Kinh Do Corporation (KDC) HOLD

11 October 2012

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Initiation

Target price VND 34,800
Upside % 9

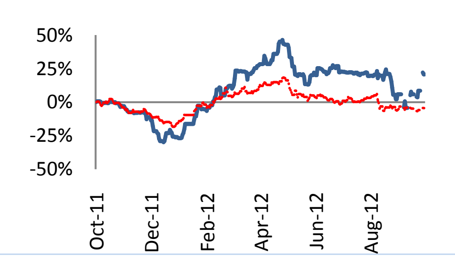
Consumers [Confectionery]

Key indicators		
Price as of report date	31,900	VND/sh
52-week low	18,541	VND/sh
52-week high	38,716	VND/sh
20-d avg trading value	7,221	VND bn
Market cap (VND)	8,611	VND bn
Market cap (USD)	413	USD mn
Outstanding shares	159	million
Foreign own % [lmt | actual]	47.3	49.0
EPSg [prev 3-yr | fwd 3-yr]	-32.6	27.0
PEGr [prev 3-yr | fwd 3-yr]	-0.5	0.4

Valuation	2011	2012F	2013F
EPS (basic)	2,289	2,156	2,715
APS (adjusted)	1,908	2,156	2,715
EPS growth %	-56.6	13.0	25.9
Dividend/share	2,400	2,000	2,000
Dividend yield %	7.5	6.3	6.3
P/E at mkt price	16.8	14.7	11.7
P/B at mkt price	1.0	1.0	1.2
EV / EBITDA	5.8	7.8	6.3
ROE %	7.2	7.4	9.9
ROA %	5.1	5.1	6.9
ROIC %	6.1	6.1	8.6
Debt/equity %	25.9	16.0	14.8

Performance %	3M	6M	12M
KDC	19.3	-4.2	21.4
Relative to VNI	17.3	8.2	24.9

12-m price chart ---KDC vs. ---VNI



Ownership Structure	%
PPK Ltd	10.8
Ezaki Glico	10.0
Kinh Do Investment Co.	8.9
Tran Le Nguyen CEO	7.3
Others	63.0

See important disclosure at the end of this document

Sweet deal, sweeter profits

***We initiate coverage on Kinh Do (KDC) with a HOLD rating** and a target price of VND34,800, implying 9% upside from current price. Our target price is DCF-derived, based on 27% net profit CAGR from FY 2012F to FY 2016F, WACC of 21% and 3% terminal growth. KDC is now trading at 14.5x against forward 2012EPS of VND2,200, 34% premium over its domestic peers and 11.8x against 2013 EPS of VND2,700. We believe that the current share price has reflected all positive attributes to KDC: (i) their steadily growing sector, with a projected avg. growth of 11% pa over the next 5 years, (ii) their market-leading position providing a good proxy to Vietnam's consumer story, and (iii) the company's refocus on its core food business. Besides, we are waiting for consumers' responses to the new products that KDC distributes for its recent strategic partner - Ezaki Glico, a Japanese confectionery firm with 90 years of experience and over USD3.5bn in sales last year, this could represent a promising growth catalyst.*

Positive outlook for confectionery sector. Vietnam's young population of 90 million people (median age of 27.8 years) with rising disposable incomes is a strong basis for the confectionery sector to grow steadily over the long term. According to BMI, annual growth of the sector is forecast to be at least 11% pa from 2012-2016.

KDC dominates the market. KDC is by far the largest confectioner in Vietnam; total 2011 revenues of the next four largest companies totalled only 73% of KDC's revenue. The company competes in mid- to high-end markets and has gained 20% market share by volume as of 2011. It offers a wide range of products including moon cakes, biscuits, buns, cakes, yogurt and ice cream. KDC is the longstanding market leader in moon cakes and buns with 76% and 64% market shares, respectively, in 2011.

Back-to-basics strategy. We believe KDC is on the right track with a back-to-basics approach to drive long-term growth in its core business. We note that 2011 earnings were generated only from core businesses. Real estate made no contribution to earnings while financial investments suffered a loss.

