Kinh Do Corporation

Pocky – New Growth Driver

BUY (upgrade)

Share price: VND 30,100
Target price: VND 33,700

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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):	158.4
Market Cap (USD m):	208.2
3-mth Avg Daily Turnover (USD m):	0.2
VN Index:	392
Free float (%):	50

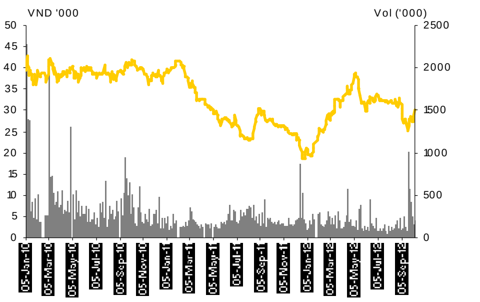
Major Shareholders:

PPK LIMITED COMPANY	11.0
KINH DO INVESTMENT	8.9
DEUTSCHE BANK AG	6.3
EZAKI GLICO	10.5

Key Indicators

ROE – annualised (%)	7.2
Net cash (VND b):	344
NTA/shr (VND):	23,674
Interest cover (x):	3.4

Historical Chart



Performance:

52-week High/Low VND40,917/VND19,250

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	7.9	(13.0)	(11.9)	3.2	38.9
Relative (%)	9.6	(7.6)	0.7	10.2	24.8

(*) KDC paid cash div VND1,200 per share and gave 20% bonus shares at the end of Aug 2012. Thus, its share price has been adjusted accordingly.

Successful end to mooncake season. KDC's mooncake season sales ended last week with revenue climbing 12% YoY to VND730b, driven by a 10% YoY increase in sales volumes and a 2% YoY rise in ASPs. We expect the mooncakes, which generate a 55% gross margin, to contribute 35% to total net profit in FY12.

Pocky – new growth driver. The first step in the new strategic cooperation between KDC and Glico, Japan's leading confectionery firm (with revenues of over USD3.5b in 2011), is the distribution of Glico's Pocky product in Vietnam. This popular cookie has a 500m unit sales volume and an expected 25% gross margin for KDC. Glico will bear all marketing expenses, so KDC expects a 17% net margin from Pocky (KDC's own products, for which it bears all of the SG&A expenses, typically earn a 40% gross margin and 10% net margin).

Strong distribution network to boost sales. Over 80% of KDC's revenues come from the traditional sales channel (ie "mom and pop" stores). KDC built a network of 120,000 dry outlets and 30,000 chilled outlets which will propel the next phase of the KDC-Glico partnership, the distribution of Glico's high-end products such as Pretz and Collon (snack segment) and Alfie. Sales of Glico's products are estimated to reach VND1,000b (about USD48m) in 2016, a 4-year CAGR of 25%. KDC's distribution network will also help the company with its plans to expand its product line to include instant noodles, cooking oil and dairy products. KDC plans to introduce noodles in Nov 2012.

Suspended property projects. KDC suspended work on its main real estate project, the Lavenue Crown project, which represents 20% of KDC's total assets. Construction was originally slated to begin 3Q12, as announced at its AGM held in Apr 2012, but the company decided to put its real estate activities on hold to focus on the core food business. The future of this project, including a potential sale to KDC's partners, or continued development at a later date, is uncertain.

Upgrade to BUY. Our FY12 estimates are unchanged, but we raise our FY13 revenue and EPS forecasts 5% and 15% respectively to reflect the Pocky deal. Valuation of around 10x FY13 PER is a 17% discount to its regional peers and CEO Mr. Tran Le Nguyen recently registered to buy 3m shares which would raise his ownership stake from 7% to 9%. Upgrade to BUY.

Kinh Do Corporation – Summary Earnings Table

FYE 31 Dec (VND b)	2009	2010	2011	2012E	2013F
Sales (VND bn)	1,529.4	1,933.6	4,246.9	5,126.9	6,945.2
Pre-tax (VND bn)	572.3	676.3	349.2	408.4	519.4
Net profit (VND bn)	480.5	524.9	273.6	323.6	453.0
EPS (VND)	4,134.6	4,436.0	1,907.3	2,015.8	2,808.3
EPS growth (%)	470.7	7.3	(57.0)	5.7	39.3
PER (x)	7.3	6.8	15.8	14.9	10.7
EV/EBITDA (x)	8.3	13.8	6.6	5.9	5.0
Yield (%)	3.1	6.6	3.3	6.6	8.0

Source: MaybankIB

PROFIT AND LOSS (VND b)

YE 31 Dec	2009	2010	2011	2012E	2013F
Sales	**1,529.4**	**1,933.6**	**4,246.9**	**5,126.9**	**6,945.2**
COGS exclude Dep.	(942.8)	(1,161.2)	(2,372.3)	(2,869.6)	(4,071.6)
Depreciation	(81.2)	(87.0)	(201.4)	(166.4)	(178.9)
Gross profit	**505.4**	**685.4**	**1,673.1**	**2,091.0**	**2,694.7**
Operating exp.	(276.3)	(489.2)	(1,275.4)	(1,559.8)	(2,086.0)
EBIT	**229.1**	**196.2**	**397.8**	**531.2**	**608.7**
Net financial incomes (loss)	72.7	421.5	(53.2)	(69.5)	(0.2)
Net Income (loss) fr. jv	12.7	35.0	6.9	1.0	
Net extraodinaries	257.8	23.7	(2.3)	(54.3)	(89.1)
PBT	**572.3**	**676.3**	**349.2**	**408.4**	**519.4**
Income tax	(49.4)	(95.4)	(70.5)	(75.8)	(57.1)
Minority interest	(42.4)	(56.0)	(5.1)	(9.0)	(9.2)
Net profit	**480.5**	**524.9**	**273.6**	**323.6**	**453.0**
EBITDA	310.3	283.2	599.2	697.6	787.6
EPS	4,134.6	4,436.0	1,907.3	2,015.8	2,808.3

