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HOSE- Vietnam

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Phu Hung SECURITIES

# KINH DO CORPORATION - KDC

**Sector: Confectionary – Updated report**

# OVERWEIGHT

| | |
|---|---|
| **Target price** | **VND 60,000** |
| **Current price** | **VND 48,200** |

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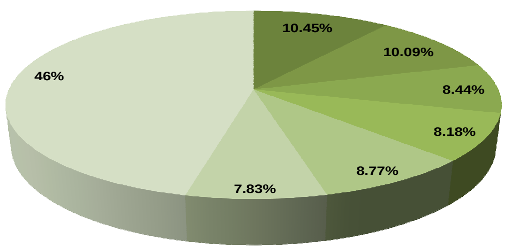
## Co. Profile

| | |
|---|---|
| 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 | 10.45% |
| Ezaki Glico | 10.09% |
| Kinh Do Investment Co Ltd | 8.44% |
| Tran Le Nguyen | 8.18% |
| Dempsey Hill Asia Master Fund | 8.77% |
| Kinh Do Binh Duong JSC | 7.83% |




## Price movement

| | 3M | 6M | 12M |
|---|---|---|---|
| **Absolute** | -0.2 | +0.7 | +8.5 |
| **Percentage (%)** | -0.4 | +1.5 | +22.1 |

## Stable growth pace manifests its long-term investment value.

- **Focus on core business helped KDC keep growth power in sales 1Q13:** Credited to the strong demand in Tet 2013 and the expansion of sales channel, in which the selling spots has increased from 150.000 to 161.000, KDC's revenue rose by 14% to VND 817 bil in 1Q2013. Gross Profit Margin (GPM) also saw an impressive enhancement from 34% to 38% through the price decline of raw white powder, a material which accounts for 65-70% of COGS. Besides, on the back of lower interest rate, the financial expense reduced sharply to VND 16 bil from VND 43 bil in 1Q12 and helped the bottom line soar 93x YoY to VND 34 bil. In 1Q13, the company has finished 16% of its planned revenue (VND 5,200 bil with 21% YoY growth) and 8% of EBT target (VND 600 bil with 22% YoY growth).
- **Growth momentum of revenue and margins should be able to sustain in the next five years:** The selling season of moon festival has been unveiled in Vietnam and should be able to boost KDC's sales in 2H FY13e. In additional, contribution from newly-launched products is also a key driver for the company's performance. KinhDo noodles will soon be available in the market and KinhDo cooking oil presumably will be launched in the fourth quarter of this year. These new products, according to management speech, will help the company raised revenue to VND 6,000 bil this year. Except for strengthening its product series, KDC also focuses on expanding its sales network and has lifted its target of selling spot number to 200.000 or a 25% increase compared to current level. We believe these factors can propel KDC's earnings to the level of VND 450 bil or even better and help the company meet its FY13 revenue and EBT target. Top line, as a result, may enjoy an around 20% increase.
- **Industry overview:** Revenue of the total confectionery market in FY2013 is forecasted to reach VND8.8 trillion, an 11.36% increase as compared to 2012. Many favorable conditions for running confectionery business are developing this year. Among which the cooling down inflation and declining interest rate could be the most important one. Confectionary is one of the few industries which will benefit from the inflation. Besides, the declining interest rate also helped confectionery industry relieve from the heavy interest burden and as a result enhance the GPM. Other advantages, such as increasing purchasing power, enormous young population, and the awareness of health, will bring incessant fuel to this industry's growth.
- **Maintain Overweight rating:** We maintain our rating for KDC and lift our target price by 16% to VND 60,000 (from VND 51,800). It implies a 25% upside potential against current price. KDC is less affected by business cycles and therefore face a limit downside risk in current uncertain environment. We believe the earnings momentum to be positive in 2013 given new launched products and the sales network expansion. The upcoming 2H13 result, in our view, could be better than expected.

