KDC KINH DO GROUP JSC

Confectionery

NEUTRAL

TARGET PRICE	**36,900**
LAST TARGET PRICE	38,000
CURRENT PRICE	39,100

20/08/2012

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STOCK STATISTICS

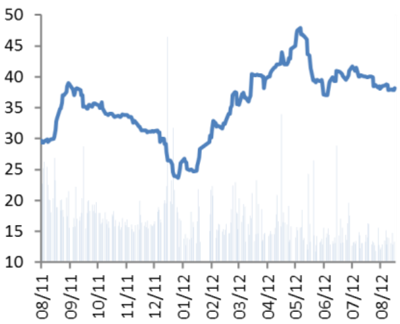
Bloomberg Ticker	**KDC VN Equity**
Outstanding shares (m)	132
Market Cap (VNDbn)	5,043
52W Price range	22.5-46.5
3M Average Volume	81,316
Beta	0.5
Foreign ownership (%)	48

MAJOR SHAREHOLDERS

PPK Limited Corporation	10.71%
Ezaki Glizo	10.00%
Kinh Do Investment Co Ltd	8.77%
Tran Le Nguyen	7.28%
Deutsche Bank AG	7.01%
Deutsche Bank AG London	5.76%

STOCK PERFORMANCE

	3M	6M	12M
Relative (%)	-6%	15%	18%
Absolute	(2.3)	5.1	5.9



Prevailing poor consumption

Exceptional profits without the abnormal financial loss

The sluggish second quarter. Together with the stationary average selling price, poorer consumption has placed great strains on sales this quarter. KDC made VND839.3bn in 2Q12 revenue (-4.4% y-o-y). However, the overall gross profit margin of KDC has been improved from 35.5% (2Q11) to 41.7% (2Q12).

Abnormal expenses. The combined weight of SG&A expense on revenue has increased from 27.4% (2Q11) to 31.7% (2Q12) because of the increasing cost of electricity, gas, and transportation. Besides, the KIDO's expansion has also incurred in higher G&A expense. The divestment out of NUTIFOOD resulted in a loss of **VND71.3bn**, causing a net financial loss of roughly VND55.2bn this quarter.

Exceptional profits upon normalization. Without the abnormal financial loss, profits from core operation would be twice as much as that of last year (VND107bn versus VND50bn). Then, KDC would have enjoyed a net profit of VND64bn (+204%) this quarter.

Issuance of bonus share. KDC will issue bonus shares to existing shareholders at a **5:1** ratio. The total amount of newly issued share will be approximately 26.4 million shares. The ex-date is on 29/08/2012, and the record date is on 31/08/2012.

Recommendation: We have adjusted our model to reflect the loss of NUTIFOOD divestment, which ultimately resulted in a -15% impact on our projected net profit. Therefore, our target price is also adjusted down by 2.9% to **VND36,900/share**. Upon the bonus share issuance (5:1 ratio), our target price will be adjusted further to 30,400/share (-16.7%). The current 39,100/share is only 6% higher than our target; we therefore maintain our previous **NEUTRAL** recommendation. At our target price, KDC is being traded at forward P/E ~ 14.85 and P/BV ~ 1.09.

Year-end Dec 31	**2009**	**2010**	**2011**	**2012^E**	**2012^P**
Revenue (VNDbn)	1,529	1,934	4,247	5,227	5,500
Net profit (VNDbn)	481	523	274	328	
% change yoy		8.8%	-47.7%	20.0%	
EPS (VND)	5,750	4,372	2,318	2,486	
BV (VND)	30,122	31,142	32,186	33,726	
DPS (VND)	2,400	2,400	2,400	2,000	
Div yield	5.3%	4.8%	9.2%	5.2%	
ROA	10.8%	10.4%	4.8%	5.4%	
ROE	19.1%	13.9%	7.2%	7.4%	
P/E (x)	7.91	11.37	11.22	15.73	
P/BV (x)	1.51	1.60	0.81	1.16	

Source: KDC, SBS
E: SBS's estimates, P: KINH DO's plan

NEUTRAL

TARGET: 36,900VND

INDUSTRY: CONFECTIONERY

2Q12

Performance Overview

CURRENCY ***VND bn***

Net Revenue	Gross Profits	Operation Profits	Earnings Before tax	Earnings After tax
839.3	**349.9**	**28.3**	**17.5**	**(6.9)**
-4.4% (y-o-y)	+12.2%	-19.5%	-46.2%	-137.6%

Selling Expense	**177.3**	+6.2%
G&A Expense	**89.1**	+21.2%
Net Financial Loss	**55.2**	+52.7%

