Annual General Meeting 2012

03/05/2012

Kinh Do Group Corporation (KDC)

Highlights of 2011. The Company generated VND4,247bn in revenue and VND279bn in PAT. If we take into account the contribution of NKD and KIDO's in 2010 and exclude the extraordinary income from sale of SJC project in 2010, revenue and PAT would have grown by 32.6% yoy and 11.1% yoy respectively. The enlargement on revenue last year was driven mostly by price improvement (approx. +20% yoy). The year of 2011 also gave KDC the opportunity to synchronize all of its previously-separated entities; KDC can now fully utilize its economy of scale aspect.

Fuelling the F&B expansion. After merging with NKD & KIDO (2010) and increasing its holding in Kinh Do Binh Duong to 99.8%, KDC is now moving toward Vinabico. By the end of this year, KDC plans to raise its holding in Vinabico from the current 51.2% to 100% in a very much similar method when it merged with NKD and KIDO: **stock swap**. After Vinabico, KDC will look for other M&A match-up in Vietnam and may even extent their reach abroad if that is where the opportunity is.

The plan for 2012. The Company has laid out an ambitious plan of **VND5,500bn** in revenue (+29.5% yoy) and **VND500bn** in PBT (+43.3% yoy) while leaving out the new products that may be launched this year. KDC also plans to issue **34,112,110** new shares this year, which include bonus shares issued to existing shareholders, shares issued via the ESOP, and shares issued for the Vinabico stock swap.

Recommendation: If KDC can lay another concrete foundation on its core business this year with its new products and partnership, we believe more growth will be waiting ahead. In the meantime, we maintain our view on KDC's core business, thus our earlier projections still stand for the most part. However, we did not factor in any extraordinary income at the time. Upon the unusual financial income of the parent KDC in Q1/2012, we have temporarily adjusted our projected PAT to better reflect the current situation. Thus, our new 12M target price has arrived to **VND43,000/share,** which is roughly 8.5% lower than the current VND47,000/share. Therefore, we stay **NEUTRAL** with KDC for the moment.

Company Financial Summary *In VND m, year-end December*

	FY09	FY10*	FY11	FY12F**	FY13F**
Revenue	1,529,356	1,933,634	4,232,110	5,166,358	5,898,907
Net profit	480,524	522,572	292,197	397,263	487,632
% change yoy	-	8.8%		36.0%	22.7%
EPS (VND)	6,120	4,410	2,476	3,009	3,693
BV (VND)	30,735	31,550	32,502	34,283	35,576
DPS (VND)	2,400	2,400	2,400	2,000	n/a
Div yield	5.3%	4.8%	9.2%	4.3%	n/a
ROA	11.3%	10.4%	4.9%	6.4%	7.6%
ROE	19.9%	14.0%	7.6%	8.8%	10.4%
P/E (x)	7.43	11.27	10.50	15.62	10.02
P/BV (x)	1.48	1.58	0.80	1.37	1.04

Source: KDC, SBS estimates

**The 2010 results did not include the contribution of NKD and KIDO*

*** The 2012 and 2013 figures are SBS forecasts, which based solely on KDC's core business (not taking into account any extraordinary income).*

NEUTRAL	
CURRENT PRICE	**47,000**
TARGET PRICE	**43,000**
PREVIOUS	**37,300**

STOCK STATISTICS

Bloomberg Ticker	KDC VN Equity
Outstanding shares (m)	132
Market Cap (VNDbn)	5,941
52W Price range	23.7-48.1
3M Average Volume	137,239
Beta	0.8
Foreign ownership (%)	46.97

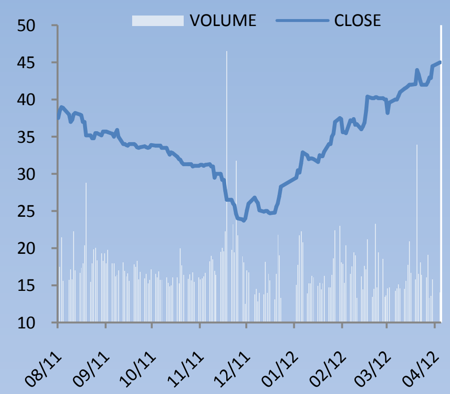
Source: Bloomberg

MAJOR SHAREHOLDERS

PPK Limited Corporation	12.27%
Kinh Do Investment Co Ltd	9.91%
Tran Le Nguyen	8.15%
Deutsche Bank AG	5.76%

SHARE PERFORMANCE (%)

Month	Absolute (VND'm)	Relative (%)
1M	5.0	13%
3M	16.7	59%
6M	11.5	34%
12M	6.8	18%



