Binh Duong Mineral and Construction JSC (KSB – HSX)

Rock-solid foothold in the construction stone

KSB specializes in the mining and processing of building stone. The firm has three quarries, i.e. Tan Dong Hiep, Phuoc Vinh and Tan My. KSB has submitted to extend the exploitation period at Tan Dong Hiep for two more years while applying for a new license for Tam Lap quarry and expanding the area and depth of Tan My and Phuoc Vinh mines. The ability to maintain and extend in output is a big plus for KSB as compared to its competitors.

Thanks to favorable market conditions, net revenue and NPAT for the first 9 months of FY2015 increased 24.8% and 34.5% from a year earlier, respectively. We estimate that 2015's revenue and NPAT of KSB could reach VND745 billion (+19% y-o-y) and VND132 billion (+37% y-o-y). The fast-growing demand for building materials, especially construction stone will underpin KSB's prospect in the upcoming years.

*We estimate the reasonable price for KSB is VND **38,400/share**, 25% higher than the closing price on 28/10/2015. Therefore, we recommend **BUY** the stock in the **INTERMEDIATE TERM**. One highlight for KSB is its high rate and stable dividends. We suppose if KSB employs some financial leverage, the zoom to enhance profitability is quite remarkable. Concentrated ownership and low liquidity could be an issue to consider before investing. However, the possibility that SCIC will divest from KSB could improve the liquidity and allow the firm's management to be more flexible and self-determination in business strategy.*

Investment Consideration

- Positive demand growth for building stone in the Southeastern region
- The ability to renew and obtain mining licenses gives KSB an edge compared to peers
- The ownership is concentrated but going to change
- Dat Cuoc IP could be a long-term advantage

Risks:

- Revenue KSB highly depends on exploitation and processing of construction stone
- Dat Cuoc industrial park expansion requires huge investment and a long payback period

Key financials

Y/E Dec (VND bn)	FY2013	FY2014	9M2015	FY2015F	FY2016F
Net Revenues	538.5	624.0	548.0	744.9	842.5
% change	-5.5	15.9	24.8	19.4	13.1
PAT	83.3	96.8	96.5	132.2	135.7
% change	-7.9	16.2	34.5	36.7	2.6
Net margin (%)	15.5	15.5	17.6	17.8	16.1
ROA (%)	12.1	13.2	15.5	16.9	16.4
ROE (%)	18.4	20.5	23.7	26.5	24.9
EPS (VND)	4,556	5,335	6,002	5,651	5,799
Adjusted EPS (VND)	3,517	4,111		5,651	5,799
Book value (VND)	23,792	25,151	22,847	21,922	24,692
Cash dividend (VND)	3,300	1,500		3,000	3,000
P/E (x) (*)	4.7	5.9	5.1	5.5	5.3
P/BV (x) (*)	0.9	1.3	1.3	1.4	1.3

Sources: KSB, RongViet Research, (*) Based on share price on October 26, 2015

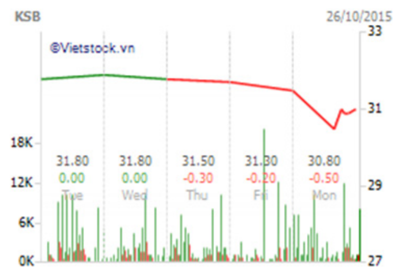
BUY

Market price (VND)	30,800
Target Price (VND)	38,400

Investment Horizon Intermediate Term

Stock Info

Sector	Building material
Market Cap (VND bn)	721
Shares O/S	23,400,000
Beta	0,62
Free float (%)	43,2
52 weeks High	31,800
52 weeks Low	20,700
Avg. Daily Volume (in 20 sessions)	103,080



Performance (%)

	3M	1Y	3Y
KSB	14.1	41.9	208.0
Building material	36.5	111.7	380.0
VN30 Index	-7.0	-2.7	32.5
VN Index	-5.2	1.2	52.8

Major Shareholders (%)

State Capital Investment Corporation	50,05
PXP Vietnam Emerging Equity Fund	6,77
Foreigner Investor Room	30.00

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INVESTMENT THESIS

The construction sector and real estate market recovery underpin positive demand growth for building stone in the Southeastern region

The rebound of the real estate market and construction activities has partly contributed to building material producers improved sales and earnings growth. In the first 9 months of FY2015, up to 25/40 building material firms reported positive revenue growth and 52.5% of the companies reported better NPAT over the same period last year. Construction stone manufacturers also followed the same trend (Table 1).