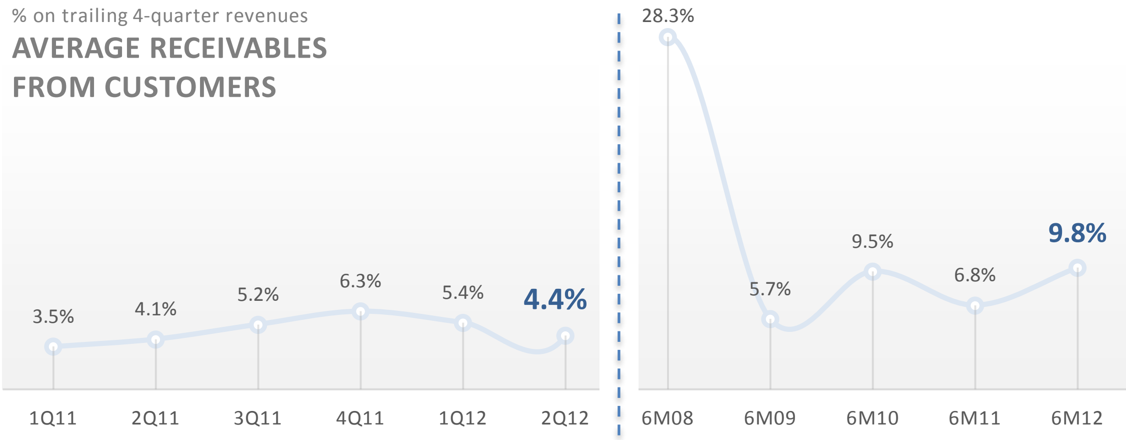
Gross Profit Margin 41.7% ↑

Net Profit Margin (0.95%) ↓

The sluggish quarter

Together with the stationary average selling price, poorer consumption has placed great strains on sales this quarter. However, the structure of sales has been changed, for the better. Ice-cream and yogurt products, with combined gross margin of around 56%, had good summer sales and thus larger portion on KDC's total sales. Therefore, the overall gross profit margin of KDC has been improved from 35.5% (2Q11) to 41.7% (2Q12). The Company did mention a drop on material price, which is also a supportive factor.

Besides, the Company managed a healthy receivables policy. On a trailing 4-quarter basis, receivables from customers corresponded to 4% of sales by 2Q12 (See chart). KDC should not have any problem with its cash collection schedule. In comparison with other confectionery companies, by 2Q12, BIBICA (BBC) maintained a 2.6% ratio while HAI HA Co. (HHC) upheld a 2.2% ratio. However, these two companies are much smaller than KDC, considering that their combined 2Q12 sales only matched 35% of KDC's. Nevertheless, they all shared a common sluggishness since they all had either negative or idle y-o-y growth on 2Q12 sales.



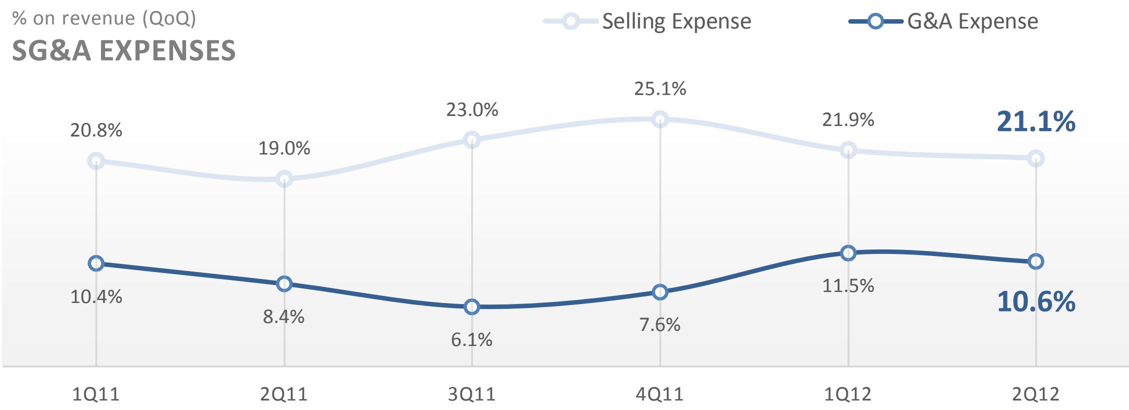
Source: KDC, SBS

MAJOR P&L ITEMS

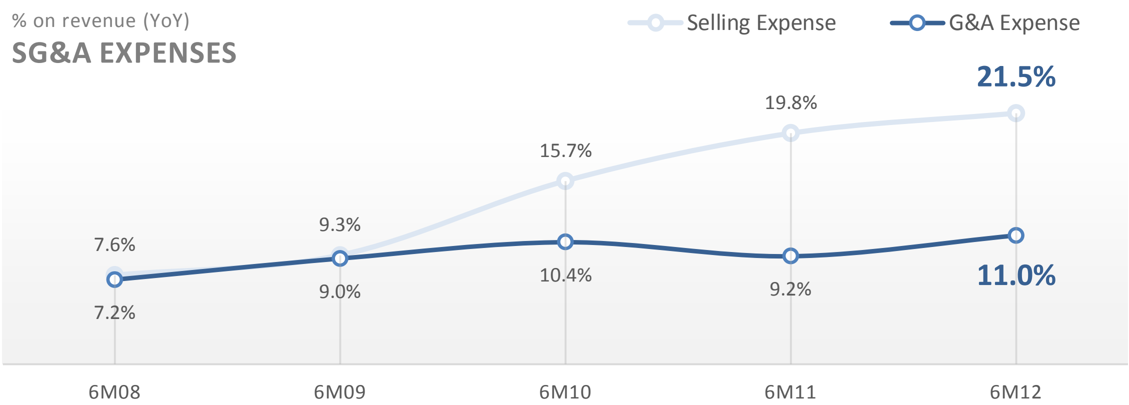
VND bn	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Net sales	**634.7**	**878.0**	**1,524.8**	**1,194.6**	**707.1**	**839.3**
Gross profit	217.6	311.8	691.4	448.9	240.7	349.9
Profit before tax	19.4	32.5	252.9	44.0	11.1	17.5
Net profit	**6.4**	**20.8**	**221.0**	**43.9**	**0.4**	**(8.0)**