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Sacombank-SBS SECURITIES COMPANY

Annual General Meeting

Kinh Do Group Corporation

2012

2013

2014

2015

2016

Neutral

43,000 VND/share

Content

- Highlights of 2011
- Plans for 2012 and
- Development Insight
- Recommendation

Highlights of 2011

The post-merger expansion

Not all mergers will bring about great success and the desired synergy, yet KDC was able to pull it off nicely. The Company generated **VND4,247bn** in revenue and **VND279bn** in PAT. If we take into account the contribution of NKD and KIDO's in 2010 and exclude the extraordinary income from sale of SJC project in thus year, revenue and the normalized PAT would have grown by 32.6% yoy and 11.1% yoy respectively.

The enlargement on revenue last year was driven mostly by price improvement (approx. +20% yoy). The below revenue breakdown also shows impressive growth of each products category, whose market shares have greatly improved since last year.

REVENUE GROWTH AND MARKET SHARES BY PRODUCTS (2011)

Product Category	Revenue growth (%)*	Market Share (%)**
Biscuit	52.3%	33%
Cakes	12.2%	17%
Moon cake	31.4%	76%
Buns	33.8%	64%
Ice-cream	27.8%	29%
Yogurt	44.6%	8%
TOTAL	**32.6%**	

Source: KDC, annual report 2011
**Based off of the consolidated financial statement (including both NKD and KIDO)*
***All data (except for the Moon cake, Ice-cream, and yogurt) was collected from AC Nielsen (Retail Audit 2011)*

Great momentum as the merger takes full effect

Before, 5 different companies with 5 different management systems stand under the Kinh Do umbrella; they may not necessarily share voices in all decisions and may even step on each other's toes unintentionally. However, the situation has changed as NKD, KIDO, Kinh Do Binh Duong, and KDC have all come under one centralized system, and soon will Vinabico join the pack.

The year of 2011 gave KDC the necessary opportunity to synchronize all of its previously-separated entities. KDC can now fully utilize its economy of scale aspect: cost management will be more effective, the whole chain of production will be better managed, and the overall transparency will be improved.

The blueprint of prospective development

Business plan for 2012

The Company has laid out an ambitious plan of **VND5,500bn** in revenue (+29.5% yoy) and **VND500bn** in PBT (+43.3% yoy) while leaving out the **new products** that may be launched this year. Also in 2012, the Company expects to drive its markets shares mostly with volume growth (especially via exportation), which is feasible considering its large domestic distribution network and foreign partnerships. Last year, KDC was not able to fulfil its profit targets, and that very same concern still lingers. However, the management seem confident about their 2012 targets since KDC will truly operate as a group holding company this year.

Kinh Do has recently released its Q1/2012 result at the parental level. There was nothing unusual with the Company as the parent KDC made VND382bn in core revenue (-3.2% yoy), perhaps except for the extraordinary financial gain of **VND355bn**. KDC has explicitly stated that they will focus solely on core business and liquidate its non-core and non-strategic investments; on the face of it, the above abnormality appeared to be the physical result of such promise. However, KDC only stated that the above income was the dividend payment received from its affiliated companies, which is still unclear to us as from whom or from which source. We will provide additional information upon the consolidated Q1/2012 statement of KDC.

The Company plans on paying VND2,000 per share for dividend this year, which suggests a dividend yield of 4.3% at the current price. KDC has already paid VND1,200/share (out of the total VND2,400/share) for the 2011 dividend.

The partnership with Ezaki Glico

In January 2012, KDC issued 14 million shares to Ezaki Glico, one of the most reputable confectionery trademarks in Japan. The Company received a net VND641.7bn for this deal, which suggested an average transfer price of VND45,800/share (KDC is being traded at VND47,000/share as of 03/05/2012).

The partnership with Glico goes much further than just a mere producer-distributor relationship. While Glico tries to expand their market to Vietnam with the help of KDC, the Company also anticipates not only economic benefits but also technical support from Glico in return. One of the problems with the confectionery industry and every other business is probably innovation, since selective mass product imitation is one of the most effective strategies in terms of time and cost. However, the reward of pre-emption is also indubitable. Perhaps with the help of Glico, KDC may be able to position itself among one of the most innovative confectionery and dairy producer in Vietnam.

Merger of KDC and Vinabico

After merging with NKD & KIDO in 2010 and increasing its holding in Kinh Do Binh Duong to 99.8%, KDC is now moving into Vinabico, one of its elongating subsidiaries. Vinabico made VND74.9bn in revenue (+9.8% yoy) last year, which was then only translated to VND12.9bn (+75% yoy). Vinabico has grown its revenue and PAT by, in that order, 11.7% and 22.5% CAGR over the last 3 years (from 2009 to 2011). Due to the relatively small size of Vinabico, this merger will not play that big of role on the overall performance of KDC.

