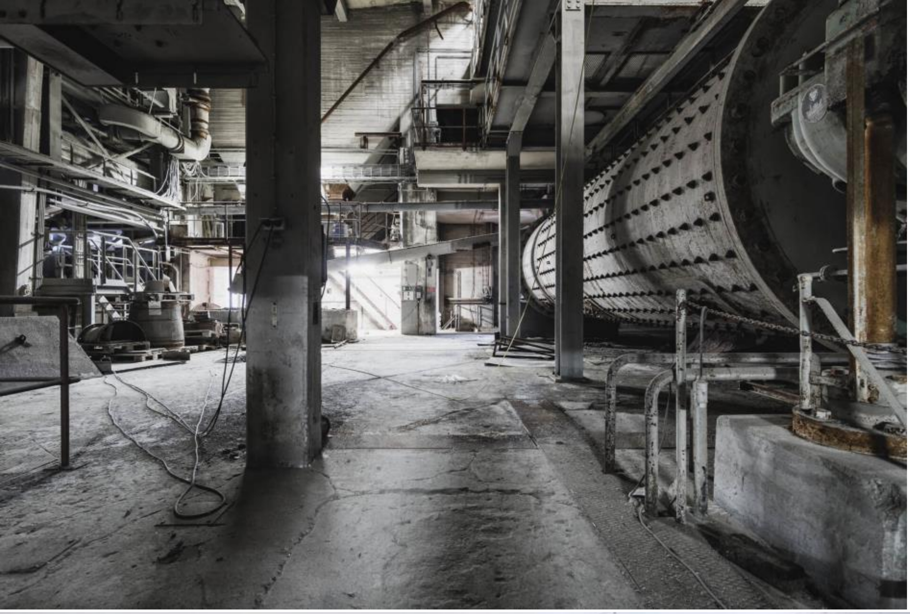


CEMENT INDUSTRY UPDATE REPORT

April 2020

PROLONGED NEGATIVE IMPACT AFTER THE COVID-19 PANDEMIC

"The Covid-19 pandemic poses a great challenge to Vietnam's cement industry. Not only did this event disrupt industry activities in a month or a quarter, the Covid-19 also has a profound impact on the saturated cement consumption that has occurred in recent years. This means that current consumption of cement may have to face large decline in 2020, putting significant pressure on manufacturer's competitiveness and their ability to maintain continous operations in the upcoming period.

Nguyen Ly Thanh Luong
Equity Analyst
Email: luongnlt@fpts.com.vn
Phone: (8424) – 3773 7070
Ext: 4309

Approved & validated by
Nguyen Thi Kim Chi
Deputy Director of Research Department

HIGHLIGHTS

VIETNAM'S CEMENT INDUSTRY HIGHLIGHTS

- **Cement production was not affected during the Covid-19 pandemic.** In QI 2020, Vietnam's cement supply increase 3% YoY as cement factories are allowed to operate normally, even during period of Vietnam's strict social distancing. Factors of cement production are gaining favorable variation as Vietnamese ministries & government departments has proposed to reduce some important production costs related to the cement industry such as price of domestic coal, electricity or mining royalties to support Vietnamese economy to recover after the impact of the Covid-19 pandemic.

- **Export activities were interrupted as disease affecting demand in cement export markets.** Demand for cement in Vietnam's main export markets such as China, Philippines and Bangladesh dropped about 15% - 20% in QI 2020. Many export orders have been delayed due to the impact of Covid-19 pandemic and tough government measures in these markets during the lockdown period. It is expected that after the Covid-19 pandemic, demand for cement export will be slow to recover, as high inventory pressure in regional cement exporting countries accumulated in first half of 2020, which create intense competition in the export market.

- **Domestic demand may not grow throughout year 2020.** We expect Vietnam's domestic cement demand for year 2020 will stay at 68 million tons, unchanged from previous year. The Covid-19 pandemic has had a strong impact on prospects of non-residential construction (factories, industrial parks, hotels, etc.), which is an important segment that contribute high growth to Vietnam's construction industry in recent period, as it is directly affected by the Covid-19 impact on tourism, hospitality and FDI inflows to Vietnam in 2020. In addition, important construction segments such as residential building (housing, real estate) or infrastructure investment have not had any strong supportive force while demand continues to decline in the second half of year 2020.

- **We have a negative outlook on the operating results of cement companies for the financial year 2020.** In which, two groups of companies that are most affected this year are (1) Companies with high export proportion in revenue structure and (2) Companies with weak financial position. In QI 2020, these companies experienced a drop of more than 5 - 10% in revenue compared to the same period in 2019. As of our estimation, about 20% of industry companies are under financial insecurity and many likely to suffer big losses this year due to a sharp decline in consumption, large inventories, accompanied by skyrocketing debt level.

INDUSTRY INVESTMENT RECOMMENDATIONS

We recommend **NOT TO INVEST** in shares of Vietnam's cement companies in the current period. Although the situation of Covid-19 pandemic has been significantly controlled in Vietnam and many countries around the world, along with share price of cement companies decreased by an average of 10-20% from the beginning of the year, we have not seen any short-term prospects for cement industry in the second half of 2020, as also have a very low expectation for the recovery of industry operating result in the remaining period of 2020.

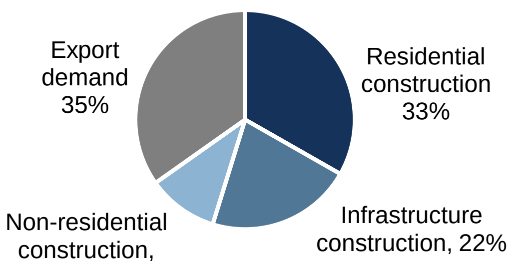
MỤC LỤC

A. PROSPECTS OF VIETNAMESE CEMENT INDUSTRY AFTER THE PANDEMIC

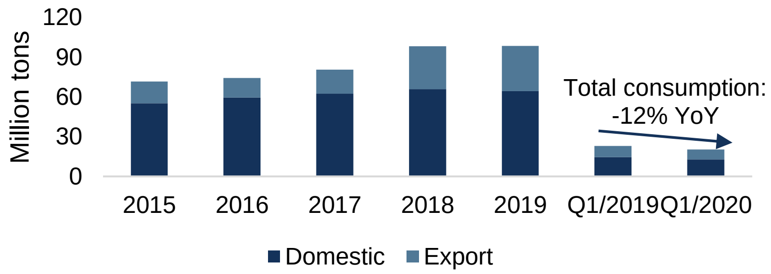
The Covid-19 pandemic (hereby called "Covid-19" or the "pandemic") broke out in Wuhan City, China, with the first case detected around November 2019. Up till now (April 24th, 2020), the pandemic has lasted for 5 months and spread to 210 countries and territories, causing negative impacts on many production activities and economic sectors, including cement production and consumption activities in Vietnam and many countries around the world.

