BAOVIET Securities

KINH DO JOINT STOCK COMPANY

LEADING POSITION – WIDE DISTRIBUTION NETWORK

COMPANY UPDATE

Sep, 2012

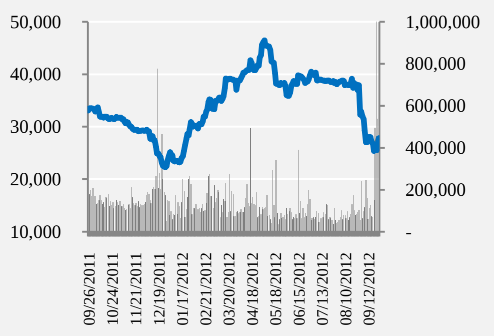
KDC [HSX]	**HOLD**
Target price*	**30,100**

STOCK INFORMATION

Price (Sep. 25th,2012)	VND	27,800
Discount/Premium**	%	8.3%
Market cap	Bil VND	3.1
Outstanding shares	Mil shares	118.0
Free float	Mil shares	90.3
Enterprise value	Bil VND	3,670
Performance (30 days)	%	-26.84%
Avg. vol (30 days)	Shares	224,100
Industry		*Confectionery*

*** Difference between market price and target price*

PRICE AND VOLUME



Source: Bloomberg

PERFORMANCE

	1M	3M	12M
Absolute	-26.84%	-30.09%	-12.91%
Vs VN- index	-24.86%	-22.85%	-6.26%

Senior Analyst
Yen Nguyen
(84 8) 3 914 6888
NguyenthihaiyenB@baoviet.com.vn

INVESTMENT FOCUS

We recommend HOLD for KDC stock with the target price of 30,100 VND/share, representing a premium of 8.3% to the price on September 25th, 2012. 2012 is the time for KDC to restructure its business. We think that the company has provided some solutions, which will increase its effectiveness in the future, such as: (1) reducing financial investments to focus on the core business, (2) concentrating on the product groups, which bring high revenue and profit, and (3) developing new products to take maximum advantage of its brand and distribution network. However, more and more competition in confectionery threatens to reduce KDC's market share. Moreover, a lot of bad news is at the forefront in the securities market; so, we will not recommend buying KDC at its present price.

Sales in 1H2012 went up slightly by 2.2% yoy: The company's sales were unable to meet expectations because of 2012's early lunar New Year and weak purchasing power. Net revenue only achieved VND 1,546 bil, fulfilling 28.43% of its plan. Besides, the GPM improved well but KDC recorded a loss of VND 8 bil because of high SG&A expenses, a loss from the divestment of Nutifood and high tax expenses.

Estimated revenue from mooncake sales will be about VND 754 billion, up 16.8% compared to 2011. As of the fifth week of the mooncake season (mooncake season usually takes place in 6 weeks), the Company has completed the planned output of 2,100 tons of mooncake, (up 10% compared to the same period last year). The average selling price increased slightly by 2%.

2012 FY outlook: we estimate that KDC can gain VND 4,791 bil in revenue, increasing by 12.8% in comparison with 2011 and achieving 87% of its full-year plan. Under this scenario, NPAT will reach VND 322 bil, generating an EPS of VND 1,983 per share. KDC intends to introduce new products - noodles and cooking oils via OEM in 2013·

		2009A	2010A	2011A	2012F
Revenue	Bil VND	1,529	1,934	4,247	4,791
EBIT	Bil VND	229	196	398	486
EBITDA	Bil VND	229	196	599	704
NPAT	Bil VND	523	579	279	322
EPS	VND	6,041	4,372	2,289	1,983
EPS growth	%		(28)	(48)	(13)
P/E	x	4.4	6.1	11.7	13.5
Dividend yield	x	24	24	24.0	20.0
P/B	x	0.88	0.86	0.84	1.02
ROE	%	65.7	48.4	23.3	19.2
Debt/Equity	%	0.7	0.3	0.5	0.4

Sources: Company data, BVSC forecasts

Please see important disclosure and analyst certification at the end of this report

UPDATED BUSINESS RESULTS IN 1H2012:

Table 1: Business results in 1H2012

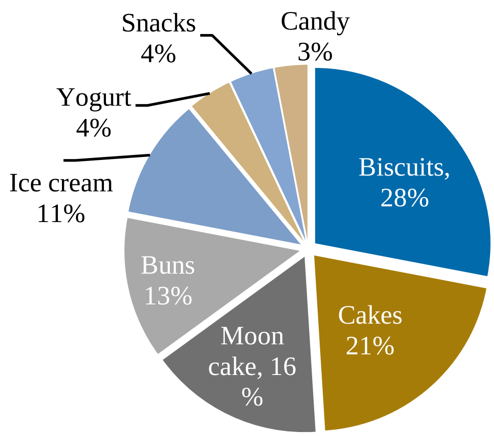
Bil VND	Q1.2012	Q2.2012	1H2012	% plan
Net revenue	707	839	1550	28.17%
Gross profit	241	350	592	
Gross profit margin	34.0%	41.7%	38.2%	
Profit before tax	11	17,508	27	5%
NPAT for common shareholders	0.4	(8.66)	-8.667	

Source: Company data

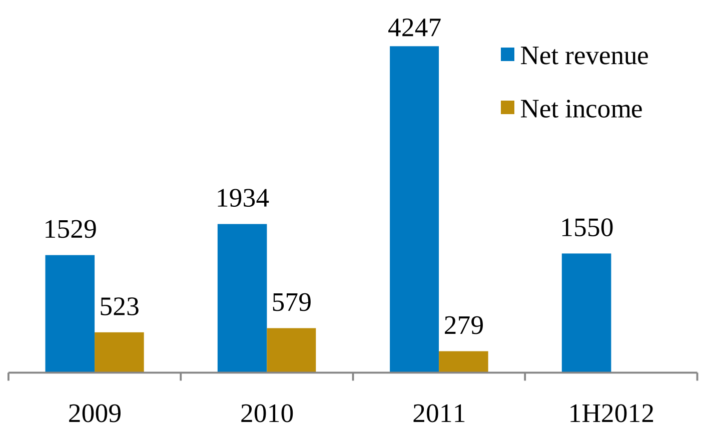
Sales in 1H2012 went up slightly by 2.2% yoy: The company's sales did not meet expectations because of the early Lunar new year and weak purchasing power. Net revenue only achieved VND 1,546 bil, fulfilling 28.43% of its plan. The sales volumes of all products remained unchanged, except for ice cream products, which had good growth in 1H2012.

We consider that KDC still focus on their main product – biscuits, which include AFC and COSY (accounting for 28% of all revenue). These two brands were renewed by presenting new flavors and adding more nutrients; as a result, their prices have slightly increased over the prior year. Moreover, KDC also launched Sachi (rice crackers) – an OEM product with Want Want China (Taiwan). Rice crackers were introduced in Vietnam many years ago, but most of them were imported under foreign brands. With the reputation of Kinh Do and its distribution networks, Sachi is expected to have significant growth.

