KINH BAC CITY DEVELOPMENT SHAREHOLDING CORP.

Indicators	22.08.2014
Close price (VND)	11,600
52-week low - high (VND)	7,000 – 14,200
Market capitalization (billion VND)	4,248
Outstanding shares	389,760,188
P/E trailing (x) (market)	79.54
P/B trailing (x) (market)	0.89
EPS trailing (VND)	146

- In 2Q2014, KBC reached VND220.5 bn (+16%) in revenue and VND25.9 bn (loss of VND53.9 bn in 6M.2013) in NPAT. This performance was not too impressive but much better than that of the same period last year given improvements from: (1) higher FDI in KBC's industrial parks and (2) successful withdraws of KBC investments at Nam Viet Real Estate JSC and Song Tranh 4 Hydropower JSC with VND108 bn in transferred profit.

- Gross profit margin slightly improved: 49% in 2Q2014 (46% in 2013 and 38% in 2012)

- In 2014, KBC tagets VND 1,800 bn (+66% yoy) in total revenue and VND160 bn (+100% yoy) in NPAT. These targets were based on FDI's prospects in Vietnam, plant demand and KBC's possible withdraws from current investments. Following that, with the potentials from industrial zones (new contract with Wintek for 100 ha), 20 ha on sales of Phuc Ninh project and divestment plans from SGI-Lao, KBC might accomplish its targets in revenue and NPAT.

- According to its income statements, KBC finished 20% of the planned revenue and 16% of NPAT's targets. The firm's financial background gradually improved. However, KBC was still in recovery process and ready to advance. The goals would largely depend on FDI's prospects in Vietnam, especially northern country. At the meantime, EPS trailing was VND146. At the market price of VND 11,600 per share as of August 22nd, P/E trailing reached 79.5 times, P/B was 0.73 times. EPS forward was estimated at VND439 and P/E forward was at 26.4x times, relatively higher than the P/E industry average of 15.x. Therefore, we recommend NEUTRAL for KBC.

Indicators	2010	2011	2012	2013	2Q2014
Total Assets (VND bn)	11,438.65	11,947.34	11,778.31	12,535.87	12,469.74
Owner's equity (VND bn)	4,379.96	4,413.63	3,977.98	4,047.03	5,092.40
Charter Capital (VND bn)	2,957.11	2,957.11	2,957.11	2,957.11	3,957.11
Net Revenue (VND bn)	913.94	633.63	281.37	1,072.97	220.49
EBIT (VND bn)	1,282.33	95.81	(486.65)	87.09	25.94
Net Income (VND bn)	1,095.37	35.73	(435.64)	69.05	41.92
Liabilities/Total Assets (%)	54.22%	55.54%	58.96%	60.77%	52.36%
Gross margin (%)	56.64%	56.35%	38.32%	46.10%	48.81%
Net profit margin (%)	119.85%	5.64%	(154.83%)	6.44%	19.01%
ROA trailing (%)	9.70%	0.65%	(4.11%)	0.65%	0.21%
ROE trailing (%)	25.34%	1.76%	(12.16%)	2.02%	0.51%
BV (VND)	15,116	15,232	13,728	13,967	13,065
EPS basic (VND)	4,714	123	(1,503)	238	146

IN THIS ISSUE:

See Disclaimer at Page 05

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

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RESEARCH & ANALYSIS DEPARTMENT VCBS

2Q2014 BUSINESS RESULTS UPDATE

KBC's performance was not too impressive but much better than that of the same period last year given improvements from its business lines and divestment activities

In Q2.2014, the total revenue and NPAT was VND66.9 bn (-56% yoy) and VND18.1 bn (was VND1.3 bn in Q2.2013) respectively. After 6 months, the total revenue and NPAT reached VND220.5 bn (+16% yoy) and VND25.9 bn relatively (NPAT was a loss of VND53.9 bn in 2Q2013). This performance was not too impressive but much better than that of the same period last year given improvements from: (1) higher FDI, and (2) successful withdraws of KBC at Nam Viet Real Estate JSC and Song Tranh 4 Hydropower JSC with VND108 bn in transferred profit.

