

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%**

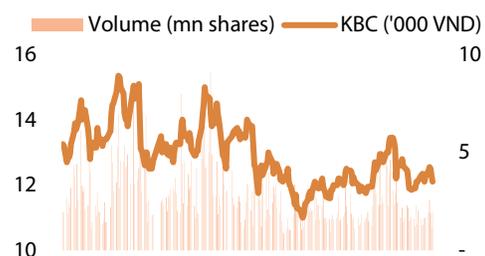
| | |
|----------------------------|--------|
| Target price (VND) | 15,600 |
| Current market price (VND) | 12,950 |

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:

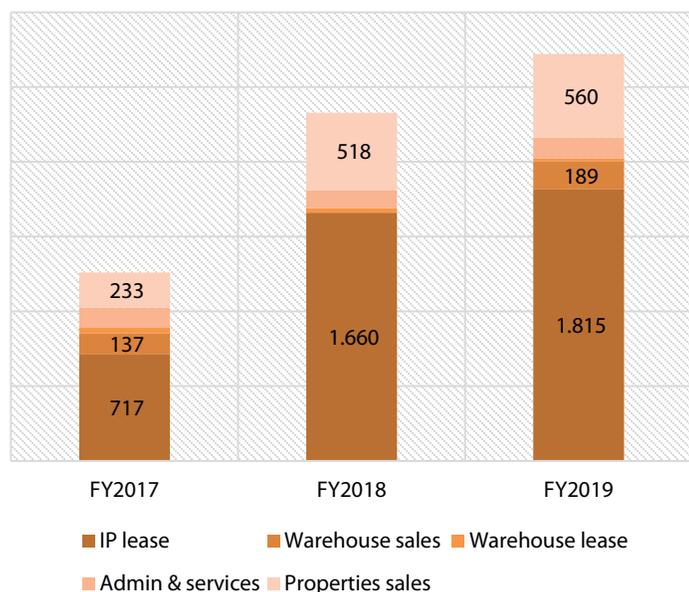
- Industrial parks to lease 100 ha with revenues of VND 1,660 billion (+132% YoY);
- Phuc Ninh urban area to book 2.6 ha, equal to VND 518 billion of revenue (+122% YoY);
- Administration and services to generate VND 121 billion of revenue (-12% YoY);
- Warehouse leases to record VND 29 billion of revenue (-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.

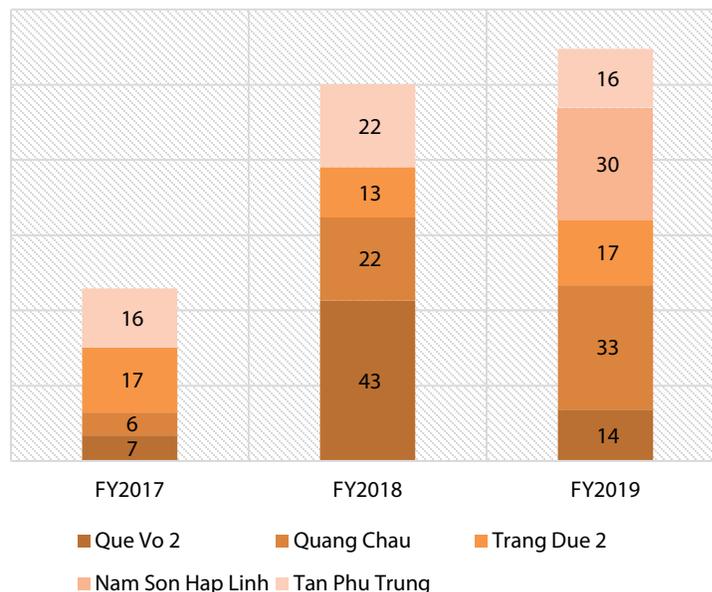
Rong Viet expects interest expenses to increase 138% YoY and decrease 4% YoY in FY2018 and FY2019, respectively. High interest and debt pressure should commence during FY2018 - 2020. However, current solid lease has backed up well for the company's debt obligations. We also note the possibility of recording 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.

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| 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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