KINH BAC CITY DEVELOPMENT HOLDING COMPANY

Indicators	22.05.2014
Close price (VND)	10,100
52-week low - high (VND)	6,300 - 14,200
Market capitalization (billion VND)	2,984
Outstanding shares	289,760,188
P/E trailing (x) (market)	21.08
P/B trailing (x) (market)	0.73
EPS trailing (VND)	479

- Q1.2014, KBC recorded net revenue of VND 154bn (+296% yoy) and NPAT of VND 13bn (compare to VND 53bn loss last year's). The improvement came from the increase of FDI into KBC's industrial parks, which has been picked up since last year.
- All business segments of KBC continued to improve quite well. Infrastructure and land leasing (KBC's main activities) posted VND 114bn of revenue (+160% yoy). The industrial parks that contributed most to KBC's Q1.2014 results were Que Vo and Trang Due Industrial Park.
- Gross profit margin increased: Q1.2014 consolidated gross profit margin of the group reached 48% (compare to 46% of 2013 and 38% of 2012). Proportion on revenue of most expenses and costs felt. Notably, interest expenses decreased by 20% yoy.
- KBC's business operation highly depends on FDI. In the first 4 months of 2014, disbursed FDI estimates at USD 4bn, +6.7 % yoy.
- In 2014, planned revenue is VND 1,800bn while planned NPAT is VND 160bn. According to our opinion, the plan is a bit overly optimistic as 30% of planned revenue comes from divestment activities that may linger until after 2014. Furthermore, KBC may record losses from those divestments. Besides, both of the company's main activities (infrastructure rental and office/warehouse rental/sale) may be affected by the South China Sea dispute between Vietnam and China.We also believe that of the dispute between Vietnam and China over the South China Sea shall be impact-less to FDI flow as most FDI into Vietnam comes from South Korea, Indonesia, Singapore, Britain, Canada and Japan.
- In Q1.2014, KBC completed only 9% of revenue and 5% of net profit as planned. It can be seen that the financial health of the business has gradually improved, however KBC is still in the recovery state. Currently, trailing EPS is VND 479. At the price of VND 10,100 VND per share dated 05/22/2014, P/E trailing is 21,x , P/B is 0.73 - relatively high compared to the P/E of the real estate sector which is 15,x . Therefore, we continue to recommend HOLD for KBC

Indicators	2010	2011	2012	2013	Q1.2014
Total Assets (VND bn)	11,438.65	11,947.34	11,778.31	12,535.87	12,446.96
Owner's equity (VND bn)	4,379.96	4,413.63	3,977.98	4,047.03	4,063.76
Charter Capital (VND bn)	2,957.11	2,957.11	2,957.11	2,957.11	2,957.11
Net Revenue (VND bn)	913.94	633.63	281.37	1,072.97	153.62
EBIT (VND bn)	1,282.33	95.81	(486.65)	87.09	7.03
Net Income (VND bn)	1,095.37	35.73	(435.64)	69.05	13.28
Liabilities/Total Assets (%)	54.22%	55.54%	58.96%	60.77%	60.45%
Gross margin (%)	56.64%	56.35%	38.32%	46.10%	47.96%
Net profit margin (%)	119.85%	5.64%	(154.83%)	6.44%	8.65%
ROA trailing (%)	9.70%	0.65%	(4.11%)	0.65%	0.06%
ROE trailing (%)	25.34%	1.76%	(12.16%)	2.02%	0.19%
BV (VND)	15,116	15,232	13,728	13,967	13,742
EPS basic (VND)	4,714	123	(1,503)	238	479

IN THIS ISSUE:

See Disclaimer at Page 07

Stock statistics under VCBS criteria updated at *www.vcbs.com.vn /Research/Report.aspx*

Macroeconomics, Financial and Corporation Information updated at *www.vcbs.com.vn*

VCBS Bloomberg Page: *<VCBS><go>*

Le Thi Huyen Minh
+84 4 3936 6425 (ext. 121)
lhminh@vcbs.com.vn

22.05.2014

RESEARCH & ANALYSIS DEPARTMENT VCBS

Q1.2014 Business Results Update

All business segments improved. Gross profit margin increased.

