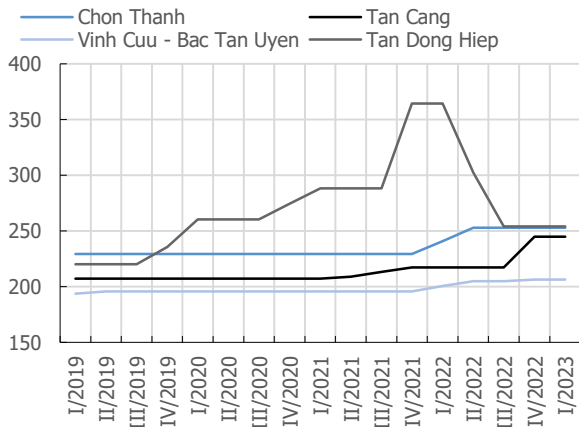


Source: Company data, KISVN

Business results of listed crushed stone enterprises also showed a slowdown in revenue and gross profit numbers in 1Q23. Nine listed companies reported total revenues of VND730bn, - 4% yoy. The three highest revenue scale companies (VLB, DHA, and KSB account for 55% of all revenue with outlet sales spanning many areas in the South) are deemed the typical of the industry picture. In 1Q23, their revenue declined by 9/10/43% yoy, respectively. Notably, 1Q business results also revealed that companies in Dong Nai have been more impacted than those in Binh Duong. In our view, the main cause is the sluggish construction activities of large-scale projects in Dong Nai and the Eastern of Ho Chi Minh, where crushed stone is mostly supplied by mines in Bien Hoa and Vinh Cuu (Dong Nai).

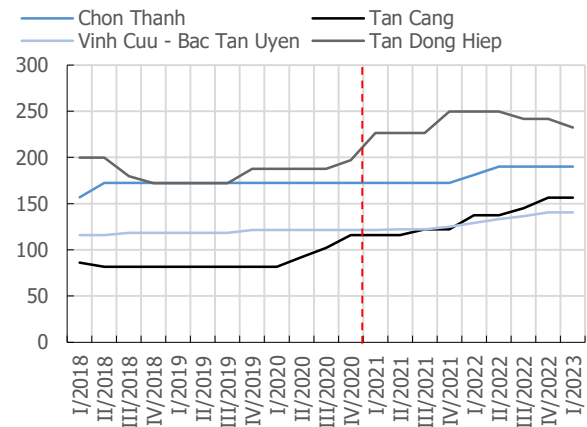
2. Price of product lines reflects a gloomy picture of the real estate, but a positive outlook for infrastructure projects

Figure 4. Price of product 1x2 (VND.000/m³)



Source: Company data, KISVN

Figure 5. Price of product 0x4 (VND.000/m³)



Source: Company data, KISVN

The price of product reflects the positive prospect of public projects

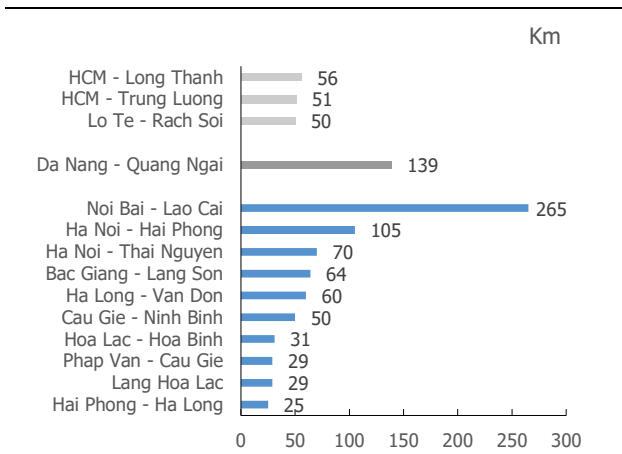
The price of product 1x2, the raw materials to produce the concrete in housing work, moves sideways since 2Q22 (Figure 4). Although in 4Q22, mining companies have been exposed to resource tax cost hikes and a huge amount of the mining license fee burden (mined volume in the period of 2014-2021). This demonstrates that businesses could not pass the heavier cost onto customers in the current gloomy real estate market.

Notably, observing the price movement of product 0x4, the stone most frequently used in road infrastructure projects. This is also one of the indicators observing the prospect of public investment in the near future. Since 1Q22, we see that selling prices begin a positive uptrend. By the end of April 2023, the price had increased by an average of 10-25% compared to the beginning of 2022 (figure 5), when infrastructure projects started preparing the sites. Based on the project's progress, we forecast that the price of product 0x4 stone would climb more quickly from 4Q2023 after the major project - Long Thanh airport transfers into the construction phase.

IV. Robust growth is envisaged in 2024-2025

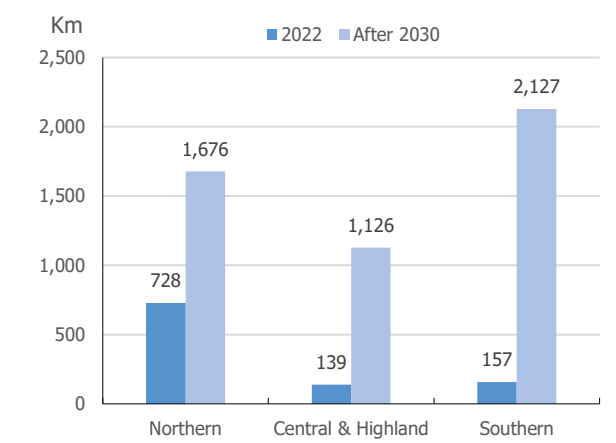
1. Infrastructure projects will be the key driver in 2024-2030

Figure 6. Expressway length completed until 2022



Source: Ministry of Transport, KISVN

Figure 7. Plan of national expressway development after 2030



Source: Ministry of Transport, KISVN

Prior to 2023, expressway routes were mainly developed in the North. During this time, seven expressways were built in the North, length up to 728km, or roughly five times the figure of those built in the Central (139km) and South (157km). However, after the expressway system in the North has gradually synchronized, things changes in the South. It is clear from Decision 326/2016 on the National Expressway Development Master Plan and the recently approved expressway projects, the Government's priorities will ben constructing the expressway system in the central and southern regions which will be paid attention specially. There will be more than 1,970km under construction until 2030, 13 times higher the current figure, and accounts for more than 50% of the total new expressway lengths nation-wide built during this time. Additionally, other significant projects, like the Long Thanh airport and the HCM metrolines, are also ongoing during this time. This will be also one of the key drivers boosting demand for crushed stone in the Southern region in next years.

Based on the scale of key infrastructure projects likely to be implemented in the period of 2023-2030 (table 2). Our estimates place the demand in crushed stone for these projects at 37.3bn m³, equivalent to the annual consumption in the period 2024-2030 will increase by 10% compared to 2022. In which, in the period 2024-2027, based on the approved projects, we calculate the total amount of crushed stone for the works will be at 14.7mn m³. This is equivalent to the amount of stone consumed annually in the period 2024-2027 will increase by 7% compared to 2022.

