BAOVIET Securities

Food & Beverage

Update report

Dec, 2014

Kinh Do Corporation

Sticker: KDC Reuters: KDC.HM Bloomberg: KDC VN

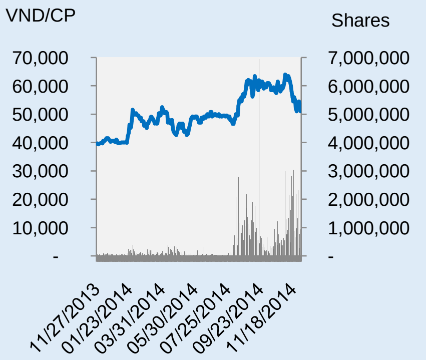
KDC - Investing into new segment

Recommendation	**Neutral**
Target price (VND)	**54,400**
Market price (01/12/2014)	51,000
Expected return	6.7%

SHARES INFORMATION

Trading exchange	HSX
52-week price range	39,300-64,000
Market cap	13,013 Bil VND
Outstanding shares	255,161,141 Shares
10-day average volume	1,334,355 Shares
% foreign owned	37.45%
Foreign room	49%
Dividend per share	2.000
Dividend yield	3.9%
Beta	0.46

PRICE MOVEMENTS



	YTD	1M	3M	6M
KDC	28.7%	-20.3%	-9.3%	5.5%
VN-Index	11.7%	-5.1%	-9.4%	-1.1%

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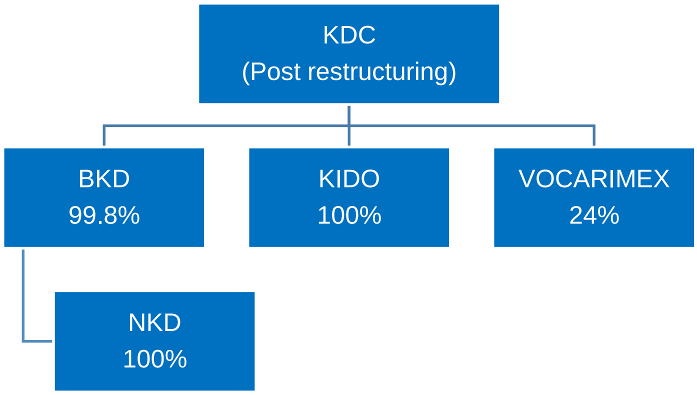
- **Completing the restructuring of its operating activities.**

  By the end of November 2014, KDC completed the restructuring of its operating segments. Accordingly, the company will merge all confectionery business to Kinh Do Binh Duong JSC (BKD). The book value post restructuring of BKD and NKD is about VND1,500 billion.



- **The progress of instant noodle products launch.**

  On 22/11/2014, KDC distributed instant noodle products bearing "Dai Gia Dinh" brand to 86,000 retail sale points at 53/64 provinces and cities. As expected, in the next 2 weeks, the company will carry out advertising programs. Given the market's acceptance in the past short-term period, KDC believes that it can quicky take up 10% market share of the instant noodle segment which has a total market volume of VND23,476 billion and a growth rate of 7%/annum in 2017 or sooner in 2016 if its consumtion rate is maintained at the current favorable rate. KDC will have products in 3 segments including low-end, mid-end and high-end. In its first product launch, KDC introduced 5 products in low-end segment. KDC's advantages when entering the instant noddle segment are its experience in food distribution, its investments into related segments such as cooking oil (current) and wheat flour (expected), enabling KDC to have a close-end production line.

- **Approving the proposal to increase its stake in Vocarimex.**

  Currently, Kinh Do, with a total investment of VND421 billion, is holding 24% stake in Vocarimex. In the coming time, Kinh Do intends to make an additional investment of VND700 billion to raise its ownership in Vocarimex to 51%. On 29/11/2014, at the first Annual general meeting of Vietnam Vegetable Oils Industry Corporation (Vocarimex), 3 staffs of Kinh Do Corporation has been elected to join Vocarimex's Board of Directors. Mr Tran Kim Thanh, the Chairman of Kinh Do, has been elected to hold the post of Vocarimex's BOD chairman. With its holding of dominant stake in Vocarimex, KDC will cooperate with Vocarimex to restructure and improve

Vocarimex's operation by focusing on the following segments:

- Developing distribution channel.
- Cooperating in developing some new product brands. Expected to launch new product in Q2/2015.
- Supporting Vocarimex in operational skills
- Merging with KDC's core business and performing all procedures and policies of this corporation.

The cooking oil segment currently has a market volume of VND20,743 billion and an annual growth rate of 7%. The company expects that this segment can make a contribution of VND5,000 – 6,000 billion into its revenue with a profit magin be improved from 3% to about 5% - 7%.

Approving the proposal to transfer Kinh Do Binh Duong JSC.

As assessed by the company, the confectionery segment with total market volume of VND15,557 billion and a modest growth rate of about 5% - 8% is no longer attractive or able to play as the driving force for its growth rate in the future. Therefore, based on its operational restructuring, KDC has decided to transfer all confectionery segment to Mondelez International or an appointed subsidiary of Mondelez called Cadbury Enterprises Pte. Ltd. Mondelez is an American multinational confectionery, food and beverage conglomerate. This conglomerate manages well-known confectionery brands around the globe, including Oreo and Cadbury, etc. KDC will initially transfer 80% stake in BKD together with the call option of 20% remaining stake at the initial transfer price.

The total transfer value of 100% stake in BKD is VND9,808 billion, among which VND7,846 billion is the value of the first transfer tranche. This transaction will likely be completed in Q2/2015. Foreign investors can execute the call option of 20% remaining stake at least after the first transfer has been completed for 12 months.

After transferring the confectionery segment, KDC will retain some following operating segments: Kido (ice cream and yoghurt, etc), Vocarimex, real estate and other investments. Its proceeds from transferring BKD will not be used for investing into real estate but be put into packaged food segment. Its total post-transfer cash amount of VND9,986 billion will be used as followed:

Capital using plan	Value (bil VND)
Putting more investment into Vocarimex	700
Building brand image and infrastructure for instant noodle segment	325
Building coffee brand	250
Developing Kido's cold distribution channel	300
Using for M&A, cooperation and trading	3,931
Purchasing treasury shares	4,530
Total	**9,986**

Source: KDC

❑ Approving the proposal to purchase treasury shares.

The meeting also approved the proposal to purchase a treasury share amount equal to 30% of the total share number to be issued (this proposal was raised by a group of shareholders holding over 10% stake in the company) at a price not exceeding VND60,000/share. Ho Chi Minh City Securities Corporation will play as an agency for the company in this transaction. Accordingly, Kinh Do will pay at most VND4,530 billion to purchase the above amount of treasury shares. The resources of VND4,681 billion for this purchase will come from capital surplus (VND3,617 billion), investment and development fund (VND25 billion), other funds in its owners' equity (VND16 billion) and retained earnings (VND1,022 billion). As revealed, KDC will find strategic partners to transfer these treasury shares to prevent their influence on KDC share price.

Investment recommendation

KDC's 2014 profit is forecast at VND556 billion. In 2015, because this transfer will only be completed in Q2/2015, KDC will still be able to record 100% of its profit from confectionery segment in 1H and 20% profit in 2H. Moreover, its income will also come from other segments including ice cream and dairy products, instant noodle, cooking oil and the bank interest from its deposit of the proceeds from selling BKD Binh Duong. The bank interest in the 2H will be enough to offset the disappearance of profit from confectionery segment. Its 2015 profit is estimated at VND600 billion, excluding the profit from selling its subsidiary. As estimated, after adding its core business value of VND33,600/share and the profit from selling the valuable subsidiary, KDC share is valued at VND54,400, not very different from its current market value. Therefore, we temporarily rate **Neutral** on KDC share.

	Value (VND/Share)
Core business value (EPS 2015 = 2.351 vnd/cp, PE = 14.7x)	33,619
Profit from selling BKD	20,806
Total	54,425
Market price (01/12/2014)	51,000

Source: Estimated by BVSC

OWNERSHIP INFORMATION

State owned	0%
Foreign owned	37.45%
Others	62.55%

MAJOR SHAREHOLDERS

PPK Co., Ltd	8.19%
Deutsche Bank AG London	6.64%
Kinh Do Investment Co., Ltd	6.61%
Tran Le Nguyen	6.58%

FINANCIAL RATIOS

Profit and loss statement

Unit (VND billion)	2010	2011	2012	2013
Revenues	1,934	4,247	4,286	4,561
Cost of goods sold	1,248	2,574	2,417	2,584
Gross profit	685	1,673	1,869	1,976
Financial income	664	127	133	113
Financial expenses	242	181	190	74
Net income	525	274	354	494

Balance sheet

Unit (VND billion)	2010	2011	2012	2013
Cash and cash equivalents	672	967	829	1,958
Accounts receivable – short-term	1,018	725	882	860
Inventories	434	398	317	304
Tangible fixed assets	1,279	1,454	1,452	1,371
Long-term investments	1,163	1,256	1,271	1,272
Total assets	**5,032**	**5,832**	**5,515**	**6,378**
Short-term loans	381	883	530	401
Long-term debt	94	114	53	169
Owners' equity	3,739	3,838	4,010	4,882
Total resources	**5,032**	**5,832**	**5,515**	**6,378**

Financial ratios

Items	2010	2011	2012	2013
Growth				
Revenue growth (%)	26%	120%	1%	6%
Net profit growth (%)	9%	-48%	29%	40%
Yield				
Gross profit margin (%)	35%	39%	44%	43%
Net profit margin (%)	27%	6%	8%	11%
ROA (%)	11%	5%	6%	8%
ROE (%)	17%	7%	9%	11%
Capital structure				
Total liabilities to total asset (%)	0.2	0.3	0.3	0.2
Total liabilities to Owners' equity (%)	0.3	0.5	0.4	0.3
Per shares				
EPS (VND/share)	4,392	2,289	2,213	2,946
Book value (VND/share)	31,286	32,109	25,076	29,122

Report’s notes

Target price is the price set by specialists based on analysis of company’s operating activities, development potentials and potential risks, The methods used for identifying expected value are the generally accepted ones such as: discounted cash flow methods (FCFE, FCFF, DDM); net asset value method NAV; equal comparison method based on ratios (P/E, P/B, EV/EBIT, EV/EBITDA,…), The application of these methods is different in each sector, each enterprise and each share, Moreover, market sentiment can have influence on the specification of share’s target price,

RECOMMENDER SYSTEM OF BVSC

The recommender system of BVSC, built based on the absolute increase/decrease of share price to reach the target price, has 5 level based on the difference ranked from the lowest to the highest, Investors should note that these investment recommendations can change every quarter-end after BVSC performs corporate revaluation.

Levels of recommendations

Recommendation	Define
OUTPERFORM	Market price is lower than target price 15%
NEUTRAL	Market price is lower than target price 0% - 15%
UNDERPERFORM	Target price is lower than market price

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