Kinh Do Group Corporation (KDC)

Climbing from the depth of seasonal cycle

The sluggish first quarter: By the end of Q1/2012, KINH DO made only **VND707bn** in revenue (+11.4% y-o-y) and VND240bn in gross profit (+10.7% y-o-y). KDC actually had a positive result, although modest, for its financial activities this quarter. Eventually, the ascension of both selling and administration expenses (by 17.2% and 22.8%, respectively) has eroded net profits to only **VND0.4bn** (-94.4% y-o-y).

Project development: This quarter, KINH DO poured another VND250bn onto the Lavenue Crown project. The Company has hereby aggregated enough money to obtain the land-use-right for this project and should not have to make any more contribution afterward. Construction of this project may start by 3Q/2012 as stated by Mr. Tran Le Nguyen, the CEO of KINH DO, at the AGM 2012.

Model revision: The first quarter is fairly slow for KDC. However, the seasonality of confectionery in Vietnam dictates that the majority of sales will come in the second half of the year, and thus we shall not assume anything at least until after the second quarter of this year. In our last report on 03/05/2012, we revised upward our target for KDC thinking the Company may have gotten some extraordinary incomes this quarter. However, as it turns out, the massive financial gains received by the parent KDC was just accounting transactions within the KINH DO group. Therefore, we have revised out target price from VND43,000/share to **VND38,000/share** (-24.5%). Once again, our target price only reveals our opinion on the core business of KDC, since we have not factored in the possibility of extraordinary incomes.

Recommendation: The current price of KDC (VND39,400/share) is roughly 3.7% higher than our target, and hence we maintain our **NEUTRAL** view on KDC. At our target price, the Company is being traded at P/E (2012) ~ 12.98 and P/BV (2012) ~ 1.11.

Company Financial Summary			In VND m, year-end December		
	FY09	FY10*	FY11	FY12F**	**2012P
Revenue	1,529,356	1,933,634	4,246,886	5,226,973	5,500,000
Net profit	480,524	522,572	273,553	386,626	
% change y-o-y	-	-	-	41.3%	
EPS (VND)	6,120	4,410	2,318	2,928	
BV (VND)	30,798	31,801	32,321	34,169	
DPS (VND)	2,400	2,400	2,400	2,000	
Div yield	5.3%	4.8%	9.2%	4.8%	
ROA	11.3%	10.4%	4.7%	6.3%	
ROE	19.9%	13.9%	7.2%	8.6%	
P/E (x)	7.43	11.27	11.22	13.45	
P/BV (x)	1.48	1.56	0.80	1.15	

Source: KDC, SBS estimates
** SBS's estimate for 2012*
*** KINH DO's own plan for 2012*

NEUTRAL		
CURRENT PRICE		39,400
TARGET PRICE		38,000
PREVIOUS T.PRICE		43,000

STOCK STATISTICS

Bloomberg Ticker	KDC VN Equity
Outstanding shares (m)	132
Market Cap (VNDbn)	5,465
52W Price range	47.9-23.7
3M Average Volume	125,441
Beta	0.8
Foreign ownership (%)	47

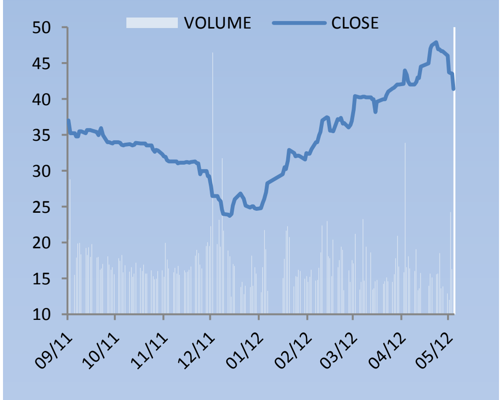
Source: Bloomberg

MAJOR SHAREHOLDERS

PPK Limited Corporation	12.27%
Kinh Do Investment Co Ltd	9.91%
Tran Le Nguyen	8.15%
Deutsche Bank AG & Deutsche Asset Management (Asia) Ltd	7.01%
Deutsche Bank AG London	5.76%

SHARE PERFORMANCE (%)

Month	Absolute (VND'm)	Relative (%)
1M	(0.7)	-2%
3M	8.9	27%
6M	7.9	24%
12M	7.4	22%



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Review of Q1/2012

Stagnant growth beclouds the top line

By the end of Q1/2012, KINH DO made only VND707bn in revenue (+11.4% y-o-y) and VND240bn in gross profit (+10.7% y-o-y). First quarters are usually slow for confectionery producers, especially this year; actual consumptions are being bombarded with the high cost of living. Furthermore, KDC was approximately two (2) weeks short of sales as compared to Q1/2011, because the Tet holiday came earlier this year, thus a large amount of sales has been made in 4Q/2012. Gross profit margin still maintains around 34%.

