Kinh Do Corporation - KDC

Section: Confectionery

NEUTRAL

Target price	**56,400 VND**
Current price	**49,900 VND**

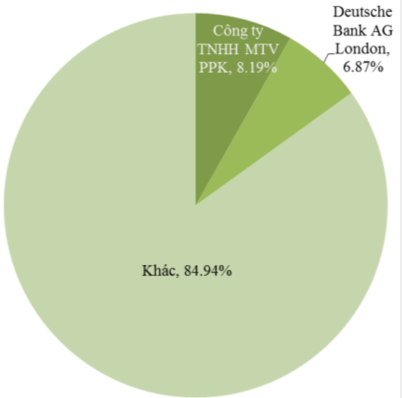
Le Minh Triet
(+84-8) 5413-5472
trietle@phs.vn

Co. Profile

Ticker	KDC
Charter Capital (VND bln)	1,676
Outstanding shares (mln)	212.6
Market Capital (VND bln)	12,227
52W range (VND)	48,300 – 64,500
Ave. trading volume 3M	41,353
Beta	0.6
Foreign Ownership	36.44%
First listing date	12/12/2005

Major shareholders

PPK one member limited	8.19%
Deutsche Bank AG London	6.87%
Others	84.94%



Price movement

	3M	6M	12M
Absolute	-2.5	+0.5	+7.6
Percentage (%)	-4.2	+0.9	+15.2

SELLING CONFECTIONERY SECTION, STRENGTHENING INVESTMENT ON F&B

9M14 business growth is stable: Thanks to positive contribution from Moon cake selling in Q3, KDC's net revenue increased to 3,669 billion dong (+7% YoY) in 9M14. Since material price tended to increase from the beginning of the year 9M14 gross margin dropped to 44.3% comparing to 45% at the same period. Meanwhile, financial saw a remarkable profit of 75.7 billion dong (over 1.9 times higher than same period), pushing EAT up by 10.8% YoY to 453 billion dong, reaching over 80% profit target.

Restructuring core business: At 2014 irregular shareholder meeting on the end of November, KDC stated that confectionery section with average growth of 5-5% a year is no longer attractive and hard to be the main growth motive of the company in the next few years. Therefore, BoM decided to sell all this section to Mondelez International, an America multi-nation group specialized in confectioner, food, and beverage.

At the beginning KDC will transfer 80% share of Kinh Do Binh Duong (in charge of all confectionery business of KDC) along with a choice for buying 20% share at the same price with the initial transferring price. The first transfer is expected to finish in Q2/2015 and Mondelez International might carry out the buying right for the remaining 20% in at least 12 months after the first trade.

After selling confectionery section, KDC still owns the brands Kido's (ice cream and yogurt), Vocarimex (food oil), real estate, and other investments. KDC also presented the next investment plan from the capital received from this trade as follow:

- **700 billion dong** will be used to raise the owning in Vocarimex from 24% to 51%. Strengthening the investment in Vocarimex plays an important role in producing instant noodle: guaranteeing input expense for oil. Besides, KDC-Vocarimex also plans to produce new food oil product in Q2/2015.
- **325 billion dong** will be used for brand recognition and infrastructure building for instant noodle product. This is the product of the cooperation between KDC and Saigon Vewong (known with the instant noodle brand of A-One with 5th biggest market share).
- **250 billion dong** will be used for brand recognition of café PhinDeli.
- **300 billion dong** will be used to develop the distribution channel of Kido
- **4.5 billion dong** will be used to purchase KDC treasury share at the price of no higher than 60,000 dong/share
- **3.9 billion dong** will be used for M&A, cooperation, and other business.

We can see that KDC is slowly changing to move further into food and beverage industry (F&B) with new section of food oil, instant noodle, and café. This is a big section with market scale of 15 times larger than confectionery and it is also full of challenges since there will be direct competition with famous companies like Cai Lan Vegetable oil in food oil section, Vina Acecook in instant noodle, and Trung Nguyen in café. However, with the advantage of a wide distribution network all over Vietnam and a financial foundation after selling confectionery section KDC is confident to stay and develop in F&B.

2014 and 2015 prospect: We estimate that 2014 net revenue will see a growth of 13% to 5,142 billion dong. Although material price tended to increase from the beginning of the year, COGS/net revenue ratio is still stable and is similar to last year of 55.5%. Selling and management expense over net revenue will drop by 1 percent point to only 29% so EBIT will increase to 797 billion dong (+36.6%). Finance section will bring a profit of 29.5 billion dong, mainly from bank savings' interest so EBT will increase by 34% to 827 billion dong 25% higher than target. In 2015, confectionery will continue contributing 100% profit in Q1 and Q2 which will drop to 20% from Q3 forward. The new section of instant noodle is presented at the end of 2014 so we have no foundation to evaluate its effect. However, KDC still has other income from ice cream, food oil, and savings' interest so it will not impact the whole business result of 2015.

NEUTRAL recommendation with target price of 56,400 dong: We estimate the price of FPT at 56,400 dong, basing on 2 methods: P/E (60% weight, expected P/E of 19.0x multiplied 2014 EPS forecast) and P/B (40% weight, expected P/B of 2.0x with figure of 2014 book value). The current price is changing strongly because of the market situation and 2015 prospect is not yet clear so we keep a cautious point of view and recommend NEUTRAL ranking on this code.

(bil dong)	2012	2013	KH 2014	2014E
Net Revenue	4,286	4,561	*5,150*	5,142
% gross margin	43.6%	43.3%		44.5%
% OP margin	13.2%	12.8%		15.5%
EBT	490	619	660	827
Net profit	354	494		663
% growth YoY	29.4%	39.5%		34.2%
EPS (TTM)	2,234	2,993		3,117
Book value	25,313	29,580		26,123
P/E	25.7	19.2		19.0
P/B	2.3	1.9		2.0

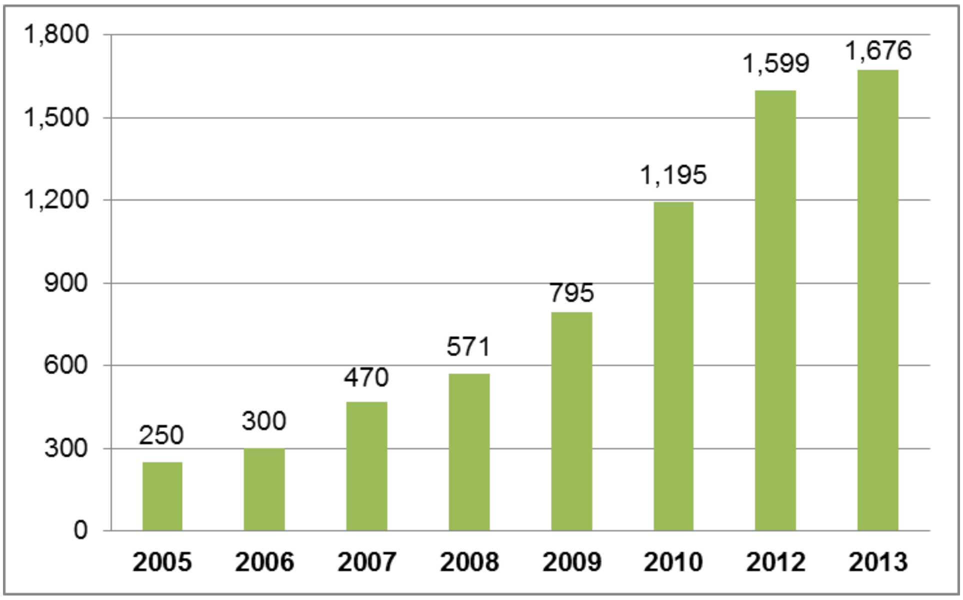
Company description

KDC is one of Vietnam leading confectionery companies with 30% market share. The company's strength is large scale production, owning modern equipments, and countrywide distribution network.

Company history

- Being established from 1993, after 21 years of developing KDC has become a system of companies in food industry, including confectionery, drinks, ice cream, and dairy products.
- On December 12th 2015, the company was listed on HCMC exchange under the code of KDC.

Capital raising process (bil dong)



Source: KDC

Financial index (bil dong)

Business result	2012	2013	2014E
Net sales	4,286	4,561	5,142
Cost of goods sold	2,417	2,584	2,854
Gross profit	1,869	1,976	2,288
SG&A expenses	1,302	1,393	1,491
Financial income	133	113	116
Financial expense	190	74	87
Interest expense	94	43	16
Operating profit	567	583	797
Profit before tax	490	619	827
Profit after tax	354	494	663
Balance sheet	**2012**	**2013**	**2014E**
Total asstes	**5,515**	**6,378**	**7,357**
Current assets	**2,289**	**3,209**	**3,982**
Cash and equivalent cash	829	1,958	2,404
Receivables	882	860	971
Inventories	317	304	382
Long-term assets	**3,225**	**3,169**	**3,375**
Long term investment	1,271	1,272	1,473
Fixed assets	1,452	1,371	1,359
Resources	**5,515**	**6,378**	**7,357**
Liabilities	**1,469**	**1,495**	**1,801**
Short-term loans	1,353	1,266	1,569
Payables	275	284	325
Long-term loans	116	229	232
Equities	**4,010**	**4,882**	**5,555**
Chartered capital	1,599	1,676	1,676
Capital surplus	2,190	2,344	2,344
Development fund	25	25	25
Retained profit	809	947	1,620
Cash flow	**2012**	**2013**	**2014E**
Net operating cash flow	**650**	**675**	**840**
Net investing cash flow	**(253)**	**90**	**(577)**
Net financing cash flow	**(538)**	**364**	**184**
Net cash flows	(141)	1,129	446
Cash at the beginning	967	829	1,958
Cash at the end	829	1,958	2,404

Financial ratio	2012	2013	2014E
Growth rate			
Revenue growth rate	1%	8%	10%
Gross profit growth rate	12%	6%	16%
Net profit growth rate	29%	40%	34%
Total asset growth rate	-5%	16%	15%
Equity growth rate	5%	22%	14%
Profitability ratios			
Gross profit margin	44%	43%	45%
EBT margin	11%	14%	16%
Net profit margin	8%	11%	13%
ROA	6%	8%	9%
ROE	9%	10%	12%
Dupont Analysis			
Net profit margin(1)	8%	11%	13%
Asset turnover (2)	78%	72%	70%
Equity multiplier (3)	138%	131%	132%
ROE = (1)x(2)x(3)	9%	10%	12%
Management ratios			
Receivable outstanding days	68.02	68.01	68.92
Inventory outstanding days	53.97	43.80	48.88
Payable outstanding days	42.88	39.63	40.50
Asset turnover	0.78	0.72	0.70
Long-term asset turnover	1.33	1.44	1.52
Fix asset turnover	2.95	3.33	3.78
Liquidity ratios			
Current ratio	1.69	2.54	2.54
Quick ratio	1.46	2.30	2.29
Cash ratio	0.61	1.55	1.53
Capital Structure			
Total debt/Total Equity	0.37	0.31	0.32
Total debt/Total Asset	0.27	0.23	0.24
Total asset/Total Equity	1.38	1.31	1.32
Index per share			
PE	25.74	19.21	19.0
PBV	2.27	1.94	2.0
PS	2.13	2.08	2.38
EPS	2,234	2,993	3,117
Cash earning per share	3,592	4,387	4,326
Book value per share	25,313	29,580	26,123

Source: PHS's estimation

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%
Neutral (N) = Expected to in line with the local market by +10%~ -10%
Underweight (UW) = Expected to underperform the local market by >10%.
Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.
Performance is defined as 12-month total return (including dividends).

Disclaimer

Công ty chứng khoán Phú Hưng (PHS)
Tầng 5, tòa nhà Lawrence S. Ting
801 Nguyễn Văn Linh, Quận 7
Thành phố Hồ Chí Minh, Việt Nam
Điện thoại: (84-8) 5 413 5479 | **Fax**: (84-8) 5 413 5472
Website: www.phs.vn | **E-mail**: info@phs.vn