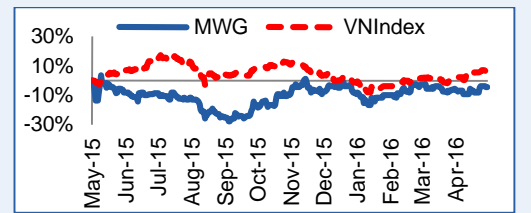


Report Date:	May 16, 2016		2015	2016F	2017F
Current Price:	VND76,000	Rev Growth	60.3%	53.1%	29.5%
Current Target Price:	VND108,000	EPS Growth	52.8%	44.9%	27.7%
Previous Target Price:	VND107,000	GPM	15.5%	16.5%	16.3%
		NPM	4.2%	4.2%	4.2%
Upside to TP:	+42.1%	EPS (VND)	7,661	11,104	14,182
Dividend Yield:	2.0%	Div/Sh (VND)	0	1,500	1,500
TSR:	+42.1%	P/E	9.9x	6.8x	5.4x



Mid-Term Trend / Resistance: UP / VND79,500

Industry:	Retail		<u>MWG</u>	<u>*Peers</u>	<u>VNI</u>
Market Cap:	USD513 mn	P/E (ttm)	8.5	16.6	13.2
Foreign Room:	USD0 mn	P/B (curr)	4.5	1.2	1.8
ADTV30D:	USD0.03 mn	Net D/E	68.8%	9.9%	NA
State Ownership:	0%	ROE	54.2%	15.4%	14.0%
Outstanding Shares:	147 mn	ROA	20.1%	4.5%	2.4%
Fully Diluted Shares:	147 mn				

* includes foreign peers using adjusted market multiples.

MWG is the leading mobile retail chain in Vietnam with ~35% of market share. The company also owns DienmayXANH, the second largest consumer electronics retailer with ~10% market share currently. MWG also possess the strongest online platform in Vietnam which alone tops Rocket Internet's combined platforms, accounting for 10% of value share in 2015. To sustain strong growth going forward, a new minimart chain, BachhoaXANH, is undergoing its pilot phase and is expected to be rolled out in 2017.

An e-commerce powerhouse in the making

Dao Nguyen
Senior Analyst
dao.nguyen@vcsc.com.vn
+848 3914 3588 ext. 185

We reiterate BUY on MWG. Apart from its dominant brick-and-mortar model, MWG has established an excellent omni-channel that allows its online sales to thrive in a highly potential but tough-to-win e-commerce sector in Vietnam. These are sustaining high growth yet MWG is trading at an undemanding valuation of FY16 PER of 6.8x.

Growth remains admirably elevated on solid SSSG, online sales and new store openings. Q1 2016 net revenues and NPAT grew by 75% and 80% respectively vs Q1 2015. This is driven by a 10% SSSG, doubled online sales and, to a larger extent, contribution from the stores opened last year and Q1 2016. Seasonality played a role in this robust SSSG as Tet holiday came two weeks early this year. Sales typically peak a month before and after Tet holiday according to MWG.

We increase FY16F sales by 4% on faster-than-expected store expansion. Thegioididong store count alone has reached 740, rendering management's initial guidance of 680 Thegioididong by YE2016 completely outdated. As such, we added another 120 Thegioididong stores to our projection, bringing the target store count to 800 by YE2016 while maintaining our store target for DienmayXANH at 120. Our FY16 sales forecast improved 4% accordingly vs our previous update.

Wider GPM, offset by higher cash bonus expense, will push FY16F NPAT 7% higher. Q1 2016 GPM reached a multiyear high of 16.5% on the back of greater scale, direct purchase from Apple and robust accessories sales. DienmayXANH's GPM already enhanced to 15% in Q1 2016 in our estimates, a similar level to Thegioididong's in 2015. On the other hand, G&A expenses related to cash bonuses to employees in exchange for the ESOP reduction came in ahead of our previous projection. Management suggested that such cash bonuses might reach as high as VND300 billion (USD13 million) this year compared to the VND200 billion (USD9 million) previously guided. Our FY16F NPAT is therefore revised up 7%, translating into a growth of 52% vs FY15.

MWG is becoming an e-commerce powerhouse. MWG's B2C omni-channel solves the biggest issues that prevent consumers from shopping online in Vietnam: trust, delivery and payment. Trust derives from MWG being a top-of-mind mobile retailer, delivery is easier for MWG than others thanks to its extensive store network serving as delivery hubs, and finally, cash-on-delivery is comfortably accepted. Added onto that is top class services including call center, online consulting and installation. MWG now has one of the largest e-commerce platforms in terms of revenue, which

is targeted to double every year by management. This will ensure MWG to be at the forefront to benefit instead of suffering once a strong shift from offline to online shopping happens.

