Initiation of coverage

15/11/2011

Kinh Do Group Corporation (KDC)

As one of the first confectionery companies in Vietnam, KDC is now leading the industry in terms of market shares, technologies, asset size, and brand name recognition. KDC targets a wide range of markets with more than 500 products. The Company enjoys total dominations in some segments (moon-cake, ice-cream, etc.). KDC can overpower competitors with the mere scale of its capacity. Upon the synergy with NKD and KIDO, KDC can better utilize the economy of scales (larger distribution system, more control on raw material, lower transportation costs, etc.)

The Company witnessed impressive growths within the 2005-10 periods. Surges on selling prices have fostered growths of 19.3% CAGR on revenue and 11.2% CAGR on gross profit (GP). PAT has also climbed 39.4% CAGR owning not only to the good core-operation but also to the abnormal financial income. KDC has revamped its capital structure to a great extent, especially its equity (48.8% annual growth). The healthy liquidity of KDC is benefit from the mitigated leverage (yet capital utilization is still low). Within 9M11, revenue has accumulated to VND3,037bn (+130% YoY). GPM improved slightly to 40.2%. PAT is residing at VND248bn (-45.5% YoY or +3x YoY without the abnormal financial gain in 9M10).

We expect revenue to grow by 14% CAGR within the 2011-2015 (compared to 18% within the 2006-10 periods). Even in a stagnant economy, demand for food will not be hampered since the consumer staples segment is very inelastic. Besides, the vastly integrated distribution system and the enlarging capacity should be able to uphold the prosperity of KDC. PAT may steady at 17% CAGR in the same periods.

Risks to our valuation include (1) fluctuation on prices of input material (roughly 65-70% of COGS), (2) fake products, (3) diversification to non-specialised industry, (4) forex risks, and (5) overlooking the opportunity cost.

SBS recommends BUY with 12M target price of VND40,200/share, representing an upside potential of 25.6% against current market price.

Company Financial Summary — In VNDbn, year-end December

	FY07	FY08	FY09	FY10	FY11E
Revenue	1,230.8	1,455.8	1,529.4	1,933.6	4,392.6
Net profit	224.1	-60.6	522.9	578.6	388.9
% change YoY				10.6%	-32.8%
EPS (VND)	6,226	-1,081	6,661	4,883	3,282
BV (VND)	68,153	37,016	30,798	31,801	32,536
DPS (VND)	1,800	1,800	2,400	2,400	2,400
Div yield	2.31%	11.39%	5.27%	4.83%	7.50%
ROA	7.31%	-2.03%	12.31%	11.48%	7.41%
ROE	9.14%	-2.92%	21.63%	15.36%	10.09%
P/E (x)	12.50	(14.62)	6.83	10.18	9.75
P/BV (x)	1.14	0.43	1.48	1.56	0.98

Source: KDC, SBS estimates

BUY

TARGET PRICE 40,200

STOCK STATISTICS

Bloomberg Ticker	KDC VN Equity
Outstanding shares (mn)	118.026
Market Cap (VNDbn)	3,765.02
52W Price range	29,700-55,500
3M Average Volume	151,300
Beta	0.74
Foreign ownership (%)	n/a

Source: Bloomberg

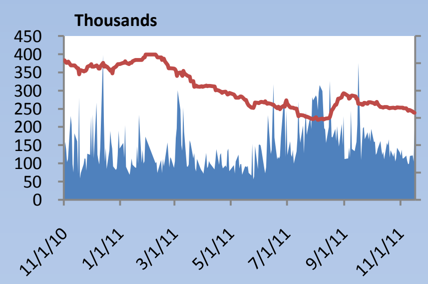
MAJOR SHAREHOLDERS

PPK Limited Corporation	12.27%
Kinh Do Investment Co Ltd	9.91%
VOF Investment Ltd	5.17%
Deutsche Bank AG	4.93%

Source: SBS

SHARE PERFORMANCE (%)

Month	Absolute (%)	Relative (VND)
1M	(6.18)	(2,100)
3M	1.92	600
6M	(16.05)	(6,100)
12M	(36.20)	(18,100)



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INVESTMENT THESIS

Great potential on the Vietnamese confectionery, given the dense population and low general spending on confectionery (5% of the total amount paid for food). We expect sale of candies to grow 7.7% CAGR (2010-15 periods), while that of biscuit and cookies segments may adopt a 10% CAGR. The tropical weather of Vietnam is perfect for ice-cream & yogurt inclination. The consumer base for ice-cream has shifted from children to young people and families since the Western lifestyles have infiltrated a great part of Vietnam. Hence, ice-cream consumption in Vietnam will continue to thrive (7% CAGR) over the next 5 years.

Kinh Do has been long established as a popular brand name recognized largely by the Vietnamese consumer. KDC has not only captured the general fondness for its products but also created a solid standing within the sector as the leading company. The heart of KDC lies within the management whose visions are the impulsion of prospective growths; while its crown jewels are the gigantic production apparatus and the immense distribution network, especially after the merger with NKD and KIDO in 2010. The Company is trying to widen the horizon of its business toward the instant noodle and fish sauce industries. Therefore, the brand name advantage and the enormously diffused distribution network should give KDC an edge over the existing players.

KDC has identified the confectionery, ice-cream, and yogurt industries as the focal points of future development, thus reinforcing the Company's positions on these respective segments. KDC will imminently spend USD20m to expand its current core business. Investors should rest assured that the Company will continue its investment flows toward the expansions of capacity and distribution ability, since these are the bread and butter of the food industry. The Company nurtures its financial health dominantly by equity, and hence solvency problem may be out of the question at this time.

The potential of real-estate projects. Although the property market is not as promising as it used to be, the two real-estate projects of KDC will be able to provide additional value to the Company. Furthermore, any viable possibility of project transfer may even generate extraordinary financial income.

KDC is perceived as one of the blue-chip stocks, thus its good and stable liquidity should also be highlighted as one of the investment incentives. The stock has been fluctuating around VND30,000-38,000/share over the past 3 months with an average trade of more than 150,000 share per day. We recommend investors to accumulate at prices around VND30,000/share for a possibility of roughly 25% capital gain given our 12M target price of VND40,200/share.

VALUATION

We used the FCFF method as the centrepiece of our evaluation on KDC, with an overall weight of 70%. The other two supplemental methods were P/E (15%) and P/BV (15%). **The FCFF method has given KDC a rough value of VND40,700/share.** Our calculation was based on the following assumptions: an average risk-free rate (Rf) of 11.5%, a Beta of 1.15x (Bloomberg), a premium of 10%, and an average cost of debt (Rd) of 16%. We have estimated the cost of equity (Re) to be 23%, and subsequently the WACC of KDC to be 21.63%. The perpetual growth rate is roughly 8%/year after year 2015.

SUMMARY OF THE FCFF METHOD

(VND m)	**2011**	**2012**	**2013**	**2014**	**2015**
FCFF	721,726	681,384	753,503	818,232	1,030,873
WACC	21.63%				
Present value of Cash Flows	593,378	460,585	418,756	373,862	387,256
Present value of Cash Flows: 2011-15 periods	2,233,837				
Growth rate (g)	8%				
Current value of Cash flows at the end of period	3,068,467				
Present value of the Company	**5,302,304**				
- Net liabilities	495,610				
Present value of Equity	**4,806,694**				
Number of shares (by year end)	118,025,644				
Share price (VND)	**40,726**				

Source: SBS

SENSITIVITY ANALYSIS (ON GROWTH AND WACC)			
WACC\g	7.0%	8.0%	9.0%
20.13%	43,844	46,477	49,584
20.63%	42,011	44,407	47,215
21.13%	40,309	42,496	45,043
21.63%	38,725	40,726	43,044
22.13%	37,246	39,083	41,199
22.63%	35,864	37,553	39,490
23.13%	34,569	36,126	37,903

Source: SBS

The comparison method placed KDC between VND38,900 – 39,500/share. The average P/E and P/BV of domestic confectionery companies (HHC,BBC) are currently at more attractive levels of 4.61x and 0.46x. However, these companies are on an entirely different page with KDC regarding their assets size and potential. Therefore, we have chosen a few regional companies with similar business type and market capitalization to form a more appropriate benchmark. The average P/E and P/BV of these companies are 15.26x and 1.69x.

Regional Companies	Market cap (USD m)	P/E	P/BV	ROE	DY
PRESIDENT BAKERY PCL	507.96	26.42	5.52	25.7%	2.2%
FOOD EMPIRE HOLDINGS LTD	135.55	9.62	0.96	10.4%	3.2%
LIAN HWA FOODS CORP	153.84	15.29	2.40	16.6%	2.7%
CROWN CONFECTIONERY CO LTD	151.75	10.34	1.04	11.7%	0.9%
SAMYANG FOODS CO LTD	131.53	15.71	1.45	9.6%	0.5%
SYNEAR FOOD HOLDINGS LTD	123.80	11.63	0.25	2.2%	1.4%
HENG TAI CONSUMABLES GROUP	211.41	11.53	0.52	4.5%	2.0%
TAISUN ENTERPRISE CO LTD	177.69	21.56	1.35	6.4%	2.2%
Average	**199.19**	**15.26**	**1.69**	**10.9%**	**1.9%**
Domestic Companies	**Market Cap. (USD m)**	**P/E forward**	**P/BV**	**ROE**	**DY**
HHC	7.54	5.75	0.64	9.5%	8.6%
BBC	5.47	3.48	0.28	12.9%	11.7%
Average	**6.50**	**4.61**	**0.46**	**11.2%**	**11.2%**
KDC	**181.45**	**9.71**	**0.99**	**13.9%**	**7.5%**

Source: Bloomberg, SBS

In the long term, KDC should be aligned with the regional companies. However, given the gloomier forward look (12 months) on the Vietnam stock market, we felt more comfortable with more conservative P/E and P/BV of 12x and 1.2x respectively.

SENSITIVITY ANALYSIS												
On P/E	**2011**	**2012**	**2013**	**2014**	**2015**		**P/BV**	**2011**	**2012**	**2013**	**2014**	**2015**
10	32,949	40,277	50,243	54,807	62,746		1	32,411	34,039	36,063	38,544	41,818
11	36,244	44,305	55,267	60,288	69,021		1.1	35,652	37,443	39,669	42,398	46,000
12	**39,539**	**48,333**	**60,291**	**65,768**	**75,295**		**1.2**	**38,893**	**40,847**	**43,276**	**46,253**	**50,182**
13	42,834	52,360	65,316	71,249	81,570		1.3	42,134	44,250	46,882	50,107	54,364
14	46,129	56,388	70,340	76,730	87,845		1.4	45,376	47,654	50,488	53,961	58,546

SBS recommends BUY regarding KDC. Combing both methodologies, we have concluded KDC at **VND40,200/share**, which is roughly 25.6% higher than the current price (of VND32,000/share).

RISKS TO OUR VALUATION

Price fluctuation of input raw material: Since input materials make up the majority of COGS (roughly 65-70%), any major upward adjustment on prices of eggs, flour, sugar, milk, etc. will have severe impacts on revenues of KDC. In fact, the recent inflation hike has impaired the profitability of the Company as prices of some components have increased exponentially this year.

