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HOSE- Vietnam

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KINH DO CORPORATION - KDC

Sector: Confectionary – Updated report

OVERWEIGHT

Target price	**VND 51,800**
Current price	**VND 45,400**

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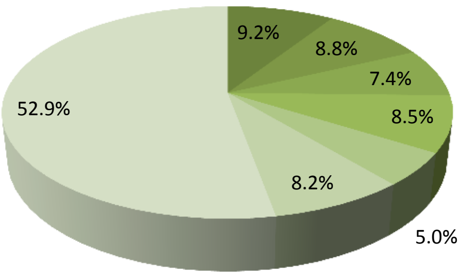
Co. Profile

Ticker	KDC
Charter Capital (VND bil)	1,599
Outstanding shares (mil)	158.4
Market Capital (VND bil)	6,970
52W range (VND)	25,300 – 47,900
Ave. trading volume 3M	159.9
Beta	0.38
Foreign Ownership	49%
First listing date	12 December 2005

Major shareholders

PPK Limited Corporation	9.2%
Ezaki Glico	8.8%
Kinh Do Investment Co Ltd	7.4%
Tran Le Nguyen	8.5%
Dempsey Hill Asia Master Fund	5.0%
Kinh Do Binh Duong JSC	8.2%



FY12 privileged profit performance

- **The lively last quarter:** *Together with the superior gross profit margin (GPM), a better ability to control operating costs (chart 1) has also left a positive mark on 4Q12 profit.* Although the year-end sales season of Tet 2013 came over two weeks later than Tet 2012 and thus incurred a 11% yoy decrease to VND1,076 bil on top line (chart 2) and a lower proportion of 25% in full-year sales (compared to 27% - 31% in the past years, chart 4), KDC still made VND87 bil of EAT, which was 3.6 times yoy higher than FY11, according to its preliminary results. Cumulatively, the company has finished 78% of its planed revenue with VND4,294 bil (+1.1% yoy) and exceeded 3% of its annual EBT target with VND515 bil (+48% yoy) in FY12. *This performance was mainly driven by sales growth in ice cream, moon cake and crackers.*

- **A 16% profit growth is targeted in FY13:** *Launching at least three new products*, KDC is aiming to enhance the revenue to VND5,500 bil with a 28% yoy growth, of which the rise of selling price is expected to contribute 7% - 10%. Profit before tax margin is intended for stable level of 11% (chart 3), bringing about VND600 bil (+16% yoy). For long-term prospect, the company will make efforts to maintain GPM at around 40% and operating profit margin at 10%. *With its strong brand and high market position, we suppose these are reasonable goals for KDC to achieve in future.*

- **Having ability to attain good outcome this year.** We estimated that KDC will complete 94% of its FY13 revenue and 98% of EBT targets. *Resting heavily with the optimistic forecast that new product development in ice cream, cakes, and crackers categories could play the main growth engines this year. Besides, distributing Ezaki Glico's products would result in positive sales of snacks segment.* The company stated that Pocky - Glico's brand has been spreading out through modern distribution channels like supermarkets since the last quarter of FY12 and plan to expand towards general trade with 15,000 retail point of sales in FY13. These factors, totally, can contribute to a 20% increase in top line to VND5,172 bil.

  However, higher material prices in flour, eggs and milk, coupled with increasing spending on marketing could decrease the core-business margin from 13% to 9.9%. On the other hand, shrugging off the abnormal financial loss in FY12's, the company may enjoy an optimistic financial profit in FY13. EBT, as a result, may reach VND587 bil (+14% yoy) and net profit could ultimately approach VND460 bil. This consequence does not take into consideration the contribution of instant noodle product, which is planned to debut in 1H13.

- **Overweight rating with target price set at VND51,800:** Our target price is anchored in P/E (70% weight with a 15.8x P/E and estimated FY13 EPS) and P/B (30% weight with a 1.9x P/B and estimated FY13 BVPS) methods. *The EPS and BVPS are calculated on lower outstanding shares, taking account of 7.6 mil shares, which Kinh Do Binh Duong JSC (KDC's subsidiary) bought in Nov 2012. Our target price is offering 14% potential upside from the current level of VND45,400.* Therefore, we place our **OVERWEIGHT** call on this stock with target price set at VND51,800.

