KINH DO CORPORATION (KDC) - 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	371,288

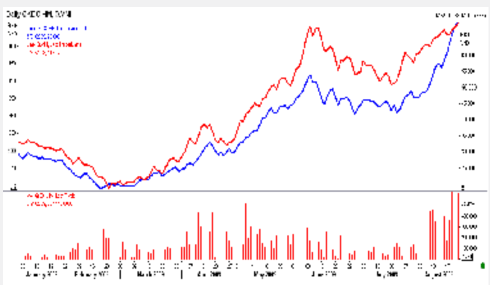
VALUATION MEASURES

Price (25/08/2009)	68,500
Market Capital (VNDbn)	3,912
EPS 2009 (VND)	6,860
P/E forward 2009 (x)	10.0
P/B (x)	1.6
EV/EBITDA 2009 (x)	6.7

FINANCIAL RATIOS 1H-2009

Revenue (VNDbn)	532.7
Net Income (VNDbn)	97.0
Gross margin (%)	25.2
Net margin (%)	18.2
Total Debt/Total Equity (%)	21.1
ROA (%)	5.7
ROE (%)	7.9
EPS (VND)	1,698

SHARE PRICE PERFORMANCE



Source: Reuters

Company highlights

- Closing 1H-2009, KDC generated VND 532.7bn in net revenue, a y-o-y growth of 3.7%. A slight increase in some product's prices together with improvement in sales volume were key factors for this revenue growth. Gross margin in 1H-2009 reached 25.2% versus 23.5% of 1H LY, which was explained by more concentration on high margin products and lower input costs.
- Especially, the stock market's recovery has played an important role in pushing up KDC's bottom line 1H this year. Approximately VND 66.7bn profit was generated from investment income, taken into account the reduction of short term stock investment value by VND 63.1bn and the reversal VND 190.3bn provision for financial investment, of which VND 42.7bn for short term and VND 147.6bn for long term. Net profit in 1H-2009 was hence VND 97bn after minority interest, up by 74.8% compared to 1H LY.
- KDC's core business remained stable and is expected to have a boom in quarter 3 with revenue to double previous quarter thanks to its well-known and high margin product – moon cake – for the mid-autumn festival. Gross margin in Q3 this year is therefore expected to be as high as 30%. In contrast, the 2010 lunar new year will mostly fall into late Q1-2010, leading to high possibility of low profit margin in Q4-09. Moreover, increases in some key raw material prices such as sugar and powder have affected the company negatively more or less, yet KDC is confident in its bargaining power with the suppliers to have the best possible purchase price. Although the operation of new factory at Binh Duong since this year provides KDC more efficiency and higher profit margin, increases in input costs and depreciation expense for the new factory would limit the improvement of 2009 gross margin to some extent.
- The company new office building at 141 Nguyen Du, HCMC is in the final stage of completion and will be ready for use at the beginning of Q4-2009. KDC hence will move its current office at Hiep Binh Phuoc, Thu Duc district to the new building and use the old area for the new project named Hiep Binh Phuoc – Thu Duc Building project. This project is a joint-venture in which KDC contributes its land use right. Thus, the revaluation of the property value for capital contribution purpose if performed is expected to benefit KDC approximately VND 200bn gain to be recorded into the company's financial statements at the year end.

2009 Outlook and Recommendation

- Ending 1H-09, KDC has achieved 30.5% target revenue and 41.8% target EBT. Although most revenue and profit of the company normally fall into the second half of the year, we anticipate that this year is still very challenging for KDC. Fortunately, large financial income mainly from provision reversal and possible extraordinary income from land revalution would save the company from not only beating this year target EBT but also pushing up net income surprisingly. The real challenge here is how to meet target revenue and maintain high gross margin.
- We forecast that KDC's revenue in 2009 increases only 10% from last year which is equivalent to VND 1,601bn. Despite the contribution of new factory and expected higher selling price, gross margin is forecasted to slightly up only 0.3% due to high input costs and depreciation expense. 2009 EBT is forecasted to be VND 435.9bn including VND 235.9bn profit from core business operating activities and possible VND 200bn gain from land revaluation if executed and realized at the end of this year.
- With the current share price of VND 68,500, the company's P/E forward 2009 of 10.0x makes the stock quite attractive versus the industry average of 10.2x. For great earnings this year assumed KDC would benefit from VND 200bn gain from land revaluation's record, we reckon that KDC could be considered for short term investment purpose. However, the market in general and KDC in particular has increased too hot during the last couple weeks, and might go through a correcting period soon, so investors should wait for 1-2 more trading sessions to have a better enter price.

SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

INCOME STATEMENT (VND million)	2007A	2008A	1H-2009	2009F
Net revenue	1,230,802	1,455,768	532,696	1,601,345
COGS	908,825	1,085,980	398,290	1,190,477
Gross Profit	321,978	369,788	134,406	410,868
Operating Profit	244,030	(27,749)	97,898	212,065
Profit before tax	222,469	(61,690)	107,102	435,898
Tax	(1,659)	(1,087)	680	8,718
Profit after tax	224,127	(60,603)	106,422	427,180
Minority Interest	-	24,713	9,427	35,385
PAT to the Company's shareholders	**224,127**	**(85,316)**	**96,995**	**391,795**

BALANCE SHEET (VND million)	2007A	2008A	1H-2009	2009F
Current Assets	*1,754,629*	*1,474,434*	*1,389,020*	*1,355,787*
Cash & Equivalent	530,438	206,808	259,018	288,242
Short term financial investments	522,518	584,291	411,653	391,481
Provision for short term investments	*(4,932)*	*(58,732)*	*(16,408)*	-
Short term receivables	560,318	489,407	545,086	440,041
Inventory	136,272	181,656	153,733	212,003
Provision for inventory devaluation	*(395)*	*(1,165)*	*(1,009)*	-
Other short term assets	5,082	12,271	19,530	24,020
Non-Current Assets	*1,312,846*	*1,508,976*	*1,613,285*	*1,921,624*
Long term receivables	30,911	31,059	45,839	45,839
Fixed assets	480,860	749,092	734,398	753,825
Long term financial investments	797,351	673,385	813,057	1,137,542
Provision for long term investments	-	*(197,257)*	*(51,357)*	*(51,357)*
Other long term assets	3,725	55,440	19,991	30,256
TOTAL ASSETS	**3,067,475**	**2,983,410**	**3,002,305**	**3,277,411**
Current liabilities	467,800	663,885	612,973	573,657
Short term debt	263,003	335,922	301,470	313,546
Non-Current liabilities	125,713	172,041	170,066	173,642
Long term debt	112,410	156,029	156,028	156,028
Chartered Capital	469,997	571,149	571,149	571,149
Capital surplus	1,725,694	1,721,014	1,619,861	1,583,938
Retained earnings	181,798	(147,004)	46,076	298,685
Total Equity	2,453,494	2,075,923	2,169,444	2,423,166
Minority Interest	20,468	71,561	49,822	106,946
TOTAL CAPITAL	**3,067,475**	**2,983,410**	**3,002,305**	**3,277,411**

CASH FLOW STATEMENT (VND bn)	2007A	2008A	Q1-2009	1H-2009
Profit before tax	222,469	(61,689)	21,697	107,102
Operating income before changes in working capital	200,049	189,373	45,172	(73,332)
Net cash flow from operating activities	(148,742)	386,959	83,594	(120,371)
Net cash flow from investing activities	(1,202,184)	(535,261)	(49,623)	207,034
Net cash flow from financing activities	1,830,538	(175,327)	(15,750)	(34,453)
Net (decrease) increase in cash & cash equivalents	**479,612**	**(323,630)**	**18,221**	**52,210**
Beginning cash & cash equivalents	50,826	530,438	206,808	206,808
Ending cash & cash equivalents	**530,438**	**206,808**	**225,029**	**259,018**

FINANCIAL RATIOS	2007A	2008A	1H-2009	2009F
Revenue growth rate y-o-y (%)	22.4	18.3	3.7	10.0
Gross margin (%)	26.2	25.4	25.2	25.7
Net margin (%)	18.2	(5.9)	18.2	24.5
ROA (%)	7.3	(2.9)	5.7	12.0
ROE (%)	9.1	(4.1)	7.9	16.2
EPS (VND)	4,769	(1,494)	1,698	6,860
EPS growth rate y-o-y (%)	(11.0)	(131.3)	74.7	n/a
BPS (VND)	52,202	36,346	37,984	42,426
BPS growth y-o-y (%)	167.6	(30.4)	(8.3)	16.1

DISCLAIMER

Trinh Thanh Can	can.trinh@vcsc.com.vn
Hoang Thi Hoa	hoa.hoang@vcsc.com.vn
Ong Thi Thanh Thao	thao.ong@vcsc.com.vn
Dinh Thi Nhu Hoa	hoa.dinh@vcsc.com.vn
Nguyen Ngoc Y Nhi	nhi.nguyen@vcsc.com.vn
Vo Phuc Nguyen	nguyen.vo@vcsc.com.vn
Vo Xuan Quynh	quynh.vo@vcsc.com.vn
Le Chi Hieu	hieu.le@vcsc.com.vn
Vu Thanh Tu	tu.vu@vcsc.com.vn

RESEARCH & ANALYSIS DEPARTMENT

VIET CAPITAL SECURITIES JSC

67 Ham Nghi St., District 1, HCMC, Vietnam

Tel: (84 8) 3914 3588 Fax: (84 8) 3914 3209

http://www.vcsc.com.vn