Growth sweetened by partnership with Japan's leading confectioner Ezaki Glico and launch of other staple products. KDC plans to "fill up its distribution channels" through a two-pronged approach: distributing products of its strategic partner Glico, and distributing other staple products. We think moving into other consumer staples is a viable strategy to generate sustainable growth since some confectionaries such as moon cakes are lifestyle products and aren't on sale throughout the year.

Stable dividend yield. KDC has been paying a stable cash dividend of VND2,400/share over the last three years and plans to pay VND2,000 in 2012, which would yield 6.3% at current pricing.

Risks. We are concerned that capital is not fully utilised as there still exist the inter-group loans between KDC and other related companies. These loans reduced by 31% to VND235bn on 30 June 2012. It will take time for all the restructuring strategies to work. Another risk is that KDC's two real estate projects will not bring in profits in the near-term due to the slow-down of this sector. The company invested VND1,252bn in total.

Kinh Do Corporation HOLD

Investment Thesis

We initiate coverage on KDC with HOLD rating, and a target price of 34,800 (9% upside). Our target price is DCF-derived based on 27% net profit CAGR from FY 2012F to FY 2016F, WACC of 21% and 3% terminal growth. KDC is trading at 14.5x EPS 2012F of VND2,200 and 11.8x EPS 2013F of VND2,700.

The company is trading at a 34.3% premium over its 2012F PER domestic peers and at a 8.2% discount to its regional peers. We believe KDC is now trading a fair price which has reflected all positive attributes: (i) the confectionery sector's steady growth projections of 11% pa over the next 5 years; (ii) their market-leading position and strong brand equity—a good proxy to get exposed to Vietnam's consumer story; and (iii) the company's renewed focus on the food business. Besides, we are waiting for consumers' response to the new products that KDC is distributing under the strategic partnership with Ezaki Glico, a Japanese confectionery firm with 90 years of experience and over $3.5 billion in sales last year. KDC will exclusively distribute Glico's confectionery products in Vietnam. This could be KDC's promising growth catalyst.

Figure 1: Comparables table

Company	Country	Market cap (USD mn)	P/E 2012F
Masan Consumer	Vietnam	2,541	19.1
Vinamilk	Vietnam	3,123	12.6
Bibica	Vietnam	12	6.0
Hai Ha Confectionery	Vietnam	5	5.5
Average			**10.8**
Lotte Confectionery	South Korea	1,916	18.1
Nissin Foods Holding	Japan	4,420	15.9
BreadTalk	Singapore	132	13.3
Average			**15.8**
KDC	**Vietnam**	**270**	**14.5**

Source: Bloomberg, VCSC estimates

Positive outlook for Vietnam's confectionery sector

Vietnamese confectioners are riding the increasingly positive tailwinds of young demographics and rising disposable incomes. Vietnam has one of the youngest demographics in Asia with a population of 90 million and a median age of 27.8 years, of which more than 25% of the population is under the age of 15 and 42% is under the age of 25. We see this as an impetus to confectionery demand, which comes mainly from this specific demographic group.

In addition, rising disposable incomes will translate into greater consumer spending. We note that food spending continues to gain a disproportionate share of consumers' wallets at 66%, highlighting the opportunities for companies that are leveraged to these secular trends like KDC.

Figure 1a: Increasing GDP per capital brings opportunities for confectionary players

