Kinh Do Corp (KDC)

VND40,700 - HOLD

Ly Vu
Analyst
ly.vu@vcsc.com.vn
+84 8 3 914 3588 ext. 147

Results

Target price	**VND40,700**
Upside	**9%**

Consumer Goods

Market cap	US$480m
Shares outstanding	158.4m
12M High	VND39,900
12M Low	VND19,750
Foreign ownership	48%
Foreign limit	49%

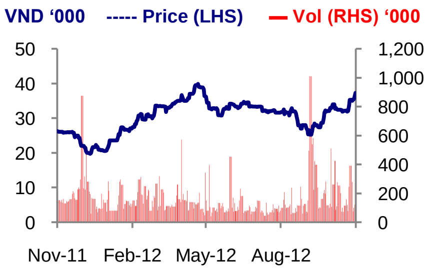
Ownership

PPK Ltd	11%
Ezaki Glico	10%
Kinh Do Investment co.	9%
Tran Le Nguyen CEO	7%
Others	63%

Company Description

Kinh Do Corp (KDC) established in 1993 by Mr.Tran Kim Thanh – Chairman. The company went listed in 2005. KDC bought Vinabico, a domestic confectioner in 2008. In 2010, it merged with Ki Do Ltd. and North Kinh Do JSC to be the largest confectioner among the domestic players. KDC had a new strategic partner Ezaki Glico, a Japanese confectioner with 90 year experience. This opened a new opportunity for KDC to compete against international confectioners.

Price Performance



See important disclosure at the end of this document

Core businesses doing well

We recommend HOLD for Kinh Do Corp (KDC) with the new target price of VND40,700 based on the company's significantly improving margins in 3QFY12 thanks to the refocus on the core business - confectionery. Its recent partnership with Ezaki Glico, a Japanese confectioner with 90 year experience would help KDC to expand its product portfolio with more premium products. KDC is trading at 14.6x FY12E EPS of VND2,550 and 13.4x FY13E EPS of VND2,792.

9MFY12 good earnings +23.7%YoY thanks to 3QFY12 improving margins
9MFY12 sales were VND3,218bn (+6%YoY) and profits were VND311bn (+24%YoY), meeting our FY12E earnings forecast. Excluding the net loss of VND57bn from the divestment of Nutifood, 9MFY12 net profits would be VND369 (+48% YoY). 9MFY12 GPM was 45% vs. 40% in 9MFY11, mainly thanks to a 5% reduction of input costs (raw material and packaging, which are 70% of COGS) and increased sales of high margin products such as moon-cakes, biscuits and ice cream. 9MFY12 OPM improved to 14% from 11% in 9MFY11. KDC managed to enhance the efficiency of its distribution and administration by trimming promotion and marketing advertising expense and controlling its expense budget. Of note, 3QFY12 saw a decrease in management headcount when two of its CEOs resigned in 3QFY12. One was due to personal reason, and the other one was in charge of Tribeco, which used to be KDC's associate. It divested Tribeco with a profit of around VND1.7bn.

3QFY12 revenue was VND1,668bn (+9%YoY) and net profit was VND316bn (+43%YoY). The main contributor in 3Q sales growth was moon-cake (+13%YoY, mainly volume growth), a seasonal product. 3QFY12 GPM increased to 50% from 45% in 3QFY11. Besides, +5%YoY selling and G&A expense made OPM up to 22% from 16% in 3QFY11. NPM increased to 19% from 14% last year.

Partnership with Ezaki Glico a potential catalyst
This partnership would benefit KDC in terms of improving its product portfolio with more premium products. KDC began to distribute Glico's breadsticks called Pocky in October, and consumers' feedbacks will be coming in shortly. Ezaki Glico is a USD3.5bn turnover confectioner with 90 year of experience. It has a wide range of products including confectioneries, ice cream and processed food. Ezaki Glico currently holds 10% of KDC.

We revise up our FY12-13 earnings, and set our target price to VND40,700
We revised our revenue forecast to VND4,693bn (+11%YoY) for FY12 and to VND5,284 bn (+13%YoY) for FY13. We also raised our net income forecast to VND365bn (+31%YoY) for FY12 and VND465 bn (+28%YoY) for FY13. This is based on the assumption that demand will pick up next year and KDC will continue to fine-tune its operation to achieve higher efficiency after merging with North Kinh Do Jsc and Ki Do Ltd in late 2010.

