

Vietnam

HOLD (no change)

Consensus ratings*: Buy 0 Hold 1 Sell 0

Current price:	VND9,100
Target price:	VND9,900
Previous target:	VND9,700
Up/downside:	8.8%
CGS-CIMB / Consensus:	na
Reuters:	DCM.HM
Bloomberg:	DCM VN
Market cap:	US\$207.6m VND4,817,540m
Average daily turnover:	US\$0.27m VND6,195m
Current shares o/s:	529.4m
Free float:	15.9%

*Source: Bloomberg

Key changes in this note

- FY19F EPS increased by 359%.
- FY20F EPS increased by 131%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.3	-9.9	-28.4
Relative (%)	-0.3	-18.3	-12.7

Major shareholders	% held
Vietnam National Oil and Gas Group	75.6
PVFCapital	8.5

Analyst(s)



Mai PHAM

T (84) 94 328 0850

E mai.phamle@vndirect.com.vn

PetroVietnam Ca Mau Fertilizer

Brighter 2019F prospects

- We expect the government to continue to subsidise DCM's gas input price, and to a greater extent than previously forecasted.
- DCM's NPK plant is well on track for a trial run by the end of 2Q19F.
- Maintain Hold. We raise our TP to VND9,900.

2018 results in line with expectations

DCM posted a 2018 net revenue of VND6,689bn, up 16.4% from 2017 as a result of a significant increase in urea ASP (est. 16-18% yoy) and an impressive rise in the trading volume of other fertilisers. However, net profit only increased 2.5% yoy, in line with our expectation, as the company's 2018 profit remained regulated by PVN's policy, which guaranteed a fixed ROE of urea segment at 12% during FY15-18 by adjusting the gas price that PVN sold to DCM.

Brighter 2019F prospects on more lenient gas price policy

We hold our belief that PVN would still give certain support to DCM through partial subsidy of its gas input cost until the company fully depreciates its plant and repays the debt incurred through plant construction. However, we revise downward our 2019 gas price assumption from a 20% discount to the market level (benchmarked as DPM's gas input price) to one based on DCM's 2019 guidance of VND6,941bn in total revenue (+1.7% yoy) and VND256bn in profit before tax (-63.8% yoy). As such, we still expect DCM's net profit to fall in FY19F, but at a slower pace of 66.9% yoy vs. our previous forecast of 93% yoy. Our forecast for FY19F EPS more than tripled as a result.

NPK plant well on track for trial run in 2Q19F

The construction of DCM's 300,000-tonne nitrogen, phosphorus, and potassium (NPK) plant stays on schedule; it is slated for trial run at end-2Q19F. The company expects to produce 80,000 tonnes and sell 60,000 tonnes of NPK in 2019. In our estimate, this could lead to an additional VND494bn of NPK revenue in total 2019F revenue, but with a loss of VND69bn at the bottomline. We expect the NPK plant to generate profit starting from 2022F, at a utilisation rate of 80%.

Maintain Hold

Despite raising our earnings forecasts for FY19-22F on weaker gas input price hike, we maintain a Hold rating for DCM, as the increase in gas price still has a strong impact on DCM's net profit. We also raise our TP accordingly, based on a combination of a 5-year DCF, and target FY19F P/E and P/BV maintained at 10x and 1x, respectively. Upside risk to our call includes a more favourable gas price policy and higher urea ASP growth. Downside risks include a less positive FY19F gas price policy, and lower fertiliser consumption volume.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (VNDb)	5,748	6,689	6,925	7,799	8,420
Operating EBITDA (VNDb)	2,019	2,084	1,571	1,648	1,583
Net Profit (VNDb)	637.9	654.0	216.7	230.4	223.2
Core EPS (VND)	1,205	1,235	409	435	422
Core EPS Growth	2.9%	2.5%	(66.9%)	6.3%	(3.1%)
FD Core P/E (x)	7.55	7.37	22.24	20.91	21.58
DPS (VND)	505.5	900.1	500.0	500.0	500.0
Dividend Yield	5.55%	9.89%	5.49%	5.49%	5.49%
EV/EBITDA (x)	2.77	2.29	2.89	2.00	1.31
P/FCFE (x)	3.6	NA	188.2	4.6	4.6
Net Gearing	12.0%	(1.3%)	(5.0%)	(25.1%)	(45.2%)
P/BV (x)	0.79	0.77	0.78	0.78	0.79
ROE	10.7%	10.6%	3.5%	3.7%	3.6%
% Change In Core EPS Estimates			359%	131%	0%
CIMB/consensus EPS (x)					