By the end of QI 2020, total revenue of Vietnamese cement companies (hereby called "companies" or "manufacturers") was estimated to suffer a loss of 2.8 billion VND (-8% YoY). The Covid-19 pandemic has a direct impact on Vietnam's cement comsumption markets such as (1) disrupting export activities to important markets such as China, Philippines and Bangladesh, (2) slowing progress of domestic construction works and causing a decline in new construction activities demand. According to the Vietnam Cement Association and the General Department of Customs, compared to the same period in 2019, the industry consumption in QI 2020 decreased nearly 12% YoY, with export volume down 15% YoY and domestic consumption down by 11% YoY. Industry inventory in QI 2020 increased sharply to 4.8 million tons, equal to 30 – 45 days of consumption.

Vietnam's cement consumption structure



Vietnam's cement consumption during period 2015 - 2019



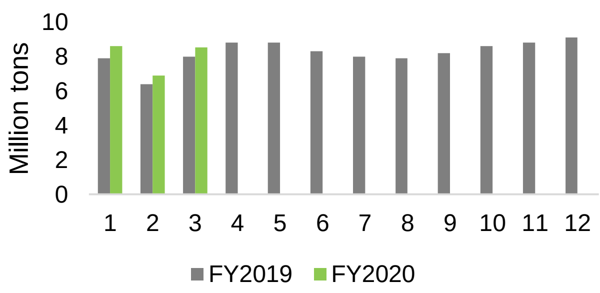
Source: Vietnam Cement Association, FPTS research

Up till now, as the pandemic has shown signs of settling down, activities in cement industry is quickly restarting. However, many Vietnamese cement companies are having difficulties to recover because of the negative effects of Covid-19 in the first half of 2020 on both companies' financial position and business operations, along with clear signs of steep decline in cement demand after the pandemic.

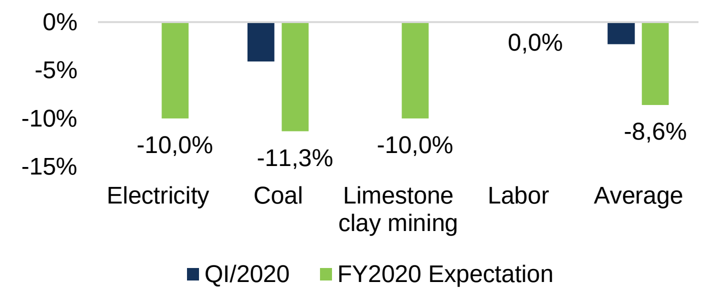
I. Production activities

1. Cement production was not affected during the Covid-19 pandemic

Cement production output by month



Expected change in input costs for cement production



Source: Vietnam General Statistics Office, Ministry of Finance, FPTS research

In QI 2020, industry production output reached 21.4 million tons, a slight increase of 3% YoY compared to the same period in 2019. Supply of cement in the Vietnamese market is not affected as cement plants are allowed to operate normally, even during period of Vietnam strict social distancing. Inputs for cement production are also fairly favorable as production costs such as coal price (~30% of production cost) from imported source are decreasing due to reduction of coal demand in 3 main consumption markets, which are China, India and the U.S, because of the pandemic impact. At the same time, Vietnamese ministries and departments are proposing to reduce a series of production costs related to the cement industry, such as electricity prices, domestic coal prices, and mining royalties as an effort to reduce the impact of Covid-19 to the economy. Up to date, the proposal for 10% reduction of electricity price has been approved and will be applied from April to the end of June 2020.

2. Some manufacturers are facing difficulties of working capital deficit

Although production was not interrupted by the Covid-19 pandemic, poor cement consumption during the early quarter of this year made it difficult for some cement manufacturers to maintain operations. As our concern, companies such as Phuc Son Cement, Cong Thanh Cement, Quang Ninh Cement, etc. are having problems paying due operating expenses recently because of slow product consumption and prolonged inventory situation.

Above mentioned companies are in the 20% range of companies in the industry with weak financial position such as high leverage, working capital deficit or large accumulated loss for years. In the context of declining QI 2020 sales revenue with increasing debt and inventory level, these companies are facing large working capital deficit and are asking for government support such as: delaying tax payment, postponing monthly land rent or applying for interest exemption and loan extension from bank. However, approval of such supportive measures can take significant amount of time, as they require complicated documents to prove the egilibity for pandemic support. Some companies might not receive timely support and could pose serious financial risks.

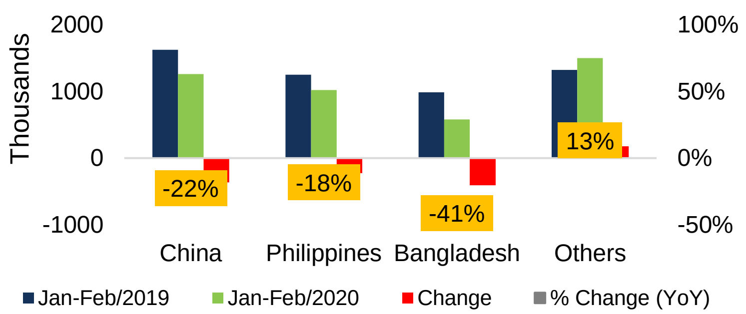
3. Supply from new cement plants will increase sharply in the second half of year 2020

For the rest of 2020, there will be 4 new cement plants coming into operation with a capacity of 8 million tons/year (equivalent to 9% of Vietnam current cement capacity), including: a 2 million tons/year factory of Tan Thang Cement (Nghe An), an expansion line of 2.5 million tons/year of Long Son Cement (Thanh Hoa), an expansion line of 1.5 million tons/year of FICO Tay Ninh (Tay Ninh) and a factory of 2 million tons/year of An Phu Cement (Binh Phuoc). Under unfavorable situation of the cement industry in 2020, this significant increase in industry capacity can lead to threat of large excess supply, accompanied by increasing competition pressure (mainly price competition), which hinders the recovery of cement companies in following period after the pandemic.

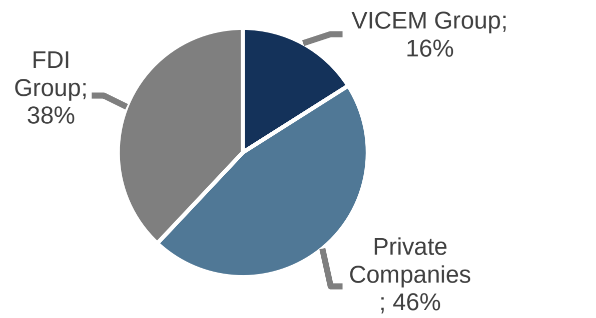
II. Export situation – Outlook from cement export market

1. Interrupted export activities due to Covid-19 impact on main export markets

Vietnam's cement export in period 2019 - QI 2020



Export market share of Vietnam cement groups



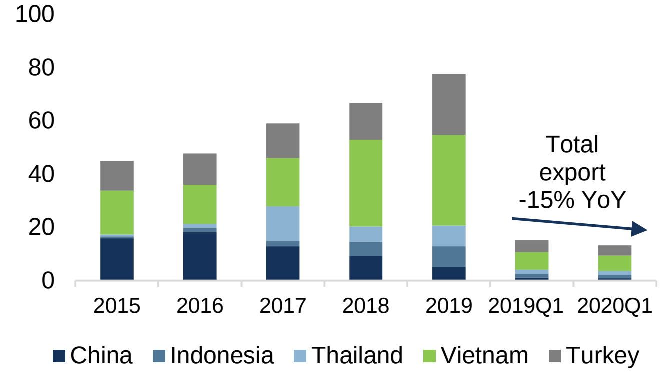
Source: Vietnam Cement Association, FPTS research

Vietnam's cement export depends on three main markets (contribute up to 74% of export demand): in which China (49%), Philippines (15%) and Bangladesh (10%). These markets were interrupted for months in QI and QII 2020 due to the Covid-19 pandemic, in which: China nationwide lockdown in February, Philippines lockdown in March (extending to April) and Bangladesh lockdown in April. Although sea traffic (the main transport route of cement exports) is allowed to operate normally, tough measures of these countries' governments in lockdown period such as (1) prohibit travel across regions (2) suspend construction and cement production activities (3) enhance medical test in trade areas like seaports, lead to a significant delay in process of many export orders.

