

## Vietnam

**ADD** (previously NOT RATED)

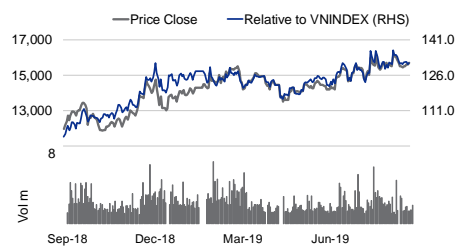
Consensus ratings\*: Buy 6 Hold 1 Sell 0

Current price:	VND15,700
Target price:	VND17,500
Previous target:	N/A
Up/downside:	11.5%
CGS-CIMB / Consensus:	-2.9%
Reuters:	KBC.HM
Bloomberg:	KBC VN
Market cap:	US\$317.7m
	VND7,375,235m
Average daily turnover:	US\$1.51m
	VND35,062m
Current shares o/s:	475.7m
Free float:	37.0%

\*Source: Bloomberg

**Key changes in this note**

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.9	8.7	31.4
Relative (%)	0.9	4.9	31.6

Major shareholders	% held
Dang Thanh Tam	16.0
Kinh Bac Consulting and Investment	9.6
Dragon Capital	5.6

**Analyst(s)**

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# Kinh Bac City Corp

## A giant has awoken

- KBC has established itself as an iconic brand name and owns the second-largest land bank among listed industrial park operators in Northern Vietnam.
- We expect KBC to deliver stellar EPS growth of 18.7% in FY19-20F, driven by a rise in earnings from the industrial property and residential businesses.
- We initiate coverage with an Add rating and TP of VND17,500, with 11.5% potential share price upside plus 3.2% FY19F remaining dividend yield

### Leading Northern IP operator with the second-largest land bank

We believe KBC is well positioned to capture the growing demand for industrial properties (IPs), triggered by a surge in FDI in Vietnam's Northern region because: 1) KBC has several tech giants in its tenant portfolio, with its Que Vo and Trang Due IPs as the local manufacturing hubs for South Korean tech companies like Samsung Electronics Vietnam and LG Electronics, and 2) it has the second-largest land bank (864ha) among listed peers in Northern Vietnam.

### Residential property to be a key revenue growth driver in FY19-20F

We forecast residential property revenue CAGR of 256% in FY19-20F on the back of: 1) FY19F revenue of VND798bn (+759% yoy) from the delivery of 4.4ha land lots in Phuc Ninh and Trang Due townhouse projects, and 2) FY20F revenue of VND1,185bn (+48% yoy) from the handover of the remaining 7ha for these projects. We expect residential property to make up 22-28% of total revenue in FY19-20F. Meanwhile, we project industrial property to enjoy healthy rental rate growth of 7-10% p.a. and rising demand for land area of 10-20% p.a. over FY19-20F. Overall, we expect KBC to deliver a stellar EPS CAGR of 18.7% in FY19-20F.

### Corporate governance is a major concern

In our opinion, the company's assets are managed ineffectively as: 1) it invested in the Trang Cat townhouse project in 2012, which is valued at VND3,505bn and is KBC's largest inventory component, but has yet to monetise this project due to unfavourable market conditions, and 2) it made non-core investments valued at VND2,800bn in 2011-13. However, we note that KBC made its first dividend payment since listing in Jul 2019 (5% of par value), which we consider a positive sign.

### Initiate coverage with an Add and TP of VND17,500

Our TP is based on a 10% discount to end-2Q19 RNAV; we factor in a 20% discount to BV for the idle Trang Cat townhouse project and the cash flow to be generated from the industrial and residential properties (17.6% WACC rate). Our Add rating is based on: 1) its established IP operations in Northern Vietnam and well-known tenants in the tech sector, and 2) strong EPS CAGR of 18.7% over FY19-20F (based on our estimates). Potential catalysts: 1) faster IP or residential land sales rate, and 2) approval for the Trang Due 3 IP. Downside risks: 1) lower sales, and 2) delays in booking Phuc Ninh

**Financial Summary**

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues (VNDb)	1,260	2,490	3,666	4,343	3,278
Operating EBITDA (VNDb)	473	1,161	1,413	1,696	1,316
Net Profit (VNDb)	585	746	841	1,052	800
Core EPS (VND)	1,244	1,587	1,790	2,239	1,702
Core EPS Growth	4.9%	27.5%	12.8%	25.1%	(24.0%)
FD Core P/E (x)	12.62	9.89	8.77	7.01	9.22
DPS (VND)	0.0	0.0	1,000.0	0.0	0.0
Dividend Yield	0.00%	0.00%	6.37%	0.00%	0.00%
EV/EBITDA (x)	21.01	8.58	6.97	4.51	4.64
P/FCFE (x)	34.19	NA	13.12	3.34	4.39
Net Gearing	24.5%	22.5%	18.9%	(3.8%)	(16.9%)
P/BV (x)	0.89	0.82	0.78	0.71	0.66
ROE	7.3%	8.6%	9.1%	10.6%	7.4%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)			0.98	1.07	0.78

SOURCES: VND RESEARCH, COMPANY REPORTS

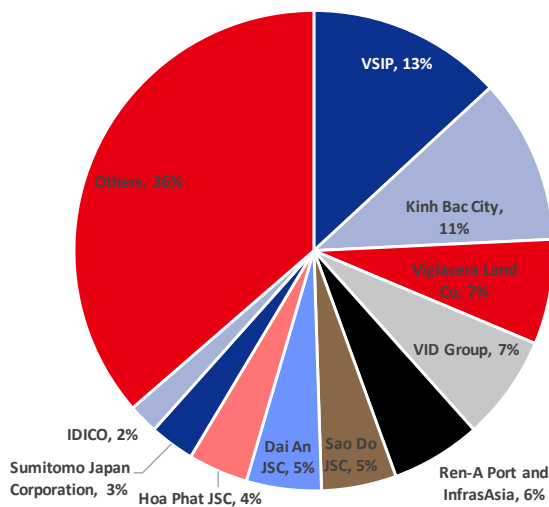
## A giant has awoken

### KBC is well positioned to ride on the buoyant Northern Vietnam industrial property market

#### Leading IP operator in Northern Vietnam with a strong portfolio of tech giant tenants ➤

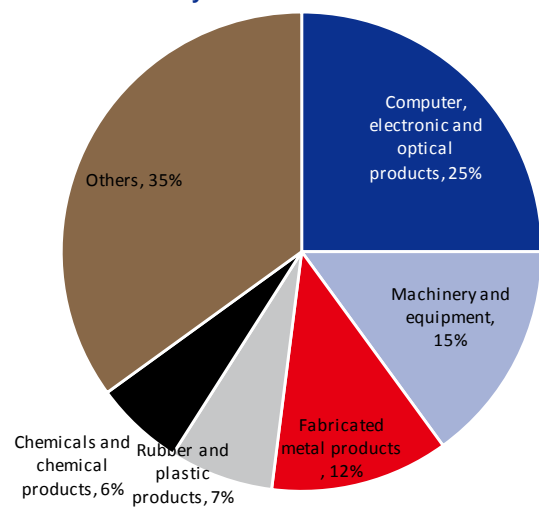
KBC was one of the first movers in the IP market in Northern Vietnam, and helped turn the region into a hi-tech manufacturing hub. KBC's Que Vo 1 and Que Vo 2 IPs in Bac Ninh province have been the primary manufacturing facilities for Samsung Electronics Vietnam [SEV, a subsidiary of Samsung Electronics (005930 KS, Add, TP: W54,000)] since 2008 and Samsung Display Vietnam [a subsidiary of Samsung SDI (006400 KS, Add, TP: W34,500)] and its vendors since 2014. Meanwhile, Trang Due 1 IP and Trang Due 2 IP in Hai Phong city have become the primary manufacturing facilities for LG Electronics (066570 KS, Add, TP: W90,000) and its satellite companies since 2013. These well-known tech giants have helped KBC reach full occupancy and turned the company into the second-largest IP operator, with about 11% market share in Northern Vietnam as at end-2017.

**Figure 1: Industrial land market share in Northern Vietnam, by property company at end-2017 – KBC had the second-largest market share**



SOURCES: JLL

**Figure 2: Northern IP tenants by industry – Northern IPs are a tech hub, with the highest percentage of leased area for the computer and machinery sector at end-2017**



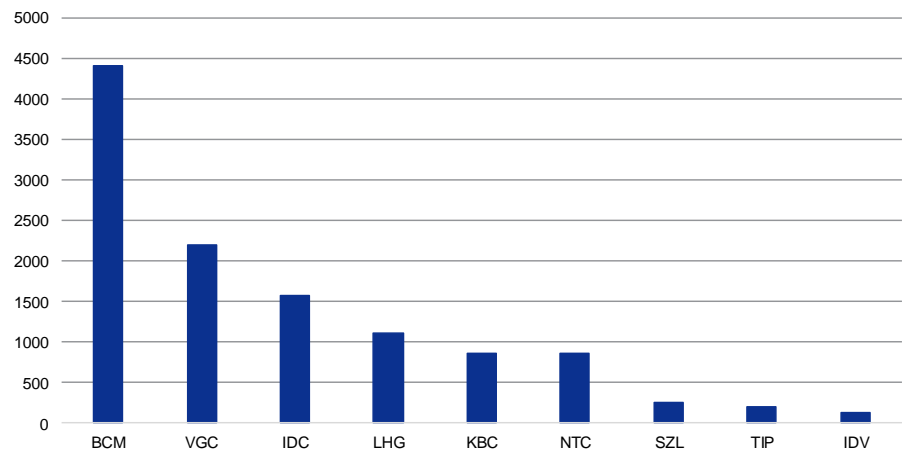
SOURCES: JLL

#### The second-largest listed property company in terms of land bank ➤

KBC is the second-largest listed property company in terms of land bank in Northern Vietnam but is the fifth-largest company in terms of total land bank in Vietnam among listed players. The company's biggest rival in Northern Vietnam is Viglacera Corporation (VGC, Unlisted). As at end-FY18, KBC's total land bank was 408ha, including Quang Chau IP (128ha), Tan Phu Trung IP (200ha) and the upcoming Nam Son Hap Linh (NSHL) IP phase 1 (66ha). We expect these IPs to be key revenue contributors to land sales in 2019-25F since the Que Vo and Trang Due IPs are currently running at full capacity.