Revenue structure



Net revenue and net income

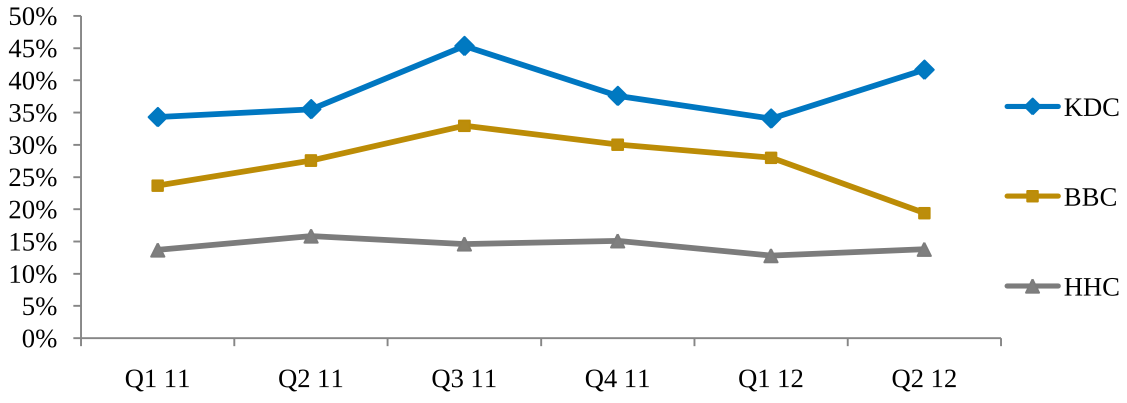


Source: Company data

GPM in 1H2012 rose to 38.2% from 35% in the first half of the prior year. Although labor costs and depreciation expense increased by 19% and 17% yoy, respectively, the GPM improved for two reasons: (1) focus on a product mix with a higher GPM such as ice cream and yogurt and (2) material costs (about 52% of production costs) decreased 7% yoy, especially those for milk, sugar and butter.

Compared to its peers, KDC's GPM was pretty good especially for Q2/2012, when KDC's GPM was better than BBC's and HHC's. This was due to KDC's advantages of economies of scale and its well-known brand, which allows it to offer better prices than its competitors in the same industry.

Gross profit margin qoq



Source: BVSC

Rising SG&A expenses. In 1H2012, SG&A expenses accounted for 32.15% of revenue, increasing by 14.53% yoy due to rising salaries and electricity, materials and transportation costs. However, KDC believes that with reasonable solutions, SG&A expenses will surely go down in the last two quarters.

Financial activity. With a strategy to focus on its core business and eliminate ineffective investments, KDC transferred long-term investments in Nutifood, Tribeco and other stocks in Q2/2012.

- Nutifood: With an original investment of about VND 161 bil, KDC divested all 2.7 mil shares (equaling 18% of Nutifood's chartered capital) and recorded a loss of VND 71.3 bil. KDC took this action because the development directions of the two companies are no longer aligned. Moreover, KDC has developed its own milk products with its first brand, Wel Grow, which was launched at the end of 2011. Therefore, the divestment of Nutifood was logical.
- Tribeco: After holding its stake for 6 years, KDC decided to sell 35% of its share in Tribeco and booked the profit of VND 1.7 bil.

At the end of Q2.2012, cash and cash equivalents of VND 755 bil and short-term lending to other companies of VND 235 bil contributed to interest income of VND 71 bil, which increased 83% yoy. Interest expense also increased by 16% yoy. Debt in Q2 was higher than last year but the debt-to-equity ratio decreased from 0.51 (in 2011) to 0.34 because KDC issued 14 mil shares with a price of 47,000 VND for Ezaki Glico, its strategic partner in Jan. 2012

NPAT for common shareholders was a loss of VND 8.66 bil owing to a high tax expense: Although PBT was VND 27 bil, taxable income was as high as VND 70 bil. The large difference came from amortization for goodwill and intangible assets, which were acquired from NKD and KIDO. However, under the present tax policy, KDC is not allowed to record these depreciation expenses; hence, they add these costs to taxable income. If nothing changes in tax policy this will continue to be the difference between accounting profit and taxable income until KDC completes the amortization for the goodwill and intangible assets. The amortization schedule for goodwill is 10 years and for tangible assets 16 years, beginning from 2011.

Moreover, taxable income also includes advertising expenses, which are more than 10% over the prescribed level. Advertisement is a necessary activity in the consumer sector, and it is a significant expense to KDC. So, following the regulation that advertising expenses not exceed 10% of total expenses, there will be a huge difference between accounting profit and taxable income.

M&A with Vinabico by issuing stock in Q3.2012: KDC issued 1,105,704 shares in exchange for 2,432,550 shares of Vinabico. Vinabico Revenue only contributes 4.6% to total KDC sales. KDC has consolidated Vinabico's business results for a few years so this will not affect KDC. M&A activity was done because Vinabico gained 30% in growth and NPAT went up by 71% in 2011.

FY 2012 PROSPECTS

KDC will probably fail to meet the full-year plan. The last two quarters of the year are the seasonal business of KDC when there is high demand for Kinh Do products for the purpose of donation in national festivals such as the mid-autumn festival and New Year festival. Vietnam's economy has suffered from economic crisis, and as a result the demand for such purposes was diminished such that KDC could not achieve strong growth as in earlier years. The revenue target of VND 5,500 bil and profit of VND 500 bil are far from what KDC can achieve.