Table 1: 3Q2015 earning results of listed construction stone companies

	KSB	NNC	DHA	C32
Revenue (VND billion)	184.62	133.03	48.28	132.10
Gross profit (VND billion)	64.51	50.34	14.16	29.88
NPAT (VND billion)	31.83	38.01	9.05	20.77
Growth (%)				
Revenue	11.95	36.25	17.71	31.26
Gross margin	1.40	43.75	83.56	12.04
NPAT	17.20	42.15	117.21	14.13
Gross margin (%)	34.94	37.84	29.32	22.62
Net margin (%)	17.24	28.57	18.75	15.72

Sources: Financial statements, Stoxplus

According to Decision No.1469/QD-TTg dated August 22, 2014, approving the master plan on development of Vietnam's construction material industry through 2020, with a vision toward 2030, the Southeastern provinces, KSB's primary market, is the second largest market (after The Red River Delta) for construction stone. The market volume in 2015 is estimated at 31 million m^3 and could rise to 45 million m^3 in 2020. In particular, Ho Chi Minh City has the highest speed of urbanization and thus be the main consumer of building materials in the Southeast region. However, the city has only 2 stone deposits in Long Binh (District 9) and Can Gio yet both are located in mining restricted areas. As the result, demand for building stone in Ho Chi Minh City is provided mostly by the quarries in the neighboring provinces such as Binh Duong, Dong Nai, Binh Phuoc, Tay Ninh…

According to the proposal of the Ministry of Transportation, Vietnam targets an additional 2,500 km of highway by 2020, about 700 kilometers of which are supposed to complete in 2015. Many transport projects have been recently started in Ho Chi Minh City and neighboring provinces while others are speeding up the progress, i.e. Ben Luc - Long Thanh Expressway, No.1 Metro line (Ben Thanh - Suoi Tien), Highway 51 expansion, Highway 56, Thu Thiem Bridges (2, 3, 4)…

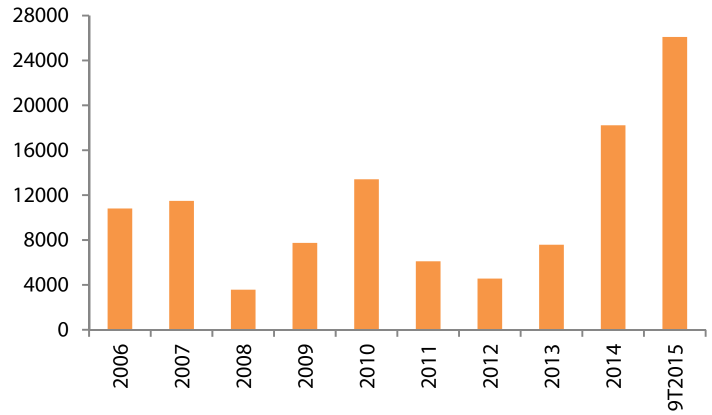
The strengthening of the real estate sector also plays an important role for the jump in consumption of construction materials. CBRE's quarterly report showed that there were 10,114 new apartments in HCMC from 26 projects, triple time higher than the same period last year. The number of successful transaction was about 7,862 units, up 88% compared to 3Q2014. As a result, after only the first 9 months, total sold units was 43% higher than the whole FY2014A. According to Savills, the occupancy rate of HCMCM office stood at 94% in 3Q2015, a 4-percentage-point increase over the first quarter and a 5-percentage-point increase over the year-over-year and the highest rate since 2008. By 2017, the office market is estimated to have seen an additional 504,000 m^2 of office floor, up 36% as compared to 2014. That stone demand is picking up while the reserve is on a decline could support a slight increase in KSB's selling prices and gross profit margin in upcoming periods.

Table 2: Construction stone demand (Unit: m^3 million)

Area	FY2015	FY 2020
Northern midland and mountainous	23	34
Red river delta	45	65
Vietnam's North and Central Coast	19	27
Central Highlands	5	7
Southeast Region	**31**	**45**
The Mekong Delta	2	3
Total	**125**	**181**

Source: Decision No. 1469/QD-TTg development of Vietnam's construction material industry through 2020

Exhibit 1: Apartments sold in Ho Chi Minh city



Source: VBRE

The ability to renew and obtain mining licenses gives KSB an edge compared to peers

KSB's three stone quarries are scattered across the province Binh Duong, i.e. Tan Dong Hiep (Di An), Phuoc Vinh (Phu Giao) and Tan My (Bac Tan Uyen). Of these, Tan Dong Hiep quarry, exploited since 1994, is considered to have the best quality stone in Binh Duong province and is now the Company's main supply. The close proximity of the quarry to primary markets (~10 km away from TP. HCM) allows convenient and cheap transportation. However, the current license only allows KSB to exploit this quarry until the end of 2015. The Company has submitted a request to extend the license for another 2 year, which is awaiting the approval of the Department of Natural Resources and Environment of Binh Duong. We expect KSB to obtain extension at the end of this year.