KDC's subsidiary registered to buy 8 million shares of parent
KDC's subsidiary Kinh Do Binh Duong Jsc registered to buy 8 million shares of KDC on 07 November 2012. These are considered as treasury shares in KDC's consolidated statement. Hence, this would help increase its FY12E ROE to 9.2% from 8.9% previously. KDC will have around 14 million treasury shares in total.

Financial Statements

Units in VND billion

Income statement	FY11	FY12E	FY13E	FY14E	FY15E
Revenue	4,247	4,693	5,284	5,967	6,597
- Cost of goods sold	-2,574	-2,682	-3,047	-3,398	-3,716
Gross profit	1,673	2,011	2,237	2,569	2,881
- Sales & marketing	-944	-1,070	-1,110	-1,253	-1,385
- General & admin	-332	-366	-370	-418	-462
Operating profit	398	575	758	898	1,034
- Forex gains/(losses)	-3	-3	-3	-4	-4
- Net non-op gains	71	25	37	37	37
EBIT	466	597	792	932	1,068
- Interest expense	-117	-110	-172	-145	-114
EBT	349	486	620	787	954
- Income tax expense	-71	-122	-155	-197	-238
Profit after tax	279	365	465	590	715
- Minority interests	-5	0	0	0	0
Net income to SH	274	365	465	590	715
EPS (basic VND)	2,289	2,550	2,792	3,540	4,293
EBITDA	601	746	960	1,122	1,277
Depreciation	-135	-149	-168	-190	-210
Revenue growth %	119.6	10.5	12.6	12.9	10.6
Op profit growth %	102.8	44.5	31.8	18.5	15.2
EBIT growth %	-35.1	27.9	32.7	17.7	14.6
EPS growth %	-56.6	11.4	9.5	26.8	21.3
Profitability ratios					
Gross margin %	39.4	42.8	42.3	43.1	43.7
NPAT margin %	6.6	7.8	8.8	9.9	10.8
ROE Dupont %	7.2	9.2	11.2	13.5	15.3
ROA Dupont %	5.1	6.3	7.8	9.4	10.7
* EBIT Margin %	11.0	12.7	15.0	15.6	16.2
* Tax burden %	79.8	75.0	75.0	75.0	75.0
* Interest burden %	74.9	81.5	78.3	84.4	89.3
* Asset turnover	0.8	0.8	0.9	1.0	1.0
Leverage ratio	1.4	1.5	1.4	1.4	1.4
ROIC	6.1	7.5	9.5	11.7	13.5
Efficiency ratios					
Days inventory on hand	59.0	56.6	55.5	56.0	56.5
Days AR outstanding	15.6	15.6	14.7	14.7	14.8
Days AP outstanding	38.7	38.0	36.4	36.7	37.0
Cash conversion cycle	35.9	34.2	33.8	34.0	34.3
Inventory turnover	6.2	6.4	6.6	6.5	6.5
Liquidity/Solvency					
Current ratio	1.43	1.68	1.73	1.83	1.98
Quick ratio	1.21	1.40	1.43	1.53	1.67
Cash ratio	0.54	0.64	0.71	0.84	1.01
Debt/assets %	0.17	0.12	0.11	0.10	0.08
Debt/capital %	0.21	0.15	0.14	0.13	0.11
Debt/equity %	0.26	0.18	0.16	0.15	0.12
ST debt/equity %	0.15	0.10	0.10	0.09	0.08
LT debt/equity %	0.02	0.02	0.02	0.01	0.00
Interest coverage ratio	3.98	5.41	4.61	6.41	9.39