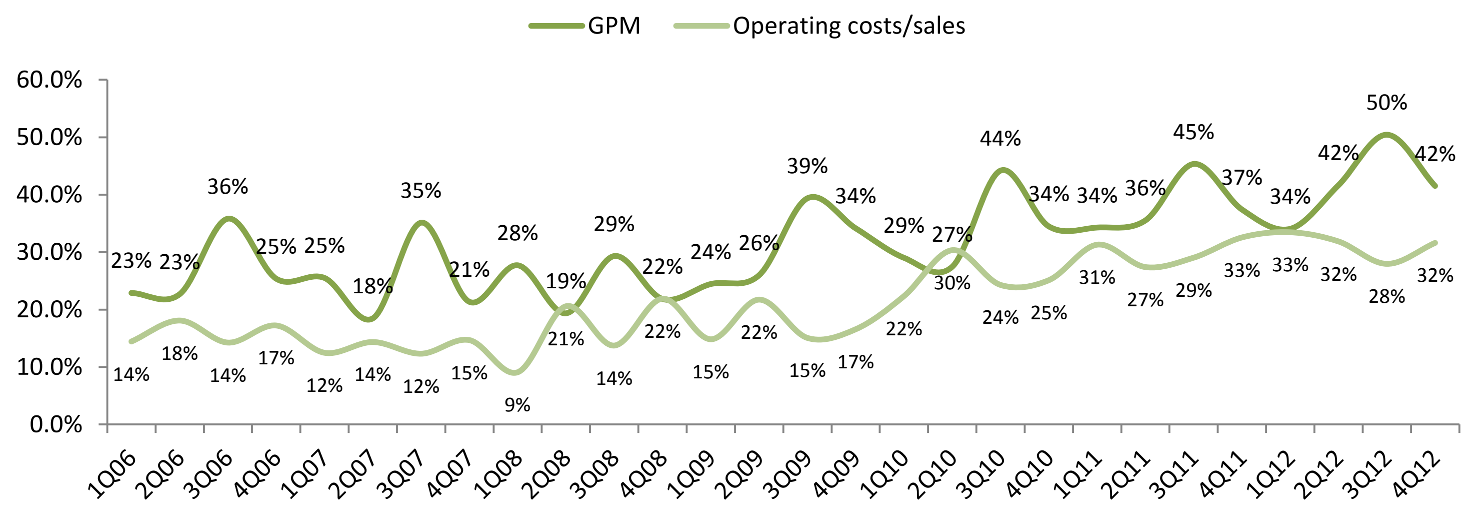
Price movement

	3M	6M	12M
Absolute	+10	+11.7	+21.9
Percentage (%)	+22.7	+26.6	+49.8

(bil VND)	9M11	4Q11	9M12	4Q12	2013 Co's plan	2013 PHS's forecast
Net Revenue	3,038	1,209	3,218	1,076	5,500	5,172
% gross margin	*40%*	*37%*	*45%*	*42%*		
% OP margin	*10%*	*4%*	*13%*	*10%*		
EBT	305	44	407	108	600	587
EAT	255	24	311	87		
% growth YoY	*-48%*	*-80%*	*22%*	*261%*		
% growth QoQ		*-89%*		*-73%*		
EPS (TTM)	3,347	2,606	3,340	3,148		
BVPS	38,008	36,481	33,610	27,863		
P/E	10.6	10.0	8.4	12.7		
P/B	0.9	0.7	0.8	1.4		

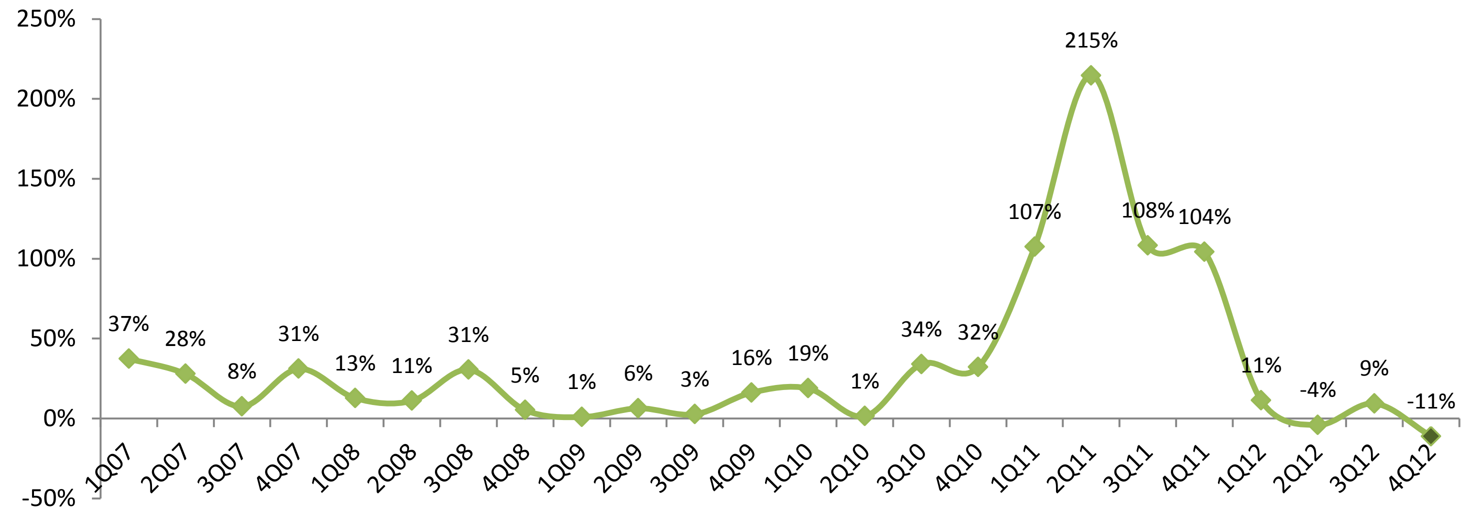
Source: KDC, PHS (4Q12 EPS, BVPS were estimating numbers as KDC did not release full financial statement)*

