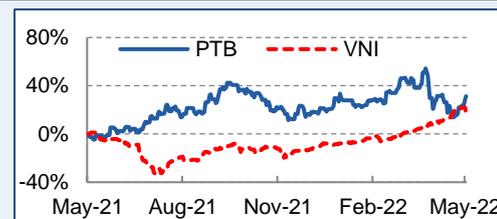




Phu Tai JSC (PTB) [MARKET PERFORM -3.3%]

Update Report

Industry:	Diversified		2021	2022F	2023F	2024F
Report Date:	May 30, 2022	Rev growth	15.9%	15.5%	4.6%	15.6%
Current Price:	VND78,700	EPS growth	42.4%	19.0%	-4.0%	22.7%
Target Price:	VND73,200	EPS growth*	14.4%	24.7%	14.0%	12.3%
Previous Target Price:	VND70,200	GPM	22.4%	23.2%	22.5%	23.1%
Upside to TP:	-7.0%	NPM	7.9%	8.3%	8.1%	8.6%
Dividend Yield:	3.7%	EV/EBITDA*	8.5x	6.8x	6.7x	5.4x
TSR:	-3.3%	P/E*	13.6x	10.9x	9.6x	8.5x



Market Cap:	USD232.8mn		PTB	VNI
Foreign Room:	USD13.9mn	P/E (ttm)	10.1x	13.6x
ADTV30D:	USD0.9mn	P/B (curr)	2.1x	2.1x
State Ownership:	0%	Net D/E	74.2%	N/A
Outstanding Shares:	68.0 mn	ROE (ttm)	23.9%	15.9%
Fully Diluted Shares:	73.9 mn	ROA (ttm)	10.4%	2.6%
2021F-2024F PEG:	0.8			

Company Overview
 Originating as an SOE in Binh Dinh Province in central Vietnam, PTB currently operates three main businesses: quarrying and producing stone, exporting wooden furniture to the US and EU, and operating a Toyota dealership in central Vietnam. PTB entered real estate development in H2 2019.

Vinh Bui
 Analyst
vinh.bui@vcsc.com.vn
 +84 28 3914 3588 ext. 191

Vy Nguyen
 Manager
vy.nguyen@vcsc.com.vn
 +8428 3914 3588 ext. 147

Fairly valued; small contribution from new condo project

- We maintain our MARKET PERFORM rating as we believe PTB is fully valued with a 2023F core P/E of 9.2x (based on our forecast) vs a 3Y peer average of 11.5x. We believe the valuation discount vs peers is justified given PTB’s conglomerate structure.
- However, we remain optimistic on PTB’s ability to capitalize on Vietnam’s rising wooden furniture export sector and growing construction activities via its leading natural stone business.
- We nudge up our target price (TP) by 4% as we roll it from end-2022 to mid-2023 and increase our aggregate 2022F-2024F NPAT-MI by 6%. This earnings revision is mainly attributed to the incorporation of PTB’s second real estate project into our forecasts and higher wood profit margin assumptions, which are partly offset by a slower recovery in stone sales and profit margins. We also incorporate the dilution from upcoming rights issue and ESOP into our forecasts.
- We forecast an 18% CAGR in core EPS (excluding real estate) in 2021-2024F backed by a recovery in the stone business, wider quartz contributions and continuing wood export growth.
- Potential downside risks: Weak domestic or foreign construction activities and housing demand due to adverse macro developments; sluggish new business execution (real estate and quartz); changes in global trade policies that could harm Vietnam’s export competitiveness.

PTB’s wooden furniture business to deliver mid-teen sales growth despite a slowing industry. From January 1 to May 15, Vietnam’s wood and wooden furniture exports inched up 5% YoY compared to an 18% CAGR in 2018-2021, which we attribute to slowed demand from a weaker US housing market and COVID-related supply chain disruptions that lingered until early Q1 2022. Meanwhile, PTB’s wooden furniture continued outgrowing the industry with Q1 2022 sales jumping 14% YoY along with strong customer orders for 2022. We believe this outperformance will continue thanks to PTB’s superior scale and proven track record in terms of product quality and wood origin. We project a 15% wooden furniture sales CAGR in 2021-2024.

