Hold

Initiating Coverage

Analyst
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Price	**VND 74,600**
Target	**VND 70,700**
HNX-Index	**189.1**

Historical Chart

Performance	1m	3m	6m
Absolute (%)	32.7	108.4	112.5
Relative (%)	33.0	88.6	33.9

Stock Information

Ticker code	**KBC**
Market cap (VNDbn)	14,556
52-week high (VND)	76,400
52-week low (VND)	16,300
Shares issued (mn)	195.1
6m avg d.vol (VNDbn)	66.3
Free float (%)	n/a
Major shareholders (%)	
Dang Thanh Tam	33.9
Nguyen Thi Kim Xuan	7.5
Dang Thi Hoang Phuong	7.3
Saigon Invest Group	5.6

Key Indicators

ROE (%)	11.4
Net gearing (%)	10.2
NTA (VNDbn)	14,567
Interest cover (x)	16.8

VIETNAM

Kinh Bac JSC (KBC)

Fairly Valued!!

We are initiating our coverage on Kinh Bac JSC (KBC) with a **HOLD** recommendation. We have derived a target price of **VND 70,700** per share based on our discounted cash flows (DCF) model, implying a forward PER of 17.4x and a P/B of 3.3x. Although we like KBC, a company with deep asset value, strong track record, and expect strong earnings growth over the next few years, we believe that the Group is fairly valued at this moment.

A dominant industrial park developer

KBC is fast emerging as a dominant player in the construction of industrial parks (IPs) in the Northern region. So far, the Group has developed three IPs with a total area of about 1,438ha. As one of the key members of the Saigon Invest Group (SGI), KBC is expected to take over a number of IP projects from SGI in the future. We gather from the management that the total area of the potential IPs that the Group may develop could amount to about 6,480.0ha, representing 13.0% of the total IP development area in Vietnam.

Resilient to the intensified competition in the sector….

As of the end of 2008, the total IP area in Vietnam was 61,472ha with 36,950ha fully developed. Nonetheless, we gather that only 17,000ha of the IPs have been leased out, implying an average coverage ratio of 46.0%. The low coverage ratio could intensify the competition among the IP developers to secure tenants. Despite increased competition in the sector, we believe that KBC, being one of the largest domestic IP developers, will continue to fill up the leasable area of its IPs, given its strong track record and reputation among foreign investors.

High double digit growth rate!!

We have forecasted high double digit earnings growth rates for the Group in 2009 and 2010, assuming that an additional 10.0– 15.0% of its remaining leasable area at IPs are taken up and strong earnings contributor from its non-IP related property projects.

Year End Dec 31	2006	2007	2008	2009E	2010F
Sales (VNDmn)	164.1	538.6	861.0	1,018.8	1,776.0
Pre-tax (VNDmn)	46.9	427.5	453.1	639.1	941.2
Net profit (VNDmn)	46.9	320.4	280.1	531.2	790.6
EPS (VND)	705	1,695	1,446	2,722	4,052
EPS growth (%)	-	140.5	(14.7)	88.3	48.8
PER (x)	105.9	44.0	51.6	27.4	18.4
EV/EBITDA (x)	259.6	47.6	29.4	24.4	12.7

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Investment Merits

We are initiating our coverage on KBC with a **HOLD** recommendation. We have derived a target price of **VND 70,700** per share based on our DCF model, implying a forward PER of 17.4x and a P/B of 3.3x. Although we like KBC, a company with deep asset value, strong track record, and expect strong earnings growth over the next few years, we believe that the Group is fairly valued at this moment.

