Hold (unchanged)

Share price: VND 38,000
Target price: VND 33,500

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Stock Information

Description: KDC is one of the best processed food companies in Vietnam with a 30%-market share of Vietnam's bakery/confectionery market. It is also eyeing the instant noodle and fish sauce businesses.

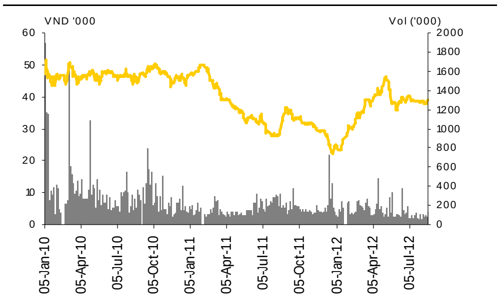
Ticker:	KDC VN
Shares Issued (m):	133.5
Market Cap (USD m):	247.6
3-mth Avg Daily Turnover (USD m):	0.16
ST Index:	437.28
Free float (%):	50

Major Shareholders:	
PPK LIMITED COMPANY	11.0
KINH DO INVESTMENT	8.9
DEUTSCHE BANK AG	6.3
EZIKA GLICO	10.5

Key Indicators

ROE – annualised (%)	7.8
Net cash (VND b):	318.8
NTA/shr (VND):	28,409
Interest cover (x):	3.4

Historical Chart



Performance:

52-week High/Low VND49,100/VND23,100

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	(2.3)	(5.6)	15.0	14.0	50.4
Relative (%)	(5.1)	(6.1)	8.9	4.5	20.9

Kinh Do Corporation

Focusing on Food Businesses

1H12 loss due to financial assets disposals. KDC released its 1H12 results. Revenue inched up by 2.3% YoY to VND1,546b, as consumer demand and sentiment continue to be negatively affected by a difficult business environment. EBIT was flat at VND87b because an improvement in gross margins was offset by increased SG&A. A big loss from disposals of financial assets and deferred tax from previous years resulted in a net loss of VND7.6b for 1H12.

Better gross margins, but SG&A is a concern. KDC's 1H12 gross margin rose 320bps YoY to 38.2%, driven by favourable raw material prices and an increasing sales contribution from ice cream, which carries 56% gross margin. However, the increase of the SG&A to revenue ratio from 29.2% in 1H11 to 32.5% in 1H12 wiped out the improvement in KDC's overall gross margin. The steady increase in KDC's SG&A ratio – from 18% in 2008 to 25.3% in 2010 and 30% in 2011 – is concerning, especially when compared to VNM's SG&A ratio of circa 10%. Our understanding from the company is that this increase is largely due to a circa 80% increase in the size of the salesforce.

Divesting non-core assets. KDC continues to sell the holdings in its portfolio of over 30 stocks. The disposal of the Nutifood investment that had accounted for about 5% of KDC's total assets resulted in a net loss of VND71b in 2Q12. KDC also sold all of its all shares in Tribeco (TRI), a troubled drink company which has posted consistent losses since 2008 (Taiwan's Uni-President is in talks to aquire TRI's assets). Though the disposals have a temporary negative effect on profitability, KDC's management believes that they will free up resources so that the company can focus on its existing business categories and expand into new, more profitable ones in the long run.

Maintain HOLD. We expect sales to grow 20% in FY12, thanks to the seasonal sales during the mooncake festival and year-end holidays. KDC's earnings should grow by 18% as gross margin rises to 41% on an improved product mix. The company's valuation of around 15x FY12 PER is in line with its regional peers and at a premium of about 20% to the Vietnam market. One caveat is that despite its stated intention of focusing on its core food businesses, KDC continues to invest in its three existing real estate projects, although our understanding is that there will not be any new real estate projects in the future.