BALANCE SHEET (VND b)

YE 31 Dec	2009	2010	2011	2012E	2013F
Total assets	**4,247.6**	**5,031.9**	**5,809.4**	**5,907.4**	**6,146.2**
Current assets	2,531.9	2,328.3	2,558.5	2,632.2	2,934.7
Cash	984.6	672.3	967.3	1,051.5	1,101.2
ST investment	518.2	160.4	373.8	253.6	253.6
Inventories	162.5	434.3	398.0	521.7	609.4
Trade receivable	160.5	240.9	288.2	259.9	425.0
Others	706.2	820.3	531.2	545.5	545.5
Other assets	1,715.7	2,703.6	3,250.9	3,275.2	3,211.4
LT Investment	994.5	1,163.1	1,255.7	1,303.3	1,303.3
Net fix assets	656.1	1,279.1	1,431.0	1,471.4	1,442.1
Others	65.0	261.5	564.1	500.5	466.0
Total liabilities	**1,772.3**	**1,176.5**	**1,959.5**	**1,417.0**	**1,387.1**
Current liabilities	1,637.6	1,045.0	1,783.6	1,280.4	1,250.5
Trade payable	162.9	306.5	310.2	399.2	539.9
ST borrowings	407.4	380.6	882.7	495.8	325.3
Others	1,067.4	358.0	590.7	385.4	385.4
Long-term liabilities	134.8	131.4	175.9	136.6	136.6
Long-term debts	119.4	93.8	114.1	78.3	78.3
Others	15.4	37.6	61.8	58.3	58.3
Shareholders' equity	**2,475.3**	**3,855.5**	**3,849.9**	**4,490.4**	**4,759.1**
Paid in capital	2,053.6	3,007.2	2,992.0	3,456.4	3,456.4
Reserve	359.5	732.1	822.7	989.8	1,249.2
Other provisions					
Minority interests	62.1	116.2	35.3	44.2	53.5

CASH FLOW (VND b)

YE 31 Dec	2009	2010	2011	2012E	2013F
Operating cash flow	**1,210.9**	**(449.8)**	**949.8**	**265.8**	**519.7**
Net profit	480.5	524.9	273.6	323.6	453.0
Depreciation	81.2	87.0	201.4	166.4	178.9
Change in working capital	556.4	(1,032.1)	514.5	(225.9)	(112.2)
Others	92.8	(29.5)	(39.7)	1.8	0.0
Investment cash flow	**(221.7)**	**(717.2)**	**(962.0)**	**(70.5)**	**(115.2)**
Net capex	11.8	(710.0)	(353.4)	(206.7)	(149.7)
Change in investment	(255.0)	189.2	(306.0)	72.6	
Change in other assets	21.5	(196.5)	(302.6)	63.7	34.5
Cash flow after Investment	989.2	(1,167.0)	(12.3)	195.4	404.6
Financing cash flow	**(211.4)**	**854.7**	**307.3**	**(111.2)**	**(354.9)**
Change in share capital	(101.2)	953.6	(15.2)	464.4	
Net change in debt	34.8	(52.4)	522.4	(422.6)	(170.5)
Others	(10.1)	76.3	(56.7)	5.4	9.2
Div paid	(134.9)	(122.8)	(143.2)	(158.4)	(193.6)
Net cash flow	**777.8**	**(312.3)**	**295.0**	**84.2**	**49.7**

KEY RATIOS

YE 31 Dec	2009	2010	2011	2012E	2013F
Growth (YoY %)					
Sales	5.1	26.4	119.6	20.7	35.5
EBIT	99.7	(14.4)	102.8	33.5	14.6
EBITDA	73.0	(8.7)	111.6	16.4	12.9
Net profit	463.2	9.2	(47.9)	18.3	40.0
EPS	470.7	7.3	(57.0)	5.7	39.3
Profitability (%)					
Gross margin	33.0	35.4	39.4	40.8	38.8
EBIT margin	15.0	10.1	9.4	10.4	8.8
EBITDA margin	20.3	14.6	14.1	13.6	11.3
Net margin	31.4	27.1	6.4	6.3	6.5
ROA	14.5	12.2	7.2	7.4	8.9
ROE	21.4	17.1	7.2	7.8	9.9
Stability					
Gross debt/equity (%)	21.8	12.7	26.1	12.9	8.6
Net debt/equity (%)	(40.4)	(9.6)	(9.0)	(16.4)	(20.2)
Interest coverage (x)	5.2	4.6	3.4	4.7	7.5
Interest & ST debt coverage (x)	0.6	0.4	0.5	0.7	1.2
Operating CF interest coverage	27.7	(10.6)	8.1	2.4	6.4
Operating CF int. & ST	2.9	(1.0)	1.3	0.3	1.1
Current ratio (x)	1.5	2.2	1.4	2.1	2.3
Quick ratio (x)	1.4	1.8	1.2	1.6	1.8
Net cash (debt) (VND bn)	976.0	358.4	344.4	731.0	951.2
Per share data (VND)					
EPS	4,135	4,436	1,907	2,016	2,808
OCFPS	10,419	(3,802)	6,622	1,656	3,222
BVPS	20,490	26,299	26,598	27,561	29,169
SPS	13,159	16,342	29,611	31,938	43,052
EBITDA/share	2,670	2,393	4,178	4,345	4,882
Cash Div/share	933	2,000	1,000	2,000	2,400

Source: Company, Maybank KE

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Stephanie Wong | CEO, Maybank Kim Eng Research

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BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
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EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
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