

Horizon Securities

Research Team

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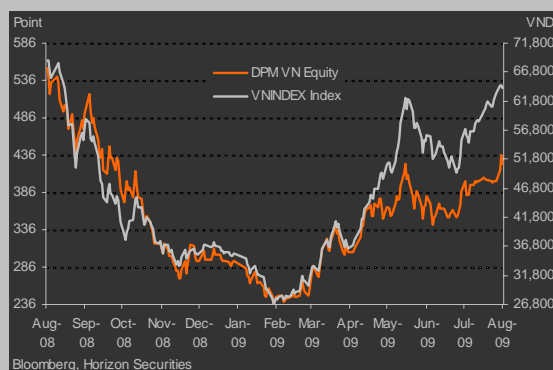
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BUY/High Risk	1H
<i>from Underperform/High Risk</i>	
Price (VND)	50,000
Target price (VND)	60,300
Expected share price return	20.6%
Expected dividend yield	2.6%
Expected total return	23.2%

Stock Profile/Statistics	27-Aug-09
Reuters Ticker	DPM.HM
Sector	Fertilizer
VND/USD	17,821
Shares Outstanding	379,000,000
Market Capitalisation (US\$)	1,063,352,225
Foreign room (%)	30%
52 week High/ Low (VND)	69,000 / 26,800
3M av. daily trading (shares)	36,151
Estimated free float	139,200,000

Stock Performance (%)	1M	3M	6M
Absolute (%)	4.2	15.5	76.1
Relative (%)	(7.2)	(6.9)	(17.9)

Overship Structure	%
PetroVietnam (State)	60.1%
BIDV	3.7%
PVFC	1.6%
ACB	1.0%
Others	32.7%



New catalysts on the horizon: Upgrade to BUY

- DPM's average urea prices were better than expected, hovering around VND5.5mln (US\$300) per ton, down 15% yoy but still at ~9% over our forecast for FY09 of US\$275.
- 1H09 revenues grew by 33% yoy to VND4,060bln (US\$228mln), reaching almost 68% of its full-year target of VND6,000bln (US\$337mln). The increase in revenue was mainly driven by sales of imported fertilizers which accounted for almost 50% of total revenue in the first half of the year.
- 1H09 net income fell 31.5% yoy to VND756bln (US\$42mln), representing 47% of the full-year target. The drop in profits was due to the increase in imported fertilizers, hence increasing direct COGS, which rose by almost 100% yoy to VND2,442bln (US\$137mln).
- We have raised target urea prices as we have become more positive on the price outlook thanks to the recent recovery in oil prices and in international urea prices. We have revised our urea price target for FY09 by ~9% from US\$275 per ton to US\$300 per ton.
- The feasibility study has been completed and construction of the new NPK plant is expected to commence in 2010. After meeting with management we have gained more visibility on the NPK project, which will have total capacity of 400,000 tons per annum upon completion by 2012.
- Given the improvement of urea price estimates over the long-term and better visibility of the company's upcoming projects, we upgrade our rating to **BUY**. We value DPM on a DCF approach in order to capture the longer term growth prospects of the company. Our DCF-derived price objective is **VND60,300** (US\$3.38) per share which represents a 20.6% premium to the current market price.

Figure 1. 1H 2009 Financial Summary

VND/mln	1H09A	2H08A	1H08A	Chg. HoH	Chg. YoY
Sales	4,060,221	3,432,164	3,043,204	18.3%	33.4%
COGS (ex. D&A)	(2,441,892)	(2,314,402)	(1,230,315)	5.5%	98.5%
D&A Expenses	(542,838)	(539,705)	(539,705)	0.6%	0.6%
Gross Profit	1,075,491	578,058	1,273,185	86.1%	(15.5%)
Gross Margin	26.49%	16.84%	41.84%	9.6%	(15.3%)
EBIT	808,548	261,568	1,143,750	209.1%	(29.3%)
EBIT Margin	19.91%	7.62%	37.58%	12.3%	(17.7%)
EBITDA	1,351,386	801,273	1,683,455	68.7%	(19.7%)
EBIT Margin	33.28%	23.35%	55.32%	9.9%	(22.0%)
Net Income	755,510	280,651	1,103,229	169.2%	(31.5%)
Net Margin	18.61%	8.18%	36.25%	10.4%	(17.6%)
EPS (VND)	1,992	740	2,909	169.2%	(31.5%)

Source: Horizon Securities, Company Report

Revenue and Profitability

1H09 revenues grew by 33% yoy to VND4,060bln (US\$228mln), reaching almost 69% of its full-year target of VND5,850bln (US\$328mln). The increase in revenues was mainly driven by an increase in sales of imported fertilizers which accounted for almost 50% of total revenues in the first half of the year.