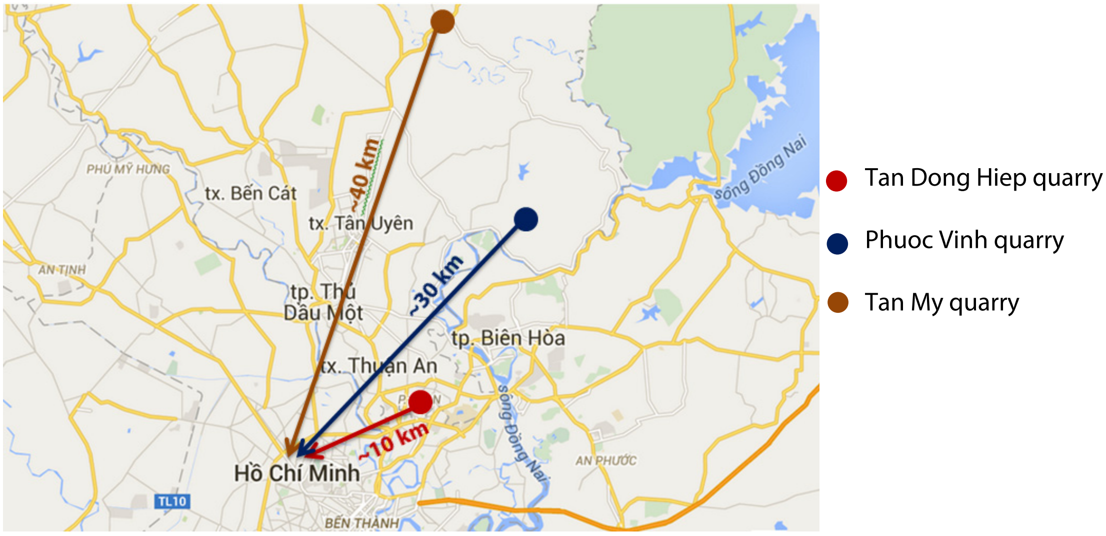
Table 3: KSB's stone quarries

Name	Location	Status	Current area	New area	Intial depth (m)	New depth (m)	New reserve	Remaining time
Tan Dong Hiep	Phu Giao, Binh Duong	Deepening	22.8ha	22.8ha	Cos-100	Cos-120	4,480,000	
Phuoc Vinh	Phu Giao, Binh Duong	Broadening, deepening	23	30	Cos+11	Cos-20	18,000,000	11 years
Tan My	Bac Tan Uyen, Binh Duong	Broadening, deepening	28	40	Cos-30	Cos-70	28,000,000	14 years
Tam Lap	Phu Giao, Binh Duong	New	0	16		Cos-20	13,000,000	13 years

Source: KSB

The quality stone in Tan My and Phuoc Vinh quarries is not as high as that of Tan Dong Hiep given the fact that they are being exploited at a relatively lower depth (cos-50 or above). That combined with less favorable locations (30km and 40 km away from HCMC respectively) results in combined consumption volume only a half that of Tan Dong Hiep. However, as the mining process reaches deeper, the stone quality will improve and the mines of Tan My and Phuoc Vinh could offset a part of sales volume lost after Tan Dong Hiep goes out of operation. KSB is also taking necessary steps to expand the mining area and greater depth to exploit the two quarries for another 10 years or more.

Exhibit 2: Locations of KSB's stone quarries



Source: Google Map

Aside the current supply, the Company intends to apply for the license to mine at Tam Lap quarry (Phu Giao, Binh Duong). The 16-hectar quarry is adjacent to Phuoc Vinh and may have up to 13 years of exploitation period. The quarry land area has been compensated for about VND8-9 billion. However, before the extraction can begin, it is required that the new quarry is included in Binh Duong's planning, which we think may not happen until late 2015.

Meanwhile, even with extension, the remaining exploitation periods for KSB's competitors such as C32 (Tan Dong Hiep) and NNC (Nui Nho), should be no more than 2 years. Both C32 and NNC have been actively seeking for new quarries but finding good quarries in Binh Duong and its surrounding areas is time-consuming and increasingly difficult given the province's renewed policy against mineral exploitation, which gives KSB a huge advantage in the years to come.

The ownership is concentrated but going to change

Established in 1993, KSB was once a state-owned enterprise under the umbrella of the People's Committee of Binh Duong. Since the Company's privatization in 2006, SCIC has taken hold of the majority shares (50.05%) of KSB. Like other companies with SCIC footprints, e.g. BMP, NTP, BMI, VNC, etc., KSB offers high and stable cash dividends (25-30% of share capital) alongside stable revenue and earnings growth and a conservative business strategy. According to Decree No. 151/2013/ND-CP, SCIC will be required to divest from several listed companies, including KSB. We expect that the withdrawal of the state-owned investment companies will give KSB more flexibility in its investment plans.

Nonetheless, tepid liquidity has presented an obstacle to the retreat of SCIC. We suppose that the recent stock dividend plans of companies such as BMI, GMD and even KSB is probably an act orchestrated by SCIC to facilitate the liquidation of these companies' shares. The splits are expected to not only improve the stock liquidity but also the price efficiency given that KSB's equities are sought by many large financial institutions for their attractive dividends.