Source: KDC, SBS

Surges on SG&A expense



The combined weight of selling expense and G&A expense on revenue has increased from 27.4% (2Q11) to 31.7% (2Q12). There are several reasons for such accretions. The usual ones hinge around the increasing costs of electricity, gas, and transportation. In addition, the Company has finished expanding its KIDO's factories since the end of last year, which has inevitably incurred higher G&A and depreciation expenses.



The above impacts are also visible on a 6-month basis, in which the combined weight of SG&A expense has risen from 29% (6M11) to 32.5% (6M12). Despite the fact that KDC will definitely make a lot more sales in the second half of the year, we do not expect this ratio to go down much because the Company will spend even more on advertisement and trade marketing activity (especially this year).

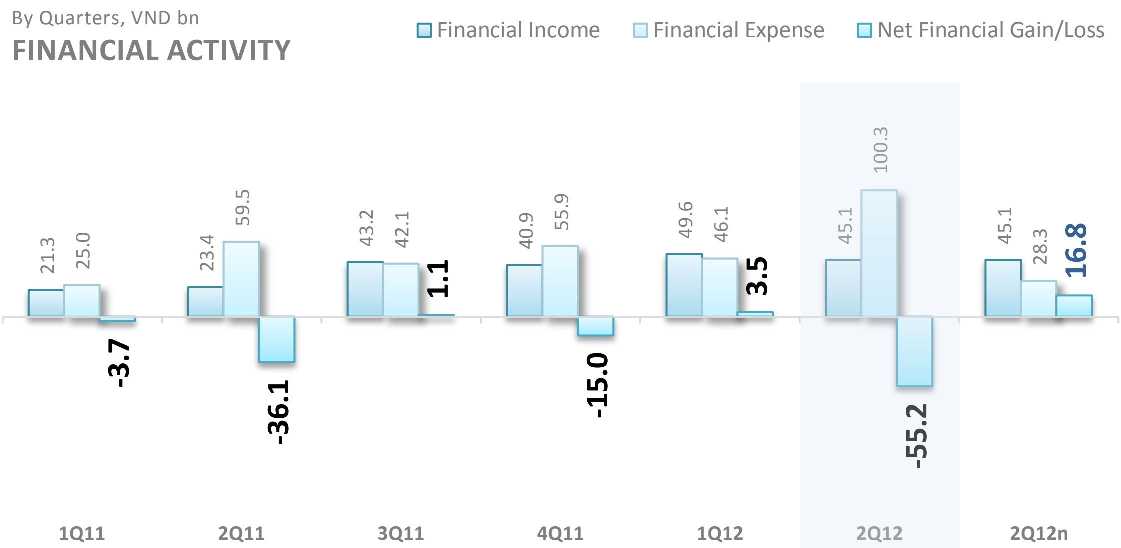
Abnormal Financial loss

After 7 years, KDC has finally existed out of TRIBECO (TRI) and brought home **VND1.7bn**. The profit seems inadequate considering the investment period, yet it is still better than a loss.

On the other hand, the bittersweet investment in NUTIFOOD, a dairy company, has given KDC quite a headache. The Company has completely transferred its 25% shares in NUTIFOOD at a loss of **VND71.3bn**, which was already recorded part of the financial expense in 2Q12. The total investment in NUTIFOOD was roughly VND244bn, in which VND161.2bn was held by the parent KINH DO and the remaining VND82.4bn was vested in NORTH KINH DO. The strategic exit, despite being followed by a huge loss, will let KDC fully focus on its main operation which is more profitable in the long run.