Annual demand in 2024-20230 is forecasted to increase by 10% compared to 2022

Figure 8. Long Thanh Airport



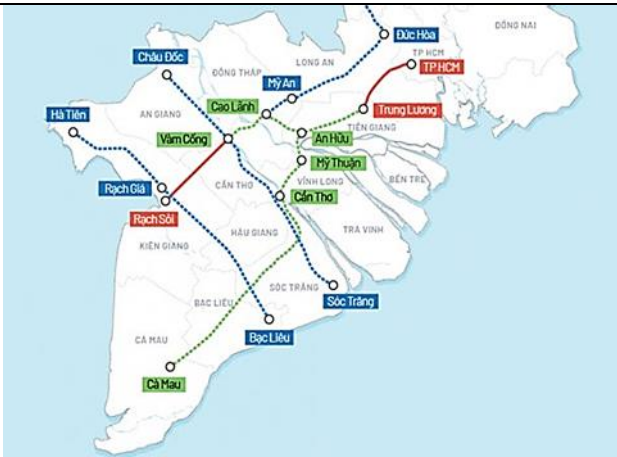
Source: KISVN

Figure 9. Ring Road 3



Source: KISVN

Figure 10. Expressway system in Mekong delta



Source: KISVN

Figure 11. Metro lines in HCM



Note: KISVN

Table 2. List of the key infrastructure projects in the period of 2023-2030

| No | Project | Investment (VND bn) | Scale | Starting time | Finishing time | Status | Crushed stone demand estimated (m ³) | Stone mines could used |
|-------------------|---------------------------------------|---------------------|----------|---------------|----------------|--------------------------|--|---|
| 2022-2025 | | | | | | | 14,717,132 | |
| 1 | Ring road 3 (remaining) | 75,000 | 73 km | 06-2023 | 06-2026 | Land clearance | 963,600 | Tan Cang, Nui Nua, Vinh Cuu, Bac Tan Uyen, Phu Giao |
| 2 | Long Thanh Airport_Phase 1 | 114,450 | 1.810 ha | 4Q-2023 | 2026 | Ground preparation | 7,989,799 | Tan Cang, Phuoc Binh |
| 3 | Bien Hoa - Vung Tau express | 17,837 | 57 km | 06-2023 | 06-2025 | Land clearance | 756,360 | Tan Cang, Nui Nua |
| 4 | HCM - Long Thanh express_Expanded | 14,786 | 22 km | 2Q-2025 | 2027 | Waiting for the approval | 466,574 | Tan Cang |
| 5 | Moc Bai - HCM express | 20,889 | 50 km | 2024 | 2027 | Waiting for the approval | 660,000 | Loc Ninh, Tan Cang, Vinh Cuu, Bac Tan Uyen |
| 6 | Dau Giay - Tan Phu express | 8,300 | 60 km | 09-2023 | 4Q-2025 | Land clearance | 792,000 | Nui Nua, Soklu, Gia Canh |
| 7 | My Thuan - Can Tho | 4,826 | 23 km | 1Q-2021 | 2024 | Under construction | 303,600 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| 8 | An Huu - Cao Lanh express | 5,500 | 27 km | 06-2023 | 1Q-2025 | Land clearance | 356,400 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| 9 | Can Tho - Ca Mau express | 47,000 | 130 km | 01-2023 | 4Q-2025 | Land clearance | 1,716,000 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| After 2025 | | | | | | | 22,618,470 | |
| 1 | Metro lines in HCM | NA | 151 km | | | Waiting for the approval | 422,800 | Tan Cang |
| 2 | Long Thanh Airport_Phase 2 | 222,180 | 3190 | | | Waiting for the approval | 14,076,470 | Tan Cang, Phuoc Binh |
| 3 | Long Thanh Airport_Phase 3 | | | | | | | |
| 4 | Chon Thanh - Duc Hoa express | 2,546 | 84 km | | | Waiting for the approval | 1,108,800 | Chon Thanh, Loc Ninh, Phu Giao, Tan Lap, Tan Cang |
| 5 | Duc Hoa - My An express | 2,336 | 81 km | | | Waiting for the approval | 1,069,200 | Tan Cang, Vinh Cuu, Bac Tan Uyen |
| 6 | My An-Cao Lanh express | 4,500 | 26 km | | | Waiting for the approval | 343,200 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| 7 | Chau Doc - Can Tho - Cao Lanh express | 44,700 | 155 km | | | Waiting for the approval | 2,232,000 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| 8 | Ha Tien - Rach Gia - Bac Lieu express | 33,250 | 255 km | | | Waiting for the approval | 3,366,000 | Mekong delta, Vinh Cuu, Bac Tan Uyen |
| 9 | Trung Luong - My Thuan_Phase 2 | NA | 54 km | | | Waiting for the approval | 712,800 | Mekong delta, Vinh Cuu, Bac Tan Uyen |

Source: Ministry of Transport, KISVN

Growth is likely to be back in the beginning 2024

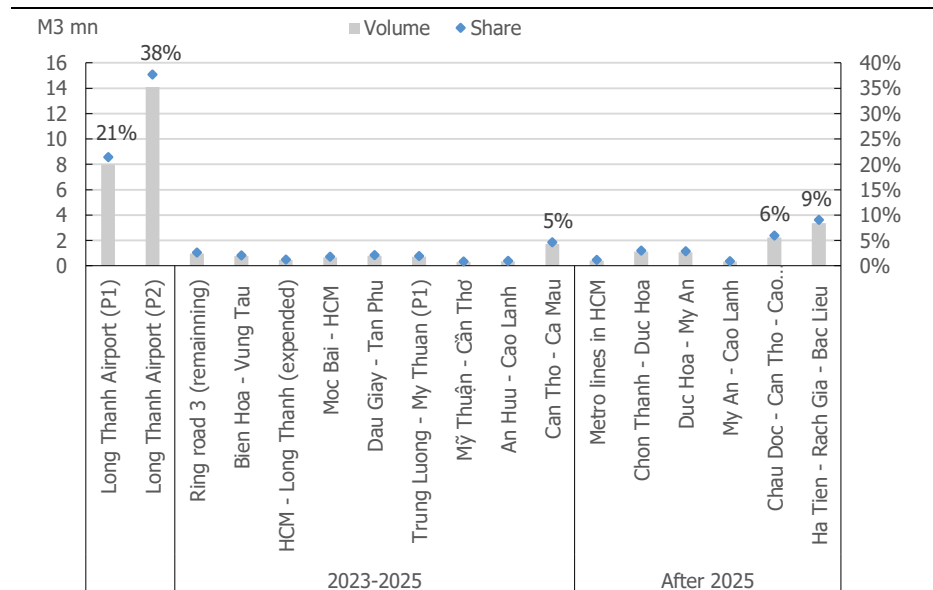
Long Thanh Airport is a key project

In terms of projects: Our analysis indicates that, in the upcoming years, the construction of Long Thanh airport will be key driver in the growth picture of the South's crushed stone industry. The grand project of Long Thanh Airport is built on a extremely large area, that up to 5,000 hectares and combine with special construction techniques. We estimate that 22mn m³ of cushed stone to be needed for the project (approximately 42% of the South's total output in 2022). Accounting for about 59% volume of key projects that are planned to build in the period of 2023-2030.

In which, phase 1 which covers an area of 1,810 ha, that estimates to require around 8mn m³ throughout the construction. After nearly two years of site preparation, phase-1 could begin the construction phase in the beginning of 4Q2023. Therefore, we believe that this time will begin to boost the robust growth of South's crushed stone industry.

In addition, 16 other key traffic projects, including: Ring Road 3, Ho Chi Minh City Metro line, 05 expressways in south-eastern, and 8 expressways in Mekong delta are aslo planned to implement during this time. According to our calculations, the mentioned projects could require nearly 7mn m³ for construction in the period of 2024-2030.

Figure 12. Estimating of the crushed stone volume demanded by project



Source: KISVN

2. The recovery of residential real estate market spur the growth from 2025

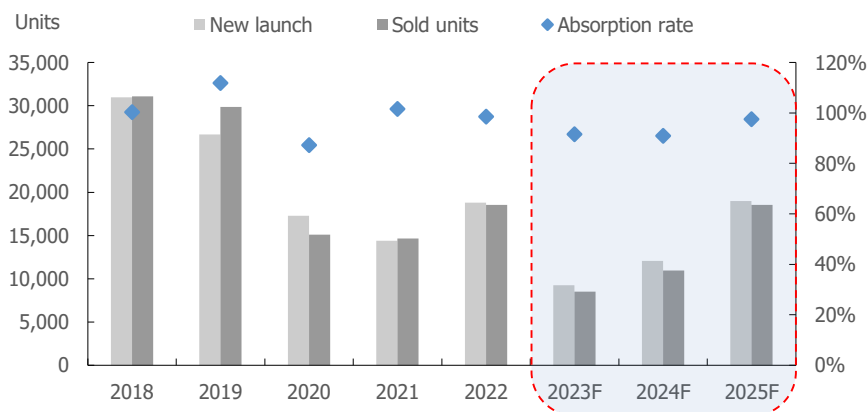
The recovery of residential real estate market spurs the growth from 2025

Recently, even though interest rates have been slightly decreased, they are still high. Some banks still keep the CRE lending interest rate at 14–16% (12 month). This will make it difficult for the recovery of real estate market in the short term. However, in the mid term, beginning in 2025, we expect that real estate project development could be active again.

- *The recent real estate policies are getting more transparent* like: Resolution 10 on the issuance of ownership for condotel and the revised Land Law 2023 addresses the major issue of land prices. These policies are expected to create more favorable conditions for the development of the real estate market in the mid-long term.
- *The promotion of infrastructure in the coming years* will also stimulate the development of the real estate market in mid-long term

- *Based on past real estate cycles, we find that it usually takes two to three years for a new recovery. According to CBRE's research, in the period of 2023-2024, the supply of commercial housing in Ho Chi Minh is forecasted at only about 9,000 and 12,000 units, down 51% and 36% respectively compared to 2022. However, the supply is forecasted to start to recover in 2025, when nearly 19,000 units would be new launch, equivalent of the number in 2022 (figure 16).*

Figure 13. HCMC condominium, forecasted new launch & sold units, 2023-25F

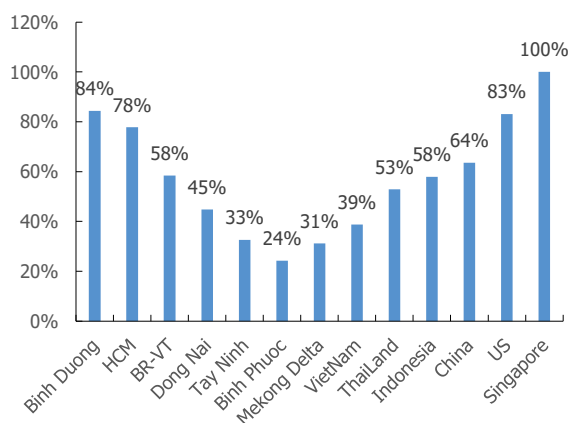


Source: CBRE, KISVN

The long term positive prospect comes from high demand in housing and urbanization

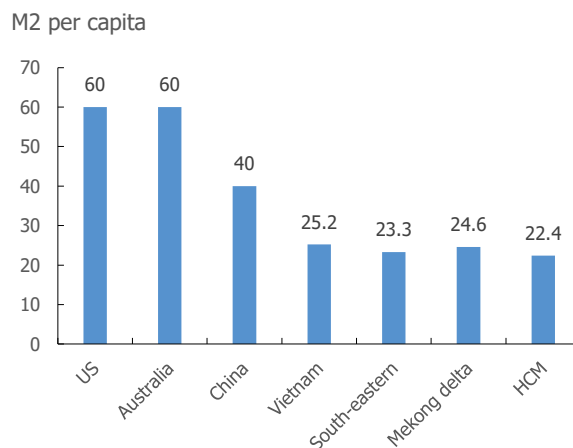
- *In the long term, the prospect of growth from housing demand is bullish. The average floor area per capita in the Southeast and the Mekong Delta is 23.3/24.6m²/person, lower than the national average of 25.2m²/person. Despite having the greatest annual construction value, Ho Chi Minh only has 18.1m²/person in 2020. Vietnam's average floor area per capita was low compared to other countries in Asia. Therefore, it shows that the demand for house building in our nation as a whole and the South, is still high in the long term. Besides, if compared to other Asia countries or developed countries, except for Ho Chi Minh and Binh Duong, whose infrastructure is well completed, urbanization rate of the other Southern provinces is still low. Therefore, on this basis, we believe that the demand of crushed stone is still very high for the infrastructure projects in the mid-long term*

Figure 14. Urbanization rate by country



Note: Data 2022
Source: GSO, WTO, KISVN

Figure 15. Average floor area per capita



Note: Data 2020
Source: GSO, KISVN

V. The mines in Dong Nai and Binh Duong reap the fruit

In the short and mid-term, the growth prospect of the South's crushed stone industry is positive when benefited from the robust infrastructure development under the Government's direction the beginning of 2024. In addition to the recovery of the real estate market from 2025F. On this basis, we forecast that most of the mines in the South will yield earnings turnaround in 2024-25F.