Table 4: KSB's ownership structure (October 26, 2015)

Shareholder's name	No. of share	Proportion (%)
State Capital Investment Corporation	11,711,052	50.05
PXP Vietnam Emerging Equity Fund	1,584,420	6.77
Vietnam Securities Investment Fund (VFMVF1)	1,161,828	4.97
Bao Viet Securities Investment Fund (BVF1)	808,291	3.45
The First Securities Joint Stock Company	779,693	3.33
Viet Captital Securities Investment Fund (VCF)	768,336	3.28
Truong Huu Quyen	427,512	1.83
Vietnam Emerging Equity Fund Limited	299,638	1.28

Source: cafef.vn

Dat Cuoc industrial park could be a long-term advantage when the Binh Duong becomes better wired with transport infrastructures

A small part of KSB's annual revenue comes from the leasing of land in Dat Cuoc industrial park (Bac Tan Uyen, Binh Duong). Operating since October 2007, Dat Cuoc IP has a total land area of 209.7 ha comprising 102.1ha in Section A and 107.6 ha in Section B. The Company is pushing the compensation to extend land area of Phase 1 by 136.48 ha for an estimated cost of about VND221 billion. Given the Company's usual conservatism in its investment plans, we suppose that the expansion of Dat Cuoc IP will be carried out in multiple stages from now until 2018 for the least. We estimate that it will cost KSB around VND20 billion to acquire about 10ha of land area in 2015.

Table 5: Dat Cuoc industrial park area (Unit: ha)

Items	Zone A	Zone B	Total
Intial area	102,1	108,9	211
Broadening area	91,29	45,19	136,48
Total	**193,39**	**154,09**	**347,48**

Source: KSB

Table 6: Some enterprises operating in Dat Cuoc Industrial Park

No.	Name	Field
1	Song Be Petroleum Company (Branch)	Fuel
2	Phu Nhuan Service Joint Stock Company (Branch)	Warehouse
3	Viettel telecom (Branch)	Telecom
4	Binh Duong Mineral and Construction JSC	Infrastructure
5	Thien Phu Weldmesh JSC	Produce iron, steel, metal
6	Nhu Kiet Investment JSC	Garbage treatment
7	Minh Trung Khanh Plastic Corporation (MTK)	Produce recycle plastic
8	Tien Thi Commercial Trade Corporation Ltd.	Garbage treatment
9	Factory of Southern Engineering Corporation	Produce precast concrete
10	Binh Duong Mineral and Construction JSC – Precast concrete factory	Produce precast concrete
11	Binh Duong Mineral and Construction JSC – Unfired brick factory	Produce unfired bricks
12	Tue Minh Steel JSC – Nhà máy luyện cán thép	Produce steel draft, steel products

13	Phu Nhuan Service JSC – Binh Duong Branch	Preliminary treatment and storing agriculture products

Source: Binh Duong Industrial Zones Authority

The occupancy rate at the Dat Cuoc IP is now relatively low at about 48.4% as compared with average 63% of all industrial parks in Binh Duong. The main reason might due to the distance from the IP to key transport hubs such as Cat Lai port, Tan Son Nhat International Airport (over 50 km to HCMC) without many high-speed routes and straight-line traffic. In the long term, however, we expect FDI flows and investments in transport infrastructures in Binh Duong to have a positive impact on the business prospect of KSB's real estate segments.

Table 7: The operation of Dat Cuoc Industrial Park (31/12/2014)

Items	Zone A	Zone B	Total
Total area	102.1	107.6	209.7
Infrastructure area	40.08	39.52	79.6
Usable area	62.02	68.08	130.1
Area sold	42.79	20.14	62.93
Occupancy rate	**69.0%**	**29.6%**	**48.4%**
Total investors	29	3	32

Sourse: KSB

RISK

In the period 2015-2017, we appreciate KSB's prospect in general but still have some concerns below:

(1) Revenue KSB highly depends on exploitation and processing of construction stone

Nearly 90% revenues are driven from stone mining and processing of Tan Dong Hiep, Phuoc Vinh and Tan My quarries. Therefore, time and expense for the renewal could cause obstacles for KSB. Besides, excavation work having impacts on the environment and population (transport damages road, setting off mines ruins buildings…) could discontinue the mining activities. In other building material segments (brick and precast concrete), its market shares are still small so the competency is quite low.

(2) Dat Cuoc industrial park expansion requires huge investment and a long payback period

Investment in Dat Cuoc industrial park accounts for 20% total asset value of KSB. Meanwhile, KSB is going on partial compensation in the area of 136.5 ha to expand this place to 136.5 ha with total estimated capital is about U$273 billion. Plus infrastructure investment, the total payout for Dat Cuoc expansion could be VND539 billion. However, enormous initial investment and long payback time are issues that KSB should consider.

OUTLOOK

KSB specializes in the mining and processing of building stone. The firm has three quarries, i.e. Tan Dong Hiep, Phuoc Vinh and Tan My. KSB has submitted to extend the exploitation period at Tan Dong Hiep for two more years while applying for a new license for Tam Lap quarry and expanding the area and depth of Tan My and Phuoc Vinh mines. The ability to maintain and extend in output is a big plus for KSB as compared to its competitors.

