May, 2018

KINH BAC DEVELOPMENT HOLDING CORP (KBC)

Awaiting for a breakthrough year

Kinh Bac Development Holding Corporation (HOSE: KBC) is one of the leading industrial park developers. The company possesses a huge land bank including 5,174 ha for industrial land and more than 1,100 ha for urban area development. It owns 7 major IPs in Bac Ninh, Hai Phong and HCMC as well as 7 IPs in associated with other parties. In the short term, land lots and villas sales are expected to bolster the company's result. In the long term, the incoming leasable land of 689 ha from Nam Son Hap Linh and Trang Due 3 will ensure lease room for KBC. Since most tenants in KBC's industrial zones are foreign investors, the company may face difficulties if FDI inflows slow down. In addition, delay in construction due to long-lasting compensation phase and implicit risks in paper application as well as regulatory change.

Since 90% of tenants in KBC's zones are foreign investors, the company has been facing such difficulties when foreign capital flows are scanty. We are a little afraid that strictly selective criteria for tenants will somehow affect the company's performance since it probably limits investors to set footprint to the zones. However, we also see this as a necessary step to achieve sustainable growth and in complied with the Government's guidance.

*Considering the above issues, we believe KBC is fairly priced at **VND16,270/share** by using a DCF valuation method. Incorporating an expected 10% cash dividend, we therefore come up with a **"BUY"** recommendation, implying a **total stock return of 26,5%.***

Investment rationale

- Ample FDI, increasing demand on high-tech suppliers & logistics-based warehouse
- Available huge land bank
- Booming land lots with high absorption rates

Risks

- Unstable industrial park lease makes performance unpredictable
- Projects' setbacks
- High debt

Key financial ratios

Y/E Dec (VND Bn)	FY2016	FY2017	FY2018F	FY2019F
Net revenue	1,972	1,260	2,325	2,192
%change	37%	-36%	84.5%	-5.7%
PAT	557	585	721	818
% change	18%	4.9%	23.3%	13.5%
Net margin (%)	28.3%	46.4%	31.0%	37.3%
ROA (%)	3.8%	3.7%	4.2%	4.8%
ROE (%)	7.2%	7.1%	8.4%	8.7%
EPS (VND)	1,172	1,231	1,264	1,435
Adjusted EPS (VND)	1,172	1,229	1,262	1,433
Book value (VND Bn)	16,192	17,423	14,942	16,375
Cash dividend (VND)	-	-	1,000	-
P/E (x)	11.8	10.8	10.8	9.5
P/BV (x)	0.41	0.37	0.9	0.8

Source: KBC, RongViet Securities, as of May 9th , 2018

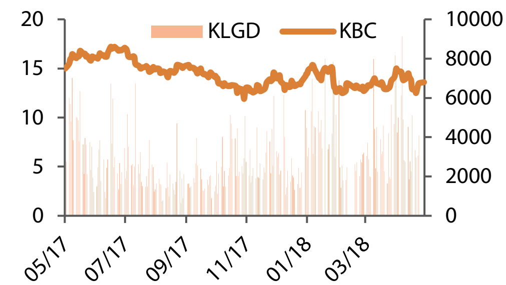
BUY **+26%**

CMP (VND)	13,650
Target prive (VND)	16,270
Cash dividend (VND)	1,000

Expected in 12 months (*)

Stock Info

Sector	Real Estate
Market Cap (VND billion)	6,436
Share O/S	470
Beta	0.708
Free Float (%)	28.7%
52 weeks high	17,200
52 weeks low	11,900
Average trading volume (20 sessions)	3,976,206



Performance (%)

	3T	1N	3N
KBC	-5%	-9%	-10%
VN 30 Index	-4%	52%	86%
VN Index	-3%	46%	96%

Major shareholders (%)

Dang Thanh Tam	16.0%
Kinh Bac Investment & Consultant JSC	8.3%
Dragon Capital	5.6%
Foreigner Investor Room (%)	*21%*

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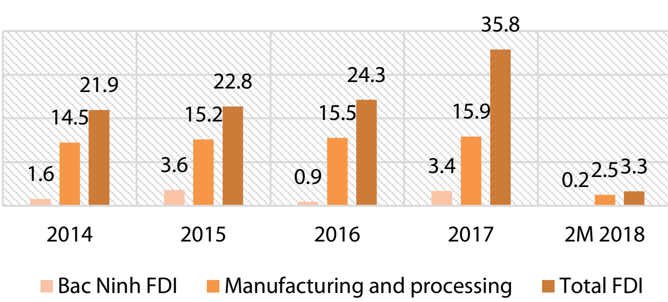
INVESTMENT RATIONALES

Industrial real estate leases to be underpinned by ample FDI, the increasing demand by high-tech suppliers and logistics-based warehouses.

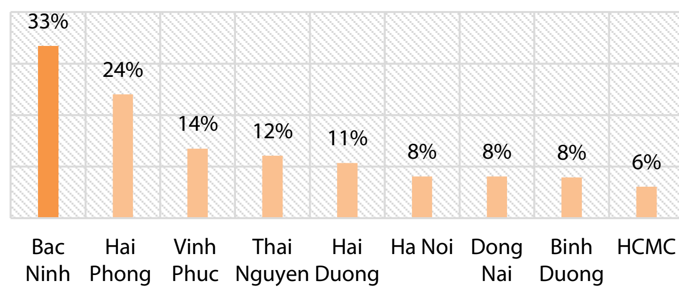
Vietnam experienced robust foreign capital inflow in the past four years. Vietnam took in USD35.8 billion registered FDI (+44.4% yoy) as well as USD17.5 billion disbursed capital (+10.8% yoy) in 2017. The latter influx is most significant as it brings promising opportunities for both manufacturing enterprises and industrial park developers. We see three main factors that support KBC's leasing activities in the next few years. In terms of FDI arrivals, Bac Ninh is standing in the top of FDI receivers just behind Ho Chi Minh City. The foreign inflows are allocated among industries; in which manufacturing and processing have been consistently dominant. There are about 15 industrial parks in Bac Ninh where most of manufacturing factories are located. We therefore believe industrial parks in the province will spearhead the growth in this activity.

Figure 01: FDI to Bac Ninh and manufacturing (USD Bn)



Source: MPI

Figure 02: Industrial Manufacturing Index growth in 4M 2018



Source: GSO

We see potential opportunities with the increase of Samsung and LG's satellites plants in Vietnam. The two companies have been investing about USD19 billion, mostly for mega manufacturing projects in Hai Phong, Bac Ninh and Thai Nguyen. Over their 10-year presence in Vietnam, these companies have built a strong network of electronic suppliers, including domestic and foreign enterprises. These two giants need suppliers that can meet both quality and quantity standards. While not many domestic firms have the ability to meet such requirements, we believe the number of foreign suppliers will continue to increase. According to KBC, there are about 152 out of 300 Samsung's satellites coming to KBC's industrial parks. The company expects to welcome about 15 more Samsung's suppliers in the near future.