The stone business is recovering slower than expected. Q1 2022 stone revenue was flat YoY while its GPM trailed our expectation despite recovering YoY, which we attribute to (1) slowly recovering domestic housing supply and in turn stone demand and (2) the company’s slow export sales activities. Meanwhile, COVID-19 delayed the approval and construction of PTB’s second quartz factory, which is set to double PTB’s capacity in 2024. As such, we trim our 2022F-2024F stone sales by 5%, projecting a 2021-2024F CAGR of 14%.

We forecast Phu Tai Central Life (PTB’s second condo project) to contribute 8% to 2024F-2025F NPAT. This project is a residential condo project but smaller than PTB’s first condo, the Phu Tai Residence. Phu Tai Central Life is located in Quy Nhon’s central business district and 1 km from the beach, which is the area’s top tourist attraction. It has an NFA of around 20,000 sqm with an offering price of ~VND25mn/sqm. PTB has acquired the 1/500 master plan for the project and plans to start handovers in late 2023 — we assume 2024 given the current slow approval process environment and high construction material prices that could delay the project’s progress.

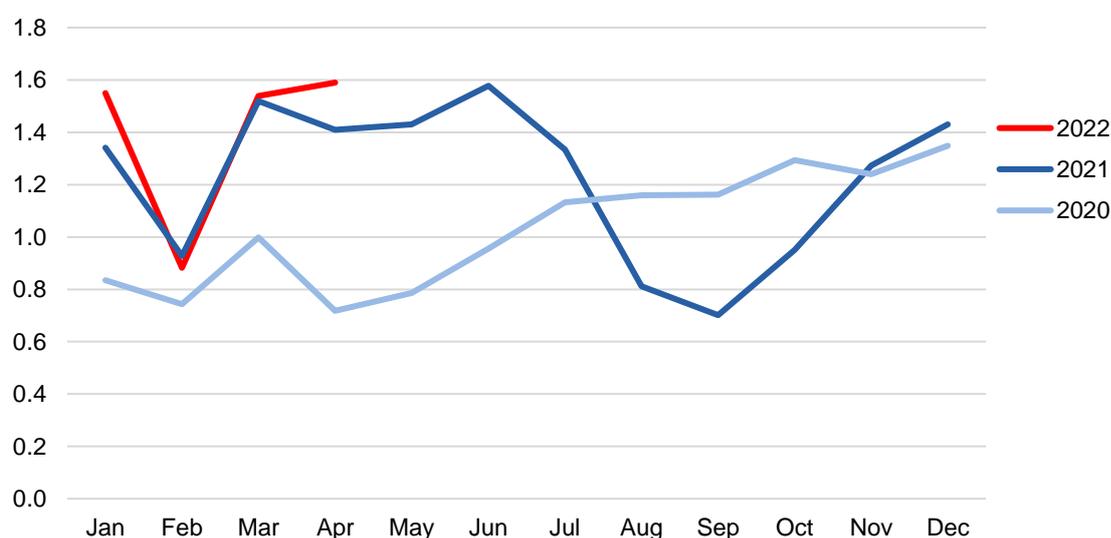
Q1 2022: Real estate, wood exports continue to lift earnings

Figure 1: PTB's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	Q1 as % of 2022F old	2022F old	VCSC comments
Revenue	1,403	1,719	23%	22%	7,819	
Wood	832	951	14%	24%	4,013	Exports (90% of Q1 2022 wood revenue) jumped 18% YoY.
Stone	340	333	-1%	19%	1,749	Domestic natural stone sales (62% of Q1 2022 stone revenue) slid 7% YoY due to sluggish domestic construction activities. Meanwhile, stone exports (28% of 2021 stone revenue) advanced 11% YoY but still trailed our expectation.
Real estate	0	147	N.M.	20%	743	11% out of the remaining 50% of units at Phu Tai Residence were handed over in Q1 2021, per our estimate.
Other	231	287	24%	22%	1,314	
Gross profit	321	399	24%	23%	1,756	
Wood	204	219	7%	24%	903	
Stone	102	102	3%	18%	576	
Real estate	0	61	N.M.	26%	238	
Other	15	16	-11%	41%	39	
Operating profit	140	199	42%	23%	865	
Non-operating items	-15	-19	27%	24%	-78	Mainly due to higher interest expenses.
PBT	125	180	44%	23%	651	
NPAT-MI	100	141	41%	23%	619	
Core NPAT-MI (ex-real estate)	100	116	16%	23%	507	
GPM	22.9%	23.2%			22.5%	
Wood	24.5%	23.0%			22.5%	Wood GPM compressed due to higher raw lumber prices but still beat our expectation.
Stone	29.4%	30.6%			33.0%	Thanks to lower price discounts.
Real estate	N.A.	41.5%			32.0%	
Other	6.5%	5.5%			3.0%	
OPM	10.0%	11.6%			11.1%	
NPAT-MI margin	7.1%	8.2%			7.9%	