Thanks to favorable market conditions, net revenue and NPAT for the first 9 months of FY2015 increased 24.8% and 34.5% from a year earlier, respectively. We estimate that 2015’s revenue and NPAT of KSB could reach VND745 billion (+19% y-o-y) and VND132 billion (+37% y-o-y). The fast-growing demand for building materials, especially construction stone will underpin KSB’s prospect in the upcoming years.

We estimate the reasonable price for KSB is VND **38,400/share**, 25% higher than the closing price on 28/10/2015. Therefore, we recommend **BUY** the stock in the **INTERMEDIATE TERM**. One highlight for KSB is its high rate and stable dividends. We suppose if KSB employs some financial leverage, the zoom to enhance profitability is quite remarkable. Concentrated ownership and low liquidity could be an issue to consider before investing. However, the possibility that SCIC will divest from KSB could improve the liquidity and allow the firm’s management to be more flexible and self-determination in business strategy.

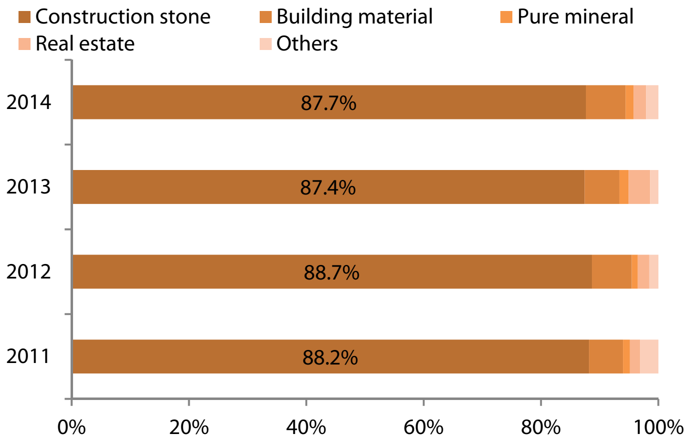
COMPANY OVERVIEW

KSB - The largest stone company in Binh Duong province with many loyalty customers

Binh Duong minerals and constructions JSC (BIMICO) (HSX: KSB) majors in mining and processing of construction stone. Founded in 1993, KSB was equitized quite early (in May 2006). Initial charter capital was only VND70 billion, however, after twice capital increase (in 2010 and 2012) and the issuance of share dividend (30% in 2015), the total charter capital of KSB is expected to be around VND234 billion at the end of 2015.

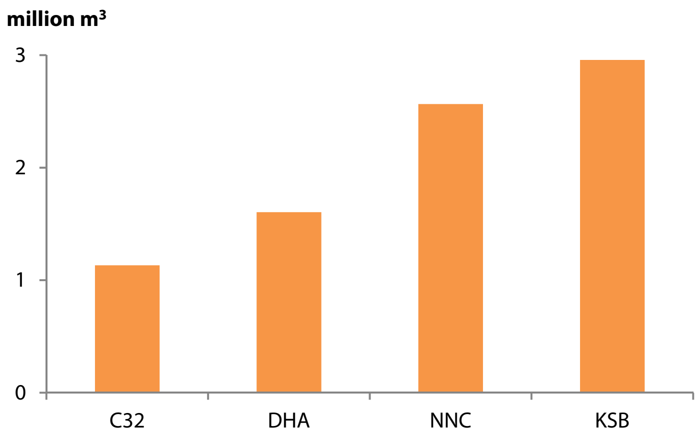
The annual sources of KSB's revenue including: (1) Mining and mineral processing, (2) Production of building materials (bricks, precast concrete), (3) Real estate (Dat Cuoc industrial park) and (4) Mineral water and services. Of which, mining and mineral processing segment currently accounts for the largest portion of KSB's revenue structure.

Exhibit 3: KSB's revenue structure in 2014



Source: KSB

Exhibit 4: Stone volume in 2014



Source: RongViet Research combined

In this segment, KSB does mining and processing of: (1) Tan Dong Hiep, Tan My and Phuoc Vinh stone quarries, (2) Tan Thanh and Minh Long kaolin clay quarries, (3) Dau Tieng sand and (4) Bo La Phuoc Hoa brick clay quarry (inactive). In particular, the volume and proportion of sales in construction stone are much higher than the remaining products (Table 8). Compared to listed peers, KSB is also the leader of the volume of stone consumption (Figure 3).

Table 8: Volume, revenue structure of Mining and mineral processing segment

	Volume (ton)	Revenue (VND billion)	Sub- Revenue structure
Construction stone	3.163.985	531,12	95,1%
Clay	11.598	14,34	2,6%
Sand	84.181	13,20	2,4%
Total	3.259.764	558,66	100,0%