The indirect predation: The confectionery industry in Vietnam is inundated with cry for helps against fake products (mostly from China). Roughly 20% of market shares belong to unqualified food, which not only withholds potential revenues from KDC but also exposes consumers to adverse health risks. Vietnam is conspicuously facing increasing problems related to health & food safety, which affect all companies within the consumer sector.

Diversification to non-specialised industry. KDC is planning its business expansion onto other heated segments such as instant noodles and fish sauce. Competitions within the branded fish sauce segment are not as harsh as others; however, it would take a long time and much effort to match the consumer's tastes. If KDC can penetrate these segments, its vast distribution system will take care of the rest.

Lurking risks of forex: Exports generate almost 10% of total revenue, and hence performance from this segment depends heavily on the outlook of forex movements. Furthermore, the Company also relies on the foreign markets for its input material, equipment, and machinery.

Overlooking the opportunity cost. The real-estate segment might not be profitable in the short-term since the overal property market has not yet seen the light at the end of the tunnel. The burried capital may be missing out on the investment opportunity elsewhere. Furthermore, KDC has not been utilizing its capital to the full extent. For example, the Company should be using its own capital (as oppose to leverage) to fund its operations instead of to make loans.

Major shareholders have been lowering their holding within the Company. Recently, some major shareholders have been selling KDC shares. However, no significant change in the shareholder structure has been made.

THE CORE BUSINESS

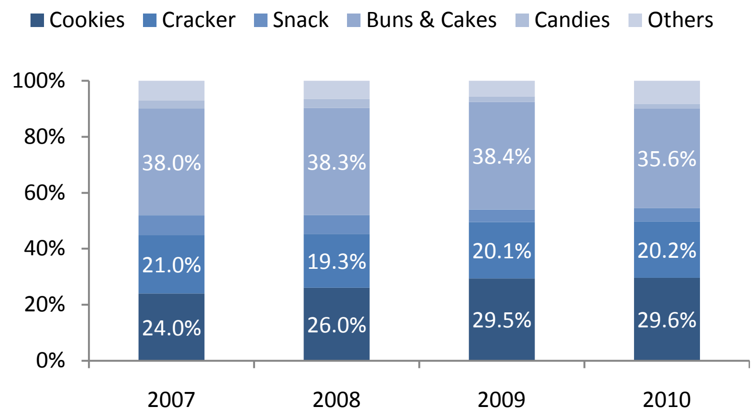
Confectionery Segment

Kinh Do dominates the confectionery market with more than 500 types of products. The Company sets up various Strategic Business Units (SBU) in order to monitor and manage separate products group, such as cookies (butter cake, moon cake, etc.), crackers, snacks, cakes, buns, and candies. The Company has certain competitive advantages such as concentrated mass production, modern technology, gigantic distribution system, and a well-known brand name. Specifically, the Company can produce up to 9.119 ton of goodies per month as installed (utilization rate ~ 60%-70%), and diffuse them throughout the country via its immense networks of 200 distributors, 120,000 retail points, and 30 bakeries. The Company is leading the sector with a market share of 29% (2010). KDC focused on moon cake, cracker, cake, and butter cake, whose market shares, in that order, are 87%, 37%, 31% and 29%. Within the 2005-2010 periods, KDC has grown its confectionery business on average by 19.3% each year, which will be further reinforced by the synergy with NKD and KIDO.

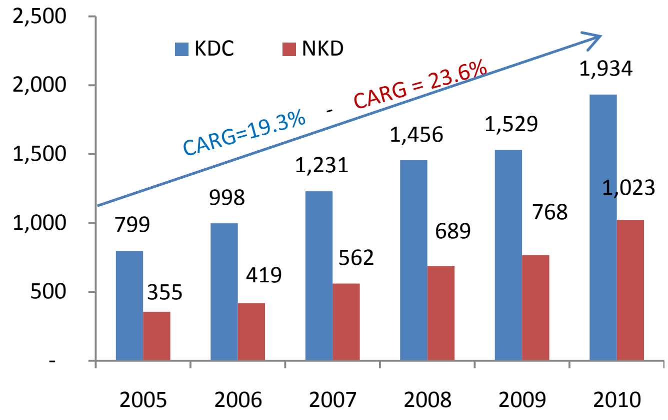
PRODUCTION CAPACITY (2010)					
Installed Capacity (ton/month)					
Cookies	843	Cinnamon Rolls	345	Snacks	780
Moon Cake	1,485	Cakes	1,172	Chocolate	325
Cracker	1,484	Buns	2,331	Candies	354

The Company generates more than 85% of its revenue from sales of cookies (especially moon cake), cracker, cake and buns; the rest belongs to snacks, candies, cinnamon rolls, etc.

REVENUE STRUCTURE OF KDC



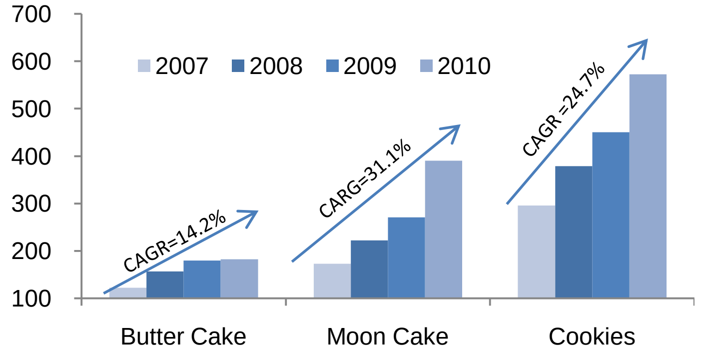
REVENUE: MAGNITUDE AND GROWTH



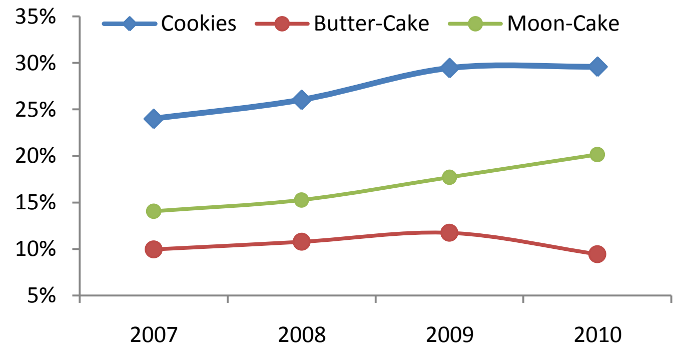
Source: KDC, NKD, SBS

The cookies group has the best growth, averaging at 24.7% in the 2007-2010 periods. In 2010, revenue generated from the cookies group exceeded VND572bn which accounted for 29.6% of KDC's total revenue; of which, 9.4% is contributable to butter cake (growing at 14.2%/year) while moon cake (growing at 31.1 %/year) is responsible for 20.2%.

REVENUE GENERATED BY THE COOKIES GROUP (VND bn)



CONTRIBUTION OF COOKIES ON TOTAL REVENUE

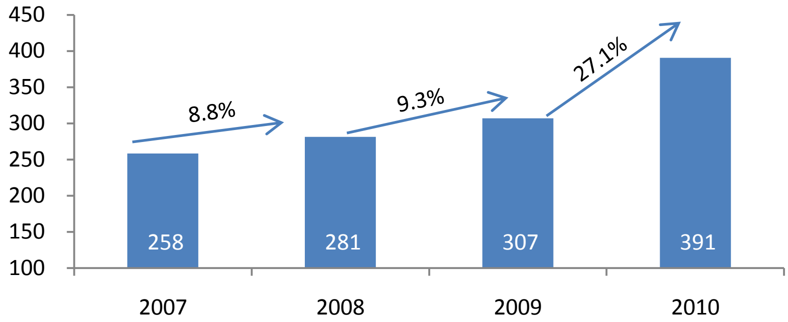


Source: KDC , SBS

Over the first half of 2011, KDC has raked in 36% YoY more revenue from the butter-cake segment, which occupied 27% of the total market share. The extra revenue was generated from the improved Korento product and from the recent merger with NKD. The 3rd quarter was the highlight of this group owning to the tremendous revenue from moon cake sales despite the bizarre seasonality of this product (consumption of moon cake only lasts 2 to 3 months in a year). KDC has reported moon cake sales of more than 2,100 tons and a corresponding revenue of VND651bn, which was 67% higher (or 31% if considering the combined revenue of KDC+NKD) than that of last year. The GPM (55.5%) and pre-tax profit margin (28%) of moon cake remains expectedly high; however they have slightly deteriorated compared to the 57.5% and 31.6% of last year. We suspect that KDC is trying to sacrifice some profit margin to keep up with its shaking market shares amid the increasing number of competitors.

Growing at 14.8%/year (2007-2010), the cracker group accounts for more than 20% of revenue. Cracker is made from fermentated dough with various flavours such as salty, mild, cream, butter, etc. KDC, with two key products being AFC and Cosy, is currently leading with more than 30% market share. Revenue from this segment almost reached VND391bn (+27.1% YoY) in 2010. This portion has increased by 97% in the first half of 2011, while the corresponding GP has grown by 96% (compared to those of KDC only). The main impetus was the restructuring of KDC and NKD since the merger.

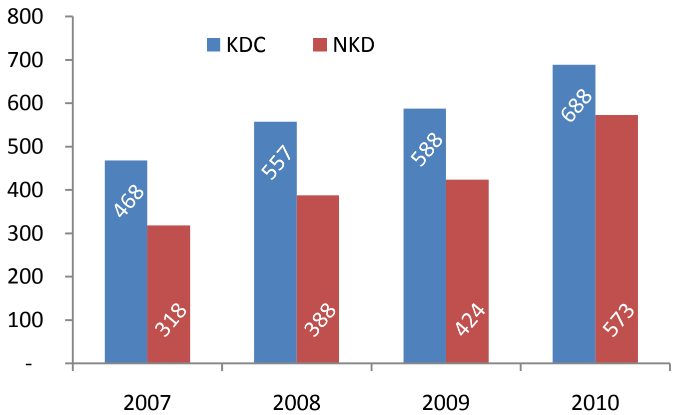
REVENUE GROWTH OF CRACKER



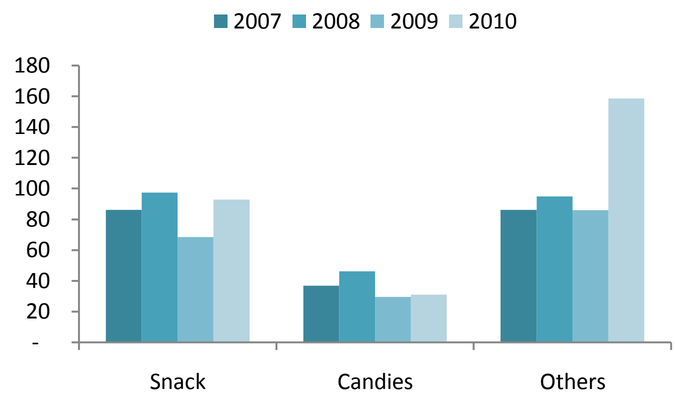
Source: KDC, SBS

The irreplaceable buns & cake segment is the number 1 revenue contributor. This segment has been growing on average by 13.7% each year (2007-2010) and generating 37% of total revenue. In 2009, this group only grew 5.5% YoY due mostly to the massive competition from the product "Staff" of Huu Nghi JSC which induced a 15% revenue reduction on the company's bun products. Other impacts could have been the delayed products restructuring and cuts on consumer spending amid the economic downturn. In 2010, KDC heavily revamped this segment with more sale promotions and coverage which propelled growth to 17.1% YoY. Furthermore, the merger with NKD has brought new light to this segment as it has been growing at 21.6% CAGR (2007-2010) and contributing to roughly 56% of NKD's revenue. After 6M11, KDC has heightened its bun's revenue by 44% and GP by 80%. The Company has successfully improved the quality of its Milk Sandwich (revenue of this product surged by 70%) and has rolled out the new Scotti and ultrasoft 2-slices Sandwich. We expect revenue from this segment to make up 45%-46% of total revenue from 2011 onward.