CHART 1 - KDC's gross profit margin and operating costs/sales



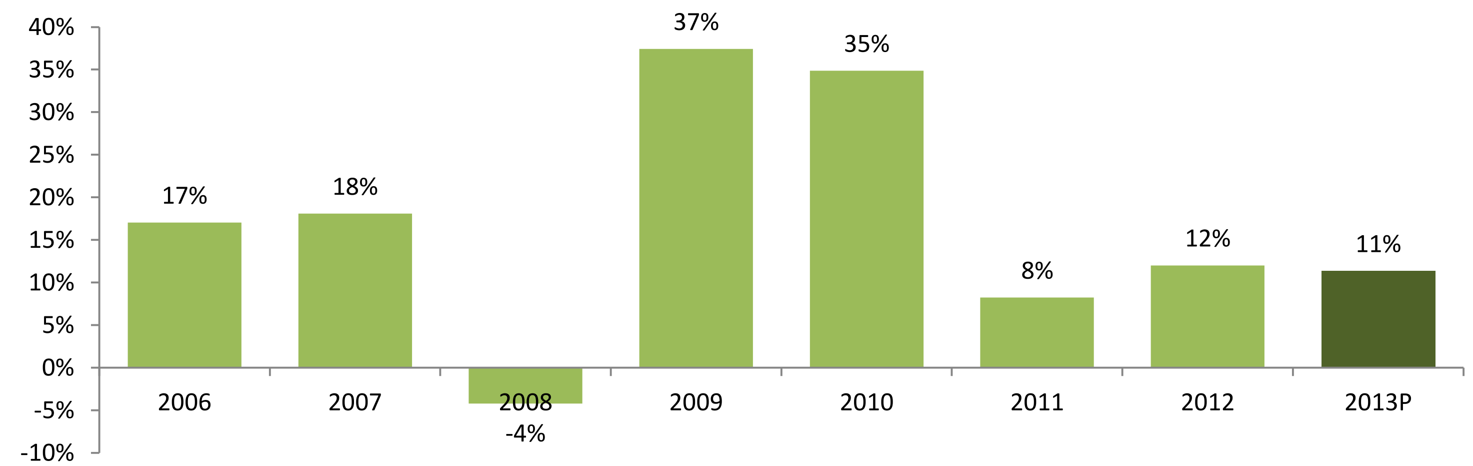
Source: KDC, PHS

CHART 2 - KDC's yoy revenue growth rate



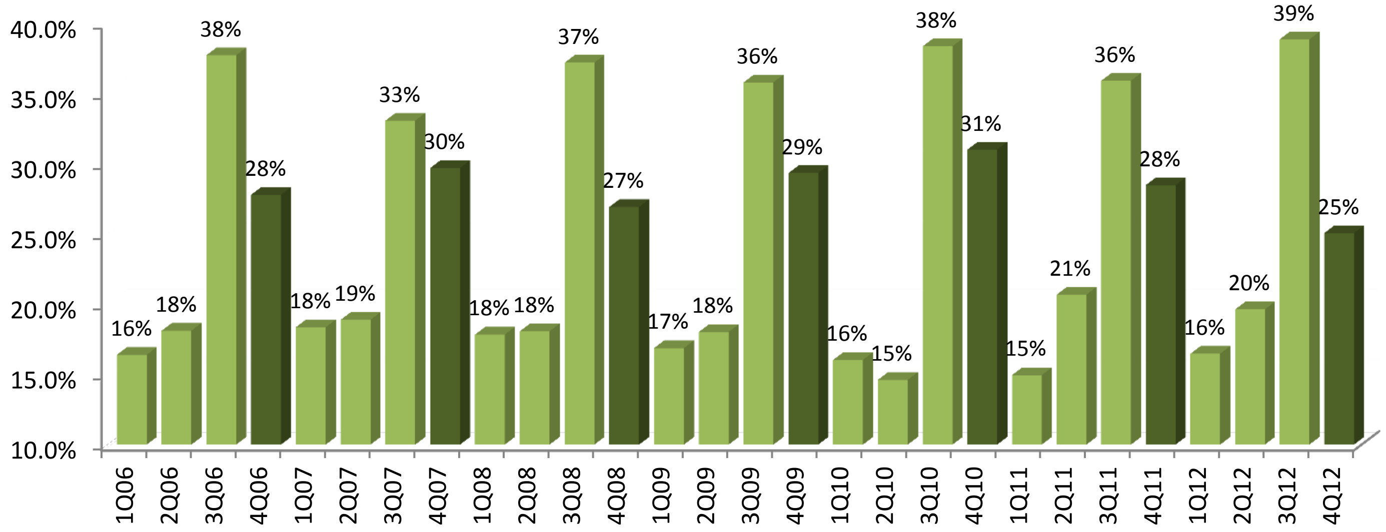
Source: KDC, PHS

CHART 3 - KDC's EBT margin



Source: KDC, PHS

CHART 4 – KDC's % quarterly revenue on full-year sales



Source: KDC, PHS

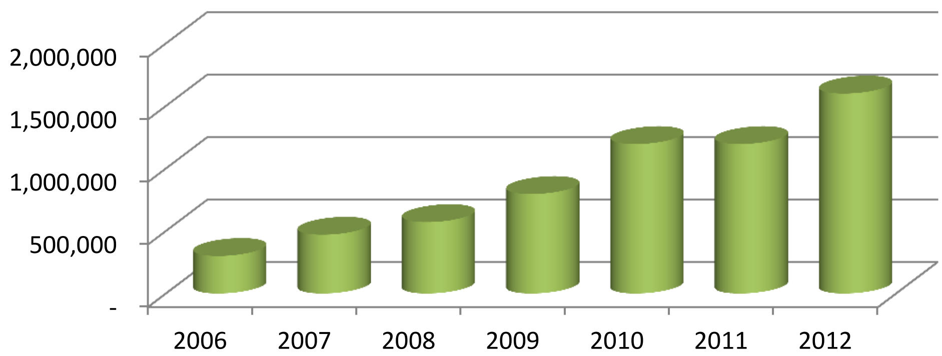
Company description

Kinh Do was established in 1993 and has gone through 20 years of formation and development. Up to now, KDC has become a system of corporations in the field of foodstuff including: cake, candy, beverage, ice-cream, and products from milk. Products under the Company trademark are selling in all provinces through a diversified distribution system nationwide including 524 distributors, 31 Kinh Do Bakery shops and 200,000 retail outlets. With M&A strategy, Kinh Do group will quickly enlarge the foodstuff division to become a leading foodstuff group in Vietnam as well as to become one of the leading foodstuff group in the Southeast-Asian region.