Q1 2016 recap: Red-hot store expansion and online sales to fuel fast-paced growth

Figure 1: MWG's Q1 2016 results summary

	Q1 2016	Q1 2015	% growth	% VCSC forecast	VCSC's comments
Net revenues	9,627	5,496	75%	26.0%	Aggressive store expansion
- Thegioididong	7,083	4,599	54%	26.5%	10% SSSG, 82 new stores in Q1
- DienmayXANH	2,544	897	184%	24.6%	10% SSSG, 22 new stores in Q1
Gross profit	1,589	801	98%	26.9%	Larger scale, direct sourcing from Apple and strong accessories sales
Selling expenses	-907	-457	99%	25.7%	Increase in number of sales staff and more promotion/discounts to customers
G&A	-162	-51	218%	29.1%	Provision for newly applied cash bonuses for employees in exchange for lowering ESOP %
PBT	525	300	75%	27.6%	
NPAT (-MI)	418	232	80%	27.5%	Lower CIT from 22% to 20%
GPM %	16.5%	14.6%			
Selling expenses %	-9.4%	-8.3%			
G&A %	-1.7%	-0.9%			
PBT margin %	5.5%	5.5%			
NPAT margin %	4.3%	4.2%			

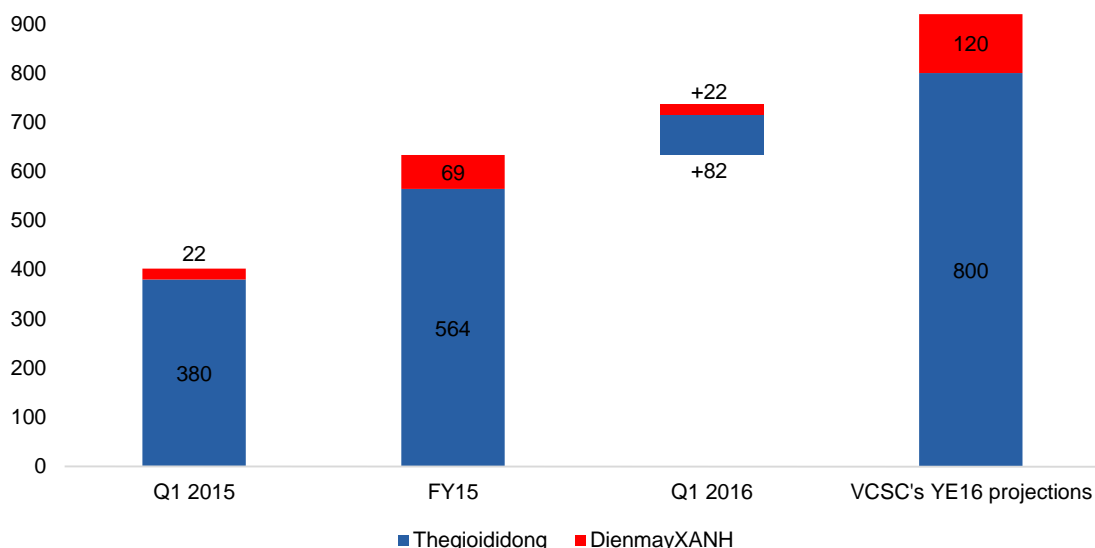
Source: MWG & VCSC

The stellar 80% NPAT growth in Q1 2016 vs Q1 2015 is attributed to:

- 1) Footprint expansion remaining on a high pace.** MWG opened 82 Thegioididong stores and 22 DienmayXANH stores, bringing their respective total store count to 646 and 91 as of Q1 2016 vs its YE2016 guidance of 680 Thegioididong and 120 DienmayXANH. This, together with contribution from the stores opened in 2015, was the biggest driver behind MWG's explosive growth in Q1 2016 vs Q1 2015.
- 2) Solid SSSG of 10%.** MWG's Chairman suggested that Q1 2016's SSSG was even higher than the management's anticipation, which is compared to 7%-8% in 2015 vs 2014.
- 3) Surging online sales.** Online sales rocketed by 101% vs Q1 2015, representing 7% of total sales in Q1 2016.
- 4) Multiple factors propelling a GPM expansion.** Q1 2016 GPM improved significantly by 190 bps vs Q1 2015 on the back of 1/ larger scale yielding better purchase prices, 2/ direct sourcing from Apple starting from September 2015 instead of having to go through FPT Trading and 3/ MWG's push in accessories sales, which carry high margins.
- 5) Offset by significantly higher cash bonus expenses as well as increased discounts to customers.** G&A more than tripled in Q1 2016 vs Q1 2015 due to bonuses for employees in exchange for a 2% reduction in ESOP starting FY16. We estimate such bonuses at VND73 billion (USD3 million) in Q1 2016. On the other hand, selling expenses % of revenue also picked up by 110 bps vs Q1 2015, caused by increasing the number of sale staff to

accommodate store expansion, higher compensations for after-sale staff e.g. installation workers, and more promotions to customers.

