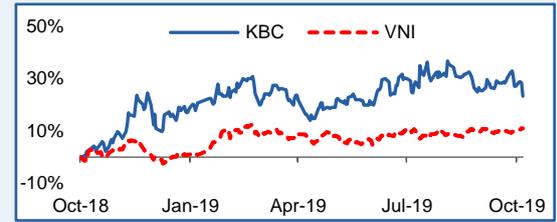


Industry:	Real Estate		2018	9M/19	2019F
Report Date:	October 31, 2019	Rev y/y	98.8%	49.7%	33.8%
Current Price:	VND14,600	EPS y/y	27.9%	2.0%	16.1%
Last Target Price:	VND17,700	GPM	58.5%	49.7%	55.4%
Upside to TP:	+21.2%	NPM	29.8%	20.1%	25.9%
Dividend Yield:	3.4%	EV/EBITDA	7.0x	N.M.	5.8x
TSR:	+24.7%	P/Op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



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

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.

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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%
<i>GPM</i>	63.3%	40.0%		57.7%	49.7%		
<i>SG&A margin</i>	13.9%	11.4%		11.4%	9.9%		
<i>Effective CIT expenses rate</i>	20.6%	40.1%		21.5%	25.7%		
<i>MI/NPAT before MI</i>	7.4%	17.1%		7.4%	22.5%		
<i>NPM</i>	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
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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.

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