REVENUE OF BUNS AND CAKE (VNDBn)



REVENUE OF OTHER PRODUCTS (VNDBn)



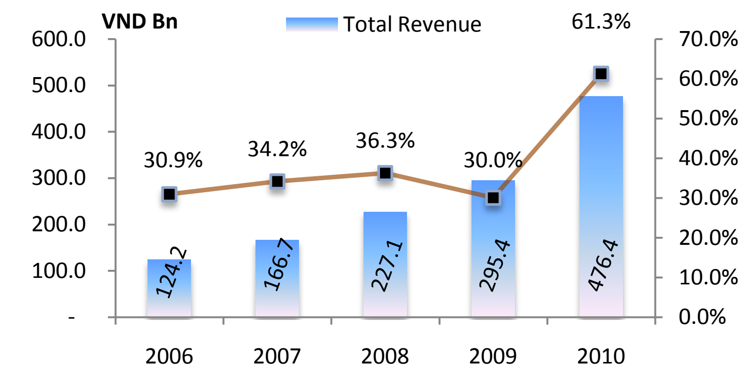
Source: KDC , SBS

Other supplementary products. Besides the strategic products, KDC also indulges in a diversity of candies, snacks, etc. However, since these products do not have much competitive powers (esp. amid the saturated domestic demand), their combined contributions to the overall revenue are still low (roughly 15%). The snack and candy products grow stagnantly, in that order, at 2.5% and -5.7% within the 2007-2010 periods. The economic downturn as well as the heated competition in 2009 has exhausted revenues from these supplementary segments. Specifically, as compared to those of 2008, revenues of snacks decreased by 29.7% while that of candies and others deteriorated by 35.8% and 9.6% respectively. Early 2010, KDC has started restructuring these groups, helping them recover from the earlier year. As a result, snacks surged 35.6%, candies rallied 4.4%, while others escalated by almost 85%.

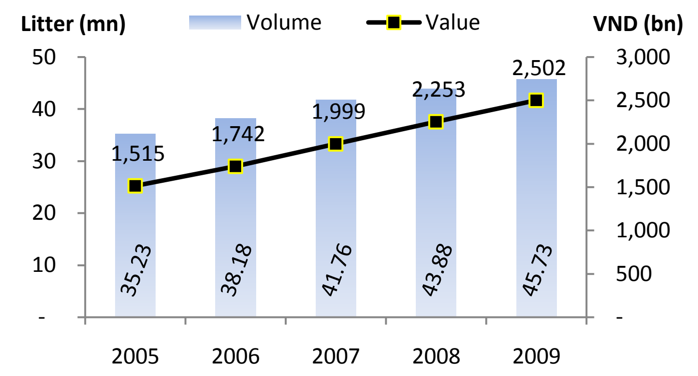
Ice-cream and yogurt segment

Vietnam is a potential market for ice-cream. The tropical weather of Vietnam has been fostering constant needs for refreshment, and ice-cream is the most popular substitution for milk and cold beverages. The incredibly dense population (of 88 million people) offers a unique opportunity for ice-cream companies since Vietnam is still on the lower end of the ice-cream consuming scale. According to EMI, the total sale value of Vietnam ice-cream grew by 13.4% CAGR in the 2005-2009 periods and reached VND2,502bn by the end of 2009. The Company was yet able to swell its ice-cream revenue by 20% CAGR (SBS estimates) within the same periods. KDC pervades the ice-cream industry in Vietnam via its subsidiary, KIDO, and mainly with two brand names, Merino and Celano. The Company pushes out to the market more than 50 sub-products with various savoury flavours which soothe every Vietnamese taste.

KIDO REVENUE: MAGNITUDE & GROWTH



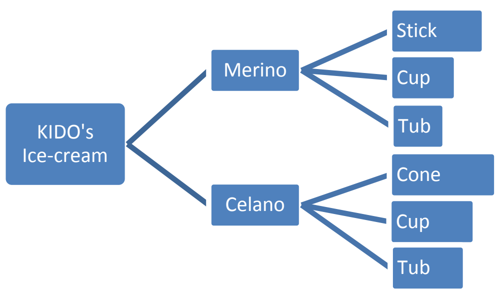
SALES OF ICE-CREAM IN VIETNAM

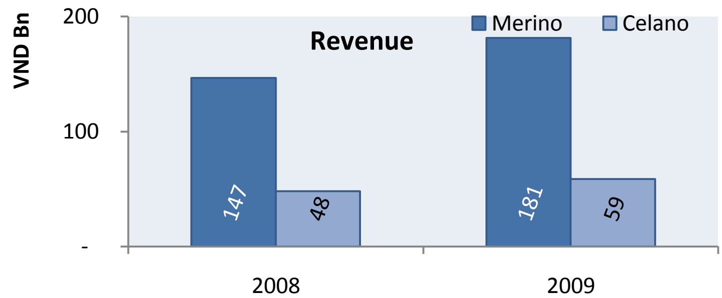


Source: KIDO, SBS, EMI (2010)

KIDO has expanded its total revenue at 40% CAGR within the 2005-2010 periods. In the 2006-2009 timeframe, revenues were on fairly stable growths (compounding at 32% per year) as the selling prices advanced on average by 11%. However, the Company was able to accentuate its revenue in 2010 due to a magnificent jump in selling prices of ice-cream. The current installed capacity allows KIDO to produce 9 million litter of ice-cream and 2.8 million litter of yogurt per year, and yet only 73% was utilized in 2010. The Company will steady its investment toward production capacity to maintain a healthy 75% plant factor.

THE STRUCTURE OF ICE-CREAM PRODUCTS



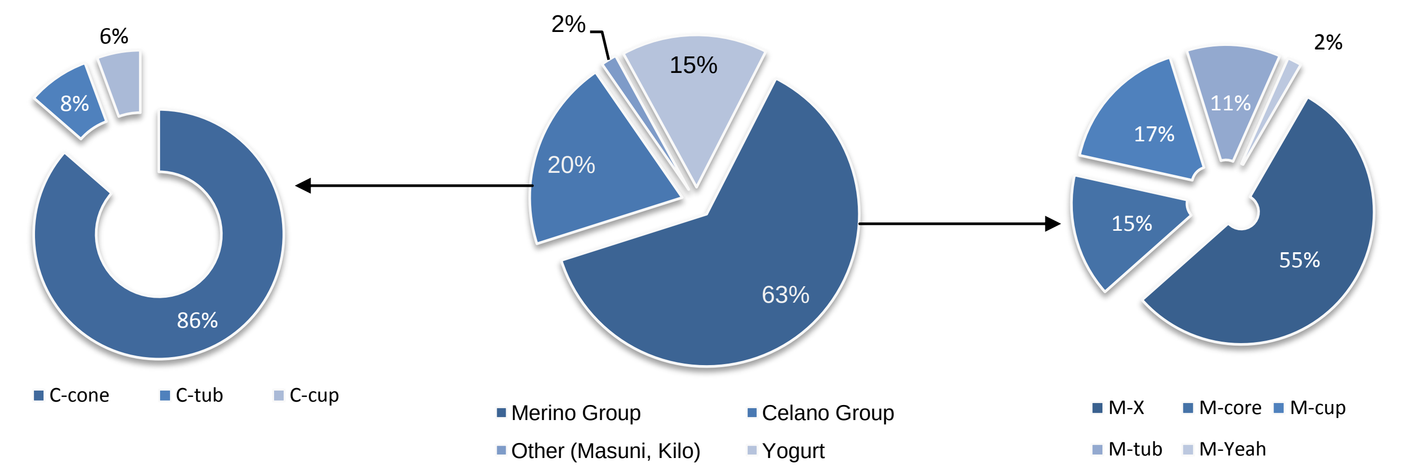


Source: KIDO, SBS

The Merino group contributes to roughly 65% of total revenue of KIDO. Merino manages to capture the medium consumers with its reasonable pricing. The popularity of this group is dominantly contributable to the Merino X, which has matured beyond its developing stage and has become the KIDO's heavy artillery on the ice-cream frontier.

Celano is placed third in the revenue structure with a 21% portion. Ever since its introduction in 2007, this group has been set to target the premium consumers who generally have higher income. The Celano group generates the majority of sales from its cone products. The flimsy Celano Cup and Celano Tub each occupies 1-2% of total sales, mostly due to their limited market niches.

REVENUE STRUCTURE OF KIDO (2009)

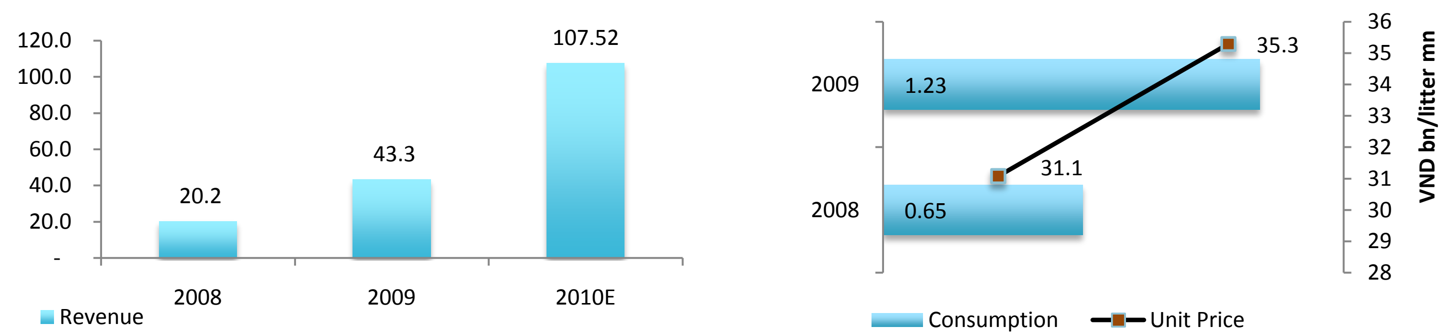


Source: KIDO, SBS

Revenue growths have been rather volatile. In 2009, the Merino group was able to enlarge its sale value by 21.1% (YoY), while the Celano enjoyed a 23.4% (YoY) increment. SBS has estimated the sale expansion rates of Merino and Celano groups to be 50.6% and 51.5% respectively in 2010, due mostly to the untenably high price jump. However, we are anticipating much slower value growths in 2011 since the Company was not able to increase selling prices as much as they did. Out of the two groups, the Celano has always been the one with higher sales growth since this group has higher selling prices. However, as selling prices will be unavoidably stagnant, we expect the Merino group to thrive over in later years due to its better consumption volume.