Figure 2: MWG's historical store count and VCSC's YE16 projections



Source: MWG

FY16 outlook: Forecast lifted as store expansion is running ahead of our expectation

As of today, store count of Thegioididong has already reached 740 stores, way ahead of management's guidance as well as our previous projection of 680 Thegioididong stores by YE2016. Meanwhile, DienmayXANH store count is at 96 as of today, on track to fulfill our year-end target of 120. As such, we raised our projected YE2016 store count for Thegioididong from 680 to 800 stores. Accordingly, our forecasted NPAT for FY16 is revised up by 7% vs previous update.

Figure 3: VCSC's FY16 forecast summary

VND Billion	FY15A	FY16F old	FY16F new	FY16F new vs FY15F	Explanation
Revenues	25,253	37,094	38,673	53.1%	
<i>Thegioididong</i>	20,758	26,756	28,334	36.5%	<i>Projected store count of 800 by YE16 vs 564 at YE15</i>
<i>DienmayXanh</i>	4,495	10,339	10,339	130.0%	<i>Projected store count of 120 by YE16 vs 69 at YE15</i>
Gross profit	3,922	5,914	6,365	62.3%	
Sales & marketing exp	-2,351	-3,528	-3,678	56.4%	
General admin exp	-249	-556	-696	179.6%	
Operating profit	1,322	1,830	1,991	50.6%	
Interest expense	-39	-72	-104	166.3%	
Non-operating profit	103	142	147	42.9%	
Profit before tax	1,386	1,900	2,035	46.8%	
Profit after tax	1,076	1,520	1,628	51.3%	
NPAT (after minority interest)	1,072	1,520	1,628	51.8%	
EBITDA	1,519	2,144	2,342	54.2%	

Gross profit margin %	15.5%	15.9%	16.5%	Larger scale yields better discounts from vendors, direct sourcing from Apple and higher accessories sales
Sales & marketing % sales	9.3%	9.5%	9.5%	Increasing sales staff, higher compensation for after-sale staff and more promotions/discounts
General admin % sales	1.0%	1.5%	1.8%	Increase in cash bonus for employees in exchange for lowering ESOP %
Operating profit margin %	5.2%	4.9%	5.1%	
EBITDA margin %	6.0%	5.8%	6.1%	
NPAT margin %	4.2%	4.1%	4.2%	
Effective tax rate %	22.4%	20.0%	20.0%	

Source: VCSC

BachhoaXANH (BHX)'s store format will be finalized by end of June 2016. Current BHX's store count stands at 15 and management said that it would not exceed 20 by YE16. Management is still working on the optimal store format as well as the supply chain of fresh vegetables. Once the store format is finalized by end of June 2016, we will provide more information in our H1 2016 update. For now, we have not factored in this minimart chain in either our P&L forecast or valuation.

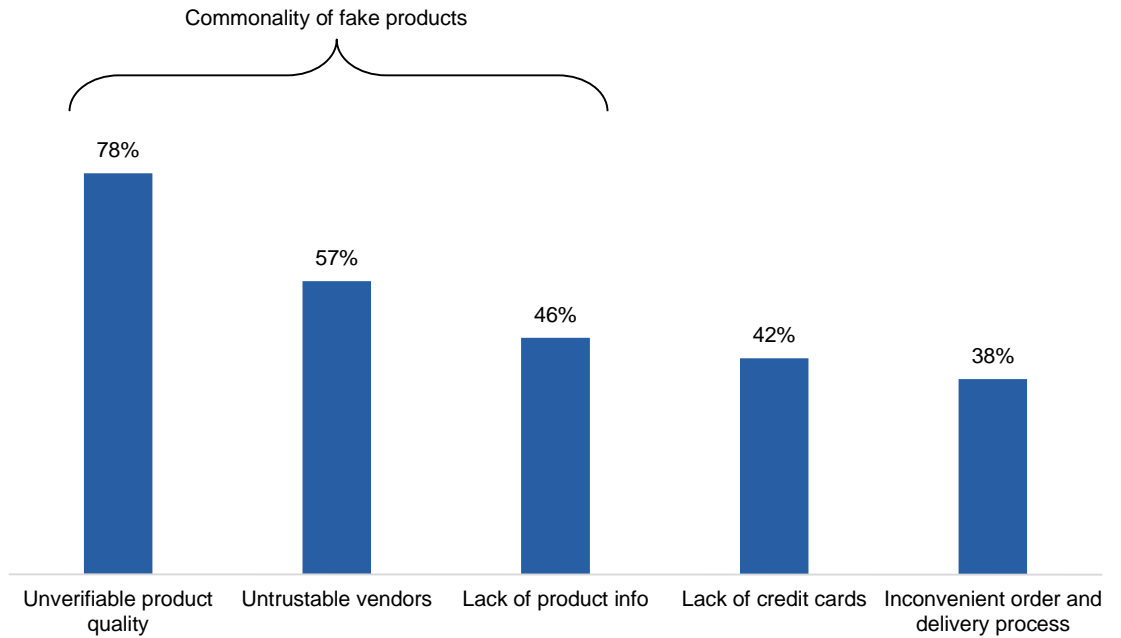
Already dominating brick-and-mortar channel, MWG is turning itself into a force in e-commerce