| *(bil VND)* | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2013 Co's plan | 2013 PHS's forecast |
|---|---|---|---|---|---|---|
| Net Revenue | 4,246,886 | 4,285,797 | 707,093 | 806,904 | 5,200 | 5,389 |
| *% gross margin* | *39%* | *43%* | *34%* | *38%* | | |
| *% OP margin* | *9%* | *13%* | *1%* | *6%* | | |
| EBT | 349,181 | 489,928 | 11,135 | 48,355 | 600 | 612 |
| EAT | 273,553 | 353,945 | 360 | 33,672 | | |
| *% growth YoY* | *-48%* | *29%* | *-94%* | *9253%* | | |
| *% growth QoQ* | | | *-99%* | *-33%* | | |
| EPS (TTM) | 2,289 | 2,213 | 2,373 | 2,829 | | |
| BVPS | 31,917 | 25,076 | 33,413 | 27,515 | | |
| P/E | 21.0 | 21.7 | 20.3 | 17.0 | | |
| P/B | 1.5 | 1.9 | 1.4 | 1.7 | | |

*Source: KDC, PHS*

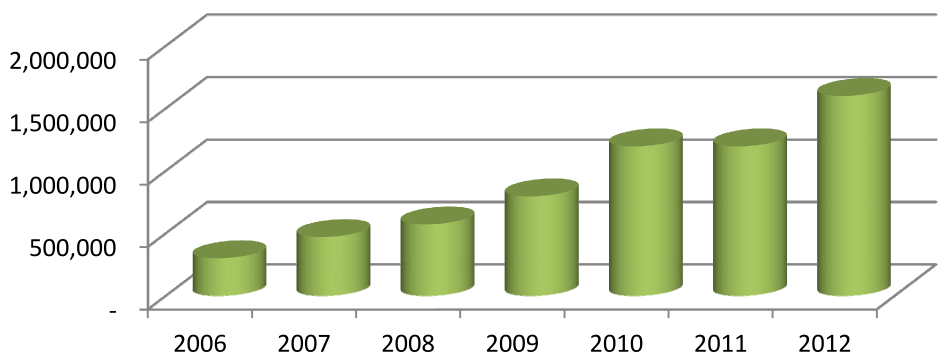
## Company description

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

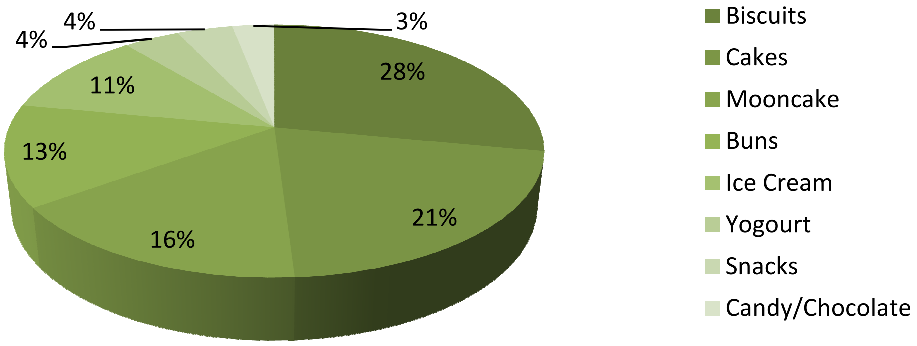
- Established in 1993, starting with the success of Snack products.
- From 1st October 2002, its name changed from Kinh Do Food Processing and Construction Limited Company to Kinh Do Corporation.
- In July 2003, Kinh Do officially acquired Wall's Vietnam Ice-Cream company from Unilever and changed the 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 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Net sales | 1,529 | 1,934 | 4,247 | 4,294 |
| Cost of goods sold | 1,024 | 1,248 | 2,574 | 2,414 |
| Gross profit | 505 | 685 | 1,673 | 1,880 |
| Operating profit | 314 | 653 | 345 | 528 |
| Profit before tax | 572 | 674 | 349 | 515 |
| Profit after tax | 500 | 579 | 279 | 398 |
| Balance sheet | 2009 | 2010 | 2011 | 2012 |
| **Total assets** | **4,248** | **5,040** | **5,809** | **5,566** |
| **Current assets** | **2,510** | **2,330** | **2,559** | **2,336** |
| Cash & equivalent | 985 | 672 | 967 | 674 |
| Short-term investment | 518 | 162 | 374 | 257 |
| Receivables | 825 | 1,018 | 725 | 945 |
| Inventories | 162 | 434 | 398 | 435 |
| Other short-term assets | 20 | 43 | 94 | 26 |
| **Long-term assets** | **1,738** | **2,710** | **3,251** | **3,230** |
| Tangible fixed assets | 472 | 774 | 830 | 869 |
| Intangible fixed assets | 99 | 120 | 455 | 420 |
| Long-term investment | 995 | 1,638 | 1,649 | 1,600 |
| **Resources** | **4,248** | **5,040** | **5,809** | **5,566** |
| **Liabilities** | **1,767** | **1,156** | **1,917** | **1,476** |
| Short-term account payables | 1,225 | 624 | 858 | 891 |
| Short-term loans | 407 | 381 | 883 | 472 |
| Long-term loans | 119 | 94 | 114 | 57 |
| **Equities** | **2,480** | **3,884** | **3,893** | **4,090** |
| Chartered capital | 795 | 1,195 | 1,195 | 1,599 |
| Capital surplus | 1,396 | 1,951 | 1,951 | 2,190 |
| Treasury shares | (137) | (137) | (154) | (648) |
| Retained profit | 291 | 661 | 757 | 859 |
| Cash flow | 2009 | 2010 | 2011 | 2012 |
| **Net operating cash flow** | **914** | **(821)** | **933** | **239** |
| **Net investing cash flow** | **(36)** | **778** | **(1,005)** | **101** |
| **Net financing cash flow** | **(97)** | **(271)** | **366** | **(634)** |
| Net cash flows | 781 | (313) | 294 | (294) |
| Cash at the beginning | 207 | 985 | 672 | 967 |
| Cash at the end | 988 | 672 | 967 | 674 |