Table 3. List of listed crushed stone companies

| No | Company | Mine | City | Province | Square (ha) | Quality | | Remaining volume (m ³ rock) | Licensed capacity (m ³ /year) | 2022 mining (m ³) |
|----|-----------|--------------|--------------|------------|-------------|---------------|----------|--|--|-------------------------------|
| 1 | VLB | Thien Tan 2 | Vinh Cuu | Dong Nai | 65 | Sandstone | 01/2038 | 24,986,914 | 1,500,000 | 1,149,578 |
| | | Thanh Phu 1 | Vinh Cuu | Dong Nai | 88 | Sandstone | 08/2041 | 38,114,354 | 1,800,000 | 1,091,586 |
| | | Soklu 2 | Thong Nhat | Dong Nai | 18 | Bazal olivine | 01/2026 | 2,924,942 | 400,000 | 116,206 |
| | | Soklu 5 | Thong Nhat | Dong Nai | 28 | Bazal olivine | 08/2024 | 2,279,293 | 500,000 | 284,249 |
| | | Tan Cang 1 | Bien Hoa | Dong Nai | 63 | Andesit | 01/2038 | 25,677,130 | 1,500,000 | 1,515,921 |
| 2 | KSB | Phuoc Vinh | Phu Giao | Binh Duong | 30 | Granodiorit | 01/2023 | 432,549 | 1,200,000 | 330,147 |
| | | Tan My | Bac Tan Uyen | Binh Duong | 41 | Sandstone | 08/2029 | 15,341,717 | 1,500,000 | 1,025,398 |
| | | Thien Tan 7 | Bac Tan Uyen | Binh Duong | 12 | Sandstone | 01/2035 | 3,700,000 | 280,000 | 280,000 |
| 3 | DHA | Tan Cang 3 | Bien Hoa | Dong Nai | 23 | Andesit | 03/2024 | -9,000,000 | 490,000 | 474,576 |
| | | Thanh Phu 2 | Vinh Cuu | Dong Nai | 20 | Sandstone | 03/2027 | -4,200,000 | 818,000 | 764,068 |
| | | Nui Gio | Dong Phu | Binh Phuoc | 19 | Andesit | 2038 | 6,341,768 | 300,000 | 238,812 |
| 4 | MDG (C32) | Tan My | Bac Tan Uyen | Binh Duong | 30 | Sandstone | 01/2025 | 950,914 | 500,000 | 594,591 |
| | | Thuong Tan | Bac Tan Uyen | Binh Duong | 18 | Sandstone | 02/2034 | 9,423,760 | 700,000 | 899,433 |
| 5 | TCD (BCG) | Nui Dai | Tri Ton | An Giang | 70 | Andesit | 12/2024 | -18,000,000 | 1,000,000 | -1,200,000 |
| 6 | DGT | Tan Cang 4 | Bien Hoa | Dong Nai | 26 | Andesit | 01/2031 | -4,000,000 | 400,000 | -400,000 |
| 7 | BMJ | Rach Rạt | Phu Giao | Binh Duong | 37 | Granodiorit | 06/20235 | 10,940,552 | 800,000 | 325,785 |
| 8 | NNC | Mui Tau | Hon Quan | Binh Phuoc | 52 | Granodiorit | 2043 | 17,609,484 | 1,000,000 | 283,439 |
| 9 | CI5 | Soklu 6 | Thong Nhat | Dong Nai | 51 | Bazal olivine | 04/2026 | -2,600,000 | 397,000 | 79,711 |
| 10 | CTI | Thien Tan 10 | Vinh Cuu | Dong Nai | 28 | Sandstone | 01/2035 | -17,800,000 | 500,000 | NA |
| | | Xuan Hoa | Xuan Loc | Dong Nai | 52 | Bazal olivine | 01/2034 | -18,700,000 | 500,000 | NA |
| 11 | DND | Tan Cang 5 | Bien Hoa | Dong Nai | 25 | Andesit | 12/2032 | -8,300,000 | 800,000 | 0 |
| | | Thien Tan 5 | Vinh Cuu | Dong Nai | 28 | Sandstone | 01/2026 | NA | 240,000 | 0 |

Notes: Data 2022. We distinguish "rock" and "crushed stone". Rock is stone which have not been exploited. Crushed stone is product of rock after crushing.

Source: Company data, KISVN

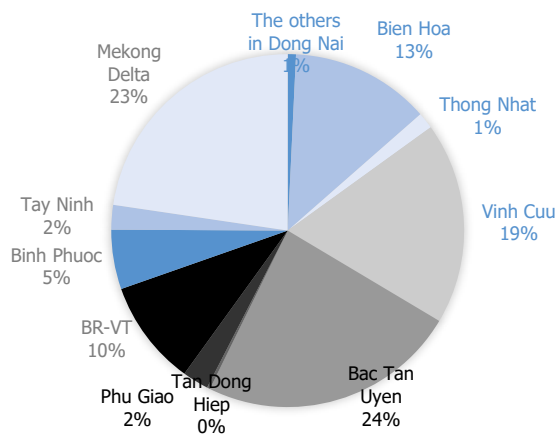
However, thanks to the unequal distribution of supply, there is a severe scarcity, particularly in Ho Chi Minh and Mekong Delta. Combined with the locations of the infrastructure projects, we especially appreciate the growth potential of mines in the areas of Bien Hoa, Vinh Cuu (Dong Nai) and Bac Tan Uyen (Binh Duong). We find that the mines will get benefits the most from the growth prospects over the short, mid, and long term.

Figure 16. Location of mines in the south



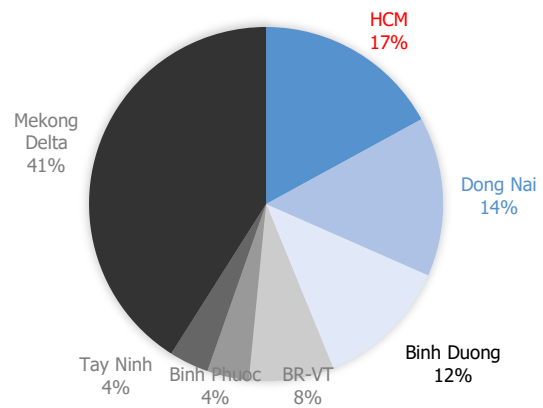
Notes: (1) Dau Giay - Tan Phu - Bao Loc, (2) Bien Hoa - Vung Tau, (3) Chon Thanh - HCM, (4) Chon Thanh - Duc Hoa, (5) Duc Hoa - My An, (6) Moc Bai - HCM, (7) Ring road 3
 Source: KISVN

Figure 17. The 2022 output share by volume



Source: Department of Natural Resources and Environment of Southern provinces,

Figure 18. The 2022 market share by volume



Source: KISVN

The mines in Bien Hoa benefit from Long Thanh airport and the supply glut in the eastern area of Ho Chi Minh

1. The mines in Bien Hoa benefit from Long Thanh airport and the supply glut in the eastern area of Ho Chi Minh

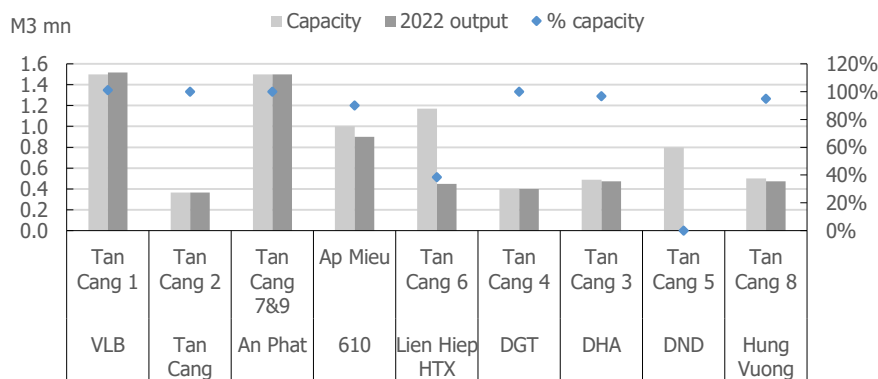
Outstanding competitive advantage in HCM's eastern market

Since 2014, HCM is no longer stone mining. It entirely depends on the supply of Tan Dong Hiep, Bac Tan Uyen (Binh Duong), Vinh Cuu, and Tan Cang (Dong Nai). Meanwhile, prior to 2020, the Di An and Thuan An (Binh Duong) primarily were dependent on the Tan Dong Hiep mines.