Company history

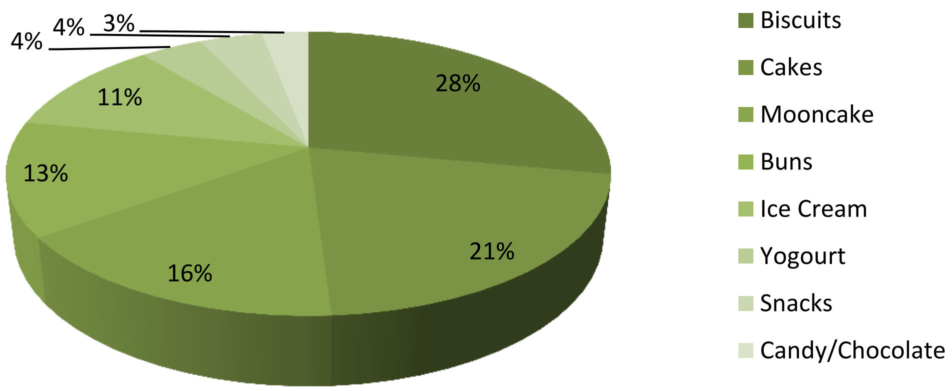
- Established in 1993, starting with the success of Snack products.
- From 1st October 2002, its name changed from Kinh Do Food Processing and Construction Limited Company to Kinh Do Corporation.
- In July 2003, Kinh Do officially acquired Wall's Vietnam Ice-Cream company from Unilever and changed the trademark into KIDO's Ice-cream.
- December 2004, North Kinh Do Corporation was first issued shares to the public (stock code: NKD).
- December 2005, Kinh Do was first issued shares to the public (stock code: KDC).
- December 2007, Kinh Do acquired Vinabico, and directly run this company in order to renovate products to fulfill the various demand of customers.
- In 2010, KDC, NKD, KIDO merged to form the Kinh Do Group.
- In 2011, business alliance with Ezaki Glico Co. Ltd. (Japanese confectionary company).