Unusual financial expense

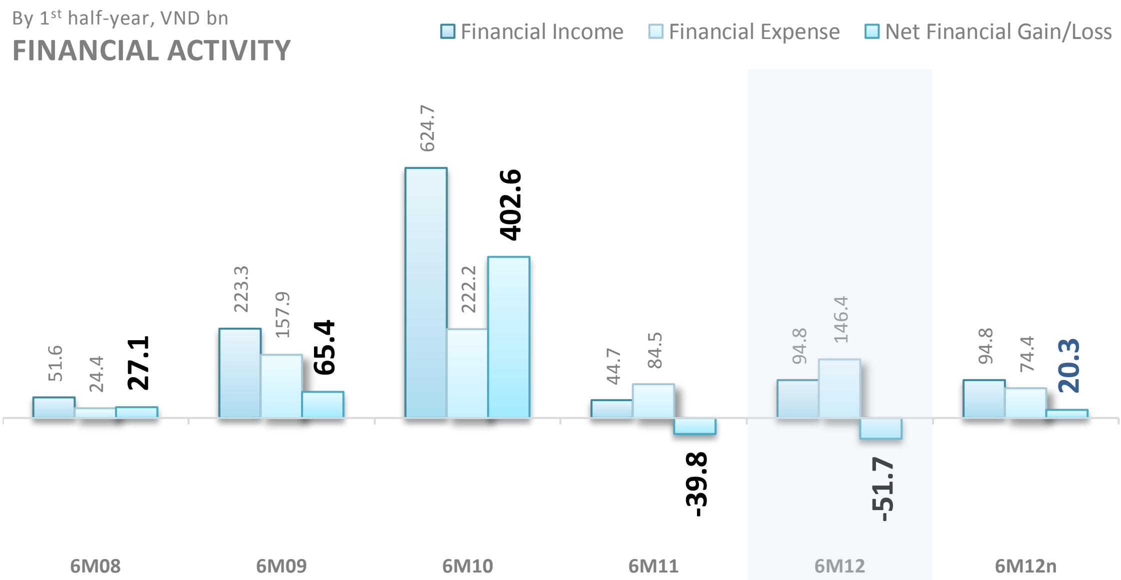
*Net financial gains of **VND17bn** without the NUTIFOOD loss.*



Most of the 2Q12 financial income came from deposit interests of VND32.3bn (+110% y-o-y or -15% q-o-q). By the end of 2Q12, KDC still had a total of VND752.5bn (-27.5% q-o-q) in bank deposits, and it looks like the Company will continue to withdraw more money in remaining quarters. Thereby, deposit interests may be subjected to slight deterioration.

The total borrowing interest incurred in 2Q12 was VND21.1bn (-27% y-o-y / -46% q-o-q). The average borrowing in 2Q12 has gone down to roughly VND670.6bn, a 19.5% drop from the VND832.7bn in 1Q12. According to the cash flow statement, within the first 6 months of 2012, the Company has received a total of VND946.6bn from new borrowings, and at the same time paid off VND1,254.1bn for its creditors.

Within 6M12, the Company has incurred a net financial loss of VND51.7bn. Upon normalization, this loss would actually turn into a net gain of VND20.3bn. (details in below chart)



Contraction of short term investments

The total amount of short-term investment has gone down from VND333.0bn to VND280.4bn (-15.8% q-o-q). Since the beginning of the year, the Company has made total profits of VND17.1bn from liquidating its stock portfolio. The remaining stocks will be sold as soon as the market gets better.