Therefore, after the Tan Dong Hiep mines' closure in 2020, Tan Cang mines benefited considerably. They immediately become a leading supplier of the eastern area of Ho Chi Minh (District 2, District 9, Thu Duc, Bien Hoa, Di An, & Thuan An) thanks to the competitive advantage of the transfer cost and time. Along with, andesite origin, which is the best quality in the Southern, it suits for producing high-grade concrete (M400 or higher) or materials in high-tech infrastructure like airport roads or expressways. In 2022, the total mining output at Bien Hoa mines reached 4.6mn m³ rock, as the third largest supplier in the southern market.

In the short and mid-term, the number of real estate projects in the East of Ho Chi Minh is forecasted to still play a leading role in the South thanks to 1) the trend of housing expanding to suburban areas of Ho Chi Minh, 2) the land bank of the area is still quite large, 3) getting benefits from the eastern's infrastructure, which is being promoted by the Government in recent years.

Figure 19. Capacity & output of mines in Bien Hoa 2022



Source: Dong Nai Department of Natural Resources and Environment, KISVN

Getting massive benefits from Long Thanh Airport and expressways

Long Thanh Airport is like to begin the construction phase in 4Q23. This is the greatest investment project in 2023-2030, which covers an area of 5,000ha. So, it will require a substantial quantity of materials for construction activities. According to our estimates, the total demand for crushed stone for the project is about 22mn m³, accounting for about 59% of the crushed stone volume for the key projects that are planned to implement during this time.

However, in terms of supply, there is only the Phuoc Binh mine in Long Thanh district, which is being exploited by a licensed capacity of 450,000 m³/year. However, by the end of 2022, Company 677 is still in the process of fulfilling documents and has not started yet the mining activities. In the short term, in our view, the contribution of Phuoc Binh mine for materials providing at Long Thanh airport project is negligible. Because of the early year of exploitation, the young rock layer of the surface layer has a low intensity, so it cannot meet the high-quality requirements in airport works. Therefore, Tan Cang mines with its

The mines in Bien Hoa benefit from Long Thanh airport and the supply glut in the eastern area of Ho Chi Minh

The mines in Bien Hoa benefit from Long Thanh airport and the supply glut in the eastern area of Ho Chi Minh

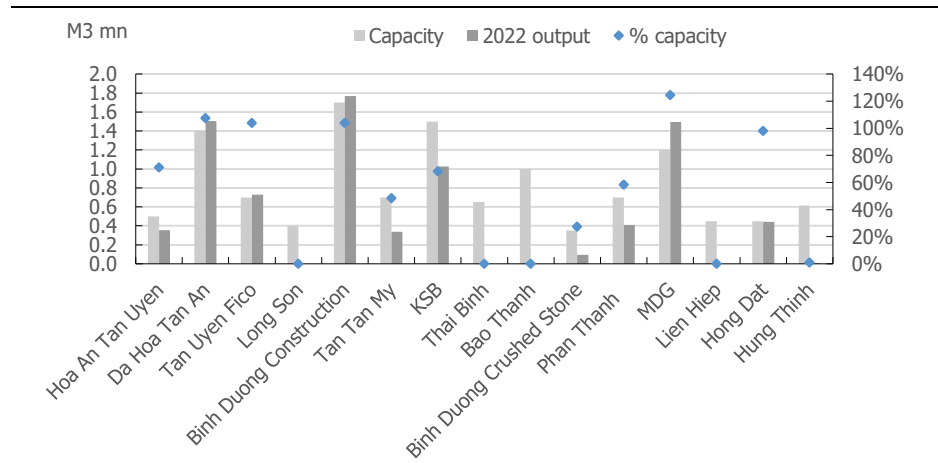
outstanding quality and advantages of location close to the project is currently the optimal choice for the project’s supply of crushed stone.

In addition, other key projects being implemented in the nearby areas include: Ring Road 3, Bien Hoa-Vung Tau expressway, HCM-Long Thanh and HCM metro lines are also forecast to use large amounts of crushed stone at Bien Hoa mines due to the optimization of cost and quality.

2. The Vinh Cuu & Bac Tan Uyen mines gains the spotlight

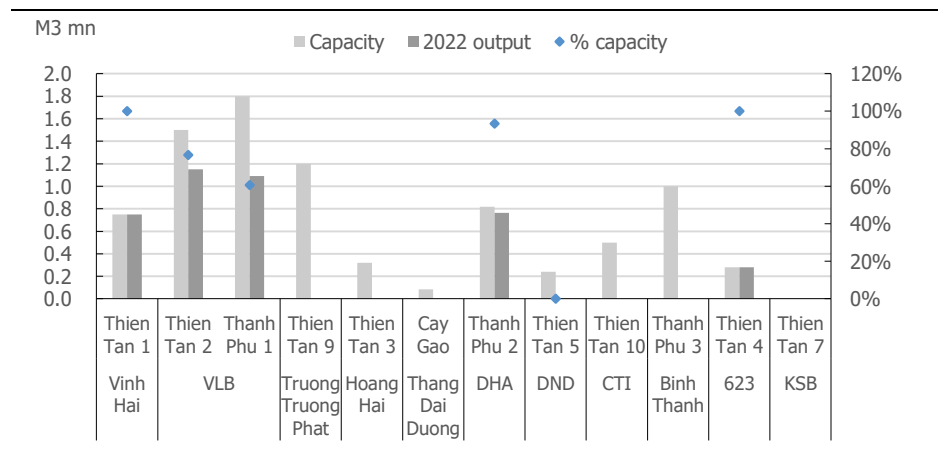
In the South, except for Ho Chi Minh has no mining activities. The Mekong delta is also scarcity of supply due to the dense geography of rivers. The Mekong Delta currently has 13 provinces, but only An Giang and Kien Giang owning stone mines. Therefore, crushed stone mined in An Giang and Kien Giang is only supplied within the Mekong Delta provinces, not transported back to the Southeast provinces for sales.

Figure 20. Capacity & output of mines in Bac Tan Uyen 2022



Source: Binh Duong Department of Natural Resources and Environment, KISVN

Figure 21. Capacity & output of mines in Vinh Cuu 2022



Source: Dong Nai Department of Natural Resources and Environment, KISVN

The Vinh Cuu (Dong Nai) and Bac Tan Uyen (Binh Duong) mines are located close to the banks of the Dong Nai River. They benefit from water transportation with high volume and low cost. Therefore, they are currently the primary source of crushed stone in the Mekong Delta, as well as Ho Chi Minh market. The mines are original sandstone with moderate compressive strength. However,

the mines have been operating for many years (since 2009), the current depth is at cost -60m to -80m. Therefore, the quality is pretty good, and suitable for the production of high-grade concrete or materials in expressway works. Along with the orientation of infrastructure development to boost the Mekong Delta economy. In the period of 2023-2030, the Government's plan will build 830km of expressways in this area. On this premise, we estimate that the demand for crushed stone of projects could be up to 11.3mn m³, equivalent to 21% of the south's output in 2022.

3. Other mines

Mines in An Giang & Kien Giang expect to benefit from rising prices

As analyzed above, due to the scarcity of supply, the mines in An Giang and Kien Giang are always at full capacity. Therefore, despite benefiting from the Government's orientation on infrastructure development, the volume of mines has a little room for growth. However, we forecast that mines' revenue and gross margin will still get benefits significantly from the increase in selling prices.

Other mines

In addition, based on the analysis of the projects's location, we find that Soklu mines (Dau Giay-Tan Phu expressway), Nui Nua mines (Bien Hoa-Vung Tau expressway, Dau Giay-Tan Phu expressway and Ring Road 3), Loc Ninh mines (HCMC-Moc Bai expressway), Phu Giao mines (Ring Road 3 and Chon Thanh-Duc Hoa expressway) and Chon Thanh mines (Chon Thanh-Duc Hoa expressway) will also benefit from the upcoming infrastructure projects, besides the potential for economic development and the real estate market in the following years.

4. Risks to be considered

The growth prospect of the construction stone industry in the coming years depends greatly on the progress of infrastructure projects. Therefore, the growth of revenue and profit growth rates of businesses will be significantly impacted by the delay in project implementation. According to the timeline, Long Thanh Airport can move to construction phase from Q4 2023. The promotion of project implementation, however, heavily depends on ACV's assessment of its effectiveness. If the expressways and roads, which connect to the airport have still not synchronized, Long Thanh airport will have not much motivation to deploy fast. Similarly, key expressway projects are highly dependent on government approval and disbursement progress, while these two factors are difficult to predict in time.