Despite not being a highly sought-after base for tech giant tenants like the Que Vo and Trang Due IPs, we still expect the Quang Chau, Tan Phu Trung and upcoming NSHL IPs to generate healthy rental growth in 2019-21F. Since the NSHL IP is located near the Que Vo 1 and 2 IPs, we think it would meet the excess capacity demand from existing tenants at the Que Vo IPs and achieve good rental rates. We expect the Quang Chau IP to meet capacity demand from JA Solar Group (Unlisted) and other small businesses.

**Figure 3: Land bank (ha) by company at end-2018**



Note: Becamex IDC Corp (BCM), Viglacera Corporation (VGC), Vietnam Urban and Industrial Park Development and Investment Corporation (IDC), Long Hau JSC (LHG, Not Rated), Nam Tan Uyen Industrial Park Development JSC (NTC), Long Thanh Sonadezi JSC (SZL), Tin Nghia Industrial Park JSC (TIP, Not Rated), Vinh Phuoc Infrastructure Development JSC (IDV, Not Rated)  
SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 4: Location of KBC's industrial parks**



SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 5: KBC's industrial parks that were operational at end-2018**

IP name	Venue	Start	Total NLA (ha)	Remains (ha)	Rent (US\$/sq m/term)	Targeted clients	Advantage
Que Vo 1	Bac Ninh	2003	192	5	65	SEV and its supporting companies	Well-connected to sea ports, main highway
Que Vo 2	Bac Ninh	2006	171	2	73	SEV's supporting companies	
Nam Son Hap Linh (phase 1)	Bac Ninh	2019	66	66	75	Meeting the expansion demand from the existing tenants in Que Vo IPs	Close to Que Vo Ips, and has massive land bank available for rent to
Trang Due 1	Hai Phong City	2008	129	1	80	LG Electronics Corporation and its supporting companies	Located in economic triangle Hai Phong-Quang Ninh-Ha Noi with various incentives
Trang Due 2	Hai Phong City	2015	133	5	85	LG's supporting companies	Located in economic triangle Hai Phong-Quang Ninh-Ha Noi with various incentives
Quang Chau	Bac Giang	2006	275	128	62	JA Solar Group, other small-medium business	Average rents are comparatively cheap and abundant land bank for rent
Tan Phu Trung	HCMC	2010	314	200	70	A wide range of business	Close to huge manufacturing and consumption markets like Dong Nai, Long An, Binh Duong and big land bank for rent
<b>Total</b>			<b>1,280</b>	<b>408</b>			

SOURCES: VND RESEARCH, COMPANY REPORTS

Of its 408ha net leasable area (NLA), KBC has abundant raw land bank in the pipeline, which is in the midst of the compensation process, under construction or awaiting government approvals. KBC has completed the filings to obtain government approval for the Trang Due 3 IP in Hai Phong City and is expected to get the results this year. If successful, Trang Due 3 will increase KBC's land bank by 112% and would drive land sales revenue over 2020-25F, thanks to its strategic location in the economic triangle of Hanoi-Hai Phong-Quang Ninh, where the government offers various business incentives. The two upcoming IPs are undergoing the compensation process and are expected to be ready in 2021F. Due to limited ownership, KBC is unlikely to benefit much from these IPs, in our opinion.

**Figure 6: Industrial parks under development by KBC**

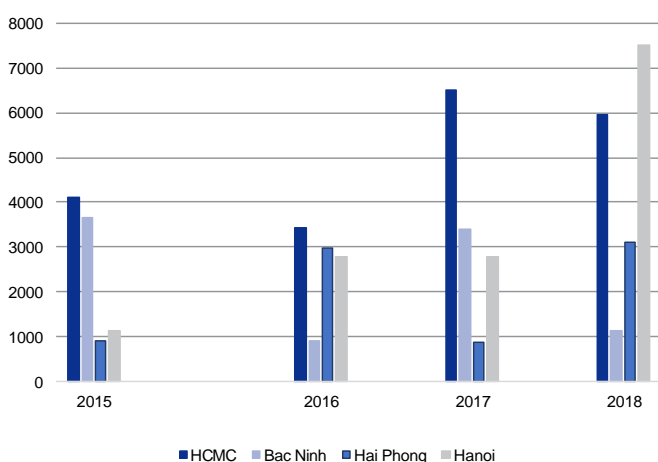
Industrial park	Location	Ownership	Total NLA Remaining		Note
			(ha)	NLA (ha)	
Trang Due 3	Phong City	87%	456	456	Not yet approved by Prime Minister
Saigon-Chan May	Hue	28%	586	586	Under compensation and construction
Saigon-Nhon Hoi	Binh Dinh	10%	445	401	Under compensation and construction

SOURCES: VND RESEARCH, COMPANY REPORTS

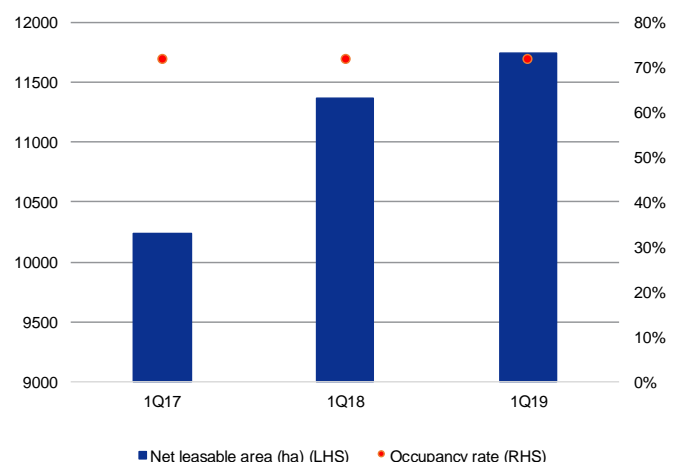
### Buoyant industrial estate business outlook; the North takes the spotlight ➤

Billions in FDI flowed into the Southern provinces in the 1990s. Since then, several areas in the Northern region (led by the cities of Hanoi, Hai Phong and the province of Quang Ninh) have successfully attracted new FDI in the tech industry. Most tenants have poured in funds for manufacturing or assembling computers, electronic/optical products, machinery and equipment, with their combined investment value making up 40% of the total registered capital as at end-2017. The Northern port city of Hai Phong and Bac Ninh province ranked among Vietnam's top three recipients of FDI in 2015-18. The two regions have become core industrial hubs, thanks to rising FDI inflows, which have helped to transform the industrial landscape across Northern Vietnam. We estimate the occupancy rate in Northern Vietnam stood at 72% in 2017 to 1H19, while industrial land supply grew by 7% p.a. between 1Q17 and 1Q19. At the same time, the Northern Vietnam land price registered a steady increase of 7-12% p.a. In 1Q19, average land price rose 7.65% yoy to US\$93/sq m/lease term.

**Figure 7: Hai Phong, Bac Ninh among top three FDI recipients in 2015-18 (US\$ m)**



**Figure 8: KBC's net leasable area and occupancy rate – Increasing demand drives sustainable occupancy rates despite expanding capacity in the Northern region**



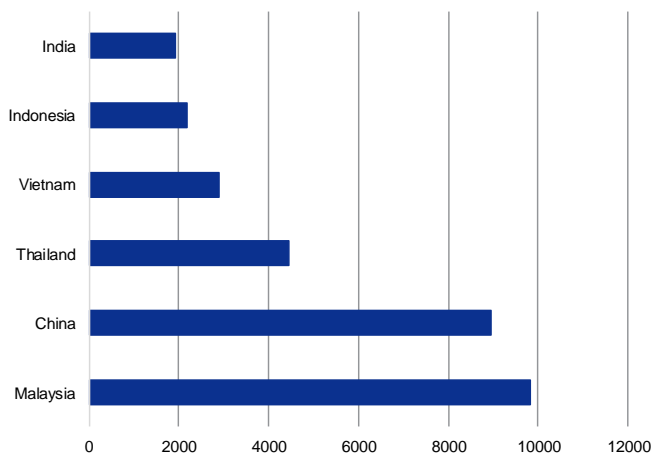
In the near future, we expect industrial land prices in the region to continue to rise, given the robust demand for high-quality, ready-built warehouse/factory space, as well as industrial land from FDI and Vietnamese businesses.

In our opinion, the investors are drawn to Northern Vietnam due to:

- a) Favourable business environment, with low manufacturing cost, attractive free trade agreements (FTAs) and government support.

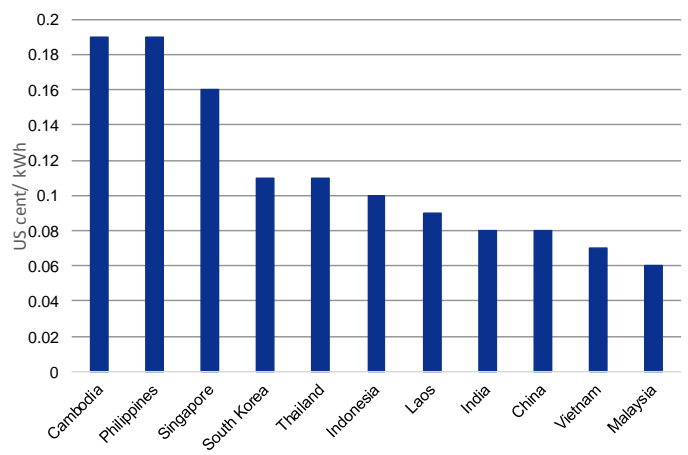
The low operating cost in Vietnam is a major attraction for foreign investors. The rising foreign investment is likely aided by the following facts: 1) Vietnam's average foreign annual salary at end-2017 was US\$2,880, or just one-third the average wage in China and lower than that of Thailand; 2) industrial land rental rates of US\$65-125/sq m/lease term in Hanoi are compelling versus those in the Philippines (US\$152-190/sq m/lease term in Manila, based on Colliers International estimates), which is a less-established manufacturing hub but a regional competitor in manufactured exports; 3) Vietnam cut its Corporate Income Tax (CIT) to a flat rate of 20% in 2016 from 22% previously to boost its competitiveness. The country also grants tax incentives for projects in disadvantaged areas or in sectors prioritised by the government. Vietnam has become a manufacturing hub for textiles, garments, footwear and electronics, as these sectors are eligible for a 10% tax incentive over 15 years, and these sectors are labour intensive and energy consuming by nature. As a result, Vietnam has a natural competitive edge due to strong incentives for FDI.