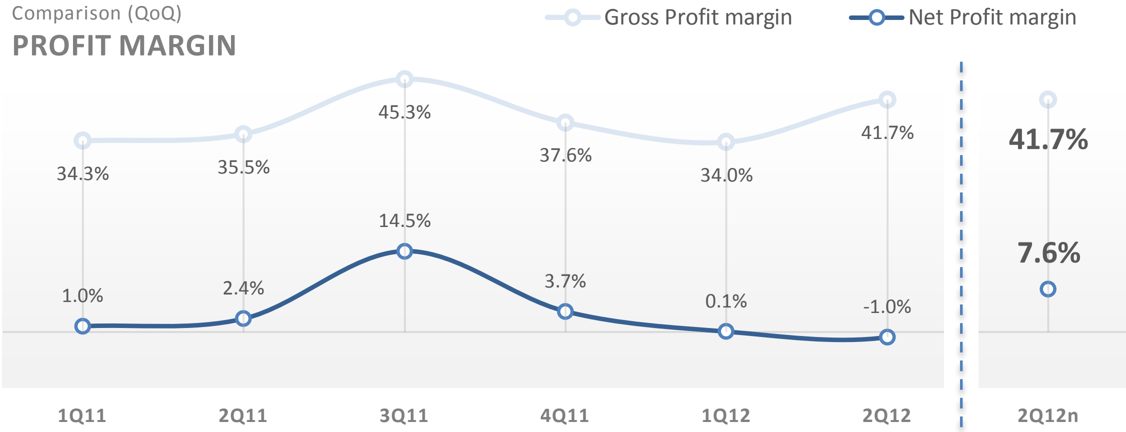
NEUTRAL

TARGET: 36,900VND

INDUSTRY: CONFECTIONERY

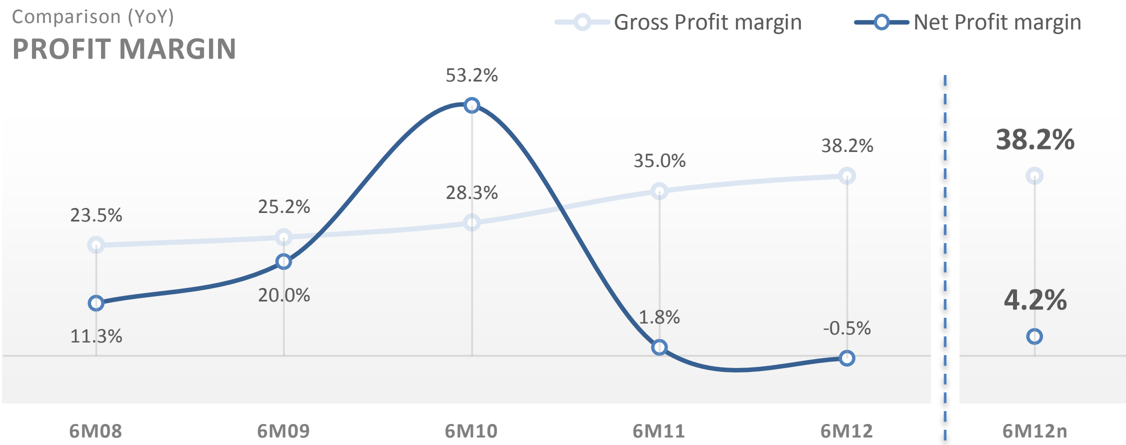
Negative net profit margin

Positive net margins upon normalization



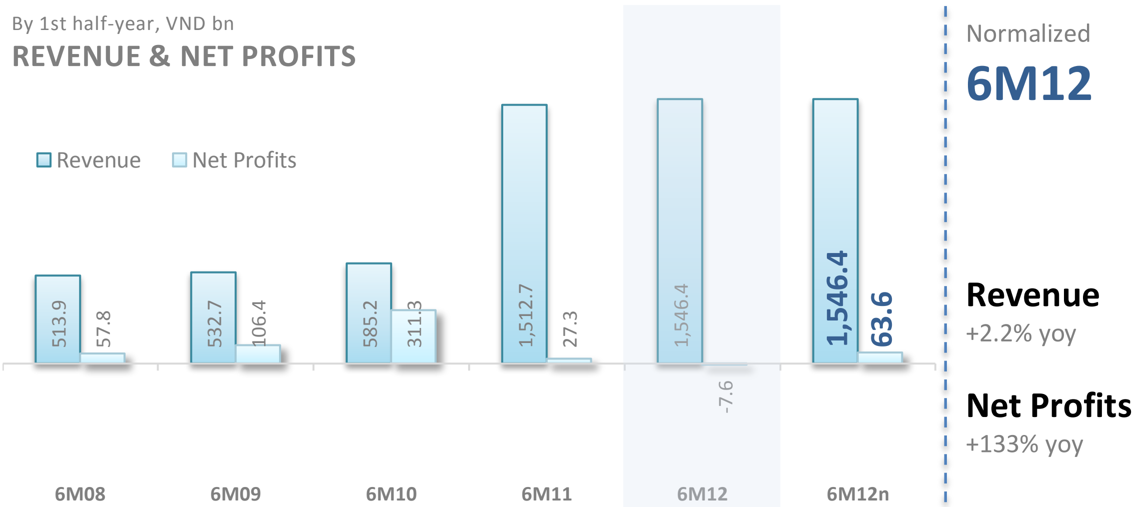
Profits from core operation doubled

Despite the advantageous gross profit margin, the loss on NUTIFOOD divestment has brought operation profit margin down to 3.4% (as compared to 4.0% of last year). Eventually, losses on other activities have submerged KDC under a net profit margin of -0.95% (as supposed to +2.4% of last year).



However, if we ignore the abnormal financial loss, profits from core operation would be twice as much as that of last year (VND107bn versus VND50bn). Then, KDC would have enjoyed a net profit margin of 7.6% this quarter or 4.2% within the first 6 months of 2012 (See charts).

Revenue almost had no growth, yet core net profits more than doubled



NEUTRAL

TARGET: 36,900VND

INDUSTRY: CONFECTIONERY

2012

Share Issuance Plan

Unit: ***Million shares***

	Existing Shareholders	Board of Management	BOD & B. of Supervisors	Employee ESOP	Vinabico Stock swap
Shares	**26.40**	**1.32**	**0.48**	**4.80**	**1.1**
Ratio / Price	Ratio: 5 : 1	Price: VND 16,000/share	Price: VND 16,000/share	Price: VND 16,000/share	Ratio: 2.2 : 1
Transfer Restriction	None	2 years	1 year	1 year	None