Capital increase process (VND'mil)



Source: KDC

Revenue structure (2011)



Source: KDC

Financial ratio (bil VND)

Income statement	2010	2011	2012	2013F
Net sales	1,934	4,247	4,294	5,172
Cost of goods sold	1,248	2,574	2,414	3,015
Gross profit	685	1,673	1,880	2,157
Operating profit	653	345	528	579
Profit before tax	674	349	515	587
Profit after tax	579	279	398	469
Balance sheet	2010	2011	2012E	2013F
Total assets	**5,040**	**5,809**	**5,566**	**6,102**
Current assets	**2,330**	**2,559**	**2,336**	**2,910**
Cash & equivalent	672	967	674	978
Short-term investment	162	374	257	245
Receivables	1,018	725	945	1,112
Inventories	434	398	435	543
Other short-term assets	43	94	26	33
Long-term assets	**2,710**	**3,251**	**3,230**	**3,192**
Tangible fixed assets	774	830	869	912
Intangible fixed assets	120	455	420	386
Long-term investment	1,638	1,649	1,600	1,552
Resources	**5,040**	**5,809**	**5,566**	**6,102**
Liabilities	**1,156**	**1,917**	**1,476**	**1,843**
Short-term account payables	624	858	891	1,086
Short-term loans	381	883	472	613
Long-term loans	94	114	57	51
Equities	**3,884**	**3,893**	**4,090**	**4,259**
Chartered capital	1,195	1,195	1,599	1,599
Capital surplus	1,951	1,951	2,190	2,190
Treasury shares	(137)	(154)	(648)	(648)
Retained profit	661	757	859	1,028
Cash flow	2010	2011	2012E	2013F
Net operating cash flow	**(821)**	**933**	**239**	**497**
Net investing cash flow	**778**	**(1,005)**	**101**	**(37)**
Net financing cash flow	**(271)**	**366**	**(634)**	**(156)**
Net cash flows	(313)	294	(294)	304
Cash at the beginning	985	672	967	674
Cash at the end	672	967	674	978

Financial ratios	2010	2011	2012E	2013F
Growth rate				
Revenue growth rate	26%	120%	1%	20%
Gross profit growth rate	36%	144%	12%	15%
EAT growth rate	16%	-52%	43%	18%
Total asset growth rate	19%	15%	-4%	10%
Equity growth rate	56%	1%	7%	4%
Profitability ratios				
Gross profit margin	35%	39%	44%	42%
EBT margin	35%	8%	12%	11%
Net profit margin	27%	6%	9%	9%
ROA	11%	5%	7%	8%
ROE	17%	7%	10%	11%
DuPont Analysis				
Net profit margin(1)	27%	6%	9%	9%
Asset turnover (2)	0.4	0.8	0.8	0.9
Equity multiplier (3)	1.5	1.4	1.4	1.4
ROE = (1)x(2)x(3)	17%	7%	10%	11%
Management ratios				
Receivable outstanding days	174	75	71	73
Inventory outstanding days	87	59	63	59
Payable outstanding days	381	179	213	200
Asset turnover	0.4	0.8	0.8	0.9
Long-term asset turnover	0.9	1.4	1.3	1.6
Fix asset turnover	2.6	3.9	3.3	4.0
Liquidity ratios				
Current ratio	2.3	1.5	1.7	1.7
Quick ratio	1.9	1.2	1.4	1.4
Cash ratio	0.8	0.8	0.7	0.7
Capital Structure				
Total debt/Total Equity	31%	50%	36%	44%
Total debt/Total Asset	23%	33%	27%	30%
Total asset/Total Equity	130%	149%	136%	143%
Index per share				
PE	10.4	9.9	14.8	14.2
PBV	1.5	0.7	1.4	1.6
PS	2.8	0.6	1.4	1.3
EPS	6,091	2,606	3,148	3,164
Cash earning/share	6,356	9,290	4,634	6,725
Book value	35,188	36,481	27,863	29,027

Source: KDC and PHS's expectation

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Neutral (N) = Expected to in line with the current market by +10%~ -10%
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Performance is defined as 12-month total return (including dividends).

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