**Figure 9: Average annual salary by country – Vietnamese workers' annual salary (US\$) is among the lowest in Asia as at 2017**



SOURCES: TRADING ECONOMICS

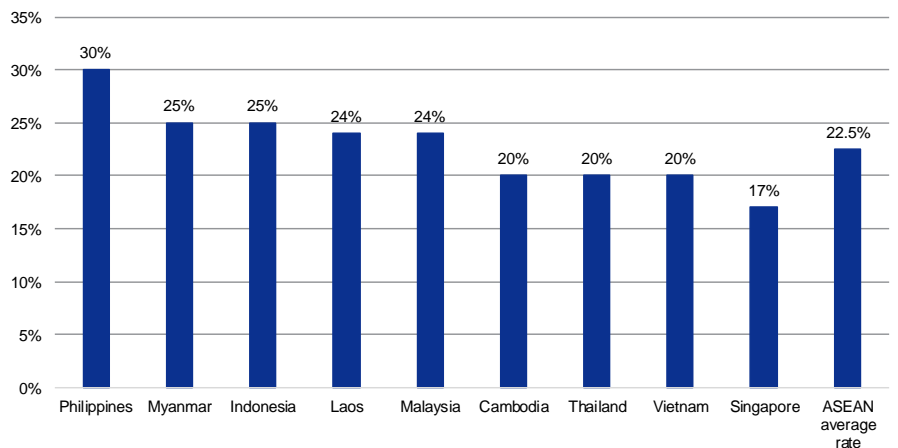
**Figure 10: Electricity price by country – Vietnam's electricity prices at end-2018 were one of the region's lowest**



SOURCES: COLLIERS INTERNATIONAL

**Figure 11: Vietnam's CIT rate is lower than the ASEAN average (2017)**

Vietnam also grants tax incentives (in two forms of preferential tax rates – reduced tax rates and tax holidays – for a certain period of time or throughout the project life) for projects in disadvantaged areas or in priority sectors targeted by the government such as high-tech electronics manufacturing.



SOURCES: VNDIRECT

**Figure 12: Vietnam's range of industrial land prices (4Q18) is compelling compared to those of other countries in the ASEAN region**

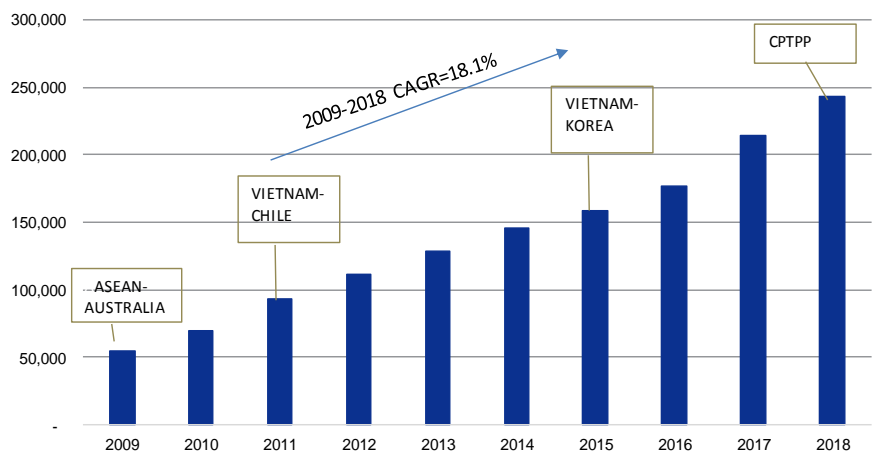
Country	Location	Average US\$/sq m/lease term	Lease term
Thailand	Bangkok, Samut Prakarn, Pathumthani, Nonthaburi, Nakorn Pathom, Samut Sakorn	257.9	Maximum 50 years
China	Beijing, Tianjing	422	Maximum 40 years
	Shanghai, Nanjing	383.7	
	Chengdu, Chongqing	123.3	
	Guangdong, Shenzhen	68.9	
Malaysia	Shah Alam	301.4	Maximum 30 years
	Port Klang	161.5	
	Seremban, Negeri Sembilan	148.6	
	Johor Bahru	200.2	
Philippines	North of Metro Manila	152	Maximum 50 years
	South of Metro Manila	190	
	Cebu	95	
Singapore	Plot ratio 1	209	30 years or 60 years
	Plot ratio 2	343	
Vietnam	Tu Liem Hanoi City	125	Maximum 50 years
	Thach That Hanoi City	65	

SOURCES: COLLIERS INTERNATIONAL (4Q18)

FTAs give Vietnam access to huge markets. The country's exports to the EU market are expected to jump, following the signing of the EU-Vietnam Free Trade Agreement (EVFTA) in Jun 2019, after it concluded the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in Mar 2019. Once the tariff reductions under these FTAs come into effect, Vietnam will have an advantage in enjoying import-export tariffs of close to 0% when dealing with new markets in Mexico, Peru, Canada and the European Union. Vietnamese businesses in wood processing, textiles, agricultural products and electronic products could boost their shipments of manufactured products to these markets.

**Figure 13: Vietnam's exports (US\$ m) boosted by FTAs**

*The potential success in trade offered by FTAs is subject to Vietnam's ability to take a chance and overcome challenges. We believe that companies in Vietnam are able to reap the benefits from FTAs as we have seen export markets created by FTAs underpin the country's impressive trade results over the past two decades.*



Note: Comprehensive And Progressive Agreement For Trans-Pacific Partnership (CPTPP)  
SOURCES: VND RESEARCH, COMPANY REPORTS

The Vietnamese government aims to build a major economic zone in Northern Vietnam comprising Hanoi, Hai Phong and Quang Ninh by creating a favourable environment for businesses, with various incentives offered to industrial parks and economic zones. As such, investors working in the Hai Phong Economic Zone will receive preferential treatment when setting up operations compared to other regions.

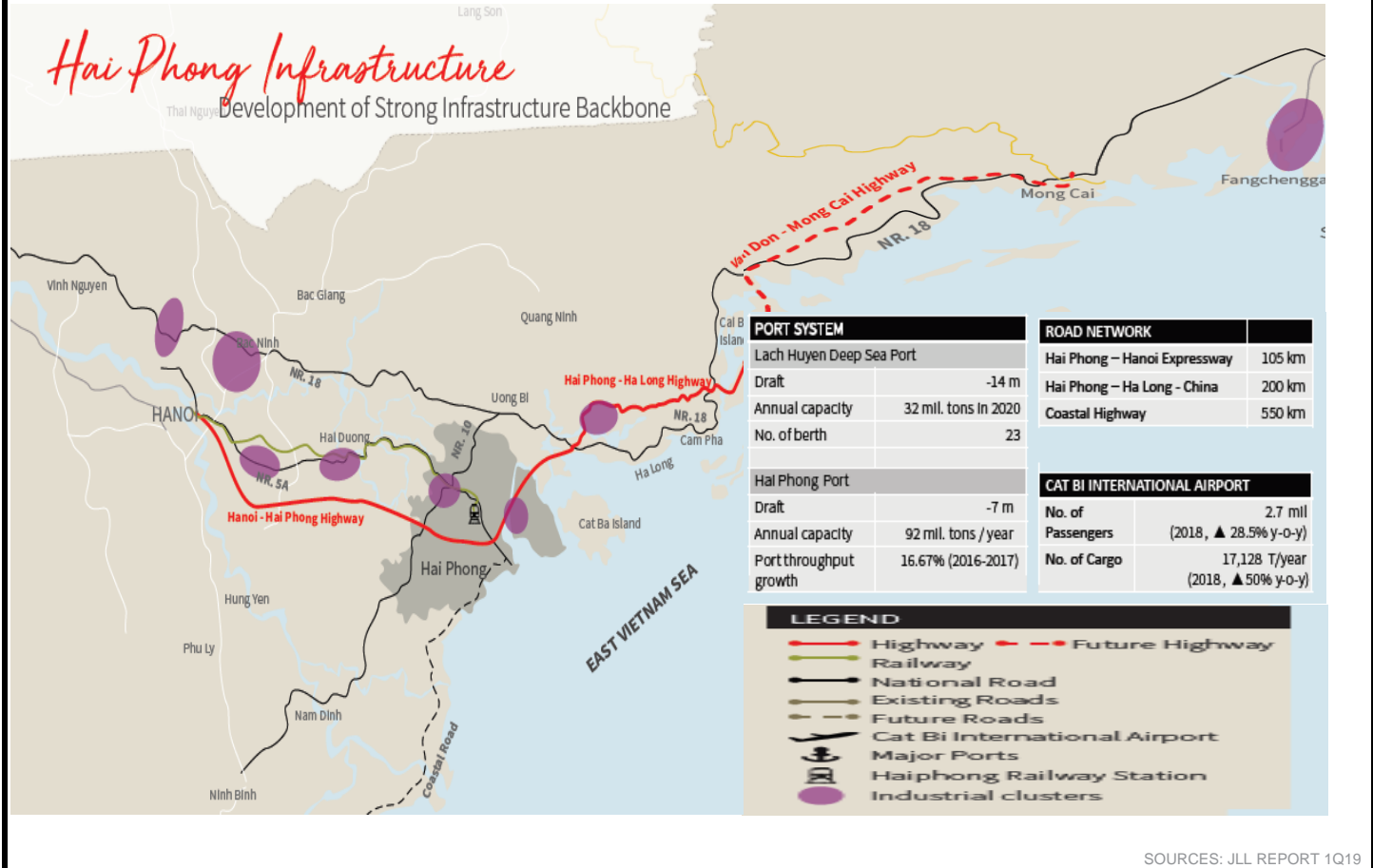
**Figure 14: Tax incentives offered by Hai Phong Economic Zone**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	
General case	10%															20%				
Special case 1: Get taxable income for the 1st year	0%			5%						10%			20%							
Special case 2: No taxable income for the first three years	0%		0%				5%					10%		20%						

SOURCES: VND RESEARCH, COMPANY REPORTS

b) Strategic location, with increasing investment in infrastructure  
Given that Hai Phong city lies just 200km south of the border between China and Vietnam, the city is widely regarded as the China+1 manufacturing base in ASEAN to take advantage of the China-ASEAN FTA. Besides, Northern Vietnam is well connected to regional and global markets through a wide network of air, water and land transportation. In terms of sea ports, the region hosting the port cluster in Hai Phong handles about one-third of the country's total sea cargo. The government recognises that infrastructure is a crucial element for leveraging economic development and has allocated resources to modernise and improve transportation infrastructure. Recently, Hai Phong's infrastructure was significantly boosted by the completion of three core projects, namely the Hanoi-Hai Phong Expressway, the Tan Vu-Lach Huyen Highway, and the Dinh Vu-Cat Hai Bridge. While there is still a lack of well-developed infrastructure in North Vietnam, the government is making constant improvements in the transportation network as it seeks to position the Northern region as a regional manufacturing hub and aims to stir up more investment interest.