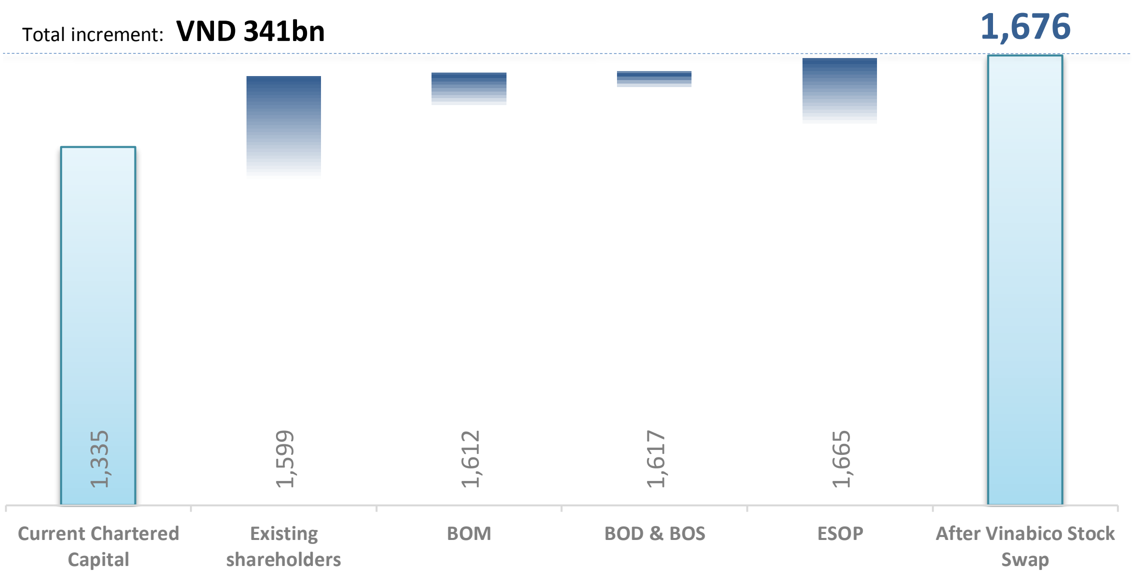
Total: 34.1 mn shares

Issuance of bonus shares

- The ex-date is **29/08/2012**, and the record date is 31/08/2012.
- Bonus share will be distributed at a **5:1** ratio, meaning for every 5 stocks owned, shareholder will receive 1 additional share.
- Chartered capital will increase from VND1,335bn to VND VND1,599bn

Share Issuance Plan (2012), VND bn

CHARTERED CAPITAL



RECOMMENDATION

Model revision

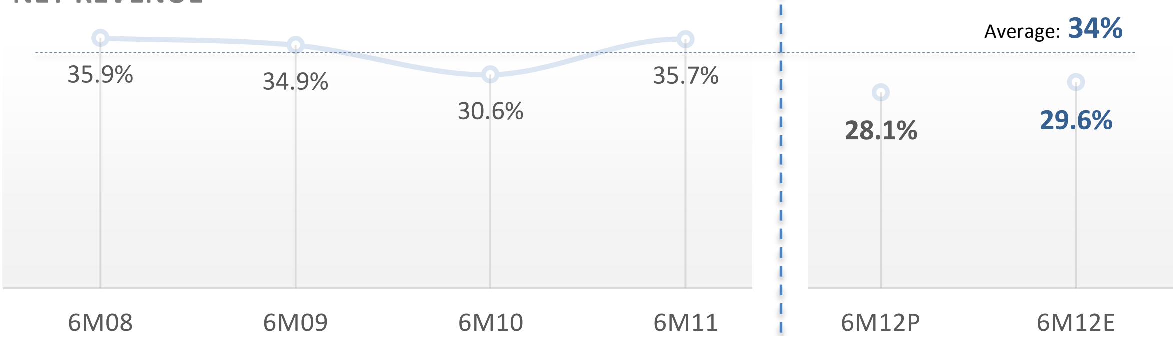
We have adjusted our model to reflect the loss of NUTIFOOD divestment, which ultimately resulted in a -15% impact on our projected net profit, going from VND386bn down to VND328bn.

2012 progression

Based on historical figures, KINH DO on average finished 34% of its full-year revenue within the first 6 months of that year. However, the Company has only achieved 28% of its planned revenue for 2012. There is a high probability that the Company may not fulfil its planned revenue this year.

% on full-year sales

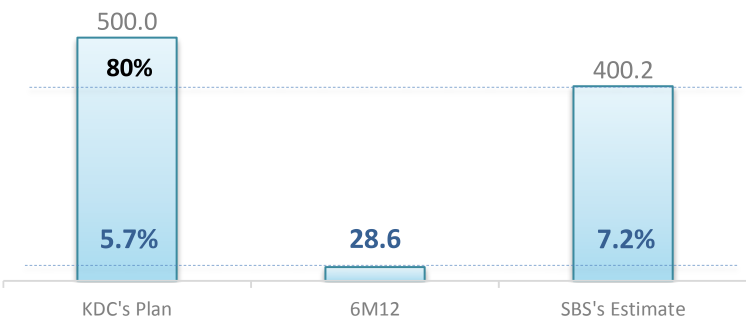
NET REVENUE



According to our estimate, DBC has finished almost 30% of its 2012 revenue. We have not adjusted our projected revenue, hoping that the Company can improve its sale in upcoming quarters with its moon cake, not to mention the year-end shopping for Tet holiday. This year, KDC will service roughly 2,100 tons of moon cake this year. We have projected 23% growth on full year revenue, meaning KDC must get a 35% growth on revenue in the second half of 2012. The Company did achieve that kind of growth in 2010 and 2011.