Table 01: Typical investment of Samsung and LG in Vietnam

No.	Projects	Investment Capital (USD Bn)	Main products
1	Samsung Electronics HCMC CE Complex	1.4	High-end televisions and consumer electronic products
2	Samsung Electronics Vietnam	2.5	Phone & Electronic Equipment, Battery, Display Screen, Vacuum Cleaner
3	Samsung Electronics Vietnam Thai Nguyen	5	Telephones and electronics devices, Processors
4	Samsung Display Vietnam	6.5	Electronic screen OLED, AMOLED
5	LG Display	1.5	Electronic OLED
6	LG Innotek	0.6	Camera module
7	LG Electronics	1.5	Mobile phones, TVs, household electrical appliances

Source: RongViet Securities compiled

It is estimated that Apple will probably source 270 million smartphone panels, nearly half of them are OLED devices. The anticipated volume for OLED screen orders are about 110-130 million units. Of those, about 75 million units are for 5.9-inch iPhone X and the remaining 45 million made up 6.5-inch panels on a less expensive version. Samsung Display will still remain the primary OLED supplier for Apple, while LG Display is expected to provide 6.5-inch panel orders from Q2-2018. With the current low capacity of OLED's factories in Korea, there are high possibilities that LG Display will continue to increase its production capacity as well as leased area in Trang Due clusters.

Increasing demand in the warehouse market can be a significant catalyst for industrial real estate. According to CBRE, improvement in manufacturing and consumer spending has been boosting the demand for net floor area, especially in strategic location such as HCMC, Long An, Binh Duong, Ha Noi, Bac Ninh and Hai Phong.

(1) Demand for warehouse in Bac Ninh is rising considerably thanks to the connect to Hai Phong Ports and Noi Bai Airport. Several logistics enterprises are placing their warehouse in Bac Ninh, such as DB Schenker, DHL, Vinafco. The increasing presence of logistics players is for manufacturing expansion. Growth improvement of 38% came from computers, electronics and optical products. Noticeably, Vinfast is building their automobile factory in Hai Phong, bringing foreign suppliers to the area. We therefore see Trang Due 3 (with a total area of 687 ha) as a potential hub.

(2) Recent e-commerce growth is bolstering transportation activities as well as cargo throughput. CBRE also noticed the expansion of international activities of Aeon, Lotte along with the increase in the number of convenience stores.

Available huge land bank along with favorable land charge and ready to operate warehouses will help KBC catch up with new opportunities.

KBC is currently the owner of 5,174 ha of industrial land as well as more than 1,100 ha of land for urban areas. Since the very beginning of 2002, KBC has been accumulating this land bank in prime locations, mostly in Bac Ninh and Hai Phong. KBC has been progressively conducting land clearance and infrastructure setups. At year-end 2017, total accumulative leased area reached 1,075 ha, accounting for 34% of total leasable area. That is to say, KBC still has enormous room to lease. Especially, the company was granted a snip on land used rights (LUR) that are much less than a current Government's charge at about VND13,400/m^2 (pursuant to Decree 46/2014/ND-CP). These fees, in fact, increased significantly to VND19,500/m^2 from a very low base VND100/m^2 since the launch of Que Vo hubs. In 2017, KBC announced that the company succeeded in negotiating a favorable charge on land used rights in Que Vo IP to VND4,600-6,500/m^2. This price level still appears to be high compared to previous ones. However, these costs are all transferred to tenants.

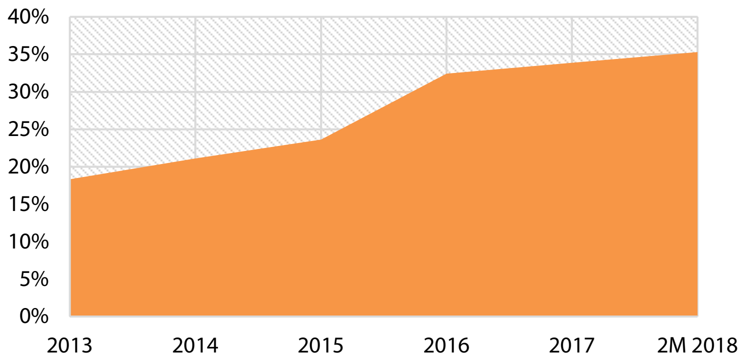
Table 02: KBC's industrial parks status, 12/31/2017

	Location	KBC's stake (%)	Total area (ha)	Total leasable area (ha)	Lease price (USD/m2)	Occupancy rate (%)	Remaining leasable area (ha)
Quang Chau	Bac Giang	77%	426	275	60	48%	143
Que Vo 1	Bac Ninh	100%	311	192	70	97%	6
Que Vo 2	Bac Ninh	100%	300	171	73	67%	56
Nam Son Hap Linh (*)	Bac Ninh	100%	432	66	70	0%	66
Dai Dong Hoan Son 1	Bac Ninh	21%	268	81	70	99%	1
Dai Dong Hoan Son 2	Bac Ninh	21%	96	62	N/A	0%	62
Trang Due 1	Hai Phong	87%	188	129	80	99%	1
Trang Due 2	Hai Phong	87%	214	133	85	77%	31
Trang Due 3	Hai Phong	87%	687	456	N/A	0%	456
Sai Gon - Chan May	Hue	28%	658	586	33	0%	586
Hoa Khanh extension	Da Nang	20%	133	108	45	73%	29
Lien Chieu	Da Nang	20%	289	175	45	64%	63
Sai Gon - Nhon Hoi	Binh Dinh	10%	630	445	20	10%	401
Tan Phu Trung	HCMC	63%	543	314	75	31%	217
Total			**5,175**	**3,193**			**2,117**

(*) Total 66 leasable ha is on current 100 ha compensated. The project is expected to have total leasable area of 283 ha.

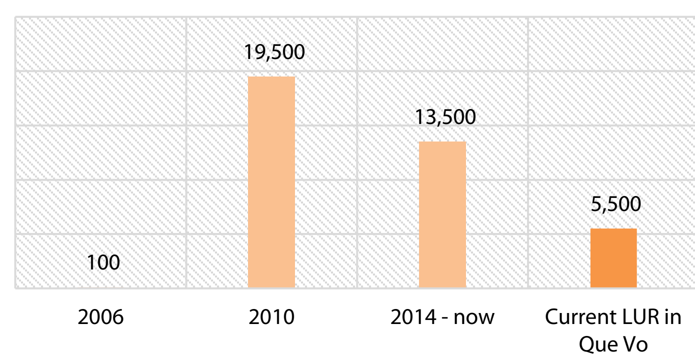
Source: KBC, RongViet Securities

Figure 03: KBC's occupancy rate (%) during 2013 – 2M 2018



Source: KBC

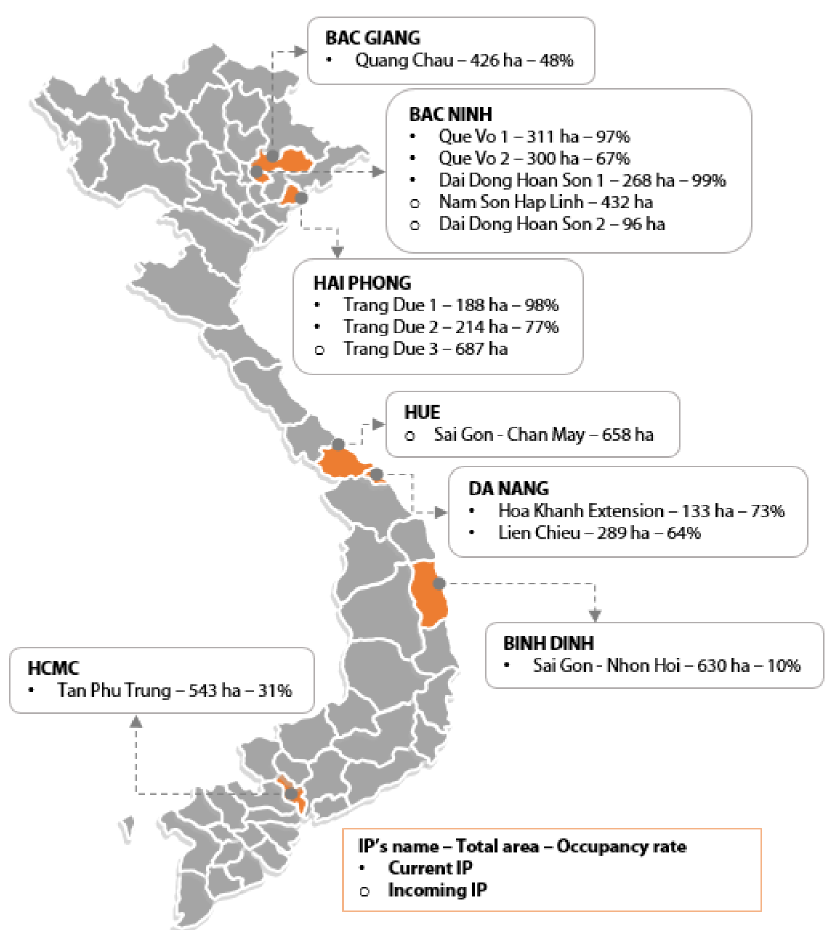
Figure 04: Land used rights comparison (VND/m²)