The KIDO's yogurt has been known for its two brand names, Well-Yo Home and Well-Yo Kids, and each of which targets a particular market. Sales from this section contribute to roughly 12% of total sales. The Company has identified yogurt as its new key product. The consumption of Well-Yo products has greatly magnified from the 650 million litters in 2008 to 1,227 million litters in 2009 (+89% YoY). Revenue generation from this group has been experiencing major step-ups since 2008, mostly due to the outlandish increment on sale volume.

YOGURT: REVENUE AND CONSUMPTION



Source: KIDO, SBS

KIDO is recognized as the largest ice-cream supplier in Vietnam despite its relatively higher price. Superior products (in terms of both quality and diversification) and enormous distribution networks have diffused KIDO's ice-cream to almost every geographical location in the country. On the ice-cream sticks frontier, the Company encounters considerable resistance from the private handmade ice-cream. Meanwhile, within the tub & cup segments, Vinamilk has a few ice-cream products covering a smaller and cheaper market portion. Phan Nam Co. ltd cannot compete with its feeble production capacity, while Thuy Ta is only well-known in the Northern area. Overall, KIDO has been dominating the premium ice-cream segment since 2005.

ICE-CREAM: MARKET SHARES COMPARISON					
(% retail revenue)	2005	2006	2007	2008	2009
Kinh Do Corp	8.11	7.90	8.00	8.85	9.42
Vietnam Dairy Products JSC (Vinamilk)	4.97	4.49	4.46	4.63	5.11
Thuy Ta Co Ltd	3.55	3.57	3.56	3.93	4.02
Trang Tien Service & Trading Co Ltd	1.25	1.89	1.77	2.07	2.28
Unilever Vietnam Co Ltd	-	-	1.05	1.11	1.78
Fanny Vietnam Co Ltd	1.08	1.26	1.35	1.48	1.59
Phan Nam Monterosa Trading JSC	1.44	1.60	1.67	1.36	1.03

Source: EMI (2010)

KIDO inherited the ice-cream technology of Wall's since the buy-out in 2002. Henceforth, KIDO has been expediting its ice-cream value share by 8.5% (CAGR) within the 2007-2009 periods, and aggregating up to 9.42% by 2009. The penetration speed of KIDO was rather slow compared to that of Trang Tien Co. Ltd (16.2%) and Unilever Vietnam (30.2%) in the same periods, which is understandable since the market shares of these two companies are significantly lower than that of KIDO. Trang Tien Co. Ltd is only well-known in the Northern area of Vietnam, whereas Walls of Unilever has only returned to Vietnam recently.

Investment activities

KDC has been sharpening up its financial activities since the 2006-2007 periods by investing in affiliated entities & stock portfolios, and providing credits. The total value of its investments can be as low as VND1,300bn and as high as VND1,800bn.

Business expansions via joint-ventures: In recent years, KDC has not only focused on its core businesses but also extended its reaches to the real-estate sector via joint-venture. These investments may not yet voice much in the overall performance of KDC, but perhaps they will be the impetus for major growths of the Company in the future.

Real-estate projects: KDC is currently upholding two major real-estate projects, namely the Tan An Phuoc (TAP) and the Lavenue projects. TAP is laid out as a residential project which includes 10 apartment blocks installed in a 15-25 storey building. The project is in the process of obtaining the 1/500 approval, and will be deployed within the 2012-2017 periods under favourable circumstances. KDC has also invested VND600bn in the Lavenue project. However, we have not obtained enough data to assess the profitability as well as the real intention of KDC regarding this project. Nevertheless, given the icing real-estate market, we may consider the possibility that KDC will transfer this project to its partners just like the Sai Gon Kim Cuong project.

Project:	Tan An Phuoc (TAP)	Lavenue JSC
Project Type:	Residential Area (Apartment)	Commercial Area, 5-star Hotel
Location:	11, Street 4, Hiep Binh Phuoc, Thu Duc District	8-12 Le Duan Street, District 1, HCMC
Site Area:	51,421.5 m^2	4,953 m^2
Site area(excl setback area):	45,009 m^2	
Construction area:	20,479 m^2	
Ground floor area:	171,034 m^2	
Capital expenditures:	VND2,200bn	VND1,200bn
Shareholders:	**Kinh Do Land:** 20% (cash) | **KDC:** 49% (land use right) | **Trinh Hieu Tu:** 31% (cash)	**KDC:** 50% | **Others:** 50%

FINANCIAL ACTIVITIES						
(VND mn.)	2006	2007	2008	2009	2010	30/6/2011
Short-term investments	523	543	584	518	162	693
Stocks	50	50	86	23	94	91
Provision for losses	(5)	(5)	(59)	(15)	(48)	(53)
Others	477	497	557	510	116	655
Investments in subsidiary and affiliated company	30	30	32	404	801	802
Other long-term investments	757	767	718	590	409	336
Stocks (Listed & OTC)	740	751	867	507	504	378
Provision for losses	-	-	(197)	(42)	(94)	(75)
Others	16	16	48	126	0	33
Total	**1,309**	**1,340**	**1,334**	**1,513**	**1,372**	**1,831**

Source: KDC, SBS

Considerable incomes have been generated by ventures into stocks, which are now the heaviest burden. KDC has been dispatching onto the risky stock market since 2005-2006, when the Vietnam stock market started to show prosperous growths. Therefore, the Company has been raking in huge chunks of profits (VND20bn of profits after tax in 2006, and VND70bn in 2007). However, the former glory has been fading quickly as the Vietnam stock markets started plunging deeply. Since 2008, KDC has been setting aside humongous allowances for losses (up to VND250bn in 2008). The situation has not been lightened up even after 2010 as the Company continued to record losses on its stocks portfolio. In 2Q2011, KDC had dissolved more than 3.5 million of EIB shares, reducing the overall value of its portfolio by VND93bn, before the Company divested its 1.04 million of Prudential Balanced Fund certificates (PRUBF1) in 10/2011. The initial investment in PRUBF1 was VND10.89bn, which has now reduced to VND8.7bn (based on the NAV at 13/10/2011) or to VND4.9bn (at the prevailing market price of VND4,700/certificate). On 30/06/2011, KDC already set up loss provision at VND4,600/certificate, and hence no loss will incur if the Company does liquidate its investment at the market price.

Stock portfolio performance						
(VNDbn.)	**2006**	**2007**	**2008**	**2009**	**2010**	**6M11**
Stock Portfolio: Gains						
Received dividend and income	322	160	25,116	5,835	12,596	1,229
Capital gains	20,060	72,330	3,918	6,287	85	175
Stock Portfolio: Losses						
Provision for losses	-	4,932	244,948	-	53,473	24,783
Capital loss	4,282	7,209	8,603	143,122	-	2,369
Reverse of provision for losses	-	-	-	(198,565)	-	-

Source: KDC, SBS

The Company provides large credits at frequent intervals. The Company makes most of its short and long term financial investments as a credit provider (especially those loans made to companies related to Mr. Chairman, Tran Kim Thanh). However, KDC then uses leverages to fund its businesses, which is unjustifiable since the interest rates are spiking up to the roof. Such business conducts could have induced afflictions onto the Company's financial health as well as potential conflicts of interests among shareholders (inside vs. outside); however SBS has not yet been able to assess the real impacts due to insufficient information. In August this year, the State Securities Commission has charged KDC a fine of VND10 m for making loans to the Board member, General Director, Management member, and shareholders without written consents from the general shareholders.

OUTSTANDING AMOUNT OF SOME MAJOR LENDINGS						
(VND mn)	**2006**	**2007**	**2008**	**2009**	**2010**	**30/6/2011**
Hung Vuong JSC	24,437	47,714	48,134	126,000		44,000
Kinh Do Construction and Food Process Ltd.*		422,600				
Kinh Do Investment Ltd.**			556,800	502,100	2,350	577,500

Source: KDC, SBS
(*) Currently holding 4.18% equity of KDC
(**) Mr. Kim Thanh is the chairman of this company, which is holding 8.06% of KDC's equity.

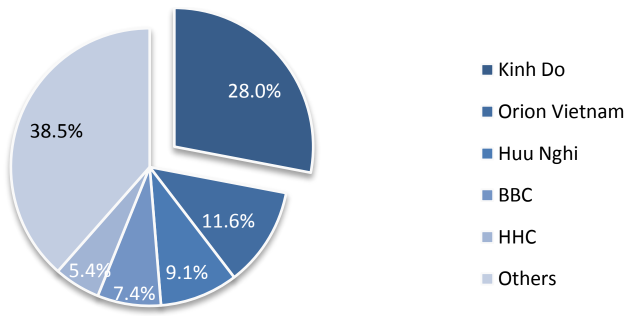
INTEREST EXPENSE/INCOME						
(VND mn)	**2006**	**2007**	**2008**	**2009**	**2010**	**6M11**
Net lending	493,324	513,324	604,967	636,110	115,806	687,791
Interest Income	26,015	24,103	85,974	51,121	92,964	38,907
Short and long term liabilities	171,257	375,413	491,950	526,747	474,342	699,003
Interest expense	15,548	30,481	52,364	43,758	42,500	51,582

Source: KDC, SBS

Business advantages

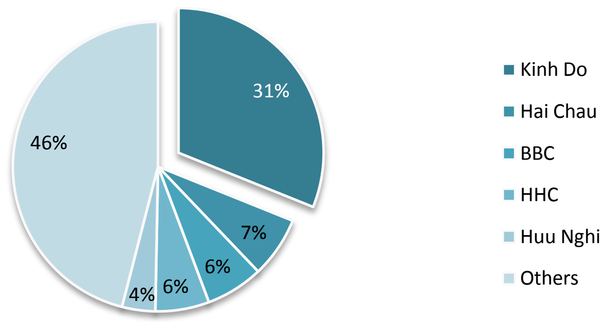
The Company was one of the first confectionery companies in Vietnam, and now it is the leading company in terms of market shares, technologies, asset size, and brand name recognition. KDC targets a wide range of markets (confectionery, ice-cream, and yogurt) with more than 500 products. The Company faces tough competitions on many frontiers; however most of them specialize solely on their own segmentations whereas KDC tackles the whole confectionery industry. As soon as the synergy of the three companies, KDC can take advantage of ordering larger and more cost effective batches of raw materials. Most of the suppliers are located within the city and in the vicinity, and thus reducing the cost of transportation to insignificance.