Average urea prices of DPM were better than expected hovering around VND5.5mln (US\$300) per ton, down 15% yoy but still about ~9% over our earlier price forecast for FY09 of US\$275. According to management, DPM's pricing is based on urea prices in Baltic and Middle East plus transportation costs (US\$50 for Baltic and US\$20 for Middle East) and $\pm 5\%$ fluctuations. Although management believes prices should improve over the mid-to-long term, management further expressed that its price might not move above US\$400 per ton due to the government's undertaking to control inflation.

Production was in-line with planning, reaching ~370,000 tons in 1H09 or 50% of its full-year plan of 740,000 tons. Total sales volume of imported fertilizer reached 230,000 tons, comprising of 168,000 tons imported this year and 68,000 tons of inventory left over from 2008. For the second half of the year, we expect DPM to import an additional of ~82,000 tons to fulfill its plan.

1H09 net income fell 31.5% yoy to VND756bln (US\$42mln), however representing 76% of the company's full-year target of VND990bln (US\$56). Despite the shortfall year-on-year, net results in 1H09 was much better than expected due to high local demand for urea driven by increased rice exports.

Outlook and Catalysts

Our target urea prices have been raised on more positive price outlook thanks to recent oil prices and international urea prices recovery. In our valuation model, we have revised our urea price estimates for FY09 by ~9% from US\$275 per ton to US\$300 per ton. For the medium- to longer-term, we've implied a 3% price appreciation on urea.

Construction of the new NPK plant is expected to commence in 2010. After meeting with DPM's management we have better visibility on the company's NPK project. The project which will have a total capacity of 400,000 tons/year upon completion by 2012 has already undergone the feasibility study and construction is expected to begin in 2010. Total investment cost for the project is estimated at US\$63 million, of which 40% will be financed from DPM's own capital and the rest from bank loans. Management plans to take a US dollar-denominated loan at approximately 5.5% interest per year. For our projections we've estimated the new plant to run at 50% capacity in 2012 and 90% capacity afterwards. Based on current market conditions, we value the average price for NPK fertilizers at around VND8,000,000 (US\$450) per ton increasing 3% per year.

DPM will manage Ca Mau Fertilizer Project under contract with PetroVietnam (PVN). We have learned that the company will not pursue the take-over of the Ca Mau Fertilizer Project, but instead will manage the project for PVN. Discussions on the exact management fees and terms of the contract are still being negotiated. However, the company estimates that it could earn anywhere between VND150 billion (US\$8.4 million) to VND200 billion (US\$11.2 million) in management fees per year.

Investment in Russia and Morocco might not be carried on further. After the feasibility studies on the prospective investment projects in Russia and Morocco, DPM management expressed that the company might not pursue these projects.

Valuation

Upgrade to BUY, with a price objective of VND60,300 – Given our revision of urea price estimates over the long-term coupled with the prospective earnings from the company's new business lines, we upgrade our rating from UNDERPERFORM to **BUY**. We decided to use solely a DCF approach as it better captures the mid- to long-term growth prospects of the company than a multiples valuation method. We applied the 10-year government bond yield of 10% pa as the risk free rate, a WACC of 13.4% and a terminal growth rate of 3%. Our DCF-derived approach gives us price objective of **VND60,300** (US\$3.38) per share which represents a 20.6% premium to the current market price. Our price objective is equivalent to a PER of 15.75x on 2010 and 14.84x on 2011 adjusted EPS of VND3,828 and VND4,063 respectively.