V. Conclusion and Ratings

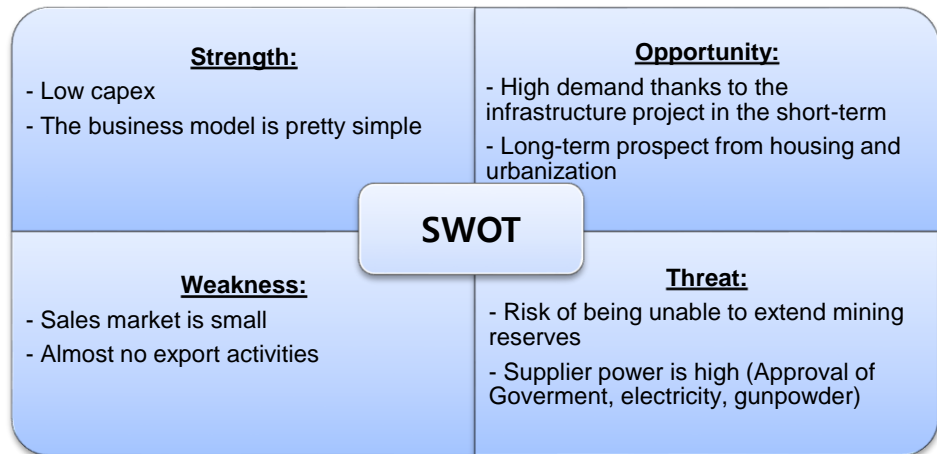
We recommend positive for the South's crushed stone prospect in the short, mid and long term.

- In the short term, the growth prospect from the Government's robust orientation of infrastructure development in the coming years will demand a large amount of crushed stone in the South.
- In the mid and long term, growth prospects come from the recovery of real estate. In addition to the South's demand on housing and urbanization are still very high in the next periods when these figures currently are at a low level compared to other countries in the Asian and the developed ones.
- Lastly, along with the expecting of growth in sales, profit and profit improvement in effectiveness, we are particularly concerned about the ability to implement projects on schedule. This avoids the risk that the stocks might take longer than expected to reach to their fair value.

Based on above prospects and combined with other fundamental, we are rating **BUY** on VLB (TP: VND45,100, UPSIDE +47%) and DHA (TP: VND47,000, UPSIDE +22%)

- They all are currently owning the best mines in the South with exceptional competitive advantages in terms of location, reserve, and quality,
- The safe dividend yield for holding target over 12 months.

We also offer a **HOLD** recommendation for the KSB stock with a target price of VND17,800 per share.



Top picks

Bien Hoa Construction Materials (VLB)

Bimico (KSB)

Hoa An (DHA)

Bien Hoa Cons. materials (VLB)

BUY, TP VND45,100

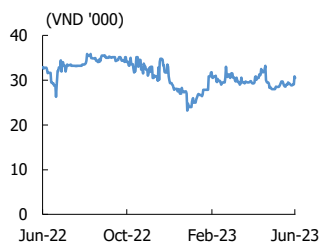
| | |
|---------------------------------|---------------|
| Stock price (30 Mar, VND) | 30,500 |
| Market cap (USD mn) | 61 |
| Shares outstanding (mn) | 47 |
| 52W High/Low (VND) | 35,901/23,200 |
| 6M avg. daily turnover (USD mn) | 0.25 |
| Free float (%) | 40.3 |
| Foreign ownership (%) | 0.0 |
| Major shareholders (%) | |
| Dofico | 49.3 |
| KSB | 9.6 |

| Yr to | Sales | OP | NP | EPS | BPS | ROE | ROA | PE | PB | EV/EBITDA | DY |
|-------|----------|----------|----------|-------|--------|-----|-----|------|-----|-----------|-----|
| Dec | (VND bn) | (VND bn) | (VND bn) | (VND) | (VND) | (%) | (%) | (x) | (x) | (x) | (%) |
| 2021A | 942 | 133 | 126 | 2,415 | 14,385 | 18 | 14 | 20.1 | 3.7 | 16.3 | 2 |
| 2022A | 1,275 | 224 | (23) | (495) | 11,266 | (4) | (3) | NA | 2.1 | 12.2 | 0 |
| 2023F | 1,153 | 197 | 162 | 3,095 | 11,951 | 30 | 22 | 8.8 | 2.5 | 13.7 | 8 |
| 2024F | 1,343 | 280 | 227 | 4,351 | 12,914 | 39 | 28 | 6.3 | 2.3 | 9.9 | 11 |
| 2025F | 1,523 | 363 | 294 | 5,628 | 14,159 | 46 | 33 | 4.8 | 2.1 | 7.9 | 14 |

Performance

| | 1M | 6M | 12M |
|----------------------|-----|-------|-------|
| Absolute (%) | 8.9 | 1.7 | (7.6) |
| Relative to VNI (%p) | 6.2 | (2.8) | 8.3 |

Stock price trend



A significant benefit from the industry's growth picture

BUY and TP of VND45,100. We initiate the coverage of VLB with BUY rating based on the outlook in 2023F-25F. The target price is based FCFE valuation. In which, we use a cost of equity at 11.66% assuming: 1) a riskfree rate of 5.5%, 2) a beta of 0.77 and 3) an equity risk premium of 8.0% and liquidation value in 2046 is zero.

In 2023, NPAT is expected to get back when there is no longer extraordinary expense: Benefiting from an explosion in the number of projects deployed in 2021. Besides the closure of Tan Dong Hiep mines. In 2020, crushed stone business recorded a positive growth, revenue reached VND257bn, +67% yoy (accounting for 85% of total revenue). However, NPAT recorded a negative VND23bn, down VND184bn compared to 2021. The main reason came from recording of a large (one-time) expense of VND270.4bn in COGS. That is amount of money collected for mined volume in the period of 2014-2021.

In 2023, Although revenue is expected to down roughly 10-20% amid the gloomy real estate market, NPAT is planned to recover significantly at VND130 bn, up VND143bn compared to the negative figure of 2022 due to no longer impacted by extraordinary expenses.

A significant benefit from the industry's growth picture: thanks to its significant competitive advantage of mines. VLB consistently ranks as the top supplier of construction stone. In 2022, the company's output is up to 4.1mn m³ rock, accounting for 11% of the Southern's output.

In the short term-2024, VLB's mines are forecasted to benefit positively thanks to the Long Thanh airport will begin the construction phase in the beginning of 4Q2023, after nearly two years of site preparation. Besides to the enormous reserves and favorable location, the mines can also supply the remaining 14/16 key projects in the period of 2023-2030.

In the mid-long term, amid scarcity of supply, as long as the positive prospect of construction activities in the South, we think that VLB still has a lot of room for growth in next periods. Specifically, we forecast that the NPAT could begin astrong growth in 2024-2025, reach VND227bn (+41% yoy) and VND294bn (+29% yoy), respectively.

Safe dividend yield for investment: Over the recently five years, from 2018 to 2022, VLB's average dividend was VND2,000 per share, or 7% of the market

price at the moment. Along with having exceptional competitive advantages and the short & mid term growth potential. We find that the dividend yield at this time is very secure for a buy-and-hold strategy.

Risk of market price does not reflect the growing momentum, when the slicing pie is not finished: KSB currently owns about 41% of VLB's shares wants to increase that over 90% in the future. As a result, we think there's the likelihood the stock price won't be very motivated to rise steadily until the M&A deal is completed.

| Cost of equity assumption | | WACC assumption | |
|---------------------------|---------------|------------------------|---------------|
| Item | % | Item | % |
| Beta | 0.77 | Cost of debt | 10.50% |
| Risk free rate | 5.50% | Target debt to capital | 0.00% |
| Equity risk premium | 8.00% | Tax rate | 20.00% |
| Cost of equity | 11.66% | WACC | 11.66% |

Source: KISVN

Source: KISVN

FCFE summary VND bn

| FCFE | FY2023F | FY2024F | FY2025F | FY2026F | FY2027F | FY2028-46F |
|---|--------------|------------|------------|------------|------------|--------------|
| EBIT(1-tax) | 159 | 225 | 291 | 326 | 324 | 4,226 |
| add: depreciation | 27 | 31 | 28 | 15 | 17 | 244 |
| less: capex | (8) | (12) | (15) | (17) | (17) | (230) |
| (increase) / decrease in NWC | 64 | (38) | (36) | (12) | 2 | 240 |
| less: bonus & welfare funds | (16) | (23) | (30) | (33) | (33) | (432) |
| add: net borrowing | 0 | 0 | 0 | 0 | 0 | 0 |
| FCFE | 225 | 183 | 238 | 278 | 292 | 4,048 |
| PV of FCFE | 123 | 154 | 179 | 187 | 176 | 1,139 |
| Cumulative sum PV of FCFE until 2046 | 1,958 | | | | | |
| Liquidation value | 0 | | | | | |

Source: KISVN

Company overview

VLB is headquartered in Dong Nai province. Main business activities in mining & processing of construction stone. Currently, VLB is the largest supplier of crushed stone in the South thanks to the advantage of owning mines-Thanh Phu 1, Thien Tan 2, Tan Cang 1, Soc Lu 3 and Soc Lu 5. Which have extremely large reserves (up to 94mn m³ rock), in addition to other advantages in terms of geographical location, as well as product quality.