% Progress (2012), Currency: VND bn

EARNINGS BEFORE TAX



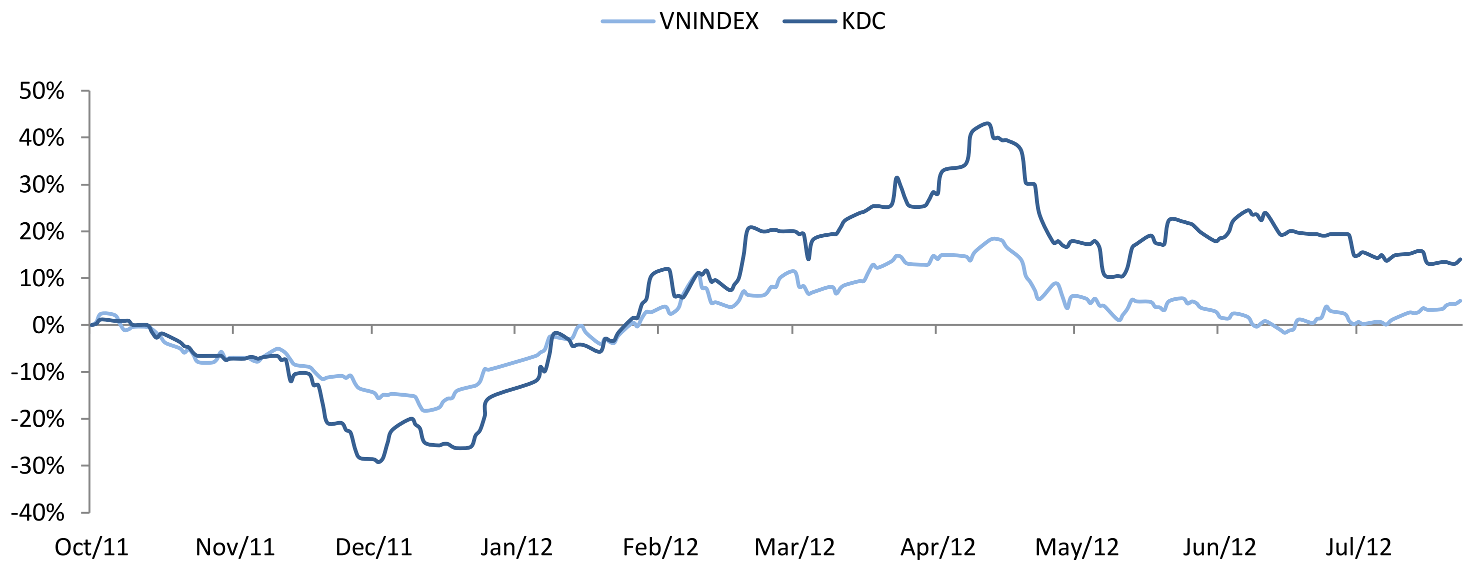
SBS has estimated a full-year EBT of VND400, equivalent to 80% of KDC's plan.

Within 6M12, KDC has achieved 5.7% of its EBT plan and 7.2% of SBS's estimate.

Maintaining previous rating

Since we adjusted our projected net profit, our target price is also changed to **VND36,900/share,** 2.9% lower than our previous figure. This target price is free from the impact of the imminent shares issuance. Upon the bonus share issuance (5:1 ratio), our target price will be adjusted down to 30,400/share (-16.7%).

The current VND38,200/share is only 6% higher than our target; we therefore maintain our previous **NEUTRAL** recommendation believing that the Company will maintain around this level until the end of the year. At our target price, KDC is being traded at forward P/E ~ 14.85 and P/BV ~ 1.09. The average 3M trading volume has gone down by 35% since our last report on 21/05/2012.



BALANCE SHEET (VNDbn)

	QIII-11	QIV-11	QI-12	QII-12
Assets	**5,618.6**	**5,942.8**	**6,307.1**	**5,510.6**
Current assets	2,566.3	2,696.5	2,846.9	2,199.4
Long-term assets	3,052.2	3,246.3	3,460.2	3,311.1
Fixed assets	1,099.0	1,437.5	1,413.8	1,499.3
Long-term investments	1,115.6	1,641.6	1,890.0	1,675.0
Resources	**5,618.6**	**5,942.8**	**6,307.1**	**5,510.6**
Liabilities	**1,619.5**	**2,070.7**	**1,809.5**	**1,369.2**
Current liabilities	1,398.7	1,875.9	1,594.0	1,232.6
Long-term liabilities	220.8	194.8	215.5	136.6
Equities	**3,962.5**	**3,836.0**	**4,461.3**	**4,103.9**
Equity	3,962.5	3,836.0	4,461.3	4,103.9
Contributed capital	1,195.2	1,195.2	1,335.2	1,335.2
Capital surplus	1,950.7	1,950.7	2,452.3	2,453.8
Retained profits	899.5	771.4	757.0	589.4