KINH DO: MAJOR P&L ITEMS Q1/2012

VND bn	1Q11	2Q11	3Q11	4Q11	1Q12	1Q12/4Q11	1Q12/1Q11
Net sales	**634.7**	**878.0**	**1,524.8**	**1,194.6**	**707.1**	**-40.8%**	**11.4%**
Gross profit	217.6	311.8	691.4	448.9	240.7	-46.4%	10.7%
GPM	34.3%	35.5%	45.3%	37.6%	34.0%		
Financial gain/loss	(3.7)	(36.1)	1.1	(15.0)	3.5	-123.4%	-194.8%
Profit before tax	19.4	32.5	252.9	44.0	11.1	-74.7%	-42.5%
Net profit	**6.4**	**20.8**	**221.0**	**43.9**	**0.4**	**-99.2%**	**-94.4%**
NP margin	1.0%	2.4%	14.5%	3.7%	0.1%		

Source: KDC, SBS

Balancing the financial position

KDC benefitted from its financial activities this quarter with a modest gain of **VND3.5bn**. Deposit interests (VND37.8bn, +129% y-o-y) made up roughly 76% of the total financial income, and likewise interests incurred from borrowing (VND38.8bn, +88.7% y-o-y) made up 84% of the total financial expense. In 4Q/2011, financial income and expense were VND40.9vn and VND55.9bn, respectively. KDC is obviously trying to minimize its exposure to interest risks, since its total borrowing (both short term and long term) has reduced from VND1,015bn to VND651bn (-36% q-o-q).

Expenses surged, profits took a hit

KDC has already commenced its sale promotion program since March 2012 (instead of waiting until Q3 like every other year) in an attempt to spur up the sluggish consumption. Also, the marketing campaign for Tet holiday and the year-end employee bonus fuelled great ascension on both selling and administration expenses (by 17.2% and 22.8%, respectively). Therefore, their weights on revenue have also increased to, in that order, 21.9% and 11.5% (as compared to 20.8% and 10.4% in 1Q/2011). Overall, the intensification of expenses has eroded net profits to only **VND0.4bn** (-94.4% y-o-y).

Utilization of capital within the period

The Company had a negative VND137.7bn of net cash flow from core operation within the first quarter, as compared to the negative VND25.7bn of last year. Therefore, KDC used the proceeds from the share issuance to Glico (February 2012) as the main source to fund its on-going project and to repay some of its debts (as illustrated above).

Contraction of non-strategic investments

The total short-term investment has been reduced from VND434.8bn to VND333bn (-23% q-o-q). Most of the retraction was actually the capital retrieval previously given to affiliated companies as loans, from VND342.6bn to VND278.1bn (-18.8% q-o-q). The stock portfolio also shrunk from VND90.9bn to VND54.9bn (-39.6% q-o-q). The Company also said it may eventually get out of Nutifood.

Investment in real-estate

This quarter, KINH DO poured another VND250bn onto the Lavenue Crown project, bringing the total investment to **VND1,050bn** which is enough to obtain the land-use-right for this project. KDC should not have to make any more contribution afterward, since Lavenue Investment JSC will cover all of the construction expense. Construction of this project will be commenced by 3Q/2012 as stated by Mr. Tran Le Nguyen, the CEO of KINH DO, at the AGM 2012.

LAVENUE CROWN PROJECT	
Developer:	**Lavenue Investment JSC**
Stakeholders:	KDC (50% stakes), HCMC Housing Management & Trading Co, and Mayflower Investment Co
Complex:	Commercial Center, five-star hotel, and serviced apartments
Land Area:	4,953 m^2
Floor Area:	66,000 m^2 (36-storey building)
Timeline:	The project is set to be completed by 2014

Recommendation

2012 progression

Revenue from the first quarter usually makes up more than 15% of KDC's total revenue for any given year, and the Company seems to have lost its grips this year with only 12.9% revenue completion. However, the seasonality of confectionery in Vietnam dictates that the majority of sales will come in the second half of the year, and thus we shall not assume anything at least until after the second quarter of this year.