**Figure 15: Hai Phong is gearing up to become an internationally-recognised trading hub**



c. US-China trade war bolsters Vietnam's position as an alternative sourcing hub.

We believe multinational corporations usually consider a medium- to long-term perspective in terms of investment before relocating their production bases.

However, we believe diversifying production facilities is a better way to offset the rise in business volatility. In reality, some companies are already moving their manufacturing facilities out of China. We expect Vietnam to increase export volumes of electrical/machinery and textiles, while Thailand gains share in electrical and auto part exports over the longer term, as we mentioned in our ASEAN strategy report titled “Near-term pain for long-term gain” dated 19 Dec 2018. However, leasing demand could soften along with weakening market sentiment. The US-China trade tensions, or even the US-EU conflict and possible negative effects on global economic growth could prompt companies to be cautious and focus on integrating flexibility into their portfolios.

## **We forecast strong earnings growth in FY19-20F**

KBC achieved its highest-ever net profit in FY18, with revenue of VND2,491bn, up 99% yoy, and net profit of VND746bn, +27.5% yoy. If we exclude the financial income of VND354.8bn from a one-time transfer of a 4.2ha land lot in Pham Hung Street, Hanoi in 2017, net profit would have soared +147% yoy in 2018. The company’s robust earnings performance in FY18 was attributed to vigorous growth in land sales to 110.5ha, +165% yoy, with the Que Vo 2 IP (53.5ha) and Trang Due 2 IP (25.6ha) as the largest contributors. We expect the company to generate even stronger net profit growth momentum in 2019-20F.

### **Residential property business is key revenue growth driver ►**

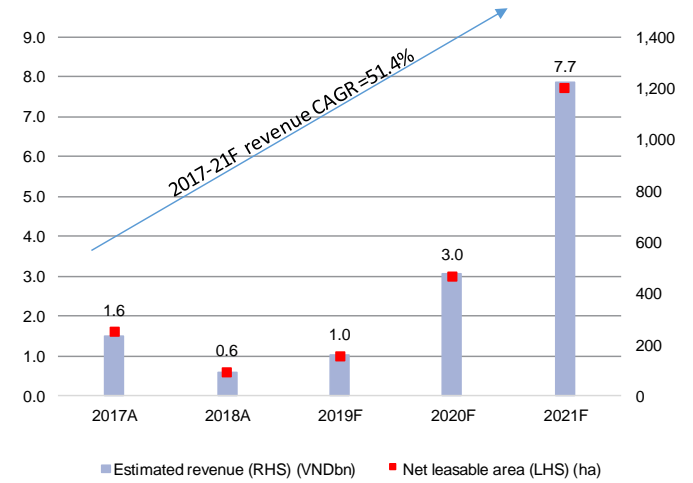
After an eight-year delay, the Phuc Ninh townhouse project in Bac Ninh province with a total of 136ha resumed construction in 2017. However, the project is now under investigation by Bac Ninh authorities due to possible violations in the Phuc Ninh 1/500 master zone. The investigation started in 2018 and KBC has been unable to hand over the lots under investigation to the buyers.

We expect KBC to resolve these alleged violations and obtain permission to deliver the land lots to buyers in FY19-21F. We forecast KBC to hand over 1ha of land lots in FY19F, valued at VND158.7bn revenue, which is below KBC’s target of 5ha of land lots handed over, valued at VND825bn revenue. In FY20 and FY21F, we project handover volumes of 3ha and 7.7ha, generating revenue of VND476.1bn and VND1,224bn, respectively.

Similar to the Phuc Ninh urban townhouse project, the Trang Due urban project, with total gross area of 42ha, has been put on hold since 2015 due to unfavourable market conditions. KBC plans to resume phase 1 of the project in 3Q19, comprising 176 shophouses and 140 land lots. We believe that the Trang Due project would attract homebuyers’ interest as it is close to the Trang Due 2 IP, which is a popular residential area, and could offer lucrative investment opportunities. We expect KBC to record VND640bn revenue in FY19F through the delivery of 70 units of shophouses and 60 land lots. This, coupled with the Phuc Ninh townhouse project, would generate FY19F residential property revenue growth of +757% yoy to reach VND798.7bn (based on our estimates).

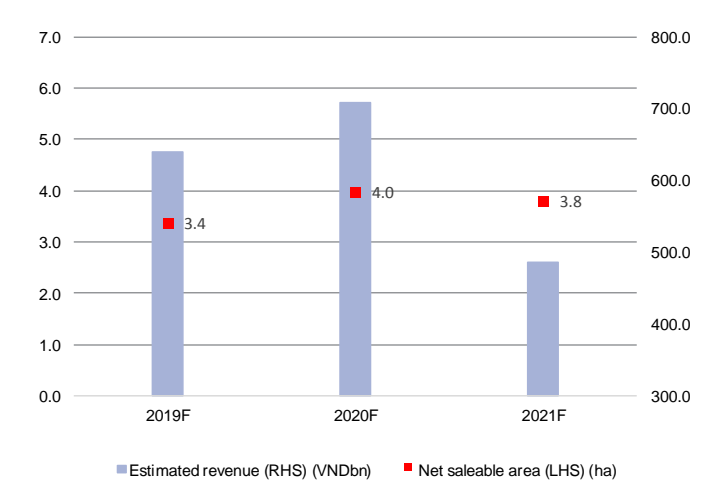


**Figure 16: Revenue and net leasable area from delivery of Phuc Ninh townhouse (phase 1) in FY19-21F**



SOURCES: VND RESEARCH ESTIMATES

**Figure 17: Revenue and net saleable area from the handover of Trang Due townhouse (phase 1) in FY19-21F**



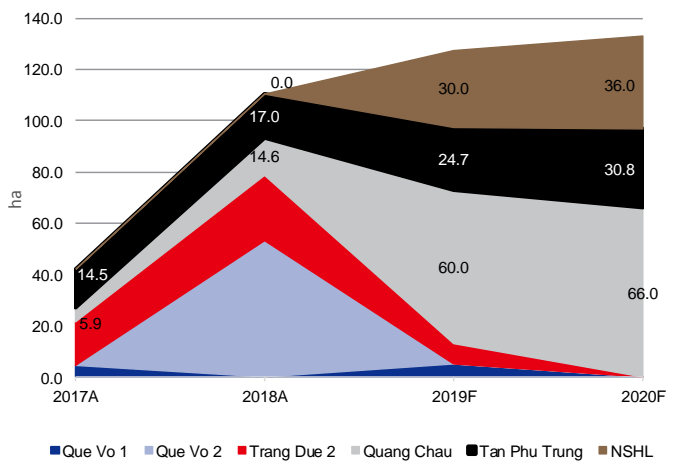
SOURCES: VND RESEARCH ESTIMATES

### Industrial estate to deliver double-digit land area growth in FY19-20F ➤

We expect KBC to deliver healthy industrial land area growth in FY19F of 127.7ha (+15.5% yoy), higher than KBC's target of 110ha. Its Que Vo and Trang Due IPs combined have limited land area of 10ha left as at end-FY18F, but we expect KBC's industrial land area to be boosted by new contribution of 30ha from the NSHL IP starting in 2H19, 60ha (+310% yoy) from the Quang Chau IP and 24.7ha (+45% yoy) from the Tan Phu Trung IP. We expect the Trang Due and Que Vo IPs to operate at full occupancy by 2020F and industrial land sales volume to expand by 3.9% yoy to 132.8ha in FY20F. We have not taken into account the contribution of Trang Due 3, as the company has not received the approvals from local authorities to launch the project yet.

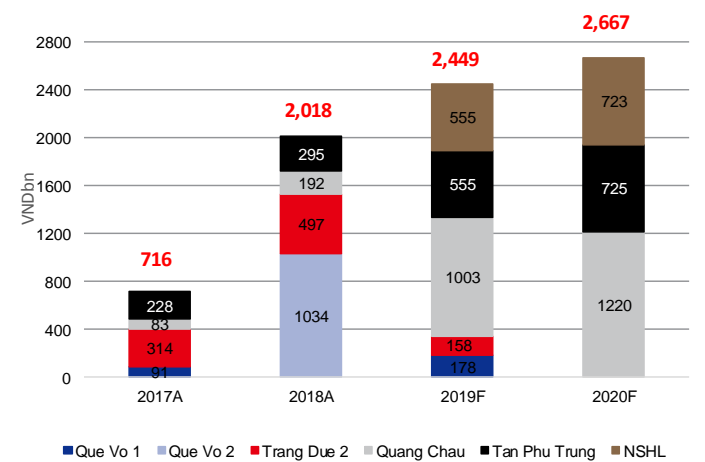
Together with average rental growth of 10-20% p.a. in Quang Chau and Tan Phu Trung IPs in FY19-20F to US\$72-100/sq m/lease term, we forecast industrial estate revenue of VND2,449bn (+21.3% yoy) in FY19F and VND2,667bn (+8.9% yoy) in FY20F.

