

KIDO GROUP CORP (KDC) – INITIATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND50,700	VND65,000	3.15%	ADD	CONSUMER GOODS

9 March 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

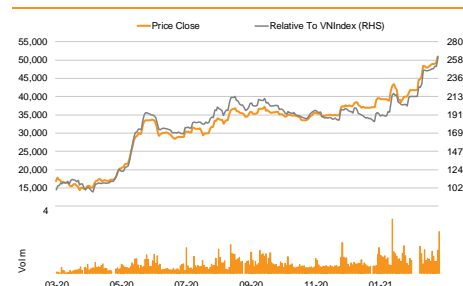
Consensus*: Add:0 Hold:1 Reduce:0

Target price / Consensus: N/A

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	51,000
52w low (VND)	14,400
3m Avg daily value (VNDmn)	36,911
Market cap (VNDbn)	11,220
Free float (%)	50
TTM P/E (x)	56.9
Current P/B (x)	2.0

Ownership

Tran Le Nguyen	14.1%
PPK One Member Co.,Ltd	10.2%
KIDO Investment Co.,Ltd	8.2%
Others	67.5%

Source: VND RESEARCH

Analyst(s):



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Time to shine

- KDC is holding the largest market share of ice cream industry and stays at second position of market share in edible oil industry in 2020.
- We expect KDC's FY21F/22F earnings to grow 123% yoy/18.9% yoy thanks to a further penetration into edible oil and ice cream businesses.
- Initiate coverage with ADD rating and TP of VND65,000.

Buy the leader

KDC is a horizontally integrated brand owner which owns 30% market share of edible oil and 43.5% market share of ice cream industry as at end-2020. As the company targets to increase its stake in Tuong An Vegetable Oil JSC (TAC) and Vietnam Vegetable Oils Industry Corporation (VOC) in the near future, we expect KDC's market share to expand to 36% after M&As. Thus, revenue of edible oil is expected to grow at 8.9% CAGR over FY21F-24F, contributing about 80% to KDC's total revenue.

Reunion with KDF to catch the recovery of frozen food industry

By end-FY20, KIDO Frozen Foods JSC (KDF) was merged with KDC to optimize SG&A expenses and leverage on KDC's distribution network. We expect revenue of ice cream and frozen food to grow 15% in FY21F and then achieve a FY22-24F CAGR of 12% following the recovery of demand post-pandemic.

Add more sweetness in FY21F

KIDO has returned with confectionery business since 3Q20 after selling this segment to Mondelez in 2015. We believe confectionery segment will be a growth engine for KDC's revenue and NP in the next period due to 1) 22 years of experience, 2) good value chain to support confectionery segment and 3) a wide distribution network. For FY21F, we project mooncake revenue to reach VND420bn, up 110% yoy, then grow at a CAGR of 17.2% in FY22-24F period.

Stage is set for growth

We expect KDC's FY21F/22F revenue to grow 12.3%/9.9% yoy, driven by 1) 15%/12% yoy growth of ice cream, 2) 8.9%/8.9% yoy growth of edible oil and 3) 110%/20.7% yoy growth of confectionery. We expect FY21F/22F net profit to surge 123%/18.9% yoy to VND457bn/VND543bn thanks to subdued SG&A expenses and lower minorities interest.

Initiate coverage with ADD rating and TP of VND65,000

Our target price for KDC is based on an equal combination of 10-year DCF valuation and target FY21F P/E of 30.0x. Upside risks include 1) faster-than-expected M&A process and 2) the success of joint venture with Vinamilk. Downside risks are 1) slower-than-expected M&A process, 2) lower-than-expected growth in KDC's business, and 3) higher-than-expected COGS and SG&A.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	7,210	8,322	9,345	10,275
Revenue growth	(5.2%)	15.4%	12.3%	9.9%
Gross margin	22.6%	21.2%	22.6%	22.8%
EBITDA margin	10.1%	9.9%	12.6%	12.6%
Net profit (bn)	149	205	457	543
Net profit growth	281.7%	37.8%	122.8%	18.9%
Recurring profit growth				
Basic EPS	650	896	1,997	2,374
Adjusted EPS	650	896	1,997	2,374
BVPS	25,762	25,026	25,923	26,994
ROAE	2.5%	3.5%	7.8%	9.0%

Source: VND RESEARCH

TIME TO SHINE

Investment thesis

We like KDC for 1) its leading position in the edible oil and ice cream industry in Vietnam, 2) M&A strategy to increase market share and optimize SG&A costs within the KDC group, and 3) its return to confectionery segment, which has been KDC's traditional strength since its establishment. We believe the time is now as FY21F could be a sweet point for KDC with an expected earnings growth of 123% yoy.

We initiate coverage on KDC with ADD rating. Our target price for KDC is VND65,000, which is based on an equal combination of 10-year DCF valuation and target FY21F P/E of 30.0x. Our 2021 target P/E ratio is lower than current ratio of 54.6x as we believe KDC will achieve an outstanding EPS growth in FY21F thanks to expense reduction in KDC group, growth of ice cream and edible oil segments as well as the reduction of minority interests, which will help FY21F net profit grow strongly by 123% yoy according to our forecast.

Potential re-rating catalysts include 1) a faster-than-expected M&A process with VOC and TAC, 2) better-than-expected growth in edible oil and ice cream revenue, 3) lower-than-expected COGS and SG&A over total revenue, 4) the success in the comeback to confectionery business and 5) the joint venture with Vinamilk implemented faster with a good result. Downside risks to our call are 1) slower-than-expected M&A process with VOC and TAC, 2) lower-than-expected growth in edible oil and ice cream revenue and 3) higher-than-expected COGS and SG&A over total revenue.

Figure 1: Valuation summary

Methodology	Price	Weight	Weighted Value
DCF Valuation	64,333	50%	32,167
P/E Valuation	65,568	50%	32,784
Target price			65,000

Source: VNDIRECT RESEARCH

Figure 2: Assumptions

Assumptions	Value
Beta	0.77
Market risk premium	10.1%
Risk free rate	3.0%
Cost of Equity	10.8%
Cost of Debt	6.0%
Corporate tax	20.0%
WACC	9.0%

Source: VNDIRECT RESEARCH

Figure 3: Enterprise Value

DCF Method	Amount
PV of FCFF (VNDbn)	8,677
Present value of terminal value (VNDbn)	9,684.5
Implied equity value (VNDbn)	
Enterprise value (VNDbn)	18,361.5
Less: Total debt (VNDbn)	3,383.1
Less: Preferred securities (VNDbn)	-
Less: Noncontrolling interest (VNDbn)	(2,090)
Plus: Cash and Cash Equivalents (VNDbn)	1,827.7
Implied equity value (VNDbn)	14,716.1
Outstanding shares (m)	228.7
Equity value per share (VND)	64,333.0