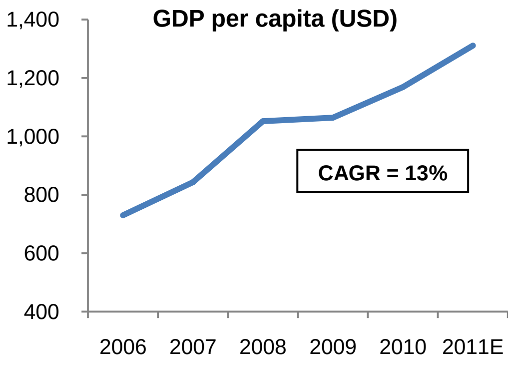
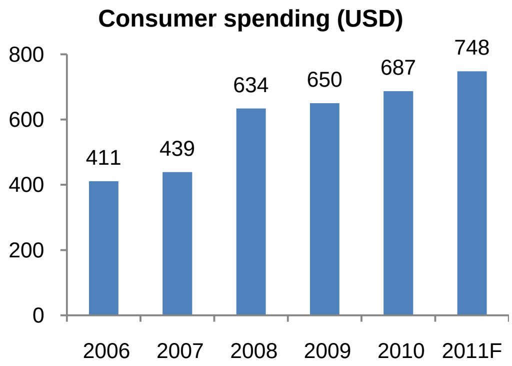


Figure 1b: Consumer spending increases on increasing GDP per capita



Source: EIU

BMI forecasts that confectionery volume sales will increase by 5.8% per year while sales value will grow at 10.7% per year in 2012-2016. Given KDC's leading market share and strong brand equity, we think the company is well positioned to take advantage of the market positive tailwinds.

Figure 2: Confectionery sector forecasts

	2012F	2013F	2014F	2015F	2016F
Volume sales ('000 tons)	73.60	77.43	81.94	86.91	92.31
Volume sales growth	2%	5%	6%	6%	6%
Value sales (Vending)	9,923	10,947	12,154	13,468	14,930
Value sales growth	12%	10%	11%	11%	11%

Source: BMI report Q3 2012

Largest confectionery producer and strong brand equity

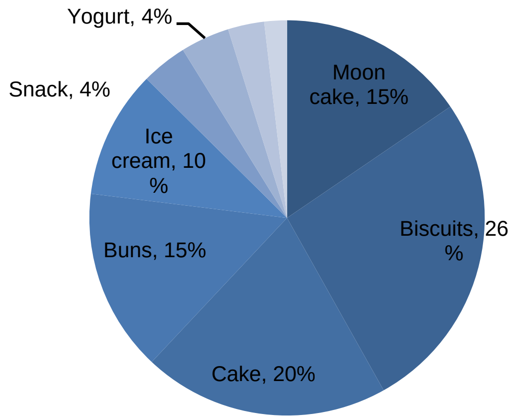
In 2011, total revenues of the next four largest confectioners came in at 73% of those of KDC. The company competes in the mid- to high-end markets and has gained 20% market share by volume as of 2011. KDC offers a wide range of products including moon cakes, biscuits, buns, cakes, yogurt and ice cream. Moon cakes and buns are clear market leaders with 76% and 64% market shares, respectively, in 2011.

Consumer preferences in Vietnam are shifting away from unbranded to branded F&B products, thanks to a growing middle class population with higher disposable incomes and increasing health awareness. We believe KDC is primed to benefit from this structural change in consumption patterns with its strong brand equity.

In 2011, KDC won the National Brand awarded by the Trade Promotion Bureau, Ministry of Industry and Trade, and was voted one of the Top 10 Best Brands in a study commissioned by the Vietnam Chamber of Commerce and Industry. We are convinced by these recognitions, as we can see for ourselves that in most modern trade retailers such as Co-op Mart, Big C, and Maximark, KDC products have prominent eye-level shelf placement where products tend to sell most.

The company is redoubling its efforts on strengthening brand equity. KDC has traditionally been known largely for their moon cakes. While moon cakes have served to instil the corporate name in the minds of the public, the misconception among investors is that the company's fate rests solely on a product that accounts for just 15% of total sales. In fact, KDC has several market leading brands under its umbrella such as Aloha and Scotti buns (64%), AFC and Cosy crackers (38%), and Merino and Celano ice creams (29%).

Figure 3: 2011 revenue breakdown by products



Source: KDC, VCSC estimates

In 2011, top market share gainers were biscuits and buns; KDC's market share in the biscuits segment increased from 27% in 2010 to 38% in 2011 while buns increased from 54% to 64%.