By the end of this year, KDC plans to raise its holding in Vinabico from the current 51.2% to 100% in a very much similar method when it merged with NKD and KIDO: **stock swap**. The swapping ratio may be either 2.7:1 (2.7 shares of Vinabico will be swapped for 1 share of KDC) if KDC does not issue any other new shares or 2.2:1 if KDC issues other new shares. In summary, KDC will issue either 1,105,704 shares or 900,944 shares to swap with the 2,432,550 shares of Vinabico. At the current price of KDC, the value of Vinabico is roughly between VND16,600-20,400 per share.

What is next after Vinabico? KDC can only nurture its organic growth for a define number of years. Certainly, the management of KDC are asking themselves the very same question. In the meantime, the Company is eyeballing across all industries in Vietnam for possible M&A match up and may even extent their reach abroad if that is where the opportunity is.

New share issuance

KDC plans to raise its chartered capital from VND1,335bn to VND1,676bn through the issuance of **34,112,110** new shares, including bonus shares issued to existing shareholders, shares issued via the employee stock ownership plan (ESOP), and shares issued for the Vinabico stock swap.

KINH DO: SHARE ISSUANCE PLAN (2012)

	Existing Shareholders	BOM	BOD & Board of Supervisors	Employee	Stock swap
Issuing / Swapping ratio	5:1				(2.2:1) or (2.7:1)
Issuing price per share		VND16,000	VND16,000	VND16,000	
Total issued share	26,405,125	1,320,000	481,000	4,800,000	1,105,704 or 900,944
Transfer restriction	None	Unblock 50% after 1 year and the last 50% after 2 years from the issuing date	Unblock 100% after 1 year from the issuing date	Unblock 100% within 1 year from the issuing date	

The bonus share may cause a dilution of 16.7% on the current market price, and the ESOP shares may kick in another 3%. Therefore, the total dilution should be more than 19.7% by the time these two stock issuances come into play.

New products and capacity expansion

New products and their intended development. This year, KDC will invest only USD10m to upgrade its existing production lines. Rather than that, KDC has explicitly stated it will not invest in physical capacity for new products but will rebrand and distribute white-label products supplied by a third party. Since February 2012, KDC has had great success launching its new rice cracker product *Sachi,* which signifies the cooperation between KDC and Want Want China (whereas Want Want China produces the product, KDC repacks and distributes). The partnership between KDC and Glico will become more visible by Q4/2012 as Kinh Do starts distributing products of Glico, which may include the famous Pocky (cream-coated sticks), Pretz (biscuit sticks), Collon (cream stuffed cookies), and others. By 2016, KDC expects to distribute roughly USD35-40 million worth of products per year for Glico. However, these projections are just mere paper figures, and we should wait for some concrete results before justifying its viability. By the end of the year, KDC will roll out its brand new cooking oil and instant noodles products.

Why instant noodles and cooking oil? Kinh Do has always been known for its bakery and confectionery; it is only natural for most of us to question their motives with instant noodles and cooking oil. Let's look at the seasonality aspect of confectionery products. Unlike other developed countries where junk foods are consumed on a daily basis, Vietnamese tend to buy cookies and candies for presents rather than for own consumption, which is why the first two quarters of a year is fairly slow for confectionery producers. Moving into staples goods, KDC will be able to make more use of its distribution system and limit the downside of confectionery seasonality, thus a more year-round growth will be assured. Furthermore, KDC will not confront the big players directly but find its own market niche instead. The overall size of these two markets is still growing, and the general strategy is to identify the less-exploited area.

There is still room for production growth. We had the opportunity to visit the main factory of KDC in Binh Duong, and we were impressed with the overall quality of their production lines. The whole production process is fully mechanized, except for the packaging point which is still heavily relied on human labour. The machinery is fairy new in terms of technology since most of them are still under 7 years of usage. Development space in Binh Duong may be limited at the time, yet the Company is renovating and replacing its old production lines with newer and more efficient ones. Except for the high season, the Company only uses roughly half of its manufacturing capacity, which suggests there is still much room for production growth.