Source: VNDIRECT RESEARCH

Figure 4: Discounted Cash Flow model

	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
EBIT	1,001	1,118	1,246	1,347	1,450	1,550	1,662	1,769	1,885	2,010
less: Taxes	-150	-160	-183	-200	-217	-233	-270	-288	-309	-331
EBIAT	851	958	1,063	1,147	1,233	1,317	1,392	1,481	1,576	1,679
Plus: Depreciation and amortization	265	265	265	265	265	265	265	265	265	265
Less: Capital expenditure	0	0	0	0	0	0	0	0	0	0
Less: Increase in net working capital	236	434	-288	-317	-339	-246	-264	-269	-287	-307
Present value of FCF	1,244	1,392	801	777	753	802	766	739	715	630

Source: VNDIRECT RESEARCH

Figure 5: Valuation: Multiples (P/E)

2021F-22F NPAT attribute to common share holder (VNDbn)	499.96
2021F-22F No. of outstanding share (m)	228.7
EPS 2021F-22F	2185.6
Edible oil' average P/E(x)	30.0
Implied price 2021	65,568.0

Source: VNDIRECT RESEARCH

Figure 6: Peer comparison

Company	Bloomberg Ticker	Reco m.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY21F	FY22F	CAGR (%)	TTM	FY21F	FY22F	TTM	FY21F	FY22F	TTM	FY21F	FY22F
Wilmar International Ltd	WIL SP	Na	5.00	Na	24,595	16.2	15.8	14.8	9.1%	1.3	1.3	1.2	8.6%	8.4%	8.5%	3.1%	3.1%	3.3%
Fuji Oil Holdings Inc	2607 JT	Na	3,100	Na	2,495	20.6	26.1	22.0	13.1%	1.7	1.7	1.6	8.4%	6.5%	7.4%	3.5%	4.0%	4.7%
D&L Industries Inc	DNL PM	Na	7.00	Na	1,098	26.4	21.7	19.2	-10.6%	3.1	2.8	2.7	11.6%	12.5%	13.2%	8.3%	8.9%	9.2%
Agro Tech Foods Ltd	ATFL IN	Na	826.0	Na	275	57.5	47.7	40.9	6.6%	4.9	4.6	4.2	8.6%	10.0%	11.4%	6.9%	Na	Na
Average						30.2	27.8	24.2	4.6%	2.8	2.6	2.4	10.0%	9.4%	10.1%	5.5%	5.3%	5.7%
KIDO Group Corp	KDC VN	ADD	50,700	65,000	503	56.5	25.4	21.4	21.0%	2.0	2.0	1.9	3.5%	7.8%	9.0%	1.7%	3.5%	3.9%

Data as at 09 Mar 2021

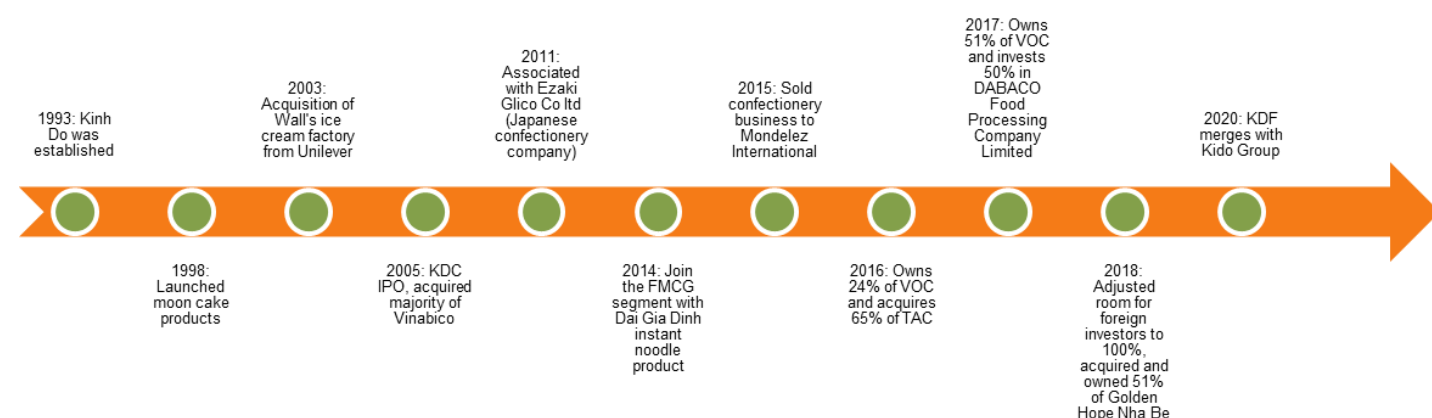
Source: VNDIRECT RESEARCH, Bloomberg

Stage is set for growth

Top-line and bottom line pick up after divesting from confectionery business

After two decades of developing and dominating the confectionery market with a market share of about 30% in 2014, KIDO Group (KDC) decided to transfer the confectionery segment to Mondelez International Group with a deal of approximately US\$490m to join a new business with a larger scale: essential foods (FMCG). Mondelez, after acquiring Kinh Do confectionery segment, quickly changed its name Kinh Do Binh Duong to Mondelez Kinh Do and continued to lead the market, accounting for about 35% of the confectionery market share in 2020 (according to Babuki).

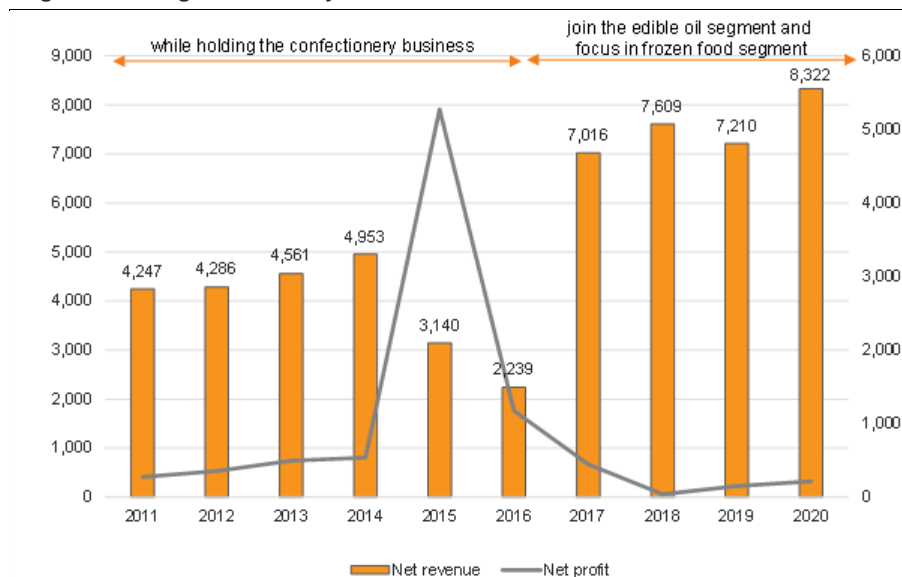
Figure 7: Kido Group's milestones



Source: VNDIRECT RESEARCH, Company reports

Since 2015, KIDO started to focus on the ice cream and yogurt industry through its subsidiary - KIDO Ltd. (later renamed as KIDO Frozen Food Company - KIDO Foods - KDF) and Dai Gia Dinh instant noodle products. After that, KDC acquired the top three edible oil brands in Vietnam: Tuong An (TAC), Vocarimex (VOC) and Golden Hope Nha Be Cooking Oil (KIDO Nha Be). Moreover, KIDO has also joined the fresh, frozen and canned foods segment through the acquisition of 50% stake in Dabaco Food Processing Co., Ltd. (Dabaco Foods).