Kinh Do Corporation – Summary Earnings Table

FYE 31 Dec (VND b)	2008	2009	2010	2011	2012
Sales (VND bn)	1,455.8	1,529.4	1,933.6	4,246.9	5,126.9
Pre-tax (VND bn)	(61.7)	572.3	676.3	349.2	408.2
Net profit (VND bn)	(85.3)	480.5	524.9	273.6	323.4
EPS (VND)	(869.3)	4,961.5	5,323.2	2,288.8	2,431.4
EPS growth (%)		470.7	7.3	(57.0)	6.2
PER (x)	(43.7)	7.7	7.1	16.6	15.6
EV/EBITDA (x)	19.1	8.9	14.6	7.0	6.2
Yield (%)	2.7	2.9	6.3	3.2	5.3

Source: MaybankIB

PROFIT AND LOSS (VND b)

YE 31 Dec	2008	2009	2010	2011	2012
Sales	**1,455.8**	**1,529.4**	**1,933.6**	**4,246.9**	**5,126.9**
COGS exclude Dep.	(1,021.3)	(942.8)	(1,161.2)	(2,372.3)	(2,869.6)
Depreciation	(64.6)	(81.2)	(87.0)	(201.4)	(166.4)
Gross profit	**369.8**	**505.4**	**685.4**	**1,673.1**	**2,091.0**
Operating exp.	(255.1)	(276.3)	(489.2)	(1,275.4)	(1,559.8)
EBIT	**114.7**	**229.1**	**196.2**	**397.8**	**531.2**
Net financial incomes (loss)	(194.8)	72.7	421.5	(53.2)	(69.7)
Net Income (loss) fr. jv	(1.1)	12.7	35.0	6.9	1.0
Net extraodinaries	19.6	257.8	23.7	(2.3)	(54.3)
PBT	**(61.7)**	**572.3**	**676.3**	**349.2**	**408.2**
Income tax	1.1	(49.4)	(95.4)	(70.5)	(75.8)
Minority interest	(24.7)	(42.4)	(56.0)	(5.1)	(9.0)
Net profit	**(85.3)**	**480.5**	**524.9**	**273.6**	**323.4**
EBITDA	179.4	310.3	283.2	599.2	697.6
EPS	(869.3)	4,961.5	5,323.2	2,288.8	2,431.4

BALANCE SHEET (VND b)

YE 31 Dec	2008	2009	2010	2011	2012
Total assets	**2,983.4**	**4,247.6**	**5,031.9**	**5,809.4**	**5,896.2**
Current assets	1,474.4	2,531.9	2,328.3	2,558.5	2,621.0
Cash	206.8	984.6	672.3	967.3	1,040.3
ST investment	584.3	518.2	160.4	373.8	253.6
Inventories	181.7	162.5	434.3	398.0	521.7
Trade receivable	188.9	160.5	240.9	288.2	259.9
Others	312.8	706.2	820.3	531.2	545.5
Other assets	1,509.0	1,715.7	2,703.6	3,250.9	3,275.2
LT Investment	673.4	994.5	1,163.1	1,255.7	1,303.3
Net fix assets	749.1	656.1	1,279.1	1,431.0	1,471.4
Others	86.5	65.0	261.5	564.1	500.5
Total liabilities	**835.9**	**1,772.3**	**1,176.5**	**1,959.5**	**1,417.0**
Current liabilities	663.9	1,637.6	1,045.0	1,783.6	1,280.4
Trade payable	116.5	162.9	306.5	310.2	399.2
ST borrowings	335.9	407.4	380.6	882.7	495.8
Others	211.5	1,067.4	358.0	590.7	385.4
Long-term liabilities	172.0	134.8	131.4	175.9	136.6
Long-term debts	156.0	119.4	93.8	114.1	78.3
Others	16.0	15.4	37.6	61.8	58.3
Shareholders' equity	**2,147.5**	**2,475.3**	**3,855.5**	**3,849.9**	**4,982.2**
Paid in capital	2,154.8	2,053.6	3,007.2	2,992.0	3,948.4
Reserve	(78.8)	359.5	732.1	822.7	989.6
Other provisions					
Minority interests	71.6	62.1	116.2	35.3	44.2

CASH FLOW (VND b)