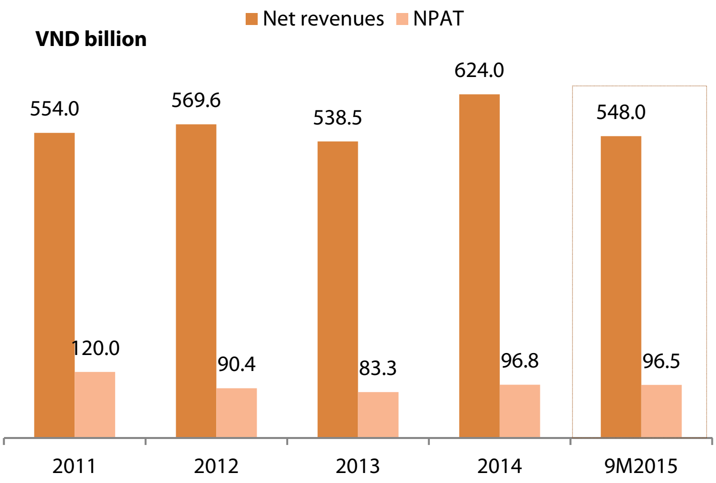
Source: KSB

After years of operating in the sector, KSB has built a strong customer base with many traditional customers. About sales method, KSB no sales agents that sell directly to the customer's field units under construction companies, concrete production like Le Phan Construction Company, Becamex IDC, Ltd. trade Hoang Phat Loi… The major customers consume about 70-80% of the rock volume KSB.

The main business activity remains stable and are having some positive signals

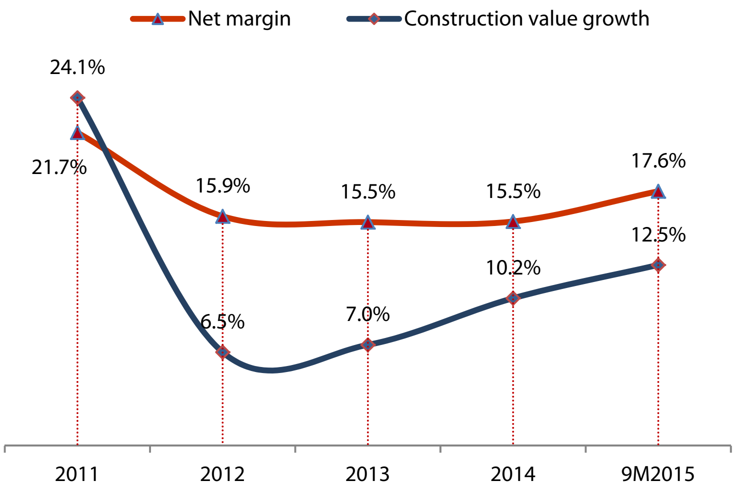
Because input costs are usually less volatile, KSB's businesses are relatively stable and mainly depend much on the demand of construction stone. Since 2014, the growth of construction industry has push up KSB's earning results. Specifically, the NPAT in 2014 increased by 16.2% yoy; in the first 9 months, the NPAT jumped 46.35% yoy thanks to the increases in both sales volume and selling prices. The net margins showed positive outlook despite tax on exploitation of natural resources has increased from 6% to 7% since 2014.

Exhibit 5: KSB's earning results in the period 2011- 9M2015



Source: KSB

Exhibit 6: Net margin of KSB and construction industry growth in the period 2011-9M2015



Sources: Construction Department, RongViet Research
Use current value to calculate the growth of construction industry

The proportions of the rest segments in revenue structure are relatively low, however, building material field is having movement, especially tuynel bricks. The current brick line is operating at full capacity (40 million/year). Thanks to strong demand, the brick selling prices has increased significantly (about 57%) since the beginning of the year. Consequently, sales of building materials segment in 2015 might rise 45% compared with 2014.

Besides, KSB is conducting some study about adobe brick project (capacity: 15 million/year). This kind of bricks has been in trial production since 2013, however, the sales did not meet expectation because of using refined brick's habit. When the regulations on the use of adobe bricks is in close control, KSB could be pioneer in this high development prospect segment.

FINANCIAL ANALYSIS

Strong financial health ensures a stable dividend payment

In the period 2008-2014, KSB almost did not use any debts thank to the stability operating and financial status. As a result, KSB did not suffer from high interest costs in years 2010, 2011 and 2012. Also, thanks to strong financial health, the annual cash dividend rate of KSB was relatively high and stable (30% of charter capital during the period 2011-2014).

Table 9: Financial structure of KSB

Chỉ tiêu (%)	2013	2014	2015F	2016F	2017F	2018F	2019F
Total liabilities /Equity	43.9	52.7	52.6	51.1	49.1	44.8	42.2
Total liabilities / Total assets	30.5	34.5	34.5	33.8	32.9	30.9	29.7
Short-term liabilities/ Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities/ Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: KSB, RongViet Research

However, the capital structure without debt does make KSB hardly benefit from the current low interest rate level. Assumption that KSB uses debt to finance 20% of its total assets with borrowing costs of around 7%/year, 2014's ROE could improve about 5.6 percentage points compared with the present capital structure. If KSB could be more flexible in its capital structure towards increasing debt, especially when SCIC's representatives are not in the Company's BOD, KSB might increase profitability in both absolute value and ROE. Since then, the remaining shareholders of KSB could expect a higher dividend payments or share repurchases in the coming years.