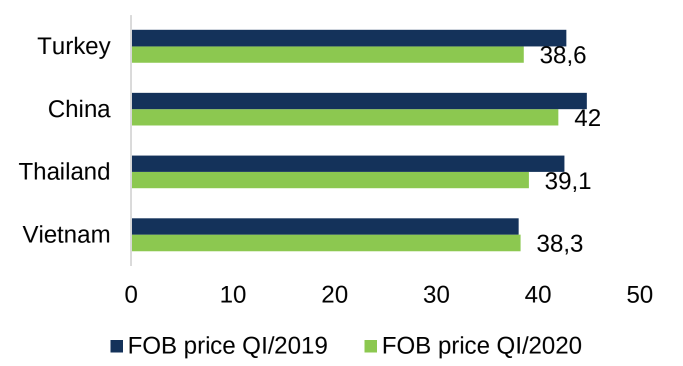
It is expected that major cement export markets could take considerable amount of time to recover after the pandemic. As noted by the international logistics group Agility, export of goods to countries and regions after long lockdown period takes up to 1-2 weeks to be able to return to normal operation level. However, according to the assessment of the World Cement Association, the cement export market in the Philippines or Bangladesh may take up to one month or more due to these countries' ineffective disease control, causing the economy to restart slowly. Currently, cement export activities to China have returned to normal pace after nearly 2 months of delay.

2. Decreasing demand in export market under high pressure of regional inventory

Fluctuation of export cement prices in first quarter



Cement export of regional countries 2015 – QI 2020



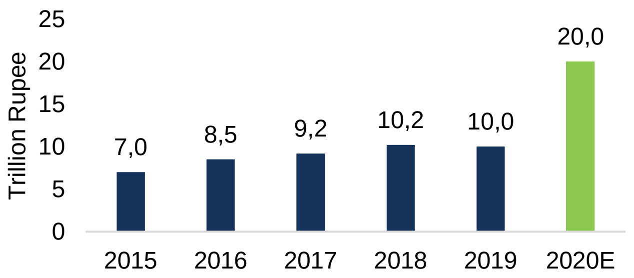
Source: Global Cement, General Department of Customs, UN Comtrade, FPTS research

Vietnam's cement products are also facing increasing competition in the export market, as result of high inventory pressure from many regional countries in beginning of the year, caused by weak domestic demand under Covid-19 situtation. Estimated domestic consumption in QI 2020 of major exporting countries in the region decreased sharply compared to previous year: Indonesia -8% YoY, Turkey -4% YoY, Pakistan -17% YoY. China -13% YoY and Vietnam -11% YoY. International Cement Review estimated that inventories of some large companies in these countries has amounted up to 2 - 4 weeks of consumption, which incentive price reduction and create intense competition in the cement export market. As a result, average regional price level has dropped significantly compared to last year and is now close to Vietnam's export price. Thus, this brought up a rising amount of cheap cement in the market nd put great pressure on the short-term prospects of Vietnamese cement export.

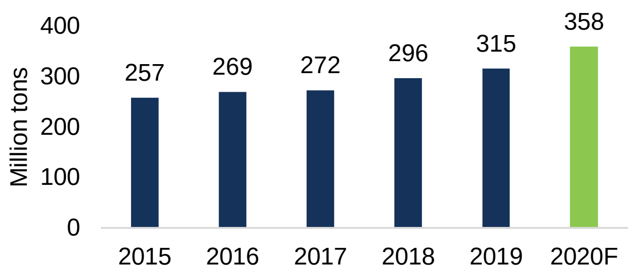
3. Waiting for export opportunities to new attractive markets

➢ Indian market

Public investment in India in period 2015 - 2020F



Indian cement consumption 2015 - 2020F

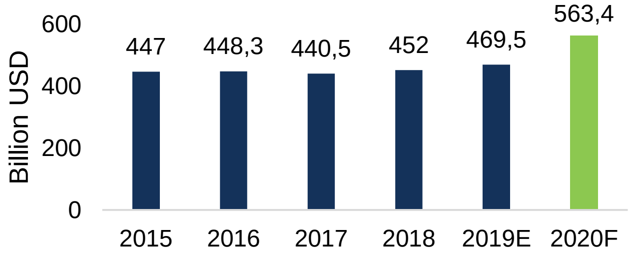


Source: India Ministry of Finance, IBEF, FPTS estimate

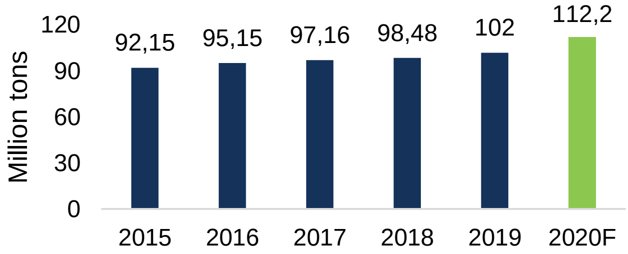
The Indian market has 1.3 billion people, with 328 million tons of cement consumed in 2019 (8% world cement consumption), ranked second biggest cement consumption country. However, according to the Indian Ministry of Power, per capita cement consumption in India is only at 195kg, 60% lower than average consumption of global developing countries (500kg per person). Although India is struggling to fight the spread of the Covid-19 pandemic, Indian cement market is still in good shape as a result of a largest infrastructure investment support package announced so far, in plan to promote economic growth after the Covid-19 pandemic. The investment package worth $1,390 billion in a 5 years plan ($280 billion annually), which boost India's current infrastructure spending 2.8 times higher, accompanied by 1.5 times higher of annual cement consumption for infrastructure construction (+40 million tons/year) until 2025. The export price of Vietnam cement in the Indian market is currently at 61 USD per ton (FOB price, including shipping costs), which is 8% lower than India domestic cement price (66 USD/ton). Last year, India only imported 3.8 million tons of cement (0.8% of its consumption) but this figure is approximately 11% of Vietnam's cement export volume, revealing a great development potential for this market in near future.