Large landbanks for industrial park and property developments

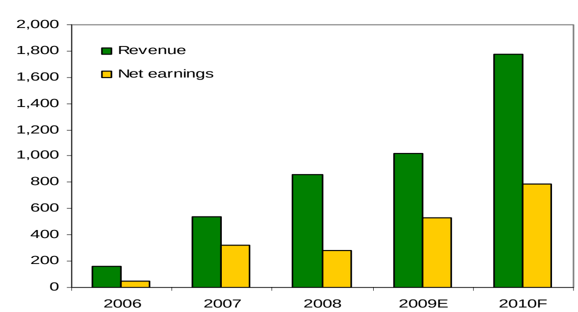
KBC is fast emerging as a dominant player in the construction of industrial parks (IPs) in the Northern region. So far, the Group has developed three IPs with a total area of about 1,438ha. These are Que Vo IP (Bac Ninh province), Quang Chau IP (Bac Giang province) and Trang Due IP (Hai Phong province). As one of the key members of the SGI, KBC is expected to take over a number of IP projects from SGI in the future, which include Chan May (Hue), Tan Phu Trung (HCMC), Nhon Hoi (Binh Dinh). We gather from the management that the total area of the potential IPs that the Group may develop (inclusive of SGI's IPs to be taken over) could amount to about 6,480.0ha, representing 13.0% of the total IP development area in Vietnam.

KBC is one of the first few IP developers that have initiated projects to develop residential areas surrounding IPs to meet the housing demand of expatriates and Vietnamese workers. This has provided the Group with a competitive edge compared to its peers since it enhances the quality of its IP product offerings. With its large landbank in the Northern region, the Group has also expanded its business scope by venturing into the non-IP-related residential and commercial developments to diversify its income streams.

Impressive earnings growth!

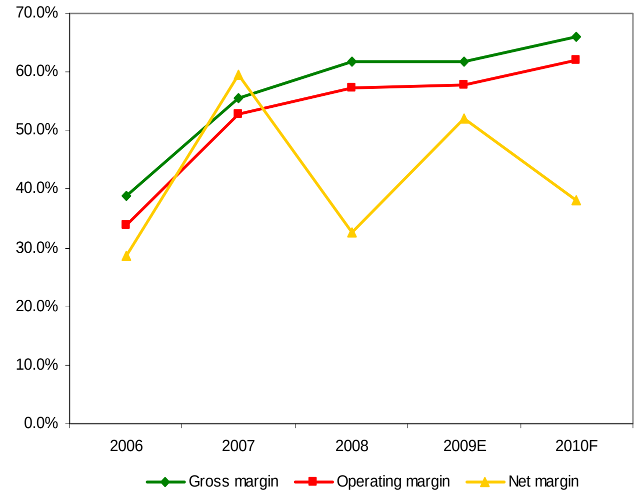
Back in 2007 and 2008, KBC's topline and bottomline grew impressively by compounding annual growth rates (CAGRs) of 129.1% and 144.4%, respectively, mainly due to the contributions from the Que Vo IP and Quang Chau IPs, coupled with the property development project in the Phuc Ninh urban area. Given that land compensation costs constitute a significant portion of KBC's cost of sales, the management has strived to reach a compensation payout agreement in the early development phase to minimise its costs. With the successful execution of such strategies, the Group's gross and operating margins had improved substantially from 2006 to 2008. However, the aggressive expansion of both equity and asset bases in the past two years had resulted in lower ROA and ROE. We expect these ratios to gradually improve going forward.

Figure 1: KBC's Key Financial Information



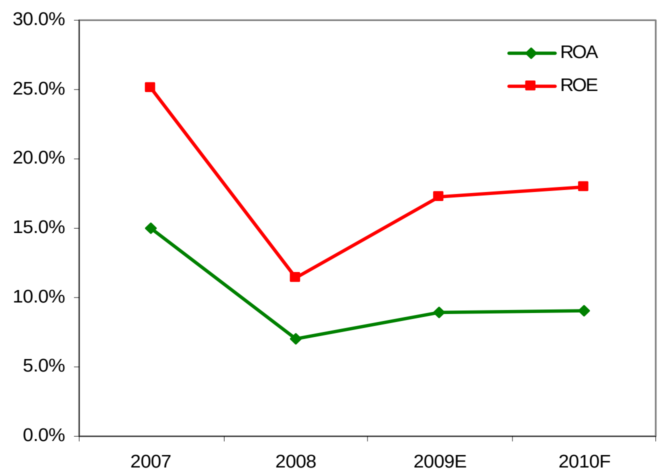
Source: Company data, Kim Eng

Figure 2: KBC's Profit Margin



Note: The expected reduction of net margin in 2010 was mainly due to the potential higher tax rate
Source: Company data, Kim Eng

Figure 3: KBC's ROA and ROE



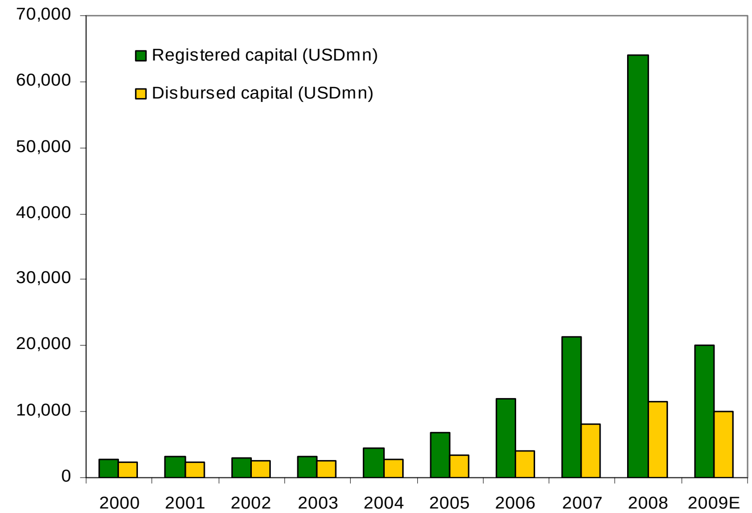
Source: Company data, Kim Eng

Sector Outlook

Attractive manufacturing destination favours the development of IPs.... Vietnam has been an attractive destination for foreign direct investment (FDI) in the past decade, supported by the country's gradual liberalisation, strong and impressive economic growth, its young and relatively low cost working population, and its increased global integration.

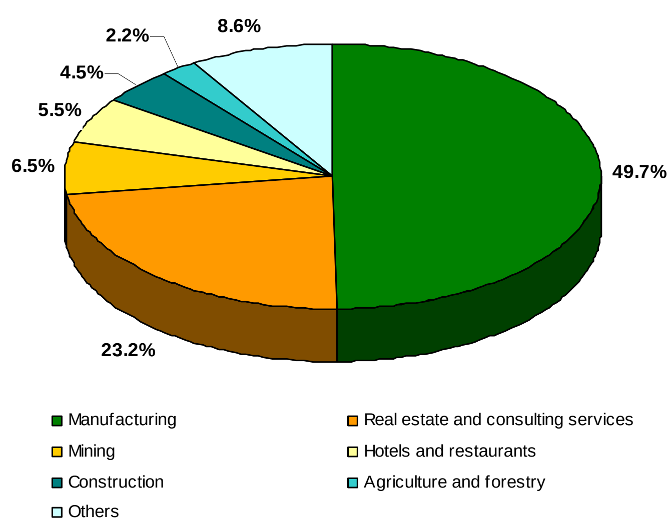
The registered and disbursed FDI grew by average rates of 41.4% and 19.1%, respectively between 2000 and 2008, with nearly 50% of its total FDI capital as of 2008 flowing into the manufacturing sector that favours the developments of IPs.

Figure 4: Foreign Direct Investment in Vietnam



Source: GSO, MPI

Figure 5: Foreign direct investment by sector up to 2008



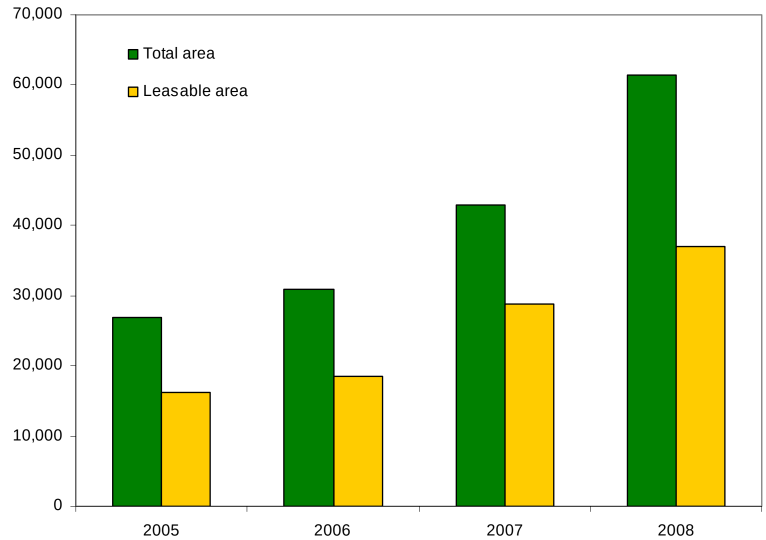
Source: GSO

… but so far supply far exceeds demand

According to the Government's Master Plan for industrial park development, the total IP area is expected to reach 45,000 – 50,000ha in 2010 and 65,000 – 70,000ha in 2015. In fact, we observe that the development of industrial parks has been ahead of the master plan.

Based on a survey done by the Ministry of Planning and Investment (MPI), the total IP area in Vietnam was 61,472ha with 36,950ha fully developed. As of the end of 2008, there were 108 units of IPs that were fully developed and 101 units of IPs under construction. Nonetheless, we gather that only 17,000ha of the IPs have been leased out, implying an average coverage ratio of 46.0%. The low coverage ratio could intensify the competition among the IP developers to secure tenants.

Figure 6: Total area of industrial parks in Vietnam



Source: MPI

Earnings Outlook

IP business segment continues to be its core earnings driver

Despite intensified competition in the sector, we believe that KBC, being one of the largest domestic IP developers, will continue to fill up the leasable area of its IPs, given its strong track record and reputation among foreign investors. We understand that the management has been actively sourcing new tenants. Their recent marketing trips to regional countries have helped the Group to secure leasing contracts from Japanese and Korean investors. Although KBC's first IP (Que Vo IP) has achieved 90.0% coverage ratio, the coverage ratios in the newly-developed IPs including Que Vo expansion, Quang Chau and Trang Due are only 20%, 20% and 10%, respectively. Therefore, we believe that the securing of tenants for the remaining leasable area of the IPs will contribute significantly to KBC's earnings. For 2009 and 2010, we are forecasting gross profits of VND 341bn and VND 542bn from the existing IPs, representing a y-o-y growth rate of 118% and 59%, assuming that an additional 10.0– 15.0% of its remaining leasable area at IPs are taken up.

We expect KBC to register a high earnings growth rate from this business segment up to 2013-2014. However, the growth rate could be moderate if KBC does not develop new IPs going forward.

Figure 7: KBC's Industrial Parks available for lease

No	IP	Total area (ha)	Leasable area (ha)	Coverage ratio	KBC's holding
1	Que Vo	311.6	202.5	90%	100%
2	Que Vo expansion	300.0	195.0	20%	100%
3	Quang Chau	426.0	276.9	20%	62%
4	Trang Due	400.0	260.0	10%	90%
	Total	**1,437.6**	**934.4**		

Source: Company data, Kim Eng

Residential and commercial projects to add value

As mentioned before, KBC is one of the first few IP developers that have initiated projects to develop residential areas surrounding IPs in order to meet the housing demand of expatriates and Vietnamese workers. In April, KBC started a low-cost housing project for workers in Que Vo IP with a total investment of VND 1,500bn. The Group also plans to develop a residential project near its Quang Chau IP to meet the accommodation needs of the IP's engineers and workers, which in turn enhances the attractiveness of the Group's IPs to its (potential) tenants.

The Group has also ventured into non-IP-related residential and commercial developments, to diversify its income streams. At present, the Group is developing the first phase of the Phuc Ninh residential area in Bac Ninh province. The project has generated revenue and gross profit of VND 1,118.0bn and 942.4bn in 2008, contributing more than half of its gross profit in these two years. The high gross profit margin was mainly due to the direct disposal of land to investors. We expect the management to continue engaging in land disposal exercise and this segment will remain a significant profit contributor for the Group in 2009-2010.

Besides that, the Group has launched some commercial developments to sustain its earnings over the next few years. These projects are listed below.

Figure 8: KBC's new commercial complex projects

Project	Area (ha)	Investment (USDmn)	Plan
Hotel & commercial complex in My Dinh, HN	4.2	250.0	Starting 4Q09
Kinh Bac Hanoi Tower at Lang Ha, HN	n/a	100.0	4Q09 – 2011
Hotel & Office Complex in Xuan Dinh, HN	2.0	500.0	2010 – 2012
Total		850.0	

Source: Company data

Investment Risks

We believe that investing in KBC is subject to the following risks:

Challenges in securing project funding

With the continued development of its IPs, and the new residential and commercial projects in the pipeline, KBC will need a considerable amount of capital to finance those projects. In particular, the total funding requirement for the three new commercial complex projects scheduled to kick off this year amounted to USD850.0mn and the Group is still sourcing for funds. Financing these projects through a new share issuance could cause massive dilution to its existing shareholdings.

Decline in foreign direct investment (FDI) inflows

The IP development business in Vietnam is highly dependent on FDI inflows into the country. Therefore, a decline in FDI inflows into Vietnam due to economic downturn, or Vietnam's lower competitiveness in FDI attraction, would adversely affect the Group's earnings.

Exposure to the property market's cycle

As a property developer, KBC is exposed to the volatility of the property cycle. The Group would suffer should the economy and the property market slow down unexpectedly going forward.

Valuation

We have adopted a DCF model to value the Group. In our DCF model, we have applied a discount rate of 13.0% and a terminal growth rate of 5.0%, considering future projects in the pipeline that will boost the Group's earnings going forward. We have derived a target price of **VND 70,700**, which implies a forward PER of 17.4x and a P/B of 3.3x.

Figure 9: KBC's valuation

Valuation	Value (VNDbn)	Note
Discounted Cash Flow	12,270.0	@ WACC of 13.0%
Investment portfolio	2,733.1	Market value for listed stocks
Less: Net debt	(1,210.5)	
Total Value (VNDbn)	**13,792.6**	
Outstanding shares (mn)	195.1	
Value per share (VND)	**70,686**	

Source: Kim Eng

Appendix

I. Company overview

KBC was established in 2002 as a subsidiary of Saigon Invest Group (SGI). One year after the incorporation, the Group developed its first industrial park, Que Vo IP in the Bac Ninh province, with an area of 300ha in 2003. So far, it has developed three industrial parks in the North of Vietnam. Recently, the Group has expanded its business scope to development of its residential and commercial areas.

II. Subsidiaries and affiliated companies

The Group has four subsidiaries and nine affiliated companies, as presented in the following tables.

Figure 10: List of subsidiaries

No	Name	Province	Registered capital (VNDbn)	KBC's holding
1	Saigon - Bac Giang Industrial Park JSC	Bac Giang	200.0	62.0
2	Kinh Bac Investment & Trading JSC	Hanoi	20.0	70.0
3	Saigon - Binh Dinh Paper JSC	Binh Dinh	600.0	53.3
4	Saigon - Hai Phong Industrial Park JSC	Hai Phong	100.0	90.0

Source: Company data

Figure 11: List of affiliates

No	Name	Registered capital (VNDbn)	KBC's holding (%)
1	Saigon - Ca Mau Infrastructure JSC	50.0	20.0
2	Saigon Hi-tech Park Infrastructure Investment & Development JSC	300.0	20.0
3	Saigon - Tay Nguyen Investment JSC	100.0	40.0
4	Saigon - Dung Quat Investmetn JSC	200.0	40.0
5	Hong Ha - Cuu Long Commercial Manufacturing JSC	16.0	29.3
6	Mang Canh Investment & Development JSC	100.0	40.0
7	Saigon-Binh Phuoc Industrial Park JSC	100.0	20.0
8	Saigon-Da Nang Investment JSC	200.0	20.0
9	Saigon Investment Construction JSC		

Source: Company data

III. Shareholding

Figure 12: Major shareholders

No	Name	No. of shares (mn)	% shareholding
1	Mr. Dang Thanh Tam	67.5	33.90
2	Ms. Dang Thi Hoang Phuong	14.6	7.34
3	Ms. Nguyen Thi Kim Xuan	14.9	7.49
4	Saigon Invest Group	11.2	5.65

Source: Company data

IV. Upcoming events

- KBC's listing will be transferred from HNX to HOSE in December.
- The Group plans to issue bonus shares at a ratio of 10:3 to raise its chartered capital from VND 2,000bn to VND 2,600bn.

Profit and loss

YE Dec (VNDbn)	2006	2007	2008	2009E	2010F
Sales	**164.1**	**538.6**	**861.0**	**1,018.8**	**1,776.0**
Cost of goods sold	(100.2)	(238.9)	(330.1)	(390.1)	(604.6)
Gross profit	**63.8**	**299.7**	**530.9**	**628.7**	**1,171.3**
Operating expenses	(8.0)	(15.1)	(38.1)	(40.8)	(71.0)
Operating profit	**55.8**	**284.7**	**492.8**	**588.0**	**1,100.3**
Net financial income/loss	(8.9)	123.0	(40.2)	51.1	(159.1)
Net other non-op. JV+Assoc.	(0.0)	19.8	0.5	-	-
Net extraordinaries	-	-	-	-	-
Pretax profit	46.9	427.5	453.1	639.1	941.2
Income taxes	-	(107.2)	(167.6)	(79.9)	(117.7)
Minority interests	-	-	(5.4)	(28.0)	(32.9)
Net profit	**46.9**	**320.4**	**280.1**	**531.2**	**790.6**
EBITDA	57.1	286.2	494.5	589.8	1,103.2
EPS (VND)	705	1,695	1,446	2,722	4,052

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (VNDbn)	2006	2007	2008	2009E	2010F
Operating cash flow	**107.8**	**433.8**	**104.6**	**328.9**	**889.0**
Operating profit	46.9	428.3	453.8	639.1	941.2
Depreciation & amortisation	1.3	1.5	1.7	1.8	2.9
Change in working capital	73.5	195.2	(354.9)	142.1	(92.4)
Others	(14.0)	(191.3)	4.0	(454.1)	37.3
Investment cash flow	**(560.6)**	**(1,868.7)**	**(969.5)**	**(466.2)**	**(486.5)**
Net capex	(256.9)	(303.5)	(233.8)	(203.8)	(355.2)
Change in LT investment	(303.9)	(1,718.4)	(792.1)	(262.7)	(131.3)
Change in other assets	0.1	153.2	56.3	0.3	-
Cash flow after invt.	(452.8)	(1,434.9)	(864.9)	(137.2)	402.5
Financing cash flow	**416.5**	**1,585.6**	**837.5**	**1,478.5**	**-**
Change in share capital	**303.7**	**1,567.3**	**723.3**	175.7	-
Net change in debt	112.8	18.3	109.4	1,302.8	-
Change in other LT liab.	-	-	4.7		-
Net cash flow	**(36.3)**	**150.6**	**(27.4)**	**1,341.3**	**402.5**