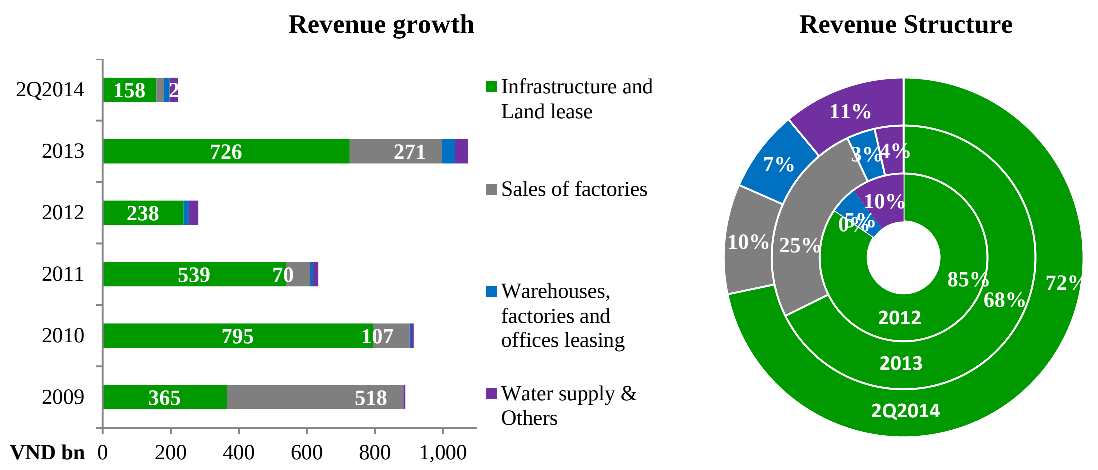
In comparison with the same period last year, KBC's revenues showed improvements as below:

(1) **From infrastructure and leasing (KBC's main streams):** VND158 bn (+61% yoy) in revenue, contributed 72% to the total revenue. In 2013, these lines made up of 68% of the total revenue. Que Vo, Trang Tue and Tan Phu Trung were industrial zones that brought KBC incomes. Gross profit margin remained high, posting at 47% (slightly higher than 2013's 46% and far above 2012's 37%).

(2) **From factory sales:** significantly decreased from 2013, only reached VND22 bn (-69% yoy) in 2Q2014, equivalent to 10% of the total revenue. In 2013, this activity contributed 25% to the total sales. However, gross profit margin also significantly declined, posted at 50% (lower than 2013's 68% while no record found in 2012).

(3) **From storage, factories and offices leasing**: slightly increased, reached VND16.2 bn (+5% yoy), making up 7% of the total revenue. Gross profit margin was equal to 70% that of the same period last year.

(4) **From water supply and other services (KBC's regular inflows):** strongly increased, reaching VND24.4 bn (+62% yoy) and contributing 11% to the total revenue. Gross profit margin was at 45% (higher than 6M.2013's 26%).



(Source: KBC, VCBS)

Gross profit margin slightly improved : 49% in 2Q2014 (46% in 2013 and 38% in 2012).

In 2014, KBC continued to manage cost effectively. Operating expense ratios went down. In 2Q2014, cost of sales increased only 4% yoy and was equal to 51% of the total revenue, given better growth of revenue (2Q2014's revenue went up by 16% yoy; cost of sales was equal to 54% of the total revenue in 2013).

Financial expenses slightly raised, up 7% yoy (interest expenses was major, up 5% yoy), equivalent to 74% of the total revenue. However, incomes from financing activities significantly jumped (VND133 bn, +12.4 times yoy) because KBC successfully withdrew from Nam Viet Real Estate JSC (2 million shares) and Song Trang 4 hydropower JSC (5.13 million shares). That brought KBC VND108 bn worth of profit.