VND bn	1Q12	*2012 Plan	% progress	**2012 Estimate	% progress
Net sales	707.1	5,500.0	12.9%	5,227.0	13.5%
Profit before tax	11.1	500.0	2.2%	471.5	2.4%
Net profit	0.4				

Source: KDC, SBS

**KINH DO's own plan for 2012*

*** SBS's new estimate for 2012*

Model Revision

In our last report on 03/05/2012, we revised upward our target for KDC thinking the Company may have gotten some extraordinary incomes this quarter. However, as it turns out, the massive financial gains received by the parent KDC was just accounting transactions within the KINH DO group. Therefore, we have revised out target price from VND43,000/share to **VND38,000/share** (-24.5%). Once again, our target price only reveals our opinion on the core business of KDC, since we have not factored in the possibility of extraordinary incomes.

NEUTRAL

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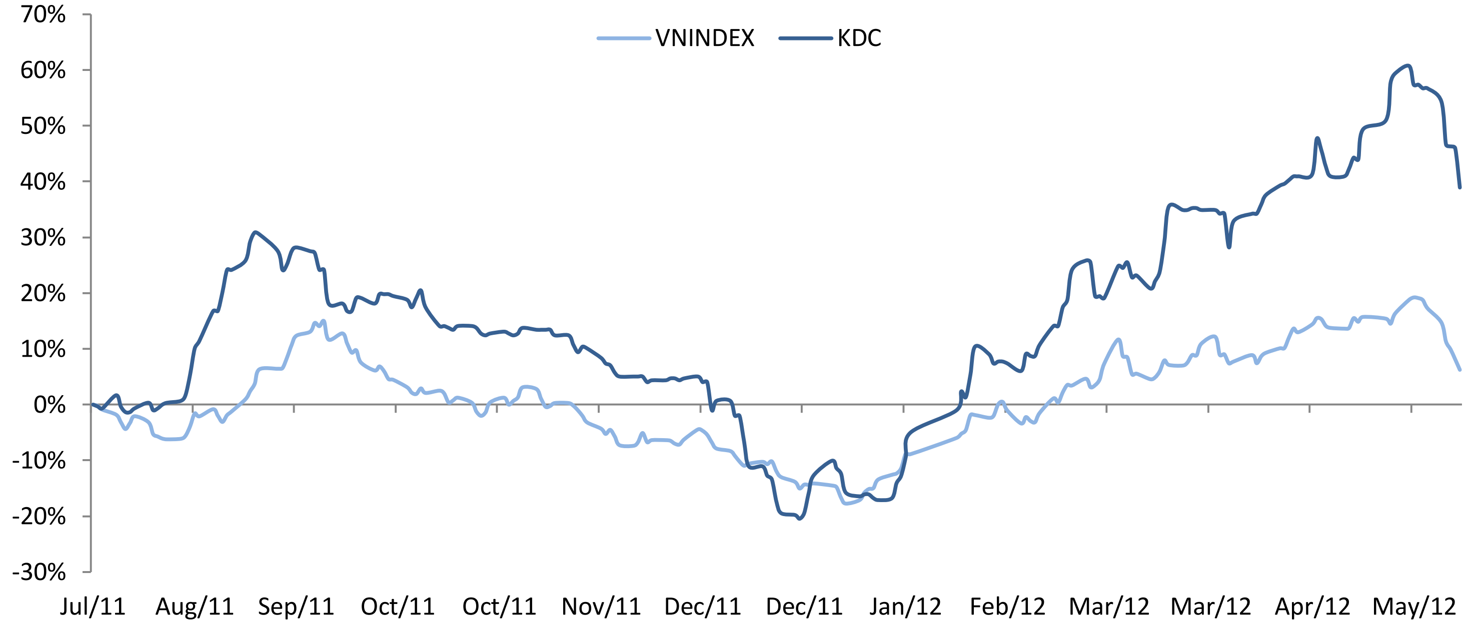
STOCK PERFORMANCE: KDC IS OUTPERFORMING