Recommendation

Temporary model revision

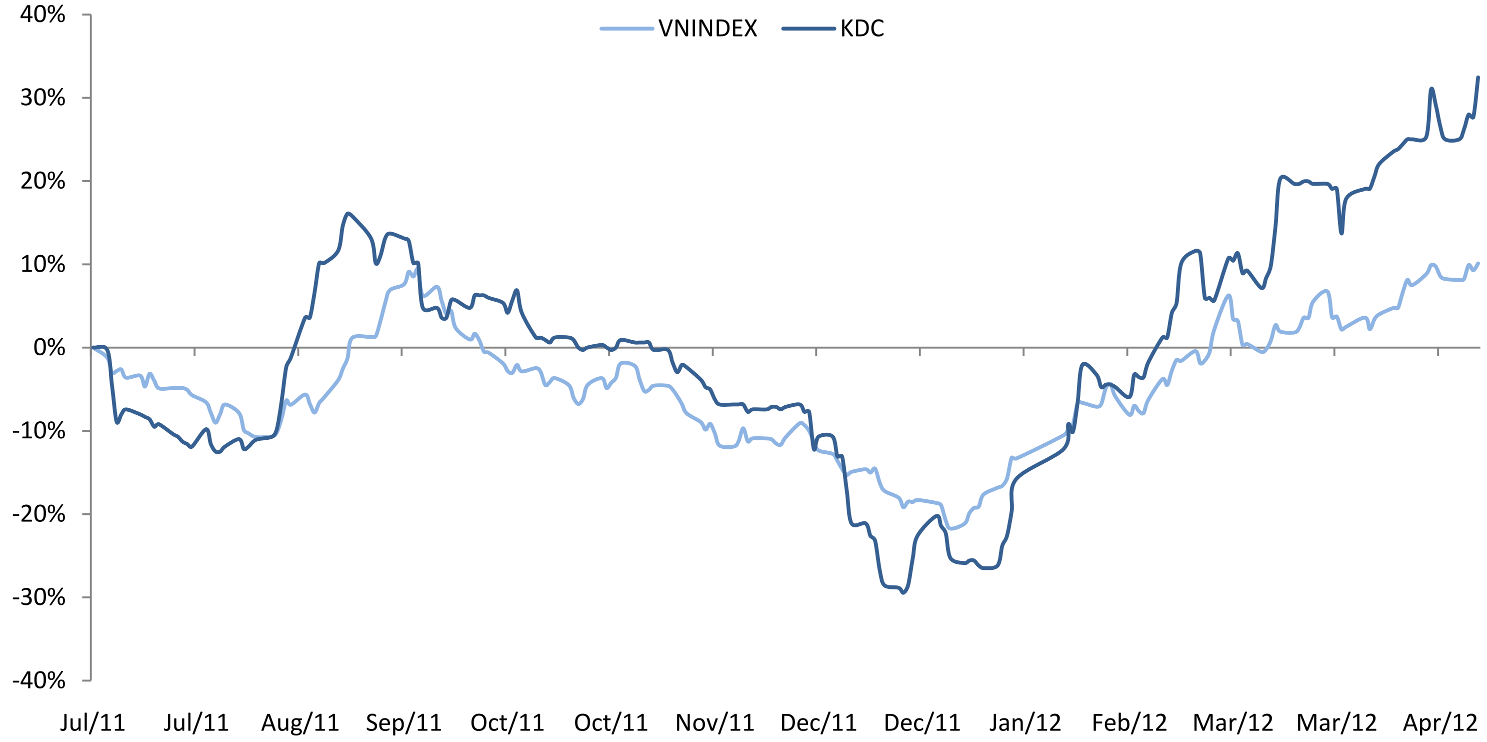
In the meantime, we maintain our previous view on KDC's core business. Thus, for the most part, our earlier revenue & PAT projections (VND5,166bn and VND397bn respectively) still stand. These figures only justify for the performance of KDC's **core business** alone since we did not factor in any extraordinary income.

However, upon the unusual financial income of the parent KDC in Q1/2012, we have temporarily adjusted our profit projection to better reflect the current situation. Therefore, our new target price has arrived to around **VND43,000/share,** which is 15.3% higher than our previous figure of VND37,300/share. Our new target price has not yet displayed the **dilution effect** of new shares to-be-issued by the end of this year, which is about 19.7% (SBS estimates) upon all share issuance. Furthermore, the new target price is subject to further adjustments upon the consolidated Q1/2012 statement.

NEUTRAL

If KDC can successfully lay another concrete foundation on its core business this year with its new products and partnership, we believe more growth will be waiting ahead. Our new target price of VND43,000/share is roughly 8.5% lower than the market price of KDC (VND47,000/share). Therefore, we stay **NEUTRAL** with KDC for the moment.

STOCK PERFORMANCE: OUTPERFORMING



Source: Bloomberg, SBS

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
Company Update	01/03/2012	NEUTRAL	37,300	35,600

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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