Phu Hung SECURITIES

KINH DO CORPORATION (KDC)

UPDATED REPORT
HOSE - Vietnam
Food and Beverage

NEUTRAL

Price (2012/02/29): VND 35,600
Target Price: VND 38,100

Ms Hoang Thi Hong Lan
Tel: (+84-31)3841-810
lanhoang@phs.vn

Chartered capital	**VND 1,182 bn**
Outstanding shares	**118,203,145**
52 week range	**VND 23,100 – 47,500**
Market Cap (2012/2/29)	**VND 4,208 bn**
Total assets 2011	**VND 5,942.8 bn**
Capital Source 2011	**VND 3,836 bn**
Foreign Investors Room	**13,593,361**
Foreign Investors Own	**44,267,077**
Foreign Investors Owning rate	**37.45%**
EPS (2011) (VND)	**2,472**
P/E (2011)	**14.4 x**
P/B (2011)	**1.06 x**
ROE (2011)	**7.62%**
ROA (2011)	**4.92%**

Profit margin tends to drop

KDC is known as a leading brand of Vietnam in sweets industry, accounting nearly 40% market share. With a wide selling channel and rich products from daily products (cake) to luxury products used in Vietnam traditional festivals (Moon cake). Besides, the merging of NKD and KIDO's has supplied an opportunity for KDC to develop the Northern market.

Profit margin tends to drop, because of the characteristic of sweets industry as well as some products of Kinh Do tending to be saturated. Besides, there is the intense competition in domestic market since imported products tend to increase.

In 2011, sales and profit saw different growing trends. It is considered a successful year for KDC since the sales were 4,265 billion dong, up by 120% while net profit dropped by 50% to 292 billion dong.

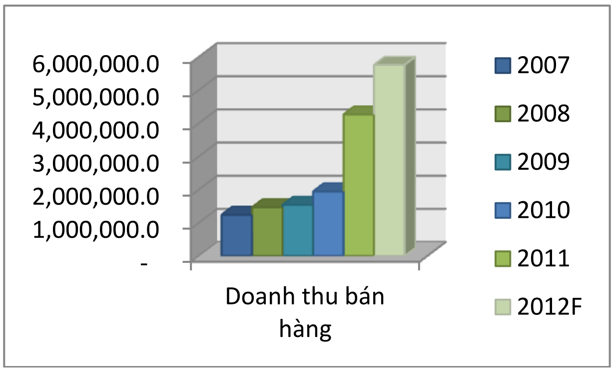
Investment activities are facing many difficulties: 2 out of 3 expanding activities of KDC (finance – real estate) are having problems in 2011. And 2012 is still considered a tough year for these activities, so KDC is tending to develop its main business of food and beverage.

Potential activities in the industry: sweets market is very potential; the sweets retail sales growth in Vietnam in 2008-2012 is 15% averagely. According to this, sweets productivity is about 706,000 tons in 2012 for 30,366 billion dong.

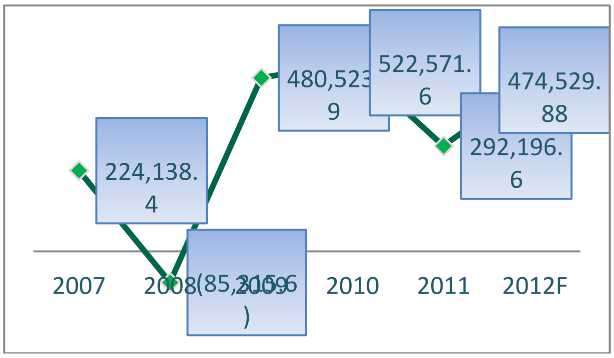
Investment recommendation: we recommend HOLD for KDC at the target price of 38,100 dong.

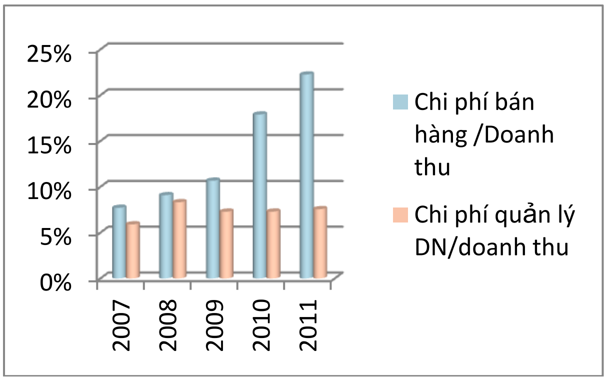
Basic Finance Indexes

Year	Sales (Bn dong)	%	EAT (Bn dong)	%	Outstanding Shares (Mn shares)	EPS	P/E	ROA	ROE
2007	1,238.34		224.14		36.92	6,071	5.9	7.31%	9.16%
2008	1,466.19	18.40%	(85.32)	-138.06%	52.81	NA	NA	NA	NA
2009	1,539.22	4.98%	480.52	-663.23%	56.08	8,568	4.2	31.22%	19.91%
2010	1,942.81	26.22%	522.57	8.75%	100.24	5,213	6.8	10.37%	13.98%
2011	4,265.8	119.57%	292.20	-44.08%	118.20	2,472	14.4	4.92%	7.62%
2012F	5,761.65	35.07%	474.53	62.40%	118.20	4,015	8.9	6.61%	10.50%



Earns after Tax





Source: KDC and PHS's estimation

2011 business activities

In general, KDC is in the phrase of maintaining a high sales growth in 2007-2011 of 28%. However net profit saw a CAGR rate of only over 5% this period. This can be explained since it is the period of initial investment in new aspects (finance, real estate) and the company is using the strategy to increase the market share.

2011 was a tough year for the whole economy but KDC still saw an impressive sales growth of 119.5% to 4,265 billion dong while the net profit was only a half of that lsat year of 292.2 billion dong, down by 41.1%. The main reasons are:

Market share expanding strategy of "profit sacrifice". Because of the characteristic of sweets industry, KDC also depends on imported input material (sugar, flour) so the COGS is influenced. In 2011, the price increased by nearly 12-18%. However, KDC's market expanding plan saw only a gain of 8% for price to strengthen the competition ability.

Investment in strategic industries, especially real estate and finance, is risky in a tough economy and a frozen real estate market.

Selling and management expense tends to increase. KDC hasn't controlled the expense well in 2011.

Price of Sugar delivered after October 2011 In New York

Source: futurespros.com

Safe capital structure

In general, payment indexes tend to drop compare to previous year, but with a debt rate of 30%, KDC is highly valuated and safe under the economic circumstance in 2011 – 2012. Because it will help the enterprise to lessen finance expense as well as investment risk with the lack of capital source at present.

The company's profitability tends to drop compare to previous year, because the Company is in the phrase of product development and market share expanding. However, in 2011, KDC still maintained a high dividend rate of 20%.

Finance indexes	2007	2008	2009	2010	2011	2012F
Payment ability						
General payment ability	5.17	3.57	2.40	4.25	2.87	2.82
Current payment ratio	3.75	2.22	1.54	2.25	1.44	1.53
Quick payment ratio	3.46	1.95	1.44	1.83	1.23	1.35
Operational efficiency						
Inventory Circle	9.09	8.07	9.47	4.47	10.76	14.43
Average receivables circle	171.88	127.79	198.27	188.81	72.81	73.03
Fixed assets circle	2.58	1.96	2.35	2.07	2.97	3.70
Total assets circle	0.40	0.49	0.36	0.39	0.72	0.80
Capital structure						
Debt ratio	19.3%	28.0%	41.6%	23.5%	34.8%	35.5%
Loans interest payment ability	8.02	-0.18	14.08	16.87	3.94	5.14
Profitability						
ROS	18.1%	-5.8%	31.2%	26.9%	6.8%	8.2%
ROA	7.3%	-2.9%	11.3%	10.4%	4.9%	6.6%
ROE	9.2%	-4.1%	19.9%	14.0%	7.6%	10.5%

Source: KDC, PHS's estimation

Investment recommendation

FCFE and P/E at a reasonable account to see a target price of 38,100 dong. Recommendation for middle and long-term investments.

However, KDC is placed in the VN30 and is the leading enterprise of Vietnam sweets industry.

Valuation method	Price	Account
FCFF	44,346	40%
FCFE	42,864	40%
P/E	16,300	20%
Average price	**38,100**	

Source: PHS

STT	PE	EPS	ROA	ROE	P/B	Total Volume	Foreign Own	Market cap (Bn dong)
KDC	14.4	2,472	5%	8%	106.45	118,025,625	61,645,405	4,202
BBC	4.6	3,043	6%	8%	37.49	15,371,192	7,556,177	215
HHC	3.8	3,441	7%	11%	60.16	8,212,500	11,850	108
Ngành	6.57	3216	0.0667	0.0933	68.033	141,609,317	69,213,432	4,525

