

November, 2018

KINH BAC DEVELOPMENT HOLDING CORP (HSX: KBC)
Strong leases ahead

(VND bn)	3Q-FY18	2Q-FY18	+/- qoq	3Q-FY17	+/- yoy
Net revenue	657	352	+87%	526	+25%
PAT	237	61	+288%	160	+48%
EBIT	325	123	+164%	216	+50%
EBIT margin	49%	35%	+14 bps	41%	+8 bps

Source: KBC, Rong Viet Securities

9M 2018 – Impressive growth as industrial park leases soared

- 9M 2018's revenue and NPAT-MI came at VND 1,661 billion (+64% YoY) and VND 489 billion (-10% YoY), respectively. Gross margin increased to 58% from 53% over the same period last year. Interest expenses surged 138% and was in line with our expectations. The bottom line would have increased 89% if the previous one-off gain, from selling the Lotus, was excluded.
- About 78 ha were leased in 9M, in which Que Vo 2 and Trang Due 2 contributed 63% of that. The Phuc Ninh urban area contributed VND 91 billion in revenue as 0.56 ha was booked.

FY2019 - Expecting the first lease contribution from Nam Son Hap Linh & a notable handover from Phuc Ninh

Northern leasing activities should remain buoyant in FY2019 as demand stays strong, underpinned by (1) manufacturing shift from China and (2) enhanced production activities in the northern region. Kinh Bac, in particular, has advantages in attracting vendors from its major tenants. LG Display, Foxconn, Canon and JA Solar are the ones that attract the most customers. The company is under negotiation with several suppliers of JA Solar and Apple in Quang Chau and Que Vo 2. We suppose that Nam Son Hap Linh will contribute 30 ha to a total of 110 ha land leased in FY2019. On the other hand, we assume Phuc Ninh to hand over 2.8 ha of land plots as the ongoing construction is reaching the final stages. Rong Viet projects FY2019 revenue and NPAT-MI to increase 17% and 13% respectively.

Valuation and recommendation

Rong Viet Securities maintains positive standpoints on KBC's core business given its (1) perennial experience on developing industrial parks and (2) remaining huge land bank in favorable locations. These two advantages make the company avail from the escalating rental demand in the northern region. Kinh Bac currently has about 442 ha available for short term leases. The latter figure is expected to be around 1,045 ha when fully counting Trang Due 3 and Nam Son Hap Linh. Clusters in Bac Ninh and Hai Phong are where most of the manufacturing activities are present. These hubs should be top of the heap given its availability of specialized input providers and access to similar workers. In short to mid-term, sales from Phuc Ninh with 22 ha of land lots is another growth driver. We apply an RNAV method to evaluate the stock. Our target price is down 4% to **VND 15,600 value per share**, mostly due to revaluation adjustments, giving us a FY2018 P/E of 9.6x. We reiterate our **BUY** rating on KBC with **a 20% potential upside**, as of the closing price on November 27th, 2018.

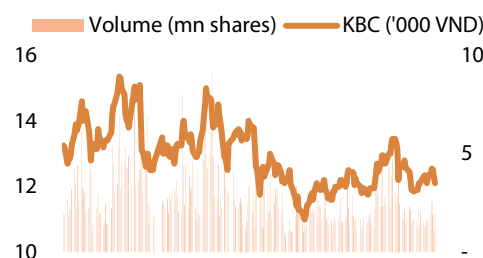
BUY +20%

Target price (VND)	15,600
Current market price (VND)	12,950

Stock Info

Sector	Industrial RE
Market Cap (VND billion)	6,083
Current Shares O/S	469,760,000
Avg. Daily Volume (in 20 sessions)	1,787,154
Free float (%)	49
52 weeks High	15,350
52 weeks Low	11,000
Beta	0.7

	FY2017	Current
EPS	1,244	1,230
EPS Growth (%)	4.8	-9.0
Diluted EPS	1,244	1,230
P/E	10.7	11.5
P/B	0.8	0.7
EV/EBITDA	16.8	10.4
Cash dividend yield (%)	-	-
ROE (%)	6.8	6.2

1-year price performance

Major Shareholders (%)

Mr. Dang Thanh Tam	16.0
Kinh Bac Investment & Consulting	9.6
Foreign ownership room (%)	30.6

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Exhibit 1: 3Q 2018 Results

(VND Bn)	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	+/- (yoy)
Net revenue	657	352	+87%	526	+25%
Gross profit	416	173	+140%	258	+61%
SG&A	-91	-50	+82%	-42	+117%
Operating income	325	123	+164%	216	+50%
EBITDA	336	131	+156%	226	+49%
EBIT	325	123	+164%	216	+50%
Financial expenses	-45	-56	-20%	-29	+55%
- Interest Expenses	-55	-55	+0%	-32	+72%
Dep. and amortization	10	8	+25%	10	+0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	299	85	+252%	206	+45%
PAT	237	61	+288%	160	+48%
(*) Adjusted PAT	220	61	+261%	129	+71%

Source: KBC, Rong Viet Securities

Exhibit 2: 3Q 2018 Performance Analysis

Particulars	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	63%	49%	+1400 bps	49%	+1400 bps
EBITDA Margin	51%	37%	+1400 bps	43%	+800 bps
EBIT Margin	49%	35%	+1400 bps	41%	+800 bps
Net Margin	36%	17%	+1900 bps	30%	+600 bps
Adjusted Net Margin	33%	17%	+1600 bps	25%	+800 bps
Turnover *(x)					
-Inventories	0,1	0,1	+0 bps	0,1	+0 bps
-Receivables	1,3	1,4	-10 bps	1,2	+10 bps
-Payables	6,6	9,2	-260 bps	9,4	-280 bps
Leverage (%)					
Total Debt/ Equity	28%	29%	-100 bps	24%	+400 bps

Source: Rong Viet Securities

Exhibit 3: 4Q 2018 Performance Forecast

Particulars (VND Bn)	4Q-FY18	+/- qoq	+/- yoy
Revenue	668	+2%	+167%
Gross profit	333	-20%	+182%
EBIT	293	-10%	+365%
NPAT	166	-30%	+260%

Source: Rong Viet Securities

Update

Industrial park leases skyrocketed.

9M FY2018's consolidated leases revenues was VND 1,427 billion (+155% YoY). About 78 ha were leased out. Gross margin rose to 59% in 9M compared to 50% over the same period in the previous year. Average selling price might increase about 10% and 4% in Que Vo 2 and Trang Due 2, respectively. These two zones account for 63% of land leased in 9M, corresponding to 49 ha. This probably contributed to the rise of margin level YTD. On the other hand, Tan Phu Trung saw a strong increase of land leased, with 15 ha recorded (+50% YoY). Quang Chau also leased 14 ha, where most tenants are JA Solar's satellites.

Table 1: Leasing status in 9M FY2018

#	Industrial Parks	9M FY2018 leased (ha)	Revenue (VND billion)	Remaining leasable (ha)	Occupancy (%)
1	Que Vo 1	-	-	6	97%
2	Que Vo 2	37	762	19	89%
3	Quang Chau	14	179	130	53%
4	Trang Due 1	-	-	1	99%
5	Trang Due 2	12	233	18	86%
6	Nam Son Hap Linh	-	-	66 ^(*)	0%
7	Tan Phu Trung	15	253	202	36%
	Total	78	1,427	442	

(*) Nam Son Hap Linh has about 66 ha leasable land under about 100 ha cleared at this time.

Source: KBC

Phuc Ninh is reaching the final stage of construction.

About 0.56 ha of land was booked in 9M FY2018. Revenue from Phuc Ninh came at VND 91 billion (-53% YoY). Gross margin was around 53%, giving VND 48 billion of gross earnings. The project has about 22 ha of saleable land at this time. According to the company, 6 ha were sold YTD and are under construction. KBC plans to hand over 4 ha of land in FY2018 and recorded about VND 800 billion in revenues. The handover phase is expected to be in 4Q FY2018 or FY2019 though.

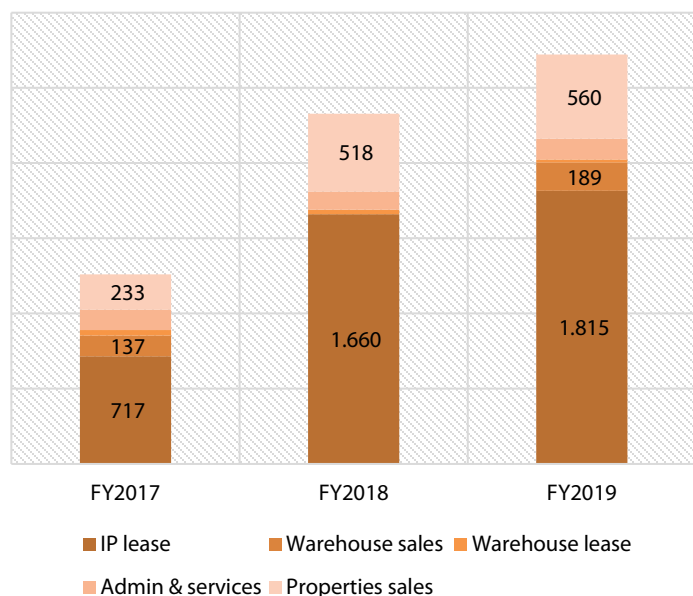
Rong Viet thinks leasing results will continue to be buoyant while we are not confident on the handover progress from Phuc Ninh in 4Q FY2018. We accordingly keep a conservative forward-looking from Phuc Ninh with 2.6 ha booked in FY2018. Our FY2018 forecast comes to VND 2,328 billion in revenue (+85% YoY) and VND 619 billion in NPAT-MI (+6% YoY). The comparison would make more sense if we exclude VND 354 billion from the one-off gain in financial income in FY2017. Thereby, the FY2018 bottom line would increase 89% YoY as our estimates. Here are our key assumptions:

- Industrial parks to lease 100 ha with revenues of VND 1,660 billion (+132% YoY);
- Phuc Ninh urban area to book 2.6 ha, equal to VND 518 billion of revenue (+122% YoY);
- Administration and services to generate VND 121 billion of revenue (-12% YoY);
- Warehouse leases to record VND 29 billion of revenue (-21% YoY);
- No warehouses are sold during the year.

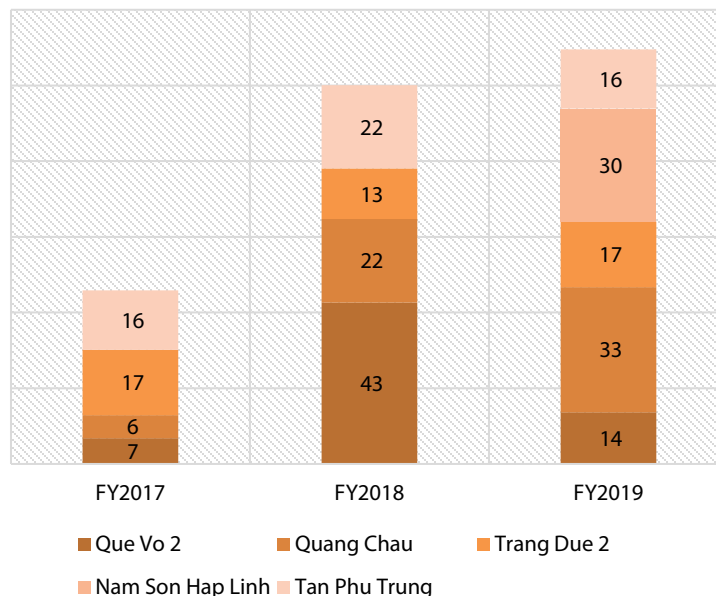
For FY2019, Rong Viet retains a positive outlook on leasing activities and expects Phuc Ninh to hand over a notable amount of land plots. In terms of leasing activities, we expect Nam Son Hap Linh to bring its first tenants in FY2019 as in our previous report. Our estimates suggest Que Vo 2 and Trang Due 2 to be fully occupied by the end of FY2019. Coupled with the sale kick-off from Nam Son Hap Linh, the leased area can even be bolstered in FY2019. Our forecasted revenue and NPAT-MI come at VND 2,722 billion (+17% YoY) and VND 701 billion (+13% YoY), respectively. We assume:

- Industrial parks to lease 110 ha;
- Phuc Ninh urban area to hand over 2.8 ha;
- Que Vo 2 to sell 3.5 ha of warehouses.

Rong Viet expects interest expenses to increase 138% YoY and decrease 4% YoY in FY2018 and FY2019, respectively. High interest and debt pressure should commence during FY2018 - 2020. However, current solid lease has backed up well for the company's debt obligations. We also note the possibility of recording two potential one-off income from transferring (1) 42 ha of Trang Due Urban Area and (2) a 2-hectare of commercial land in Ha Noi from FY2019 on.

Figure 1: FY2018 - 2019 forecasted revenue (VND billion)


Source: KBC, Rong Viet Securities

Figure 2: Lease assumptions (hectares)


Source: Rong Viet Securities

Valuation

We apply the RNAV method to evaluate the stock. Our fair value comes to **VND 15,600 value per share**, implying a **FY2018 P/E of 9.6x** and a potential upside of 20%, as of the closing price on November 23rd, 2018.