CONFECTIONERY MARKET SHARE (2010)



Source: KDC (prospectus 2010)

BISCUIT MARKET SHARE (2009)



EMI (2010)

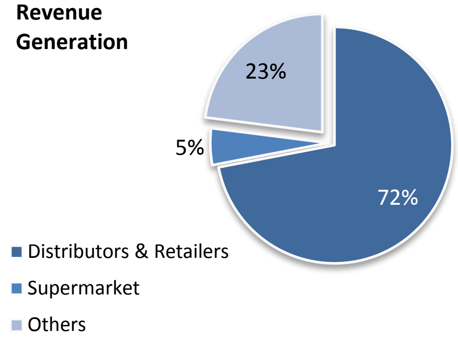
Distribution system

Since the merger with NKD and KIDO, the distribution system of KDC has been brought to a whole new level. The Company actively benefits not only from its gigantic synergized networks but also from various supermarket such as Metro, Citimart, Big-C, Co-op Mart, etc. Basically, the Company is now able to integrate throughout the country via its scattered retail points. Since 2007, the number of distributors has been growing at 13% CAGR, while the number of retail points has distended by 24% CAGR. Such expansion will also grant the Company better access to regional markets. Specifically, the Northern area can develop toward China, while the Central and Southern areas can exploit the markets in Laos, Myanmar and Cambodia. We should expect the traditional distribution method to slowly shift toward more modern retail channels (such as supermarket/hypermarket).

DISTRIBUTION NETWORK: OVERVIEW	2009	2010	2011
Confectionery			
Distributors	227	211	212
Retail Points	69,977	76,294	120,000
Bakery	-	40	30
Ice-cream & Yogurt products			
Distributors	-	60	65
Retail Points	-	15,000	30,000
Soft Drinks			
Retail Points	-	-	100,000

Source: KDC

Revenue Generation



DISTRIBUTION SYSTEM COMPARISON (2009)

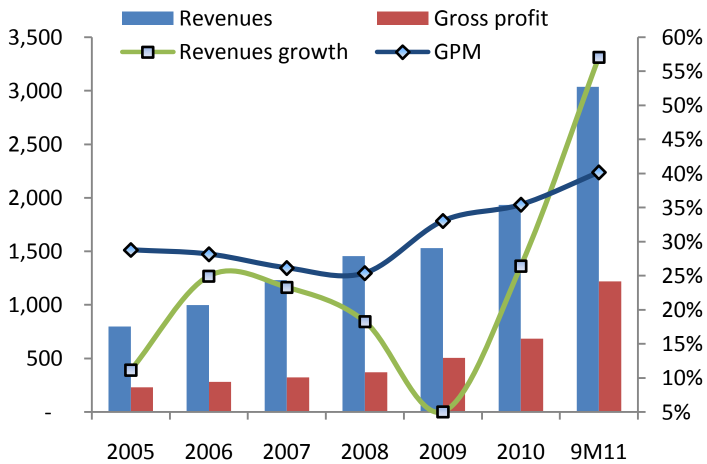
Names	Number of Distributors	Retail Points	Revenues (VNDbn)
KDC	200	75,000	1,529
BBC	75	50,000	627
Orion Vietnam	229	78,292	N/A
HuuNghi	100	45,000	775
HHC	100	N/A	459

FINANCIAL ANALYSIS

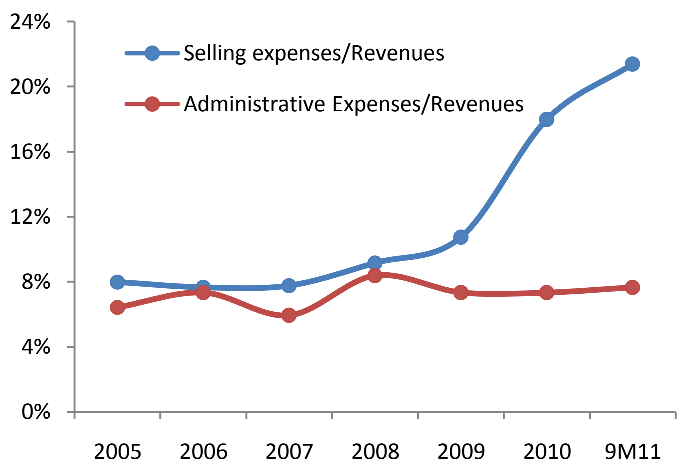
Historic performance

Impressive growths within the 2005-2010 periods. Revenue has grown by 19.3% CAGR, while gross profits and after-tax profits have climbed by 11.2% and 39.4% CAGR respectively. Surges on selling prices were definitely the main stimulus behind all revenue gains and GPM improvements. Based on the direction GPM is heading, we suspect that KDC is trying to support its GPM by fattening the portion of selling expenses on revenue. Basically, the Company is offering more promotional programs instead of directly lowering the unit price, and thus the selling expense to revenue ratio also climbs alongside the GPM. Obviously, the spiking selling expense (over the last two years and in 6M11) has diminished growths on operational profit and prevented major improvements on the net profit margin (fluctuating around 10%-15%).

REVENUE AND GROSS PROFIT (VNDbn)



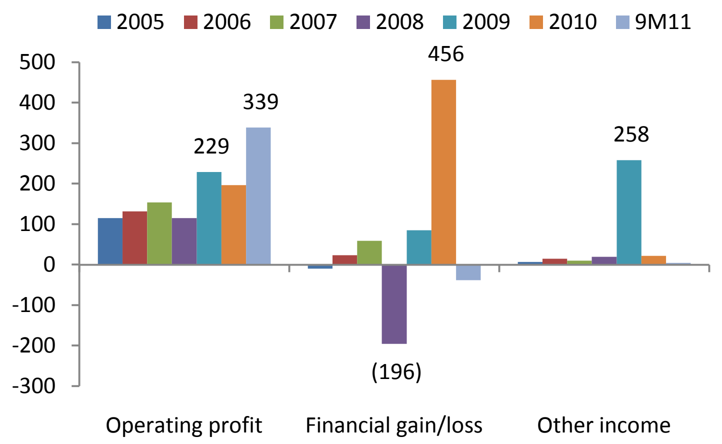
ADMINISTRATION AND SELLING EXPENSES

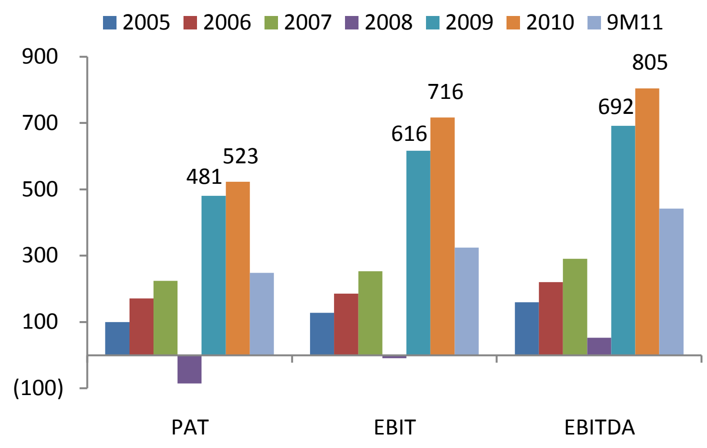


Source: KDC , SBS

The huge jump in net profit was highly contributable to the abnormal financial activity. The massive financial loss in 2008 has deepened net profit to a negative VND85bn. However, in 2009, net profit enjoyed an enormous upsurge to VND481bn, of which a net VND85bn was generated from financial income (mostly from the reverse of provision for losses) and a net VND258bn from other extraordinary income (mostly from the revaluation of land-use right upon the investment into an affiliated company which resulted in revenue of VND320bn). In 2010, the divestment out of Sai Gon Kim Cuong JSC (KDC held 50% share for its VND167bn investment) has generated for the Company almost VND412bn, making financial income the biggest contributor to the year-end PAT (of VND523bn).

MOVEMENTS ON PROFIT (VNDbn)

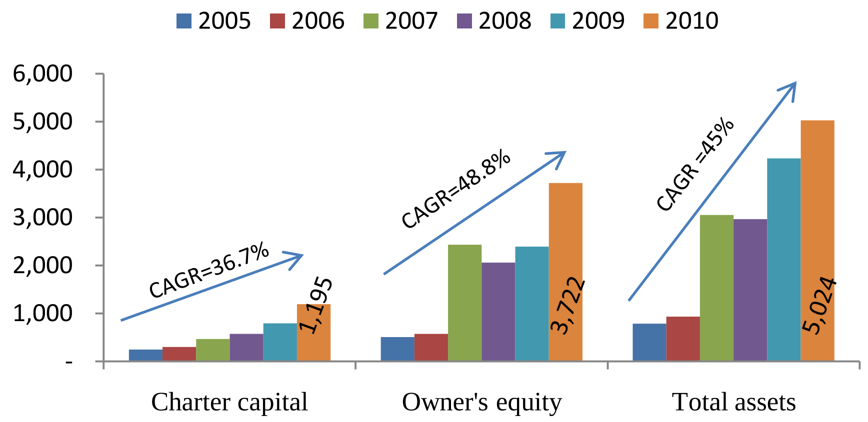




Source: KDC , SBS

KDC has revamped the size of its asset and equity to a great extent within the 2005-2010 periods. Over the last 5 years, the Company has continuously increased its chartered capital and generated a substantial amount of capital surplus. Its equity has thus grown by 48.8%/year, which was higher than the expansion rate of assets in the same periods.

GROWTHS ON ASSETS AND EQUITY

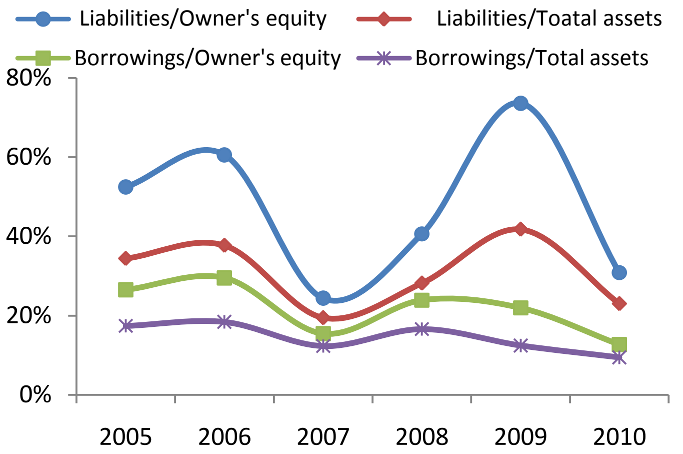


Source: KDC, SBS

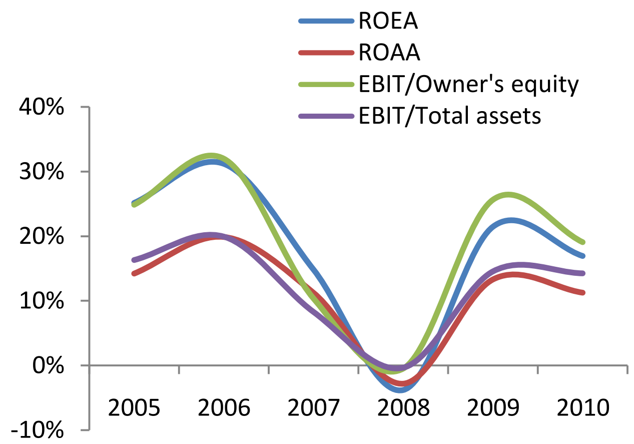
KDC has a healthy liquidity since the Company makes use of its equity more than debts. Both current ratio and quick ratio are above 1x (approaching 2x), while the cash ratio is getting close to 1x. The equity-oriented capital structure of KDC is not prone to substantial change, except in 2009 when KDC had a gigantic surge in payable account (related to the down payment of the Kim Cuong project) which make the debt to equity ratio and to debt to total assets ratio unexpectedly high.