Q1.2014, KBC recorded a net revenue of VND 154bn (+296% yoy) and VND 13bn of NPAT (compare to VND 53bn loss last year). The improvement came from the increase of FDI into KBC's industrial park which has been picked up since last year.

Compared to the same period last year, during the first 3 months of 2014, **all business segments of KBC continued to improve quite well**. Specifically:

(1) **Infrastructure and land leasing (KBC's main business):** The Company posted VND 114bn (+160% yoy) of revenue (74% of total revenue in Q1.2014 compares to 68% last year). The industrial parks, which contributed the most to KBC's Q1.2014 results, were Que Vo Industrial Park, Trang Due Industrial Park. The 40 hectares land leasing contract between LE Electronics and KBC has been recorded completely in 2013.

(2) **Factories sale**: continued to improve since the end of 2013, the segment brought VND 22bn in revenue to KBC, accounting for 14% of total revenue. In 2013, this operation contributed 25% of total revenue.

(3) **Storage, factories and offices lease**: VND 8bn of revenue (+5% yoy).

(4) **Water supply**: VND 10bn of revenue (+7% yoy)

Chart: Annual Revenue and Profit Growth

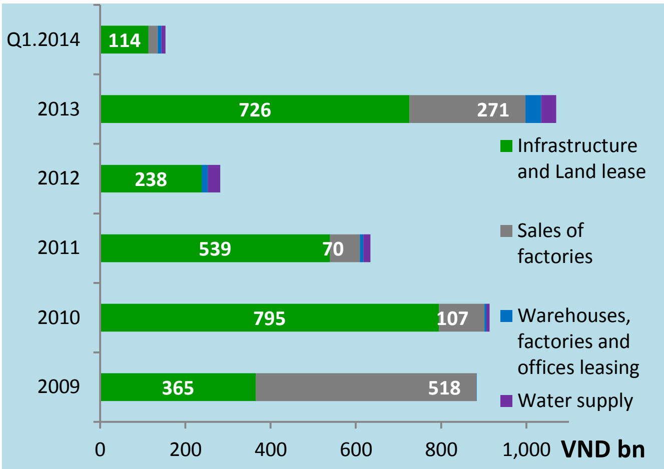
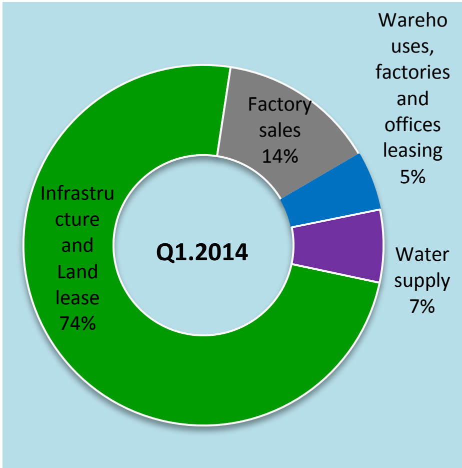


Chart: Q1.2014's Revenue Structure



(Source: KBC, VCBS)

Gross profit margin continued to improve: consolidated gross profit margin of the group reached 48% (compare to 46% of Q1.2013 and 38% of Q1.2012). In particular, gross profit margin of infrastructure/land leasing and factory sales was 44% (46% in Q1.2013 and 37% in Q1.2012) and 63% (68% in Q1.2013, 0% in 2012) respectively.

This year, KBC continues to practice cost control quite well**. Proportion on revenue of most expenses and costs continued to fall.** Although, cost of goods sold increased by 261% yoy but it only occupied 52% of total revenue, due to the fact that revenue's growth was higher than growth of COGS (in Q1.2014, total revenue rose by +296% yoy. In 2013, cost of goods sold occupied 54 % of total revenue).