**Figure 18: NSHL and Quang Chau IPs to contribute significantly to KBC's IP land sales in FY19-20F**



SOURCES: VND RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 19: Revenue of IP land sale business to be healthy in FY19-20F**

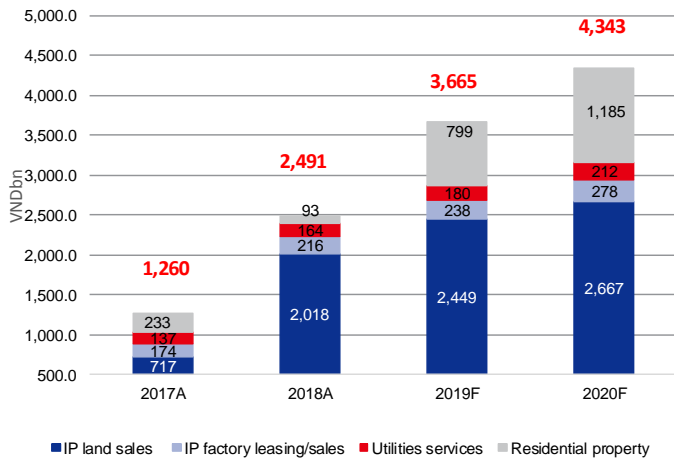


SOURCES: VND RESEARCH ESTIMATES, COMPANY REPORTS

## Strong FY19-20F net profit growth on the back of margin expansion ➤

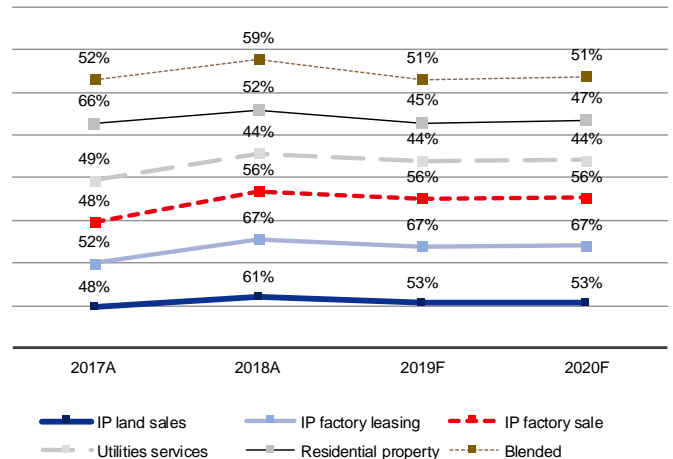
We expect KBC to achieve a revenue CAGR of 32.2% in FY19-20F, driven by a 256% CAGR for residential property revenue and 14% CAGR for industrial estate sales.

**Figure 20: KBC's revenue by business segment – Residential property business likely to be a key driver of revenue growth in FY19-20F**



SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 21: Blended gross margin (GM) – we expect GM compression in FY19-20F, mainly due to decline in IP land sales and bigger gross profit contribution from residential segment**



SOURCES: VND RESEARCH, COMPANY REPORTS

Some of our key assumptions for FY19-20F include: 1) blended gross margin falling to 51%, -8% pts vs. FY18, due to lower contribution from higher-margin land sales from the Que Vo and Trang Due IPs, as well as higher gross profit contribution from the residential land segment that offers lower margin than industrial land sales, and 2) stable SG&A-to-sales ratio in FY19-20F at 12.3%. Overall, we forecast FY19F net profit of VND841bn, +12.7% yoy, and FY20F net profit of VND1,051.7bn, +24.5% yoy. Compared to Bloomberg consensus estimates, we expect a higher gross profit contribution from Phuc Ninh townhouse project and more revenue growth from Tan Phu Trung IP and Quang Chau IP. However, we project FY21F net profit to drop 23.9% yoy to VND800bn, as we assume Quang Chau IP and NSHL IP would have reached full occupancy rate and we do not impute any net profit contribution from Trang Due 3 IP in FY21F.

**Figure 22: FY18 financial performance snapshot and our estimates for FY19-21F**

	2018A	2019F	2020F	2021F	Assumption
<b>IP land sales (ha)</b>	110.5	127.7	132.8	40.5	
Que Vo Ips	53.3	5			We expect Que Vo and Trang Due Ips would lease out the remaining land area in FY19F
Trang Due 2 IP	25.6	8			
Tan Phu Trung IP	17	24.7	30.8	38.5	Tan Phu Trung IP is forecasted to generate a better growth of 34% yoy in leased land per year over FY19-21F after several years of leasing around 15ha/year
Quang Chau IP	14.6	60	66	2	Quang Chau IP is projected to deliver more land sales following rising demand from both local and foreign companies and to reach 100% occupancy rate in FY21F
NSHL IP		30	36		We expect NSHL would be able to lease out within two years driven by its role to substitute the shortage of land of Que Vo industrial parks. As the company has not planned to launch the next phases of NSHL, we forecast no contribution from NSHL in FY21F.
<b>Residential land sales (ha)</b>					
Phuc Ninh project	0.6	1.0	3.0	7.7	
Trang Due project		3.4	4.0	3.8	
<b>Revenue (VNDbn)</b>	2,490.5	3,665.9	4,342.7	3,278.0	
IP land sales	2,017.8	2,449.2	2,667.4	1,033.9	
IP factory leasing/sales	215.8	238.0	277.8	282.5	We expect KBC would add 15,840 sq m of factory area to lease in Que Vo IP and sell 6 factories area in FY19F. In FY20F another 36,120 sq m in Quang Chau IP would be added for lease.
Utilities services	163.7	180.1	212.5	250.7	We project utility segment would maintain the same growth of 20% growth of 2016-18A in FY19F-21F
Residential property	93.2	798.7	1,185.1	1,710.8	
<b>Gross profit</b>	1,468.1	1,863.7	2,230.6	1,718.7	
Blended gross margin (GM)	59%	51%	51%	52%	
GM of IP land leasing	61%	53%	53%	56%	
GM of factory leasing	61%	53%	53%	56%	
GM of IP factory sales	56%	56%	56%	56%	
GM of utility services	44%	44%	44%	44%	
GM of residential property	52%	45%	47%	50%	
<b>SG&amp;A (VNDbn)</b>	-307	-451	-534	-403	We expect a stable SG&A to sale ratio in FY19-21F
Financial income (VNDbn)	92	69	82	82	In FY19F, KBC is going to pay a due debt of VND1,016bn and the average cash balance would be less to generate a higher interest income
Financial expense (VNDbn)	-194	-230	-216	-215	In FY19F, KBC is going to issue of VND800bn bond and would incur more interest expense
<b>Net profit (VNDbn)</b>	745	841	1,052	800	
Capex (VNDbn)	-247	-441	-43	-33	

SOURCES: VND RESEARCH ESTIMATES, COMPANY REPORTS

## Healthy financial performance in 1H19 ►

In 1H19, KBC's industrial land transfers increased 22% yoy to 63ha, making up 57% of the company's full-year target of 110ha and 49.3% of our FY19F estimate. The key drivers of the acceleration in land transfers were Tan Phu Trung IP (59% yoy) and Quang Chau IP (183%). In addition, thanks to 20% yoy increase in Quang Chau IP rental rates and higher proportion of Tan Phu Trung IP as a percentage of KBC's land transfers, which has higher rents (US\$85-100/sq m/lease term) compared to Quang Chau and Trang Due IP (US\$65-85/sq m/lease term), KBC's blended average rent rose 36% yoy to US\$93.9/sq m/lease term. As a result, industrial land revenue jumped 66% yoy to VND1,371.5bn in 1H19. Last but not least, KBC successfully sold three factories with total area of 15,480 sq m in 1H19, resulting in revenue of over VND100bn vs. nil from asset sales in 1H18. The other segments, including factory leasing and utility, also posted moderate revenue growth of 5-9% yoy in 1H19. Overall, 1H19 topline was VND1,570bn (+56% yoy), forming 40% of the company's FY19F target and 42.8% of our estimate.

**Figure 23: Results comparison**

FYE Dec (VNDbn)	2Q19	2Q18	% yoy chg	1H19	1H18	% yoy chg	As % of our FY19F estimate	Comments
<b>IP land sales (ha)</b>	47	16	190%	63	51	22%	49%	
Que Vo Ips		6.4		3.1	19.1	-84%		Que Vo IPs had a constrained NLA as they reached 99% occupancy ratio at end-FY18
Tan Phu Trung IP	12.9	4.1		19.6	12.3	59%		Tan Phu Trung IP recorded a stronger growth of 59% thanks to rising demand from the lessees
Trang Due 2 IP	2.4	2.0		8.3	8.8	-6%		Trang Due 2 IP had constrained NLA as it reached 99% occupancy ratio at end-FY18
Quang Chau IP	31.7	3.7		31.7	11.2	183%		Quang Chau IP held a hotspot destination fuelled by a huge flow of FDI into hi-tech sector in Thai Nguyen province
<b>Residential land sales (ha)</b>	0.0	0.6		0.0	0.6	-98%		
Phuc Ninh townhouse project	0.0	0.6		0.0	0.6			KBC was only able to handover around over 100 sqm townhouse land lot in 1H19, down 98% compared to 1H18
Trang Due townhouse project								
Average rents				93.9	68.8	36%		More contribution from higher rent in Tan Phu Trung and remarkable rent growth of 20% yoy in 1H19 in Quang Chau IP, helping average rents of KBC surge by 36% yoy
<b>Revenue (VNDbn)</b>	1,070.1	352.5	204%	1,569.9	1,003.8	56%	43%	
IP land sales	1,009.7	213.6		1,371.5	823.8	66%		
IP factory sales				100.1				Factory land sales grew tremendously as KBC sold three factories with a total 15,480 sqm in Quang Chau IP
IP factory leasing	-76.6	8.6		18.0	17.1	5%		
Utilities services	35.2	39.2		78.6	71.8	9%		
Residential property	1.7	91.1		1.7	91.1	-98%		Due to considerable slowdown in handover of townhouse land area in Phuc Ninh project, residential property revenue dropped sharply yoy in 1H19
Gross profit (VNDbn)	626.8	173.0	262%	868.1	541.7	60%		
Gross profit margin	59%	49%		55%	54%			
GM of IP land leasing				56%	55%			
GM of factory leasing				61%	57%			
GM of IP factory sales				68%				
Selling expenses (VNDbn)	32.5	13.4	142%	57.0	18.4	209%		KBC paid higher commission to boost the IP land sales
G&A expenses (VNDbn)	32.5	36.3	-10%	84.3	80.2	5%		
Operating profit (VNDbn)	561.9	123.4	355%	726.8	443.0	64%		
Financial income (VNDbn)	16.0	20.3	-21%	30.7	38.3	-20%		
Financial expense (VNDbn)	52.8	55.7	-5%	107.4	112.3	-4%		
Pre-tax profit (VNDbn)	522.8	84.8	517%	646.0	374.3	73%		
Profit after tax (VNDbn)	408.2	61.0	569%	511.5	291.1	76%		
Net profit (VNDbn)	300.20	60.55	396%	389.2	269.3	45%	46%	

SOURCES: VND RESEARCH ESTIMATES, COMPANY REPORTS

## Concerns over corporate governance

The company has yet to prove it can use assets efficiently, productively and in the best interest of its shareholders, in our view. We have concerns over how KBC evaluates investment opportunities, especially for some of its large investments. We believe these investments could incur significant interest expenses from loan financing and KBC would be restricted in its cash management options; for example, KBC was unable to make dividend payments until Jul 2019.