Revenue from mooncake estimated to increase 16% yoy. As of the fifth week of the mooncake season (mooncake season usually takes place over 6 weeks), the Company has completed the planned output of 2,100 tons of cake, (an increase of 10% compared with the same period last year), of which wholesale trade volume increased by 15%. KDC announced retail price increase of 5% - 15% but the average selling price increased slightly by 2%. Estimated revenue from mooncake will be about VND 754 billion, up 16.8% compared with 2011.

Diversifying product strategy. KDC intends to introduce new product lines in instant noodles and cooking oils by cooperating with OEM (Original Equipment Manufacturer) producers. Per KDC's plan, instant noodles will be launched in Q1/2013. The OEM model means the product will be developed under the Kinh Do brand name but produced by another company. This model helps KDC reduce initial investment in the production line and shortens the time to market. Furthermore, these two products could be launched to market effectively through the intensive distribution network of Kinh Do. Currently, most of Kinh Do's products are seasonal products, and so presenting new non-seasonal products will help to stabilize its revenue. KDC will choose the markets segments with less competition to find opportunities and save on R&D expenses. It should be noted that Viet Nam is fourth in the world in noodle consumption with over 5 bil tons every year and market growth of 15% to 20% per annum. The cooking oils market is quite large with consumption of 1 mil tons, generating value of VND 35,000 bil – VND 40,000 bil and 17% - 20% growth from 2009 to now.

In Q4/2012, the company will launch Ezaki Glico's snacks, which KDC estimate will grow 10%. Next year, KDC will introduce Pocky and they will have distributed USD 35 mil – USD 40 mil in value up to 2016. However, cooperating with Ezaki Glico will bring a chance to export KDC's products to other markets in the world.

Lavenue Crown - Commercial center, five-star hotel and apartment project: this project will be built in an area of 4,953 m^2, at Le Duan Street, District 1, HCMC. It will have 36 floors with a net floor area of 66,000 m^2 and investment of VND 1,200 bil. The project belongs to Lavenue Investment JSC, a joint venture between KDC (holding 50% capital), Mayflower and Housing Management and Trading Corp. KDC revealed that the formalities of the project are almost complete. KDC fulfilled its capital contribution in Q1/2012 with total investment reaching VND 1,050 bil, equivalent to Kinh Do's 25.6% ownership.

Estimating 2012 business results: In 2012, revenue growth may be the lowest in the recent 3 years. Revenue will achieve VND 4,791 bil, increase by 12.8% yoy, and fulfill 87% of the full-year target. NPAT will reach VND 322 bil, generating an EPS of VND 1,983 per share.

		Q3 2012 (F)	FY 2012 (F)
Net revenue	Bil VND	1,721	4,791
EBIDA	Bil VND	358	704
EBITDA margin	%	20.79	14.70
EBIT	Bil VND	302	486
EBIT margin	%	17.54	10.15
Financial expense	Bil VND	(8.1)	(85)
Tax	Bil VND	23	77
Net income	Bil VND	271	322
EPS	VND		1,983

VALUATION

DCF method

Assumption in forecasting:

From 2012 to 2016, we expect that revenue will grow 12% each year; in particular, traditional product groups such as ice cream, yogurt and milk will have strong output. KDC's revenue will also be higher thanks to noodles and cooking oil from 2013 onward.