In general, because most expenses and costs continued to decline, especially interest expense which decreased sharply in both real term and relative value compare to revenue, **operating profit turned positive and reach VND 7bn (compare to VND 65 bn loss last year).**

Update on Infrastructure and land leasing activities

- **KBC's Industrial Parks:** Currently, KBC owns 8 industrial parks which are ready to attract FDI with a total area of 3,000 hectares, of which 70% was compensated and cleared ground. Every industrial park in possession of KBC is 300 hectares or more in size. KBC's industrial parks concentrate in Bac Ninh, Bac Giang, Hai Phong Province and Ho Chi Minh City.

Details on Industrial parks owned by KBC

Order	Industrial Park	Province	Area (ha)	Occupancy rate	% KBC owns	Subsidiaries or Associate
1	Que Vo	Bac Ninh	Phase 1: 312 ha	90%	100%	
			Phase 2: 300 ha	72%		
2	Nam Son Hap Linh (*)	Bac Ninh	402 ha	0%	100%	
3	Trang Due	Hai Phong	Phase 1: 150 ha	75%	90%	Sai Gon – Hai Phong
			Phase 2: 250 ha	0%		
4	Quang Chau	Bac Giang	420 ha	26%	60%	Sai Gon – Bac Giang
5	Tan Phu Trung	HCM City	542 ha	14%	61%	Sai Gon – Tay Bac
6	Khanh An	Ca Mau	360 ha	N/A	20%	Sai Gon – Ca Mau
7	Sai Gon Quang Ngai	Quang Ngai	N/A	N/A	40%	Sai Gon – Dung Quat
8	Hightech Area Ho Chi Minh City	HCM City	913 ha	N/A	27%	Sai Gon Hightech Area

(Source: KBC, VCBS)

(*) Among 402 hectares of Hap Linh Nam Son Industrial Park, KBC has just cleared only 100 ha, of which 10 hectares were leveled.

- **Major industrial parks**: in recent years, 6 industrial park which contribute on the most to KBC's revenue are: Que Vo Industrial Park (Bac Ninh), Que Vo (Bac Ninh), Quang Chau Industrial Zone (Bac Giang), Trang Due Industrial Park (Hai Phong) and Tan Phu Trung Industrial Park (HCM City).

- **Major customers:** 90% of KBC's customers are high-tech large corporations. Among them are: Canon, Foxconn, Mitac, Panasonic, Wintek, UMEC, Tenma, Mitsui, VS, SENTEC, Toyo Ink, Yamato Industries ....In addition to the development of core industrial zones, KBC continues to invest in specialized industrial parks such as Vietnam - Japan industrial park in Trang Cat (Hai Phong).

- **Highlight facts:**

(1) In 2013, KBC signed a 40 hectares land lease contract with LG Electronics (LGE) in Trang Due Industrial Park. In September 2013, LGE received their official license. The total investment value of LGE's large-scale production project was USD 1.5 bn. VCBS estimates the rent price of this contract around USD 43/m2 – 46/m2. Trang Due Industrial Park is currently one of the most attractive places to FDI firms, especially firms in high-tech fields. The revenue and profit from this lease contract were recorded in 2013.

(2) In July 2013, the Prime Minister signed the decision No. 39/2013/QD-TTg, Accordingly, KBC's Trang Due Industrial Park officially became a part of Dinh Vu – Hai Phong Economic Zone. Investment projects in Trang Due Industrial park will then get preferential treatments as such treatments for the Economic Zone. We believe that it will be a favorable condition for KBC to attract more investors when the occupation rate for this Industrial Park is still low.

Financial Health

Outstanding inventory stayed high while cash and cash equivalent was low. Solvent ratios were weak.