Source: KBC

The readiness of KBC's clear land bank along with build-to-suit warehouses is an important factor to lure in foreign investment. Current available area that investors can promptly occupy is estimated at 237 ha in the north and 216 ha in Ho Chi Minh City (not including projects in the central regions). Due to the industry's nature, the warehouse building process is complicated and time-consuming. In most cases, foreign investors prefer to build warehouses themselves with their specific needs and designs. They, on the other hand, are interested in warehouses that are simple.

Figure 05: KBC's owned and associated industrial parks



Source: RongViet Securities compiled

Booming land lots with high absorption will promisingly bolster KBC's results.

Land lots sales kicked-off in 2017 and is expected to drive KBC's performance in the next 3 years. Phuc Ninh Urban Area (UA) started to make its first land lots sales and obtained VND232 billion revenue for 1.59 ha area. In the beginning of 2017, KBC was permitted to operate in 55.8 ha area. In Q1-2018, the company has been selling out about 6 ha land lots and villas, leaving more than VND1,300 billion awaiting to be booked after having done infrastructure construction. We are optimistic on the project's absorption given current high demand on land lots. Furthermore, we believe the trend will be maintained in 2018 underpinned by (1) persisting increase in land price; (2) political actions to enhance Bac Ninh City to a 'municipality' level in 2022 that make real estate in the city more valuable; and (3) high income level.

RISKS

Unstable industrial park leases.

Industrial park operations are a non-cyclical business with stable cash flow. However, KBC is different in terms of accounting methods, which determines the company's cash flow. More often than not, industrial park operators usually book partial revenue during the lease term, while KBC chooses to record one-shot revenue for the total lease term. That is to say, business performance becomes tremendous on flourishing period yet scanty when there are less tenants in the zones. Operating results turn out to be very volatile. Poor sales may put KBC under pressure for debt payment due to the high demand for capital for the next projects.

Projects delay may disappoint.

A noticeable concern of KBC's business is the delay in execution. These setbacks come from both internal and external factors. From an objective perspective, regulation is becoming more challenging for industrial park developers in line with the Government's tightening in land-related issues as well as the limits on selective industries. Most cases are delayed due to difficulties in paper works. For KBC, we see it happen with JA Solar – one of the world's biggest solar panel producers, due to environmental issues. On the other hand, compensation is one of the biggest hindrance that makes construction to be postponed from time to time. During these periods, the company may suffer heavy costs without cash inflows. In addition, regulatory changes in compensation costs can cause delays. Particularly, compensation costs in Bac Ninh is currently around VND439,000/m^2, which is 4 times higher than in the past. This boosted land development costs to USD45/m^2 for Ips in Bac Ninh. The company therefore had to increase the lease price to USD80-85/m^2.

High debt pressure.

The company has several bonds that will mature in 2018. KBC will have to pay a total principal of about VND800 billion and VND582 billion in 2018 and 2019 respectively. These amounts, plus about VND325 billion in interest expenses in 2018 will probably put the company under pressure. Recently, in order to develop current projects, including Phuc Ninh and incoming industrial parks, KBC announced that it will borrow VND2,000 billion this year; of which VND1,500 billion of bonds. We eventually believe interest expenses will continue to rise. In addition, most current loans are secured by the company's operating assets such as warehouses and land used rights. This appears to be risky in the periods that KBC does not perform well.

INVESTMENT OUTLOOK

Kinh Bac Development Holding Corporation (HOSE: KBC) is one of the leading industrial park developers. The company possesses a huge land bank including 5,174 ha for industrial land and more than 1,100 ha for urban area development. It owns 7 major IPs in Bac Ninh, Hai Phong and HCMC as well as 7 IPs in associated with other parties. In the short term, land lots and villas sales are expected to bolster the company's result. In the long term, the incoming leasable land of 689 ha from Nam Son Hap Linh and Trang Due 3 will ensure lease room for KBC. Since most tenants in KBC's industrial zones are foreign investors, the company may face difficulties if FDI inflows slow down. In addition, delay in construction due to long-lasting compensation phase and implicit risks in paper application as well as regulatory change.

Since 90% of tenants in KBC's zones are foreign investors, the company has been facing such difficulties when foreign capital flows are scanty. We are a little afraid that strictly selective criteria for tenants will somehow affect the company's performance since it probably limits investors to set footprint to the zones. However, we also see this as a necessary step to achieve sustainable growth and in complied with the Government's guidance.

Considering the above issues, we believe KBC is fairly priced at **VND16,270/share** by using a DCF valuation method. Incorporating an expected 10% cash dividend, we therefore come up with an **"ACCUMULATE"** recommendation, implying a **total stock return of 26,5%.**

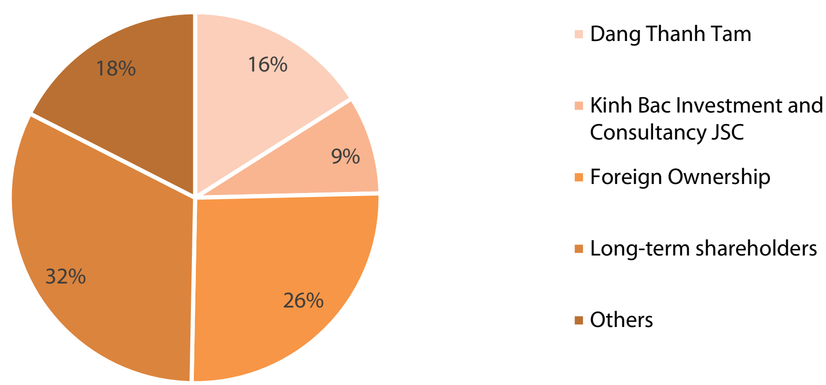
COMPANY OVERVIEW

A 15-year company operating in the industrial park industry

Established in 2002, KBC is one of the leading companies attracting FDI into Vietnam. According to the company, 90% of its clients are from Japan, Korea, China, Taiwan and Hong Kong; namely giants like Canon, Foxconn, Samsung, LG Display, Luxshare – ICT.

At the end of 2017, 25% of the shares belong to major shareholders including chairman Dang Thanh Tam and KBC Investment & Consultancy JSC. Foreign investors own 26% of the company.