SOURCES: VND RESEARCH, COMPANY REPORTS

Brighter 2019F prospects

2018 results in line with expectations

Figure 1: Results comparison

FYE Dec (VND bn)	4Q18	4Q17	% yoy	FY18	FY17	% yoy	vs. FY18		Comments
							forecast		
Net revenue	2,043.3	1,550.7	31.8%	6,689.3	5,747.8	16.4%	119.6%		Net revenue exceeded our forecast due to a higher-than-expected surge in urea ASP and higher trading volumes of other fertiliser.
Gross profit	241.3	144.0	67.6%	1,432.4	1,381.3	3.7%	106.6%		
<i>Gross profit margin</i>	<i>11.8%</i>	<i>9.3%</i>	<i>+2.5% pts</i>	<i>21.4%</i>	<i>24.0%</i>	<i>-2.6% pts</i>	<i>-2.6% pts</i>		
Selling expenses	51.1	37.7	35.5%	331.5	333.6	-0.6%	102.2%		In line with our forecast
G&A expenses	96.8	66.5	45.6%	320.1	337.4	-5.1%	97.0%		In line with our forecast
Operating profit	93.4	39.8	134.9%	780.8	710.4	9.9%	113.3%		
Financial income	55.5	48.4	14.6%	176.2	168.8	4.4%	93.3%		
Financial expenses	38.5	46.2	-16.7%	260.1	202.9	28.2%	131.6%		Financial expenses was higher than our expectation due to higher FX losses.
Pre-tax profit	111.0	43.1	157.4%	706.2	679.3	3.9%	103.3%		
Net profit	96.2	39.1	145.8%	654.0	637.9	2.5%	101.9%		Net profit was in line with our forecast, as earnings could be projected with high certainty in light of the 12% fixed ROE gas price policy.

SOURCES: VND RESEARCH, COMPANY REPORTS

We credit the 16.4% increase in DCM's FY18 net revenue to the surge in urea ASP (estimated at 16-18% yoy) and a strong improvement in the trading volume of other fertilisers (approx. 160,000 tonnes vs. 2017's 69,000 tonnes). Higher sales volume of premium product lines such as N46.Plus and N46.Nano C+, which fetch higher ASPs, might be another reason for the increase in topline, which outperformed its 2018 target by 24.2% and our forecast by 19.6%.

It is notable that there were usually large discrepancies in the company's quarterly results, as DCM often adjusts its 4Q COGS to arrive at the 12% ROE guaranteed by PVN, causing difficulty in comparing quarterly performance on a year-on-year basis.

However, net profit in 2018 closely matched the company's guidance and our forecast, since net profit growth was limited by the fixed ROE policy at 12%, no matter how high revenue could extend. This policy expired at the end of 2018 and a new gas price contract would be effective from 2019 onwards.

Brighter 2019F prospects on more lenient gas price policy

DCM's 2019 targets of VND6,941bn in total revenue (+1.7% yoy) and VND256bn in profit before tax (-63.8% yoy) are much higher than our previous forecasts, which were based on the assumption that the company's gas input price stays 20% below market price. We revise our gas price input assumption downwards based on DCM's 2019 guidance. Under this scenario, the company would still see a net profit decline of 66.9% yoy in 2019F (vs. our previous forecast of a 99.3% decline), in our estimate.