Source: PTB, VCSC

Figure 2: Vietnam's wood and wooden product exports (USD bn) returned to modest growth after slumping due to COVID-related supply chain disruptions in Q3 2021



Source: Vietnam Customs, VCSC

2022F: Broad-based earnings improvements

Figure 3: VCSC's 2022 forecasts

VND bn	2021	2022F old	2022F new	YoY	2022F new vs old	VCSC comments on 2022F
Revenue	6,490	7,819	7,495	15%	-4%	
Wood	3,436	4,013	4,055	18%	1%	We believe PTB's outperformance vs the industry will remain thanks to the company's superior scale and proven track record in terms of product quality and wood origin.
Stone	1,444	1,749	1,602	11%	-8%	Natural stone (VND1,360bn/USD59mn; +5% YoY): We expect nearly flat domestic sales (vs 5% YoY growth previously) and 5% growth in exports (vs 10% YoY growth previously) as the recovery from COVID-related disruptions in both the domestic and export markets is slower than our expectation. Quartz (VND270bn/USD12mn; +80% YoY): We assume the quartz factory will operate at 60% capacity in 2022 (vs 80% previously). Our 2022F utilization rate of 60% is still higher than 33% in 2021 as PTB continues to intensify its international sales activities.
Real estate	512	743	646	26%	-13%	We assume PTB will hand over the remaining 50% of its condo units in 2022, which will have higher selling prices than those delivered in 2021. We cut our forecast following conservative revenue guidance from PTB.
Other	1,100	1,314	1,193	8%	-9%	Vietnam's auto consumption to remain weak.
Gross profit	1,453	1,756	1,743	20%	-1%	
Wood	801	903	953	19%	6%	
Stone	388	576	515	33%	-11%	
Real estate	208	238	239	15%	0%	We maintain our forecast despite a lower revenue projection because management's optimistic profit guidance.
Other	55	39	36	-35%	-8%	
Operating Profit	697	865	870	25%	1%	
Non-operating items	-46	-78	-66	44%	-15%	We assume lower gains from short-term stock trading in 2022 vs VND31bn (USD1.3mn) in 2021.
PBT	651	787	804	24%	2%	
NPAT-MI	512	619	622	22%	1%	
Core NPAT-MI (ex-real estate)	400	507	529	32%	4%	
GPM	22.4%	22.5%	23.2%			
Wood	23.3%	22.5%	23.5%			We raise our forecast following better-than-expected GPM in Q1 2022.
Stone	26.9%	32.9%	32.2%			We project a recovery in stone GPM thanks to higher quartz capacity utilization and softer COVID-19 disruptions on input costs such as transportation and COVID-19 containment measures. Nevertheless, we trim our forecast due to a slower-than-expected recovery of the stone business.
Real estate	40.6%	32.0%	37.0%			We forecast GPM to compress YoY because the construction costs of the units to be delivered in 2022 will be higher than those in 2021, per management. However, relative to our previous forecasts, our projected GPM is higher because of lower projected revenue and flat gross profits.
Other	5.0%	3.0%	3.0%			Thanks to fewer COVID-19 disruptions on business operations.
OPM	10.7%	11.1%	11.6%			
NPAT-MI margin	7.9%	25.1%	8.3%			

Source: PTB, VCSC

Valuation

We maintain our sum-of-the-parts (SoTP) approach to value PTB due to the company's diversified business structure. We also keep a 20% valuation discount to arrive at our target price for PTB due to its conglomerate structure and limited information disclosure. For PTB's real estate projects, we employ the DCF method to estimate its net present value.