Vietnam's e-commerce sector has been a graveyard

Prolonged cash burning has forced a myriad of players including big names to exit or change owners. Notable ventures of Rocket Internet in Vietnam such as Lazada, Zalora, and Foodpanda have been sold after they reportedly ran out of cash. Vietnam is a part of Rocket Internet's struggle in Southeast Asia and was liquidated along with its other businesses in Thailand, Indonesia, etc. Many other smaller players could not avoid the same fate. The last words of Beyeu.com, which was backed by one of the leading start-up investors in Vietnam, IDG Ventures Vietnam, best describe the picture of most e-commerce businesses in Vietnam over the last few years: "E-commerce requires lots of money. Many companies will decide to stop burning. Good luck to the rest who are still trying."

Despite its huge potential, Vietnam's e-commerce development has not panned out as well as market participants expected due to typical fundamental problems such as trust issue, delivery and payment. The majority of online businesses in Vietnam have followed the marketplace model, of which the trust issue is most exposed due to the difficulty in applying quality control over vendors. In fact, according to a survey by Vietnam E-commerce and Information Technology Agency (VECITA), the top three factors preventing Vietnamese consumers from shopping online are all related to the lack of trust, either in the products or the vendors. Payment, which is hindered by Vietnam's low penetration of credit cards at about 4%, and inconvenient order and delivery process are the other major obstacles. Because of these, online sales remain under 1% of Vietnam's total retail sales.

Figure 4: Top factors preventing consumers from shopping online



Source: VECITA (2014), Euromonitor

MWG seems to have the biggest success so far thanks to its complete omni-channel

MWG's omni-channel essentially has been completed, with sales through its two websites on the uprising. With online sales currently representing 7% of total revenue, management is targeting to double online sales every year for the next few years. The success of its online channel will allow MWG to benefit rather than suffer from the inevitable shift from offline to online shopping especially once it happens to the point that brick-and-mortar will be a shrinking channel.

MWG is pulling this off by being able to solve the aforementioned limitations of Vietnam's e-commerce:


- Trust issue: as a top-of-mind retailer of mobile phones and consumer electronics, customers know exactly what they are getting. In addition, as with brick-and-mortar model, MWG offers the most favourable services and policies to its online customers. For example, customers can refuse to purchase the products at delivery if they are not content or the same product return policies in-store buying are also applied to online customers.
- Delivery: MWG takes pride in consistently delivering products ordered online to customers within 30 minutes, a feat that no one else can match currently. This is enabled by MWG's extensive nationwide coverage of more than 740 stores serving as delivery hubs.
- Payment: Thanks to its well-built ERP system and delivery staff being employed by the company, MWG can comfortably accept cash-on-delivery. This is a big plus in the eyes of Vietnamese consumers, who retain an overwhelming cash culture.

On a website level, at the time of this report, we see features that are exclusive on MWG's websites that reflect first and foremost its customer-centric approach and superior ERP system:

- Real-time tracking of stock availability in the nearest stores to the customer's location.
- Add-on services offering convenience to customers, such as selling sim cards and scratch cards or online monthly bill payments.


- The most thorough product comparison features. While other websites typically only show comparisons of product specifications such as screen type, camera pixels, etc., MWG also allows comparing of the products from different dimensions with side-by-side photos or even comparing videos recorded by the phones in comparison.

Figure 5: Examples of additional comparison features on thegioididong.com



iPhone 6s Plus 64GB
24.690.000đ

VS





Samsung Galaxy Note 5
15.990.000đ

ẢNH TỪ CAMERA

Ảnh chụp trong phòng với ánh sáng trắng từ đèn quỳnh quang

- **Thiếu sáng:** ánh sáng mặc định trong phòng
- **Đủ sáng:** có sự trợ sáng thêm của 1 đèn flash chiếu sáng liên tục






Ảnh chụp trong điều kiện Thiếu sáng Đủ sáng [Xem toàn bộ ảnh từ Camera](#)

QUAY PHIM TỪ CAMERA

Video quay trong 30 giây:

- 10 giây đầu: trợ sáng từ 1 đèn ánh sáng vàng và 1 đèn ánh trắng
- 10 giây tiếp theo: tắt bớt 1 đèn ánh sáng trắng
- 10 giây cuối: tắt hết cả 2 đèn

Source: thegioididong.com & VCSC

It can be argued that these features could be imitated over time if other competitors wished to. Having said that, to us, this represents a much bigger element which has been honed for many years and is far tougher to be replicated – a customer-centric culture. MWG has shown time and time again that it is the pioneer in the market in terms of providing the best services to customers while its competitors are merely followers and copycats.