Figure 4: Revenue growth and market share by products in 2011

	Brands	Revenue growth %	Market share %
Moon cake	Kinh Do	31	76
Buns	Aloha, Scotti	34	64
Biscuits	AFC, Cosy, Good Choice, Korento, Ido	54	38
Cakes	Solite, Sophie	14	26
Ice cream	Merino, Celano	28	29
Snacks	Slide, Sachi, Jevi	34	8
Yogurt	Wel-Yo	44	8
Candy	Kokochoco, Crundy, Milkandy	64	3

Source: KDC, VCSC summary

As KDC continues to have high selling expense—total SG&A/sales in 1H 2012 was 32.6% vs. 29.0% in 1H 2011—we think the company will be able to carry on a strong brand equity and maintain its leading position in the sector.

Large distribution network

Figure 5: Distribution system in 2011

F&B		**Beverage**	
Numbers of distributors	212	Numbers of distributors	300
Numbers of outlets	120,000	Numbers of outlets	100,000
Ice cream and dairy products		**Bakery**	**30**

Numbers of distributors	65		
Numbers of outlets	30,000	**Total salespeople**	**1,800**

Source: VCSC summary

With the integration of NKD and Kido into KDC since 2010, the combined distribution system has boosted the coverage of diversified products in both urban and rural remote areas. We believe, given the country's heavy dependence on wet markets and lack of modern trade adoption, a wide distribution and retail outlet network provides KDC a sustainable competitive advantage over its peers and other MNC companies.

For confectionery products, KDC and NKD together reached 120,000 retail outlets nationwide through 212 distributors and more than 1,800 salespeople in 2011. Meanwhile, Kido offers ice cream and dairy products through 65 distributors with more than 30,000 chilled cabinets. To put this into perspective, KDC's distribution system is third only to those of giants Masan Consumer and Vinamilk, which each have more than 160,000 retail outlets nationwide.

We believe KDC's distribution channel provides it with a strong backbone to re-affirm its leading position and to support its expansion initiatives as new products are introduced through this well-established network.

Back-to-basics approach

KDC is still often overlooked as a consumer powerhouse; overshadowed, perhaps, by the likes of Vinamilk and Masan Consumer and the stigma of its poor-performing non-core real estate dealings over the last couple of years. However, we believe KDC is on the right track by realizing that it is a not a real-estate company and embarking on a back-to-basics approach to drive long-term growth in its core business.

In 2011 the company made VND4,247bn in revenue (+33% YoY) and VND279bn in net profit (-57% YoY). If we exclude the extraordinary income of VND412bn from real estate in 2010, normalised earnings growth was 11% in 2011. We note that 2011 earnings were generated from core businesses only, while financial investments made a loss and real estate didn't bring in profits. Financial losses in 2011 were due to the high provision for the company's investments in listed and non-listed securities.

Figure 6: Profit before tax by segments

(Vending)	**2008**	**2009**	**2010**	**2011**
F&B	148	234	258	379
Financial investments	-228	80	4	-30
Real estate	20	258	412	0
Total pretax profit	**-60**	**572**	**674**	**349**
F&B	-247%	41%	38%	109%
Financial investments	380%	14%	1%	-9%
Real estate	-33%	45%	61%	0%
Total pretax profit	**100%**	**100%**	**100%**	**100%**

Source: VCSC summary

In addition, we believe the integration of North Kinh Do (NKD) and Kido into KDC since 2010 has created one of the widest distribution systems in the country. We consider this as the most valuable asset to bolster the company's back-to-basics approach. We believe KDC's distribution channel provides it with a strong backbone to re-affirm its leading position and to support its expansion initiatives as new products are introduced through this well-established network.

Glico and other staple products to fuel growth

KDC is looking to "fill up its distribution channels." This will be a two-pronged approach: distribution of strategic partner Ezaki Glico's products and distribution of staple goods such as noodles and cooking oil.

