

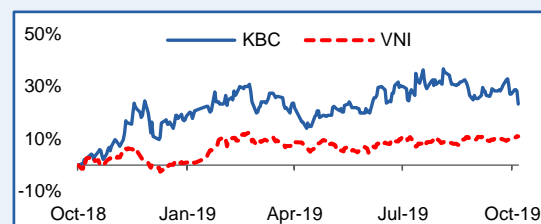


Kinh Bac City (KBC)

Earnings Flash

Industry:	Real Estate		2018	9M/19	2019F
Report Date:	October 31, 2019				
Current Price:	VND14,600	Rev y/y	98.8%	49.7%	33.8%
Last Target Price:	VND17,700	EPS y/y	27.9%	2.0%	16.1%
Upside to TP:	+21.2%	GPM	58.5%	49.7%	55.4%
Dividend Yield:	3.4%	NPM	29.8%	20.1%	25.9%
TSR:	+24.7%	EV/EBITDA	7.0x	N.M.	5.8x
Rating:	BUY	P/Op CF	51.8x	N.M.	37.1x
		P/E	9.2x	N.M.	7.9x

Market Cap:	USD295.6mn		KBC	Peers	VNI
Foreign Room:	USD69mn	P/E (ttm)	9.1x	10.5x	16.5x
ADTV30D:	USD870,000	P/B (curr)	0.7x	1.4x	2.4x
State Ownership:	0.0%	Net D/E	14.6%	-49.0%	N.A.
Outstanding Shares:	469.8 mn	ROE	8.3%	12.2%	14.8%
Fully Diluted Shares:	469.8 mn	ROA	4.4%	6.2%	2.5%



Company Overview

Founded in 2002, KBC is an industrial park (IP) developer in Vietnam. KBC and its associates own approximately 5,175 ha of industrial land and 1,059 ha of residential land, of which more than 2,000 ha represents KBC's remaining saleable land bank. Most of KBC's land is located in industrial hubs in northern Vietnam. KBC's major clients include LG, Foxconn, Canon and Hanwha.

Dang Thai
Analyst
dang.thai@vcsc.com.vn
+8428 3914 3588 ext. 149

Nam Hoang
Senior Analyst
nam.hoang@vcsc.com.vn
+8428 3914 3588 ext. 124

Solid IP land sales, but lower GPM trails our forecast

- KBC's posted its Q3 2019 results with revenue up 39% YoY to VND917bn (USD39mn) and NPAT-MI down 50% YoY to VND110bn (USD4.7mn). The divergence between revenue and NPAT-MI growth was mainly due to a 23-ppt drop in GPM to 40% in Q3 2019 vs 63% in Q3 2018. Per management, this drop was primarily due to the Tan Phu Trung (TPT) IP in Cu Chi District, HCMC as KBC has revised up the costs for this IP that contributed 16% to total IP revenue in Q3 2019. We also note that the GPM of 63% in Q3 2018 was abnormally high, which derived from high-value contracts with a major manufacturer (GoerTek) at Que Vo IP.
- KBC's 9M 2019 revenue was up 50% YoY to VND2.5tn (USD107mn) and its NPAT-MI increased 2% to VND499bn (USD21mn). The slower growth in NPAT-MI vs revenue was mainly due to lower GPM and higher minority interest (MI).
- GPM was 49.7% in 9M 2019, down eight ppts vs 9M 2018 and below our 2019F GPM assumption of 55.4%. We attribute the gap between the 9M 2019 numbers and our forecasts to a lower-than-expected GPM from the TPT IP and lack of contribution from the high margin Nam Son Hap Linh (NSHL) IP that is still awaiting final approval to be launched.
- In 9M 2019, KBC recognized 106 ha of IP land sales (+36% YoY, completing 90% of our full-year forecast) while only 0.05 ha of urban area (UA) land sales were recognized (-91% YoY, completing only 0.7% of our full-year assumption).
- As KBC's 9M 2019 NPAT-MI completed 57% of our full-year forecast while the Phuc Ninh UA and NSHL IP are still awaiting approval to launch, we see potential downside risk to our assumptions, pending a fuller review. We currently assume land sales from the Phuc Ninh UA and the NSHL IP will be recognized in H2 2019, which are expected to contribute 21% and 8.7% to total 2019F revenue, respectively.
- We expect KBC to benefit from continued FDI inflows to Vietnam and increasing manufacturing activity given the company's large land bank in key industrial hubs in northern Vietnam.

Top-line growth was mainly driven by Quang Chau (QC) IP. In Q3 2019, KBC recognized 34 ha of land sales from the QC IP valued at VND625bn (USD29mn). Including these land sales, 9M 2019 IP revenue from the QC IP surpassed 9.3% our full-year forecasts, which we believe was mainly due to a larger-than-expected land sales area while ASPs were in line with our assumptions.

ASPs improved, but a surge in development costs dragged on TPT IP's GPM. We estimate the ASP of land sales from the TPT IP was up around 34% YoY in 9M 2019. However, per management, a surge in development costs negatively affected TPT's GPM, especially in Q3 2019. This GPM could remain at this lower level if ASPs at TPT IP do not improve in the future.

We currently assume a GPM of around 40% for TPT as the actual margin for this IP has not been disclosed by the company.

Higher MI is a result of shift in revenue mix. In 9M 2019, the MI/NPAT before MI ratio was 22.5% vs 7.4% in 9M 2018, which was mainly due to a larger contribution from the QC and TPT IPs that in total accounted for 69% of total revenue in 9M 2019 vs only 26% in 9M 2018. KBC has 77.9% stake in the QC IP and 72.4% stake in the TPT IP.

High effective CIT expense rate mainly due to losses from parent company. The effective CIT expense rate of KBC was 26% in 9M 2019, which we believe was because KBC recorded a loss of VND52bn (USD2.2mn) in its standalone financial report for 9M 2019. This loss caused KBC's consolidated PBT to drop. However, tax payables were calculated separately for each entity in the group (including subsidiaries and the parent company); therefore, the effective CIT rate was higher in the consolidated level.

Figure 1: KBC's Q3 2019 and 9M 2019 results

VND bn	Q3 2018	Q3 2019	Q3 2019 vs Q3 2018	9M 2018	9M 2019	9M 2019 vs 9M 2018	% VCSC's 2019F
IP land sales (ha)	26.59	43.15	62.3%	78.01	105.87	35.7%	90.4%
UA land sales (ha)	0	0	N.M.	0.56	0.05	-91.1%	0.7%
Net revenue	657	917	39.4%	1,661	2,486	49.7%	74.1%
Gross profit	416	367	-11.9%	958	1,235	28.9%	66.4%
SG&A expenses	-91	-105	14.8%	-190	-246	29.6%	52.4%
Operating profit	325	262	-19.4%	768	989	28.7%	71.2%
Financial income	21	25	15.7%	60	56	-7.1%	43.3%
Financial expenses	-45	-57	27.5%	-156	-164	5.3%	78.6%
Net other income/(expense)	-3	-9	215.7%	1	-13	N.M.	83.0%
PBT	299	221	-26.3%	673	867	28.7%	67.1%
CIT	-62	-88	43.2%	-145	-223	53.9%	76.7%
NPAT before MI	237	132	-44.3%	528	644	21.8%	64.3%
MI	-17	-23	29.3%	-39	-145	268.8%	108.5%
NPAT-MI	220	110	-50.2%	489	499	2.0%	57.5%
GPM	63.3%	40.0%		57.7%	49.7%		
SG&A margin	13.9%	11.4%		11.4%	9.9%		
Effective CIT expenses rate	20.6%	40.1%		21.5%	25.7%		
MI/NPAT before MI	7.4%	17.1%		7.4%	22.5%		
NPM	33.5%	12.0%		29.4%	20.1%		

Source: KBC, VCSC

VCSC Rating System

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

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

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

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

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

Disclaimer

Analyst Certification of Independence

We, Dang Thai and Nam Hoang, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. We also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.

Contacts

Corporate

www.vcsc.com.vn

Head Office

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

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

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

Banks and Securities

Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

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

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

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

Retail & Corporate Brokerage

Ho Chi Minh City

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

Hanoi Branch

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

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

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

Macro and Insurance

- Cameron Joyce, Manager, ext 163

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn