Kinh Do Corporation (KDC)

AGM NOTE

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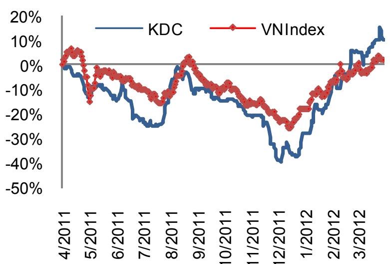
NOT RATED

Confectionery

Key Indicators	
Price on 23 April 2012	42,000
52-week low	22,940
52-week high	44,000
Avg. 30-day trading volume	136,414
Outstanding shares (mn)	132
Market capitalization (VND bn)	5,545
Market capitalization (USD mn)	264
Foreign ownership	46.9%

Valuation	2010	2011	2012P
EPS (basic)	5,211	2,312	2,386*
EPS growth %	-25.6%	-58.6%	3.2%
P/E at market	8.0	18.2	17.6
P/B at market	1.1	1.3	Na
ROE	18.2%	7.1%	Na
ROA	12.4%	5.1%	Na
ROIC	15.7%	6.0%	Na
Debt-to-equity	12.3%	25.9%	Na

Performance	3M	6M	12M
Absolute %	4.5%	29.1%	9.8%
Relative %	2.0%	15.8%	7.8%



Ownership Structure	
PPK Ltd.	12.27%
Kinh Do Investment Ltd.	9.91%
Tran Le Nguyen - CEO	8.15%
Deutsche Bank AG London	5.76%
VOF Investment Limited	5.09%
Deutsche AM Asia	4.99%

Staple products to fuel growth

On April 21, 2012 we attended KDC's AGM and provide key takeaways from the meetings:

- **2011 earnings dropped in absence of real estate income** – In 2011 the company made VND4,247bn in revenue (+33% YoY) and VND279bn in net profit (-57% YoY). If we exclude the extraordinary income of VND412bn from the sales of Sai Gon Kim Cuong, normalised earnings growth is 11% in 2011. Gross margin slightly improved from 39.1% in 2010 to 39.4% in 2011 while SG&A increased significantly by 41%. Cash dividend is VND2,400/share, generating 5.7% dividend yield. KDC has already paid VND1,200/share in April 2012.
- **Expanded market shares in most product categories** – Top market share gainers are biscuits and buns. KDC's market share in the biscuits segment has increased from 27% in 2010 to 38% in 2011 while buns gained 64% market share from 54% last year. Revenue growth and market share by product in 2011 are as below:

	Revenue growth %	Market share %
Moon cake	31.4	76
Buns	33.8	64
Biscuits	52.3	38
Cakes	12.2	17
Ice cream	27.8	29
Snacks	32.5	8
Yogurt	44.6	8
Candy	47.5	3

- **Ambitious 2012 targets** – KDC is projecting VND5,500bn in revenue (+29% YoY) and VND500bn in PBT (+43% YoY) in 2012. We think these targets are quite ambitious. To reach these numbers, the company will need to expand margins considerably through the high margin products such as ice cream (gross margin ~60%) and cracker (gross margin ~40%). Overall, gross margin has increased from 25.4% in 2008 to 39.4% in 2011, emphasizing KDC's ability to pass cost increases onto consumers.

  We also think a better cash position will help reduce borrowings and interest expenses in 2012. KDC had a VND293bn positive net change in cash for 2011 versus a negative VND313bn in 2010.

- **Expansion into other F&B categories** – In February 2012, KDC successfully launched its rice cracker Sachi – a joint brand between KDC and Want Want China, in which Want Want China produces and KDC distributes the products.

  The KDC-Glico partnership will official start in 4Q when KDC distributes Glico's products including rice crackers and other snacks while Glico commits to contribute USD10mn per year for marketing expense. KDC also expects to launch its noodles and cooking oil products by year end 2012.

At this point, KDC is not investing in building new capacity for these products but rather employing third-party white label supplier and rebranding under KDC's brand umbrella. We think KDC moving into other consumer staples is a viable strategy to generate sustainable growth given that confectionaries are rather lifestyle products and do not sell throughout the year. The staple products will allow the company to maximise the distribution network year round.

Other important events in 2012:

- Stock bonus for current shareholders at ratio 5:1
- Stock bonus for BOM: total new issuance is 1.32mn shares or 1% current outstanding shares.
- ESOP for BOD and Internal Audit: total new issuance is 481,000 shares or 0.36% current outstanding share at issuance price of VND16,000/share.
- ESOP: total new issuance is 4.8mn shares or 3.6% current outstanding share at issuance price of VND16,000/share.
- Merger of Vinabico and KDC: KDC will issue new shares to Vinabico's shareholders at swap ratio 2.7:1 (if before other new issuances) or 2.2:1 (if after other new issuances). Therefore, total new issuance could be 1.1mn or 901,000 shares. According to management, KDC has held 51% of Vinabico in the last 5 years and has not initiated a merger until now as Vinabico has met top-line growth of 30%. In 2011, Vinabico made about VND70bn in revenue. While Vinabico and KDC have the same confectionery product portfolio, Vinabico targets a lower end market while KDC is serving the medium and high end markets.

Management expects that all new issuances of 35,604,645 or 35,399,885 shares will take place in October/November 2012, after which total outstanding shares are 167,629,710 or 167,424,950 shares (depending on the swap ratio). Dilution effect is about 4.69%-4.82%.

*2012P EPS is calculated based on total outstanding share of 167,629,710 shares.

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Analyst Certification

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Absolute performance, long term (fundamental) rating key: The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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Valuation Methodology: To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

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