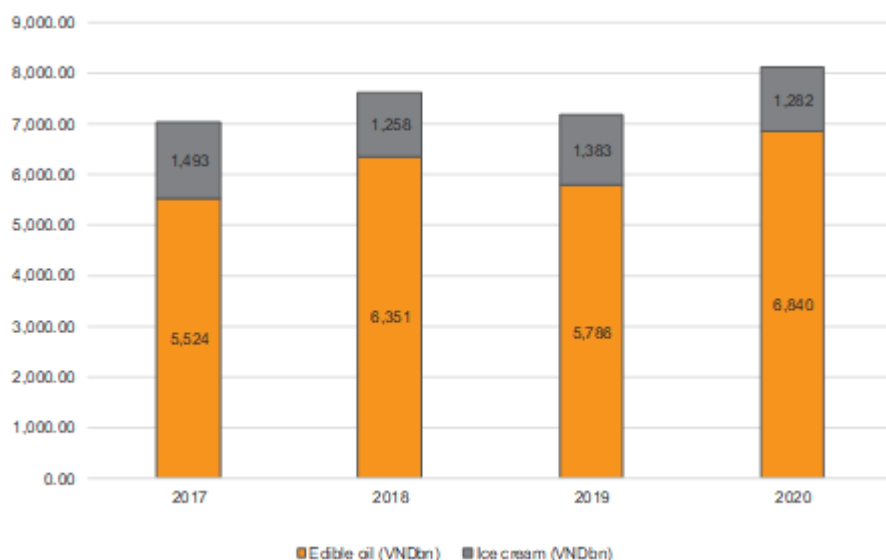
Figure 8: KDC's revenue (VNDbn - LHS) and net profit (VNDbn - RHS) returned to the growth stage after selling confectionery business in 2015



Source: VNDIRECT RESEARCH, Company reports

After 5 years of processing M&A deals in the edible oil segment and focusing in developing ice cream segment, by the end of 2020, KDC has been the leading company in the ice cream industry and the second in the edible oil industry, accounting for 43.5% and 30% of the market share, respectively. The company's net profit grew again in 2019-20, increasing by 280% yoy in 2019 and 38% yoy in 2020.

Figure 9: KDC's revenue (VNDbn) by business from 2017 – 2020



Source: VNDIRECT RESEARCH, Company reports

KDC continues to take steps to optimize its edible oil industry value chain to move towards cutting its sales and management expenses in the coming years, while also benefiting from the post-Covid-19 recovery momentum of Vietnam retail market.

Top-notch management

Figure 10: Kido Group's management



Source: VNDIRECT RESEARCH, Company reports

Kido Group was founded by a group of shareholders which are two couples: Mr. Tran Kim Thanh and his wife Vuong Buu Linh; Mr. Tran Le Nguyen and his wife Vuong Ngoc Xiem, all four of them are Chinese-descent businessmen, and

another member is Mr. Wang Ching Hua. The founders, especially Mr. Tran Le Nguyen and Mr. Tran Kim Thanh, have worked in the food industry since the early 1990s, or more than 30 years of experience until now and successfully developed Kido Group from a small snack factory in District 6, Ho Chi Minh City with an investment value of about VND1.4bn to a big company with a market capitalization of more than VND11,000bn by Mar 21. We believe that only few listed companies have a management team that is fully experienced in food industry and also has a long-term commitment to the company like KDC, making this a standout for KDC to make us believe in the future growth of the company.

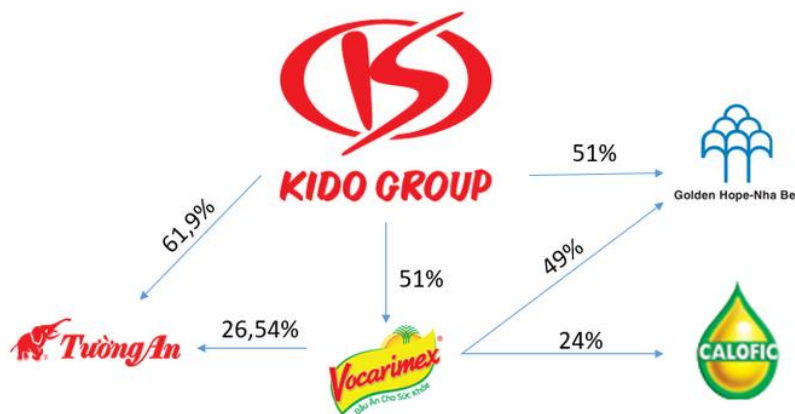
Edible oil: Expanding market share and optimising cost through M&As

Key growth engine for top-line and bottom line

With the investment and ownership of 3 cooking oil companies including TAC, VOC and Kido Nha Be, KDC currently ranks No. 2 in the edible oil industry in Vietnam with a market share of about 30%. By the end of 2020, KDC's ownership rate in TAC is 75%, Kido - Nha Be 76%, VOC 51% and Calofic 24% (through VOC).

With this ownership structure, the revenue from the edible oil segment in KDC accounts for the largest proportion in the total revenue structure of KDC, increasing from 78.7% in 2017 to 84.5% in 2020. Gross profit from edible segment also increased from 45.1% in 2017 to 55.3% of the total gross profit of KDC in 2020.