The efficiency and profitability of capital utilization. Investments in real-estate and stocks usually carry long-term value, and thus no significant gain has been realized. The inefficient use of capital (taking loans while making loans) has kept the profitability fairly low over the recent 2-3 years. In 2010, the ROA and ROE were only 11.5% and 15.4% respectively as compared to 12.3% and 21.6% of 2009. However, only by 30/12/2010 did KDC finish all documents regarding the merging procedure with NKD and KIDO; hence, the changes have only been made to the year-end balance sheet but not to the income statement of KDC, which would have affected the overall profitability of the Company. By the end of this year, we should be able to see the full changes on both balance sheet and income statement, and thus the betterment of profitability.

CAPITAL STRUCTURE



PROFITABILITY



Source: KDC , SBS

The 9M11 Performance

The Company has reported 3Q11 revenue of VND1,525bn (+108.2% YoY) and a respective gross profit of VND691bn (+113.7% YoY). The third quarter usually gives the best GPM figure in a year. Likewise, KDC has enjoyed a tremendous 3Q GPM of 45.3% as compared to the previous 35.5% (2Q11) and 34.3% (1Q11). There was slight imparity in expense movements, whereas the selling expense to revenue ratio has moved up to 23% from the 19% of the second quarter while the administration expense lessened its weight on revenue from 8.4% to 6.1%. By the end, KDC has reached a PAT of VND221bn, equivalent to a 56.4% YoY jump.

Revenue has accumulated to VND3,037bn (+130% YoY) by the end of September, fulfilling 72.3% of the projected VND4,200bn. Growth on COGS (+119.3% YoY) was inferior to that of revenue, hence bestowing a slight gain on GPM (from 37.1% of last year to 40.2%). KDC has been very good on stabilizing its administration expense around 7.6%, yet the Company let its selling expense to revenue ratio slide toward 21.4% (from 17.5% of last year). The 9M PAT is residing at VND248bn (-45.5% YoY or +3x YoY without the abnormal financial gain in 9M10), fulfilling 45% of the yearly target. Net profit appeared to be degraded in the absence of abnormal financial income, otherwise comparison on core operations alone would have resulted in an outlandish gain.

FORECASTS

Initial Assumption

Our projections are based on the following assumption:

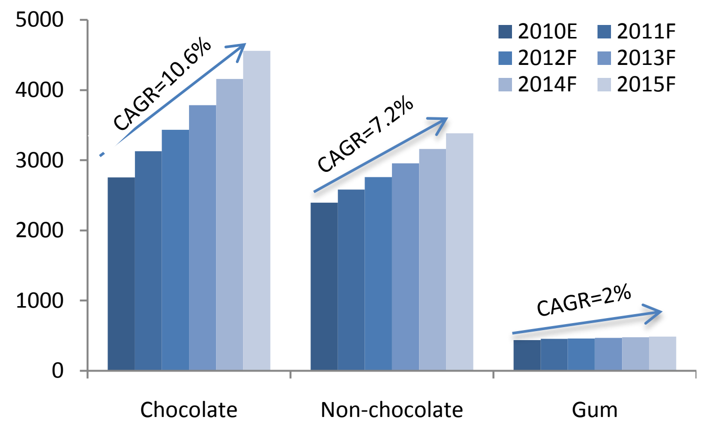
- Within the next 5 years, KDC still focuses its core operation on the confectionery industry
- We expect the confectionery industry will thrive over GDP. Therefore, as the leading company within the sector, KDC may subscribe to a perpetual growth of 8%/year after 2015.
- Conflicts of interests (if any) will not impact the continuity of KDC.

- KDC is planning to expand its business onto other consumable staples such as fish sauce, instant noodles, etc. However, the company has not disclosed any detail regarding the Capex, profitability of these projects; hence they were excluded in our projection.
- The real-estate projects: Since we do not have sufficient data on KDC's real-estate projects, our evaluation will not entail contributions from this segment. Furthermore, at the moment, the management has also expressed their sole interests on the core business of KDC.
- KDC will issue 20 million shares to strategic partners. Since we do not have detail information regarding the intention as well as the offical date of this issuance, we have left this information out of our valuation. We will provide further updates upon our next reports

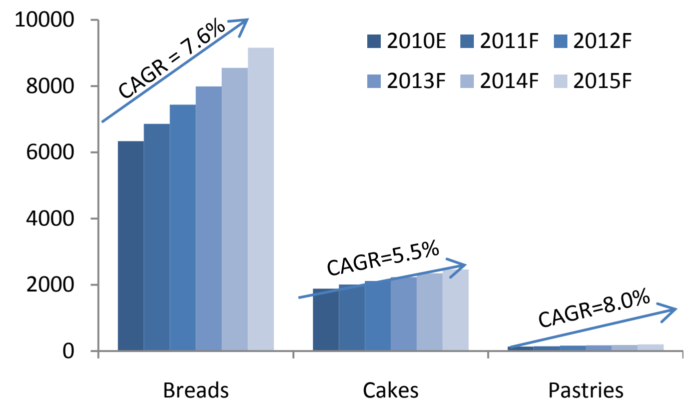
The Confectionery Business

The confectionery industry of Vietnam is still potential. Although Vietnam is the 14th most populated country and the 3rd largest confectionery producer in the world, spending on confectionery only accounts for 5% of the total amount paid for food since the average income of a Vietnamese is still low. The candies revenue has developed by more than 7.7% each year within the 2005-2010 periods. However, BMI has forecasted an 8.6% CAGR for the next 5 years, yet we only expect the historic level. On the other hand, we keep a more optimistic view on the biscuit and cookies segments with a 10% CAGR for the 2010-2015 periods as compared to the 7.2% of Euromonitor. The stable population multiplication and better income will be the backbone of our projections.

PROJECTIONS ON CANDIES SALES OF VN (VNDbn)



PROJECTION ON BUN&CAKE SALES OF VN (VND bn)



Source: BMI, Euromonitor, SBS

KDC will maintain its position within the food industry and especially in the confectionery segment. The Company is pressing on its expansion plan with the investment of 2 high-end production lines in the North Kinh Do's factory (Capex of roughly USD10m). Furthermore, KDC will focus on upgrading the machinery to make better use of its current capacity. Last but not least, KDC will restructure and develop its products diversity, in order to not only sustain but also further its market share. We looked at these efforts as the foundation for future growths. Revenue from the confectionery segment is projected to get 12.84% bulkier every year within the 2011-2015 periods. The GPM should be able to uphold its 31%-35.5% portions.

The cookies group: We have estimated that the cookies group will generate revenue of VND1,000bn by year-end 2011, which will have been 75% YoY higher that of KDC (or 26.9% YoY higher than the combined figure of KDC and NKD). Within such estimates, revenue of moon-cake will be roughly VND651bn (+31% YoY on the disclosed figure of KDC), while revenue of butter-cake will be around VND350bn (+20% YoY). We assumed a 3%/year enhancement on production base in the projection periods. Regarding the selling price, after the 28.8% and 24.7% hikes in 2010 and 2011 respectively, rooms for adjustment in later years will get contracted especially amid the pressurizing competitions. Thereby, price developments have been estimated at 15% for 2012, 10% for 2013, and 8% for the remaining periods. The butter-cake segment may sustain high growth rates of 15% in 2012 (due to the synergy with KDC and the effect of products restructuring) and of 10% for the remaining periods (which is similar to the expected average growth). The prospective GPMs of moon-cake are estimated at lower than the 55.5% of 2010 on the grounds of intensifying competitions. Overall, KDC may accept lower GPM (of no less than 50%) to protect its market share. The butter-cake segment may be able to maintain its historic figure of around 25%.

REVENUE & GROSS PROFIT PROJECTION					
(VND m)	**2011E**	**2012F**	**2013F**	**2014F**	**2015F**
Cookies: Projected Revenue	**1,001,141**	**1,186,177**	**1,328,089**	**1,468,352**	**1,622,734**
Butter Cake	350,141	402,662	442,928	487,221	535,943
Moon Cake	651,000	783,516	885,161	981,131	1,086,791
Cookies: Projected Gross Profit	**448,535**	**531,599**	**588,719**	**641,805**	**699,117**
Butter Cake	87,535	100,665	110,732	121,805	133,986
Moon Cake	361,000	430,934	477,987	519,999	565,131

Source: SBS estimates

The Cracker group: The Company has re-deployed its major product (AFC with 5 new flavours) and has engaged in massive promotional programs ("share Cosy, get wealthy" with a total prize up to VND6bn which will last from 22/9 to 20/12/2011). Growths within the 6 months of 2011 have been exceptionally high, at 97% YoY on revenue and at 96% YoY on gross profit (comparing to only KDC). Thereby, we expect a revenue spike from this segment by year end, hopefully by +35% YoY (KDC and NKD) or +81% YoY (only KDC). KDC is the leading company within this segment, and we thereby expect an average growth of 15% for the projected periods.

The Bun & Cake group has been the main source of revenue. We have estimated revenue of this group to enlarge by 14.2% each year. Growth may be pinnacled at 30% in 2011,and then descend to 20% by 2012 and even lower for the remaining 3 years. Some competitors within this segment (esp. Huu Nghi) have been on a strong run in recent years despite the already large market size (which result in lower overall growth). Since the pie is not getting bigger fast enough, the GPM of this product group may get more ponderous for the years to come (fluctuating around 25%-32%).