- **U.S marrket**

U.S public investment in the period 2015 – 2020F



Cement consumption in the U.S 2015 - 2020F



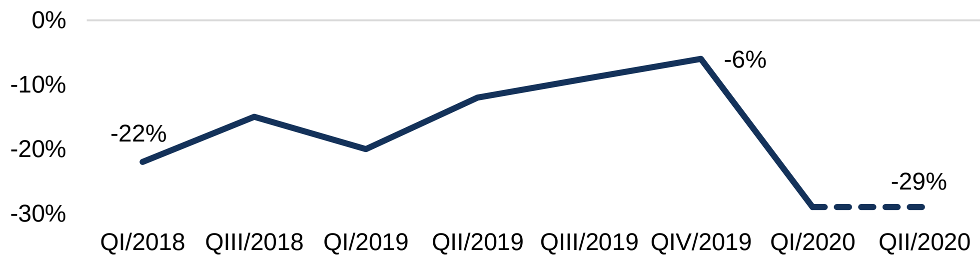
Source: U.S Office of Congressional Budget, FPTS research

Up till now, the United States is the most affected region by the Covid-19 pandemic, as well as the region with largest economic relief policies applied and being considered to date. Some important policies awaiting approval that has a major impact on construction demand and cement consumption in this country are (1) the 4th US government relief bill worth 2 trillion USD for infrastructure to cope with the impact of the Covid-19 epidemic and (2) New Fixing America's Surface Transportation Act (F.A.S.T Act) worth $288 billion, in which proposes to increase the budget for yearly infrastructure construction by 27% from 226 billion USD of previous years. The US government is waiting for approval of these two major spending packages, but it might not be completed in 2020. The export price of Vietnamese cement in the US market is currently at 122 USD/ton (FOB price, including shipping costs), 6% lower than domestic cement prices in the US (130 USD/ton). In 2019, the U.S imported 16.5 million tons of cement (16% of US consumption), of which 26% came from China and 11% came from Vietnam.

III. Domestic market situation – Outlook for domestic construction activities

1. Many domestic construction activities are delayed due to the impact of the pandemic

Construction industry's Trend balance Index*



* This is an indicator of the optimism of construction companies =% Companies forecast better business trends - % Companies forecast more difficult business trends. The large negative value reflects the less optimistic outlook of companies on operating results in upcoming quarters.

Source: Vietnam General Statistics Office, FPTS research

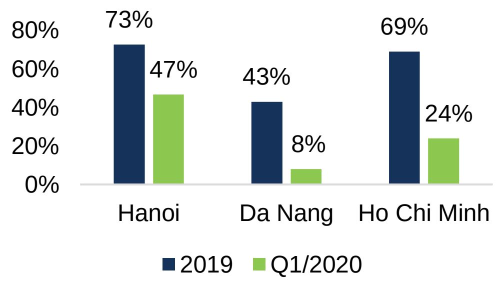
According to a survey of the Vietnam Association of Building Materials in the first few months of 2020, revenue of construction materials wholesalers and retailers in the main construction markets of Hanoi and Ho Chi Minh City face falling demand about 15-20% over the same period. The reason is because of the delay in many construction projects, which are supposed to start after the Lunar New Year, have choosen to reschedule at a different time of the year due to concerns about the ability to meet schedule as well as increasing construction costs during the outbreak period of the Covid-19. At the same time, Vietnamese government put regulations in April to stop non-essential business (including construction material retail stores), temporarily suspend construction and restrict travel during social distancing period also affects the revenue of construction materials across the country. According to a survey by the General Statistics Office about company’s expectation of upcoming operating results (reflected by the industry trend balance index) in QI 2020, construction companies’ expectations are quite negative for new constructing demand in upcoming period. Accordingly, based on ongoing and upcoming construction contracts, many contractors expect that the construction speed will be slow in the remaining quarters of the year, citing concerns related to arrears with real estate customers, labor shortages due to travel restrictions in some regions and new construction projects continue to be delayed.

2. Demand from domestic construction market may not grow in 2020

➢ Non-residential construction (10% cement demand) to be frozen after pandemic

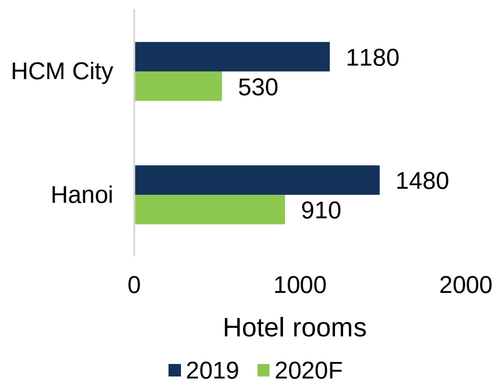
As the segment contributing the highest growth in domestic construction activity (average growth of 10.6% in the period of 2015-2019), the two main activities of non-residential construction market, which are accommodation/ hotels and industrial construction, are experiencing negative trend in the first half of the year under the impact of the pandemic. With the prolonged effect of the disease, this market may suffer a deepest decline in recent years, greatly affect an important consumption source for the cement market.

Capacity of 3 to 5 stars hotel in major cities *(Source: Vietnam National Administration of Tourism, CBRE, FPTS research)*



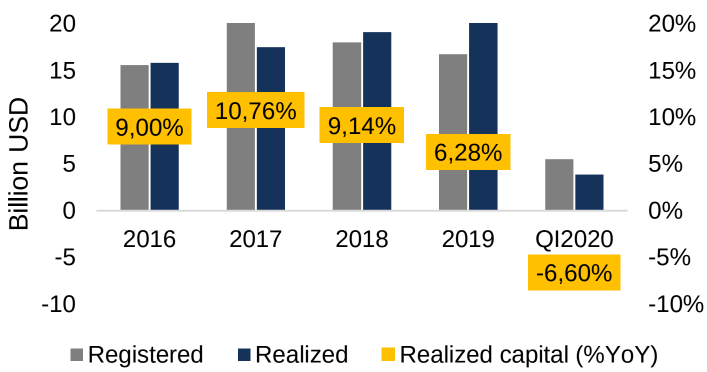
In QI 2020, the operation of hotels and accommodation facilities across the country was strongly influenced by the pandemic, with the occupancy of hotel rooms in major cities decreased about 30 to 50% compared to QIV 2019. For the whole year 2020, if the number of tourists to Vietnam decreases by 70 - 80% under the scenario of the Vietnam National Administration of Tourism, many businesses in this sector may have to cease/ narrow operations, thus extremely reduce demand to build hotels and accommodation across the country.

Number of newly built hotel rooms in Hanoi and HCM city *(Source: JLL Viet Nam, FPTS research)*



We anticipate a sharp decline in construction demand for new hotels and accommodation in 2020 due to (1) declining tourism activities, which could cause many large accommodation to transfer operations, leading to higher acquisition activities of existing accommodation rather than constructing new projects, (2) tightening or stopping licensing of new hotels in big cities such as Da Nang, Quy Nhon, Hanoi and Ho Chi Minh City as the supply of hotels in many tourist destinations such as Da Nang and Nha Trang were in serious oversupply situation before the pandemic occured (with room capacity at some time in the year only reached ~ 20%).