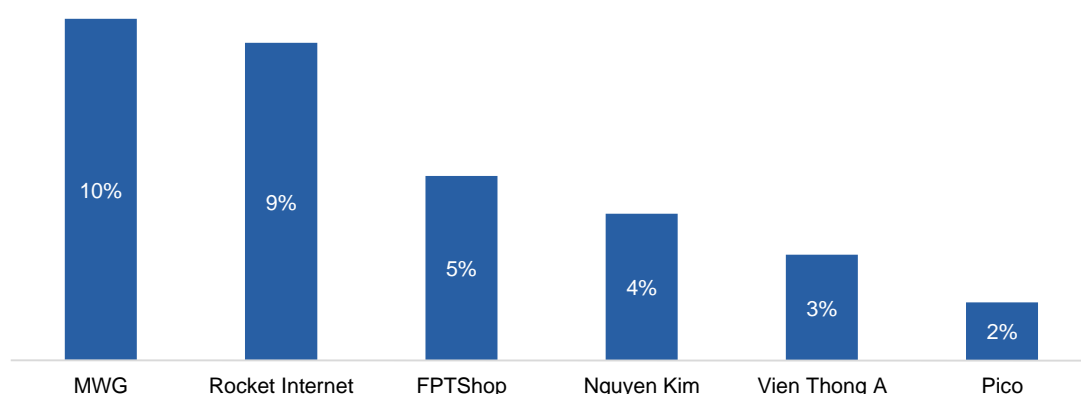
Figure 6: Internet statistics demonstrate thegioididong.com's superiority

	Bounce rate	Ranking in Vietnam	Daily view per visitor	Daily time on site
thegioididong.com	39.7%	73	3.92	4:45
fptshop.com.vn	48.5%	157	3.12	3:45
vienthonga.vn	41.4%	550	3.13	3:26
viettelstore.vn	50.5%	936	2.19	2:50

Source: Alexa, 9 May 2016 & VCSC

Figure 7: MWG's online sales top Rocket Internet's combined platforms (2015)

MWG's online sales surpassed that of Rocket Internet (Lazada + Zalora + others), which offer a much wider product range



Source: Euromonitor (January 2016)

Valuation

We derive our target price for MWG using a combination of DCF and TTM PER methods and maintain the same weightings of 90% DCF/ 10% PER as in the previous report. Our TP nudged up by 1% to VND108,000/share, as despite a 7% lift in FY16F NPAT, our DCF-based TP is reduced by 2% due to our upward revision in inventory day assumptions as MWG's Chairman hinted that as MWG expands into more remote areas, more inventory (about 5-10 days more) needs to be stocked to avoid lost sales, and a 35 bps increase in our universal equity risk premium. More than offsetting that is the 19% increase in PER-derived TP thanks to first, a 6% rally YTD by the VN-Index that boosted our target adjusted PER, and second, a higher TTM EPS as we rolled over our valuation period.

Figure 8: Valuation summary

Method	Fair value	Weighting	Contribution (VND/sh)
DCF	103,279	90%	92,952
P/E	147,342	10%	14,734
Target Price			108,000
P/E (ttm) at TP			12.1x
FY16 P/E at TP			9.7x

Source: VCSC

Figure 9: DCF valuation

Cost of Capital	Previous Report	Revised	FCFF (Five Year)	
Beta	0.9	0.9	PV of Free Cash Flows	6,261
Market Risk Premium %	8	8.4	PV of Terminal Val (3% g)	10,457
Risk Free Rate %	6.5	6.5	PV of FCF and TV	16,718
Cost of Equity %	13.7	14.0	+ Cash & ST investments	428
Cost of Debt %	8	8	- Debt	-1,999
Debt %	45	45	- Minority Interest	0
Equity %	55	55	Equity Value	15,148
Corporate Tax Rate %	20	20	Shares (mn)	147
WACC %	10.4	10.5	Price per share, VND	103,000

Source: VCSC

Figure 10: Cash flows

Discounted Cash Flows	FY16	FY17	FY18	FY19	FY20
EBIT	2,138	2,774	2,713	2,598	2,445
- Tax	-428	-555	-543	-520	-489
+ Depreciation	350	386	414	437	182
- Capex	-731	-179	-139	-117	-124
- Working cap increase	-480	-406	-291	-285	-242
Free Cash Flow	851	2,019	2,155	2,114	1,772
Present Value of FCF	765	1,621	1,539	1,340	996
Total PV of FCF	765	2,386	3,925	5,265	6,261