### No deadline for monetisation of illiquid asset ►

The 484.9ha Trang Cat urban townhouse project in Hai Phong, which KBC invested in since 2012 (valued at VND3,505bn), is the company's largest inventory component and has yet to be monetised due to unfavourable market conditions. We believe it may be a challenge for the Trang Cat project to attract homebuyers' interest because it is located far from the centre of Hai Phong and there is a lack of road infrastructure connecting the two areas. We view this investment as inefficient because: 1) it incurred capitalised interest of VND1,051bn as at end-FY18, which the company has postponed paying until

FY20F, and 2) this was the main reason that the company's share price traded below book value/share of VND19,232 at end-2018, in our view.

### Unproductive investments ➤

In 2012-13, the company made huge investments in associate companies but most of them have not generated profits for the company so far. The total accumulated losses incurred by these associate companies reached VND44.3bn at end-FY18 and the only profitable investment, Saigon Telecommunication Technology JSC (Unlisted), yielded a moderate return rate of 7.2% over FY17-18. We believe these investments should be liquidated in the near future to boost KBC's cash balance.

**Figure 24: KBC's investments in associates – Unproductive, in our view**

Company name	% Ownership	Investment value (VNDbn)	Associate's accumulated profit end-18 (VNDbn)	Associate profit in 2018 (VNDbn)	Rate of return in 2018
Saigon Telecommunication Technology JSC	21.5	224.9	(38.4)	16.3	7.2%
Saigon-Hue Investment JSC	28.1	203.9	(4.6)	(2.1)	
Saigon High-tech Zone Investment and Development	27.4	82.4	0.2	(0.0)	
Scanviwood JSC	34	5.8	(1.4)	(0.3)	
Saigon Quy Nhon Mineral JSC	5.7	339.0	-	-	
Saigon Da Nang Investment JSC	19.5	39.0	-	-	
Saigontel VTC Communication JSC	19.2	30.7	-	-	
Saigon-Ham Tan Tourism JSC	1.63	7	-	-	
<b>Total</b>		<b>932.6</b>	<b>(44.3)</b>	<b>13.9</b>	<b>7.2%</b>

SOURCES: VND RESEARCH, COMPANY REPORTS

We also view some of KBC's other investments with concern, given its receivables balance of VND1,866bn at end-FY18. We do not comprehend the rationale for holding onto these investments as they have not generated any profits for the company, and we do not believe that these decisions have been in the best interest of KBC's shareholders.

**Figure 25: Other investments in receivables balance at end-FY18 (VND bn)**

Company name	Amount	Note
Kinh Bac Service JSC	683.7	KBC transferred an investment of Saigon Binh Dinh Energy JSC to Kinh Bac Services JSC in 2015 but has not yet received the money back. KBC would charge a rate of 8% p.a. for deferred payment. A total amount of VND683.7bn includes the principal and accrued interest income.
Saigon Investment JSC	583.0	KBC transferred money to Saigon Investment JSC to invest in Le Minh Xuan IP Investment JSC in 2014. The investment procedure has not yet been completed so far.
Vien Dong Real Estate	600.0	KBC transferred money to Vien Dong Real Estate JSC in 2017 to co-invest in Vien Dong Meridian project in Da Nang City. However, Da Nang City's People Committee is about to withdraw the investment certification since it has been idle for over 10 years. KBC issued bond valued at VND480bn with 10.5% p.a. to finance this investment
<b>Total</b>	<b>1,866.7</b>	

SOURCES: VND RESEARCH, COMPANY REPORTS

## SWOT analysis

Figure 26: SWOT analysis for KBC

Strengths:	Opportunities:
1. Picked as a manufacturing hub by major hi-tech industrial players, e.g. Samsung and LG, KBC's IPs help attract satellite companies.	1 China continues to move away from labour-intensive industries and up the value chain, which has prompted companies' relocation to Southeast Asian countries. Given their short distance from China and geographical location, Vietnam's northern IPs will be the largest beneficiaries of this migration.
2. Location just outside Hai Phong city, a key transportation hub on the northern coast, with established sea transport and a deep-sea port in the area.	2 The US-China trade war could expedite the corporate shift from China to Vietnam.
3 Its close proximity to China helps attract large manufacturing enterprises to set up new factories/warehouses/logistics space in the region.	
Weaknesses:	Threats:
1 Non-core investment and inefficient assets are wasting KBC's resources	1 The trade war will raise the price of goods, which could slow global consumption and reduce exporters' output.
	2 Competition is rising as manufacturing hubs such as Laos and Myanmar have cheaper operating costs, while some Vietnamese IP operators offer lower land lease prices.

SOURCES: VND RESEARCH, COMPANY REPORTS

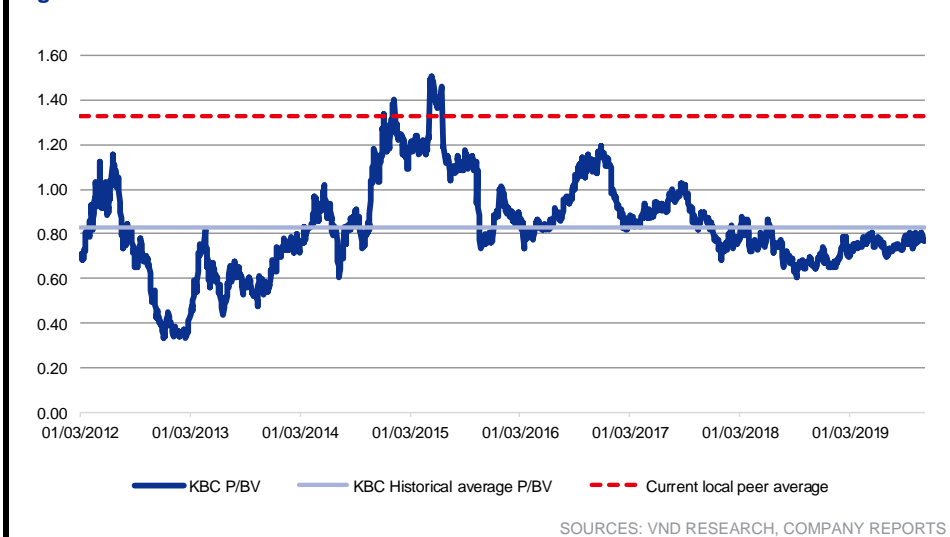
## Valuation and recommendation

### Initiate with an Add rating; potential 11.5% upside to TP of VND17,500 ➤

We initiate coverage on KBC with an Add rating and target price of VND17,500 (11.5% upside from the current share price), based on our end-2Q19 RNAV estimate.

The stock is currently trading at 0.78x FY19F P/BV, which is 7.2% lower than KBC's historical 7-year average P/BV of 0.83x. We believe the contraction in the P/BV multiple is reflective of investors' dismay towards dilutive investment decisions made by management during 2012-13 as we discuss above.

Figure 27: KBC's P/BV



SOURCES: VND RESEARCH, COMPANY REPORTS

Since the company has yet to launch the Trang Cat townhouse project and has been unable to monetise it due to unfavourable market conditions, we factor in a 20% discount to B to reflect the value of the asset. As for the industrial parks, we discount all the cash flow generated from land sales of residential and industrial projects at a 17.6% WACC rate. Furthermore, to reflect project execution risk or the risk of projects not being fully sold due to uncertain market conditions vs our projection, we apply a 10% discount to our RNAV estimate. Our RNAV-based target price is VND17,500, which offers potential upside of 11.5% to the current share price. This, coupled with dividend yield of 3.2% in 4Q19F (for the remaining dividend payment at 5% at par value), leads us to estimate total returns of 14.7% over the next 12 months. Therefore, we initiate coverage on KBC with an Add rating.

**Figure 28: Cost of equity**

Cost of equity	
Beta	1.3
Risk free rate %	5
Equity risk premium %	11
<b>Cost of equity %</b>	<b>19.1</b>

SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 29: WACC**

%	
Cost of debt	10.5
Target debt to capital	13.1
Tax rate	22.6
<b>WACC</b>	<b>17.6</b>

SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 30: RNAV (end-2Q19) and target price**

Commercial Name	Project name	BV as at 2Q19 (VND bn)	Premium (VND bn)	Fair value (VND bn)	Ownership	Net Fair value (VND bn)	Method	Notes
Que Vo 1	First Que Vo IP	57.0	121.0	178.0	100%	178.0	DCF	
Trang Due 2	Trang Due extension	66.2	92.2	158.4	87%	137.1	DCF	
Quang Chau	Quang Chau	581.5	1059.6	1641.2	80%	1,311.8	DCF	
Tan Phu Trung	Tan Phu Trung	2,122.6	933.5	3056.0	72%	2,212.6	DCF	
Nam Son Hap Linh	Nam Son Hap Linh	401.5	369.6	771.0	100%	771.0	DCF	
Phuc Ninh Townhouse		307.0	378.4	685.4	100%	685.4	DCF	
Trang Cat Townhouse		3,507.1	0.0	3507.1	100%	2,805.7	BV	We discount 20% to BV to reflect the project has been idle for several years and would not be monetised soon
Trang Due Townhouse		476.2	510.6	986.8	100%	986.8	DCF	
<b>Add:</b>								
	Cash and cash equivalents	810.4				810.4		
	Short-term account receivables	1,280.4				1,280.4		
	Long-term assets	2,047.0				2,047.0		
<b>Less:</b>								
	Net debt	2,221.8				2,221.8		
	Other liabilities	1,051.0				1,051.0		
	Minority interest	925.1				802.8		
	RNAV	5,056.7				9,150.4		
	No. of o/s shares (mn shares)	469.8				469.8		
	Discount to RNAV					10%		To reflect project execution risk or the risk of projects not being fully sold
	Implied value per share (VND)					17,531		
	Target price per share (VND)					17,500		Rounding up