Vietnam's FDI attraction period 2016 - QI 2020 *(Source: Vietnam Foreign Investment Agency, FPTS research)*



Industrial construction activities in recent years have largely come from the support of FDI inflows into Vietnam. The impact of the pandemic on leading FDI investors, such as South Korea, China and Japan, led to a sharp decline in FDI inflows in QI 2020. The consequence of Covid-19 is a psychological impact on capital inflows, which can delay many ongoing FDI projects this year. Also, global travel restriction can last throughout the year, affecting investment capital in new FDI projects.

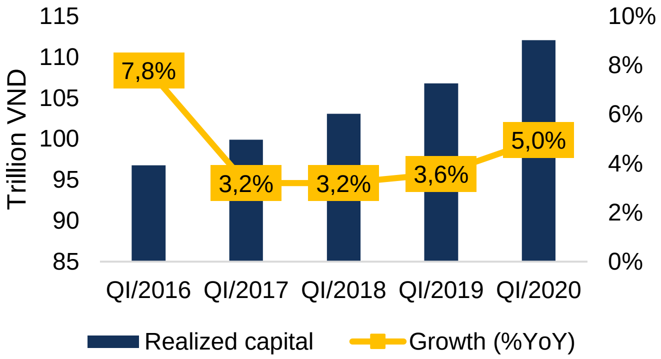
Current status of 2020 financial year big FDI project

	Total investment	Investment period	Region	Status
LG Display Hai Phong Expansion	410 million USD	2019 - 2020	Hai Phong	Delayed
Goertek Electronics Factory	260 million USD	2019 - 2021	Bac Ninh	Delayed
Technotric Industries TTI Factory	650 million USD	2020 - 2030	Ho Chi Minh	Not started
North Hanoi Smart City	4200 million USD	2019 - 2028	Ha Noi	Constructing
Pegatron Phone Components Factory	Postponing investment consideration			

Source: Vietnam Foreign Investment Agency, FPTS research

➢ Infrastructure construction (22% cement demand) see no significant change in government policy

Total investment from Vietnamese state budget



Source: Ministry of Planning and Investment, FPTS research

Despite being targeted by the government as one of the key fiscal policies for 2020 to stimulate economy after the pandemic, public investment in QI 2020 has not yet achieved any outstanding growth. Value of investment disbursement from the state budget in QI 2020 reached 61 trillion VND, up 5.0% YoY (increase only 1.4% higher than the same period in 2019). The cause still comes from the slow implementation of public investment due to legal problems surrounding the provisions in Public Investment Law, overlapping with the provisions of the different Laws such as site clearance, project approval procedures, etc.

In response to the need to accelerate the disbursement of public investment for post-pandemic economic development, Vietnamese government has made several policy changes, mainly focusing on transforming forms of investment of large infrastructure projects from PPP (public-private partnership investment) to form of fully state-funded project (help cutting off the stage of finding private investors). Currently, there are 8 major infrastructure projects under the North - South Expressway that have been converted to fully state-funded investment, with the conversion value of about VND 74,000 billion, ~16% of state investment budget in year 2020. However, this process of change does not address the main constraint on regulatory issues, which are causing delays in public investment and slowing progress of large-scale infrastructure construction activities (see table below). We believe that the expectation of a surge in public investment and the construction of infrastructure is not feasible at the moment, at least for period of year 2020-2021. However, this is a notable consumption segment for the cement industry in the medium and long term as factors of disease and slowing economic growth will stimulate force for major changes in public investment policies in the near time.

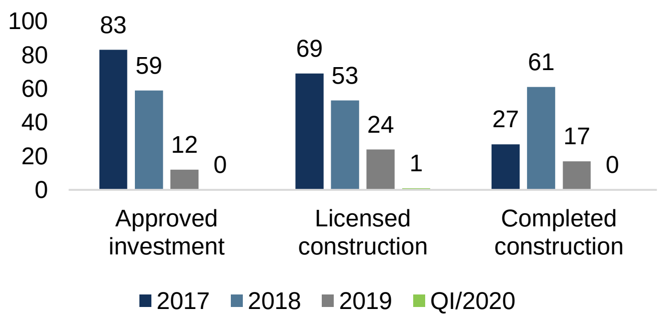
List of key infrastructure and public investment projects which are behind expected schedule

Project name	Investment Value (bil VND)	Expected initial finish period
Long Thanh Airport	114,450	2020 - 2025
North - South Expressway	104,070	2017 - 2021
Dau Giay - Lien Khuong Expressway	65,000	2019 - 2025
Metro No. 2 Ben Thanh - Tham Luong	47,800	2014 - 2019
Ben Luc - Long Thanh Expressway	31,320	2015 - 2018
Trung Luong - My Thuan - Can Tho Expressway	19,597	2015 - 2018
Cam Lo - La Son - Tuy Loan Expressway	19,200	2015 - 2018
HCM City Flood Control	10,000	2016 - 2020

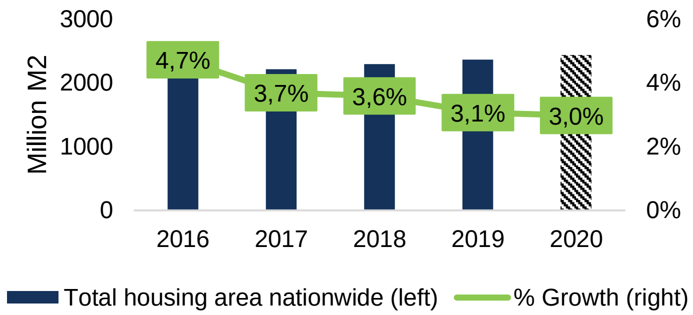
Source: Vietnam Ministry of Construction, Ministry of Planning & Investment, FPTS research

➢ Residential construction (33% cement demand) continue to further decline in growth

Licensing construction projects in HCM City



Targets of housing area nationwide 2015-2020

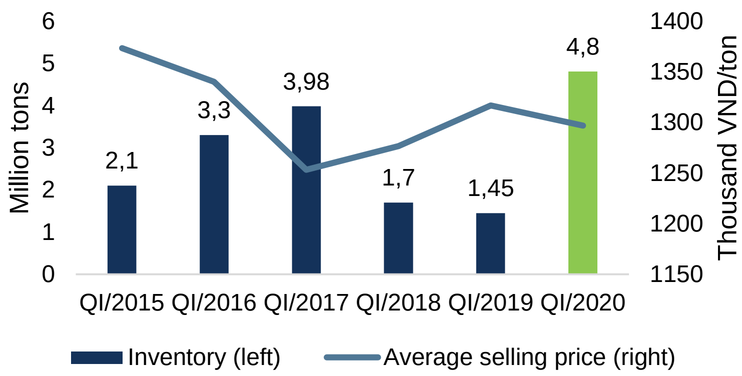


Source: Ho Chi Minh City Department of Construction, Ministry of Construction, FPTS research

The prospect of building materials demand in 2020 residential construction market continues to be influenced by recent tightening in management of housing construction permits, along with the declining psychology of house buyers during the broke out of Covid-19 pandemic. In short term, construction of new real estate in the near future will be affected because of the delay in construction progress and the shortage of capital from customers which are real estate businesses. For the whole year, housing construction nationwide is limited by the target of housing area's growth from Ministry of Construction, with the target continuing to decline to 3% (compared to 4% average increase over 2016 – 2019 period). Also, from 2020, with Circular 22/2019/TT-NHNN took effect in which main contents focus on limit of personal housing loans and real estate investment loans, the demand for housing could continue to grow slower. In the medium and long term, the market for housing construction materials could expect on more positive outlook in the change of urban development policies after 2020, as major cities redevelop their urban development plans for the next phase.