Source: VCSC

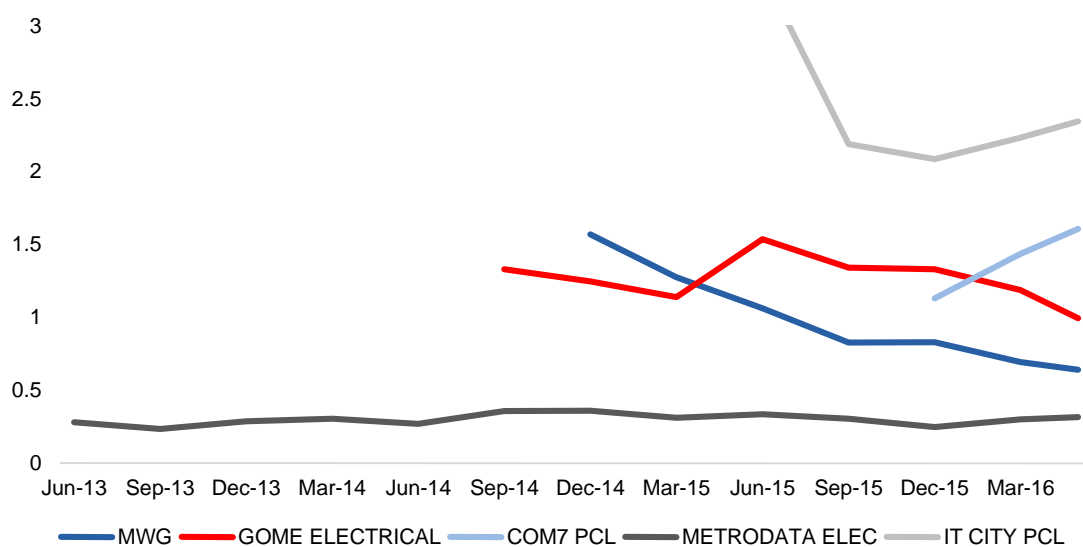
Peer Multiples

Figure 10: Peer comparables

(USD mn) Company	Country	Mkt cap	TTM Net Sales	Y-o-Y%	TTM NPAT	Y-o-Y %	Debt/ Equity	ROE	TTM P/E	Adj. TTM P/E	LQ P/B
Gome Electrical	China	2,633	10,170	7.7	206	0.9	83.2	7.4	10.1	13.3	0.7
Com7 Pcl	Thailand	259	438	6.3	8	28.0	43.2	23.5	29.2	20.0	5.2
Metrodata Elec	Indonesia	125	740	13.3	17	24.0	40.5	23.4	7.4	4.1	1.5
It City Pcl	Thailand	29	145	(0.5)	1	NA	-	2.2	45.2	31.0	1.0
Median		192	589	7.0	12	24.0	41.8	15.4	19.7	16.6	1.2
Average		761	2,873	6.7	58	17.6	41.7	14.1	23.0	17.1	2.1
Mobile World	Vietnam	513	1,327	65.4	57	71.5	82.7	54.2	8.5	8.5	4.6

Source: Bloomberg & VCSC

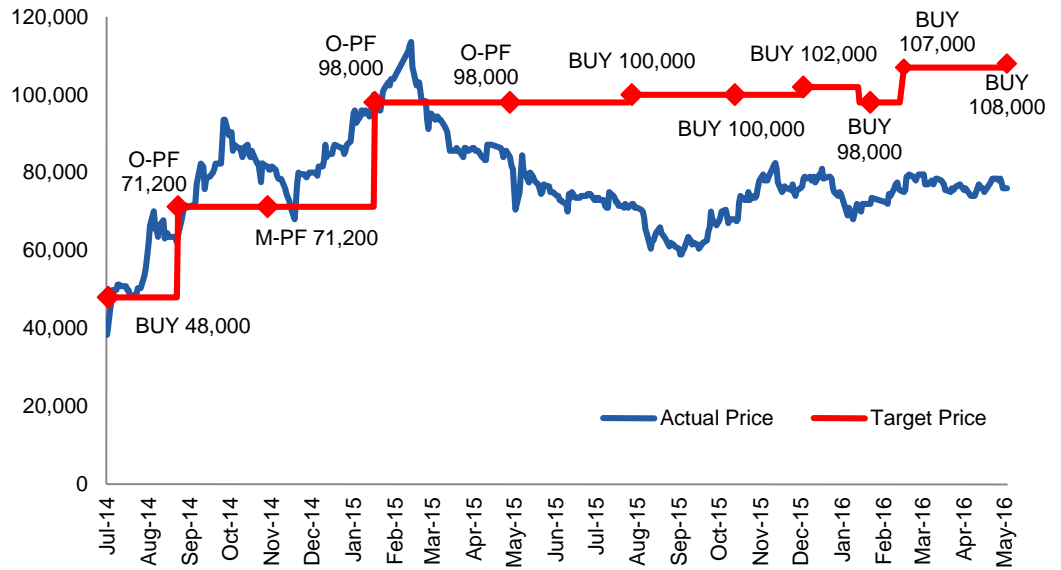
Figure 11: MWG's historical relative PER vs regional peers'



Source: Bloomberg

Recommendation History

Figure 10: Historical VCSC target price vs share price (adjusted for splits and stock dividends).