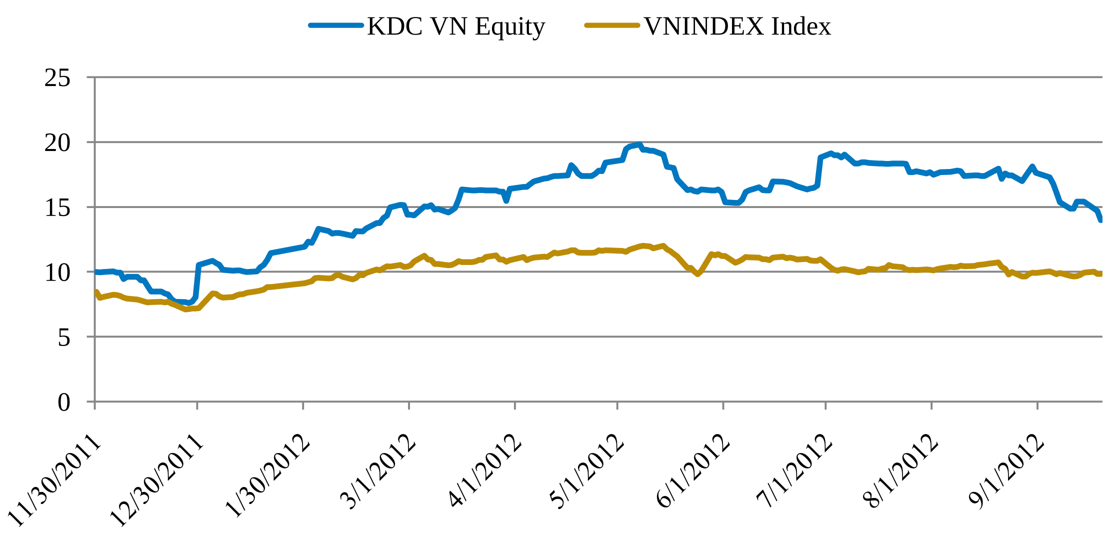
GPM is stable at 39.4% during 2012 – 2015 and then gradually decreasing because of increasing competition.

From 2012 to 2016, the SG&A-to-revenue ratio will be in a downtrend thanks to the economies of scale due to KDC's mergers with NKD, Kido and Vinabico.

KDC still retains tax incentives for Kinh Do Binh Duong (7.5%) and Kido's factory (15%) through 2016, so the company should see tax bills of about 14% - 17% of income

Based on these assumptions, KDC's price is VND 31,800 by DCF method.

P/E method



Source: Bloomberg

Through the P/E performance of KDC and the VN index, we recognize that KDC's P/E is highly correlated with the market P/E, KDC's PE was trade 44% higher market PE. The forward market P/E for 2012 stands at 10.2x; therefore, KDC's P/E will be at 14.7x. With a 2012 forward EPS of VND 1,983, the price based on the P/E method is VND 28,400 per share.

We will apply a 50:50 ratio in valuing KDC's stock by the DCF and P/E methods. Our target price is VND 30,100 per share.

	Proportion	Price
DCF method	50%	31,800
P/E method	50%	28,400
Average		**30,100**

INVESTMENT RECOMMENDATION

2012 is the time for KDC to restructure its business. We think that the company has worked out some solutions, which will increase its effectiveness in the future, such as: (1) reducing financial investments to focus on the core business, (2) concentrating on product groups, which bring high revenue and profit, and (3) developing new products to take maximum advantage of its brand and distribution network. However, KDC's product is not an essential good; thus, KDC's business is affected since the economy is still weak. More and more competition is emerging in the confectionery market with the appearance of many foreign brands. KDC will face the challenge of maintaining its unique position. Furthermore, investments in real estate or short-term lending contain other risks.

We recommend to HOLD KDC stock with a target price of 30,100 VND/share, representing a premium of 8.3% to the price on September 25th, 2012. The stock market is currently adversely affected by negative news from the macro-economy as well as the banking system; thus, we do not recommend buying KDC stock at present. Based on individual risk tolerance, longer-term investors might consider buying at cheaper price levels.

KDC FINANCIAL INFORMATION

BVSC recommendation

Sell	Hold	**Buy**
1	2	3

Type	Update date	Target price	Recommendation
Company update	Sep 2012	30,100	**HOLD**

Shareholder's structure

Shareholder's	Share	Proportion	Update
PPK ltd;	17,163,246	10.82%	29/8/2012
Kinh Do investment ltd;	14,056,214	8.86%	29/8/2012
Tran Le Nguyen	11,671,378	7,36%	29/8/2012

PROFIT AND LOSS STATEMENT

VND in millions	2010A	2011A	6T 2012
Revenues	1,933,634	4,246,886	1,549,532
Gross profit	685,390	1,673,140	591,645
EBITDA	803,447	667,816	193,290
Depreciation and Amortisation	86,996	201,422	106,143
EBIT	716,451	466,394	87,147
Earnings before tax	673,993	349,181	27,240
Income tax expense	95,381	70,545	34,173
Minorities	56,040	5,083	1,734
Net income	522,572	273,552	(8,667)
EPS	4,372	2,289	(65)