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (VNDbn)	2006	2007	2008	2009E	2010F
Total assets	**1,027.4**	**3,237.0**	**4,780.9**	**7,178.7**	**7,972.5**
Current assets	257.8	1,623.4	1,487.7	3,422.3	3.732.5
Cash & ST investment	7.0	1,240.4	440.3	1,881.7	2.284.2
Inventories	-	-	-	-	-
Accounts receivable	245.1	381.0	1,041.0	1,471.1	1.448.3
Others	5.6	1.9	6.4	69.5	-
Other assets	769.6	1,613.6	3,293.1	3,756.4	4,240.0
LT investments	332.3	915.4	2,362.7	2,625.4	2,756.6
Net fixed assets	437.1	697.0	929.1	1,131.0	1,483.4
Others	0.2	1.2	1.4	-	-
Total liabilities	**601.1**	**996.1**	**1,958.9**	**3,612.9**	**3,612.9**
Current liabilities	374.8	727.1	1,711.8	2,062.9	2,062.9
Accounts payable	4.8	41.7	5.5	58.7	40.7
ST borrowings	54.4	30.0	161.3	161.3	161.3
Others	315.6	655.4	1,545.1	1,843.0	1,860.9
Long-term liabilities	226.3	269.0	247.1	1,549.9	1,549.9
Long-term debts	226.3	269.0	247.1	1,549.9	1,549.9
Others	-	-	-	-	-
Shareholder's equity	**426.4**	**2,240.9**	**2,821.9**	**3,565.9**	**4,359.6**
Paid-in capital	295.7	1,788.0	2,449.3	2,625.0	2,625.0
Reserve	11.5	-	2.2	2.2	2.2
Minority interests	48.0	71.0	86.4	129.0	129.0

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2006	2007	2008	2009E	2010F
Growth (% YoY)					
Sales	-	228.3	59.9	18.3	74.3
Operating profit	-	410.3	73.1	19.3	87.1
EBITDA	-	401.1	72.8	19.3	87.0
Net profit	-	583.3	(12.6)	89.7	48.8
EPS	-	140.5	(14.7)	88.3	48.8
Profitability (%)					
Gross margin	38.9	55.6	61.7	61.7	66.0
Operating margin	34.0	52.9	57.2	57.7	62.0
EBITDA margin	34.8	53.1	57.4	57.9	62.1
Net margin	28.6	59.5	32.5	52.1	44.5
ROA	-	15.0	7.0	8.9	10.4
ROE	-	25.2	11.4	17.2	20.6
Stability					
Gross debt/equity (%)	74.3	13.8	14.9	49.7	40.4
Net debt/equity (%)	72.5	6.5	10.2	7.0	(3.9)
Int. coverage (X)	6.8	9.3	16.8	2.9	5.4
Int. & ST debt coverage (X)	-	3.9	3.9	1.6	3.0
Cash flow int. coverage (X)	-	6.5	9.1	0.8	3.4
Cash flow int. & ST debt (X)	-	2.7	2.1	0.5	1.9
Current ratio (X)	0.7	2.2	0.9	1.7	1.8
Quick ratio (X)	0.7	2.2	0.9	1.6	1.8
Net cash/(debt) (VNDbn)	(273.7)	(141.3)	(278.8)	(239.7)	162.9
Per share data (VND)					
EPS	705	1,695	1,446	2,722	4,052
CFPS	-	1,047	1,381	873	3,602
BVPS	5,676	11,481	14,007	17,630	21,682
SPS	2,466	2,850	4,444	5,221	9,102
EBITDA/share	859	1,514	2,553	3,023	5,654
DPS	-	-	-	-	-

Source: Company data, Kim Eng estimates

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+15% and above: BUY
-15% to +15%: HOLD
-15% or worse: SELL

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