Balance sheet

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------------|------------|------------|------------|------------|------------|
| Current assets (Adj.) | 504 | 370 | 465 | 520 | 583 |
| Cash & cash equivalent | 376 | 185 | 355 | 396 | 445 |
| Non-current assets (Adj.) | 127 | 185 | 109 | 124 | 138 |
| Fixed Asset | 68 | 64 | 45 | 26 | 14 |
| Investment assets | 0 | 0 | 0 | 0 | 0 |
| Others | 294 | 281 | 254 | 296 | 336 |
| Total assets | 866 | 715 | 764 | 843 | 933 |
| Advances from customers | 12 | 14 | 13 | 15 | 17 |
| Unearned revenue | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 25 | 35 | 32 | 37 | 42 |
| Others | 153 | 136 | 158 | 184 | 209 |
| ST debt & bond | 0 | 0 | 0 | 0 | 0 |
| LT debt & bond | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 190 | 185 | 203 | 236 | 268 |
| Controlling interest | 676 | 530 | 562 | 607 | 665 |
| Capital stock | 470 | 470 | 470 | 470 | 470 |
| Capital surplus | 21 | 21 | 21 | 21 | 21 |
| Other Reserves | 65 | 61 | 61 | 61 | 61 |
| Retained earnings | 120 | (22) | 10 | 55 | 113 |
| Shareholders' equity | 676 | 530 | 562 | 607 | 665 |

Cash flow

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------|-----------|--------------|------------|-----------|-----------|
| C/F from operations | 140 | (64) | 222 | 207 | 265 |
| Net profit | 158 | (23) | 202 | 284 | 368 |
| Depreciation | 26 | 24 | 27 | 31 | 28 |
| Net incr. in W/C | 168 | (11) | 224 | 311 | 390 |
| C/F from investing | 86 | (33) | 62 | (7) | (10) |
| Capex | 1 | (20) | (8) | (12) | (15) |
| Incr. in investment | 85 | (13) | 70 | 5 | 5 |
| C/F from financing | (171) | (94) | (113) | (159) | (206) |
| Incr. in equity | 0 | 0 | 0 | 0 | 0 |
| Incr. in debts | 0 | 0 | 0 | 0 | 0 |
| Dividends | (170) | (94) | (113) | (159) | (206) |
| C/F from others | 0 | 0 | 0 | 0 | 0 |
| Increase in cash | 55 | (191) | 170 | 41 | 49 |

Income statement

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|---|------------|-------------|------------|------------|------------|
| Net sales | 942 | 1,275 | 1,153 | 1,343 | 1,523 |
| COGS | 740 | 973 | 885 | 981 | 1,067 |
| Gross profit | 202 | 302 | 268 | 362 | 456 |
| SG&A | 69 | 78 | 70 | 82 | 93 |
| Operating profit | 133 | 224 | 197 | 280 | 363 |
| Financial income | 15 | 12 | 5 | 5 | 5 |
| Interest income | 14 | 12 | 5 | 4 | 5 |
| Financial expenses | 0 | 0 | 0 | 0 | 0 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Other non-operating profit | 11 | (259) | 0 | 0 | 0 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 158 | (23) | 202 | 284 | 368 |
| Income taxes | 32 | 0 | 40 | 57 | 74 |
| Net profit | 126 | (23) | 162 | 227 | 294 |
| Net profit of controlling interest | 126 | (23) | 162 | 227 | 294 |
| EBITDA | 159 | 248 | 224 | 311 | 390 |

Key financial data

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|----------------------------|--------|--------|--------|--------|--------|
| per share data (VND, adj.) | | | | | |
| EPS | 2,415 | (495) | 3,095 | 4,351 | 5,628 |
| BPS | 14,385 | 11,266 | 11,951 | 12,914 | 14,159 |
| DPS | 1,200 | 0 | 2,400 | 3,400 | 4,400 |
| Growth (%) | | | | | |
| Sales growth | (15) | 35 | (10) | 16 | 13 |
| OP growth | (37) | 69 | (12) | 42 | 30 |
| NP growth | (30) | NA | NA | 41 | 29 |
| EPS growth | (30) | NA | NA | 41 | 29 |
| EBITDA growth | (34) | NA | NA | 39 | 26 |
| Profitability (%) | | | | | |
| OP margin | 14 | 18 | 17 | 21 | 24 |
| NP margin | 13 | (2) | 14 | 17 | 19 |
| EBITDA margin | 17 | 19 | 19 | 23 | 26 |
| ROA | 14 | (3) | 22 | 28 | 33 |
| ROE (excl MI) | 18 | (4) | 30 | 39 | 46 |
| Dividend yield | 2 | 0 | 8 | 11 | 14 |
| Dividend payout ratio | 45 | 0 | 70 | 70 | 70 |
| Stability | | | | | |
| Net debt (VND bn) | (376) | (185) | (355) | (396) | (445) |
| Net debt/equity (%) | (56) | (35) | (63) | (65) | (67) |
| Valuation (X) | | | | | |
| PE | 10.8 | NA | 8.3 | 5.9 | 4.6 |
| PB | 2.0 | 2.6 | 2.4 | 2.2 | 2.0 |
| EV/EBITDA | 6.2 | 4.7 | 5.7 | 4.1 | 3.3 |

Bimico (KSB)

HOLD, TP VND17,800

| | |
|---------------------------------|---------------|
| Stock price (01 June, VND) | 26,600 |
| Market cap (USD mn) | 2,029 |
| Shares outstanding (mn) | 76 |
| 52W High/Low (VND) | 35,450/12,500 |
| 6M avg. daily turnover (USD mn) | 2.34 |
| Free float (%) | 68.2 |
| Foreign ownership (%) | 3.6 |
| Major shareholders (%) | |
| DRH | 29.88 |

| Yr to | Sales | OP | NP | EPS | BPS | ROE | ROA | PE | PB | EV/EBITDA | DY |
|-------|----------|----------|----------|-------|--------|-----|-----|------|-----|-----------|-----|
| Dec | (VND bn) | (VND bn) | (VND bn) | (VND) | (VND) | (%) | (%) | (x) | (x) | (x) | (%) |
| 2021A | 884 | 295 | 253 | 2,855 | 24,281 | 15 | 6 | 13.1 | 1.9 | 5.7 | 0 |
| 2022A | 859 | 224 | 152 | 1,502 | 25,327 | 8 | 4 | 9.4 | 0.7 | 7.5 | 0 |
| 2023F | 715 | 172 | 123 | 1,330 | 26,657 | 6 | 3 | 16.6 | 1.0 | 8.5 | 0 |
| 2024F | 754 | 176 | 129 | 1,403 | 28,061 | 6 | 3 | 15.7 | 0.9 | 9.8 | 0 |
| 2025F | 982 | 239 | 185 | 2,004 | 30,065 | 8 | 4 | 11.0 | 0.9 | 7.5 | 0 |

Performance

| | 1M | 6M | 12M |
|------------------------|-----|------|--------|
| Absolute (%) | 7.7 | 61.2 | (21.1) |
| Relative to KOSPI (%p) | 5.0 | 56.7 | (5.1) |

Stock price trend



Market price might be fair

HOLD and TP of VND17,800. We initiate the coverage of KSB with HOLD rating based on the long-term prospect. The target price is based FCFE & FCFF valuation. In which, we use a cost of equity at 11.66% assuming: 1) a riskfree rate of 5.5%, 2) a beta of 1,48 and 3) an equity risk premium of 8.0% and liquidation value in 2048 is zero.

Benefit from infrastructure projects: Although Tan Dong Hiep's main quarry closed in 2020, KSB is still one of top suppliers in the South. Currently, KSB owns three mines of Tan My, Dong Phu & Thien Tan 7. These are all high-quality mines that could gain from the implement of the Ring Road 3, the Chon Thanh-Dau expressways and other expressways in the Mekong Delta.

The limit on available land for sales: Analysis of the FS show that, KSB's available land for lease is always at a low level (~15ha at the end of 2022). Annual leasing revenue depends greatly on the land clearance of the previous year. The reason is the expended Dat Cuoc IP – phase 1 is almost full of licensed land bank. Along with, a small remaining part of land areas is hard for land clearance thanks to locating in the existing residential area, besides the high price for compensation. More important thing is the expended Dat Cuoc IP – phase 2 (204ha), that has not got the investment approval yet. At the present, it is being a 1/500 step and could take more than 18 months to begin the sales business. Therefore, we find that IP business will be hard to get significant change in the next few years due to the limitation of the available area for lease, besides the margin is less likely to improve.

Downtrend of NPAT in next two years: We forecast KSB's NPAT to decrease in 2023F-2024F compared to 2022. The number is forecast at VND123bn (-17% yoy) and VND129bn (+5% yoy). However, we expect the NPAT is likely to grow back in 2025 thanks to the expended Dat Cuoc IP- phase 2 could be ready to sale. In addition to the mining business is expected to get benefits from industry's positive picture.

The value of a strategy investment-VLB might not be as profitable as expected: Up to now, KSB owns about 41% of VLB's shares. In which, book value is recorded at VND68,000/share (is 2.3 times higher than the closing price on May 19, 2023). However, given that we estimate VLB's fair value at

VND45,000/share, we think that KSB could run into the risk of not achieving the expected return.

| Cost of equity assumption | | WACC assumption | |
|---------------------------|---------------|------------------------|---------------|
| Item | % | Item | % |
| Beta | 1.01 | Cost of debt | 10.70% |
| Risk free rate | 5.50% | Target debt to capital | 0.00% |
| Equity risk premium | 8.00% | Tax rate | 20.00% |
| Cost of equity | 13.61% | WACC | 13.61% |

Source: KISVN

Source: KISVN

FCFE summary VND bn

| FCFE | FY2023F | FY2024F | FY2025F | FY2026F | FY2027F | FY2028-48F |
|---|------------|-------------|-----------|-------------|------------|--------------|
| EBIT(1-tax) | 94 | 101 | 156 | 168 | 180 | 3,213 |
| add: depreciation | 190 | 138 | 170 | 169 | 169 | 1,981 |
| less: capex | (24) | (15) | (150) | (150) | (150) | (510) |
| (increase) / decrease in NWC | (131) | (170) | (4) | (57) | (59) | (422) |
| less: bonus & welfare funds | (21) | (22) | (31) | (33) | (35) | (639) |
| add: net borrowing | (81) | (107) | (88) | (112) | (112) | (597) |
| FCFE | 29 | (75) | 53 | (16) | (7) | 3,027 |
| PV of FCFE | 15 | (59) | 36 | (9) | (4) | 629 |
| Cumulative sum PV of FCFE until 2048 | 609 | | | | | |
| Liquidation value | 0 | | | | | |