Balance sheet	FY11	FY12E	FY13E	FY14E	FY15E
Assets					
+ Cash & equivalent	967	994	1,195	1,539	1,977
+ Short-tm investments	374	374	374	374	374
+ Accounts receivable	200	200	226	255	282
+ Inventories	398	434	493	549	601
+ Other current assets	619	619	619	619	619
Total current assets	2,559	2,621	2,907	3,336	3,853
+ Gross fixed assets	2,140	2,281	2,386	2,506	2,638
- Accum. depreciation	-709	-858	-1,026	-1,216	-1,426
+ Net fixed assets	1,431	1,423	1,360	1,290	1,212
+ LT investments	1,282	1,282	1,282	1,282	1,282
+ Other long-tm assets	537	537	537	537	537
Total long-term assets	3,251	3,242	3,179	3,109	3,031
Total Assets	5,809	5,863	6,086	6,445	6,883
Debt					
+ Accounts payable	274	284	323	360	394
+ Short-term debt	883	581	581	581	581
+ Other short-term debt	627	693	780	881	974
Current liabilities	1,784	1,558	1,684	1,822	1,948
+ Long-term debt	114	141	106	71	0
+ Other long-term debt	62	62	62	62	62
Total LT debt	176	203	167	132	62
Equity					
+ Preferred equity	0	0	0	0	0
+ Addt'l paid in capital	1,951	2,402	2,402	2,402	2,402
+ Share capital	1,195	1,666	1,666	1,666	1,666
+ Retained earnings	669	623	755	1,012	1,394
+ Minority interest	35	35	35	35	35
Total equity	3,850	4,103	4,235	4,492	4,874
Total debt & equity	5,809	5,864	6,087	6,446	6,884
Cash flow					
Beginning cash	672	967	994	1,195	1,539
Net Income	274	365	465	590	715
+ Depreciation	169	149	168	190	210
+ Other non-cash adj.	4	0	0	0	0
+ ∆ in non-cash	511	40	42	52	48
Cash from operations	957	554	675	832	974
+ Disposal fixed assets	5	0	0	0	0
+ Capex	-326	-141	-106	-119	-132
+ ∆ in investments	0	0	0	0	0
+ Other investments	-709	0	0	0	0
Cash from investing	-1,030	-141	-106	-119	-132
+ Dividends paid	-143	-286	-333	-333	-333
+ ∆ in capital	0	0	0	0	0
+ ∆ in ST debt	502	-302	0	0	0
+ ∆ in LT debt	20	0	0	0	0
+ Other financing act.	1	0	0	0	0
Cash from financing	367	-386	-368	-368	-404
Net changes in cash	295	27	201	344	438
Ending cash	967	994	1,195	1,539	1,977

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.

Contacts

Head office
Bitexco 15th Floor, 2 Hai Trieu, District 1, HCMC
+84 8 3914 3588
Transaction office
136 Ham Nghi, District 1, HCMC
+84 8 3914 3588

Hanoi branch
109 Tran Hung Dao, Hoan Kiem District, Hanoi
+84 4 6262 6999
Transaction office
236 - 238 Nguyen Cong Tru, District 1, HCMC
+84 8 3914 3588

Research

Head of Research
Robert Zielinski, ext 145
robert.zielinski@vcsc.com.vn

Research Team
+84 8 3914 3588
research@vcsc.com.vn

Senior Manager, Mr. Tu Vu, ext 105
Manager, Ms. Phuong Ton, ext 146
Senior Analyst, Ms. Hoa Dinh, ext 140
Senior Analyst, Mr. Huy Nguyen, ext 139
Senior Analyst, Mr. The Anh Nguyen, ext 194

Analyst, Ms. Ly Vu, ext 147
Analyst, Mr. Viet Vu, ext 143
Analyst, Ms. Duong Pham, ext 130
Analyst, Ms. Trang Nguyen, ext 116
Macro Analyst, Mr. Phong Nguyen, ext 120
Technical Analyst, Mr. Minh Nguyen, ext 142

Institutional Sales & Brokerage

& Foreign Individuals

Head of Institutional Sales
Michel Tosto, M.Sc.
+84 8 3914 3588, ext 102
michel.tosto@vcsc.com.vn

Vietnamese Sales
Nguyen Quoc Dung
+84 8 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Sales & Brokerage

Ho Chi Minh City
Quynh Chau
+84 8 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi
Quang Nguyen
+84 4 6262 6999, ext 312
quang.nguyen@vcsc.com.vn

Disclaimer

History of Recommendation

Date	Recommendation	Closing price	Target price
16 Nov 2012	HOLD	37,100	40,800
11 Oct 2012	HOLD	31,900	34,800