Other groups have limited contributions, yet continuation will be upheld for the sake of product diversification. The candies group is expected to expand at 6%/year (which is also the expected industrial average) for the next 5 years. The snacks, cinnamon roll group, etc. are estimated to grow at 9.5% -10%/year

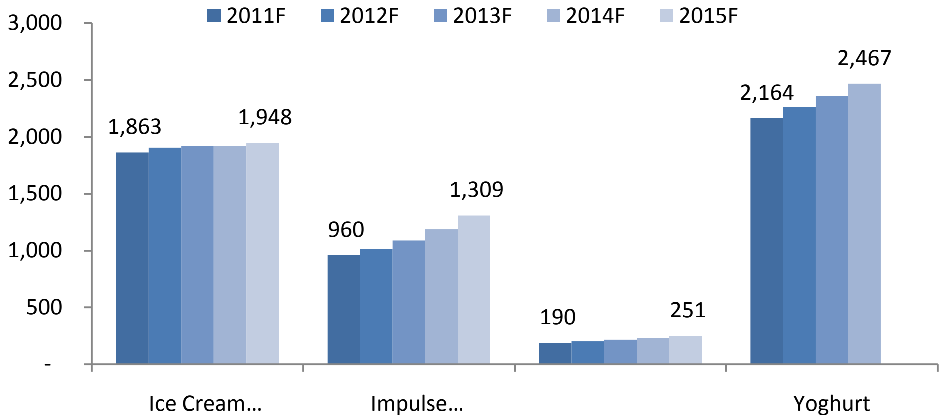
REVENUE & GROSS PROFIT PROJECTION					
(VND m)	**2011E**	**2012F**	**2013F**	**2014F**	**2015F**
Projected Revenue: Total	**3,775,972**	**4,440,908**	**5,044,068**	**5,641,361**	**6,254,717**
Bun and cakes	1,639,407	1,967,288	2,262,382	2,533,867	2,787,254
Cookies	1,001,141	1,186,177	1,328,089	1,468,352	1,622,734
Cracker	706,785	812,802	934,723	1,074,931	1,236,171
Others	428,639	474,640	518,875	564,211	608,557
Projected Gross Profit: Total	**1,310,398**	**1,468,612**	**1,662,715**	**1,802,557**	**1,966,878**
Bun and cakes	524,610	550,841	633,467	658,806	696,814
Cookies	448,535	531,599	588,719	641,805	699,117
Cracker	282,714	325,121	373,889	429,973	494,468
Others	54,539	61,051	66,640	71,974	76,479

Source: SBS estimate

The Ice-cream & Yogurt Industry

Vietnam still offers enormous potential for expansions. The tropical weather of Vietnam is perfect for ice-cream inclination. Furthermore, the consumer base for ice-cream has shifted from children to young people and families since the Western lifestyles have infiltrated a great part of Vietnam. Almost 55% of the Vietnamese population are under 30 years old, who are also demanding more indulgence treats. Hence, ice-cream consumption in Vietnam will continue to thrive in the next 5 years. EMI has forecasted the value of Vietnam ice-cream (excluding artisanal products) to grow at 7% CAGR within the 2010-2015 periods due mostly to the sluggish selling prices. SBS expects KDC to flourish over the industrial average and lay out 18% CAGR in the same periods.

FORECAST: SALES OF ICE-CREAM AND YOGURT IN VIETNAM, BY VALUE (VNDbn.)



2010-15 CAGR (%)	
Parlours Ice Cream	1.67
Impulse Ice Cream	7.40
Take-Home Ice Cream	6.90
Ice Cream	**3.96**

Source: EMI (2010)

2009-14 CAGR (%)	
Drinkable Yogurt	5.71
Spoonable Yogurt	3.58
Yogurt	**4.53**

Source: EMI (2009)

The ice-cream price build-up will become tardy as competitions heat up, especially after the return of Wall's. After three years since its reactivation, Wall's has already recaptured almost 2% on the total value share of ice-cream. Wall's and KIDO make basically the same ice-cream, yet the two companies present themselves very differently. Wall's relies on its professional marketing and significantly larger product ranges, whereas KIDO focuses on flavours development. On the yogurt frontier, the Company will not be able to compete with other big brand names such as Vinamilk (occupying almost 60% of total yogurt market share), Yo-most (13%), or Yomilk (11%). However, KIDO's yogurt products have their own market niche. Overall, KIDO has only captured less than 7% of the total yogurt market share, and hence strategic market positioning will be the foremost factor that promotes growths.

KIDO's Ice-cream: SBS has estimated that the ice-cream segment will generate VND462bn (+25% YoY) in revenue by the end of this year, of which VND346bn (roughly 75%) belongs to the Melano group while the rest falls in the grasp of Celano. We assume that the Melano group will be able to grow as quickly as 16.9% CAGR within the 2010-2015 periods due to its popularity among teenagers and young consumers. Celano will advance at slightly slower pace, around 16.4% CAGR, since the product structure of this group is very limited. Furthermore, the significant price jump in 2010 has left KIDO little rooms for further price adjustments in later years. In the past, the Company was able to increase its average selling price from 11% - 18% per year. Although we are skeptical about such paces in the 2012-2015 periods, KIDO may yet certainly beat the 9% CAGR within the 2010-2015 periods.

FORECAST: REVENUE AND GROSS PROFITS

(VND m)	**2011F**	**2012F**	**2013F**	**2014F**	**2015F**
Revenue	**616,674**	**721,557**	**850,816**	**1,009,180**	**1,203,132**
Ice-cream	462,474	522,639	597,096	689,055	803,412
Yogurt	154,200	198,918	253,720	320,125	399,720
Gross Profit	**362,900**	**416,074**	**482,073**	**563,355**	**663,335**
Ice-cream	294,898	326,597	365,662	413,539	472,527
Yogurt	68,002	89,477	116,411	149,816	190,807

Source: SBS estimates

One of most effective strategies to capture sales is through promotional programs, and we only expect more of these activities from the Company in later years. Superficially, KIDO is trying to uphold a steady gross profit margin by sacrificing its operational profit (higher selling expenses). Overall, the brand name advantage will give KIDO an edge over other competitors regarding the pricing power. We have also assumed that KIDO will continue to enlarge its capacity by 6% CAGR (2010-2015) in order to maintain a healthy 75% utilization rate. The Company has announced that it will spend as much as USD10 m for capacity expansion.

The gross profit margin of the ice-cream group has been persistently high. The main input materials are sugar and milk powder, whose costs have been showing signs of relief recently. All of previous revenue growths were able to outpace most of the cost components, rendering the gross profit margin stable at 60%. However, we suspect selling prices may not engage in any serious change within the 2012-2015 periods; thus the increasing costs of all inputting components will catch up and slightly erode the gross profit margin eventually to 55%.

The Yogurt group: SBS has estimated that yogurt will generate roughly VND154bn by year-end 2011, accounting for almost 25% of the total revenue. Contribution from this segment has been on the rise recently, mostly due to the substantial stretch on its consumption base (especially during the 2009-2010 periods). However, revenue growth has slowed in 2011, and we expect further exhaustion by next year. Nevertheless, the company is committed for imminent capacity expansion; therefore we expect revenue augmentation of 30% CAGR within the 2010-2015 periods. The gross profit margin has erupted from 24% (2007) to almost 40% (2009). We expect the Company to maintain this level, and further it slightly eventually to 47% within 4 years.

The Big Picture

Overall, we expect KDC to uphold expansion paces of 14.1% CAGR on revenue and 17.5% CAGR on PAT within the 2011-15 periods. Gross profit may compound in an annual growth of 15.4% in the same period, and thus the GPM will steady on an average 36.4%. Selling expense is expected to slowly mitigate its weight on revenue from 20% to 18% by year-end 2015. Likewise, the administration expense to revenue ratio is expected to spread thinner to 6% from 7.4%.

SUMMARY OF P&L FORECAST

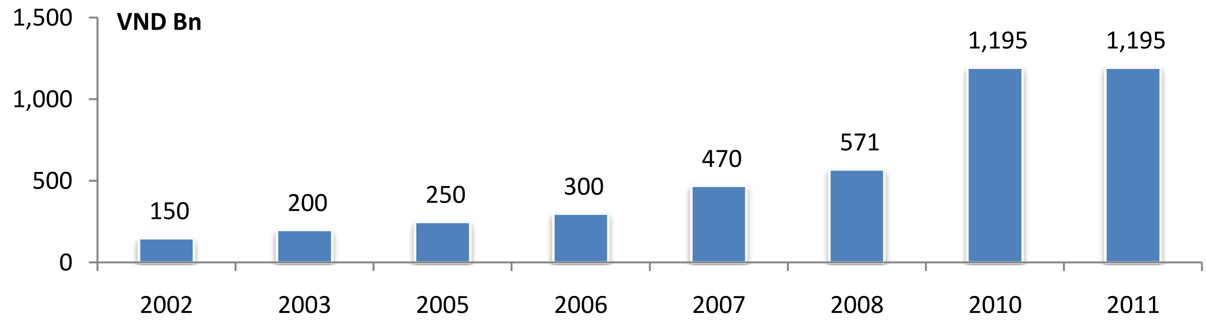
(VND m)	2011F	2012F	2013F	2014F	2015F	CAGR (2011-15)
Revenue	**4,392,646**	**5,162,465**	**5,894,883**	**6,650,541**	**7,457,849**	**14.1%**
Gross profit	1,673,299	1,884,686	2,144,788	2,365,911	2,630,213	15.4%
Operational profit	469,713	542,445	682,857	736,529	840,329	15.7%
Financial Income	(15,629)	23,475	40,306	52,329	62,800	n/a
Pre-tax profit	462,961	565,920	723,162	788,858	903,129	18.2%
After-tax profit	**388,887**	**475,373**	**592,993**	**646,864**	**740,566**	**17.5%**

Source: SBS estimates

COMPANY OVERVIEW

The origin of Kinh Do Corporation rooted back in 1993 when its former self, known as Kinh Do Food Processing and Construction Limited Company, was established with a chartered capital of VND 1.4 billion. At the time, the Company embarked solely on the confectionery industry. Upon its equitization in 2002, the Company has transformed into Kind Do Corporation with a registered capital of VND 150 billion, and has been listed on the HOSE as KDC since 2005. The original businesses have been evolving to arrays of services and products such as food production, trading garments and luxurious items, real estate development, advertisement, and commercial services, among others. However, the core of KDC still resides within the confectionery and ice-cream industries.

CHARTERED CAPITAL ROADMAP



Source: KDC, SBS

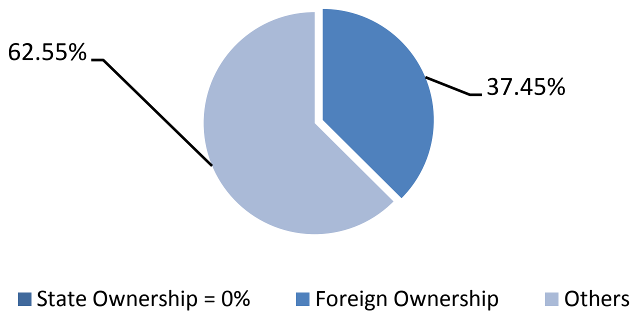
Upon its M&A with NKD and KIDO, the Company has magnified its chartered capital to VND 1,195 billion, equivalent to 119.5 million shares currently being listed on the HOSE. However, roughly 1.03 million shares of treasury stocks have brought the actual amount of outstanding shares down to 118.4 million (as of 15 November 2011).

INSIDE SHAREHOLDERS

Names	Position	Holding (shares)	Holding (%)
Mr. Tran Kim Thanh	Chairman	200,000	1.13%
Mr. Tran Le Nguyen	Vice Chairman / Director	9,631,085	8.06%
Mr. Tran Quoc Nguyen	Board Member / Deputy Director	227,165	0.19%
Ms.Vuong Ngoc Xiem	Board Member	3,297,441	2.76%
Mr. Wang ChingHua	Board Member / Deputy Director	652,176	0.55%
Mr. Co GiaTho	Board Member	515,076	0.43%

Institutional holding in KDC is significant, accounting for more than 50% of total shares. The combined ownership of the Company's BOD and BOM is roughly 12%. However, earlier this year, the chairman of KDC (Mr. Tran Kim Thanh) and his wife (a Board member) have transferred their shares over to PPK Co. Ltd. (Mr.Thanh is taking up the Chairman position in both PPK Co. Ltd and Kinh Do Investment Co. Ltd, and therefore, his influence on KDC can be easily more than 30%.)