Table 10: KSB's main indicator in the period 2011- 2014

Items	2011	2012	2013	2014
Current liquidity ratio	3.64	3.85	5.44	3.24
Quick liquidity ratio	3.20	3.35	4.48	2.66
Cash liquidity ratio	1.45	1.37	1.95	1.35
EBITDA/Total liabilities	0.74	0.70	0.71	0.69
Net cash flow from operating activities	34.3	107.4	99.1	138.6
Net cash flow from investing activities	-40.3	-75.3	-46.5	-42.5
Net cash flow from financing activities	-54.6	-46.2	-59.4	-54.0
Net cash flow in the period	-60.6	-14.1	-6.8	42.1

Sources: KSB, RongViet Research

The operating indicators in 2014 of KSB were quite positive compared to peers. In particular, inventory turnover of DHA took a hit due to the decrease in the amounts of Hoa An's stone reserves. In terms of cash flow, net cash flows from investing and financing activities were relatively stable during the period 2011-2014. Notably, net cash flows from operating activities were always positive and had strong improvement from 2012.

Table 11: Main activity ratios of representative construction stone companies (FY2014)

	KSB	NNC	DHA	C32
Inventory turnover (x)	8.46	2.99	61.33	5.42
Receivables turnover (x)	5.82	32.76	6.81	4.22
Payables turnover (x)	20.00	18.76	44.59	15.18
Cash conversion cycle (days)	**87.61**	**113.76**	**51.36**	**129.79**

Source: RongViet Research combined

EARNINGS FORECAST

Table 12: Key assumptions

Items (%)	FY2015F	FY2016F	FY2017F	FY2018F	FY 2019F
Growth in stone volume	18	10	1	-5	1
Growth in stone selling price	3	3	3	-3	2
Growth in revenue	19	13	5	-6	3
Gross margin	37	35	35	35	35
Net margin	18	16	16	16	17

Source: RongViet Research

2015's earning result is expected to increase sharply and CAGR of NPAT in the period 2014-2019 predicted to be 8.1%

Thanks to the recovery of construction activities and real estate market, KSB recorded a jump in earnings results with revenues and NPAT rose 32.5% and 45% respectively in the first nine months over the same period last year. The prospect in the last three months is supposed to be positive because of peak season; the stone consumption often increases sharply in the last quarter of the year. In 2015, KSB's could reach VND837 billion (+34% yoy) and net income might increase 40% compared with 2014. Based on assumptions about volume and price growths as in table 12, we estimate that compound annual growth rate (CAGR) in revenue and NPAT in the period 2014-2019 reached 9.4% and 10.1%, respectively.

Table 13: Key financial indicators of KSB

Items (VND billion)	FY2013	FY 2014	FY 2015F	FY 2016F	FY 2017F	FY 2018F	FY 2019F
Net revenue	539	624	745	843	882	832	861
Gross profit	192	220	273	295	307	295	305
SG&A cost	82	102	108	130	137	129	133
Profit from operating activities	110	120	166	166	172	167	174
EBITDA	145	158	206	208	217	216	226
EBIT	113	125	170	170	176	172	178
Financing cost	2	0	0	0	0	0	0
- Interest expense	-	-	-	-	-	-	-
Depreciation	-33	-32	-36	-38	-41	-45	-47
EBT	113	125	170	170	176	172	178
NPAT	83	97	132	136	141	137	143
Basic EPS	4.556	5.335	5.651	5.799	6.009	5.867	6.092

Sources: KSB, RongViet Research

VALUATION

Table 14: Valuation result

Valuation method	Price	Weight	Average
FCFE	43,025	40%	17,210
P/E	31,307	30%	9,392
P/BV	39,241	30%	11,772
Average price		**100%**	**38,375**

Source: RongViet Research

We combine three valuation methods including discounted cash flow (FCFE) and relative value methods (P/E, P/B) to determine the fair value for KSB with ratio of 40:30:30.

In P/E valuation method, we used the reference from listed companies specializing in mining and processing construction stone companies, which is at 6,39x.

Particularly with P/B method, the investment in Dat Cuoc IP accounted for about 20% total asset value of KSB. The prospects of this area is not rated high in short term, therefore, we divide KSB's assets into two parts and apply different P/B level: (1) Use P/B at 1x for real estate segment and (2) P/B industry at 1.99x for the remaining assets. Combining two part, we have P/B is used in the model at 1,79x.

Combining three valuation methods above, the fair value of KSB is determined at 38,400 VND / share, 25% higher than the closing price on October 28, 2015. Therefore, we recommend **BUY** the stock in the **INTERMEDIATE TERM**.

Table15: P/E, P/B of peers

Ticker	Market captialization (VND billion)	Trailing P/E	Trailing P/B
DHA	270	7.04	0.82
C32	421	5.18	1.41
NNC	704	5.18	2.79
Average		**5.54**	**1.99**

Source: RongViet Research
Use closing price on 26/10/2015

Unit: VND Billion

INCOME STATEMENT	2013A	2014A	2015F	2016F
Revenue	538.5	624.0	744.9	842.5
COGS	346.5	404.4	472.3	547.6
Gross profit	**192.1**	**219.6**	**272.6**	**294.9**
Selling Expense	52.4	67.6	67.0	84.3
G&A Expense	29.2	34.1	41.0	46.2
Finance Income	1.9	1.7	1.8	1.8
Finance Expense	2.4	0.0	0.0	0.0
Other profits	2.5	5.7	3.1	3.4
PBT	**112.5**	**125.3**	**169.5**	**169.6**
Prov. of Tax	29.2	28.5	37.3	33.9
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**83.3**	**96.8**	**132.2**	**135.7**
EBIT	**112.5**	**125.3**	**169.5**	**169.6**
EBITDA	145.3	157.7	205.6	208.1

FINANCIAL RATIO	2013A	2014A	2015F	2016F
Growth (%)				
Revenue	-5.5	15.9	19.4	13.1
Operating Income	-5.7	6.7	39.6	-0.1
EBITDA	-1.7	8.5	30.4	1.2
EBIT	-7.2	11.4	35.3	0.1
PAT	-7.9	16.2	36.7	2.6
Total Assets	-0.1	13.0	0.3	11.5
Equity	2.2	6.4	5.5	12.6
Internal growth rate	5.3	14.8	12.4	12.0
Profitability (%)				
Gross profit/Revenue	35.7	35.2	36.6	35.0
Operating profit/ Revenue	20.5	18.9	22.1	19.5
EBITDA/ Revenue	27.0	25.3	27.6	24.7
EBITDA/ Revenue	20.9	20.1	22.8	20.1
Net margin	15.5	15.5	17.8	16.1
ROAA	12.1	13.2	16.9	16.4
ROIC or RONA	17.7	18.8	24.2	22.3
ROAE	18.4	20.5	26.5	24.9
Efficiency (x)				
Receivable Turnover	4.7	5.7	6.4	6.7
Inventory Turnover	9.3	8.5	9.3	10.2
Payable Turnover	6.4	5.9	5.5	6.6
Liquidity (x)				
Current	5.4	3.2	4.5	5.7
Quick	4.5	2.7	3.8	4.8
Solvency (x)				
Total Debt/Equity	43.9	52.7	52.6	51.1
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/ Equity	0.0	0.0	0.0	0.0

Unit: VND Billion

BALANCE SHEET	2013A	2014A	2015F	2016F
Cash and equivalents	84	127	133	182
Short-term investment	0	0	0	0
Receivables	103	116	115	135
Inventories	41	54	47	60
Other current assets	5	6	12	8
Total Current Asset	**233**	**303**	**307**	**385**
Tangible Fixed Assets	152	127	114	103
Intangible Fixed Assets	1	1	1	1
Construction in Progress	70	112	106	98
Investment Property	158	156	170	184
Long-term Investment	0	0	0	0
Other long-term assets	76	81	85	102
Goodwill	0	0	0	0
Long-term Asset	**457**	**477**	**476**	**488**
Total Asset	**690**	**780**	**783**	**873**
Payables	21	27	32	37
Other current liabilities	21	66	32	25
Current Debt	0	0	0	0
Long-term Debt	0	0	0	0
Other long-term liabilities	158	162	201	227
Total Liability	**201**	**256**	**270**	**295**
Owner's Equity	**428**	**453**	**513**	**578**
Capital	180	180	234	234
Retained Earnings	47	67	105	144
Funds & Reverses	164	169	174	200
Others	**29**	**33**	**0**	**0**
Total Equity	**457**	**486**	**513**	**578**
Minority's Interest	0	0	0	0
TOTAL RESOURCE	**657**	**742**	**783**	**873**

CASH FLOW STATEMENT	2013A	2014A	2015F	2016F
Net Income	112.5	125.3	169.5	169.6
-Depreciation	32.8	32.4	36.1	38.5
-Adjustments	*-2.0*	*-3.4*	*0.0*	*0.0*
+/- Working capital	-44.3	-15.8	16.1	-2.8
Net Operating CFs	**99.1**	**138.6**	**221.7**	**205.3**
+/- Fixed Asset	-47.6	-43.2	-49.4	-81.1
+/- Deposit, equity investment	1.1	0.0	-4.1	-17.0
Interest, dividend, cash profit	0.0	0.7	0.0	0.0
Net Investing CFs	**-46.5**	**-42.5**	**-53.5**	**-98.1**
+/- Capital	0.0	0.0	16.5	0.0
+/- Debt	0.0	0.0	0.0	0.0
Dividend paid	-59.4	-54.0	-178.1	-57.8
Net Financing CFs	**-59.4**	**-54.0**	**-161.7**	**-57.8**
+/- cash & equivalents	-6.8	42.1	6.5	49.4
Beginning cash & equivalents	**89.7**	**83.7**	**126.7**	**132.6**
Impact of exchange rate	0.8	127.6	0.0	0.0
Ending cash & equivalents	**83.7**	**126.7**	**132.6**	**182.0**

COMPANY RESEARCH REPORT

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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