3. Competition in Vietnam domestic cement market may peak this year

The situation of inventory and average selling price in Vietnam



Source: Vietnam Cement Association, Department of Construction

Under the pressure of poor consumption for both domestic and export market, Vietnamese cement industry is under pressure from the highest inventories in many years, reaching 4.8 million tons in QI 2020, especially when the market dropped unexpectedly in February and March. Industry inventory is now estimated to be equivalent to 80 - 100 days of consumption (while cement has maximum life of 60 - 90 days). Therefore, pressure on sales ability is leading companies on fierce price competition to quickly reduce inventories.

As noted by us, although the average listed prices in regions have not changed significantly, high discounts for distributors have been applied in some areas such as Hanoi and Ho Chi Minh City, with discounts for dealers in some markets has up to 15-20% (compared to only 5-10% last year). In April, inventories continue to increase as reported by several Departments of Industry and Trade in municipalities. In the second and third quarters, which are the two peak construction seasons of the year, market share competition between companies will heightened and become most intense. With combination from most of negative factors such as disease events, weak demand and highest inventories in many years, the cement market in upcoming quarters may reach its peak in current industry cycle, create important step to restructure the domestic market share. This could lead to elimination of certain companies to balance supply – demand and reform the cement industry in a healthier stage.

IV. Industry forecast FY2020

	Forecast	Change compared to 2019
Number of cement plants	88 cement plants	+4 plants
Industry production output	101 million tons	+7.1%
Industry consumption	93 million tons	-5.1%
- Domestic	68 million tons	+0.0%
- Export	25 million tons	-21.5%
Industry inventory	8 million tons	+720%
Average domestic selling price (unit: VND/ton)		
- North province	1,105,000	-3.3%
- Central province	1,290,000	-4.1%
- South province	1,585,000	-1.5%
Average export price (unit: USD/ton)	38.12	-0.5%

Source: FPTS estimate

B. IMPACT OF COVID-19 TO QI 2020 OPERATING RESULTS AND THE 2020 PLAN OF MAJOR VIETNAMESE CEMENT COMPANIES

I. Overall assessment for groups of cement companies

Based on the above analysis of the impact of the Covid-19 on Vietnam's cement industry, together with first quarter operating results, we make some general comments on the impact of the pandemic to short-term prospects and operating results for major groups of companies in the industry.

1. Companies with high volume of export will have a sharp decline in QI 2020 operating results, with a poor recovery in the rest of the year

QI 2020 export revenue of major cement exporters is affected by a drop of more than 10% compared to the same period. Most are private manufacturers with large capacity factories concentrated in the North Central region and neighboring provinces (Thanh Hoa, Nghe An, Ha Tinh and Ha Nam). With poor export situation that can last till the end of the year, these companies are turning to domestic consumption, putting pressure on markets around the factory area and threaten the consumption of each other.

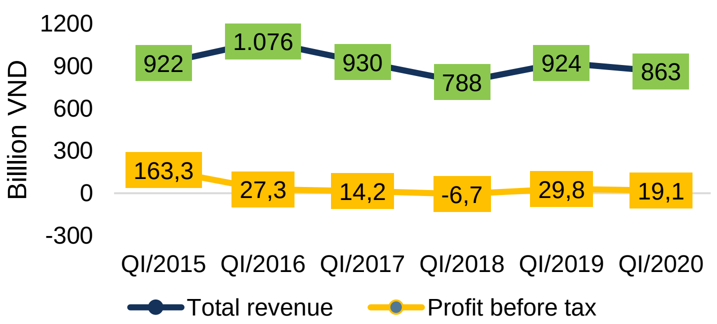
Export market share of some large companies in the industry (estimated trade figures in early 2019)

Cement manufacturers	Capacity	% Domestic consumption	% Export	Main export market	Revenue QI 2020
Cong Thanh	5.0	34%	66%	China	-19.5%
VISSAI	11.2	49%	51%	Bangladesh	-20.1%
Xuan Thanh	5.3	52%	48%	South Africa	-15.5%
Bim Son (BCC)	3.4	76%	24%	China	-13.0%
Hoang Mai (HOM)	1.4	83%	17%	Phillipines	-11.6%

Source: Vietnam Cement Association, FPTS estimate

Bim Son Cement JSC (HNX: BCC)

BCC's operating results in first quarter over the last 5 years *(Source: BCC, FPTS estimate)*



We estimate that BCC's export revenue in QI 2020 decreased 18% compared to QI 2019 largely due to a decline in exports to China, while domestic sales volume decreased by 3% YoY. Large inventories and pressure of price reduction made up QI 2020 bad operating results, with decline of nearly 36% YoY. Although Covid-19 posses a threat on the operation of BCC, the company is still setting a very high production and consumption target for 2020.

BCC's operating plans for financial year 2020 *(Source: BCC, FPTS research)*

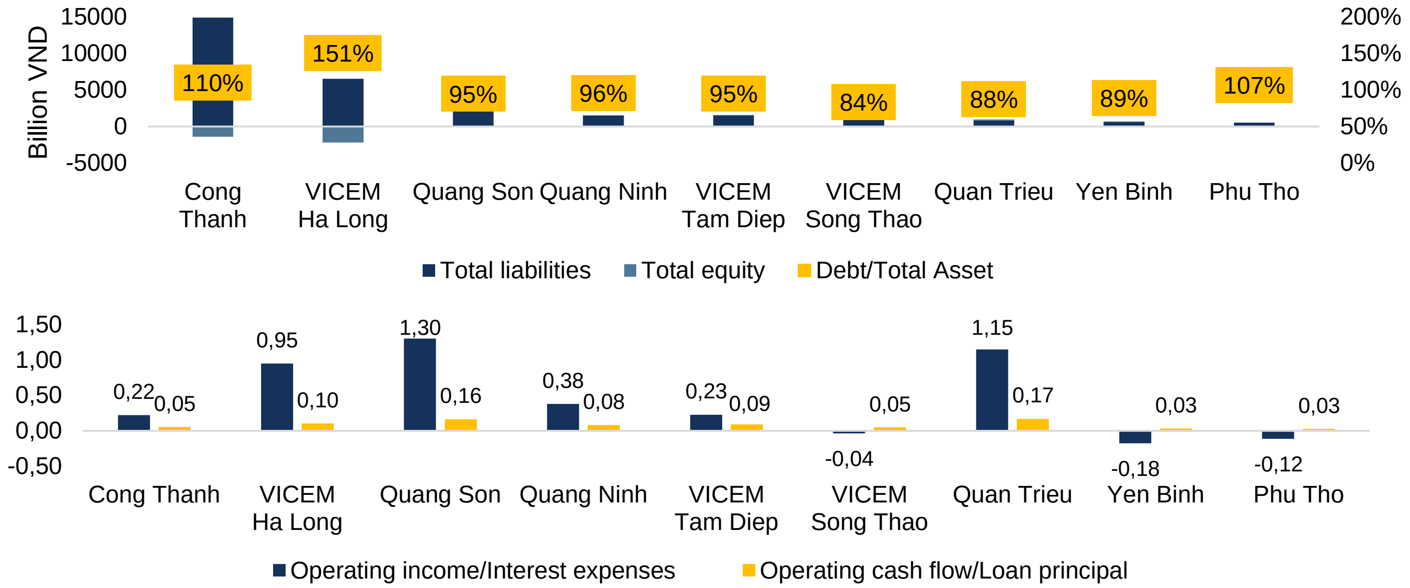
	2020 Plan	Actual 2019	YoY Growth	% 2020 target achieved
Revenue	4,646 bil VND	3,826 bil VND	+21.4%	18.6%
Profit before tax	155 bil VND	130 bil VND	+19.2%	12.3%
Consumption volume (tons)	5,400,000	4,339,209	+24.4%	
- Cement	4,150,000	3,710,419	+11.8%	
- Clinker	1,250,000	628,791	+98.8%	
Production volume (tons)	3,258,000	3,048,166	+6.9%	