We believe Glico is an outstanding strategic partner, with 90 years of experience underpinned by innovations in product and marketing. Japan-based Glico is mainly engaged in the manufacture and sale of food products, including confectionery, dairy, and livestock processed foods. The company is now a leading confectioner with FY2011 sales of USD3.5bn. Glico will likely help KDC to solidify and expand market share with new confectionery products and can provide valuable assistance on KDC's plans to venture into other consumer food segments like ice cream and noodles. KDC is targeting VND1 trillion in sales of Glico's products in 2016.

KDC issued 14 million shares, or 10% of its total chartered cap, to strategic partner Ezaki Glico in January 2012. Per the agreement, Glico will sell products in Vietnam through KDC's distribution system. Glico will be in charge of marketing and KDC will be in charge of sales, distribution and customer service. We think this strategic partnership reinforces KDC's market leadership in Vietnam as the company now can offer an even larger array of high-quality confectionery products. The KDC-Glico partnership officially started in September 2012 when KDC distributes Glico's products including bread sticks and other snacks while Glico commits to contribute USD10 million per year for marketing expenses.

In February 2012, KDC successfully launched its rice cracker Sachi, a joint brand between KDC and Want Want China, in which Want Want China produces and KDC distributes the products.

KDC also expects to launch its noodles and cooking oil products by year-end 2012. At this point, KDC is not investing in building new capacity for these products but rather employing third-party white-label suppliers and rebranding under KDC's brand umbrella. Euromonitor values the Vietnamese noodle market at USD829mn in 2010 and expects it to grow to USD1.1bn in 2013 with CAGR of 8%. We think there is still vast room for newcomer like KDC to gain some market given its strong branding and extensive distribution reach.

We think KDC moving into other consumer staples is a viable strategy to generate sustainable growth given that confectionaries are rather lifestyle products and do not sell throughout the year. The staple products will allow the company to maximise the distribution network year round.

Current year outlook and forecast

1H 2012 results downbeat. KDC reported revenues of VND1550bn (+2.4% YoY) and a net loss of VND8.7bn. This is primarily due to their financial divestment from milk producer Nutifood, resulting in a loss of VND75bn. Volume and value overall were mainly flat in 1H 2012. While gross margin improved to 38.2% against 35% in 1H 2011 as the cost of raw materials and packaging was down 7% YoY, SG&A rose 15% YoY and interest expense rose 16% YoY. The company explained that 2011 year-end bonuses and advertising expenses for the Tet holiday were all booked in 1Q 2012, and eventually cut into bottom-line results.

On a brighter note, we are encouraged to see loans to related companies have decreased from VND343bn in 4Q 2011 to VND235bn in 2Q 2012. This shows management's efforts to clean up the balance sheet and better utilise capital.

The company has fulfilled 28.2% and 5.4% of its full-year revenue and net profit targets. Given the slowing demand in this sluggish economy, we think it will be a challenge for KDC to reach its 2012 targets.

2012F forecasts. We forecast that KDC will earn VND5,113bn in revenue (+20.4% YoY) and VND309bn in net profit (+12.8% YoY). We are not factoring in revenues and profits generated from distribution of Glico and other staple products. We assume that ASP will increase by 10% and selling will also increase by 10% as KDC continues to gain market share in some important product lines including biscuits and cakes. We estimate that biscuits will continue to contribute the most to top-line growth, accounting for about 27% total revenue in 2012. We also note that the high-margin products such as moon cakes (60% gross margin) will only report around 12% YoY growth as it has already dominated the market. Other products will make 25-40% in gross margin, with the exception of candy, which makes about 15% in gross margin.

Valuation

We initiate coverage on KDC with a HOLD rating and target price of VND34,800 per share based on 27% net profit CAGR from FY 2012F to FY 2016F. Our target price provides 9% upside to the current market price of VND31,900 per share. KDC is trading at 14.5x EPS 2012F of VND2,200 and at 11.8x EPS 2013F of VND2,700.

Our DCF-derived valuation assumes a market risk premium of 12.0% and a risk-free rate of 12.0%. We apply beta of 0.9 according to Bloomberg estimate and a terminal growth rate of 3%. We calculate WACC at 20.9% in 2012, with assumption cost of debt 17%.