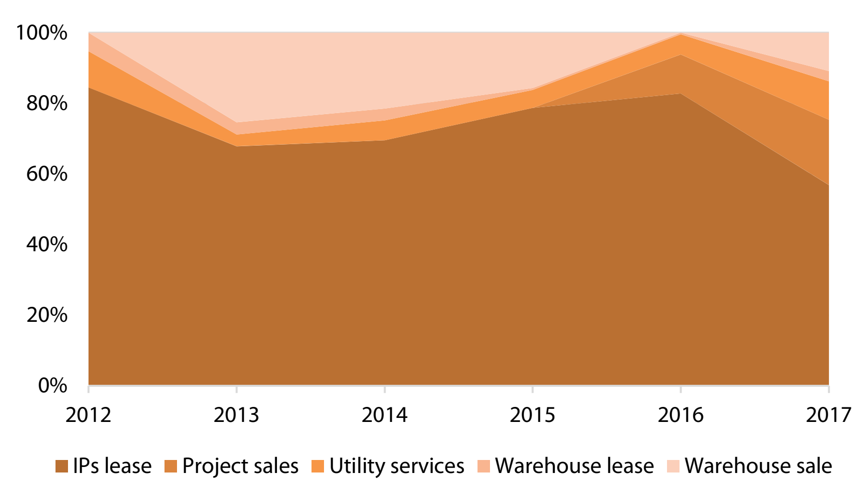
Figure 06: KBC's shareholder structure, 12/31/2017.



BUSINESS OVERVIEW

Starting off as an industrial park developer, KBC has been accumulating a huge land bank with since 2002. At present, the company has six operating industrial parks in Bac Ninh, Bac Giang, Hai Phong, HCMC, and 66 ha ready for sale from, Nam Son Hap Linh IP in Bac Ninh. Besides, KBC also constructs built-to-suit warehouses for rent and for sale to IPs investors. This is a profitable segment with average margins of 50%. Other sources of income come from IPs management fees and utility services.

Figure 07: Revenue breakdown (%), 2012 - 2017



Source: KBC's Financial Statements

Industrial Park Operations

Industrial park leasing activities have been contributing a large part of KBC's revenue. The company is running six main industrial parks, including Quang Chau, Que Vo 1, Que Vo 2, Trang Due 1, Trang Due 2 in the north and Tan Phu Trung in Ho Chi Minh City. Besides, KBC also has several IPs in association with other companies in regions such as Sai Gon – Chan May, Hoa Khanh extension, Lien Chieu. These central industrial parks helped KBC expand its land bank for long-term growth. Average lease price in KBC's industrial parks is ranging from USD60-85/m^2 for a lease term of 50 years. KBC transfers full ownership as well as responsibilities to tenants. This includes all the costs for land used rights.

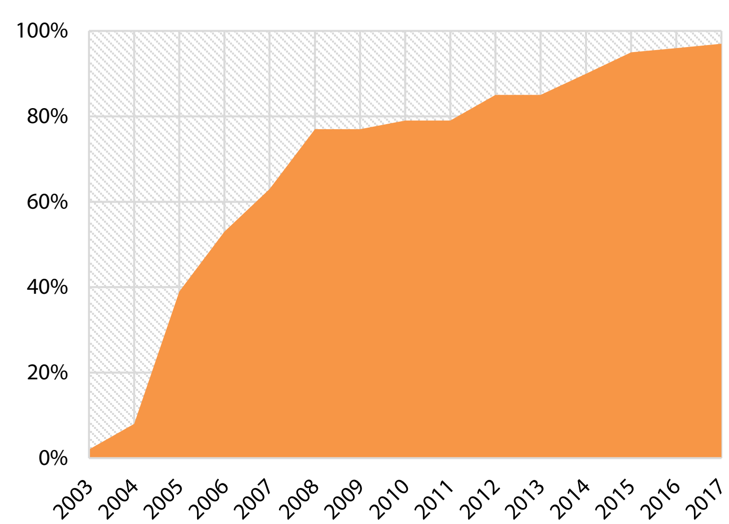
- *Que Vo Industrial Parks*

Que Vo is the leader among KBC's industrial parks. The project includes 2 phases: Que Vo 1 IP with 311 ha started in 2003 and Que Vo 2 with 300 ha from 2006. These IPs are located in the suburb of Bac Ninh City. In a prime location, Que Vo IPs has been attracting global corporations such as Canon, Foxconn, Tokyo Ink, VS Industry, Hanwha and a series of Taiwanese and Korean enterprises. For the past 10 years, the site has been building more than 67 warehouses for lease or sale. Of those, 60 of them have fully been leased; while seven new ones are under construction.

Figure 08: Que Vo industrial park

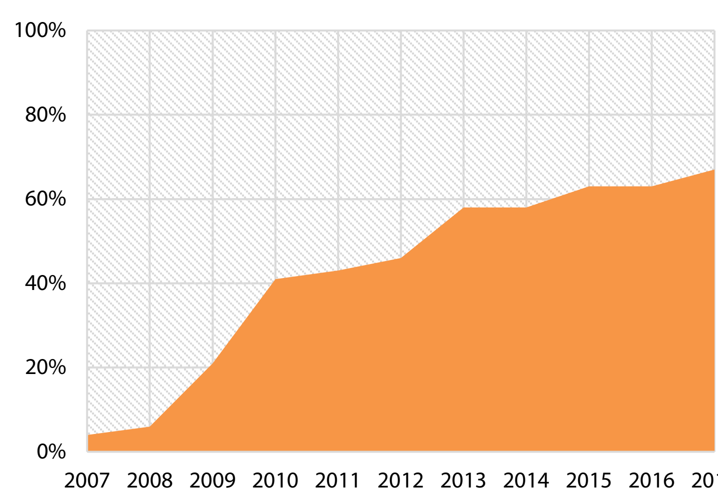
Source: KBC

Figure 09: Que Vo 1's occupancy rate, 2003 – 2017



Source: KBC, RongViet Securities

Figure 10: Que Vo 2's occupancy rate, 2007 - 2017



Source: KBC, RongViet Securities

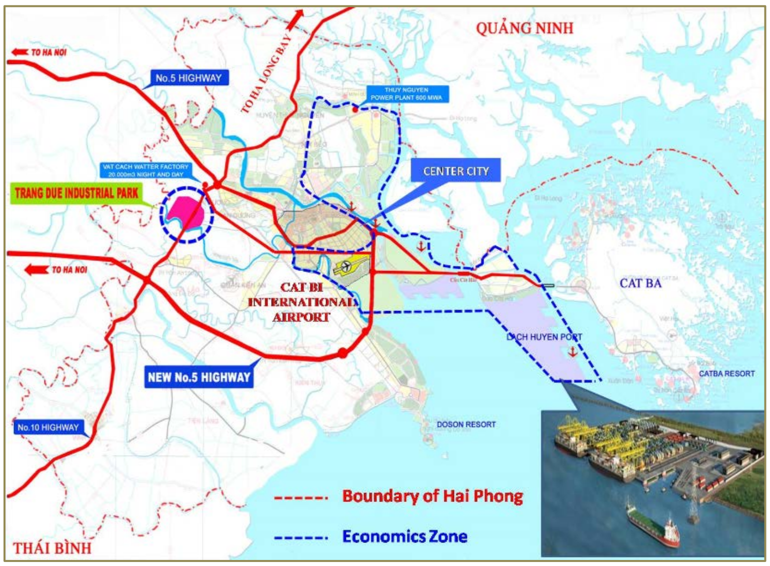
Current leasable area of these two industrial parks is tightening. At the end of 2017, Que Vo 1 only had 5,76 ha leasable area left while Que Vo 2 had 56 ha for lease. The company plans to build 20 new warehouses in 2018, mostly to serve Samsung or investors from Taiwan, and Hong Kong.