However, it was noticeable that account receivable included VND178 bn in total from these two deals. Hence, KBC might not get the cash yet in facts.

Sales expenses and other expenses were remained low, equivalent to 3% and 0% of the total revenue. Sales expenses slightly increased by 1% yoy and other expenses went down by 89% yoy. It was noteworthy that management expenses also surged by 101% yoy.

In general, the total revenue slowly climbed up while expenses (including management and financial expenses) trended higher. However, the firm recorded a high profit from the two deals above, added VND25.9 bn to KBC's NPAT, much better than last year's loss of VND 77.3 bn during the same period last year.

FINANCIAL HEALTH

Inventory was high. Cash and high liquidity asset were low, resulting a low solvent ratio

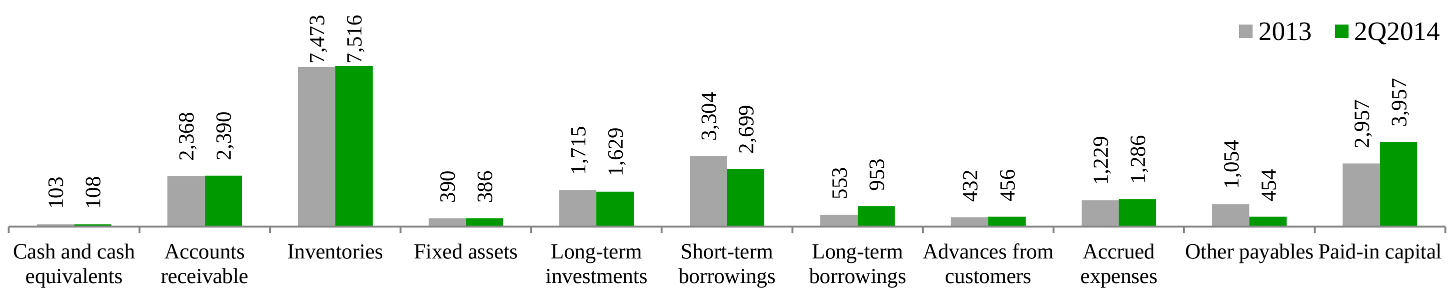
Asset Structure:

At the end of Q2.2014, KBC's asset structure did not change much throughout the period. The total asset unchanged. Inventories took the lead with 60%, followed by account receivable (19%) and long-term investment (13%).

Inventories were kept above VND7,500 bn (60% of the total asset, equal to that of the beginning of the year). Of which, Tan Phu Trung and Trang Cat project contributed VND2,647 bn and VND3,081 bn to the final figure respectively.

Inventories were built up while high liquidity asset was only VND107 bn (1% of the total asset), resulting a low solvent ratio. Quick and current ratios were 0.51 and 0.02 times accordingly.

Asset and Liability structure (unit: VND bn)



(Source: KBC 2Q2014 Financial statements and business reports)

Debt payment pressure was high, although decreased from the beginning of the year

Capital Structure:

Debt ratio was 52.3%. The total liability stepped down from VND6,521 bn at the year's start to VND5,037 bn at the end of Q2.2014. In addition, the liabilities were moving from short to long terms. In details, the former decreased by VND605 bn (-18% ytd) while the latter increased by VND399 bn (+72% ytd). Those indicated improvements in KBC's financial health and the firms could gradually pay off short-term loans.

Currently, matured bonds that KBC would have to pay in 2014, includes: PVCombank (VND2,000 bn) and NamViet Bank (VND300 bn). In Q2.2014, KBC negotiated with PVCombank to rollover VND600 bn. From now on, KBC would continue to negotiate with banks for other rollovers and push up business performances.

In Q2.2014, financial statements, cash and cash equivalents of KBC were only VND 101bn, accounting for 1% of total assets. We believe KBC would still be under pressure from paying interest, and we are quite concern about this.

BUSINESS PROSPECTS IN 2014

FDI slowed down in Vietnam but did not impact KBC yet

Investment in Industrial Zone:

KBC's business largely depended on FDI. FDI in Vietnam would follow the global economy and local investors. According to VCBS's statistics, after slowdowns in previous years, FDI started to pick up in 2012 (USD11 bn). In 2013, FDI swelled up to USD21.6 bn (+54.5 yoy), disbursed FDI also reached USD11.5 bn (+9.9% yoy). However, FDI slowed down in 2Q2014. According to MPI, registered FDI was only USD6.85 bn (-35.3% yoy), disbursed FDI was only USD5.75 bn (-0.9% yoy).

Production and manufacturing were the main focus of FDI. There were 41 countries invested in Vietnam after 2Q2014. Of which, Korea took the lead with USD1.55 bn in total. This would favor KBC given KBC's large customer base in high technologies (Canon, Foxcomm, Mitac, Panasonic, Wintek, UMEC…)

As far as we know, Wintek and LGE might expand and do more businesses with KBC. They were KBC's current clients. In 2013, LGE hired 40 ha at Trang Due (Hai Phong) industrial zone. LGE's project was valued at USD1.5 bn. From our estimation, leasing price might be at USD44-45/m2. However, the new contract mightrecord a higher price of USD60-70/m2, equivalent to VND500-600 bn in revenue, higher than the first contract value of VND387 bn.Wintek currently hired 10 ha at Quang Chau (Bac Giang) industrial zone. In 2014, Wintek might hire another 100 ha at the same location. Until now, Quang Chau industrial zone was on a 420 ha ground with 60 ha that was uncompensated. The area was filled up to 26%. Toward Wintek, leasing price might stay at USD45-50/m2. Therefore, if deal goes through, KBC might record VND900-1000 bn in revenue and VND150-250 bn in gross profit.

KBC migh put 20 ha Phuc Ninh project on sales

Investment in real estates:

KBC owns real estate in prime locations in Hanoi such as Khu Ngoai Giao Doan (2 ha), Diamond Rice Flowers (4 ha), Tan lap (23 ha). In 2014, because of capital difficulties and unfavorable market conditions, KBC's real estate projects made no progress.

As far as we know, KBC might put 20 ha Phuc Ninh project on sales. The project area was 145 ha, 40% of which was commercial. Of all the area, 76 ha were compensated and 20 ha of that would be on sales. The project was located opposite the urban area of An Huy, which was almost filled up. That urban area was valued at VND12 mil/m2. On that price scale, Phuc Ninh project migh bring KBC VND240 bn in revenue and VND20 bn in gross profit.

KBC had a high chance to achieve this year' goals

Outlook of KBC's plans

In 2014, KBC targets VND1,800 bn (+66% yoy) in total revenue and VND160 bn (+100% yoy) in NPAT. These targets were set on the basis of FDI's prospects in Vietnam, plant demand and KBC's possible withdraws from current investments. Following that, with the potentials from industrial zones (new contract with Wintek for 100 ha), 20 ha on sales of Phuc Ninh project and divestment plans from SGI-Lao, KBC might accomplish targets in revenue and NPAT.

INVESTMENT RECOMMENDATION

We recommend NEUTRAL for KBC

According to its income statements, KBC finished 20% of the planned revenue and 16% of NPAT's targets. The firm's financial background gradually improved. However, KBC was still in recovery process and ready to advance. The goals would largely depend on FDI's prospects in Vietnam, especially northern country. At the meantime, EPS trailing was VND146. At the market price of VND11,600 per share as of August 22nd, P/E trailing reached 79.5 times, P/B was 0.73 times. EPS forward was estimated at VND439 and P/E forward was at 26.4x times, relatively higher than the P/E industry average of 15.x. Therefore, we recommend NEUTRAL for KBC.

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