Figure 2. DCF Valuation

	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12
EBIT	606,572	1,622,807	2,388,703	2,704,102
+ Depreciation	559,756	858,823	220,872	356,071
+/- Increase (decrease) of WC	(679,473)	133,847	(112,469)	(27,348)
Free Cashflow from Operating	486,854	2,615,476	2,497,106	3,032,825
- Capex	(772,121)	(1,174,678)	(699,178)	(139,108)
- Tax paid	(20,950)	(121,232)	(176,411)	(198,680)
+ Income from JV	-	-	-	-
Free Cashflow to Firm (FCFF)	(306,216)	1,319,566	1,621,516	2,695,037

	Aug-09	Jan-10	Jan-11
Firm Value	20,635,771	22,257,992	24,008,113
+ Investment	217,528	217,528	217,528
- Net debt	2,024,118	1,641,389	2,306,004
- Minority Interest	(21,531)	(21,531)	(21,531)
Equity Value	22,855,886	24,095,379	26,510,115
Outstanding shares	379,000,000	379,000,000	379,000,000
Value per share	60,300	63,600	69,900

Source: Horizon Securities

At its current price of VND50,000 (US\$2.80), the company is trading at a slight premium to its regional peers on 2010 average PER.

Figure 3. Peer comparison

COMPANY	COUNTRY	P/E				TEV/ EBITDA			P/B		
		2007	2008	2009	2010	2007	2008	2009	2007	2008	2009
CHINA BLUECHEMICAL LTD - H	HONG KONG	5.1x	4.5x	12.4x	10.2x	7.7x	6.3x	N/A	2.3x	1.9x	1.8x
SINOFERT HOLDINGS LTD	HONG KONG	39.6x	12.1x	96.2x	13.6x	17.7x	17.6x	N/A	3.1x	1.6x	13.7x
TAIWAN FERTILIZER CO LTD	TAIWAN	25.6x	44.0x	44.2x	31.5x	175.1x	148.8x	N/A	1.9x	2.0x	2.0x
CHAMBAL FERTILIZERS & CHEM	INDIA	18.0x	8.8x	8.9x	8.3x	8.4x	7.9x	25.8x	2.3x	1.8x	1.6x
UNITED PHOSPHORUS LTD	INDIA	27.3x	27.6x	11.7x	9.7x	16.2x	13.0x	30.4x	4.7x	3.2x	3.2x
TATA CHEMICALS LIMITED	INDIA	11.7x	6.1x	11.1x	9.4x	10.9x	11.6x	22.6x	2.3x	1.6x	1.2x
NAGARJUNA FERTILIZERS & CH	INDIA	46.3x	65.3x	26.8x	13.8x	N/A	N/A	N/A	0.8x	0.9x	0.9x
GUJARAT STATE FERT & CHEMICA	INDIA	3.4x	N/A	6.2x	5.3x	3.7x	N/A	4.5x	0.7x	N/A	0.7x
DEEPAK FERTILIZERS & PETRO	INDIA	7.9x	4.7x	5.2x	4.3x	7.6x	4.7x	3.8x	1.1x	1.0x	0.9x
JORDAN PHOSPHATE MINES	JORDAN	30.0x	5.8x	6.2x	8.3x	20.9x	4.3x	N/A	7.1x	3.3x	3.3x
KUREHA CORP	JAPAN	17.9x	17.1x	36.0x	23.8x	6.8x	6.2x	N/A	1.0x	1.0x	1.1x
ZAKLADY AZOTOWE W TARNOWIE-M	POLAND	12.8x	9.6x	11.4x	9.7x	4.5x	4.3x	4.8x	0.9x	0.6x	0.6x
SHANXI LANHUA SCI-TECH-A	CHINA	31.5x	15.9x	18.7x	17.0x	18.8x	12.1x	N/A	6.5x	4.6x	4.7x
CHEMICAL CO OF MALAYSIA BHD	MALAYSIA	16.6x	16.0x	36.9x	21.5x	13.3x	9.4x	11.9x	1.2x	1.2x	1.4x
DCM SHRIRAM CONSOLIDATED	INDIA	23.0x	1.5x	9.6x	6.1x	13.3x	14.4x	7.4x	1.8x	0.9x	0.8x
Median		18.0x	10.9x	11.7x	9.7x	12.1x	9.4x	9.6x	1.9x	1.6x	1.4x
Average		21.1x	17.1x	22.8x	12.8x	23.2x	20.1x	13.9x	2.5x	1.8x	2.5x
PETROVIETNAM FERT & CHEMICAL	VIETNAM	15.0x	14.4x	16.1x	13.8x	N/A	N/A	N/A	4.5x	4.2x	3.8x