Our assumptions regarding PTB planned rights issue and ESOP

In this Update Report, we incorporate PTB's recently announced ESOP and rights issue into our forecasts. Our EPS projections, outstanding share projections and share count used for our DCF valuation in this Update Report are adjusted for the new shares related to the ESOP issuance and the fair value element of the rights issue. We will adjust these figures for the bonus element of the rights issue once PTB finishes it. PTB's plan and our assumptions are as below.

Figure 4: Summary of our assumptions for PTB's equity issuance plan

	Rights issue	ESOP
Timeline	Late 2022*	Late 2022*
Number of shares to be issued	9.72 million shares (14% of current outstanding shares)	0.97 million shares (1% of current outstanding shares)
Exercise price/placement price	VND25,000/share	VND25,000/share
Lock-up period	N/A	Three years
Proceeds	VND243bn (USD10.6mn)	VND24bn (USD1.1mn)
Fair value element	4.9 million shares*	0.97 million shares
Bonus element	4.9 million shares*	N/A

Source: Company guidance, *VCSC's assumptions

Figure 5: Valuation summary

VND bn	
PTB's core NPAT-MI*	554
Blended target P/E for PTB's core NPAT-MI	11.5x
Equity value of PTB's core businesses	6,371
Real estate	124
Proceeds from rights issue and ESOP	267
Total equity value	6,763
Valuation discount	20%
Target equity value	5,410
Number of shares (millions)	73.9
Value per share (VND)	73,200
2022F P/E @ TP*	10.2x
2023F P/E @ TP*	8.9x

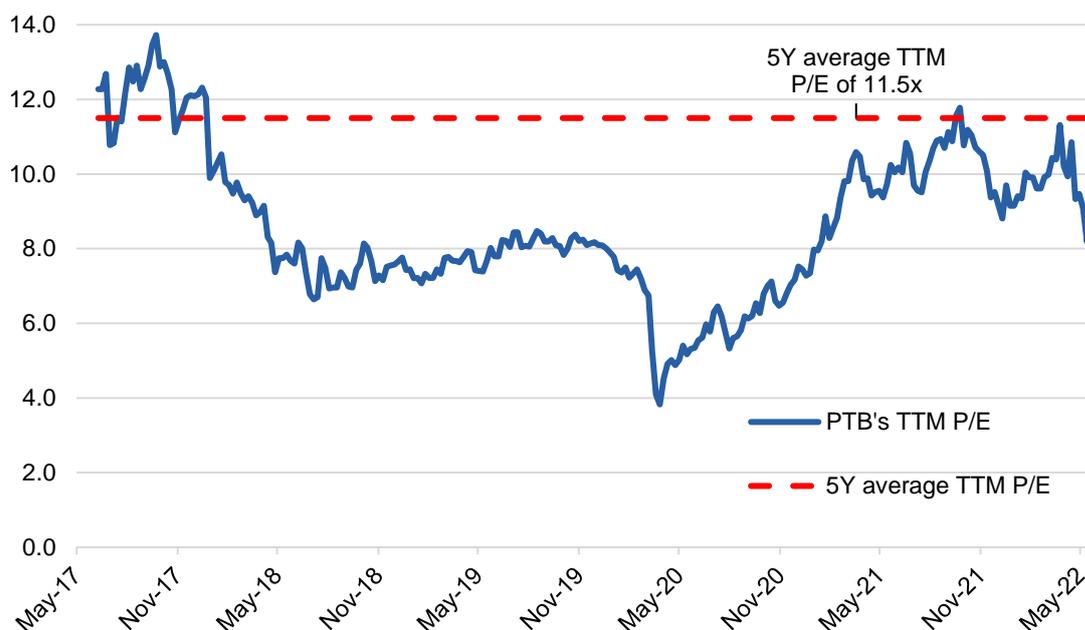
Source: VCSC; * after contributions to bonus & welfare fund and excluding property earnings.

Figure 6: VCSC's target P/Es for PTB's core segments

Core segment	Contribution	Target P/E
Stone	35%	12.9x
Wood	65%	10.3x
Weighted average	100%	11.5x

Source: VCSC

Figure 7: PTB's TTM P/E (based on reported earnings) in the last five years



Source: Bloomberg, VCSC

Figure 8: PTB's comparable peers – stone

Company name	Country	Market Cap (USD mn)	TTM Sales Growth	TTM NPAT Growth	TTM ROE	TTM ROA	Net D/E	TTM GPM	TTM NPM	MRQ PBR	TTM EV/EBIT DA	TTM PER
Vicostone Jsc	Vietnam	645.5	22%	19%	38%	27%	11%	34%	25%	2.9x	6.7x	8.9x
Xiamen Wanli Stone Stock C-A	China	716.6	14%	N/A	4%	2%	32%	11%	-3%	7.5x	N/A	N/A
Asian Granito India Ltd	India	87.2	22%	61%	12%	6%	10%	N/A	6%	0.4x	6.5x	4.4x
Pokarna Ltd	India	202.4	120%	177%	19%	7%	109%	N/A	12%	3.5x	11.8x	20.1x
Acrysil Ltd	India	190.0	61%	66%	29%	14%	54%	N/A	13%	5.8x	15.7x	22.8x
Median		202.4	22%	63%	19%	7%	32%	23%	12%	3.5x	9.3x	14.5x
PTB	Vietnam	232.8	18%	36%	24%	10%	74%	22%	8%	2.1x	7.0x	9.7x

Source: Bloomberg, VCSC (data as of May 30, 2022)