Figure 2: Forecast revisions

Unit: VNDbn, otherwise noted	2019F			2020F			2021F			Note
	Old	New	%Δ	Old	New	%Δ	Old	New	%Δ	
Brent crude oil (average, US\$/bbl)	73.7	65.0	-12%	73.7	67.0	-9%	73.7	68.6	-7%	As oil prices showed sharp correction in 4Q18, we revise down 2019 average oil price to US\$65/bbl.
Urea ASP (VND/kg)	6,164	6,593	7%	6,318	6,758	7%	6,476	6,927	7%	We revise up 2019 urea ASP on a high 2018 base and we expect short-to-medium term price level to remain favourable.
Urea volume ('000 tonnes)	804	782	-3%	804	763	-5%	804	758	-6%	We adjust downward urea volume from 2019 onwards assuming DCM would use in-house urea to produce NPK, hence lower external sales volume.
NPK volume ('000 tonnes)	105	60	-43%	180	150	-17%	210	195	-7%	We reduce the utilisation rate assumed for DCM's NPK plant as we are quite concerned about the harsh competition in the market after the addition of new NPK capacity in 2018-2019F (DPM's new plant at 350,000 tonnes in 2018, BFC's plant upgrade of 200,000 tonnes in 2019F).
Other fertiliser volume ('000 tonnes)	73	140	92%	76	147	93%	80	154	93%	We revise up forecast for 2019 trading volume on a high 2018 base (~160k tonnes) and the company's high 2019 guidance (185k tonnes).
Net revenue	6,675	6,925	4%	7,551	7,799	3%	8,058	8,420	4%	
Gross profit	789	903	15%	886	933	5%	1,015	906	-11%	We assume weaker gas price hike in 2019 than previously forecasted, based on DCM's 2019 business guidance, which leads to lower COGS.
Selling expenses	380	343	-10%	425	368	-14%	452	392	-13%	We adjust the assumption of SG&A expenses/revenue similar to 2018 level.
G&A expenses	386	332	-14%	431	357	-17%	458	381	-17%	
Operating profit	23	227	897%	29	208	611%	104	132	27%	
Financial income	189	139	-27%	200	153	-24%	223	193	-13%	DCM paid US\$50m of long term debt in advance in 2018, hence we lower forecast for financial income and interest expense from 2019 onwards.
Financial expense	198	142	-28%	127	123	-3%	95	96	2%	
Pre-tax profit	50	234	365%	106	249	134%	238	241	1%	
Net profit	47	217	359%	100	230	131%	223	223	0%	
Basic EPS (VND/share)	89	409	360%	189	435	130%	421	422	0%	
Adjusted EPS (VND/share)	79	360	356%	166	383	131%	371	371	0%	

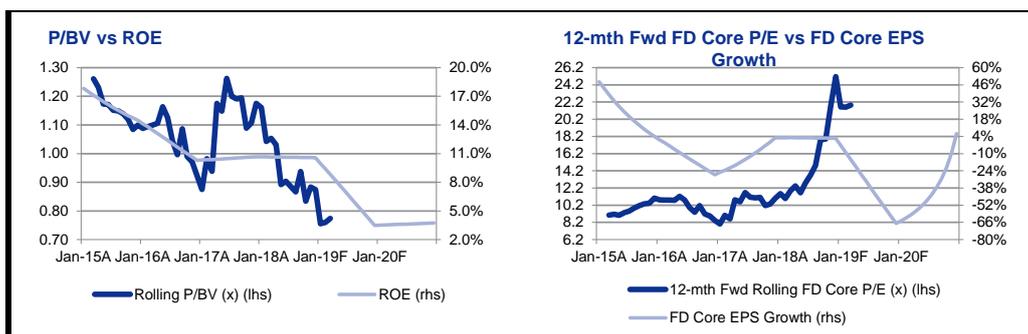
SOURCES: VND RESEARCH

Valuation

We increase our target price for DCM to VND9,900 to reflect the changes in our assumptions in terms of gas input price policy and sales volume. Our target price is based on a 50:25:25 combination of a 5-year DCF valuation, target FY19F P/E of 10x, and target FY19F P/BV of 1x, equal to 3-year historical average P/E and P/BV. We maintain our Hold rating for DCM, as we expect the company's 2019 earnings to be squeezed by the upward revision in gas price policy, though the effects should level off in later years.