- *Trang Due Industrial Parks*

Trang Due is the most attractive among KBC's IP clusters. The hub consists of 2 phases: Trang Due 1 launched in 2007 with 188 ha and Trang Due 2 with 214 ha kicking off since 2014. The two sites are all located in Dinh Vu – Cat Hai Economic Zone which has good tax incentives. Particularly, investors that operate in the zone are granted favorable tax policies, typically:

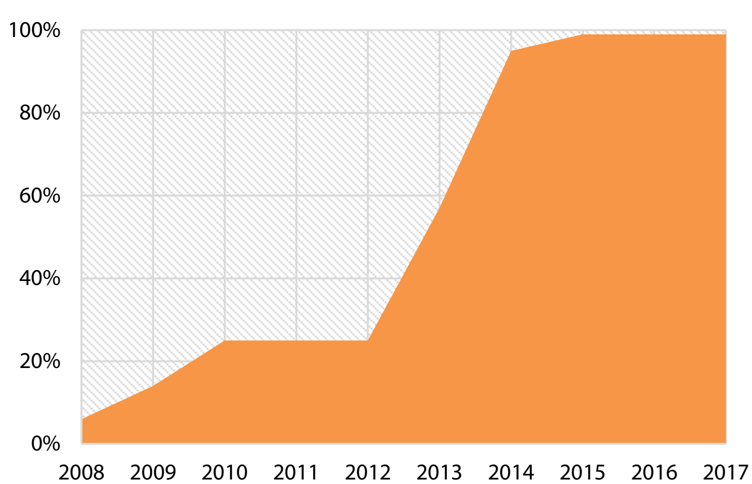
- Tax exemption for the first 4 years;
- 50% tax deduction in the next 9 years;
- Corporate income tax (CIT) is 10% for the first 15 years;
- Zero tax duties on several goods and 50% reduction in income tax for the zone's employees.

Figure 11: Trang Due industrial park



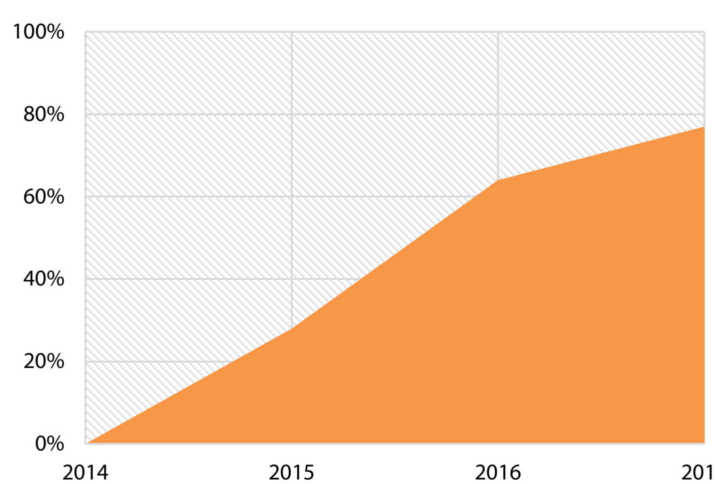
Source: KBC, RongViet Securities Compiled

Figure 12: Trang Due 1's occupancy rate, 2008 – 2017



Source: KBC

Figure 13: Trang Due 2's occupancy rate, 2014 - 2017



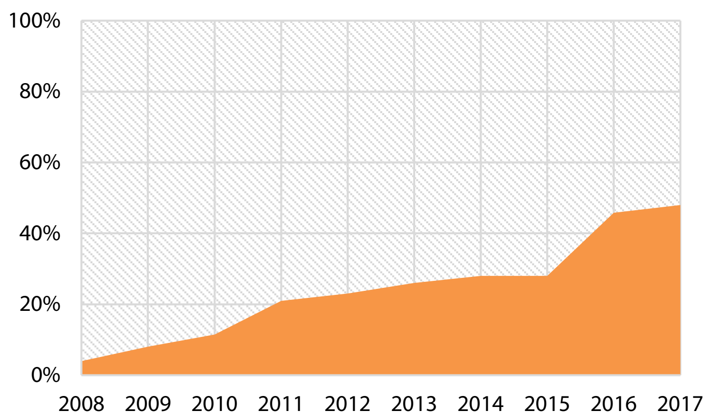
Source: KBC

Trang Due experienced the fastest occupancy rate among KBC's industrial parks. At the end of 2017, the parks have attracted 43 investors; of which 83% of them are foreign entities, namely LG Electronics, LG Display, Dongjin Techwin Vina, Innotek, Haengsung Electronics, etc.

- *Quang Chau and Tan Phu Trung Industrial Parks*

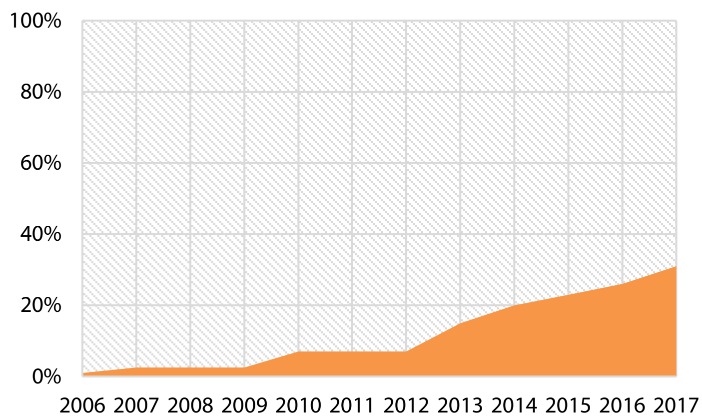
Quang Chau IP has a total area of 426 ha, in which 276 ha are leasable land. Despite standing in Bac Giang, the industrial park is located near KBC's IPs in Bac Ninh, about 2 - 4 kilometers from Que Vo and Nam Son Hap Linh. Several corporations are operating in the zone such as Nichirin, Umec or a big electronic supplier - Luxshare ICT. The zone experienced tremendous growth in 2016 with 53 ha sold. Latest update in Q1-2018, Quang Chau has welcomed a tier-1 Samsung's vendor, whose investment capital is estimated at about USD150 million. The South Korean supplier is expected to raise more than USD200 million for investments in Vietnam.

