

UPDATED REPORT

May 27th 2022

KBC – BUY

STOCK'S INFORMATION
(May 27th 2022)

Stock Exchange	HOSE
Price (VND)	44.300
10-day average volume	3.388.820
Market value (billion VND)	25.705
Shares outstanding	575.711.167

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WAITING FOR MAJOR CASH FLOW FROM TRANG CAT

- **Expecting a new growth phase of FDI capital:** (1) The policy of co-living with the pandemic and reopening international traveling routes; (2) China maintains Zero-Covid policy; (3) The pressure to disburse FDI from the pent-up demand in the 2 years of pandemic will demonstrate from 2022.
- **Motivation from Nam Son Hap Linh Industrial Park:** In 2022, KBC can complete the handover of about 80ha of commercial land and record over VND 2.500 billion in revenue, most of which comes from Oppo Electronics.
- **Ambitious investment plan in Long An:** Long An province is expected to become a new development center for KBC with many large-scale projects approved for investment policy. KBC's urban-industrial development land fund in the locality is expected to reach 2.000-3.000 ha in the next 2-3 years.
- **Complete leveling for the wholesale area in Trang Cat:** KBC has completed leveling for about 50ha of area in Trang Cat urban project, thereby facilitating the handover and revenue recognition in 2022 in the event of completion of negotiations for the wholesale transaction.

Recommendation: Along with the handover progress of industrial zones and the wholesale plan in Trang Cat urban area, KBC expects to record a boom in profit and cash flow from 2022. This is an important basis for businesses to improve financial health, reduce dependence on credit sources - bonds and get ready for a new investment cycle with an ambitious investment plan in large-scale urban-industrial projects.

VCBS forecasts that KBC's 2022 revenue will reach **VND 6.240 billion (+46,9% yoy)**, profit attributable to parent company shareholders will reach **VND 1.744 billion**, equivalent to EPS of **VND 2.864/ share**. In the event that the company can record most of its revenue from wholesale transactions in Trang Cat in 2022, the revenue is expected to reach **VND 11.640 billion (+174,2% yoy)**, the profit belongs to the parent company shareholders reached **VND 3.711 billion**, equivalent to an EPS of **VND 6.513/ share**. We maintain our **BUY** recommendation for KBC stock at a reasonable valuation of **VND 56.199 /share**.

	2020	2021	2022F	2023F
Revenue (billion VND)	2.151	4.246	6.240	11.774
+/- yoy (%)	-32,99%	97,40%	46,97%	88,68%
Net profit	224	782	1.744	5.052
+/- yoy (%)	-75,61%	249,19%	122,96%	189,64%
EPS - TTM (VND)	477	1.373	3.061	8.867

BUSINESS RESULTS

In Q1.2022, KBC recorded net revenue of VND 692 billion, significant decreased compared to same period (-65,5% yoy), mainly due to the decrease in land and infrastructure rental revenue due to: (1) Q1.2021 is the peak of land handover in Tan Phu Trung and Quang Chau industrial zones, especially when big customer Foxconn officially implements the project in Quang Chau Industrial Park (Bac Giang) in the period; (2) The progress of land handover in Nam Son Hap Linh Industrial Park is behind schedule due to problems with some infrastructures.

KBC recorded net profit of VND 481 billion (-19,8% yoy) in Q1.2022. Although profit from core business activities decreased sharply (reaching VND 71 billion compared to VND 885 billion in Q1.2021), in the period KBC re-evaluated the capital contribution in Saigon - Nhon Hoi Industrial Park, thereby recording an extraordinary profit of nearly VND 500 billion and limited the decrease in profit.

Figure 1: Business results of KBC (VND billion)

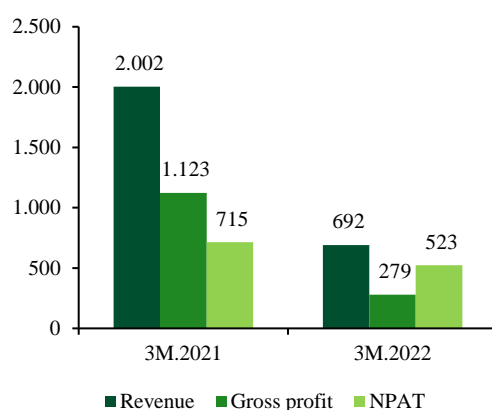
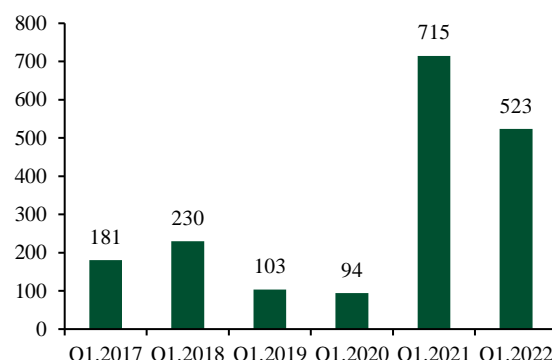