FCFF	**2012**	**2013**	**2014**	**2015**	**2016**
EBIT * (1 - tax)	522	775	866	1,094	1,278
less: tax	(130)	(194)	(217)	(274)	(319)
add: depreciation	163	195	232	274	323
less: capex	(153)	(123)	(146)	(172)	(203)
(increase)/decrease in NWC	60	72	75	91	109
Unlevered free cash flow	461	726	811	1,014	1,187
PV of FCF	382	501	468	489	480
Cumulative sum PV of FCF	382	884	1,352	1,841	2,320

Beta	0.9	Terminal Value (VND bn)	7,281
Risk premium	12%	PV of terminal value	2,943
Risk free	12%	PV of FCFF	2,320
Cost of equity	22.8%	PV of terminal value and FCFF	5,264
Cost of Debt	17%	Add: Net cash	344
Tax	25.0%	**Equity Value**	**5,557**
WACC	20.2%	**Price per share (VND)**	**34,800**

Risks

Utilisation of capital. Due to the inter-group transactions between KDC and other related companies we are concerned that capital is not fully utilised. On the balance sheet we notice that most of the short-term investments are loans to related companies/members (total balance VND343bn as of Dec 31, 2011). We understand that to some extent KDC is operating under the shadow of a family business and it will take time for all the restructuring strategies to work.

Real estate projects. Currently KDC is invested in two real estate projects in Ho Chi Minh City: Lavenue and Tan An Phuoc with total investments of VND1,050bn and VND202.5bn, respectively. Lavenue is a commercial and office building located in the heart of District 1 while Tan An Phuoc is a residential complex located in Thu Duc District. However, we are unclear about the current prospects and project timelines. Due to the slowdown of the real estate market, we think these two projects will not bring in profits in the near-term. Of note, management said they would not put more capital in the projects. We also think KDC might sell their stakes in these projects as they focus on a back-to-basics strategy.

Kinh Do Corporation HOLD

Financial Statements

Units: VND billion

Income statement	2011	2012	2013	2014
Revenue	4,247	5,113	6,138	7,297
- Cost of goods sold	-2,574	-3,105	-3,739	-4,567
Gross profit	1,673	2,008	2,398	2,731
- Sales & marketing	-944	-1,125	-1,228	-1,386
- General & admin	-332	-383	-430	-511
Operating profit	398	500	741	833
- Forex gains/(losses)	-3	-3	-4	-4
- Net non-op gains	71	25	37	37
EBIT	466	522	775	866
- Interest expense	-117	-110	-172	-145
EBT	349	411	603	721
- Income tax expense	-71	-103	-151	-180
Profit after tax	279	309	452	541
- Minority interests	-5	0	0	0
Net income to SH	274	309	452	541
EPS (basic VND)	*2,289*	*2,156*	*2,715*	*3,245*
EBITDA	601	684	970	1,098
Depreciation	-135	-163	-195	-232
Revenue growth %	119.6	20.4	20.0	18.9
Op profit growth %	102.8	25.7	48.2	12.4
EBIT growth %	-35.1	11.9	48.5	11.8
EPS growth %	-56.6	-5.8	25.9	19.5
Profitability ratios	**2011**	**2012**	**2013**	**2014**
Gross margin %	39.4	39.3	39.1	37.4
NPAT margin %	6.6	6.0	7.4	7.4
ROE Dupont %	7.2	7.4	9.9	11.4
ROA Dupont %	5.1	5.1	6.9	7.8
* EBIT Margin %	11.0	10.2	12.6	11.9
* Tax burden %	79.8	75.0	75.0	75.0
* Interest burden %	74.9	78.9	77.8	83.2
* Asset turnover	0.8	0.8	0.9	1.1
Leverage ratio	1.4	1.5	1.4	1.5
ROIC	6.1	6.1	8.6	10.0
Efficiency ratios				
Days inventory on hand	59.0	52.9	54.0	53.7
Days AR outstanding	15.6	14.9	14.3	14.4
Days AP outstanding	38.7	35.5	35.4	35.2
Cash conversion cycle	35.9	32.4	32.9	32.9
Inventory turnover	6.2	6.9	6.8	6.8
Liquidity/Solvency				
Current ratio	1.43	1.89	1.87	1.88
Quick ratio	1.21	1.59	1.55	1.54
Cash ratio	0.54	0.86	0.88	0.93
Debt/assets %	0.17	0.11	0.10	0.09
Debt/capital %	0.21	0.14	0.13	0.12
Debt/equity %	0.26	0.16	0.15	0.13
ST debt/equity %	0.15	0.09	0.09	0.08
LT debt/equity %	0.02	0.02	0.02	0.01
Interest coverage ratio	3.98	4.73	4.51	5.96
Valuation ratios				
Price-to-earnings (P/E)	13.9	14.8	11.8	9.8
Price-to-book (P/B)	1.0	1.0	1.2	1.1
EV / EBITDA	5.8	7.8	6.2	5.5