Figure 14: Quang Chau's occupancy rate, 2008 – 2017



Source: KBC

Figure 15: Tan Phu Trung's occupancy rate, 2006 - 2017

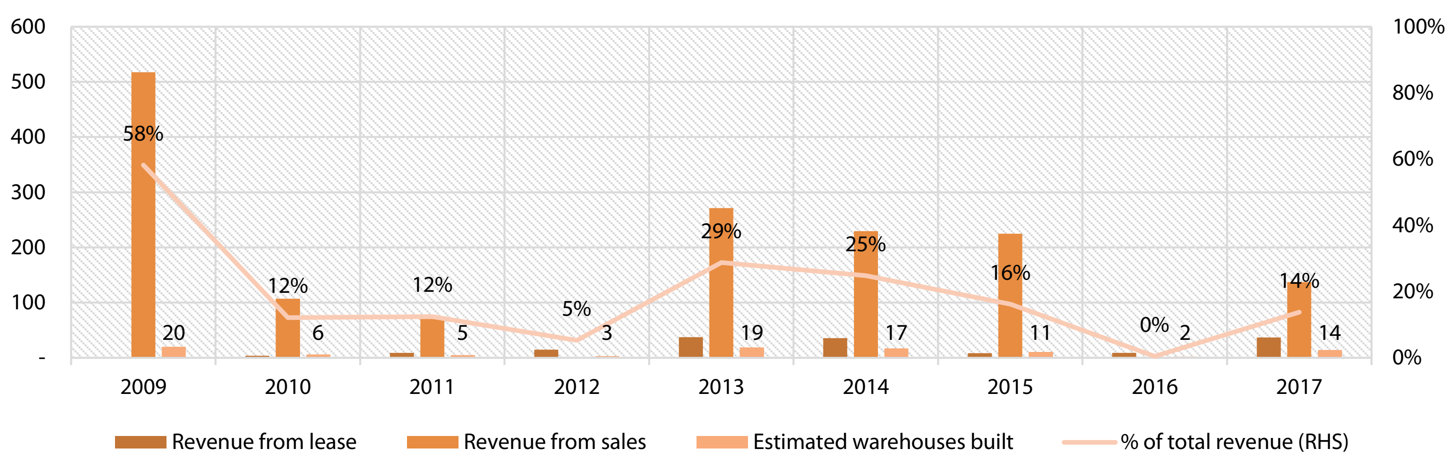


Source: KBC

Warehouse Lease and Sales

In order to reduce the risks and time for FDI investors, KBC has been preparing ready-built warehouses for sale and for lease. According to the company, on an 8,000m^2 leased area, the warehouse should account for 5,000m^2 accompanied by offices and other utilities. Small enterprises entering into the zones prefer leasing, while investors with larger scale usually buy the warehouses. Warehouse leased prices are about USD3 - 4/m^2/month, which can annually bring about VND4 billion per leased factory for KBC. The selling price of warehouses is much higher at about USD200 - 230/m^2. For each warehouse sold, the company records revenues of VND22 - 25 billion. The segment experiences huge demand and therefore generates high margin of around 50%.

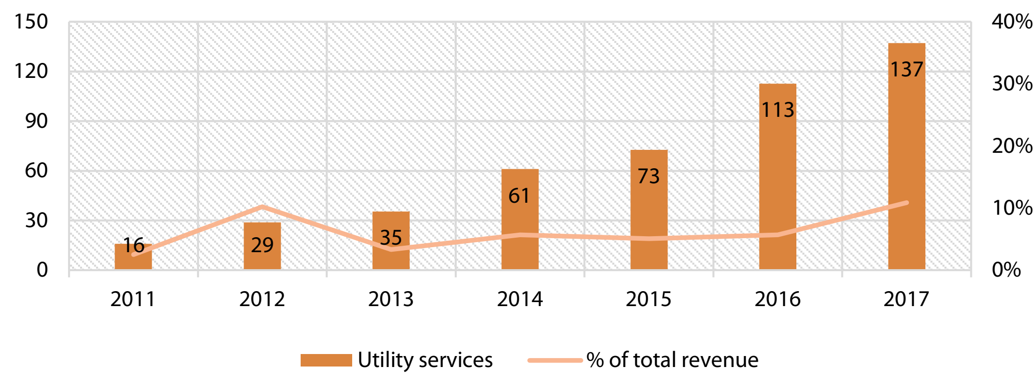
Figure 16: Revenue from warehouse lease and sale, 2009 – 2017 (VND billion)



Source: KBC, RongViet Securities

In addition, KBC also conducts several ancillary services in its industrial zones. This sub-segment has been contributing a stable income. The company's general and administration costs make up about 6% of revenue. These costs include water supply & sewerage, electricity, internal road network, internet & cable, security services, etc.

Figure 17: Revenue from utility services, 2011 – 2017 (VND billion)



Source: KBC

Urban Area Business

Phuc Ninh's urban area is an attractive project for KBC. The site area is 136 ha in total and located in Bac Ninh City. Based on the project drawings, there are 85 ha allocated for public construction such as schools, stabilizing reservoirs, greenery campus and roads. At the end of 2017, the company completed compensation and made land used rights payment for the first 22 ha. The first phase of the project is 10 ha leasable land for land lots and villas for sale. According to the company, about 6 ha were sold out, in which revenue from 1.6 ha were recorded. KBC expects to book the remaining income from about 4.6 ha after completing infrastructure construction.

Table 03: Phuc Ninh urban area's selling products

	Land lots	Villas
Area per unit	120m^2	180m^2 - 240m^2 - 360m^2
Selling price per unit	VND22,500,000	VND20,500,000
Photos		

Source: KBC, RongViet Securities compiled

In terms of method of payment, KBC offers a 3-times schedule for customers with a deposit of VND100 million for each unit sold. The payment timeline is as followed:

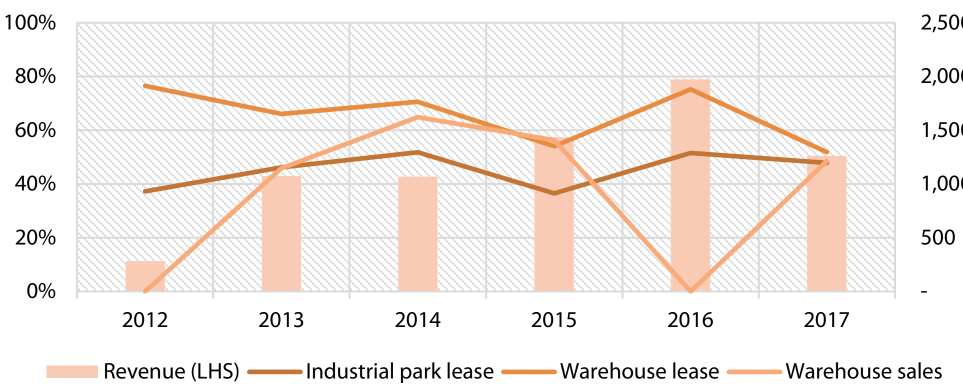
- 1st payment : 30% amount of the contract value within 7 days
- 2nd payment : 65% amount of the contract value within 1 month since the signing date
- 3rd payment : remaining 5% after obtaining property ownership certificate

FINANCIAL ANALYSIS

High gross margin from core business remains stable in either good or bad periods.

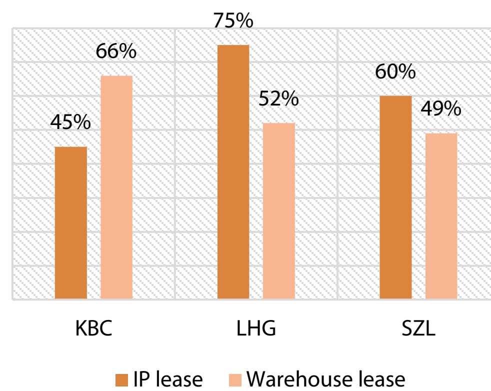
It can be seen that despite the fluctuation in revenue over the years, gross margin from core business lines still remained stable. Particularly, industrial park lease, warehouse lease and sales generated an average gross margin of 45%, 66% and 54%, respectively. However, warehouse sales activity is not stable given the need for available warehouse from customers. KBC's IP lease gross margin is relatively low compared to other developers such as Long Hau Corporation (HOSE: LHG) or Sonadezi Long Thanh (HOSE: SZL) with gross margins at 75% and 60% respectively. We suppose that this is due to the higher rental price in the southern industrial parks thanks to a solid demand from more diverse industries and better infrastructure.