The company explained the basis for setting production and high consumption plans in 2020 is due to the finish of repairing major plant failures and expanding the warehouse system in the main market to reduce transportation fee. However, we assess that keeping high production plan this year creates risks of large inventory, considering the effect of poor market consumption and that Long Son cement plant line 2 (equal to 58% of BCC's capacity) is about to operate in Thanh Hoa area soon. In the past, BCC had once suffer from a long period of high inventory during 2017 – 2018, which lead to a decline of nearly 90% in profit in 2 years, due to almost having to sell below production costs to avoid the expiration of the product. Thus, this reinforces our judgment about a bad scenario for BCC's operating results in the upcoming quarters.

2. Companies with high financial risks will face difficulty maintaining continous production activities

While not directly affected by the Covid-19, this group of companies is at greatest risk of insolvency in the current market situation. Pressure from high inventory and the slow growth on consumption in the remaining quarter could weigh heavily on the liquidity of an already weak financial position cement company.

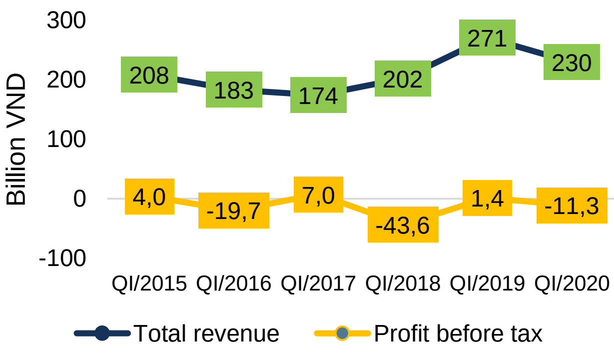
Group of companies with warning signs on liquidity and financial position



Source: Companies' financial statements in 2018 - 2019, Vietnam Cement Association, FPTS research

Quang Ninh Cement JSC (HNX: QNC)

QNC's operating results in first quarter over the last 5 years *(Source: QNC, FPTS estimate)*



QNC has a very risky financial position, mainly due to the excessive use of debt during construction of the first factory, accompanied by an inappropriate market structure, which makes it difficult to repay debts. Currently, QNC has up to 681 billion VND of debt and 1,377 billion VND of liabilities, accounting for nearly 134% of total assets, of which short-term liabilities account for 81% of total debt. In the current situation, we assess that QNC may face many short-term difficulties in solvency, which could affect the companies' operations in the remaining period of the year.

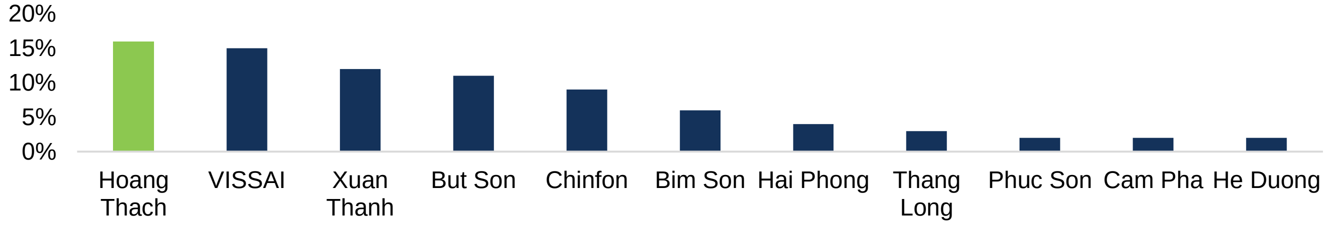
The company do not provide any justification for its operating plan this year. However, QNC said that the first quarters of the year were seriously affected by the Covid-19 epidemic due to a part of export volume (estimated at 20-25% of factory consumption) exported to China facing serious decline. As for debts plan, the company is negotiating with banks to extend loans due in June this year or restructure new loans. In the worst-case scenario, if the debt cannot be extended, it will be difficult for the companies to continue operating. Currently, QNC has 98 billion VND of liabilities (accounting for 7% of total liabilities) that are overdue at December 31st, 2019.

QNC's annual operating plans for financial year 2020 *(Source: QNC, FPTS research)*

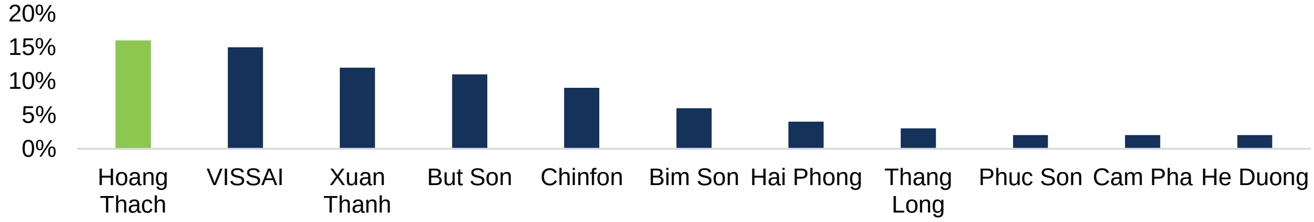
	2020 Plan	Actual 2019	YoY Growth	% 2020 target achieved
Revenue	866 bil VND	800 bil VND	+8.3%	26.5%
Profit before tax	29 bil VND	73 bil VND	+51.8%	0%
Consumption volume (tons)	1,080,000	1,059,720	+2.0%	24.1%
- Cement	800,000	680,789	+17.6%	
- Clinker	280,000	378,930	-25.9%	
Production volume (tons)	800,000	681,341	+17.4%	