Source: Bloomberg, SBS

BALANCE SHEET (VND'bn)

	QII-11	QIII-11	QIV-11	QI-12
Assets	**5,165.0**	**5,618.6**	**5,942.8**	**6,307.1**
Current assets	2,136.4	2,566.3	2,696.5	2,846.9
Long-term assets	3,028.6	3,052.2	3,246.3	3,460.2
Fixed assets	1,049.5	1,099.0	1,437.5	1,413.8
Long-term investments	1,138.3	1,115.6	1,641.6	1,890.0
Resources	**5,165.0**	**5,618.6**	**5,942.8**	**6,307.1**
Liabilities	**1,365.3**	**1,619.5**	**2,070.7**	**1,809.5**
Current liabilities	1,179.0	1,398.7	1,875.9	1,594.0
Long-term liabilities	186.3	220.8	194.8	215.5
Equities	**3,765.0**	**3,962.5**	**3,836.0**	**4,461.3**
Equity	3,765.0	3,962.5	3,836.0	4,461.3
Contributed capital	1,195.2	1,195.2	1,195.2	1,335.2
Capital surplus	1,950.7	1,950.7	1,950.7	2,452.3
Retained profits	688.6	899.5	771.4	757.0

INCOME STATEMENT (VNDbn)

	QII-11	QIII-11	QIV-11	QI-12
Total Revenue	**884.5**	**1,535.3**	**1,205.7**	**718.8**
Net sales	**878.0**	**1,524.8**	**1,194.6**	**707.1**
COGS	566.2	833.4	745.7	466.3
Gross profit /(loss)	**311.8**	**691.4**	**448.9**	**240.7**
Financial income	23.4	43.2	40.9	49.6
Financial expense	59.5	42.1	55.9	46.1
Interest expense	31.0	24.6	42.6	38.9
Selling expenses	167.0	350.2	299.7	155.1
G&A expenses	73.5	92.4	90.2	81.4
Net operatiing profit	**35.1**	**249.9**	**43.9**	**7.7**
Other income	(0.1)	7.5	15.0	9.0
Other expenses	2.5	4.5	14.9	5.6
Profit /(loss) before tax	**32.5**	**252.9**	**44.0**	**11.1**
Corporate income tax	6.5	48.3	7.4	3.4
Profit after tax	**18.4**	**222.8**	**45.3**	**1.5**
Net profit	**20.8**	**221.0**	**43.9**	**0.4**

QUARTERLY RATIOS

	QII-11	QIII-11	QIV-11	QI-12
Growth rate				
Revenue growth rate (Y-o-y)	213.7%	109.6%	101.4%	12.2%
Gross profit growth rate (Y-o-y)	307%	114%	120%	11%
Net profit growth rate (Y-o-y)	159%	56%	-57%	-94%
Profitability ratio				
Gross margin	35.5%	45.3%	37.6%	34.0%
EBIT margin	7.2%	18.2%	7.2%	7.1%
Net profit margin	2.4%	14.5%	3.7%	0.1%
ROA (4Q)	5.7%	6.7%	5.4%	5.0%
ROE (4Q)	7.7%	9.2%	7.6%	7.1%
Management ratio				
Receivable outstanding days	12	11	20	30
Inventory outstanding days	78	50	48	62
Payable outstanding days	7	3	5	27
Liquidity ratio				
Current ratio	1.8	1.8	1.4	1.8
Quick ratio	1.4	1.5	1.2	1.6
Cash ratio	0.1	0.3	0.5	0.7
Capital Structure				
Total debt/Total equity	36.3%	40.9%	54.0%	40.6%
Total debt/total asset	26.4%	28.8%	34.8%	28.7%
Total asset/total equity	137.2%	141.8%	154.9%	141.4%
Index per share				
PE				16.93
EPS (VND per share)	2358	2935	2445	2326

Disclaimers

Reports Tracking	Date	Recommendation	12M Target price	Market price at issuing date
Initiation of Coverage	15/11/2011	BUY	40,200	32,000
Update Q4/2011	01/03/2012	NEUTRAL	37,300	35,600
Update AGM 2012	03/05/2012	NEUTRAL	43,000	47,000

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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