Figure 18: Gross margin of KBC's core business lines



Source: KBC

Figure 19: Avg. gross margin

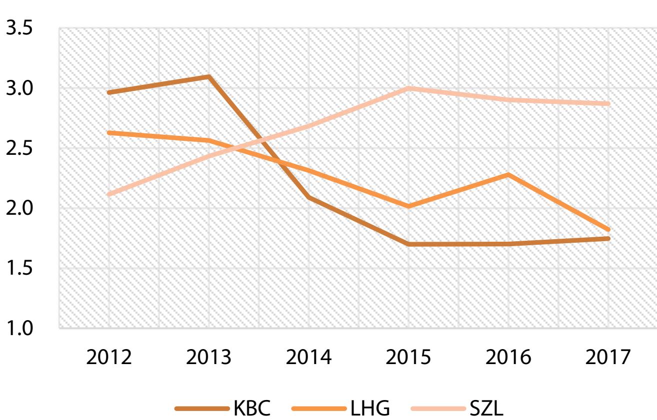


Source: KBC, RongViet Securities compiled

Debt restructuring partly contributes to improve operating efficiency.

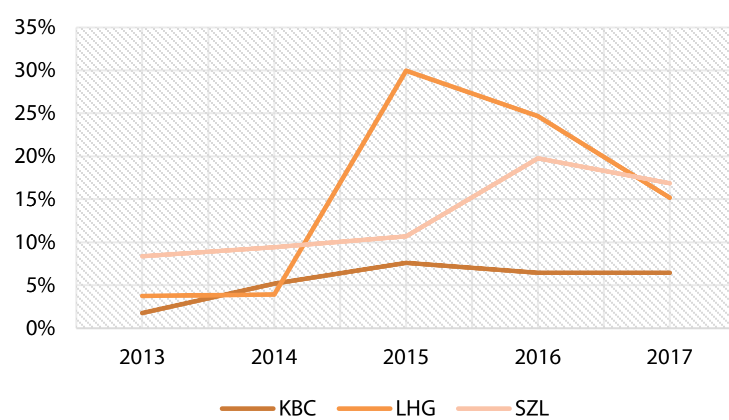
KBC's was highly leveraged between 2011 and 2013. Debt restructuring since 2014 appeared to boost operating performance. However, based on ROE analysis, we see that the contribution from this restructuring is not significant. Leverage is lower than peers at about 1.7 times since 2014 and we have not seen any significant improvement in ROE. Other players have higher leverage and achieve better performance. The company has recently increased its debt financing for incoming projects. We therefore expect efficiency to be improved by better operations.

Figure 20: KBC's leverage compared to peers (times)



Source: RongViet Securities Compiled

Figure 21: KBC's ROE compared to peers (%)



Source: RongViet Securities Compiled

FORECAST

Our forecast includes industrial park and urban areas. Within the industrial park operations, we project income from seven current main IPs from three segments: industrial park sales, warehouse sales & lease and utility services. Within the urban area business, our forecast is based on Phuc Ninh UA. We do not incorporate Trang Due 3 IP and Trang Cat UA into our forecasts since we do not have enough information at this time.

Table 04: Revenue and gross profit forecasts

	FY2018F	FY2019F	FY2020F	FY2021F
Revenue	**2,325**	**2,192**	**2,073**	**2,236**
Que Vo 1	115	92	93	52
Que Vo 2	359	352	358	377
Quang Chau	573	334	352	363
Trang Due 1	72	42	43	43
Trang Due 2	412	396	169	80
Nam Son Hap Linh	-	186	222	432
Tan Phu Trung	223	335	351	369
Phuc Ninh	572	454	485	519
Gross profit	**1,318**	**1,130**	**1,154**	**1,222**
Que Vo 1	94	76	77	45
Que Vo 2	232	231	247	266
Quang Chau	305	191	207	217
Trang Due 1	46	32	32	32
Trang Due 2	191	174	89	62
Nam Son Hap Linh	(3)	21	51	100
Tan Phu Trung	23	67	80	94
Phuc Ninh	430	340	371	405

Source: RongViet Research forecast

In 2017, KBC recorded revenue and NPAT-MI of VND1,260 billion (-36 % yoy) and VND584 billion (+5 % yoy), respectively. The decline in sales comes from a downturn in its core business. In particular, IP sales experienced a tough time, decreasing by 56% compared to the previous year. However, VND354 billions of financial income from transferring the Lotus project backed up the bottom line.

In 2018, we expect a rebound in performance thanks to high-base of foreign capital in the previous year and the turning of pending projects. In terms of industrial park leasing activities, we believe most revenue will come from Quang Chau in Bac Giang and Trang Due 2 in Hai Phong. Particularly, we expect these two industrial parks to contribute about 20 - 25 ha leased per year. We assume Nam Son Hap Linh is going to welcome the first investors on the site by 2019. From then on, we expect Nam Son Hap Linh and Que Vo 2 to lease about 15-20 ha per year. On the other hand, the southern industrial park – Tan Phu Trung, has abundant remaining leasable land of about 217 ha. We still expect about 10-15 ha to be rented out every year from Tan Phu Trung IP.

Table 05: Assumptions on contribution from KBC's current industrial parks

	Remaining leasable land (ha)	Avg. selling price (USD/m²)	Avg. area leased per year (ha)	Expected revenue (VND bn)
Que Vo 2	56	73	15 - 20	246 – 329
Quang Chau	143	60	20 - 25	270 – 338
Trang Due 2	31	85	20 - 25	383 - 478
Nam Son Hap Linh (**)	233	70	15 - 20	236 - 315
Tan Phu Trung	217	75	10 -15	169 - 253
Total	**680**	**73**		**1,304 - 1,712**

(*) Exchange rate: VND/USD = 22,500

(**) Since 2019

Source: RongViet Securities estimated

In terms of the Phuc Ninh urban area, our forecast includes 10 ha leasable land for lots and villas. We assume that sales will progress gradually. We therefore project revenue flows from Phuc Ninh to be realized in the coming years. Based on our estimation, there are around 500 land lots with an area of 120m^2/unit and about 100 villas with an area of 360m^2/unit for the first phase of the project. At present, we do not have enough information regarding the following steps for Phuc Ninh.

Our projection assumes that 2 ha land in Ha Noi will be transferred in 2019. The project currently cost about VND102 billion. Accordingly, the company's bottom line in 2019 is going to be bolstered by the expected one-off sale.

Table 06: Income statement forecast

	FY2016	FY2017	FY2018F	FY2019F
Revenue	**1,972**	**1,260**	**2,325**	**2,192**
COGS	865	611	1,007	1,061
Gross profit	**1,107**	**650**	**1,318**	**1,130**
Selling expense	33	22	43	40
G&A expense	121	155	134	127
Financial income	39	431	43	314
Financial expense	99	109	326	338
Other income/loss	7	(2)	(2)	(2)
Gain/(loss) from JV	22	19	19	19
PBT	**921**	**812**	**875**	**957**
Tax expense	210	193	119	101
Minority interests	154	34	44	48
PAT	**557**	**585**	**712**	**808**
EBIT	953	473	1,141	964
EBITDA	981	513	1,167	989

Source: RongViet Securities

We believe interest expense to increase considerably in 2018 and 2019. This is partly reflected in Q1-2018 result; in which, interest expense increased 209% qoq.

VALUATION

We use a DCF method for KBC. The company has been generating positive cash flow annually from industrial park operations, including leasing activities and ancillary services. Our valuation is based on Phuc Ninh's urban area and the current seven industrial parks: Que Vo 1, Que Vo 2, Quang Chau, Trang Due 1, Trang Due 2, Tan Phu Trung and Nam Son Hap Linh with expected launch in 2019.