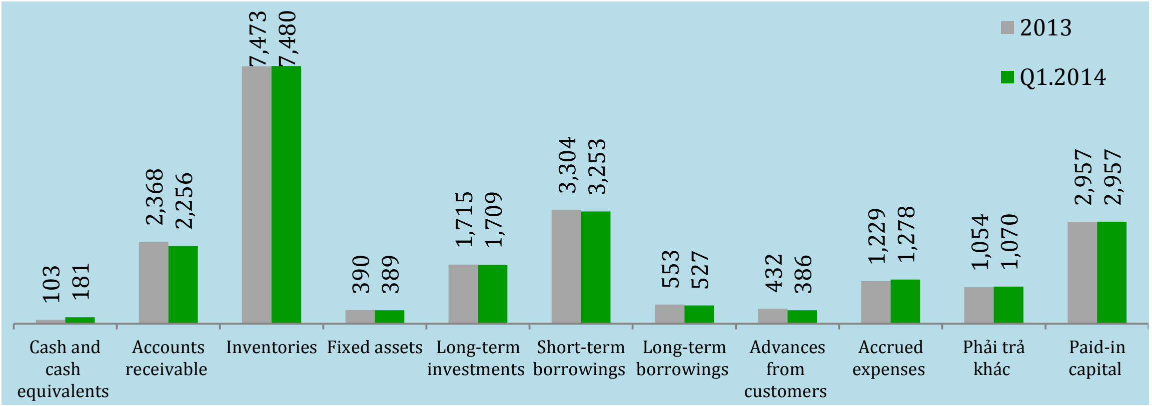
Asset Structure:

At the end of Q1.2014, **KBC's asset structure did not change much from the beginning of the year.** Total assets decreased slightly (-1% ytd). The largest accounts in total assets remain inventories, receivables and long-term investments, which occupy 60%, 18% and 14% of total assets respectively.

Inventories of KBC continue to maintain over VND 7,400 billion, accounting for 60% of total assets, approximately equal to the year-begin balance. Two of the largest projects, which account for most of the inventories, are Trang Cat Urban residential/IP project (3,081 billion) and Tan Phu Trung Industrial Zone Project (2,629 billion).

With such large outstanding inventories, KBC held only VND 181bn of cash and cash equivalent (1% of total assets) at the end of 2014. Therefore, solvent ratios of the company were weak. Quick ratio and current ratio were 0.38 and 0.03 respectively.

Detailed asset – liability structure at the end of Q1.2014 (unit: billion VND)



(Source: KBC Q1.2014 Financial statements and business reports)

Debt payment pressure is high as VND 3.000 worth of fixed income instruments shall mature this year.

Capital Structure:

Debt ratio of KBC reached 60.5% - which is not high. However**, the balance of interest bearing loans is high, totaled VND 3,780 bn**, in which short-term loan amounted VND 3,253bn (26% of Total assets). However, compared with the end of 2013, loan balance decreased slightly. Particularly, the balance of short -term and long-term loan decreased by 2 % Ytd and 5 % ytd respectively.

Currently, VND 3,000bn out of VND 3,253bn short-term loan are fixed income instruments, which are issued to commercial banks: Vietinbank (VND 700bn), PVCombank (VND 1.500bn), BIDV (VND 500bn), Nam Viet Bank (VND 302bn). **The issuance to Vietinbank, BIDV and PVCombank is worth VND 2,700bn and will expire this year.** Consequently, KBC is in negotiation with these debtors to extend payment and trying to boost the main business activities to generate cash flow to pay for the part of principal and interest on due. These debt owners had received proposals and agreed to support KBC. Furthermore, some banks are even considering funding KBC additional capital to invest in new infrastructure project which is exactly the opposite of KBC's situation 2 years ago while most banks would reject the company's ask for capital.

However, in Q1.2014 financial statements, cash and cash equivalents of KBC was only VND 103bn, accounting for 1% of total assets. Therefore, we believe KBC will be under pressure to pay interest, and we are quite concern about this.