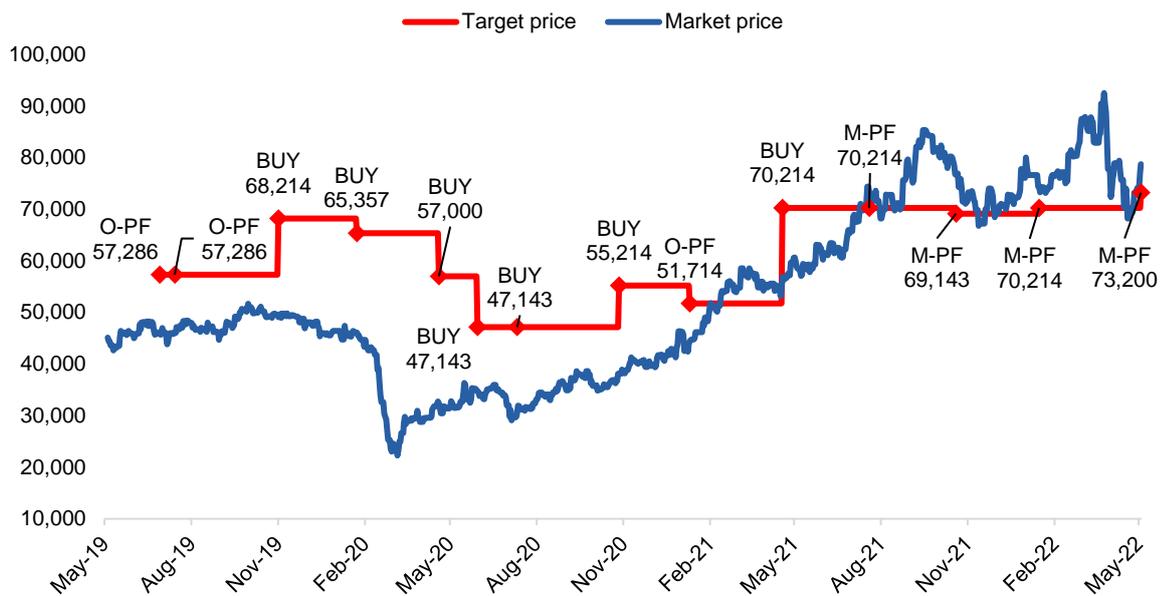
Figure 9: PTB's comparable peers – wood

Company name	Country	Market Cap (USD mn)	TTM Sales Growth	TTM NPAT Growth	TTM ROE	TTM ROA	Net D/E	TTM GPM	TTM NPM	MRQ PBR	TTM EV/EBIT DA	TTM PER
Integra Indocabinet Tbk Pt	Indonesia	272.8	85%	71%	16%	8%	66%	35%	10%	1.1x	6.0x	7.3x
Lii Hen Industries Bhd	Malaysia	125.0	-22%	-33%	10%	8%	-25%	16%	6%	1.2x	5.7x	12.1x
S.Kijichai Enterprise Pcl	Thailand	193.2	73%	317%	31%	23%	-9%	46%	20%	1.9x	5.0x	7.2x
Evergreen Fibreboard Bhd	Malaysia	120.6	18%	N/A	4%	3%	7%	23%	4%	0.5x	4.9x	12.5x
Latitude Tree Holdings Bhd	Malaysia	65.2	-12%	-60%	3%	2%	-19%	12%	3%	0.5x	3.2x	12.9x
Sern Kou Resources Bhd	Malaysia	143.3	8%	-64%	3%	2%	17%	10%	2%	3.1x	25.8x	100.0x
Duc Thanh Wood Processing	Vietnam	40.1	-17%	-24%	21%	16%	-15%	30%	18%	3.3x	12.3x	15.2x
Fancy Wood Indus Pub Co Ltd	Thailand	16.4	-17%	-22%	-7%	-6%	-12%	2%	-29%	0.6x	N/A	N/A
Nam Hoa Trading & Production	Vietnam	22.6	5%	-16%	23%	6%	81%	18%	6%	2.2x	9.2x	11.7x
Median		202.4	22%	63%	19%	7%	32%	23%	12%	3.5x	9.3x	14.5x
PTB	Vietnam	232.8	18%	36%	24%	10%	74%	22%	8%	2.1x	7.0x	9.7x

Source: Bloomberg, VCSC (data as of May 30, 2022)

Recommendation History

Figure 10: Recommendation history; share prices (VND/share) adjusted for share splits



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	6,490	7,495	7,837	9,059
COGS	-5,037	-5,753	-6,070	-6,968
Gross Profit	1,453	1,743	1,766	2,091
Selling exp	-550	-613	-620	-723
General & admin exp	-205	-259	-268	-307
Operating Profit	698	870	879	1,060
Financial income	61	33	28	44
Financial expense	-120	-108	-118	-126
- o/w interest expense	-99	-97	-106	-113
Associates	0	0	0	0
Net other income/(loss)	12	8	8	8
Profit before Tax	651	804	797	986
Income tax	-125	-154	-129	-170
NPAT before MI	526	650	668	816
Minority interests	-14	-28	-33	-36
NPAT less MI, reported	512	622	635	779
NPAT less MI adjusted ⁽¹⁾	416	529	635	716
EBITDA	973	1,178	1,231	1,473
EPS basic reported, VND	7,191	8,556	8,217	10,079
EPS basic adjusted, VND ⁽¹⁾	5,780	7,208	8,217	9,227
EPS fully diluted, VND ⁽¹⁾	5,780	7,208	8,217	9,227
DPS, VND ⁽²⁾	400	2,700	2,800	3,400
DPS/EPS (%)	6%	32%	34%	34%
⁽¹⁾ Adjusted for one-offs				
RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue	15.9%	15.5%	4.6%	15.6%
EBIT	33.7%	24.7%	1.0%	20.6%
PBT	40.6%	23.5%	-0.9%	23.7%
EPS, adjusted	14.4%	24.7%	14.0%	12.3%
Profitability				
Gross Profit Margin	22.4%	23.2%	22.5%	23.1%
Operating Profit Margin	10.8%	11.6%	11.2%	11.7%
EBITDA Margin	15.0%	15.7%	15.7%	16.3%
Net margin, reported	7.9%	8.3%	8.1%	8.6%
ROE	23.4%	22.0%	18.2%	19.5%
ROA	10.0%	10.9%	10.2%	11.1%
Efficiency				
Days Inventory On Hand	117.0	104.2	97.5	96.4
Days Acct. Receivable	49.3	52.6	58.7	56.0
Days Acct. Payable	38.9	35.7	27.9	28.3
Cash Conversion Days	127.4	121.1	128.3	124.1
Liquidity				
Current ratio	1.2	1.5	1.5	1.5
Quick ratio	0.4	0.8	0.7	0.7
Cash ratio	0.1	0	0	0.2
Debt/Assets	0.4	0.3	0.3	0.3
Debt/Capital	0.5	0.4	0.3	0.3
Net Debt / Equity	0.7	0.4	0.4	0.4
Interest Coverage x	7.1	8.9	8.3	9.4