YE 31 Dec	2008	2009	2010	2011	2012
Operating cash flow	**11.3**	**1,210.9**	**(449.8)**	**949.8**	**265.7**
Net profit	(85.3)	480.5	524.9	273.6	323.4
Depreciation	64.6	81.2	87.0	201.4	166.4
Change in working capital	135.4	556.4	(1,032.1)	514.5	(225.9)
Others	(103.5)	92.8	(29.5)	(39.7)	1.8
Investment cash flow	**(322.5)**	**(221.7)**	**(717.2)**	**(962.0)**	**(70.5)**
Net capex	(332.9)	11.8	(710.0)	(353.4)	(206.7)
Change in investment	62.2	(255.0)	189.2	(306.0)	72.6
Change in other assets	(51.9)	21.5	(196.5)	(302.6)	63.7
Cash flow after Investment	(311.3)	989.2	(1,167.0)	(12.3)	195.2
Financing cash flow	**(12.4)**	**(211.4)**	**854.7**	**307.3**	**380.8**
Change in share capital	(40.8)	(101.2)	953.6	(15.2)	956.4
Net change in debt	116.5	34.8	(52.4)	522.4	(422.6)
Others	53.8	(10.1)	76.3	(56.7)	5.4
Div paid	(141.9)	(134.9)	(122.8)	(143.2)	(158.4)
Net cash flow	**(323.6)**	**777.8**	**(312.3)**	**295.0**	**73.0**

KEY RATIOS

YE 31 Dec	2008	2009	2010	2011	2012
Growth (YoY %)					
Sales	18.3	5.1	26.4	119.6	20.7
EBIT	(25.3)	99.7	(14.4)	102.8	33.5
EBITDA	(6.3)	73.0	(8.7)	111.6	16.4
Net profit		463.2	9.2	(47.9)	18.2
EPS		470.7	7.3	(57.0)	6.2
Profitability (%)					
Gross margin	25.4	33.0	35.4	39.4	40.8
EBIT margin	7.9	15.0	10.1	9.4	10.4
EBITDA margin	12.3	20.3	14.6	14.1	13.6
Net margin	(5.9)	31.4	27.1	6.4	6.3
ROA	(1.1)	14.5	12.2	7.2	7.5
ROE	(3.8)	21.4	17.1	7.2	7.8
Stability					
Gross debt/equity (%)	23.7	21.8	12.7	26.1	12.9
Net debt/equity (%)	(14.4)	(40.4)	(9.6)	(9.0)	(16.2)
Interest coverage (x)	2.2	5.2	4.6	3.4	4.7
Interest & ST debt coverage (x)	0.3	0.6	0.4	0.5	0.7
Operating CF interest coverage	0.2	27.7	(10.6)	8.1	2.4
Operating CF int. & ST	0.0	2.9	(1.0)	1.3	0.3
Current ratio (x)	2.2	1.5	2.2	1.4	2.0
Quick ratio (x)	1.9	1.4	1.8	1.2	1.6
Net cash (debt) (VND bn)	299.1	976.0	358.4	344.4	719.8
Per share data (VND)					
EPS	(869.3)	4,961.5	5,323.2	2,288.8	2,431.4
OCFPS	114.9	12,503.0	(4,561.9)	7,946.8	1,997.2
BVPS	21,152.0	24,588.3	31,559.1	31,917.2	33,216.5
SPS	14,833.2	15,791.0	19,610.7	35,533.5	38,542.2
EBITDA/share	1,827.7	3,203.8	2,871.8	5,013.3	5,243.9
Cash Div/share	1,029	1,120	2,400	1,200	2,000

Source: Company, Maybank KE

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Stephanie Wong | CEO, Maybank Kim Eng Research

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CAGR = Compounded Annual Growth Rate
Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
EBIT = Earnings Before Interest And Tax
EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
EV = Enterprise Value
FCF = Free Cashflow
FV = Fair Value
FY = Financial Year
FYE = Financial Year End
MoM = Month-On-Month
NAV = Net Asset Value
NTA = Net Tangible Asset
P = Price
P.A. = Per Annum
PAT = Profit After Tax
PBT = Profit Before Tax
PE = Price Earnings
PEG = PE Ratio To Growth
PER = PE Ratio
QoQ = Quarter-On-Quarter
ROA = Return On Asset
ROE = Return On Equity
ROSF = Return On Shareholders' Funds
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