Figure 2: NPAT in Q1 of KBC (VND billion)



Source: KBC, VCBS

BUSINESS OUTLOOK

Expecting a new growth phase of FDI capital

In the period of 2020-2021, FDI inflows into Vietnam recorded a significant slowdown after the boom period of 2014-2019 when: (1) Covid-19 pandemic and increasing risks of the world economy - politics cause investment plans of many businesses to be postponed, especially investments in emerging economies; (2) Lock down measures and international flights ban affect the survey and research progress of foreign experts and customers.

However, FDI inflows recorded a positive recovery right from the end of 2021 with the scale of realized FDI capital in Q1.2022 reaching USD 4.42 billion, up 7,8% over the same period and was the highest level of the first quarter of the past 5 years. VCBS estimates that from 2022, Vietnam can record a positive growth trend of FDI capital, considering the following factors:

- The policy of living with the pandemic and the reopening of international routes helps restore the movement of foreign experts and the process of researching and signing investment projects.

- China maintains the Zero-Covid policy and disruption of the world supply chain presents many risks when the global production system is concentrated in one location, thereby accelerating the process of shifting production facilities to other production centers including Vietnam.
- Many FDI projects have had investment plans or signed Memorandum of Understanding (MOU) but have not been able to implement during the pandemic period due to blockade measures and slow progress in completing infrastructure in industrial zones. Therefore, the pressure to disburse FDI from pent-up demand during the two years of the pandemic will demonstrate from 2022.

Figure 3: Realized FDI growth in Vietnam



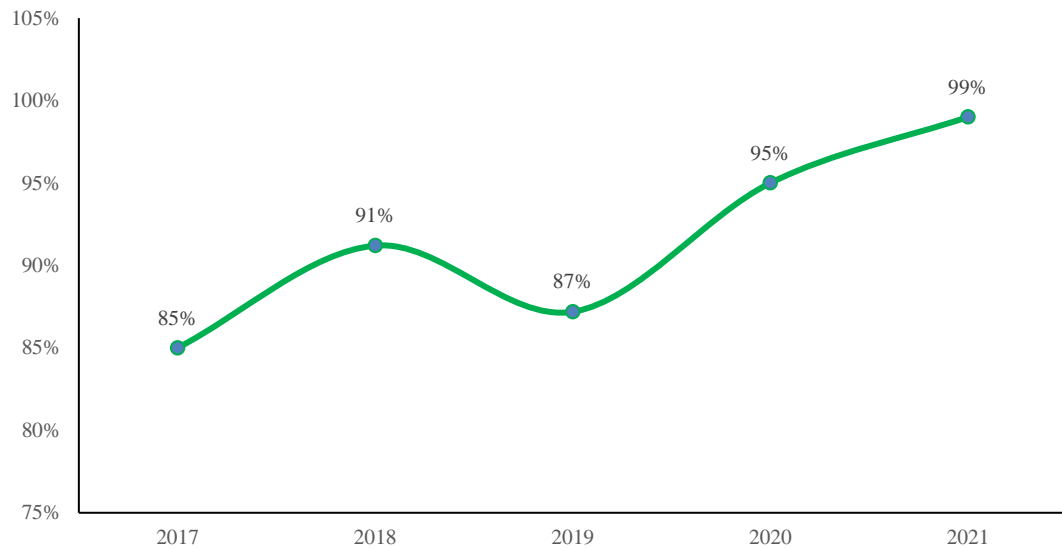
Source: KBC, VCBS

Motivation from Nam Son Hap Linh Industrial Park

After Quang Chau Industrial Park (Bac Giang) basically completed leasing for commercial area in phase 1, Nam Son Hap Linh Industrial Park (Bac Ninh) is expected to be the main growth driver in rental revenue in the period 2022-2023. Up to now, KBC has completed most of the infrastructure in the industrial park and has begun handing over the first plots of premises from 2021. VCBS expects that in 2022, KBC can complete the handover of about 80ha of commercial land and recorded over VND 2.500 billion in revenue, most of which came from Oppo Electronics.

The remaining area is expected to be completely filled in only after the next 1-2 years considering the following factors: (1) Most of the commercial area in the industrial park has been signed MOU since 2020; (2) The investment wave of satellite businesses and ancillary businesses participating in OPPO's supply chain is expected to be accelerated in the coming period; (3) The supply of industrial land in Bac Ninh has basically been exhausted with the occupancy rate of industrial zones in the whole province approaching 100% while the investment demand is huge.