Source: Horizon Securities, Bloomberg, Reuters

Financial Highlights

Income Statements							VND'mln
FY ended, 31 December	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Sales	6,475,368	6,741,752	6,229,310	6,575,366	7,073,808	8,659,415	8,893,725
COGS	(4,624,125)	(4,883,389)	(4,196,952)	(3,754,360)	(3,904,632)	(5,184,063)	(5,311,843)
Gross profit	1,851,243	1,858,363	2,032,358	2,821,006	3,169,176	3,475,352	3,581,882
S&A expense	(445,925)	(443,243)	(409,552)	(432,304)	(465,074)	(569,321)	(584,726)
EBIT	1,405,318	1,415,120	1,622,807	2,388,703	2,704,102	2,906,030	2,997,156
Financial income	143,127	170,657	48,787	71,798	96,454	135,983	172,464
Financial expense	(53,580)	(36,980)	(12,391)	(42,562)	(61,045)	(61,045)	(61,045)
Interest expense	(31,216)	(682)	(12,391)	(42,562)	(61,045)	(61,045)	(61,045)
Income from JV&A	-	-	-	-	-	-	-
Other Profits	6,008	6,008	6,008	6,008	6,008	6,008	6,008
EBITDA	2,484,727	2,517,714	2,481,630	2,609,575	3,060,173	3,285,286	3,399,596
EBIT	1,405,318	1,415,120	1,622,807	2,388,703	2,704,102	2,906,030	2,997,156
EBT	1,500,873	1,554,806	1,665,210	2,423,946	2,745,519	2,986,976	3,114,583
Enterprise Income Tax	(115,581)	(103,811)	(121,232)	(176,411)	(198,680)	(213,825)	(220,659)
Deferred Income Tax	-	-	-	-	-	-	-
Net profit	1,385,292	1,450,994	1,543,979	2,247,535	2,546,839	2,773,152	2,893,924
EPS	3,652	3,828	4,063	5,915	6,702	7,298	7,616

Balance Sheets							VND'mln
FY ended, 31 December	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Current assets	2,692,502	4,362,546	5,316,590	6,648,527	8,681,493	11,076,774	13,491,248
Cash	942,714	2,439,351	3,589,887	4,822,688	6,799,142	8,623,193	10,979,511
Short term investment	-	-	-	-	-	-	-
Account receivable	573,161	630,894	582,940	615,324	661,968	810,349	832,276
Inventory	1,111,308	1,224,883	1,081,470	1,144,762	1,149,645	1,556,638	1,590,524
Other current assets	65,319	67,418	62,293	65,754	70,738	86,594	88,937
Non current assets	2,499,870	2,134,665	2,450,520	2,928,826	2,711,864	2,471,717	2,208,385
Long- term receivables	-	-	-	-	-	-	-
Fixed assets	1,899,296	1,568,823	1,884,678	2,362,984	2,146,022	1,905,875	1,642,543
Investment in property	-	-	-	-	-	-	-
Long-term investments	205,536	217,528	217,528	217,528	217,528	217,528	217,528
Other long-term assets	395,038	348,314	348,314	348,314	348,314	348,314	348,314
TOTAL ASSETS	5,192,372	6,497,211	7,767,110	9,577,353	11,393,357	13,548,491	15,699,633
Current liabilities	438,629	573,533	510,888	497,555	526,719	668,701	685,919
Short term debt	4,021	4,021	4,021	4,021	4,021	4,021	4,021
Account payable	204,924	299,842	257,694	230,519	239,746	318,303	326,149
Advances from customers	55,018	67,418	62,293	65,754	70,738	86,594	88,937
Other current liabilities	174,666	202,253	186,879	197,261	212,214	259,782	266,812
Non current liabilities	12,318	224,429	772,995	1,109,037	1,109,037	1,109,037	1,109,037
Long-term loan & debt	3,049	215,214	763,780	1,099,822	1,099,822	1,099,822	1,099,822
Other long-term liabilities	9,269	9,215	9,215	9,215	9,215	9,215	9,215
Deferred tax liabilities	-	-	-	-	-	-	-
Owner's Equity	4,719,424	5,677,718	6,461,697	7,949,232	9,736,071	11,749,222	13,883,146
Minority interest	22,001	21,531	21,531	21,531	21,531	21,531	21,531
TOTAL LIABILITIES & OWNER'S EQUITY	5,192,372	6,497,211	7,767,110	9,577,354	11,393,357	13,548,491	15,699,633

Company Update – PetroVietnam Fertilizer & Chemicals

Cashflows Statements							VND'mln
FY ended, 31 December	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Net profit (loss) before tax	1,500,873	1,554,806	1,665,210	2,423,946	2,745,519	2,986,976	3,114,583
Adjustment for:							
Depreciation and amortisation	1,079,409	1,102,594	858,823	220,872	356,071	379,256	402,440
Other adjustments	525,920	(170,334)	(36,396)	(29,235)	(35,409)	(74,938)	(111,419)
Income before changes in WC	3,106,202	2,487,065	2,487,638	2,615,583	3,066,181	3,291,294	3,405,604
(Increase) decrease in receivables	(581,225)	(57,733)	47,954	(32,384)	(46,644)	(148,381)	(21,927)
(Increase) decrease in inventories	(1,344,385)	(113,575)	143,413	(63,291)	(4,883)	(406,993)	(33,886)
Increase (decrease) in payables	(304,069)	94,918	(42,148)	(27,175)	9,227	78,558	7,846
Increase in trading securities	-	-	-	-	-	-	-
(Increase) decrease in prepaid exp	40,567						
Interest paid	(30,990)	(682)	(12,391)	(42,562)	(61,045)	(61,045)	(61,045)
Enterprise income tax paid	(118,280)	(103,811)	(121,232)	(176,411)	(198,680)	(213,825)	(220,659)
Other cashflows from operating	(57,959)	37,888	(15,373)	10,382	14,953	47,568	7,029
Net cash flows from operations	673,860	2,344,069	2,487,861	2,284,140	2,779,108	2,587,177	3,082,963
Purchase of fixed assets	(116,473)	(772,121)	(1,174,678)	(699,178)	(139,108)	(139,108)	(139,108)
Disposals of fixed assets	-						
Loans to other entities	-						
Collections from borrowers	-						
Payments for investments	(179,031)	(11,992)	-	-	-	-	-
Proceeds from sale of investments	-						
Interest and dividends received	123,830	170,657	48,787	71,798	96,454	135,983	172,464
Change in other LT assets/liabilities		46,200	-	-	-	-	-
Net cash flows from investing	(171,675)	(567,255)	(1,125,891)	(627,381)	(42,655)	(3,126)	33,355
Issuance of shares	20,590	-	-	-	-	-	-
Capital redemption	(35,053)	-	-	-	-	-	-
Borrowings received	17,157	677,147	548,566	336,042	-	-	-
Borrowings repaid	(590,191)	(464,623)	-	-	-	-	-
Finance lease principal paid	-						
Dividends paid	(944,326)	(492,700)	(760,000)	(760,000)	(760,000)	(760,000)	(760,000)
Net cash flows from financing	(1,531,823)	(280,176)	(211,434)	(423,958)	(760,000)	(760,000)	(760,000)
Net increase (decrease) in cash	(1,029,638)	1,496,637	1,150,535	1,232,801	1,976,454	1,824,051	2,356,318
Cash at beginning	1,972,352	942,714	2,439,351	3,589,887	4,822,688	6,799,142	8,623,193
Impact of exchange rate	-						
Cash at end of year	942,714	2,439,351	3,589,887	4,822,688	6,799,142	8,623,193	10,979,511

