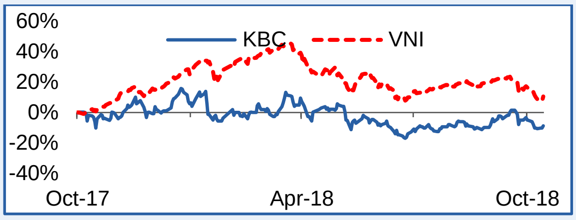
VIET CAPITAL SECURITIES

Kinh Bac City (KBC) — Earnings Flash

Industry:	**Industrials**		2017	9M/18	2018F
Report Date:	**Oct. 31, 2018**	Rev y/y	-36.1%	64.4%	80.2%
Current Price:	VND12,100	EPS y/y	4.9%	-9.9%	18.4%
Last Target Price:	VND13,100	GPM	51.6%	57.7%	55.9%
Upside to TP:	8.3%	NPM	46.4%	29.4%	30.5%
Dividend Yield:	8.3%	EV/EBITDA	8.8x	N/A	7.2x
TSR:	16.6%	P/Op CF	199.3x	N/A	16.9x
Rating:	OUTPERFORM	P/E	9.7x	N/A	8.2x



Market Cap:	$243.5mn		KBC	Peers	VNI
Foreign Room:	$74.3mn	P/E (ttm)	10.7x	7.3x	16.1x
ADTV30D:	$1.5mn	P/B (curr)	0.6x	1.1x	2.5x
State Ownership:	0.0%	Net D/E	20.7%	-69.1%	N/A
Outstanding Shares:	469.8 mn	ROE	6.2%	15.7%	15.3%
Fully Diluted Shares:	469.8 mn	ROA	3.3%	6.7%	2.4%
3-year PEG	0.3				

Company Overview

Founded in 2002, KBC is a leading industrial park (IP) developer in Vietnam. KBC and its associates own around 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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Strong Q3 IP land sales driven by existing occupants

- KBC's 9M 2018 top line surged 64% YoY to VND1.66tn (USD72mn), but reported NPAT-MI declined 10% YoY to VND489bn (USD21mn). Excluding a one-off financial gain of VND355bn (USD15mn) from the sale of the Lotus hotel project in Q2 2017, KBC's underlying NPAT-MI was up 89% YoY.
- We attribute the earnings growth to higher-than-expected industrial park (IP) land sales, with 53% of these sales from KBC's Que Vo IP in Bac Ninh. Total IP land sales for 9M 2018 were 78 ha vs a low base of 30 ha in 9M 2017, and our current assumption of 76 ha for the full year.
- GPM expanded to 58% in 9M 2018 from 53% in 9M 2017 as we assume Que Vo IP land sales will generate a higher GPM of 60%-70% vs those of other IPs at 40%-50%.
- Offsetting the strong IP segment performance was lower-than-expected urban area (UA) land sales. KBC did not book any sales from its Phuc Ninh UA in Q3 2018, bringing total UA land sales to 0.5 ha for the 9M 2018 vs our assumption of 4 ha for the full year.
- As KBC's 9M 2018 NPAT-MI met 71% of our 2018F NPAT-MI, we do not anticipate material changes to our current forecasts.
- We expect KBC to benefit from continued FDI inflows to Vietnam and increasing manufacturing activity, given it has more than 2,000 ha of land bank in key industrial hubs in northern Vietnam.

Expansionary activity from existing occupants drove Q3 growth in IP land sales. Management cited this as the key reason behind solid IP land sales of 26.6 ha in Q3 2018, of which 17.9 ha came from Que Vo IP. This supports our view that one of KBC's competitive advantages is having major manufacturers as occupants in its industrial parks as these manufacturers are more likely to expand and/or pull their supplier base to set up in KBC's IPs.

Possible upside catalyst to come from new IP development in Hai Duong. KBC recently announced plans to develop a new IP, called Binh Giang IP, with total site area of 860 ha favorably located along the Hanoi - Haiphong Expressway.

Leverage remained stable but gross debt and interest expenses increased. KBC's gross debt increased to VND2.7tn (USD117mn) as of the end of Q3 2018 from VND2.2tn (USD96mn) as of Q3 2017. The purpose of the increase in mostly long-term debt was mainly to finance its project pipeline, including new IPs such as Nam Son Hap Linh and Phuc Ninh UA. As a result, interest expenses increased 150% YoY to VND167bn (USD7mn) in 9M 2018. However, we note net debt/equity has remained stable at 21% as of the end of Q3 2019 vs 20% as of Q3 2017.

Figure 1: KBC's 9M 2018 results

VND bn	Q3 2017	Q3 2018	Q3 2018 vs Q3 2017	9M 2017	9M 2018	9M 2018 vs 9M 2017	% VCSC's 2018F
Net revenue	**526**	**657**	**24.9%**	**1,010**	**1,661**	**64.4%**	**73.2%**
Gross profit	**258**	**416**	**61.1%**	**532**	**958**	**80.1%**	**75.4%**
SG&A expenses	(42)	(91)	117.1%	(122)	(190)	55.7%	83.6%
Operating profit	**216**	**325**	**50.3%**	**410**	**768**	**87.3%**	**73.7%**
Financial income	19	21	10.3%	414	60	-85.6%	82.8%
Financial expenses	(29)	(45)	55.2%	(69)	(156)	126.3%	93.3%
Net other income/(expense)	(1)	(3)	135.2%	10	1	-87.2%	9.2%
PBT	**206**	**299**	**45.3%**	**765**	**673**	**-12.0%**	**70.0%**
NPAT	**160**	**237**	**48.3%**	**573**	**528**	**-7.8%**	**72.1%**
Reported NPAT-MI	**129**	**220**	**70.5%**	**543**	**489**	**-9.9%**	**70.6%**
Underlying NPAT-MI*	**129**	**220**	**70.5%**	**259**	**489**	**88.8%**	**70.6%**
GPM	*49.1%*	*63.3%*		*52.7%*	*57.7%*		
OPM	*41.1%*	*49.5%*		*40.6%*	*46.3%*		
NPM	*24.5%*	*33.5%*		*53.7%*	*29.4%*		
Underlying NPM	*24.5%*	*33.5%*		*25.6%*	*29.4%*		

Source: KBC, VCSC

* Excluding one-off financial gain and its tax effect

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Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
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SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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