Figure 4: Industrial Park occupancy rate in Bac Ninh province



Source: Savills, Bac Ninh Industrial Zones Authority, VCBS

Ambitious investment plan in Long An

In the coming period, KBC plans to strongly expand investment scale in emerging industrial areas (Hung Yen, Hai Duong and Long An). In particular, Long An province is expected to become a new development center for KBC with many large-scale projects that have been approved for investment policies and can start to be deployed strongly from 2023. Specifically:

- In 2021, KBC has successfully issued VND 1.500 billion of bonds to support capital for subsidiaries, including the deployment of 3 industrial clusters in Long An (Phuoc Vinh Dong 2, Tan Lap and Phuoc Vinh Dong 4) with a total area of about 170 ha along with resettlement areas at the projects. Currently, these industrial clusters are in the process of site clearance and technical infrastructure investment.
- At the beginning of 2022, the Deputy Prime Minister officially signed the decision approving the investment policy of Tan Lap - Long An Industrial Park project with Long An Investment and Development JSC (established by KBC in 2021 with 57% ownership) is selected as the investor. The project has a scale of up to 650 hectares and is divided into 2 phases, expected to start construction in the period of 2023-2024.
- After the success at Tan Phu Trung Industrial Park (Cu Chi - Ho Chi Minh City), Saigon - Tay Bac Industry JSC (a subsidiary of which KBC holds 72% of shares) continues to be supported in resources to invest in large scale urban-industrial projects in Long An. In particular, Loc Giang Industrial Park (Duc Hoa-Long An) with a scale of 466 hectares has received approval for investment policy in April 2022. In addition, the company is also actively completing legal procedures to participate in the investment projects of Hau Nghia - Duc Hoa urban area (150 ha) and Huu Thanh urban industrial zone.

Table 1: KBC's industrial – urban projects investment plans in Long An

Project	Location	Size (ha)	Status
Phuoc Vinh Dong 2 Industrial Cluster	Can Giuoc	49,6	Land clearance
Phuoc Vinh Dong 4 Industrial Cluster	Can Giuoc	48,6	Land clearance
Tan Lap Industrial Cluster	Can Giuoc	71,2	Land clearance
Tan Lap IP	Can Giuoc	654	Approved investment policy
Loc Giang IP	Duc Hoa	466	Approved investment policy
Hau Nghia IP	Duc Hoa	150	N/A
Huu Thanh Industrial – Urban are	Duc Hoa	N/A	N/A

Source: KBC, VCBS

Along with the quick approval of investment policies for projects, KBC's urban-industrial development land fund in Long An is expected to reach 2.000-3.000 ha in the next 2-3 years. With industrial park rental price in the area currently at a good level (USD 130-140/m²), projects in Long An are expected to be an important contributor to KBC's business results in the next business cycle. Investment promotion activities and occupancy rates at projects are expected to be quite fast considering:

- The feature of flat terrain, mostly covered by large-scale agricultural land areas in Long An brings many advantages in land clearance and infrastructure construction. At the same time, the government's drastic measures to prevent speculation on agricultural land for conversion and division of plots are expected to healthy the rural real estate market and help compensation, land clearance become easier and reduce costs.
- Over the past few years, Long An has strongly increased its position as one of the top FDI attractors and is on track to become a new industrial center of the South thanks to: (1) Close position to Ho Chi Minh City and is the gateway connecting with the Southwest region - an important source of labor supply in the South; (2) Abundant land fund to develop industrial projects; (3) Strong improvement in the transport system connecting with the Southeast provinces and major seaports and airports.

Complete leveling for the wholesale area in Trang Cat

In Q1.2022, KBC has completed ground leveling for about 50ha in Trang Cat urban area (Hai Phong). Therefore, we expect KBC can hand over to customers and recognize revenue from the urban area as soon as 2022 in case negotiations are completed for the wholesale transaction of 30-50 ha of commercial products.

VCBS assesses the negotiation of wholesale transaction in Trang Cat at the price of VND 18-20 million/m² is not too difficult considering: (1) Trang Cat urban area is currently one of the rare land funds. in Hai Phong city that can develop large-scale housing projects; (2) Hai Phong is expected to be the focus of development and enjoy the most incentives among the localities that are piloting the

specific mechanism, including the Free Trade Zone with many characteristics similar to a special economic zone, which will have a great impact on real estate prices in the future.

RECOMMENDATION

Along with the handover progress of industrial zones and the wholesale plan in Trang Cat urban area, KBC expects to record a boom in profit and cash flow from 2022. This is an important basis for businesses to improve financial health, reduce dependence on credit sources - bonds and get ready for a new investment cycle with an ambitious investment plan in large-scale urban-industrial projects.

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DISCLAIMER

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