Financial Ratios

FY ended, 31 December	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Revenue Growth (%)	71.35%	4.11%	(7.60%)	5.56%	7.58%	22.42%	2.71%
Gross Margin (%)	28.59%	27.56%	32.63%	42.90%	44.80%	40.13%	40.27%
Operating Margin (EBIT) (%)	21.70%	20.99%	26.05%	36.33%	38.23%	33.56%	33.70%
Net Margin (%)	21.37%	21.52%	24.79%	34.18%	36.00%	32.02%	32.54%
Net Income Growth (%)	4.09%	4.74%	6.41%	45.57%	13.32%	8.89%	4.36%
Receivable turnover (days)	32.31	32.59	35.56	33.26	32.95	31.03	33.71
Payable turnover (days)	(21.10)	(18.86)	(24.24)	(23.73)	(21.98)	(19.65)	(22.14)
Inventory Turnover (days)	114.43	87.31	100.29	108.22	107.24	95.27	108.13
Current Ratio (x)	6.14	0.13	0.10	0.07	0.06	0.06	0.05
Cash to Current Debt (%)	214.92%	425.32%	702.68%	969.28%	1290.85%	1289.54%	1600.70%
Debt to Total Asset (%)	8.68%	12.28%	16.53%	16.77%	14.36%	13.12%	11.43%
Cash Per Share (VND)	2,486	6,436	9,447	12,691	17,892	22,693	28,893
Net Debt (Cash) Per Share (VND)	(1,297)	(4,331)	(6,068)	(8,463)	(13,588)	(18,014)	(24,170)
Book Value Per Share (VND)	12,443	14,981	17,004	20,919	25,621	30,919	36,535
Return on Assets (%)	26.65%	22.33%	19.88%	23.47%	22.35%	20.47%	18.43%
Return on Equity (%)	29.32%	25.56%	23.89%	28.27%	26.16%	23.60%	20.84%

Horizon Securities' Rating System

Under our rating system, each stock is given a two-part rating, which indicates the following:

Investment Ratings

- Buy (1)
- Neutral (2)
- Underperform (3)

Risk Ratings

- Low (L)
- Medium (M)
- High (H)
- Speculative (S)

Our Analyst's Methodology

Price objective and expected total return

Initially, an analyst derives an expected 12-month price objective using multiple valuation methodologies (as specified in the Valuation section of the research). The current market price is then compared with the price objective to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

Risk rating

The analyst then assesses the risk of a stock based on various quantitative and fundamental factors that relate to the stock's local market/country (as specified in the Risk section of the research). We categorize risk as Low, Medium, High or Speculative.

Ratings-Risk-Return Matrix

Finally, based on both the expected total return and risk rating, an investment rating is established using our ratings-risk-return matrix (below). We categorize investment ratings as Buy, Neutral or Underperform. All published research contains a Valuation and Risk section where analysts must discuss how they derived their price objectives and risk ratings. Investors are encouraged to read this section for a detailed description.

Expected Total Returns Ratings-Risk-Return Matrix

	LOW Risk	MEDIUM Risk	HIGH Risk	SPECULATIVE
BUY (1)	$R \geq 10$	$R \geq 15$	$R \geq 20$	$R \geq 35$
NEUTRAL (2)	$0 < R < 10$	$5 < R < 15$	$10 < R < 20$	$15 < R < 35$
UNDERPERFORM (3)	$R \leq 0$	$R \leq 5$	$R \leq 10$	$R \leq 15$

$R = \text{Expected Total Return (12 months)} = [(\text{Price Objective} - \text{Current Price}) / \text{Current Price}] + \text{Forecast 12-month Dividend Yield}$.

These benchmarks are subject to change.

Important Disclosures

Guide to Investment Ratings:

Horizon Securities' stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H] and Speculative [S].

Investment ratings are a function of Horizon Securities' expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Investment ratings are:

Buy [1] (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); **Neutral [2]** (0% - 10% for Low-Risk stocks, 5% - 15% for Medium-Risk stocks, 10% - 20% for High-Risk stocks, and 15% - 35% for Speculative stocks); and **Underperform [3]** (negative total return for Low-Risk stocks, 5% or less for Medium-Risk stocks, 10% or less for High-Risk stocks and 15% or less for Speculative stocks).

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