Table 2: KBC valuation

	NPV	Ownership (%)	Effective NPV
Que Vo 1	184	100%	184
Que Vo 2	445	100%	445
Quang Chau	891	77%	685
Trang Due 1	145	87%	125
Trang Due 2	295	87%	256
Nam Son Hap Linh	916	100%	916
Tan Phu Trung	1,057	63%	662
INDUSTRIAL PARKS	3,934		3,273
PHUC NINH URBAN AREA	1,021	100%	1,021
Total			4,295
(+) Net assets (adjusted)			3,055
Net asset value			7,349
Total outstanding shares (million shares)			469
Value per share			15,644

Source: Rong Viet Securities

	VND Billion			
INCOME STATEMENT	FY2016	FY2017	FY2018F	FY2019F
Revenue	1,972	1,260	2,328	2,722
COGS	-865	-611	-1,038	-1,374
Gross profit	1,107	650	1,290	1,348
Selling Expense	-33	-22	-91	-99
G&A Expense	-121	-155	-137	-163
Finance Income	39	431	65	60
Finance Expense	-99	-109	-261	-251
Other profits	22	19	5	16
PBT	921	812	868	911
CIT	-210	-193	-174	-117
Minority's Interest	-154	-34	-75	-93
PAT to Equity S/H	557	585	619	701
EBIT	953	473	1,062	1,086
EBITDA	981	513	1,081	1,106

	%			
FINANCIAL RATIO	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	37.5	-36.1	84.7	16.9
Operating Income	106.9	-47.7	110.8	2.3
EBITDA	113.9	-50.4	124.6	2.2
PAT	-8.9	4.9	5.9	13.1
Total Assets	7.4	7.7	5.1	2.0
Equity	7.5	7.6	7.5	7.9
Profitability (%)				
Gross margin	56.1	51.6	55.4	49.5
EBITDA margin	49.7	40.7	46.4	40.7
EBIT margin	48.3	37.5	45.6	39.9
Net margin	28.3	46.4	26.6	25.7
ROA	3.8	3.7	3.7	4.1
ROE	8.4	3.8	8.2	7.8
Efficiency				(times)
Receivable Turnover	0.5	0.3	0.5	0.5
Inventory Turnover	0.1	0.1	0.1	0.2
Payable Turnover	0.3	0.3	0.5	0.7
Liquidity				(times)
Current	3.9	4.1	4.1	4.9
Quick	1.4	1.6	1.8	2.3
Finance Structure (%)				
Total Debt/Equity	25.5	32.8	30.4	21.7
Current Debt/Equity	11.2	13.7	16.1	9.7
Long-term Debt/Equity	14.3	19.2	14.3	12.0

	VND Billion			
BALANCE SHEET	FY2016	FY2017	FY2018F	FY2019F
Cash and cash equivalents	295	505	956	1,372
Short-term investments	1	1	1	1
Accounts receivable	4,382	4,744	5,165	5,534
Inventories	8,244	8,323	8,165	7,634
Other current assets	89	158	189	208
Property, plant & equipment	445	404	411	420
Acquired intangible assets	0	0	0	0
Long-term investments	893	912	929	947
Other non-current assets	309	734	770	809
Total assets	14,658	15,780	16,586	16,925
Accounts payable	2,503	2,187	2,128	2,102
Short-term borrowings	863	1,132	1,432	932
Long-term borrowings	1,105	1,591	1,278	1,149
Other non-current liabilities	1,559	1,825	2,008	2,208
Bonus and Welfare fund	7	7	7	7
Technology-science, dev. fund	0	0	0	0
Total liabilities	6,036	6,742	6,853	6,398
Common stock and APIC	5,746	5,746	5,746	5,746
Treasury stock (enter as -)	-364	-364	-364	-364
Retained earnings	2,319	2,905	3,524	4,224
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	2	2	2	2
Total equity	7,703	8,288	8,908	9,608
Minority Interest	918	750	825	919

VALUATION RATIO (*)	FY2016	FY2017	FY2018F	FY2019F
EPS (VND)	1,186	1,244	1,318	1,492
P/E (x)	11.7	10.8	9.6	10.5
BV (VND)	16,397	17,644	18,962	20,454
P/B (x)	0.8	0.8	0.7	0.8
DPS (VND/share)	-	-	-	-
Dividend yield (%)	-	-	-	-

VALUATION MODEL	Price	Weight	Average
RNAV	15,644	100%	15,644

Target price (VND)			15,644
VALUATION HISTORY	Price	Recommendation	Period
2018/05/09	16,270	Buy	Long term
2018/11/27	15,644	Buy	Long term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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