Prospect of KBC in 2014

Land/infrastructure leasing business prospect is good, as FDI in Vietnam tends to improve.

Investment in Industrial Zone:

KBC's major revenue comes from land/infrastructure leasing and the offices/factories sales in the industrial zones. Tenants mostly are foreign enterprises in the fields of high technology (90 % of KBC's FDI customers). Therefore, KBC highly depends on FDI in 2014.

FDI value in Vietnam relies on the state of global economy and investors in Vietnam. According to VCBS, after the downtrend since 2008, FDI flow started increase, reaching USD 11ban in 2012. In 2013, FDI increased strongly with USD 21.6bn of total registered capital (+54.5% yoy), FDI disbursement reached USD 11.5bn (+9.9% yoy). In the first 4 months of 2014, implemented FDI was estimated at USD 4bn, +6.7 % yoy.

These figures show that Vietnam is still attractive to foreign investors and reaction of foreign investors while TPP negotiation is on and may yield good result at the end of 2014.

In 2014, LG plans to hire another 40 hectares at Trang Due Industrial Zone - Hai Phong. Both parties are in negotiation and expect to sign the contract at the end of this year or next year (In 2013, KBC leased 40 hectares to LG Electronic with the rate at around USD 43 –USD 46/m2).

Real estate segment may not prosper, as real estate market hasn't improved much.

Investment in real estates:

KBC still owns a number of projects in Hanoi such as Diplomatic Area (2ha), Rice Flowers Diamond (4ha), Tan Lap Urban (23 ha). In 2014, KBC expects to complete the procedures for Lotus Hotel and Diplomatic Area.

However, we must also note that KBC is currently under pressure to pay back short – term loan while little cash can be mobilized. In addition, the recovery of real estate's market is unclear in the first months in 2014. Therefore, we believe that due to the shortage of capital, in the first half of this year, KBC could not deploy the above real estate projects. We will monitor and update if there are any changes.

2014 plan is a bit overly optimistic. The company may not achieve results as planned this year.

Chance to finish as planned:

At 2014 AGM, KBC planned to achieve VND 1,800bn (+66% yoy) of revenue and VND 160bn (+100% yoy) of NPAT. According to company's management, the plan based on the projection of FDI, demand for land/infrastructure/warehouse and potential customers/projects under negotiation in Q4.2013 and Q1.2014.

Detailed plan is follow:

- Land/infrastructure leasing: KBC plans to lease 10 – 15 hectares of industrial land at Que Vo, Trang Due, Quang Chau and Tan Phu Trung industrial park at the average price of USD 65 – 70 per square meter. Expected revenue is VND 550 – 800bn.
- Warehouse sale: 5 warehouses and 1 housing block are expected to bring VND 400bn of revenue.
- Divestment revenue: KBC shall continue to divest in the energy, telecommunication, and mineral sector. Planned-to-divest companies include SGI-Laos, Song Tranh hydropower… VCBS estimates VND 500 – 600bn of revenue from this activity.

Beside of that, KBC shall continue to negotiate to sign the contract with LG Electronic on additional 40 hectares land lease at Trang Due industrial park (Hai Phong). Last year, LG rented 40 hectares of industrial land from KBC at the price of USD 43 – 46 per square meter. This time, the price is estimated at USD 50 – 55 per square meter and the contract is worth VND 400bn. However, the negotiation may linger until next year and KBC has not included the expected revenue from this contract in the planned revenue this year.

Investment recommendation

KBC is still in the recovery process and may accelerate in the near future. We recommend HOLD for KBC.

We believe that planned results for 2014 are quite ambitious. VND 500 – 600bn of revenue will be recorded if KBC successful in their divestment plan. However, the activity may be linger until next year. Furthermore, the company may record losses from such divestments as most of the investees are suffering losses (Song Tranh 4 power company, SGI-Laos…).