Source: Bloomberg & VCSC

Mid-Term Trend

Opinion:

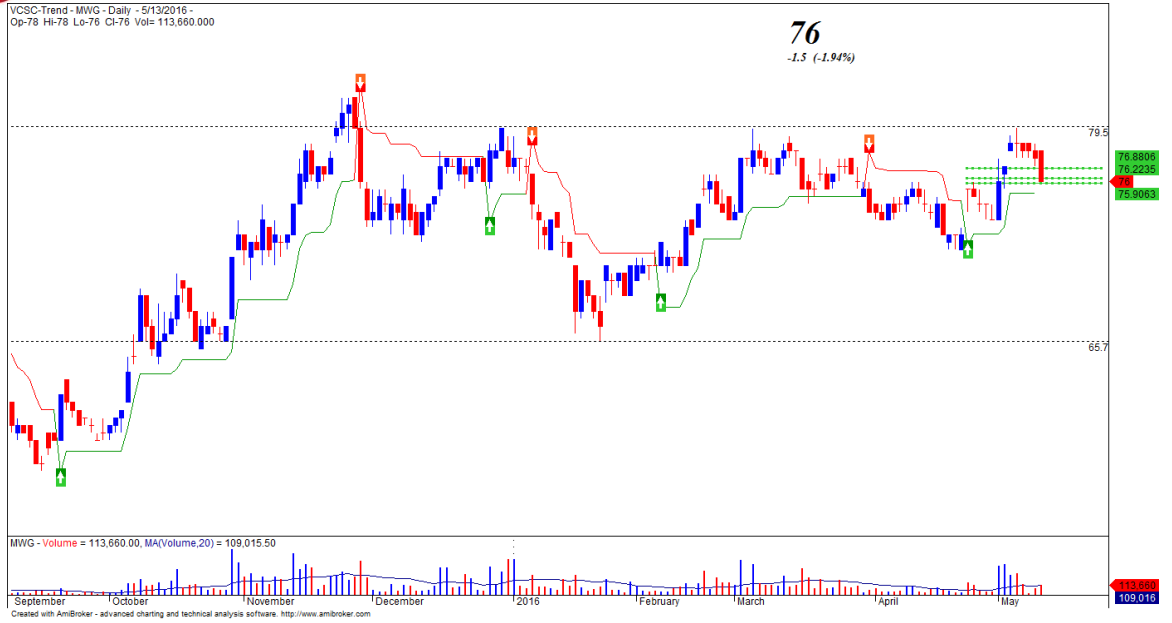
The price chart continues moving sideways in a price range of VND65,700 - VND79,500. According to the momentum indicators system, the price chart will not break the resistance level of VND79,500 and probably will continue moving sideways in the price range of VND65,700 - VND79,500.

Our trend indicators system still maintains the mid-term trend UP on the price chart and the price chart can rise to the next resistance level of VND90,000 or higher to the level of VND116,000 if the price chart can break the VND79,500 level.

Recommendation:

Mid-term investors should only buy when the price chart falls to the support level of VND65,700 or buying when the price chart breaks the VND79,500 level.

As at 05/16/2016	(VND/share)
Mid-term Analytic horizon	3 to 6 months
Mid-term resistance level	79,500
Mid-term support level	65,700
Mid-term trend	UP



Source: VCSC

Financial Statements

INCOME STATEMENT (VND bn)	2015A	2016F	2017F
Revenue	25,253	38,673	50,076
COGS	-21,330	-32,308	-41,926
Gross Profit	3,922	6,365	8,150
Sales & Marketing exp,	-2,351	-3,678	-4,812
General & Admin exp,	-249	-696	-751
Operating Profit (EBIT)	1,322	1,991	2,587
Financial income	81	142	182
Financial expenses	-41	-104	-122
In which, interest expense	-39	-104	-122
Share profit/loss from associates	0	0	0
Net other income/(loss)	23	5	5
Profit before Tax	1,386	2,035	2,651
Income Tax	-310	-407	-530
NPAT before MI	1,076	1,628	2,121
Minority Interest	-4	0	0
NPAT less MI, reported	1,072	1,628	2,121
NPAT less MI, adjusted ⁽¹⁾	1,072	1,628	2,121
EBITDA	1,519	2,342	2,973
EPS basic reported, VND	7,661	11,098	14,178
EPS basic adjusted ⁽¹⁾ , VND	7,661	11,098	14,178
EPS fully diluted ⁽²⁾ , VND	7,661	11,098	14,178

