KINH DO CORPORATION - UPDATE

GENERAL INFORMATION

Sector	Food & Beverage
Listed	HOSE
Ticker	KDC
Charter Cap. (VNDbn)	571.1
52-week highest price (VND)	79,200
52-week lowest price (VND)	18,600
Avg trading vol in 10 days	199,877

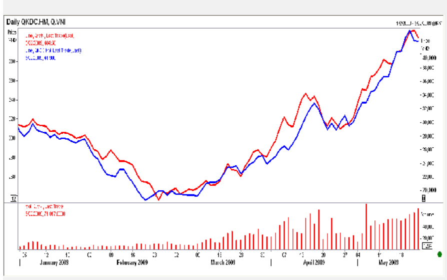
VALUATION MEASURES

Price (02/06/2009)	47,000
Market Capital (VNDbn)	2,684.4
EPS trailing (VND)	1,949
P/E trailing (x)	24.1
P/E forward 2009 (x)	15.8
P/B (x)	1.3
EV/EBITDA 2009 (x)	8.4

FINANCIAL RATIOS Q1-2009

Revenue (VNDbn)	257.6
Net Income (VNDbn)	14.1
Gross margin (%)	24.4
Net margin (%)	5.5
Total Debt/Total Equity (%)	22.8
ROA (%)	3.8
ROE (%)	5.2
EPS (VND)	247

SHARE PRICE PERFORMANCE



Source: Reuters

Company highlights

- Ended Q1-2009, KDC achieved VND 257.6bn in net revenue, slightly up by 0.9% compared to Q1-2008. About 10% of this revenue was generated from export activity. The company's main export markets include Japan, Korea, and other Asian countries. However, gross profit in Q1-2009 just reached VND 63bn, decreasing by 10.9% compared to the same period last year. Gross margin in Q1-2009 was 24.4% versus 27.7% of Q1 LY. According to KDC, one of the main reasons caused higher GM in Q1 LY was thanks to sales of high margin products used for Tet season. On the other hand, GM in Q1-2009 was higher than 21.8% GM in Q4 LY, which was mainly explained by high raw materials costs used in Q4 LY.
- Net profit in Q1-2009 was only VND 21.5bn, a 59.1% decrease compared to Q1-2008. Most expenses including selling expense, administration expense and interest expense in Q1-2009 were almost double those in Q1 LY. Normally, higher revenue and income are generated in Q3 and Q4 due to high sale seasons. KDC hence usually allocates higher expenses in the second half to lower expenses and to support the bottom line in the first half of the year. However, considering many difficulties and challenges in this year, KDC expects its performance in 2H-2009 will not be as favorable as previous years so that the company actively allocated more S&A expenses in Q1 to reduce cost burden for the second half, causing lower net income in Q1-2009.
- Short term financial investment in Q1-2009 was up by VND 34.5bn from end of 2008 due to increases in inter-company loans. In total VND 677.5bn short term financial investments, inter-company loans held up to VND 600bn (or 88.6%). As the company plans to spend about VND 270bn investment into real estate projects this year, KDC targets to bring down the internal loans by 50% to enhance cash and to finance for its projects. Long term financial investments in Q1-2009 was also up a little bit as the company spent more on its current projects such as the SJC tower and the KDC office tower at 141 Nguyen Du st. For financial investment restructuring this year, KDC is considering plan to exit its investment in Eximbank.
- According to KDC, Q2 revenue is expected to be higher than Q1 by 5%. Raw material inventories at the end of 2008 are used up in Q2 and accounts for half of total raw materials used in the production. However, maintaining gross margin in Q2 is not an easy task for KDC as input costs including sugar price and milk price are in the upward trend, causing higher production cost. In addition, about VND 220bn construction in progress at the end of Q1-2009, which is investment cost for the new factory at Binh Duong, will be transferred into fixed assets in Q2-2009. As a result, higher depreciation cost will push up COGS and to some extend restrict the improvement of gross margin.
- KDC is pursuing the following Real Estate Projects this year:
  - *SJC – Le Loi office building project* – KDC contributes 50% charter capital, equivalent to VND 293bn into this project. The company has put in VND 186bn and plans to add VND 100bn more this year. The project will be completed by next year.
  - *Kinh Do office building project at 141 Nguyen Du, HCMC* – for which KDC donates VND 38bn which is mainly financed by cash taking back from internal loans. This project will be completed by September this year and KDC will move its current office in Thu Duc District to this new building.

- The area at Thu Duc District is then used for another project named Hiep Binh Phuoc – Thu Duc Building project. This is quite a long term project which will be started next year.

2009 Outlook

- KDC target revenue and profit before tax for the year 2009 are VND 1,747bn and VND 256bn, respectively. This is an optimistic outlook from KDC point of view as the company expects to gain 20% in revenue and strong income recovery from the loss last year. For the 20% increase in revenue, price is expected to increase by 5-10% while sales volume is expected to increase by 10-15%. With the new factory located in VSIP applying leading technology, KDC promises to provide its customers higher quality, healthier and more diversified products. Currently, this new factory only runs at 60% designed capacity yet it is well prepared for the increase in capacity in the future as KDC enhances its sales volume and market share.

- KDC's main strategies for this year are maintaining its market share and upgrading its competitive advantages by focusing on high margin and well-known products such as Aloha, AFC, breads, moon-cake… as well as focusing on the segmentation of big customers, especially the medium income group. Moreover, KDC will continue strengthening its distribution system, exploiting new export markets and launching new products.

- Dividend payment in 2009 will be 2,400 VND/share, which will be drawn from capital surplus rather than retained earnings.