SOURCES: VND RESEARCH ESTIMATES, COMPANY REPORTS

Figure 31: Peer comparison

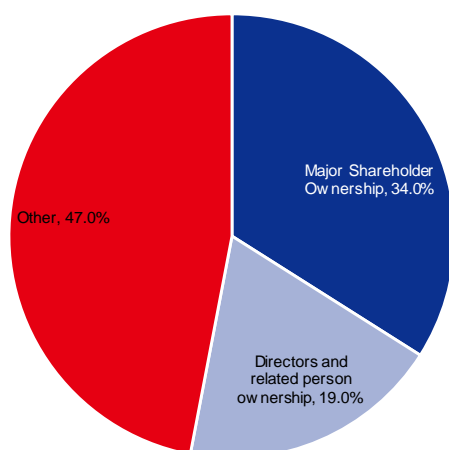
Company Name	Ticker	Price (local curr)	TP (local curr)	Recom.	Market Cap (US\$ m)	3-year EPS CAGR %	P/E		P/BV		ROE (%)		Dividend yield (%)		Net gearing (%)
							2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	
<b>Kinh Bac City De</b>	<b>KBC VN</b>	<b>15,700</b>	<b>17,500</b>	<b>ADD</b>	<b>316.5</b>	<b>11.1</b>	<b>8.6</b>	<b>7.5</b>	<b>0.7</b>	<b>0.7</b>	<b>8.6</b>	<b>9.6</b>	<b>N/A</b>	<b>N/A</b>	<b>23.0</b>
Becamex IDC Corp	BCM VN	31,000	NR	NR	1,377	N/A	12.4	N/A	2.1	N/A	11.3	N/A	1.3	N/A	123.1
Sonadezi Corp	SNZ VN	23,300	NR	NR	377	N/A	18.0	N/A	1.1	N/A	12.0	N/A	3.0	N/A	12.3
Saigon Vrg Inves	SIP VN	109,800	NR	NR	325	N/A	29.2	N/A	4.7	N/A	19.1	N/A	N/A	0.0	-250.5
Viglacera Corporation	VGC VN	19,550	NR	NR	376	N/A	15.1	12.3	1.4	1.3	9.4	10.7	4.7	0.0	4.9
Vietnam Urban and Industrial Park Develc	IDC VN	17,900	NR	NR	230	N/A	15.5	N/A	0.2	N/A	4.5	N/A	3.4	N/A	14.5
Nam Tan Uyen Industrial Park Developme	NTC VN	161,100	NR	NR	111	N/A	15.2	N/A	3.6	N/A	32.3	N/A	6.2	N/A	-234.5
Industrial Urban	D2D VN	70,000	NR	NR	64	N/A	6.7	N/A	1.2	N/A	23.5	N/A	4.3	N/A	-150.3
<b>Vietnam Average</b>							<b>16.0</b>	<b>12.3</b>	<b>2.0</b>	<b>1.3</b>	<b>16.0</b>	<b>N/A</b>	<b>3.8</b>	<b>N/A</b>	<b>-68.7</b>
<b>Vietnam Median</b>							<b>15.2</b>	<b>12.3</b>	<b>1.3</b>	<b>1.3</b>	<b>11.7</b>	<b>10.7</b>	<b>3.8</b>	<b>0.0</b>	<b>8.6</b>
Wha Corp Pcl	WHA TB	4.64	5.03	ADD	2,116	24	11.1	12.0	0.9	0.8	8.4	7.4	N/A	N/A	11.4
Amata Corp Pub	AMATA TB	24.00	26.87	ADD	794	(30)	28.8	20.8	1.2	1.2	4.0	5.9	1.5	N/A	42.9
Frasers Property	FPT TB	18.20		NR	1,138	8	14.4	19.9	1.1	1.1	5.0	4.3	5.0	N/A	123.4
Rojana Indus Par	ROJNA TB	6.35	8.45	ADD	398	33	19.7	16.5	2.3	2.2	11.7	12.8	N/A	N/A	104.5
<b>Thailand Average</b>							<b>18.5</b>	<b>17.3</b>	<b>1.4</b>	<b>1.3</b>	<b>7.3</b>	<b>7.6</b>	<b>3.3</b>	<b>N/A</b>	<b>70.5</b>
Bumi Serpong	BSDE IJ	1,335	1,666	ADD	1,773	3	18.8	17.2	1.3	1.2	6.9	7.1	N/A	N/A	31.3
Ciputra Developm	CTRA IJ	1,275	1,330	ADD	1,633	(11)	12.9	18.0	0.4	0.4	4.9	4.6	N/A	N/A	39.7
Lippo Karawaci	LPKR IJ	278	324	ADD	1,360	(15)	13.8	18.0	0.5	0.4	3.5	2.5	1.0	N/A	47.7
<b>Indonesia Average</b>							<b>15.2</b>	<b>17.7</b>	<b>0.7</b>	<b>0.7</b>	<b>5.1</b>	<b>4.7</b>	<b>N/A</b>	<b>N/A</b>	<b>39.6</b>

All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

SOURCES: VND RESEARCH, BLOOMBERG, COMPANY REPORTS  
DATA AS AT 16 SEP 2019

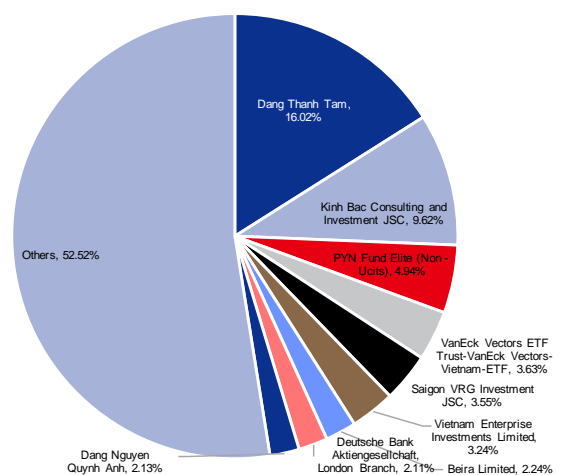
## Appendix

Figure 32: KBC's shareholder structure as at end-4Q18



SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 33: KBC's major shareholders as at end-4Q18



SOURCES: VND RESEARCH, COMPANY REPORTS



**Figure 34: KBC subsidiaries (as at end-4Q18)**

Name of KBC'subsidiaries	Ownership rate
Sai Gon-Bac Giang Industrial Development JSC	77.9%
Sai Gon-Hai Phong Industrial Development JSC	86.5%
Sai Gon-Tay Bac Urbantown Development JSC	72.4%
Factory and Office Renting One Member Limited Co.	100.0%
NGD Investment One Member Limited Co.	100.0%
Trang Cat Urbantown Development One Member Limited Co.	100.0%
Saigon-Hue Development JSC	28.2%
Saigon-Telecommunication JSC	21.5%
High technology Park Development JSC	27.4%
Scanviwood JSC	34.0%
Saigon-Quy Nhon Mineral JSC	5.8%
Saigon- Da Nang Development JSC	19.5%
VTC-Saigontel JSC	19.2%
Saigon- Binh Phuoc Industrial park Development JSC	10.6%
Saigon-Nhon Hoi Industrial Park Development JSC	10.0%
Saigon-Ham Tan Tourist JSC	1.6%
Saigon-Binh Thuan Electricity Development JSC	0.4%
Saigon-Long An Industrial Park Development JSC	0.2%

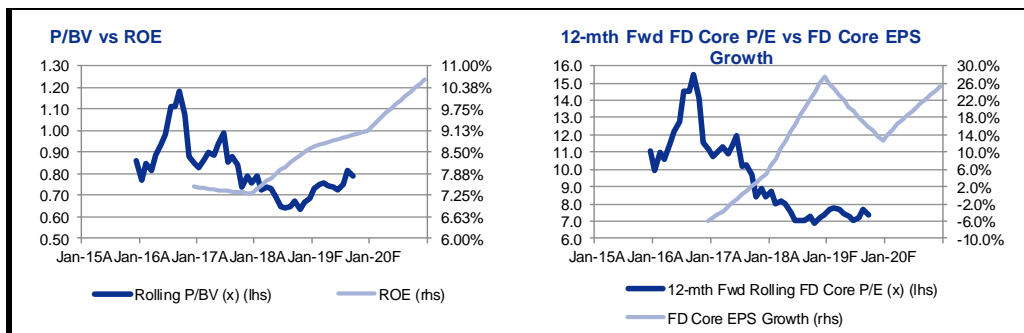
SOURCES: VND RESEARCH, COMPANY REPORTS

**Figure 35: Key management profile (as at end-2018)**

Name	Position	Background
Mr. Dang Thanh Tam Chairman	Chairman	Mr. Dang Thanh Tam graduated as a marine engineer from Maritime University in Hai Phong. He also achieved a Bachelor of Laws, a Bachelor of Business Administration and Diploma of Business Management from Henley College, UK. From 1988-96, he worked at a shipping company in Ho Chi Minh City before becoming the CEO of Tan Tao Group (ITA) in 1997. Thanks to the success of the launch Tan Tao IP during the Asian Financial crisis years, he was well-known as a pioneer in the field of IP development. In 2002, he came to Bac Ninh, a relatively undeveloped area, to create a foundation for the initial development of Que Vo Ip. After 5 years in operation, this IP has gained a good reputation in the northern region; that is one of his successes and contributions to the Bac Ninh province.
Ms. Nguyen Thi Thu Huong	Board of Director member and CEO	Ms. Nguyen Thi Thu Huong holds a Doctorate of Science in Economics and a Master in Business Administration. She has seen the company through both good and bad times during her more than 10 years of experience.
Mr. Nguyen Vinh Tho	Board of Director member	Mr. Nguyen Vinh Tho is a marine engineer and also has a Bachelor of Business Finance. He has many years of management experience, holding positions in many companies in the field of investment and business development of industrial zones in the south of the country.
Mr. Pham Phuc	Board of Director member	Mr. Pham Phuc has been with the company for more than 10 years. He was appointed Deputy General Manager, Finance and Chief Accountant on 8 Dec 2012. He was subsequently appointed as a board member on 26 April 2014. Currently, he is also authorised to make public pronouncements on behalf of KBC. He has a Bachelor's Degree in Banking and Finance.
Mr. Huynh Phat	Independent Board of Director member	Mr. Huynh Phat has a Bachelor's Degree in finance and accounting. He joined BOM in 14 Jun 2013 as an independent board member. With his specialist knowledge in the field of finance and accounting, as well as 12 years of experience in the field of IP development, he regularly makes valuable and objective suggestions on many aspects of the board's decisions.