RATIOS	2015A	2016F	2017F
Growth			
Revenue growth	60.3%	53.1%	29.5%
Operating profit (EBIT) growth %	64.0%	50.6%	29.9%
PBT growth %	59.6%	46.8%	30.3%
EPS growth %, adjusted	52.8%	44.9%	27.8%
Profitability			
Gross Profit Margin %	15.5%	16.5%	16.3%
Operating Profit, (EBIT) Margin %	5.2%	5.1%	5.2%
EBITDA Margin %	6.0%	6.1%	5.9%
NPAT less MI Margin, adj, %	4.2%	4.2%	4.2%
ROE %	54.2%	50.9%	43.4%
ROA %	20.2%	18.5%	17.9%
Efficiency			
Days Inventory On Hand	61.0	63.4	61.3
Days Accts, Receivable	0.9	0.8	0.8
Days Accts, Payable	22.4	24.0	24.0
Cash Conversion Days	39.5	40.2	38.1
Liquidity			
Current Ratio x	1.3	1.4	1.6
Quick Ratio x	0.1	0.3	0.5
Cash Ratio x	0.1	0.3	0.5
Debt / Assets %	28.2%	27.0%	20.9%
Debt / Capital %	45.2%	41.6%	32.4%
Net Debt / Equity %	68.8%	29.0%	-10.4%
Interest Coverage	34.0	19.2	21.1

BALANCE SHEET (VND bn)	2015A	2016F	2017F
Cash & cash equivalents	344	1,657	3,420
Short term investment	0	0	0
Accounts receivables	77	93	120
Inventories	4,933	6,283	7,809
Other current assets	823	823	823
Total Current assets	6,176	8,856	12,172
Fix assets, gross	1,183	1,913	2,092
- Depreciation	-356	-706	-1,092
Fix assets, net	827	1,207	1,000
LT investment	0	0	0
LT assets other	262	262	262
Total LT assets	1,089	1,470	1,263
Total Assets	7,266	10,326	13,435
Accounts payable	1,971	2,455	3,259
Short-term debt	2,052	2,792	2,813
Other ST liabilities	759	1,162	1,505
Total current liabilities	4,782	6,410	7,577
Long term debt	0	0	0
Other LT liabilities	0	0	0
Total Liabilities	4,782	6,410	7,577
Preferred Equity	0	0	0
Paid in capital/Issued capital	1,469	1,498	1,543
Add'l share capital/share premium	37	37	37
Retained earnings	978	2,381	4,278
Other equity	-2	-2	-2
Minority interest	2	2	2
Total equity	2,483	3,916	5,857
Liabilities & equity	7,265	10,326	13,435

CASH FLOW (VNDbn)	2015A	2016F	2017F
Beginning Cash Balance	213	344	1,657
Net Income	1,072	1,628	2,121
Dep, & amortization	197	350	386
Change in Working Capital	-1,782	-480	-406
Other adjustments	-127	0	0
Cash from Operations	-641	1,498	2,101
Capital Expenditures, net	-587	-731	-179
Investments, net	-72	0	0
Cash from Investments	-659	-731	-179
Dividends Paid	0	-224	-224
Δ in Share Capital	0	29	45
Δ in LT debt	0	0	0
Δ in ST debt	1,433	741	21
Other financing cash flows	-3	0	0
Cash from Financing	1,430	545	-159
Net Change in Cash	131	1,313	1,763
Ending Cash Balance	344	1,657	3,420

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance,

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+848 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+848 3914 3588

Research

Research Team

+848 3914 3588
research@vcsc.com.vn

Long Ngo, Senior Manager ext 145

Banks, Securities, Insurance

- Hoa Trinh, Senior Analyst ext 124
- Thuy Le, Analyst ext 116

Construction Materials

- Dung Ly, Analyst ext 149

Macro

- Hien Nguyen, Analyst ext 173

Hong Luu, Manager ext 120

Real Estate and Construction

- Tho Hoang, Analyst ext 174

Minh Nguyen, Manager ext 142

Retail Client Research

- Tram Le, Senior Analyst ext 194
- Vy Nguyen, Analyst ext 147

Institutional Sales and Brokerage

& Foreign Individuals

Head of Institutional Sales

Michel Tosto, M. Sc.
+848 3914 3588 ext 102
michel.tosto@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+848 3914 3588 ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+844 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+848 3914 3588

Barry Weisblatt, Head of Research ext 105

barry.weisblatt@vcsc.com.vn

Anirban Lahiri, Senior Manager ext 130

Logistics and Agriculture

- Hai Hoang, Analyst ext 138
- Nga Nguyen, Analyst ext 199

Oil & Gas, Power and Fertilizer

- Duong Dinh, Senior Analyst ext 140
- Tram Ngo, Analyst ext 135

Phap Dang, Manager ext 143

Consumer Goods, Autos and Tires

- Dao Nguyen, Senior Analyst ext 185
- Nghia Le, Analyst ext 181

Vietnamese Sales

Dung Nguyen
+848 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Hanoi

Quang Nguyen
+844 6262 6999 ext 312
quang.nguyen@vcsc.com.vn