BAOVIET Securities

Consumer goods industry

Update report

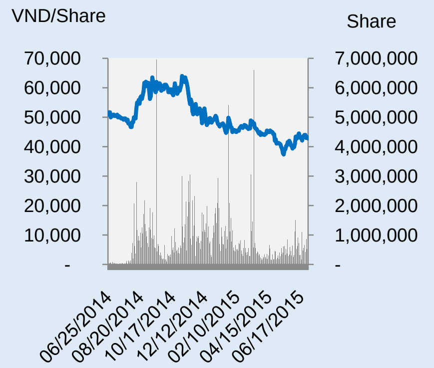
June, 2015

Recommendation	**OUTPERFORM**
Target price (VND)	**51,400**
Market price (30/6/2015)	42,800
Expected profit	20.1%

SHARES INFORMATION

Trading exchange	HSX
52-week price range	37,400-64,000
Market cap	10,065 Bil VND
Outstanding shares	235,161,141
10-day average volume	533,010
% foreign owned	35.29%
Foreign room	49%
Dividend per share	-
Dividend yield	-
Beta	0.8

PRICE MOVEMENTS



	YTD	1M	3M	6M
KDC	-15.8%	8.6%	-2.7%	-12.3%
VN-Index	3.6%	4.4%	10.0%	11.2%

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Kinh Do Corporation

Ticker: KDC Reuters: KDC.HM Bloomberg: KDC VN

Entering new product segments to offset plunge in income from confectionery.

Investment highlights.

- **Its revenue is projected to tumble while its profit is expected to surge.** In 2015, KDC has projected its revenue at VND3,000 billion, down 40% yoy and its pre-tax profit at VND6,500 billion, increasing over 9-fold yoy.
- **KDC is expected have a cash amount of VND9,658 billion after transferring 100% of its ownership in Kinh Do Binh Duong JSC (KDBD) to Mondelez.** In which**:** (1) VND4,620 billion will be used for its 200% extraordinary dividend distribution, expected to be paid when receiving cash from transferring 80% stake in KDBD; (2) VND3,223 billion will be served as capital for the company to find new investment opportunities; (3) the rest VND1,723 billion will be distributed for its existing projects in different segments including dairy products, instant noodle – seasonings, cooking oil, etc.
- **The 200% extraordinary dividend will be paid when receiving cash from stake transferring.** As revealed, the company has completed all legal procedure to transfer Kinh Do Binh Duong JSC and is waiting for the government's approval. With the surplus cash amount from this transfer, KDC will continue investing into 2 new segments called instant noodle – seasonings and cooking oil, expanding the current portfolio of dairy product segment and finding other investment opportunities.
- **Its estimated revenue does not differ much from its own target while its estimated profit is about 9% higher than its own plan.** As per estimated, its 2015 revenue will be VND3,108 billion and its net profit will be VND5,547 billion, VND5,184 billion of which is the financial income from transferring 80% stake in KDBD.

Recommendation

Given its management experience, existing distribution network, high financial strength, KDC has advantages in entering new product segments. However, the company will need at least 3 years more to gain the revenue and profit previously reached by its confectionary segment. Among new segments, we think KDC will get early success in cooking oil segment thanks to operational improvement, reaping Vocarimex's advantages in warehouse and production as well as low price materials offered by its impending joint-venture partners, FGC and ITL. In short-term, within 2 years 2015 and 2016, the profit from selling subsidiaries will continue making great contribution into KDC's profit.

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The target price at VND51,400/share is only calculated based on its operating profit in 2015 and profit from selling subsidiaries. Other investments into shares, bonds and associates (the most outstanding one is Lavenue Investment JSC) as well as its substantial cash amount have not been taken into account. At present, this target price is 20% higher than its market price. Therefore, we rate **OUTPERFORM** on KDC's share.

Some financial ratios of KDC

Financial ratio		2012A	2013A	2014A	2015F
Revenue	Bil VND	4,286	4,563	4,986	3,108
NPAT	Bil VND	354	502	546	5,547
NPAT (excluding non-recurring income)	Bil VND	354	502	546	363
EPS	VND	2,213	2,996	2,127	1,542
BV	VND	25,076	29,122	24,127	25,503
P/E	x	19.56	14.45	20.36	28.07
P/B	x	1.73	1.49	1.79	1.70

OWNERSHIP INFORMATION

State owned	0%
Foreign owned	29.29%
Others	70.71%

MAJOR SHAREHOLDERS

KinhDo	10.11 %
PPK One Member Co., Ltd	9.82 %
Kinh Do Investment Co., Ltd	7.93 %
Tran Le Nguyen	7.89 %
Deutsche Bank AG, Hong Kong Branch	7.02 %
Deutsche Bank AG, London Branch	5.52 %
Dempsey Hill Asia Master Fund	5.15 %

FINANCIAL RATIOS

Profit and loss statement

Unit (VND billion)	2011	2012	2013	2014
Revenues	4,247	4,286	4,561	4,953
Cost of goods sold	2,574	2,417	2,584	2,807
Gross profit	1,673	1,869	1,976	2,146
Financial income	127	133	113	144
Financial expenses	181	190	74	26
Net income	274	354	494	536

Balance sheet

Unit (VND billion)	2011	2012	2013	2014
Cash and cash equivalents	967	829	1,958	2,467
Accounts receivable – short-term	725	882	860	784
Inventories	398	317	304	334
Tangible fixed assets	1,454	1,452	1,371	1,613
Long-term investments	1,256	1,271	1,272	1,480
Total assets	**5,832**	**5,515**	**6,378**	**7,876**
Short-term loans	883	530	401	553
Long-term debt	114	53	169	-
Owners' equity	3,838	4,010	4,882	6,187
Total resources	**5,832**	**5,515**	**6,378**	**7,876**

Financial ratios

Items	2011	2012	2013	2014
Growth				
Revenue growth (%)	119.6%	0.9%	6.4%	8.6%
Net profit growth (%)	-47.9%	29.4%	39.5%	8.6%
Yield				
Gross profit margin (%)	39.4%	43.6%	43.3%	43.3%
Net profit margin (%)	6.4%	8.3%	10.8%	10.8%
ROA (%)	5.0%	6.2%	8.3%	7.5%
ROE (%)	7.2%	9.0%	11.1%	9.7%
Capital structure				
Total liabilities to total asset (%)	0.34	0.27	0.23	0.20
Total liabilities to owners' equity (%)	0.51	0.37	0.31	0.26
Per shares				
EPS (VND/share)	2,289	2,213	2,946	2,090
Book value (VND/share)	32,109	25,076	29,122	24,105

Main contents of KDC's AGM

Its revenue is projected to tumble while its profit is expected to surge. The year 2015 is a watershed year for KDC with significant changes in operating strategy including divesting from confectionary segment and entering new product segments (instant noodle, cooking oil, etc). These changes will likely result in a tumble in its revenue but bring in an income surge yoy thanks to income from transfer activity. In 2015, KDC has projected its revenue at VND3,000 billion, down 40% yoy and its pre-tax profit at VND6,500 billion, increasing over 9-fold yoy.

The 200% extraordinary dividend will be paid when receiving cash from stake transferring. As revealed, the company has completed all legal procedure to transfer Kinh Do Binh Duong JSC and is waiting for the government's approval. With the surplus cash amount from this transfer, KDC will continue investing into 2 new segments called instant noodle – seasonings and cooking oil, expanding the current portfolio of dairy product segment and finding other investment opportunities.

KDC is expected have a cash amount of VND9,658 billion after transferring 100% of its ownership in Kinh Do Binh Duong JSC (KDBD) to Mondelez. In which**:** (1) VND4,620 billion will be used for its 200% extraordinary dividend distribution, expected to be paid when receiving cash from transferring 80% stake in KDBD (2) VND3,223 billion will be served as capital for the company to find new investment opportunities. (3) the rest VND1,723 billion will be distributed for its existing projects in different segments including dairy products, instant noodle – seasonings, cooking oil, etc

Plan for investing into each product line.

- Dairy products – one old product line KDC still maintains. The current portfolio of its dairy product segment consists of ice-cream, yogurt, and liquid milk, in which ice-cream is the leading line. In its development strategy, the company will expand ice-cream portfolio, as well as invest VND214 billion for developing cold distribution network so as to continue exploiting its strength in ice-cream product line.
- Instant noodle – seasonings. Until Q2/2015, KDC has owned instant noodle products in both low and mid-end segment. In 2H/2015, it will additionally launch seasoning powder product line. The total investment for developing this product line is VND401 billion, VND101 billion of which invested into distribution network and VND300 billion into factory construction. KDC has just signed a joint-venture contract with Saigon Vewong to build a factory in Vietnam Singapore Industrial Park (VSIP) – Bac Ninh with 49% capital contributed by KDC. This 2.5 hectare project needs an initial investment of USD30 million (equivalent to VND600 billion). The initial capacity of this factory will likely be 6 million barrels of product/annum and be increased to 12 million barrels/annum in 2017.

- Cooking oil: After entering the cooking oil segment by purchasing stake in Vocarimex– one leading company in vegetable oil segment, KDC continued announcing a public tender of shares in Vocarimex to increase its ownership to 51% with a total investment expected at VND700 billion. Since June 2015, KDC has launched a cooking oil product produced at Vocarimex's factory named "Dai Gia Dinh – An Hao".

  Moreover, the company will invest VND210 billion more into developing cooking oil segment. In its strategy for developing cooking oil segment, KDC will not only focus on distribution but also participate into materials trading to have outstanding operating efficiency out of other cooking oil producers. The company has also signed joint-venture contract with Felda Global Ventures Holdings (FGV), a Malaysian-based company and Indo-Trans Logistics Corporation (ITL) to focus on producing and trading bottled palm oil in Vietnam market. 45% ownership of this joint-venture will be hold by KDC and the remaining 55% hold by the other 2 members. This joint-venture, once established, will firstly supply materials to companies in cooking oil segment, then distribute products to Horeca channel and finally to consumers.

KDC has targeted to regain to the revenue and profit levels reached before transferring confectionary segment in the next 2 – 3 years. By entering new product lines, the company's BOD think it can regain the VND5,000 billion revenue and VND600 billion net profit in the next 3 years.

2015 dividend is projected at 14%. The company plans to make a 14% cash dividend distribution in 2015. In 2014, it decided a 20% cash dividend distribution with 10% already been paid and the remaining 10% to be paid in 2015.

Continuing repurchasing share to increase its ratio of treasury shares to total outstanding share to at most 30%. Until now, the company has repurchased 21.4 million treasury shares, averagely at VND53,669/share. KDC will likely purchase 55.5 million share more when it completes the 200% extraordinary dividend payout. The expected ceiling price for this repurchase is VND50,000/share, equivalent to about VND30,000/share after the 200% dividend right is finalized. Accordingly, KDC is expected to extract at most VND1,665 billion from its share surplus to pay for this repurchase.

2015 - 2016 forecast

Its estimated revenue does not differ much from its own target while its estimated profit is about 9% higher than its own plan. As per estimated, its 2015 revenue will be VND3,108 billion and its net profit will be VND5,547 billion, VND5,184 billion of which is the financial income from transferring 80% stake in KDBD. Its operating revenue and profit, as per forecast, will come from the following sources:

(1) Earnings from confectionary in 1H/2015. In the second half, about 20% of its profit will come from confectionery trading.

(2) Revenue from ice-cream and yoghurt. This year, ice-cream is expected to generate a revenue of about VND919 billion and contribute mainly into its operating profit for whole year 2015.

(3) Revenue from instant noodle and cooking oil. Although the company is rather reserved in revealing the revenues from these product lines, we think KDC can account for about 2% in the total instant noodle market share in 2015. Cooking oil and seasonings will start revenue contribution in 2H/2015. These new product lines are expected to make no profit contribution because their selling expenses remain rather high.

Since 2016, we think revenue from instant noodle and cooking oil will make greater contribution into KDC's revenue. The contributed revenue of 3 segments dairy product, instant noodle and cooking oil can reach VND2,050 billion in 2016. Moreover, after KDC increases its ownership in Vocarimex to 51%, Vocarimex's revenue can be consolidated into its own revenue to push its revenue up to VND6,700 billion. Its net profit is projected approximately at VND1,726 billion, VND1,296 billion of which is from transferring the remaining 20% stake in KDBD.

Investment recommendation

	Value (VND/Share)
Core operating value (EPS 2015 = 1.542 vnd/share, PE = 15.49x)	23.892
Transferring KDBD	27.560
Target price	51.452
Market price (30/6/2015)	42.800

Given its management experience, existing distribution network, high financial strength, KDC has advantages in entering new product segments. However, the company will need at least 3 years more to gain the revenue and profit previously reached by its confectionary segment. Among new segments, we think KDC will get early success in cooking oil segment thanks to operational improvement, reaping Vocarimex's advantages in warehouse and production as well as low price materials offered by its impending joint-venture partners, FGC and ITL. In short-term, within 2 years 2015 and 2016, the profit from selling subsidiaries will continue making great contribution into KDC's profit.

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REPORT COMMENTARY

Target price is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE. FCFF. DDM); NAV-based valuation; comparative indicators (P/E. P/B. EV/EBIT. EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

RECOMMENDATION SYSTEM

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Recommendation levels	
Recommendation	**Explanation**
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price

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