Source: PHS's summarization

FINANCIAL REPORT

(Unit: million dong)

BALANCE SHEET	2008	2009	2010	2011	2012F
CURRENT ASSETS	**1,474,434**	**2,510,074**	**2,329,537**	**2,696,467**	**3,333,305**
1. Cash and equivalent	206,808	984,611	672,316	967,642	1,054,854
2. Short-term finance investments	584,291	518,184	161,660	372,520	672,037
3. Short-term receivables	489,407	825,183	1,018,355	862,108	1,124,578
4. Inventory	181,656	162,476	434,328	396,274	399,332
5. Other current assets	12,271	19,621	42,877	98,103	82,504
NON-CURRENT ASSETS	**1,508,976**	**1,737,527**	**2,710,327**	**3,246,334**	**3,840,894**
1. Long-term receivables	31,059	22,553	612	685	44,205
2. Fixed assets	749,092	656,085	937,725	1,437,463	1,558,690
4. Real estate investment	-	-	29,165	29,165	15,167
5. Long-term finance investments	673,385	994,535	1,209,978	1,641,615	1,980,441
6. Other non-current assets	17,012	32,318	104,720	139,979	87,932
Total assets	**2,983,410**	**4,247,601**	**5,039,864**	**5,942,801**	**7,174,199**
LIABILITIES	**835,926**	**1,767,440**	**1,185,452**	**2,070,736**	**2,544,602**
1. Short-term liabilities	663,885	1,632,683	1,033,997	1,875,889	2,180,357
1.1. Short-term loans and debts	335,922	407,353	380,554	880,670	927,139
1.2. Payables for sellers	106,665	127,404	271,379	331,604	433,674
1.3. Prepaid by buyers	9,828	35,447	24,103	39,012	38,788
2. Long-term liabilities	172,041	134,757	151,454	194,847	364,245
EQUITY	**2,075,923**	**2,418,021**	**3,738,215**	**3,836,045**	**4,522,838**
1. Equity	2,075,923	2,413,130	3,738,215	3,836,045	4,518,760
Non-distribution EAT	(147,004)	290,986	661,350	-	271,859
2. Expenses and other funds	-	4,891	-	-	4,078
MINORITY BENEFIT	**71,561**	**62,140**	**116,198**	**36,019**	**106,759**
Total capital	**2,983,410**	**4,247,601**	**5,039,864**	**5,942,801**	**7,174,199**
BUSINESS RESULT REPORT					
Sales	**1,466,192**	**1,539,223**	**1,942,808**	**4,265,814**	**5,761,648**
Sales minus	*10,424*	*9,867*	*9,174*	*33,704*	37,139
Net sales	1,455,768	1,529,355	1,933,634	4,232,110	5,724,509
COGS	1,085,980	1,023,963	1,248,244	2,562,535	3,898,379
Gross Profit	**369,789**	**505,393**	**685,390**	**1,669,575**	**1,826,130**
Finance sales	118,538	63,854	663,953	128,784	659,826
Finance expense	313,379	(8,807)	242,453	182,484	589,265
- In which: loans expense	52,364	43,758	42,458	118,754	160,683
Selling expense	133,178	164,175	347,589	949,232	1,009,424
Management expense	121,882	112,090	141,635	322,444	418,716
Net profit	**(80,112)**	**301,789**	**617,667**	**344,199**	**468,551**
Other income	28,373	376,776	34,164	30,670	352,600
Other expense	8,807	118,936	12,800	26,085	120,837
Other profit	19,566	257,840	21,364	4,585	231,762
Net profit (loss)	(1,143)	12,680	34,962	-	34,956
Earning before tax	**(61,689)**	**572,309**	**673,993**	**348,784**	**665,357**
Enterprise income tax	(1,087)	49,366	95,381	48,904	104,343
Earning after tax	**(60,602)**	**522,943**	**578,612**	**299,880**	**561,014**
Minority benefit	*24,714*	*42,419*	*56,040*	*7,684*	86,484
Parent company's EAT	**(85,316)**	**480,524**	**522,572**	**292,197**	**474,530**
Outstanding shares	52,810,321	56,081,690	100,243,402	118,203,145	**118,203,145**
Basic earning per share	(1,616)	8,568	5,213	2,472	4,015

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5th Fl., Lawrence S. Ting Bldg., 801 Nguyen Van Linh St, Tan Phu Ward, Dist 7, HCMC
Tel: (+84-8) 5413-5479 – Fax: +84 8 54135472 Web: www.phs.vn