Analyst Opinion

- We anticipate that it is a challenge year for KDC to achieve its targets. Profit before tax in 2008 if excluding provision for financial investments would be VND 194bn. However, under this year situation, KDC foresees that business performance in the high seasons will not be as favorable as in previous years. Even profit before tax in Q1-2009 only equals to half of Q1 last year and just meets 8.5% whole year EBT target. Therefore, we reckon that the VND 256bn profit before tax target of KDC for this year is very optimistic.

- We forecast that KDC's revenue in 2009 increases only 10% (including 5% increase in sales volume and 5% increase in price) compared to the previous year, which is equivalent to about VND 1,600bn. Gross margin is forecasted to slightly improve by 0.5% thanks to new factory efficiency and expected higher selling price to compensate for the increase in input costs. Profit before tax as according to our projection would be VND 197.6bn, of which we already take into account the reversal of provision for financial investment by almost VND 50bn (both short term and long term investments).

- With the current share price of VND 47,000, the company's valuation ratios are quite high compared to the industry average. The P/E forward 2009 of 15.8x makes the stock more expensive than other comparable stocks such as NKD and HHC although its P/B is quite fair to the average level. Moreover, VN-Index and KDC's stock might experience a correcting period soon after being increased quite hot recently. We think that investors can start realizing profit at this price of KDC.

Comparables

	KDC	NKD	BBC	HHC	Average
Charter Capital (VND bn)	571.1	122.9	154.2	54.8	
Price @ 02-06-09 (VND)	47,000	41,800	28,600	20,600	
EPS forward 2009 (VND)	2,976	3,659	1,960	3,178	
P/E forward 2009 (x)	***15.8***	***11.4***	***14.6***	***6.5***	***12.1***
BPS (VND)	36,545	18,094	31,884	20,426	
P/B (x)	***1.3***	***2.3***	***0.9***	***1.0***	***1.38***
Revenue Q1-2009 (VND bn)	257.6	129.5	121.3	122.5	
Net income Q1-2009 (VND bn)	14.1	7.8	10.4	4.6	
% target revenue 2009	14.7%	15.6%	20.3%	27.2%	19.5%
% target income 2009	6.4%	17.4%	34.5%	26.4%	21.2%

SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND million)	2006A	2007A	2008A	Q1-2009	2009F
Net revenue	1,005,300	1,230,802	1,455,768	257,594	1,601,345
COGS	719,669	908,825	1,085,980	194,635	1,185,211
Gross Profit	285,631	321,978	369,788	62,959	416,134
Operating Profit	171,242	244,030	(27,749)	31,798	131,933
Profit before tax	160,680	222,469	(61,690)	21,697	197,552
Tax	-	(1,659)	(1,087)	173	27,657
Profit after tax			(60,603)	21,525	169,895
Minority Interest	-	-	24,713	7,389	33,979
PAT to the Company's shareholders	**160,680**	**224,127**	**(85,316)**	**14,136**	**135,916**

BALANCE SHEET (VND million)	2006A	2007A	2008A	Q1-2009	2009A
Current Assets	*460,247*	*1,754,629*	*1,474,434*	*1,352,676*	*1,334,746*
Cash & Equivalent	50,826	530,438	206,808	225,029	325,980
Short term financial investments	92,109	522,518	584,291	622,188	332,327
Provision for short term investments	-	*(4,932)*	*(58,732)*	*(55,289)*	*(44,049)*
Short term receivables	196,579	560,318	489,407	351,150	457,590
Inventory	120,403	136,272	181,656	135,146	194,829
Provision for inventory devaluation	*(576)*	*(395)*	*(1,165)*	*(1,196)*	-
Other short term assets	331	5,082	12,271	19,163	24,020
Non-Current Assets	*476,125*	*1,312,846*	*1,508,976*	*1,526,854*	*1,751,858*
Long term receivables	37,063	30,911	31,059	34,405	34,405
Fixed assets	258,219	480,860	749,092	755,361	689,770
Long term financial investments	178,777	797,351	673,385	716,836	1,017,956
Provision for long term investments	-	-	*(197,257)*	*(199,063)*	*(147,943)*
Other long term assets	2,066	3,725	55,440	20,251	44,132
TOTAL ASSETS	**936,373**	**3,067,475**	**2,983,410**	**2,879,530**	**3,086,604**
Current liabilities	303,771	467,800	663,885	541,825	683,777
Short term debt	171,257	263,003	335,922	320,172	344,936
Non-Current liabilities	47,299	125,713	172,041	170,806	173,642
Long term debt	34,874	112,410	156,029	156,029	156,029
Chartered Capital	300,000	469,997	571,149	571,149	571,149
Capital surplus	123,845	1,725,694	1,721,014	1,721,014	1,583,938
Retained earnings	123,085	181,798	(147,004)	(128,495)	41,400
Total Equity	585,303	2,453,494	2,075,923	2,087,270	2,123,645
Minority Interest	-	20,468	71,561	79,629	105,540
TOTAL CAPITAL	**936,373**	**3,067,475**	**2,983,410**	**2,879,530**	**3,064,675**

FINANCIAL RATIOS	2006A	2007A	2008A	Q1-2009	2009
Revenue growth rate y-o-y (%)	25.9	22.4	18.3	0.9	10.0
Gross margin (%)	28.4	26.2	25.4	24.4	26.0
Net margin (%)	16.0	18.2	(5.9)	5.5	8.5
ROA (%)	17.2	7.3	(2.9)	3.8	4.4
ROE (%)	27.5	9.1	(4.1)	5.2	6.4
EPS (VND)	5,356	4,769	(1,494)	247	2,976
EPS growth rate y-o-y (%)	41.3	(11.0)	(131.3)	(77.9)	n/a
BPS (VND)	19,510	52,202	36,346	36,545	37,182
BPS growth y-o-y (%)	(1.2)	167.6	(30.4)	(27.0)	2.3

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