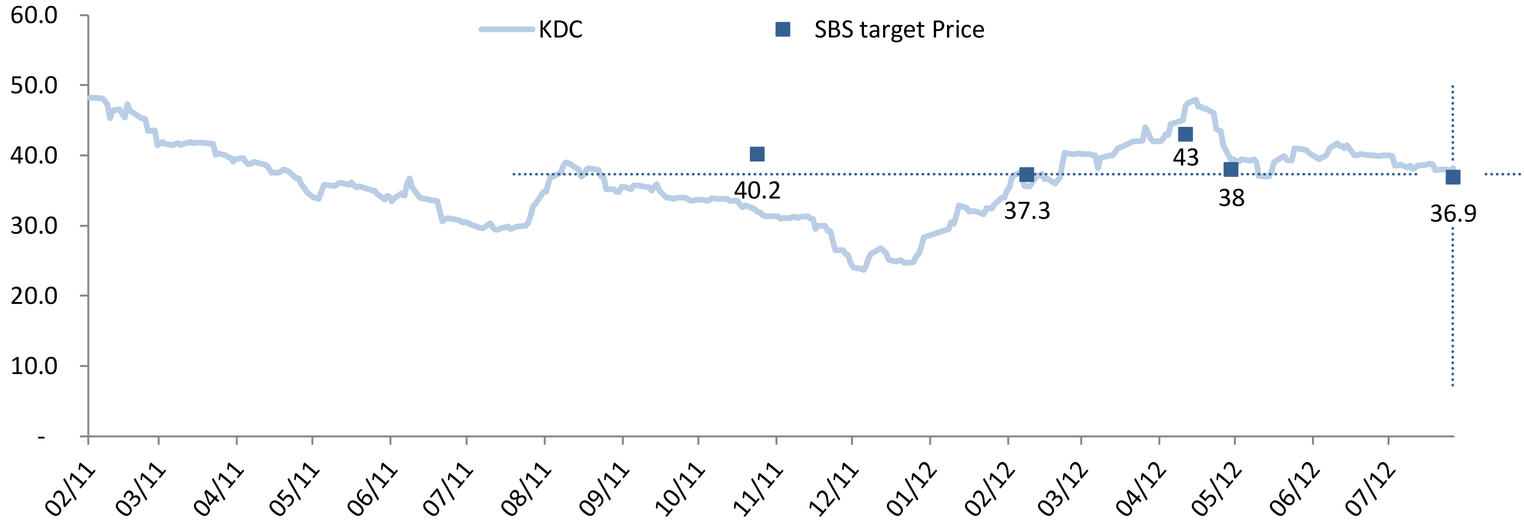
INCOME STATEMENT (VNDbn)

	QIII-11	QIV-11	QI-12	QII-12
Total Revenue	**1,535.3**	**1,205.7**	**718.8**	**845.4**
Net sales	**1,524.8**	**1,194.6**	**707.1**	**839.3**
COGS	833.4	745.7	466.3	489.4
Gross profit /(loss)	**691.4**	**448.9**	**240.7**	**349.9**
Financial income	43.2	40.9	49.6	45.1
Financial expense	42.1	55.9	46.1	100.3
Interest expense	24.6	42.6	38.9	21.1
Selling expenses	350.2	299.7	155.1	177.4
G&A expenses	92.4	90.2	81.4	89.1
Net operatiing profit	**249.9**	**43.9**	**7.7**	**28.3**
Other income	7.5	15.0	9.0	3.5
Other expenses	4.5	14.9	5.6	14.3
Profit /(loss) before tax	**252.9**	**44.0**	**11.1**	**17.5**
Corporate income tax	48.3	7.4	3.4	8.7
Profit after tax	**222.8**	**45.3**	**1.5**	**(6.9)**
Net profit	**120.2**	**56.6**	**204.1**	**41.6**

QUARTERLY RATIOS

	QIII-11	QIV-11	QI-12	QII-12
Growth rate				
Revenue growth rate (Y-o-y)	109.6%	101.4%	12.2%	-4.4%
Gross profit growth rate (Y-o-y)	114%	120%	11%	12%
Net profit growth rate (Y-o-y)	56%	-57%	-94%	-138%
Profitability ratio				
Gross margin	45.3%	37.6%	34.0%	41.7%
EBIT margin	18.2%	7.2%	7.1%	4.6%
Net profit margin	14.5%	3.7%	0.1%	-1.0%
ROA (4Q)	6.7%	5.4%	5.0%	4.4%
ROE (4Q)	9.2%	7.6%	7.1%	6.3%
Management ratio				
Receivable outstanding days	11	20	30	20
Inventory outstanding days	50	48	62	67
Payable outstanding days	3	5	27	10
Liquidity ratio				
Current ratio	1.8	1.7	1.6	1.6
Quick ratio	1.5	1.2	1.6	1.5
Cash ratio	0.3	0.5	0.7	0.6
Capital Structure				
Total debt/Total equity	40.9%	54.0%	40.6%	33.4%
Total debt/total asset	28.8%	34.8%	28.7%	24.8%
Total asset/total equity	141.8%	154.9%	141.4%	134.3%
Index per share				
PE	13.2	15.8	16.6	19.0
EPS (VND per share)	2935	2445	2326	2034

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Initiation of Coverage	15/11/2011	BUY	40,200	32,000
Update 4Q11	01/03/2012	NEUTRAL	37,300	35,600
Update AGM 2012	03/05/2012	NEUTRAL	43,000	47,000
Update 1Q12	21/05/2012	NEUTRAL	38,000	39,400
Update 2Q12	**20/08/2012**	**NEUTRAL**	**36,900**	**39,100**



SBS Research Guide to Investment Ratings

Buy: Share price may exceed 15% over the next 12 months
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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