BS (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	136	270	213	339
ST investment	54	300	300	300
Accounts receivable	929	1,232	1,288	1,489
Inventories	1,790	1,496	1,749	1,933
Other current assets	202	274	287	331
Total current assets	3,111	3,572	3,837	4,392
Gross fixed assets	3,365	3,679	4,306	5,008
- Accumulated D&A	-1,402	-1,710	-2,062	-2,474
Net fixed assets	1,963	1,969	2,244	2,534
LT investment	15	15	15	15
Other LT assets	342	419	438	506
Total LT assets	2,320	2,402	2,696	3,054
Total Assets	5,431	5,974	6,533	7,447
Accounts payable	620	449	520	588
Short-term debt	1,609	1,611	1,700	1,951
Other ST liabilities	426	324	339	392
Current liabilities	2,655	2,384	2,558	2,931
Long-term debt	361	310	252	216
Other LT liabilities	23	19	20	23
Long-term liabilities	384	328	272	239
Total liabilities	3,039	2,712	2,830	3,170
Preferred equity	0	0	0	0
Share capital	486	593	593	593
Share premium	24	184	184	184
Retained earnings	537	1,112	1,520	2,058
Other equity	1,275	1,275	1,275	1,275
Minority interest	70	98	130	167
Total equity	2,392	3,262	3,703	4,277
Total liabilities & equity	5,431	5,974	6,533	7,447
Y/E Shares out (mn) ⁽³⁾	68.0	73.9	73.9	73.9
Y/E Shares out (mn), post-rights issue ⁽⁴⁾	68.0	78.7	78.7	78.7
Y/E Treasury shares (mn)	0.0	0.0	0.0	0.0
CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash	168	136	270	213
Net Income	512	650	668	816
Dep. & Amortization	275	308	352	412
Δ in working cap.	-483	-354	-236	-309
Other adjustments	-182	-109	-46	-100
Cash from Operation	122	495	737	820
Capital expenditure, net.	-428	-314	-627	-702
Net other investments	105	-246	0	0
Cash from Investment	-323	-559	-627	-702
Dividends Paid	-100	-19	-199	-207
Δ in Share Capital	0	267	0	0
Δ in ST debt	212	2	89	251
Δ in LT debt	54	-51	-57	-36
Other financing C/F	-2	0	0	0
Cash from Financing	164	198	-168	8
Net Changes in Cash	-37	134	-57	126
Ending Cash	136	270	213	339

Source: VCSC, PTB; (2) based on our (3) YE outstanding share forecast; (3) not adjusted for the bonus value element of PTB's upcoming rights issue; (4) adjusted for both the fair value element and the bonus element of PTB's equity issuance.

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 15th Floor
2 Hai Trieu Street, District 1, HCMC
+84 28 3914 3588

Transaction Office Nguyen Hue

Vinatex Building, 1st & 3rd Floor
10 Nguyen Hue Street, District 1, HCMC
+84 28 3914 3588 (417)

Transaction Office Dong Da

9 Nguyen Ngoc Doan
Dong Da District, Hanoi
+84 24 6262 6999

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office Nguyen Cong Tru

Floor 6B, 236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588 (400)

Transaction Office ABS

Sailing Tower, 8th Floor
111A Pasteur Street, District 1, HCMC
+84 28 3914 3588 (403)

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Alastair Macdonald, Head of Research, ext 105
alastair.macdonald@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Truc Ngo, Analyst, ext 116
- Ngoc Huynh, Analyst, ext 138
- Nhan Nguyen, Analyst, ext 139

Macro

Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

Consumer

Nam Hoang, Manager, ext 124

- Ha Dao, Senior Analyst, ext 194
- Ha Huynh, Analyst, ext 185
- Huy Phan, Analyst, ext 173

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Duc Le, Analyst, ext 196
- Thang Hoang, Analyst, ext 196

Real Estate and Infrastructure

Hong Luu, Senior Manager, ext 120

- Dang Thai, Senior Analyst, ext 149
- Thuc Than, Analyst, ext 174

Materials and Industrials

Vy Nguyen, Manager, ext 147

- Vinh Bui, Analyst, ext 149

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

Brokerage and Institutional Sales & Trading

Tuan Nhan

**Managing Director, Brokerage
& Institutional Sales & Trading**

+84 28 3914 3588, ext 107
tuan.nhan@vcsc.com.vn

Quynh Chau

**Managing Director
Brokerage**

+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Dung Nguyen

**Director
Institutional Sales & Trading**

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn