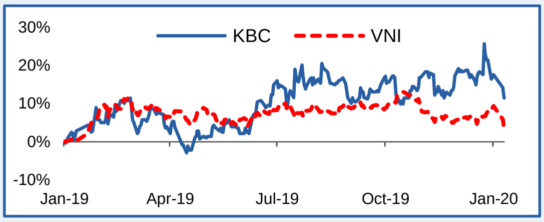
Kinh Bac City (KBC)

Earnings Flash

			2018	2019
Industry:	**IP Real Estate**			
Report Date:	**January 31, 2020**	Rev y/y	98.8%	30.4%
Current Price:	VND14,500	EPS y/y	27.9%	14.6%
Last Target Price:	VND17,000	GPM	59.0%	57.5%
Upside to TP:	+17.2%	NPM	29.9%	26.3%
Dividend Yield:	0.0%	EV/EBITDA	7.1x	5.8x
TSR:	+17.2%	P/Op CF	51.5x	10.3x
Rating:	OUTPERFORM	P/E	9.1x	8.0x



			KBC	Peers	VNI
Market Cap:	USD293.4mn				
Foreign Room:	USD68.3mn	P/E (ttm)	8.0x	14.7x	14.9x
ADTV30D:	USD1.9mn	P/B (curr)	0.7x	1.6x	2.2x
State Ownership:	0.0%	Net D/E	12.2%	4.9%	N.A.
Outstanding Shares:	469.8 mn	ROE	9.2%	10.4%	14.9%
Fully Diluted Shares:	469.8 mn	ROA	5.2%	3.2%	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.

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Trang Due UA land sales drive up Q4 earnings

- KBC's posted its Q4 2019 results in which revenue was down 8.1% YoY to VND763bn (USD33mn) and NPAT-MI was up 38% YoY to VND355bn (USD15mn). The solid growth in NPAT-MI was mainly due to a 22-ppt YoY GPM expansion in Q4 2019 that was thanks to a land sales recognition of the Trang Due (TD) urban area (UA) and downward cost revision of the TD industrial park (IP).
- KBC's 2019 revenue was up 30% YoY to VND3.3tn (USD140mn) and its NPAT-MI increased 15% to VND855bn (USD37mn). The slower growth in NPAT-MI vs revenue was mainly due to higher minority interest (MI) that was a result of a shift in the revenue mix.
- In 2019, KBC recognized 108 ha of IP land sales (-2.3% YoY, completing 86% of our full-year forecast) while four ha of UA land sales were recognized (+6.3x YoY, completing 68% of our full-year assumption).
- KBC's 2019 revenue completed 90% of our full-year forecast as its major project – the Phuc Ninh UA – is still awaiting approval to launch. However, KBC's 2019 NPAT-MI surpassed our full-year forecast by 9% as its GPM beat our expectation and SG&A expenses were below our forecast.
- Although KBC's major projects – including the Phuc Ninh UA and Nam Son Hap Linh (NSHL) IP – are still pending final approval to launch, the TD UA shows positive progress in its development timeline along with upbeat GPM. We do not see material risks to our forecasts, pending a fuller review.
- 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.

TD UA land sales kicked off. The TD UA is a project located next to the TD IP in Hai Phong. In Q4 2019, KBC recognized around four ha of land sales in the TD UA that translated to VND578bn (USD25mn) of revenue, implying an ASP of ~VND14mn (USD620) per sqm for the TD UA — higher than our assumption of ~VND5.5mn (USD230) per sqm. Per KBC, the GPM of these land sales in the TD UA is around 70-80%.

GPM spiked in Q4, which was partly due to a downward cost revision of the TD IP. Per KBC, the TD IP reviewed its estimated development costs in Q4 2019, which led to a downward cost revision and reduced KBC's Q4 COGS. Coupled with higher-than-expected ASP from TD UA land sales, KBC's GPM therefore jumped to 83% in Q4 2019; this increase drove up the company's 2019 GPM to 58% — above our full-year forecast of 49%.

Shift in revenue mix increased MI. In 2019, the MI/NPAT before MI ratio was 20.8% vs 7.8% in 2018, which was mainly due to a larger contribution from the TD UA and Quang Chau (QC) and Tan Phu Trung (TPT) IPs that in total accounted for 83% of total revenue in 2019 vs only 42% in

2018. KBC has 87% stake in the TD UA, 78% stake in the QC IP and 72% stake in the TPT IP; it fully owns the Que Vo IP, which was the main contributor to revenue in 2018. KBC's 2019 MI was above our forecasts due to a delay in Phuc Ninh UA land sales recognition as KBC also fully owns this project.

Capex disbursed into new project in Q4 2019. KBC increased the contributed capital of its 100% owned subsidiary – Kinh Bac Da Nang Limited Company – to VND600bn (USD26mn) from VND500mn (USD22,000) in Q4 2019. Per KBC, this subsidiary owns the Vien Dong Meridian Towers mega project with a total site of around one ha located in central Da Nang. As of the end of 2019, capex disbursement into this project was VND698bn (USD30mn).

KBC's unaudited Q4 2019 and 2019 results

VND bn	Q4 2018	Q4 2019	Q4 2019 vs Q4 2018	2018	2019	2019 vs 2018	% VCSC's 2019F
IP land sales (ha)	*32.5*	*8.5*	*-73.8%*	*110.5*	*107.9*	*-2.3%*	*86.3%*
UA land sales (ha)	*0.0*	*4.0*	*N.M.*	*0.56*	*4.06*	*6.3x*	*67.7%*
Net revenue	**830**	**763**	**-8.1%**	**2,491**	**3,250**	**30.4%**	**90.4%**
Gross profit	**511**	**635**	**24.2%**	**1,469**	**1,869**	**27.3%**	**105.5%**
SG&A expenses	-117	-67	-43.1%	-307	-313	1.8%	69.5%
Operating profit	**394**	**568**	**44.3%**	**1,162**	**1,557**	**34.0%**	**117.7%**
Financial income	32	25	-20.9%	92	80	-13.1%	85.9%
Financial expenses	-38	-58	51.9%	-194	-221	14.0%	105.7%
Net other income/(expense)	-14	-14	5.2%	-12	-26	114.6%	141.5%
PBT	**374**	**521**	**39.4%**	**1,047**	**1,389**	**32.6%**	**116.9%**
CIT	-93	-86	-7.4%	-239	-309	29.6%	115.7%
NPAT before MI	**280**	**435**	**55.0%**	**809**	**1,080**	**33.5%**	**117.3%**
MI	-23	-80	239.1%	-63	-225	257.8%	161.5%
NPAT-MI	**257**	**355**	**38.2%**	**746**	**855**	**14.6%**	**109.4%**
GPM	*61.5%*	*83.2%*		*59.0%*	*57.5%*		
SG&A margin	*14.1%*	*8.7%*		*12.3%*	*9.6%*		
Effective CIT expenses rate	*25.0%*	*16.6%*		*22.8%*	*22.3%*		
MI/NPAT before MI	8.4%	18.3%		7.8%	20.8%		
NPM	*30.9%*	*46.5%*		*29.9%*	*26.3%*		

Source: KBC, VCSC

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