Figure 11: Ownership structure of KDC in the edible oil industry



Source: VNDIRECT RESEARCH, Company reports

Figure 12: Revenue structure of KDC from 2017 - 2020

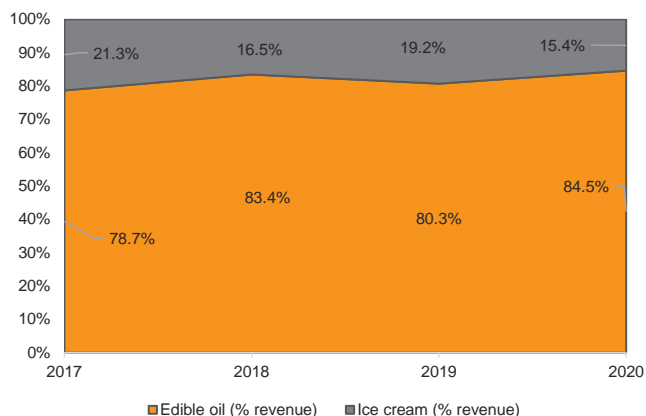
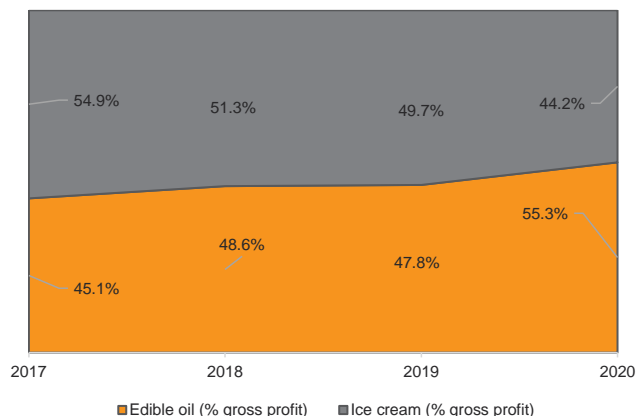


Figure 13: Gross profit structure of KDC from 2017 - 2020



Source: VNDIRECT RESEARCH, Company reports

Source: VNDIRECT RESEARCH, Company reports

*TAC: is a company with more than 40 years of experience in edible oil, ranked 2nd in the market share of cooking oil with consumer-oriented products with 2 famous brands: Tuong An oil and Tuong An Premium oil, for daily use of consumers, distributed through Kido Group's 450k retail point.

*VOC: is a company that supplies raw materials for vegetable oil for companies producing milk, confectionery, seafood (olein oil, shortening, refined soybean oil, crude soybean oil ...), providing material for producing vegetable oil companies (olein oil, crude soybean oil, refined soybean oil ...), exporting to Japan, Korea, Myanmar, Cambodia ... (sesame oil, refined soybean oil, crude soybean oil, cooking oil ...) The merger of VOC into KDC will optimize materials cost when VOC is a supplier of cooking oil for 30% of the market, as well as improve management and operating costs when VOC's ownership of SCIC will be reduced in the near future.

Figure 14: Tuong An (TAC)'s product brands

Figure 15: Vocarimex (VOC)'s product brands



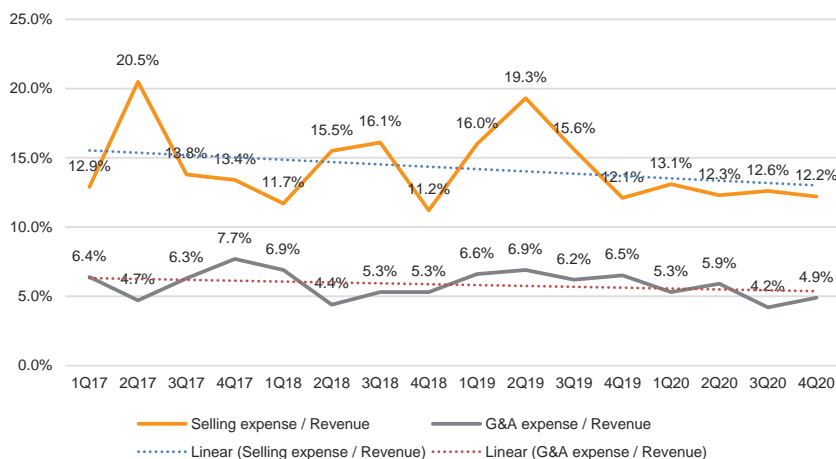
Source: VNDIRECT RESEARCH, Company reports

Source: VNDIRECT RESEARCH, Company reports

KDC continues to increase stake in affiliates to optimize the edible oil industry value chain

We observe that KDC has continuously optimized the value chain of the edible oil segment and the whole group, showed an improvement in SG&A expense / revenue. Total selling and administrative expenses over total revenue in the FY17-20 period have decreased from over 21% in 2017 to only about 17.5% in FY20.

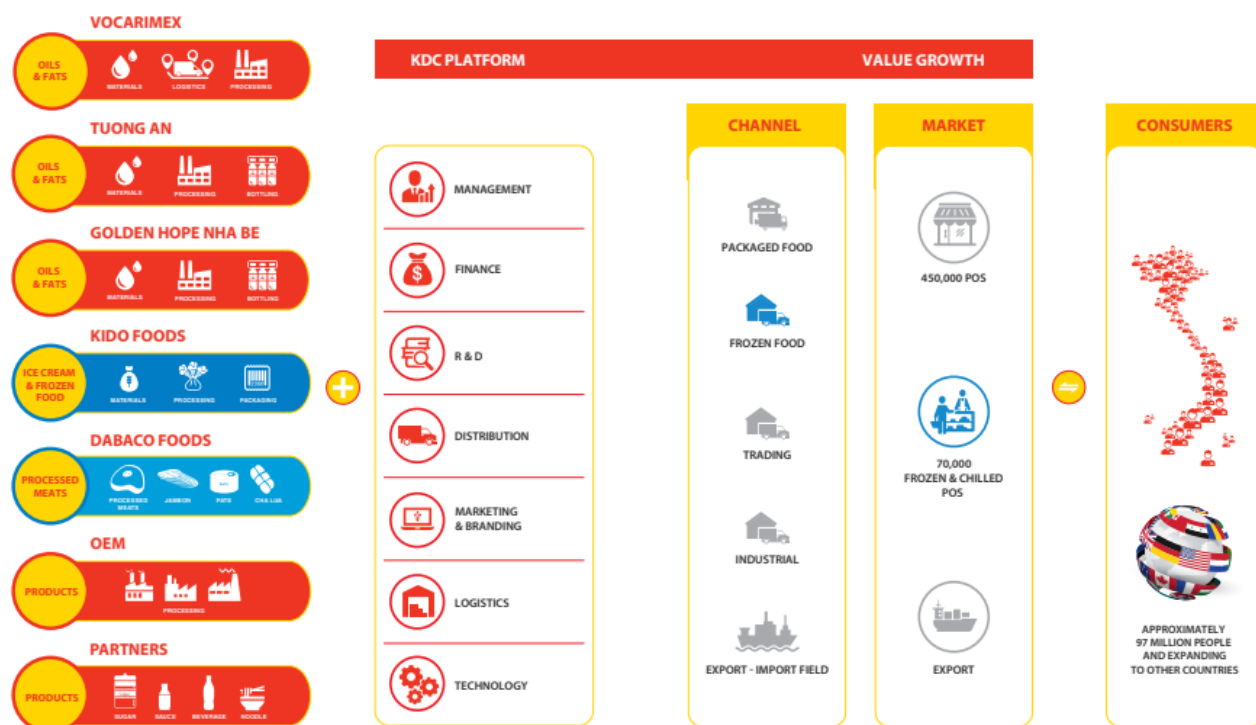
Figure 16: KDC's SG&A witnessed a downtrend during 2017-2020



Source: VNDIRECT RESEARCH, Company reports

KDC will continue to carry out M&A deals in the next years to increase its market share in the edible oil industry as well as improve the supply chain within the Kido Group. Accordingly, we expect that in 2021F, Kido can 1) successfully auction to increase its stake in VOC from 51% to 87.3%, thereby merging TAC into KDC; 2) continue restructuring process to increase power of KDC in order to focus in increasing the effectiveness of KDC Group system and also reduce minority interests to increase KDC's net profit.

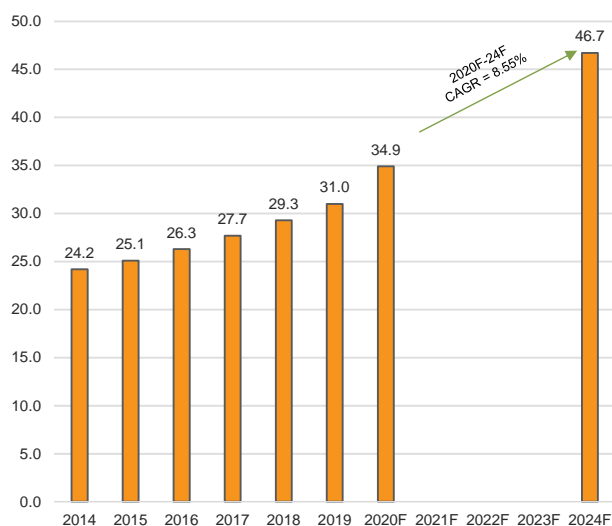
Figure 17: Value chain of KIDO Group



Source: VNDIRECT RESEARCH, Company reports

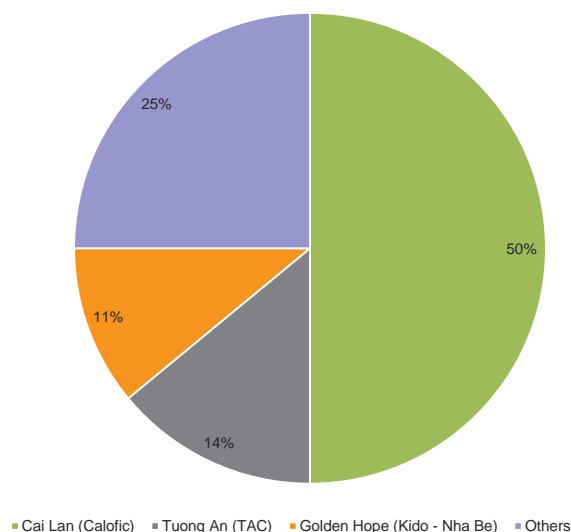
We believe Vietnam's edible oil market to keep its uptrend over FY20-24F

Figure 18: The size and growth of revenue of edible oil market in Vietnam, from 2014 – 2024F (VNDtr)



Source: Euromonitor, VNDIRECT RESEARCH

Figure 19: Market share of edible oil companies in 2020 in Vietnam



Source: Euromonitor, VNDIRECT RESEARCH

In the 2014 - 2019 period, the retail revenue of the edible oil industry has a slight growth over the years at 5% per year. The edible oil industry recorded retail revenue of VND30,974bn in 2019. Currently, the edible oil industry is diversified with products such as olive oil, corn oil, palm oil, canola oil, soybean oil, ... Edible oil products on the market are often distributed through the system of retail stores, grocery stores across the country. As of 2019, retail sales from traditional retail stores account for 90.2% of total sales. However, this rate tends to decrease slightly in the FY14-19 period because consumers tend to buy at modern trade channel like convenience stores, supermarkets and hypermarkets.

In the FY20–24F period, based on data of Euromonitor, it is forecasted that the scale of the edible oil industry will continue to maintain its growth momentum with CAGR of 8.6% to reach total revenue of VND46,700bn in FY24F.

Besides, according to forecasts of the Ministry of Industry and Trade, by 2020, Vietnamese people will consume cooking oil on average of 16.2-17.4kg / person / year and by 2025 it will be 18.6-19.9kg / person / year.

Ice cream: increasing contribution to KDC's net profit

KDC is merged with KDF to improve management process and optimize its SG&A expense

By the end of 2020, KIDO Frozen Foods JSC (KDF) was officially merged with KDC with the swap rate of 1 KDF share for 1.3 shares of KDC. Hence KDC became the leading company in the ice cream industry with the market share of more than 43.5% (according to Euromonitor 2020).

According to KDC, holding only 65% of the shares of KDF does not allow KDC to have full control of KDF. The ownership structure of foreign investors holding about 20% stakes in KDF and domestic individuals holding about 15% will make it difficult for KDC to make decisions which requires 75% of total voting shares. Therefore, with the merger of KDF to KDC, KDC can concentrate resources to improve all business segments to operate more effectively.

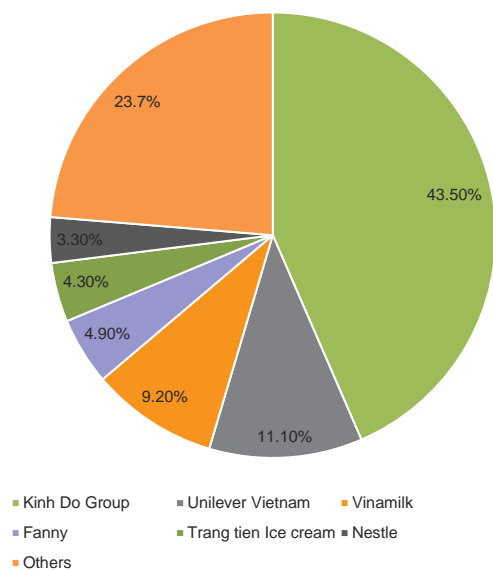
Kido Group's ice cream and frozen desserts market share increased from 41% in 2019 to 43.5% in 2020 and the group continues to be the leader in ice cream and frozen desserts market. Unilever is ranked second with a market share of 11.1% and Vinamilk stayed at 3rd position with a market share of 9.2%.

KDC has three ice cream brands in the top 10, including Merino (market share of 24.8%), Celano (market share of 17.4%) and Wel Yo – dairy products (market share of 1.3%). Currently, the two main ice cream brands of KDC are Merino and Celano, in which there are more than 60 diversified products in all types and forms.

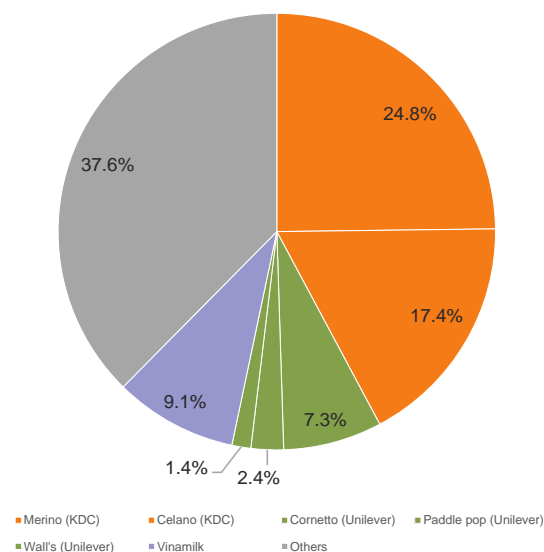
Figure 20: KDC's ice cream and yogurt brands



Source: VNDIRECT RESEARCH, Company reports

Figure 21: Ice cream and frozen desserts market share in 2020


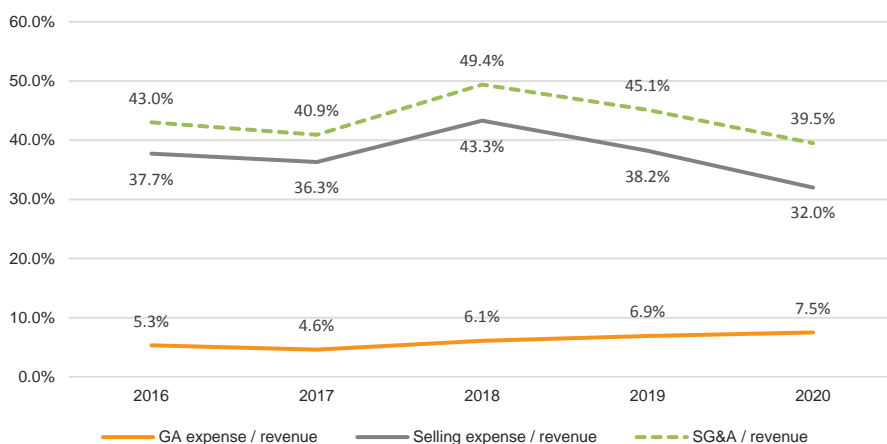
Source: VNDIRECT RESEARCH, Euromonitor

Figure 22: Top 10 ice cream and frozen desserts brands in 2020


Source: VNDIRECT RESEARCH, Euromonitor

KDC's ice cream segment has a high profit margin, ranging from 50-60% in the 2016-2020 period and contributes about 44-55% to KDC's gross profit. The ice cream segment's gross margins gradually recovered from 2018-2020 on the back of the improvements in cost structure and the recovery from a strong competition period in 2018.

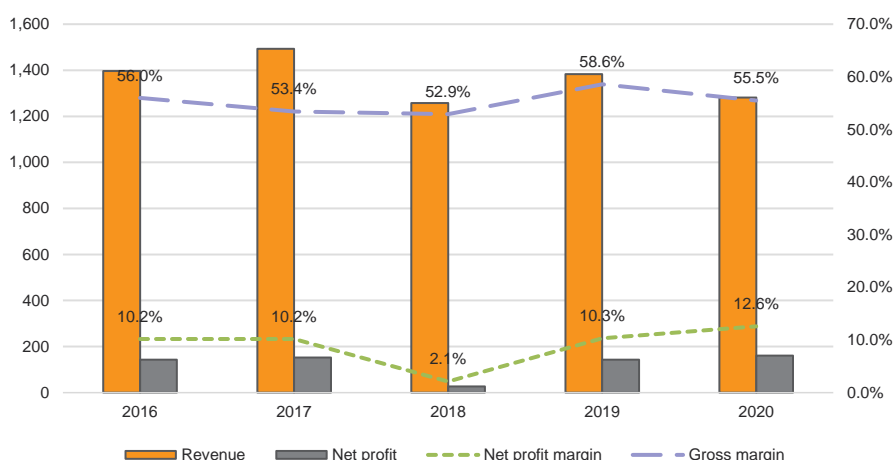
During the period from FY18 to FY20, KDC's ice cream segment's SG&A expenses/revenue plummeted from 49.4% in FY18 to just 39.5% in FY20, mainly due to the reduction of selling expenses. We believe that KDC's ice cream segment has and will continue to optimize its operational cost through KDC's overall development strategy and the merging of KDF to KDC will maintain this optimization trend in the next few years. For FY21F, we expect KDC's ice cream SG&A expense / revenue will decrease 2 pts % yoy to 30%, translating to a 1.8 pts % yoy reduction in KDC's SG&A expense / revenue.

Figure 23: SG&A expense of KDF (KDC's ice cream segment) from 2016-2020


Source: VNDIRECT RESEARCH, Company reports

Ice cream segment was hurt by Covid-19 due to subdued demand

Figure 24: Revenue and net profit of KDC's ice cream and yogurt segment in the period of 2016-20



Source: VNDIRECT RESEARCH, Company reports

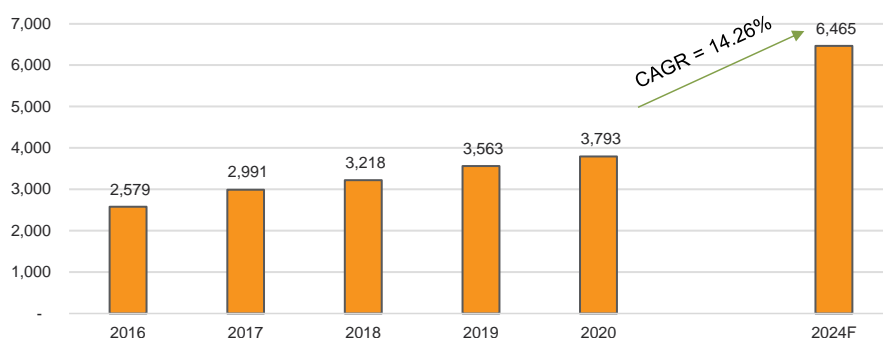
In 2020, the Covid-19 affected the revenue of the ice cream industry in the entertainment and tourism areas, causing KDC's revenue in FY20 to drop 7% yoy to VND1,282bn, contributing 15.4% to total revenue of KDC. However, thanks to the optimization of SG&A expenses, the ratio of SG&A / revenue decreased by 5.6 pts % to 39.5%, helping the NP of ice cream segment to post an increase of 12.6% yoy in 2020.

We expect the economy to recover after Covid-19, regarding which thanks to the recovery in the tourism, especially domestic tourism in 2021 combined with KDC's largest market share will leverage KDC's ice cream revenue in 2021 to rebound strongly in 2021 with growth rate of 15% yoy, higher than the CAGR of ice cream market, to VND1,474bn, making up 16% off KDC's revenue in 2021. We expect net profit from ice cream segment will grow by 90% yoy in 2021 to more than VND300bn.

We expect ice cream and frozen desserts industry will post double-digit growth in 2020-2024 period

Based on Euromonitor data, ice cream and frozen desserts market had an CAGR in the period 2014 - 2019 of 13%, and market value of this industry reached VND3,793bn in 2020. Ice cream and frozen desserts market is forecasted to reach VND6,465bn by 2024F, corresponding to an CAGR of 14.3% in the 2021–2024F period.

Figure 25: Ice cream market revenue from 2016 – 2024F (VNDbn)



Source: VNDIRECT RESEARCH, Euromonitor

In FY21F, we expect retail consumption growth to recover to pre-pandemic levels with gross retail sales of consumer goods and services expected to increase by 8.5-9% yoy in FY21F. According to the Ministry of Industry and Trade projections, by FY25F, the added value of the domestic trade sector will contribute about 13.5% of GDP, and the total retail sales of goods and services would rise about 9-9.5% p.a. in FY21-25F.

Therefore, with the recovery of the post-pandemic economy as well as the growth potential of the retail segment, which can boost demand for goods, non-essential foods could have a higher growth rate than retail consumption growth. We estimate the est. growth rate of ice cream and frozen desserts market size at 12% - 14% can be achieved over the period 2021-2024F.

Confectionery: add more sweet in 2021F

KDC has returned to the confectionery industry since 3Q20 after its commitment to not compete with Mondelez, a clause in the deal of its confectionery business with Mondelez in 2015, has expired in Jul 2020. KIDO returned to the confectionery market under the Kingdom brand and targets to reach the 2nd position of market share in the confectionery industry, equivalent to more than VND4,000bn of revenue according to the current market size and a half of FY20 KDC's total revenue.

According to KDC, confectionery industry with the size of VND51tr still has room for growth with an average annual growth rate of 8-10%. According to Kabuki, by End-2020, leading confectionery companies are Mondelez Kinh Do, which accounts for about 35% off market share and the second is confectionery company Bibica with about 8% market share.

KDC projected to supply about 8 million moon cakes with revenue of about VND400bn in 3Q20. However, when the 2nd Covid-19 wave came, KDC changed their plan to produce only 4 million cakes with an expected revenue of VND200bn, and the expected gross profit margin at 30%. Amid the recovery of Vietnam economy in FY21F, we expect KDC's FY21F confectionery revenue will reach VND420bn, increasing 110% yoy on the back of 1) mooncake volume can reach 8m, similar to KDC's projection in 3Q20 and 2) the average selling price increases 5% yoy. In FY22-24F, we expect revenue of this segment will grow at a CAGR of 17.2%.

Figure 26: Kingdom products of KDC when they re-enter the confectionery market



Source: VNDIRECT RESEARCH, Company reports

Earnings forecasts

We expect KDC's net profit to grow 123% yoy in FY21F

We expect KDC's FY21F revenue and net profit to grow 12.3% and 123% yoy, respectively, thanks to:

- Revenue of ice cream segment grows 15% yoy due to recovery after Covid-19 pandemic and largest market share of KDC in this segment.
- Revenue of edible oil segment grows 8.9% yoy thanks to the strong growth momentum of TAC, which increased 26.7% yoy in FY20.
- Gross profit margin growth of 1.4 % pts to 22.6% due to the GM expansion of edible oil segment with KDC's strategy focus in premium edible oil products, returning to pre-Covid level.
- SG&A expenses/revenue drops 1.8% pts to 15.7% thanks to the optimizing process of KDC after the merge with KDF.
- The ratio of minority interest/net profit decreases from about 35% in FY20 to 20% in FY21F after the merge with KDF

For FY22F, we expect KDC's revenue to grow 9.9% yoy and net profit to grow 18.9% yoy thanks to:

- Revenue of ice cream segment grows 12% yoy after a strong growth of 15% in FY21F.
- Revenue of edible oil segment grows 8.9% yoy during FY21-24F period
- Gross profit margin growth of 0.2% pts to 22.8% thanks to KDC's strategy focus in premium edible oil products.
- SG&A expenses/revenue drops 0.3% pts to 15.4% thanks to the optimizing process of KDC after the merge with KDF and M&As in edible oil market
- The ratio of minority interest/net profit decreases from about 20% in FY21F to 11% in FY22F after the success of M&As with TAC and VOC.

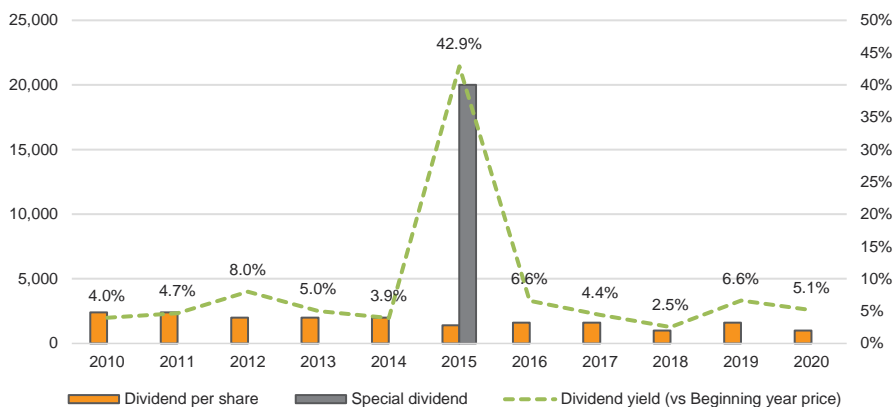
Figure 27: VNDirect's forecast on KDC's business in the period FY20-23F

Unit: VNDbn	2020	2021	2022	2023
Net revenue	8,322	9,345	10,275	11,277
% yoy	15.4%	12.3%	9.9%	9.7%
KDF (Ice cream)	1,282	1,474	1,651	1,849
TAC (Edible oil)	5,247	5,698	6,188	6,720
VOC, KDNB (Edible oil)	1,594	1,753	1,928	2,121
Confectionery (Mooncake)	200	420	507	586
% in Net revenue				
KDF	15.4%	15.8%	16.1%	16.4%
TAC	63.0%	61.0%	60.2%	59.6%
VOC, KDNB	19.2%	18.8%	18.8%	18.8%
Confectionery (Mooncake)	2.4%	4.5%	4.9%	5.2%
Gross profit	1,764	2,110	2,338	2,585
Gross profit margin	21.2%	22.6%	22.8%	22.9%
GM KDF	55.5%	55.5%	55.5%	55.5%
GM TAC	14.5%	16.0%	16.0%	16.0%
GM VOC, KDNB	14.5%	14.5%	14.5%	14.5%
GM Confectionery (Mooncake)	30.0%	30.0%	30.0%	30.0%
SG&A	-1,459	-1,467	-1,577	-1,696
SG&A as % revenue	-17.5%	-15.7%	-15.4%	-15.0%
Pretax profit	418	721	770	881
Tax	-87	-150	-160	-183
Tax rate	20.8%	20.8%	20.8%	20.8%
Earning after tax	331	571	610	698
Net profit	205	457	543	621
%Net profit / EAT	62.0%	80.0%	89.0%	89.0%
EPS	896	1,997	2,374	2,714
% yoy	37.8%	122.8%	18.9%	21.3%

Source: VNDIRECT RESEARCH

Stable cash dividend is a plus

Since 2010, KDC has maintained a regular cash dividend policy with dividends ranging from VND2,000-2,400 per share in the 2010-14 period and VND1,000-1,600 per share during the 2015-20 period. Especially in 2015, the company paid a special cash dividend of VND20,000 per share after transferring the confectionery segment to Mondelez with a deal value of approximately US\$490m. The above dividend rate corresponds to a dividend yield of about 4-5% at the beginning-of-the-year market price of KDC over the past 10 years.

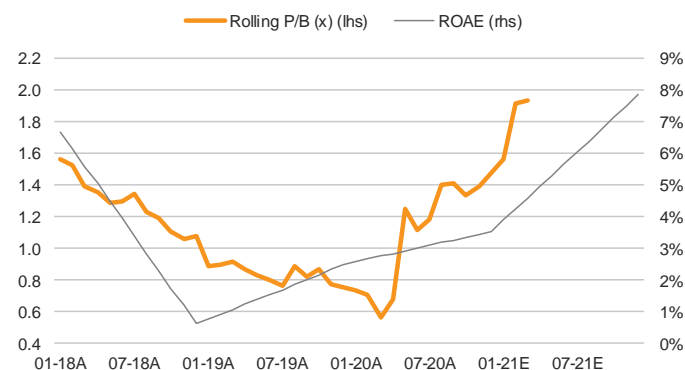
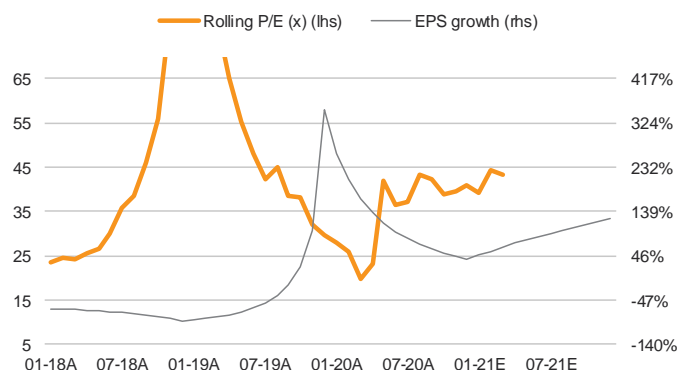
Figure 28: Cash dividends for KDC in the period 2010-20


Source: VNDIRECT RESEARCH, Company reports

Risks

- Raw material risk: the rise of material prices due to the high demand of material for production in the world after Covid-19 will have a great impact on KDC's gross profit margin, especially imported raw materials for edible oil.
- Demand of ice cream risk: the extension of Covid-19 affecting the ice cream business/tourism activities may cause the ice cream segment's growth to be lower-than-expected. We currently forecast the ice cream segment to recover 15% yoy in FY21F and maintain a CAGR of 12% during 2022-24F.
- Confectionery risk: the slowness in importing procedures makes KDC's confectionery machinery system unable to be transferred to Vietnam, leading the launching of confectionery segment to be slower-than-expected.
- M&A risk in legal procedures: VOC's auction on shares owned by the State Capital Investment Corporation (SCIC) in Dec 20 failed when the Government issued Decree No.140/2020/ND-CP dated 30/11 without specific guidance. Therefore, the upcoming M&A deals in the edible oil segment are unlikely to be executed quickly.

Valuation



Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	8,322	9,345	10,275
Cost of sales	(6,558)	(7,235)	(7,937)
Gen & admin expenses	(1,043)	(1,049)	(1,128)
Selling expenses	(416)	(418)	(450)
Operating profit	305	644	760
Operating EBITDA	570	908	1,025
Depreciation and amortisation	(265)	(265)	(265)
Operating EBIT	305	644	760
Interest income	77	89	89
Financial expense	(144)	(191)	(258)
Net other income	7	7	7
Income from associates & JVs	172	172	172
Pre-tax profit	418	721	770
Tax expense	(87)	(150)	(160)
Minority interest	(126)	(114)	(67)
Net profit	205	457	543
Adj. net profit to ordinary	205	457	543
Ordinary dividends	(482)	(366)	(366)
Retained earnings	(277)	91	177

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	1,101	1,828	3,169
Short term investments	687	687	687
Accounts receivables	2,355	1,991	1,428
Inventories	1,211	1,338	1,468
Other current assets	149	206	226
Total current assets	5,504	6,051	6,979
Fixed assets	2,732	2,495	2,313
Total investments	3,754	4,727	4,727
Other long-term assets	385	393	399
Total assets	12,375	13,665	14,417
Short-term debt	2,541	2,383	2,620
Accounts payable	547	617	678
Other current liabilities	742	809	949
Total current liabilities	3,830	3,809	4,248
Total long-term debt	8	1,000	1,000
Other liabilities	837	836	838
Share capital	2,797	2,797	2,798
Retained earnings reserve	842	1,047	1,291
Shareholders' equity	5,725	5,930	6,175
Minority interest	1,975	2,090	2,157
Total liabilities & equity	12,375	13,665	14,417

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	418	721	770
Depreciation & amortisation	265	265	265
Tax paid	(141)	(150)	(160)
Other adjustments	(479)	395	452
Change in working capital	35	(159)	(19)
Cash flow from operations	97	1,071	1,308
Capex	(111)	0	0
Proceeds from assets sales	22	1	2
Others	299	(973)	0
Other non-current assets changes	104	158	158
Cash flow from investing activities	315	(814)	160
New share issuance	0	0	0
Shares buyback	0	1	2
Net borrowings	647	834	237
Other financing cash flow	0	0	0
Dividends paid	(482)	(366)	(366)
Cash flow from financing activities	165	469	(127)
Cash and equivalents at beginning of period	525	1,101	1,828
Total cash generated	577	726	1,341
Cash and equivalents at the end of period	1,101	1,828	3,169

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	2.5%	4.9%	5.3%
Asset turnover	0.68	0.72	0.73
ROAA	1.7%	3.5%	3.9%
Avg assets/avg equity	2.09	2.23	2.32
ROAE	3.5%	7.8%	9.0%
Efficiency			
Days account receivable	25.9	27.4	27.4
Days inventory	67.6	67.5	67.5
Days creditor	30.5	31.1	31.2
Fixed asset turnover	2.97	3.58	4.27
ROIC	2.0%	4.0%	4.5%
Liquidity			
Current ratio	1.4	1.6	1.6
Quick ratio	1.1	1.2	1.3
Cash ratio	0.5	0.7	0.9
Cash cycle	62.9	63.8	63.7
Growth rate (yoy)			
Revenue growth	15.4%	12.3%	9.9%
Operating profit growth	618.9%	110.9%	18.2%
Net profit growth	37.8%	122.8%	18.9%
EPS growth	37.8%	122.8%	18.9%

Source: VND RESEARCH

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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.

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