Besides, both of the company's main activities (infrastructure rental and office/warehouse rental/sale) may be affected by the South China Sea dispute between Vietnam and China.

We also believe that of the dispute between Vietnam and China over the South China Sea shall be impact-less to FDI flow as most FDI into Vietnam comes from South Korea, Indonesia, Singapore, Britain, Canada and Japan.

However, we believe that KBC could hardly complete the plan as outlined at the AGM in April (which is VND 1,800 bn in revenue and VND 160bn in NPAT). We think that the plan is quite ambitious as planned growth of revenue and profit (which is 66% and 100%) outpaces the growth of FDI inflows in the first 4 months of the year (+6.7% yoy) and the business results in 2013 of KBC.

In Q1.2014, KBC completed only 9% of revenue and 5% of net profit as planned. It can be seen that the financial health of the business has gradually improved, however KBC is still in the recovery state. Currently, trailing EPS is VND 479. At the price of VND 10,100 VND per share dated 05/22/2014, P/E trailing is 21,x , P/B is 0.73 - relatively high compared to the P/E of the real estate sector which is 15,x . Therefore**, we continue to recommend HOLD for KBC**

DISCLAIMER

This report is designed to provide updated information on the results of companies' business as well as analysis of factors affecting the prospects of the business. The report and / or any judgments and information in the report are by no means construed as investment advices, buy or sell offers, or investment proposals of any financial products, securities of related companies analyzed in the report. Therefore, this report should be best considered as a reference only. VCBS does not bear any responsibility for unwanted results when the information in the report is used.

All the information stated in the report has been collected and assessed as carefully as possible, however VCBS does not guarantee the accuracy of the information and has no obligation to update the information after the report was released.

All opinions, judgments, estimations and projections in this report represent independent views of the analyst at the date of publication only. Therefore, VCBS and/or departments of VCBS may have securities transactions inconsistent with recommendations in this report.

VIETCOMBANK SECURITIES COMPANY

12th and 17th floor, Vietcombank Tower
198 Tran Quang Khai Street, Hanoi, Vietnam
Tel: 84 – 4 – 39 367 516/ 39 360 024
Fax: 84 - 4 - 39 360 262
http://www.vcbs.com.vn

Hanoi Headquarter	:	Floor 12th and 17th, Vietcombank Tower, 198 Tran Quang Khai Street, HoanKiem District, Ha Noi Tel: (84-4)-39367516/17/18/19/20; 39368601/02; 39365094/95; 39367516; 39366990 - Ext: 213/218
Ho Chi Minh Branch	:	Floor 1st, Green Star Building, 70 Pham Ngoc Thach Street, Ward 6, District No.3, Ho Chi Minh City Tel: (84-8)-38208116
Da Nang Branch	:	Floor 2nd, 10 Hai Phong Street, Hai Chau District, Da Nang City Tel: (84-511)-33888991 - Ext: 12/13
Can Tho Branch	:	Floor 1st, Post Office Building, 2 Hoa Binh Avenue, Ninh Kieu District, Can Tho City Tel: (84-710)-3750888
Vung Tau Branch	:	Floor 1st, 27 Le Loi Street, Vung Tau City, Ba Ria – Vung Tau Province Tel: (84-64)-3513974/75/76/77/78
Phu My Hung Transaction Unit	:	Lawrence Sting Building, 801 Nguyen Luong Bang Street, Phu My Hung Urban Zone, District No. 7, Ho Chi Minh City Tel: (84-8)-54136573
An Giang Representative Office	:	Floor 6th, Nguyen Hue Building, 9/9 Tran Hung Dao Street, My Xuyen Ward, Long Xuyen City, An Giang Province Tel: (84-76)-3949841
Dong Nai Representative Office	:	F240-F241 Vo Thi Sau Street, 7th Block, Thong Nhat Ward, Bien Hoa City, Dong Nai Province Tel: (84-61)-3918812