Our valuation already takes into account the possible impact of a change in VAT policy on the company's business results, effective from 2020F. The new gas price policy for 2019 has not been publicly disclosed; however, it should be noted that if DCM's gas price policy remains in the form of a fixed-ROE policy, the positive effects of the VAT change would be nullified. Specifically, lower COGS caused by tax deductions would be countered by corresponding increases in gas input price to maintain ROE at a certain level. In this case, DCM could not benefit directly from the VAT amendment.

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	5,748	6,689	6,925	7,799	8,420
Gross Profit	2,662	2,713	2,246	2,373	2,357
Operating EBITDA	2,019	2,084	1,571	1,648	1,583
Depreciation And Amortisation	(1,309)	(1,303)	(1,343)	(1,439)	(1,451)
Operating EBIT	710	781	227	208	132
Financial Income/(Expense)	(34)	(84)	(3)	29	97
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	3	9	10	11	12
Profit Before Tax (pre-EI)	679	706	234	249	241
Exceptional Items					
Pre-tax Profit	679	706	234	249	241
Taxation	(38)	(47)	(16)	(17)	(16)
Exceptional Income - post-tax					
Profit After Tax	641	659	218	232	225
Minority Interests	(3)	(5)	(2)	(2)	(2)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	638	654	217	230	223
Recurring Net Profit	638	654	217	230	223
Fully Diluted Recurring Net Profit	638	654	217	230	223

Cash Flow

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	2,019	2,084	1,571	1,648	1,583
Cash Flow from Inv. & Assoc.					
Change In Working Capital	489	(314)	(444)	25	12
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(96)	(37)	(3)	(9)	(7)
Other Operating Cashflow	(93)	(202)	4	6	11
Net Interest (Paid)/Received	(26)	16	3	34	97
Tax Paid	(27)	(29)	(16)	(17)	(16)
Cashflow From Operations	2,266	1,517	1,115	1,687	1,681
Capex	(120)	(330)	(620)	(179)	(185)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	354	(240)	(1)	(5)	(3)
Cash Flow From Investing	234	(569)	(621)	(184)	(189)
Debt Raised/(repaid)	(1,150)	(2,082)	(468)	(450)	(450)
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(268)	(477)	(265)	(265)	(265)
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	(1,418)	(2,558)	(733)	(715)	(715)
Total Cash Generated	1,083	(1,610)	(239)	788	778
Free Cashflow To Equity	1,350	(1,134)	26	1,053	1,042
Free Cashflow To Firm	2,683	1,090	615	1,607	1,569

SOURCES: VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	3,996	2,788	2,549	3,337	4,114
Total Debtors	400	453	459	482	498
Inventories	371	984	1,128	1,286	1,407
Total Other Current Assets	71	87	90	101	109
Total Current Assets	4,839	4,312	4,225	5,205	6,129
Fixed Assets	7,470	6,298	5,925	4,671	3,406
Total Investments	0	0	0	0	0
Intangible Assets	32	39	34	29	28
Total Other Non-Current Assets	116	382	36	41	44
Total Non-current Assets	7,617	6,718	5,996	4,740	3,478
Short-term Debt					
Current Portion of Long-Term Debt	1,062	1,185	694	694	694
Total Creditors	1,185	1,592	1,287	1,455	1,578
Other Current Liabilities	278	306	317	357	385
Total Current Liabilities	2,525	3,083	2,298	2,506	2,657
Total Long-term Debt	3,674	1,519	1,542	1,092	641
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	103	157	157	157	157
Total Non-current Liabilities	3,777	1,676	1,699	1,248	798
Total Provisions	0	0	0	0	0
Total Liabilities	6,303	4,759	3,997	3,754	3,455
Shareholders' Equity	6,127	6,240	6,192	6,158	6,116
Minority Interests	26	30	32	34	35
Total Equity	6,154	6,271	6,224	6,191	6,152