SHAREHOLDER STRUCTURE



Institutions	
PPK Co. Ltd	12.27%
Kinh Do Investment Co. Ltd	9.91%
VOF Investment Ltd	5.15%
Deutsche Bank AG London	4.93%
Individuals	
Tran Le Nguyen	8.15%
Vuong Ngoc Xiem	2.79%

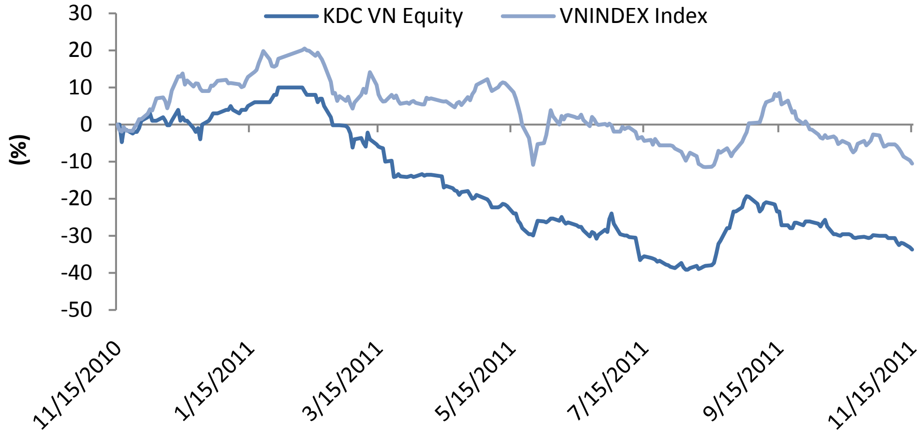
Source: KDC, SBS

SUBSIDIARIES AND AFFILIATED COMPANIES

Company	Business type	Share holdings	Total investment
Subsidiary			
Northern Kinh Do Food Production JSC	Confectionery	100.0%	694,175
KIDO Ltd.	Ice-cream	100.0%	247,559
Kinh Do Binh Duong JSC	Confectionery	99.8%	461,150
VinaBiCoJSC	Confectionery	51.2%	70,244
Associated company			
Lavenue Investment JSC	Finance	50.0%	600,000
Tan An Phuoc Company, Ltd	Real Estate	49.0%	200,500
Thanh Thai JSC	Real Estate	30.0%	1,800

Source: KDC, SBS

12-month performance of VNM and VNIndex



Source: Bloomberg, SBS

KDC has plunged 33.8% over the one year span, while the VNindex has only adjusted by -10.5%. The average trade for KDC during the period was roughly 144,500 shares per day, which has been adjusted slightly upward to 146,000 recently (2M average).

BALANCE SHEET (VND bn)	2008	2009	2010
Assets	**2,983.4**	**4,247.6**	**5,039.9**
Current assets	1,474.4	2,510.1	2,329.5
Long-term assets	1,509.0	1,737.5	2,710.3
Fixed assets	749.1	656.1	937.7
Long-term investments	673.4	994.5	1,210.0
Resources	**2,983.4**	**4,247.6**	**5,039.9**
Liabilities	**835.9**	**1,767.4**	**1,155.7**
Current liabilities	663.9	1,632.7	1,004.3
Long-term borrowings and liabilities	172.0	134.8	151.5
Equities	**2,075.9**	**2,418.0**	**3,767.9**
Owner's equity	2,075.9	2,413.1	3,738.2
Contributed capital	571.1	795.5	1,195.2
Capital surplus	1,721.0	1,395.5	1,950.7
Retained profits/(accumulated losses)	(147.0)	291.0	661.4

INCOME STATEMENT (VND bn)	2008	2009	2010
Net sales	**1,455.8**	**1,529.4**	**1,933.6**
COGS	1,086.0	1,024.0	1,248.2
Gross profit /(loss)	**369.8**	**505.4**	**685.4**
Financial income	117.4	76.5	698.9
Financial expense	313.4	(8.8)	242.5
Interest expense	52.4	43.8	42.5
Selling expenses	133.2	164.2	347.6
G&A expenses	121.9	112.1	141.6
Net operating profit /(loss)	**(81.3)**	**314.5**	**652.6**
Other income	28.4	376.8	34.2
Other expenses	8.8	118.9	12.8
Profit /(loss) before tax	**(61.7)**	**572.3**	**674.0**
Corporate income tax	-	60.9	110.9
Profit after tax	**(60.6)**	**522.9**	**578.6**
Net profit/(accumulated losses)	**(60.6)**	**522.9**	**522.6**

CASHFLOW STATEMENT (VND bn)	2008	2009	2010
Cash flows from operating activities			
Profit/(loss) before tax	(61.7)	572.3	674.0
Depreciation and amortisation	64.6	81.2	87.0
Allowances and provisions	252.5	(199.6)	86.2
Profits/(losses) from investing activities	(118.5)	(186.9)	(697.8)
Operating profit before changes in WC	189.4	310.7	192.0
CF from operating activities	387.0	913.6	(820.5)
Cash flows from investing activities			
Receipt/payments for additions to assets	(317.7)	(83.4)	(62.3)
Receipt/payments for investments entities	(426.5)	(250.5)	(603.5)
CF from investing activities	(535.3)	(36.2)	778.5
Cash flows from financing activities			
Proceeds from equity issued			33.6
Proceeds from long-term borrowings	1,012.1	1,027.2	883.6
CF from financing activities	(175.3)	(100.1)	(271.0)
Net CF during the period	(323.6)	777.3	(313.0)
Cash at the beginning	**530.4**	**206.8**	**984.6**
Cash at the end	**206.8**	**984.6**	**672.3**

YEARLY RATIOS	2008	2009	2010
Growth rate			
Revenue growth rate	18.3%	5.1%	26.4%
Gross profit growth rate	14.8%	36.7%	35.6%
Net profit growth rate	-127.0%	962.9%	-0.1%
Total asset growth rate	-2.7%	42.4%	18.7%
Equity growth rate	-15.2%	16.2%	54.9%
Profitability ratios			
Gross profit margin	25.4%	33.0%	35.4%
EBIT margin	-0.6%	40.3%	37.1%
Profit before tax margin	-4.2%	37.4%	34.9%
Net profit margin	-4.2%	34.2%	27.0%
ROA	-2.0%	12.3%	10.4%
ROE	-2.9%	21.7%	14.0%
Dupont Analysis			
Net profit margin(1)	-4.2%	34.2%	27.0%
Asset turnover (2)	48.8%	36.0%	38.4%
Equity multiplier (3)	143.7%	176.0%	134.8%
ROE = (1)x(2)x(3)	-2.9%	21.7%	14.0%
Management ratios			
Receivable outstanding days	24.2	30.3	31.2
Inventory outstanding days	61.1	57.9	127.0
Payable outstanding days	3.3	12.6	7.0
Asset turnover	0.5	0.4	0.4
Long-term asset turnover	1.0	0.9	0.7
Fix asset turnover	1.9	2.3	2.1
Liquidity ratios			
Current ratio	2.2	1.5	2.3
Quick ratio	1.9	1.4	1.9
Cash ratio	0.3	0.6	0.7
Capital Structure			
Total debt/Total Equity	40.3%	73.2%	30.9%
Total debt/Total Asset	28.0%	41.6%	22.9%
Total asset/Total Equity	143.7%	176.0%	134.8%
Index per share			
PE			6.38
PBV			1.07
PS			1.72
EPS (VND per share)	-	7,653	5,250
Revenue/share (VND/share)	27,965	22,382	19,427
Book value (VND/share)	36,346	30,336	1,277

BALANCE SHEET (VND bn)	QIV-10	QI-11	QII-11	QIII-11
Assets	**5,066.8**	**5,036.8**	**5,165.0**	**5,618.6**
Current assets	2,311.8	2,254.6	2,136.4	2,566.3
Long-term assets	2,755.1	2,782.2	3,028.6	3,052.2
Fixed assets	944.3	936.4	1,049.5	1,099.0
Long-term investments	1,689.0	1,712.4	1,138.3	1,115.6
Resources	**5,066.8**	**5,036.8**	**5,165.0**	**5,618.6**
Liabilities	**1,197.3**	**1,153.2**	**1,350.6**	**1,607.3**
Current liabilities	1,054.1	989.3	1,164.3	1,386.4
Long-term liabilities	143.1	163.9	186.3	220.8
Equities	**3,751.9**	**3,760.3**	**3,779.7**	**3,974.8**
Equity	3,722.2	3,744.5	3,765.0	3,962.5
Contributed capital	1,195.2	1,195.2	1,195.2	1,195.2
Capital surplus	1,950.7	1,950.7	1,950.7	1,950.7
Retained profits	645.5	667.7	688.6	899.5

INCOME STATEMENT (VND bn)	QIV-10	QI-11	QII-11	QIII-11
Total Revenue	**598.7**	**640.4**	**884.5**	**1,535.3**
Net sales	**591.9**	**634.7**	**878.0**	**1,524.8**
COGS	387.9	417.2	566.2	833.4
Gross profit /(loss)	**204.1**	**217.6**	**311.8**	**691.4**
Financial income	34.1	21.3	23.4	43.2
Financial expense	9.9	25.0	59.5	42.1
Interest expense	8.8	20.6	31.0	24.6
Selling expenses	114.0	132.3	167.0	350.2
G&A expenses	34.6	66.3	73.5	92.4
Net operating profit	**79.6**	**15.3**	**35.1**	**249.9**
Other income	35.8	8.4	(0.1)	7.5
Other expenses	2.3	4.2	2.5	4.5
Profit /(loss) before tax	**113.1**	**19.4**	**32.5**	**252.9**
Corporate income tax	**4.3**	**6.0**	**6.5**	**48.3**
Profit after tax	**120.4**	**13.4**	**18.4**	**222.8**

QUARTERLY RATIOS	QI-11	QII-11	QIII-11
Growth rate			
Revenue growth rate (YoY)	108.2%	213.7%	109.6%
Gross profit growth rate (YoY)	145%	307%	114%
Net profit growth rate (YoY)	-98%	159%	56%
Profitability ratio			
Gross margin	34.3%	35.5%	45.3%
EBIT margin	6.3%	7.2%	18.2%
Net profit margin	1.0%	2.4%	14.5%
ROA (4Q)	4.9%	5.7%	6.7%
ROE (4Q)	6.6%	7.7%	9.2%
Management ratio			
Receivable outstanding days	11	12	11
Inventory outstanding days	93	78	50
Payable outstanding days	3	7	3
Liquidity ratio			
Current ratio	2.3	1.8	1.9
Quick ratio	1.8	1.4	1.5
Cash ratio	0.2	0.1	0.3
Capital Structure			
Total debt/Total equity	30.8%	35.9%	40.6%
Total debt/total asset	22.9%	26.1%	28.6%
Total asset/total equity	134.5%	137.2%	141.8%
Index per share			
PE	16.4	4.2	11.4
EPS (VND per share)	2,039	2,358	2,935

Disclaimers

Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Initiation of Coverage	15/11/2011	BUY	40,200	32,000

SBS Research Guide to Investment Ratings

Buy: Share price may exceed 15% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 15% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 15% over the next 12 months
Not Rated (NR): Stock is not within regular research coverage

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