3. Companies with strong domestic market share and stable financial position will be best to recover and likely to expand domestic market share

Market share of Northern companies



Market share of Southern companies

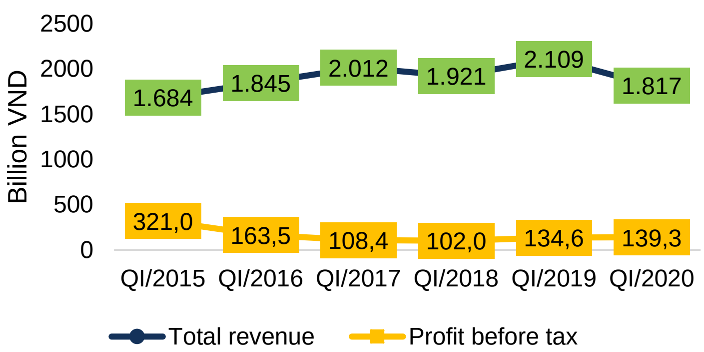


Source: Vietnam Cement Association, FPTS research

Northern and Southern markets are the two largest cement consuming markets in Vietnam, with demand focused mainly in the two main regions of the Red River Delta and the Southeast (accounting for 48% of total Vietnam domestic consumption). Leading the market share of both regions are companies with large domestic market share and strong advantages in the domestic distribution system, technology or production costs. These are companies that were less affected during the Covid-19 epidemic, as well as the group of companies that could have the potential to expand its market share and take ease to recover after the pandemic

VICEM Ha Tien Cement JSC (HSX: HT1)

HT1's operating results of the first quarter in the last 5 years *(Source: HT1, FPTS research)*



QI 2020 operating results of HT1 face a significant drop in revenue with a decrease of 13.8% YoY because of delayed contract to major infrastructure site in HCM city as contractor stop construction during the pandemic outbreak and postponed FDI contract in Binh Duong province. However, HT1's net profit still up 3% YoY as because of decreasing coal price imported from Australia. The company still maintains its market share in QI 2020 at 33%, which is equal to market share in QIV 2019.

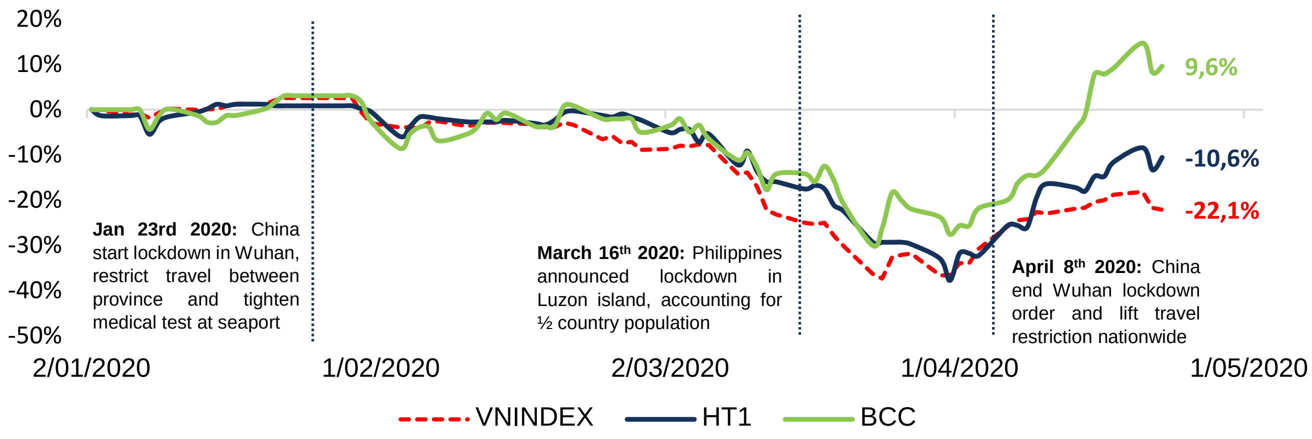
In the official operating plan of HT1, the company has adjusted down revenue target to drop 3% YoY (from previous estimated target of 10% YoY revenue growth), and profit drop 11% YoY. In this year, HT1's business operation can face certain risks including: (1) Sharp decline in industrial construction in Binh Duong due to unrealized FDI projects and (2) Competitive pressure from FICO Tay Ninh and An Phu new cement plant which come into operation in the Southern market this year. The company has planned to expand production capacity in upcoming years by building additional cement grinding stations in Long An, but will temporarily suspend commencement of new projects in this year to ensure a stable source of working capital to face difficult situation of the market.

HT1's annual operating plans for financial year 2020 *(Source: QNC, FPTS research)*

	2020 Plan	Actual 2019	YoY Growth	% 2020 target achieved
Revenue	8,839 bil VND	8,854 bil VND	-2.88%	20.5%
Profit before tax	928 bil VND	830 bil VND	-10.56%	14.9%
Consumption volume (tons)	7,780,000	7,723,490	+0.7%	19.8%
- Cement	7,280,000	7,280,944	-0.01%	
- Clinker	500,000	442,546	+12.98%	
Production volume (tons)				

II. Industry investment recommendation

Price volatility of major listed cement companies



With the analysis, although Covid-19 is started to get under control in Vietnam and other countries around the world, we have a very low expectation for the recovery of shares of cement companies in the remaining period of 2020. Although the share price of cement companies has decreased by an average of 20-30% since the beginning of the year, partly reflecting the expectation about the impact of the disease on operating results, we recognize no prospects for the quick recover of the cement market in the second half of 2020. Therefore, we recommend **NOT TO INVEST** in shares of cement companies until the end of 2020.

Disclaimers

All of the information and analysis in this report made by FPTS based on reliable, public and legal sources. Except for information about FPTS, we do not guarantee the accuracy and completeness of these informations.

Investors who use this report need to note that all of judgments in this report are only subjective opinions of FPTS. Investors have to take responsibility for their decisions when using this report.

FPTS might make investment decisions based on information in this report or others and do not have any claim on the legal perspective of given informations.

By the time of publishing the report, FPTS holds 203 shares of BCC, 60 shares of HOM, 189 shares of QNC, 126 shares of HT1, 0 shares of YBC, 0 shares of PTE, 401 shares of BTS and the analyst, report approver does not hold any share of the subject company.

FPT Securities Joint Stock Company

Head Office
No. 52 Lac Long Quan, Buoi Ward,
Tay Ho District, Hanoi, Vietnam.
Tel: (84.24) 3 773 7070 / 271 7171
Fax: (84.24) 3 773 9058

FPT Securities Joint Stock Company

Ho Chi Minh City Office
3rd Floor, Ben Thanh Times Square Building, 136-138 Le Thi Hong Gam, District 1, Ho Chi Minh City, Vietnam.
Tel: (84.28) 6 290 8686
Fax: (84.28) 6 291 0607

FPT Securities Joint Stock Company

Da Nang Office
3rd Floor, Trang Tien Building, 130 Dong Da, Hai Chau District, Da Nang City, Vietnam
Tel: (84.236) 3553 666
Fax: (84.236) 3553 888