CASH FLOW STATEMENT

VND in millions	2010A	2011A	6T 2012
Change in working capital	(796,296)	510,640	(150,220)
Cash flow from operations	(820,515)	933,112	(53,504)
Capex	2,945	5,422	5,807
Free cash flow	(823,460)	927,690	(59,311)
Equity raised/ (repaid)	33,649	0	643,153
Debt raised/ (repaid)	883,577	1,914,616	985,870
Dividends paid	(122,784)	(143,195)	(159,263)
Net cash flow	(313,047)	293,561	(212,182)
Beginning cash	984,611	672,316	967,330
Ending cash	672,316	967,330	755,545

BALANCE SHEET

VND in millions	2010A	2011A	6T 2012
Cash and cash equivalents	672,316	967,330	755,545
Accounts receivable	1,018,355	724,911	809,810
Inventories	434,328	398,032	363,238
Others	42,877	94,489	48,630
Current assets	2,329,537	2,558,533	2,231,699
Net fixed assets	937,725	1,431,033	1,491,383
Long-term investments	1,209,978	1,255,715	1,303,586
Others	104,720	143,692	117,078
Total assets	5,039,864	5,809,421	5,541,113
Liabilities	1,185,452	1,959,475	1,400,935
Short-term loans	380,554	882,654	628,517
Payables	271,379	274,134	203,107
Others	352,356	584,182	390,124
Total current liabilities	1,033,997	1,783,560	1,262,307
Long-term debt	93,788	114,080	79,302
Other liabilities	57,666	61,836	59,326
Total liabilities	1,185,452	1,959,475	1,400,935
Shareholders' equity	3,738,215	3,814,673	4,103,165
Minorities' interests	116,198	35,273	37,013

RATIO ANALYSIS

%	2010A	2011A	6T 2012
EBITDA margin	41.6%	15.7%	12.5%
Operating margin	31.9%	8.1%	2.3%
Net profit margin	27.0%	6.4%	-0.6%
ROAA	11.3%	5.0%	-0.2%
ROAE	17.0%	7.2%	-0.2%
Sales growth	26.4%	119.6%	-63.5%
Net profit growth	17.8%	-48.2%	-92.2%
EBIT growth	-15.9%	119.6%	-67.3%
EPS growth	-27.6%	-47.7%	-102.8%
Total asset growth	18.7%	15.3%	-4.6%
Interest coverage (x)	14.87	1.98	(0.55)
Net debt to total asset	0.24	0.34	0.25
Net debt to equity	0.32	0.51	0.34
Sales/assets	0.38	0.73	0.28
Financial leverage	0.04	0.05	0.07
Basic EPS (VND)	4,372	2,289	(65)
EBITDA per share (VND)	6,012	3,626	550
DPS (VND)	1,027	1,198	1,193
Retention rate b	31,277	31,917	30,731

ANALYST CERTIFICATION

I, **Nguyen Thi Hai Yen**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report

GENERAL DISCLAIMER

The report is not done by requirement of any institution or individual. Investors should use information, analysis, comment in the report as a reference source before making own investment decision. The report is for the purpose of providing information and does not intend to advice readers to buy, sell any securities. Investors should refer to other sources of consultancy before making investment decision.

The information contained in this report is verified carefully, BVSC takes no responsibility with regard to the accuracy or completeness of any information contained here. Viewpoint and analysis in the report can be changed without notification.

The report is a property of BVSC and under copyright protection. Infringement of copy, change and reprint of the report without permission of BVSC is illegal. BVSC owns the copyright on the report.

BAO VIET SECURITIES COMPANY – RESEARCH DEPARTMENT

Head office

8 Le Thai To, Hoan Kiem Dist, Hanoi

Tel: (844) 3 928 8080

Fax: (844) 3 928 9888

Ho Chi Minh Branch

233 Dong Khoi, Dist.1,Ho Chi Minh City

Tel: (848) 3 914 6888

Fax: (848) 3 914 7999