Source: KISVN

FCFF summary VND bn

| FCFF | FY2023F | FY2024F | FY2025F | FY2026F | FY2027F | FY2028-48F |
|---|--------------|-----------|------------|------------|------------|--------------|
| EBIT(1-tax) | 94 | 101 | 156 | 168 | 180 | 3,213 |
| add: depreciation | 190 | 138 | 170 | 169 | 169 | 1,981 |
| less: capex | (24) | (15) | (150) | (150) | (150) | (510) |
| (increase) / decrease in NWC | (131) | (170) | (4) | (57) | (59) | (422) |
| less: bonus & welfare funds | (21) | (22) | (31) | (33) | (35) | (639) |
| add: interest expenses*(1-t) | 43 | 39 | 35 | 31 | 27 | 181 |
| FCFF | 152 | 72 | 177 | 128 | 132 | 3,805 |
| PV of FCFF | 83 | 59 | 130 | 83 | 75 | 886 |
| Cumulative sum PV of FCFF until 2048 | 1,317 | | | | | |
| Liquidation value | 0 | | | | | |

Source: KISVN

Company overview

KSB is headquartered in Binh Duong, core businesses in the field of construction materials and IPs. In 2022, KSB ranked second among the largest crushed stone miners in the South with 1.6mn m³ rock, which mined by three mines of Tan My, Phu Giao and Thien Tan 7

| Balance sheet | | VND bn | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--|
| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F | |
| Current assets (Adj.) | 2,100 | 2,059 | 2,101 | 2,067 | 2,222 | |
| Cash & cash equivalent | 94 | 122 | 160 | 118 | 230 | |
| Non-current assets (Adj.) | 2,006 | 1,937 | 1,941 | 1,949 | 1,992 | |
| Fixed Asset | 117 | 97 | 45 | 2 | 0 | |
| Investment assets | 341 | 339 | 339 | 339 | 339 | |
| Others | 1,426 | 1,748 | 1,715 | 1,766 | 1,809 | |
| Total assets | 3,985 | 4,243 | 4,200 | 4,174 | 4,369 | |
| Advances from customers | 2 | 1 | 1 | 1 | 1 | |
| Unearned revenue | 38 | 21 | 19 | 19 | 19 | |
| Trade payables | 38 | 47 | 39 | 41 | 54 | |
| Others | 767 | 515 | 525 | 553 | 720 | |
| ST debt & bond | 387 | 758 | 749 | 713 | 696 | |
| LT debt & bond | 343 | 358 | 286 | 215 | 143 | |
| Total liabilities | 1,231 | 1,342 | 1,332 | 1,327 | 1,490 | |
| Controlling interest | 1,788 | 1,941 | 2,043 | 2,150 | 2,304 | |
| Capital stock | 736 | 766 | 766 | 766 | 766 | |
| Capital surplus | 0 | 0 | 0 | 0 | 0 | |
| Other Reserves | 166 | 181 | 181 | 181 | 181 | |
| Retained earnings | 886 | 993 | 1,095 | 1,203 | 1,356 | |
| Shareholders' equity | 1,788 | 1,941 | 2,043 | 2,150 | 2,304 | |

| Cash flow | | VND bn | | | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--|
| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F | |
| C/F from operations | 44 | 130 | 107 | 46 | 1,431 | |
| Net profit | 301 | 184 | 153 | 162 | 231 | |
| Depreciation | 154 | 178 | 190 | 138 | 170 | |
| Net incr. in W/C | 462 | 395 | 362 | 313 | 410 | |
| C/F from investing | (173) | (496) | 11 | 20 | (1,231) | |
| Capex | (170) | (507) | (24) | (15) | (1,266) | |
| Incr. in investment | (3) | 11 | 35 | 35 | 35 | |
| C/F from financing | 71 | 395 | (81) | (107) | (88) | |
| Incr. in equity | 0 | 30 | 0 | 0 | 0 | |
| Incr. in debts | 0 | 0 | (9) | (36) | (17) | |
| Dividends | 0 | 0 | 0 | 0 | 0 | |
| C/F from others | 0 | 0 | 0 | 0 | 0 | |
| Increase in cash | (57) | 28 | 38 | (42) | 112 | |

| Income statement | | VND bn | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--|
| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F | |
| Net sales | 884 | 859 | 715 | 754 | 982 | |
| COGS | 472 | 542 | 466 | 497 | 636 | |
| Gross profit | 412 | 317 | 249 | 257 | 346 | |
| SG&A | 117 | 93 | 78 | 82 | 107 | |
| Operating profit | 295 | 224 | 172 | 176 | 239 | |
| Financial income | 103 | 94 | 37 | 37 | 38 | |
| Interest income | 22 | 58 | 2 | 2 | 2 | |
| Financial expenses | 95 | 135 | 54 | 49 | 44 | |
| Interest expenses | 95 | 135 | 54 | 49 | 44 | |
| Other non-operating profit | 3 | 4 | 0 | 0 | 0 | |
| Gains (Losses) in associates, subsidiaries and JV | (5) | (2) | (2) | (2) | (2) | |
| Earnings before tax | 301 | 184 | 153 | 162 | 231 | |
| Income taxes | 48 | 32 | 31 | 32 | 46 | |
| Net profit | 253 | 152 | 123 | 129 | 185 | |
| Net profit of controlling interest | 253 | 152 | 123 | 129 | 185 | |
| EBITDA | 449 | 402 | 362 | 313 | 410 | |

| Key financial data | | VND bn | | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--|
| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F | |
| per share data (VND, adj.) | | | | | | |
| EPS | 2,855 | 1,502 | 1,330 | 1,403 | 2,004 | |
| BPS | 24,281 | 25,327 | 26,657 | 28,061 | 30,065 | |
| DPS | 0 | 0 | 0 | 0 | 0 | |
| Growth (%) | | | | | | |
| Sales growth | (33) | (3) | (17) | 5 | 30 | |
| OP growth | (33) | (24) | (23) | 2 | 36 | |
| NP growth | (23) | (40) | (19) | 5 | 43 | |
| EPS growth | (23) | (40) | (19) | 5 | 43 | |
| EBITDA growth | (34) | (10) | (10) | (13) | 31 | |
| Profitability (%) | | | | | | |
| OP margin | 33 | 26 | 24 | 23 | 24 | |
| NP margin | 29 | 18 | 17 | 17 | 19 | |
| EBITDA margin | 51 | 47 | 51 | 42 | 42 | |
| ROA | 6 | 4 | 3 | 3 | 4 | |
| ROE (excl MI) | 15 | 8 | 6 | 6 | 8 | |
| Dividend yield | 0 | 0 | 0 | 0 | 0 | |
| Dividend payout ratio | 0 | 0 | 0 | 0 | 0 | |
| Stability | | | | | | |
| Net debt (VND bn) | 636 | 993 | 875 | 809 | 609 | |
| Net debt/equity (%) | 36 | 51 | 43 | 38 | 26 | |
| Valuation (X) | | | | | | |
| PE | 13.1 | 9.4 | 16.6 | 15.7 | 11.0 | |
| PB | 1.9 | 0.7 | 1.0 | 0.9 | 0.9 | |
| EV/EBITDA | 5.7 | 7.5 | 8.5 | 9.8 | 7.5 | |

Hoa An (DHA)

BUY, TP VND47,000

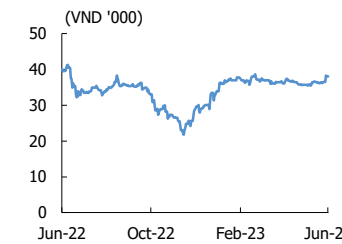
| | |
|---------------------------------|---------------|
| Stock price (01 June, VND) | 26,850 |
| Market cap (USD mn) | 24 |
| Shares outstanding (mn) | 15 |
| 52W High/Low (VND) | 41,296/21,774 |
| 6M avg. daily turnover (USD mn) | 0.07 |
| Free float (%) | 34.6 |
| Foreign ownership (%) | 18.5 |
| Major shareholders (%) | |
| Fico | 25.5 |
| C32 | 13.5 |

| Yr to | Sales | OP | NP | EPS | BPS | ROE | ROA | PE | PB | EV/EBITDA | DY |
|-------|----------|----------|----------|-------|--------|-----|-----|------|-----|-----------|-----|
| Dec | (VND bn) | (VND bn) | (VND bn) | (VND) | (VND) | (%) | (%) | (x) | (x) | (x) | (%) |
| 2021A | 337 | 79 | 90 | 5,592 | 30,991 | 15 | 6 | 6.4 | 1.2 | 4.7 | 9 |
| 2022A | 388 | 86 | 52 | 3,373 | 29,257 | 8 | 4 | 11.1 | 1.3 | 5.2 | 14 |
| 2023F | 362 | 81 | 79 | 4,879 | 29,137 | 6 | 3 | 7.1 | 1.6 | 5.7 | 14 |
| 2024F | 427 | 105 | 92 | 5,682 | 29,816 | 6 | 3 | 6.1 | 1.3 | 4.5 | 14 |
| 2025F | 438 | 115 | 100 | 6,203 | 31,016 | 8 | 4 | 5.6 | 1.3 | 4.1 | 14 |

Performance

| | 1M | 6M | 12M |
|------------------------|-----|------|-------|
| Absolute (%) | 6.4 | 29.6 | (5.7) |
| Relative to KOSPI (%p) | 3.7 | 25.1 | 10.2 |

Stock price trend



Attractive dividend yield

BUY and TP of VND47,000. We initiate the coverage of DHA with BUY rating based on the outlook in 2023F-25F. The target price is based FCFE valuation. In which, we use a cost of equity at 11.66% assuming: 1) a riskfree rate of 5.5%, 2) a beta of 1.2 and 3) an equity risk premium of 8.0% and liquidation value in 2046 is zero.