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	17.1%	16.4%	3.5%	12.6%	8.0%
Operating EBITDA Growth	(2.7%)	3.2%	(24.6%)	4.9%	(3.9%)
Operating EBITDA Margin	35.1%	31.2%	22.7%	21.1%	18.8%
Net Cash Per Share (VND)	(1,398)	158	590	2,930	5,249
BVPS (VND)	11,574	11,787	11,696	11,632	11,553
Gross Interest Cover	3.88	5.50	1.87	2.01	1.73
Effective Tax Rate	5.59%	6.71%	6.71%	6.71%	6.71%
Net Dividend Payout Ratio	42%	73%	122%	115%	119%
Accounts Receivables Days	0.26	0.51	0.94	0.91	0.92
Inventory Days	44.04	62.19	82.39	81.39	81.05
Accounts Payables Days	66.58	54.38	45.24	29.77	29.65
ROIC (%)	8.2%	11.2%	3.6%	3.4%	2.8%
ROCE (%)	7.66%	9.46%	4.04%	4.21%	3.96%
Return On Average Assets	5.31%	6.33%	2.08%	2.01%	1.31%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Oil Price (US\$/bbl)	54.2	71.2	65.0	67.0	68.6
Volume Growth (%)	6.4%	-9.3%	-0.3%	-2.4%	-0.7%
Ratio Of Up To Downstream (x)	N/A	N/A	N/A	N/A	N/A
Operating Cash Cost (US\$/bbl)	N/A	N/A	N/A	N/A	N/A
Ratio Of High To Low Margin (x)	N/A	N/A	N/A	N/A	N/A

SOURCES: VND RESEARCH, COMPANY REPORTS

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CIMB

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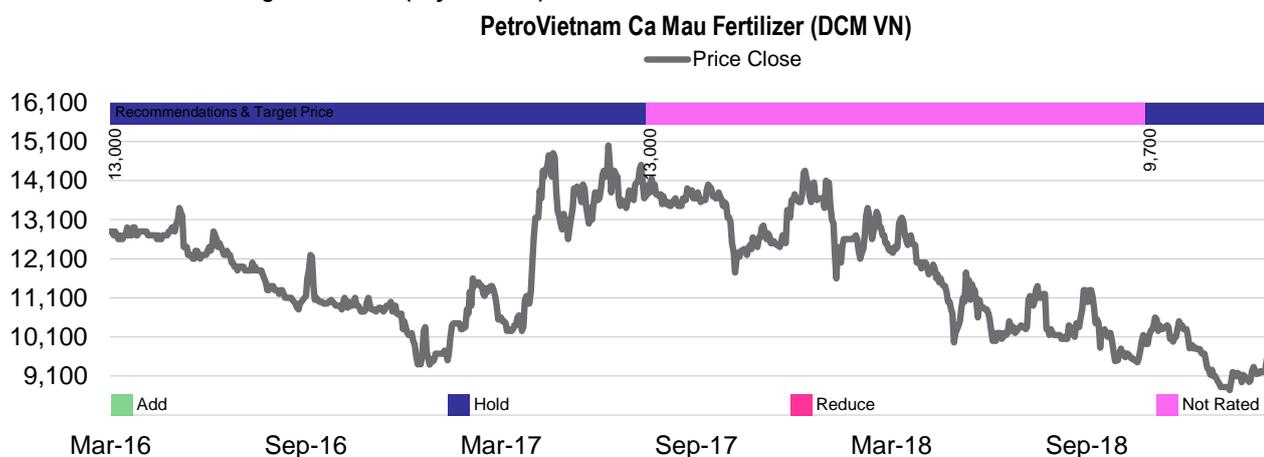
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758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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RECOMMENDATION FRAMEWORK

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Hien Tran Khanh – Associate Director

Email: hien.trankhanh@vndirect.com.vn

Mai Pham – Analyst

Email: mai.phamle@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi | Tel: +84 2439724568

Email: research@vndirect.com.vn | Website: <https://vndirect.com.vn>