Balance sheet	2011	2012	2013	2014
Assets				
+ Cash & equivalent	967	1,429	1,657	1,991
+ Short-term investments	374	374	374	374
+ Accounts receivable	200	218	262	312
+ Inventories	398	502	605	738
+ Other current assets	619	619	619	619
Total current assets	2,559	3,142	3,517	4,035
+ Gross fixed assets	1,682	2,293	2,416	2,562
- Accum. depreciation	-636	-872	-1,067	-1,299
+ Net fixed assets	1,046	1,422	1,349	1,263
+ LT investments	15	1,282	1,282	1,282
+ Other long-term assets	2,190	537	537	537
Total long-term assets	3,251	3,241	3,168	3,082
Total Assets	5,809	6,383	6,686	7,117
Debt & equity				
+ Accounts payable	274	329	396	484
+ Short-term debt	883	581	581	581
+ Other short-term debt	627	755	906	1,077
Current liabilities	1,784	1,665	1,883	2,142
+ Long-term debt	114	141	106	71
+ Other long-term debt	62	62	62	62
Total LT debt	176	203	167	132
Total debt & equity	1,959	1,867	2,051	2,274
+ Preferred equity	0	0	0	0
+ Addt'l paid in capital	1,951	2,402	2,402	2,402
+ Share capital	1,195	1,666	1,666	1,666
+ Retained earnings	669	413	532	739
+ Minority interest	35	35	35	35
Total equity	3,850	4,517	4,636	4,843
Total debt & equity	5,809	6,384	6,687	7,118
Book value per share	*31,917*	*31,323*	*27,609*	*28,854*
Cash flow	**2011**	**2012**	**2013**	**2014**
Beginning cash	672	967	1,429	1,657
Net Income	274	309	452	541
+ Depreciation	169	163	195	232
+ Other non-cash adj.	4	0	0	0
+ Δ in non-cash	511	60	72	75
Cash from operations	957	531	720	848
+ Disposal fixed assets	5	0	0	0
+ Capex	-326	-153	-123	-146
+ Δ in investments	0	0	0	0
+ Other investments	-709	0	0	0
Cash from investing	-1,030	-153	-123	-146
+ Dividends paid	-143	-286	-333	-333
+ Δ in capital	0	0	0	0
+ Δ in ST debt	502	-302	0	0
+ Δ in LT debt	20	0	0	0
+ Other financing act.	1	0	0	0
Cash from financing	367	83	-368	-368
Net changes in cash	295	461	229	334
Ending cash	967	1,429	1,657	1,991

Analyst Certification

I, Ly Vu, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. 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. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC Rating System and Valuation Methodology

Absolute performance, long term (fundamental) rating key: The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

Small Cap Research: VCSC Research covers companies with a market capitalisation of up to USD50mn, inclusively. Clients should note that coverage may not be consistent and that VCSC may drop coverage of small caps at any time without notice.

Target price: In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Valuation Methodology: To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

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Disclaimer

History of Recommendation

Date	Recommendation	Closing price	Target price
11 October 2012	HOLD	31,900	34,800