NPAT 2023 is forecasted to recover significantly when no provision is made for stock investments: In 2022, although revenue recorded a growth of +15% yoy, reaching VND388bn. However, the NPAT was only VND52bn, a sharp decrease of 42% yoy. The main reason came from DHA had to make a provision of VND35 bn dong for stock investment (in which, HPG accounts for more than 90% of the amount).

In 2023, although revenue could decline slightly by 7% compared to 2022. However, we forecast the NPAT to grow at +51% yoy, reaching VND79bn when the provision for investments is no longer. In addition to the revaluation could bring back VND8-10bn of financial profit in the beginning 2Q2023 amid market has recovered significantly by the end of prior year.

Attractive dividend for value investment: Attractive dividend for value investment: DHA's average cash dividend for the most recent three years, from 2020 to 2022, was VND 5,000 per share, or 13% of the current market price. Along with advantage of large reserves and a positive outlook, we appreciate for the likelihood that DHA could maintain a high dividend level in the upcoming years. Particularly given the trend of declining interest rates in the years to come, in our opinion, this dividend has a large margin of safety which is ideal for value investment.

DHA's mines are predicted to gain from the industry's growth prospects but not as significantly due to capacity restrictions.

Similar to VLB, DHA's mine are expected to benefit from the South's robust implementation of infrastructure projects in the next years, in addition to the region's scarcity of supply. Therefore, even though we anticipate a significant improvement in the indices of selling price and profit margin. However, the company's sales and NPAT are unlikely to be a significant breakthrough in the coming years. Based on those, our forecast that NPAT in 2024F-2025F could reach VND92bn (+16% yoy) and VND100bn (+9% yoy), respectively.

Company overview

DHA is headquartered in Dong Nai province. It's one of the oldest stone mining enterprises in the South. The company's entire revenue comes from rock mining at Tan Cang 1, Thanh Phu 2 & Nui Gio mines. These are all high quality and highly-competitive geographical mines.

| Cost of equity assumption | % | WACC assumption | % |
|---------------------------|---------------|------------------------|---------------|
| Item | | Item | |
| Beta | 1.20 | Cost of debt | 10.70% |
| Risk free rate | 5.50% | Target debt to capital | 0.00% |
| Equity risk premium | 8.00% | Tax rate | 20.00% |
| Cost of equity | 15.10% | WACC | 15.10% |

Source: KISVN

Source: KISVN

FCFE summary

VND bn

| FCFE | FY2023F | FY2024F | FY2025F | FY2026F | FY2027F | FY2028-44F |
|---|------------|-----------|-----------|------------|------------|------------|
| EBIT(1-tax) | 73 | 89 | 101 | 110 | 111 | 757 |
| add: depreciation | 8 | 8 | 8 | 8 | 8 | 12 |
| less: capex | 0 | 0 | 0 | 0 | 0 | 0 |
| (increase) / decrease in NWC | 19 | 8 | (5) | (3) | (1) | 105 |
| less: bonus & welfare funds | (5) | (6) | (7) | (7) | (7) | (54) |
| add: net borrowing | 0 | 0 | 0 | 0 | 0 | 0 |
| FCFE | 94 | 99 | 97 | 108 | 111 | 820 |
| PV of FCFE | 51 | 79 | 68 | 65 | 58 | 199 |
| Cumulative sum PV of FCFE until 2044 | 520 | | | | | |
| Liquidation value | 0 | | | | | |

Source: KISVN

Balance sheet

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|---------------------------|------------|------------|------------|------------|------------|
| Current assets (Adj.) | 394 | 369 | 383 | 402 | 428 |
| Cash & cash equivalent | 134 | 61 | 86 | 123 | 146 |
| Non-current assets (Adj.) | 260 | 308 | 297 | 279 | 282 |
| Fixed Asset | 59 | 53 | 46 | 38 | 31 |
| Investment assets | 0 | 0 | 0 | 0 | 0 |
| Others | 79 | 69 | 66 | 74 | 75 |
| Total assets | 531 | 491 | 494 | 514 | 534 |
| Advances from customers | 3 | 2 | 2 | 2 | 2 |
| Unearned revenue | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 10 | 12 | 11 | 13 | 14 |
| Others | 44 | 29 | 35 | 41 | 43 |
| ST debt & bond | 0 | 0 | 0 | 0 | 0 |
| LT debt & bond | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 57 | 43 | 48 | 57 | 58 |
| Controlling interest | 469 | 442 | 441 | 451 | 469 |
| Capital stock | 151 | 151 | 151 | 151 | 151 |
| Capital surplus | 58 | 58 | 58 | 58 | 58 |
| Other Reserves | 87 | 87 | 87 | 87 | 87 |
| Retained earnings | 172 | 146 | 144 | 154 | 172 |
| Shareholders' equity | 469 | 442 | 441 | 451 | 469 |

Cash flow

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|-------------------------|-----------|-------------|-----------|-----------|-----------|
| C/F from operations | 138 | 0 | 79 | 104 | 91 |
| Net profit | 112 | 65 | 98 | 115 | 125 |
| Depreciation | 9 | 8 | 9 | 9 | 10 |
| Net incr. in W/C | 88 | 95 | 90 | 114 | 125 |
| C/F from investing | 3 | 1 | 21 | 8 | 8 |
| Capex | 0 | -2 | -1 | -2 | -2 |
| Incr. in investment | 3 | 3 | 22 | 10 | 10 |
| C/F from financing | (44) | (74) | (76) | (76) | (76) |
| Incr. in equity | 0 | 0 | 0 | 0 | 0 |
| Incr. in debts | 0 | 0 | 0 | 0 | 0 |
| Dividends | (44) | (74) | (76) | (76) | (76) |
| C/F from others | 0 | 0 | 0 | 0 | 0 |
| Increase in cash | 97 | (73) | 25 | 37 | 23 |

Income statement

VND bn

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|---|------------|-----------|-----------|------------|------------|
| Net sales | 337 | 388 | 362 | 427 | 438 |
| COGS | 242 | 285 | 265 | 304 | 304 |
| Gross profit | 95 | 103 | 97 | 123 | 134 |
| SG&A | 16 | 17 | 15 | 18 | 19 |
| Operating profit | 79 | 86 | 81 | 105 | 115 |
| Financial income | 26 | 11 | 17 | 10 | 10 |
| Interest income | 8 | 9 | 8 | 8 | 9 |
| Financial expenses | -5 | 33 | 0 | 0 | 0 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Other non-operating profit | 3 | 1 | 0 | 0 | 0 |
| Gains (Losses) in associates, subsidiaries and JV | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 112 | 65 | 98 | 115 | 125 |
| Income taxes | 22 | 13 | 20 | 23 | 25 |
| Net profit | 90 | 52 | 79 | 92 | 100 |
| Net profit of controlling interest | 90 | 52 | 79 | 92 | 100 |
| EBITDA | 89 | 94 | 90 | 114 | 125 |

Key financial data

| FY-ending Dec. | 2021A | 2022A | 2023F | 2024F | 2025F |
|----------------------------|--------|--------|--------|--------|--------|
| per share data (VND, adj.) | | | | | |
| EPS | 5,592 | 3,373 | 4,879 | 5,682 | 6,203 |
| BPS | 30,991 | 29,257 | 29,137 | 29,816 | 31,016 |
| DPS | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Growth (%) | | | | | |
| Sales growth | (12) | 15 | (7) | 18 | 3 |
| OP growth | (24) | 9 | (6) | 29 | 10 |
| NP growth | (8) | (42) | 50 | 16 | 9 |
| EPS growth | (8) | (42) | 50 | 16 | 9 |
| EBITDA growth | (22) | 7 | (5) | 27 | 10 |
| Profitability (%) | | | | | |
| OP margin | 23 | 22 | 22 | 25 | 26 |
| NP margin | 27 | 13 | 22 | 21 | 23 |
| EBITDA margin | 26 | 24 | 25 | 27 | 29 |
| ROA | 6 | 4 | 3 | 3 | 4 |
| ROE (excl MI) | 15 | 8 | 6 | 6 | 8 |
| Dividend yield | 9 | 14 | 14 | 14 | 14 |
| Dividend payout ratio | 82 | 141 | 96 | 83 | 76 |
| Stability | | | | | |
| Net debt (VND bn) | (134) | (61) | (86) | (123) | (146) |
| Net debt/equity (%) | (29) | (14) | (19) | (27) | (31) |
| Valuation (X) | | | | | |
| PE | 6.4 | 11.1 | 7.1 | 6.1 | 5.6 |
| PB | 1.2 | 1.3 | 1.6 | 1.3 | 1.3 |
| EV/EBITDA | 4.7 | 5.2 | 5.7 | 4.5 | 4.1 |

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- BUY: Expected total return will be 15%p or more
- Hold: Expected total return will be between -5%p and 15%p
- Sell: Expected total return will be -5%p or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

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Prepared by: Research department

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