SOURCES: VND RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>1,260</b>	<b>2,490</b>	<b>3,666</b>	<b>4,343</b>	<b>3,278</b>
<b>Gross Profit</b>	<b>650</b>	<b>1,468</b>	<b>1,864</b>	<b>2,231</b>	<b>1,719</b>
<b>Operating EBITDA</b>	<b>473</b>	<b>1,161</b>	<b>1,413</b>	<b>1,696</b>	<b>1,316</b>
Depreciation And Amortisation	0	0	0	0	0
<b>Operating EBIT</b>	<b>473</b>	<b>1,161</b>	<b>1,413</b>	<b>1,696</b>	<b>1,316</b>
Financial Income/(Expense)	(33)	(102)	(161)	(134)	(133)
Pretax Income/(Loss) from Assoc.	19	14	14	14	14
Non-Operating Income/(Expense)	353	(26)	(13)	(10)	(5)
<b>Profit Before Tax (pre-EI)</b>	<b>812</b>	<b>1,047</b>	<b>1,252</b>	<b>1,566</b>	<b>1,191</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>812</b>	<b>1,047</b>	<b>1,252</b>	<b>1,566</b>	<b>1,191</b>
<b>Taxation</b>	<b>(193)</b>	<b>(238)</b>	<b>(263)</b>	<b>(329)</b>	<b>(250)</b>
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>619</b>	<b>808</b>	<b>989</b>	<b>1,237</b>	<b>941</b>
Minority Interests	(34)	(63)	(148)	(186)	(141)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>585</b>	<b>746</b>	<b>841</b>	<b>1,052</b>	<b>800</b>
Recurring Net Profit	585	746	841	1,052	800
<b>Fully Diluted Recurring Net Profit</b>	<b>585</b>	<b>746</b>	<b>841</b>	<b>1,052</b>	<b>800</b>

### Cash Flow

(VNDb)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>472.8</b>	<b>1,161.3</b>	<b>1,412.8</b>	<b>1,696.4</b>	<b>1,315.5</b>
Cash Flow from Invnt. & Assoc.					
Change In Working Capital	85.8	(516.3)	201.2	1,151.1	727.6
Straight Line Adjustment			0.0	0.0	0.0
(Incr)/Decr in Total Provisions	0.3	(22.0)	1.0	1.0	0.0
Other Non-Cash (Income)/Expense	39.8	41.3	69.0	98.3	99.8
Other Operating Cashflow	(341.8)	(136.6)	(13.1)	(9.8)	(5.4)
Net Interest (Paid)/Received	(109.5)	(193.9)	(216.2)	(216.2)	(215.3)
Tax Paid	(86.7)	(204.7)	(262.9)	(328.9)	(250.1)
<b>Cashflow From Operations</b>	<b>60.7</b>	<b>129.1</b>	<b>1,191.7</b>	<b>2,391.8</b>	<b>1,672.2</b>
Capex	(94.1)	(62.1)	(440.6)	(43.4)	(32.8)
Disposals Of FAs/subsidiaries	1.1	6.8	13.9	13.9	13.9
Disposals of Investment Properties		9.8	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	59.4		0.0	0.0	0.0
Other Investing Cashflow	(589.5)	(109.3)	13.2	26.4	26.4
<b>Cash Flow From Investing</b>	<b>(623.2)</b>	<b>(154.8)</b>	<b>(413.6)</b>	<b>(3.2)</b>	<b>7.5</b>
Debt Raised/(repaid)	778.2	(245.7)	(216.0)	(179.7)	0.0
Proceeds From Issue Of Shares			0.0	0.0	0.0
Shares Repurchased			0.0	0.0	0.0
Dividends Paid	(6.3)	(9.7)	(469.8)	0.0	0.0
Preferred Dividends			0.0	0.0	0.0
Other Financing Cashflow			0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>771.9</b>	<b>(255.3)</b>	<b>(685.8)</b>	<b>(179.7)</b>	<b>0.0</b>

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	506	227	318	2,526	4,206
Properties Under Development					
Total Debtors	4,744	5,842	7,760	7,760	6,938
Inventories	8,323	8,593	8,811	8,550	8,452
Total Other Current Assets	158	200	260	260	232
<b>Total Current Assets</b>	<b>13,730</b>	<b>14,862</b>	<b>17,149</b>	<b>19,096</b>	<b>19,829</b>
Fixed Assets	118	157	548	526	493
<b>Total Investments</b>	<b>1,198</b>	<b>1,276</b>	<b>1,254</b>	<b>1,222</b>	<b>1,187</b>
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	734	614	728	728	728
<b>Total Non-current Assets</b>	<b>2,050</b>	<b>2,047</b>	<b>2,530</b>	<b>2,475</b>	<b>2,408</b>
Short-term Debt	1,132	1,154	138	138	138
Current Portion of Long-Term Debt			0	0	0
Total Creditors	538	479	1,020	1,020	882
Other Current Liabilities	1,656	2,300	3,283	3,283	2,841
<b>Total Current Liabilities</b>	<b>3,326</b>	<b>3,933</b>	<b>4,441</b>	<b>4,441</b>	<b>3,861</b>
Total Long-term Debt	1,591	1,285	2,133	1,953	1,953
Hybrid Debt - Debt Component			0	0	0
Total Other Non-Current Liabilities	1,206	1,191	2,083	2,918	3,224
<b>Total Non-current Liabilities</b>	<b>2,796</b>	<b>2,476</b>	<b>4,216</b>	<b>4,871</b>	<b>5,177</b>
Total Provisions	620	664	664	664	664
<b>Total Liabilities</b>	<b>6,742</b>	<b>7,072</b>	<b>9,321</b>	<b>9,976</b>	<b>9,702</b>
<b>Shareholders' Equity</b>	<b>8,288</b>	<b>9,035</b>	<b>9,407</b>	<b>10,459</b>	<b>11,258</b>
Minority Interests	750	803	951	1,137	1,278
<b>Total Equity</b>	<b>9,038</b>	<b>9,837</b>	<b>10,358</b>	<b>11,595</b>	<b>12,536</b>

### Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	(36.1%)	97.6%	47.2%	18.5%	(24.5%)
Operating EBITDA Growth	(50%)	146%	22%	20%	(22%)
Operating EBITDA Margin	37.5%	46.6%	38.5%	39.1%	40.1%
Net Cash Per Share (VND)	(4,719)	(4,709)	(4,157)	926	4,501
BVPS (VND)	17,644	19,232	20,025	22,264	23,966
Gross Interest Cover	4.32	5.99	6.53	7.85	6.11
Effective Tax Rate	23.8%	22.8%	21.0%	21.0%	21.0%
Net Dividend Payout Ratio	NA	NA	55.9%	NA	NA
Accounts Receivables Days	334.8	218.6	200.0	189.7	237.4
Inventory Days	4,952	3,020	1,762	1,504	1,990
Accounts Payables Days	74.17	33.00	34.09	49.58	62.46
ROIC (%)	4.4%	9.8%	11.2%	12.3%	9.7%
ROCE (%)	7.7%	9.9%	11.3%	12.9%	9.4%
Return On Average Assets	4.28%	5.57%	6.29%	6.65%	4.90%

SOURCES: VND RESEARCH, COMPANY REPORTS

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GUNKUL, HANA, HMPRO, INTUCH, IRPC, IVL, JAS, JMT, KBANK, KCE, KKP, KTB, KTC, LH, MAJOR, MBK, MEGA, MINT, MTC, ORI, OSP, PLANB, PRM, PSH, PSL, PTG, PTT, PTTEP, PTTGC, QH, RATCH, ROBINS, RS, SAWAD, SCB, SCC, SGP, SIRI, SPALI, SPRC, STA, STEC, SUPER, TASCO, TCAP, THAI, THANI, TISCO, TKN, TMB, TOA, TOP, TPIPP, TRUE, TTW, TU, TVO, WHA.

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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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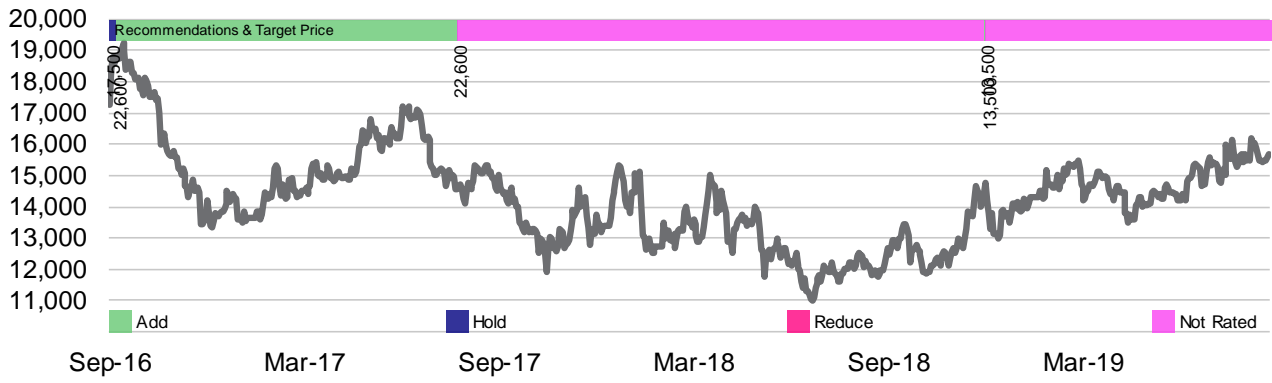
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2019		
791 companies under coverage for quarter ended on 30 June 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.9%	4.2%
Hold	26.5%	1.8%
Reduce	15.5%	0.4%



Spitzer Chart for stock being researched ( 2 year data )

**Kinh Bac City Corp (KBC VN)**

— Price Close



## 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, **BLA** – 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, **DREIT** – 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, **JWD** – Very Good, 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, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **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, **S** – Very Good, 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, **THANI** – 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, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

\* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

### RECOMMENDATION FRAMEWORK

#### Stock Ratings

#### 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.

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