| Financial ratios | 2010 | 2011 | 2012 |
|---|---|---|---|
| Growth rate | | | |
| Revenue growth rate | 26% | 120% | 1% |
| Gross profit growth rate | 36% | 144% | 12% |
| EAT growth rate | 16% | -52% | 43% |
| Total asset growth rate | 19% | 15% | -4% |
| Equity growth rate | 56% | 1% | 7% |
| Profitability ratios | | | |
| Gross profit margin | 35% | 39% | 44% |
| EBT margin | 35% | 8% | 12% |
| Net profit margin | 27% | 6% | 9% |
| ROA | 11% | 5% | 7% |
| ROE | 17% | 7% | 10% |
| DuPont Analysis | | | |
| Net profit margin(1) | 27% | 6% | 9% |
| Asset turnover (2) | 0.4 | 0.8 | 0.8 |
| Equity multiplier (3) | 1.5 | 1.4 | 1.4 |
| ROE = (1)x(2)x(3) | 17% | 7% | 10% |
| Management ratios | | | |
| Receivable outstanding days | 174 | 75 | 71 |
| Inventory outstanding days | 87 | 59 | 63 |
| Payable outstanding days | 381 | 179 | 213 |
| Asset turnover | 0.4 | 0.8 | 0.8 |
| Long-term asset turnover | 0.9 | 1.4 | 1.3 |
| Fix asset turnover | 2.6 | 3.9 | 3.3 |
| Liquidity ratios | | | |
| Current ratio | 2.3 | 1.5 | 1.7 |
| Quick ratio | 1.9 | 1.2 | 1.4 |
| Cash ratio | 0.8 | 0.8 | 0.7 |
| Capital Structure | | | |
| Total debt/Total Equity | 31% | 50% | 36% |
| Total debt/Total Asset | 23% | 33% | 27% |
| Total asset/Total Equity | 130% | 149% | 136% |
| Index per share | | | |
| PE | 9.2 | 21.0 | 21.7 |
| PBV | 1.5 | 1.5 | 1.9 |
| PS | 3.0 | 1.4 | 1.48 |
| EPS | 6,091 | 2,606 | 3,148 |
| Cash earning/share | 6,356 | 9,290 | 4,634 |
| Book value | 35,188 | 36,481 | 27,863 |

*Source: KDC and PHS*

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

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