Table 07: KBC's valuation

(Unit: VND Bn)	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F
EBIT	**1,141**	**964**	**996**	**1,052**	**727**
Plus: Depreciation	27	25	27	27	28
Less: Tax	(119)	(101)	(109)	(114)	(77)
Less: Capex	(16)	(16)	(16)	(13)	(14)
Less: increase in WC	(707)	76	(299)	(249)	817
FCFF	**325**	**948**	**599**	**702**	**1,480**
WACC	12.4%				
Discount Factor	0.89	0.79	0.70	0.63	0.56
Present Value of FCFF	**289**	**750**	**422**	**440**	**824**

Due to the current high debt and lack of transparency, we come up with a WACC of 12.4%.

WACC Calculation	
Risk free rate	4.0%
Beta	0.708
Cost of equity	13.2%
Cost of debt	9.5%
E/(D+E)	84%
D/(D+E)	16%
Tax rate	12.6%
WACC	**12.4%**

Enterprise Value (VND Bn)	
Cumulative PV of FCFF	2,726
Terminal Value	14,156
g FCFF	2.5%
Discount Factor	0.56
PV of Terminal Value	7,886
% of EV	74%
Enterprise Value	**10,611**

Based on our estimation, KBC should be fairly priced at **VND16,270/share**.

Valuation	
Enterprise Value	**10,611**
Less: Total debt	(2,722)
Plus: Cash and cash equivalents	505
Less: Minority interest	(750)
Implied equity value	**7,643**
Number of outstanding shares (mn)	470
Price per share	**16,270**
Forward EV/EBITDA	10.1
Forward P/E	12.9

Source: RongViet Securities

INDUSTRIAL PROPERTIES INDUSTRY OVERVIEW

Several efforts have been taken by the Government to improve the quality of infrastructure and services.

The potential for industrial real estate is becoming enormous given the increasing flows of FDI and the expansion of domestic production. However, Vietnamese developers have to face intense competition with other industrial park operators in ASEAN countries, especially Indonesia who has been offering great incentives to industrial investors.

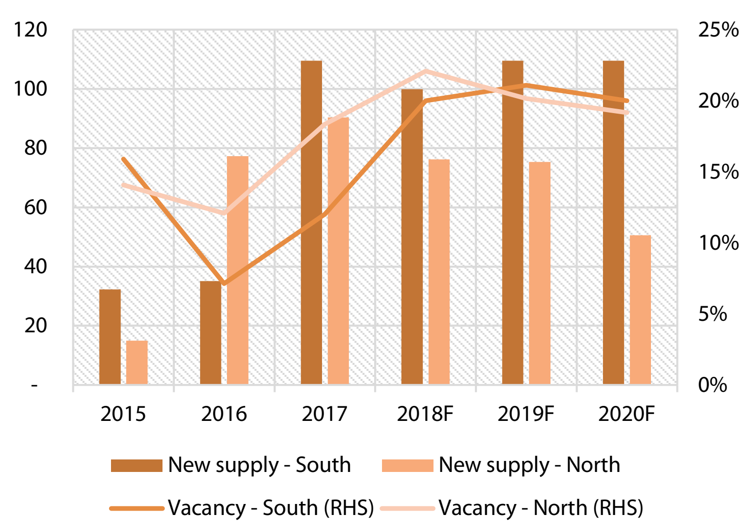
Vietnam's Government has been pushing to improve its competitive advantage by improving the transportation system. Highways, bridges and seaports are being renovated and expanded. According to the Asian Development Bank, Vietnam's infrastructure investment in both public and private sectors reached an average of 5.7% of GDP in recent years. This is the highest level in Southeast Asia and only trails China at 6.8%. In late Q1-2018, Prime Minister Nguyen Xuan Phuc approved a USD 921 million-infrastructure investment in economic and industrial zones. The package targets coastal and EZs, industrial clusters and hi-tech zones. The plan will focus on building roads, drainage works, power system and waste water treatments centers with a capacity of 13,000 m3/day.

On the other hand, demand for industrial land is expected to increase due to the improvement in manufacturing activity and a significant demand for logistics-based warehouses.

(1) Manufacturing production is reported to reach VND3,374 billion (+28.4% yoy) in Q1 2018. The rise is attributable to textiles (+23%) and mostly computers, electronics and optical products (+38%). Recently, Vinfast announced that they would locate their automobile factory in Hai Phong. This should bring foreign suppliers to the area and eventually increase the demand for lease space.

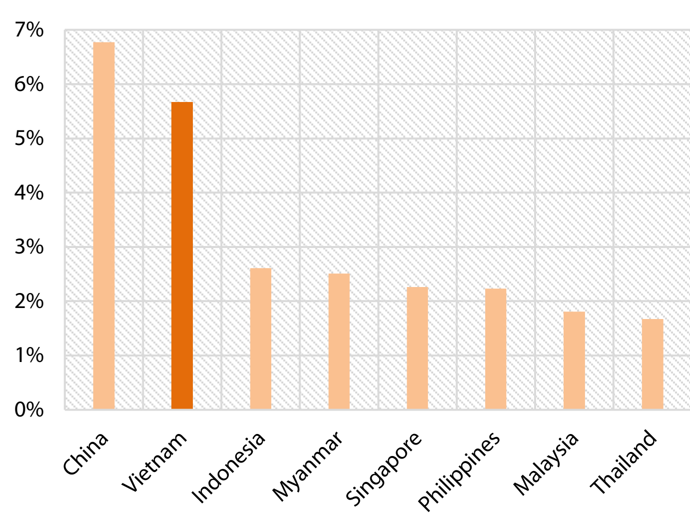
(2) The fast growing of e-commerce is in line with consumer spending and is a new driver for IP leasing activities. Retailers have entered the Vietnam market, namely Alibaba, JD.com, Tencent and Amazon. This creates an increase for warehouse demand. This is associated with a recent trend in the Asia logistics market, driven by the expansion of 3PLs suppliers, e-commerce and automotive manufacturing. According to CBRE, the warehouse index of Asia Pacific increased 1.1% in Q1 2018.

Figure 22: New supply NFA ('000 sm) and vacancy



Source: CBRE

Figure 23: Infrastructure investment as proportion of GDP



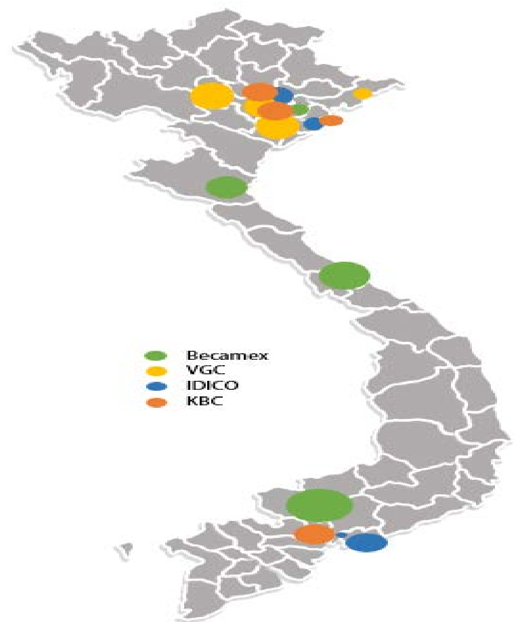
Source: ADB

Industrial parks are different among regions and belong to several big players.

Among more than 325 industrial parks across Vietnam, there are two main clusters in the north and the south. A majority of land bank belong to big developers such as: Becamex, VGC, IDICO and KBC. As shown below, Becamex owns largest land bank across Vietnam with several famous IPs such as: a series of VSIP industrial parks and My Phuoc IPs in Binh Duong. These two clusters account for 5,422 ha industrial land. VGC and KBC are the two main northern developers with notorious high-tech tenants like Samsung Electronics and LG Display. IDICO's industrial hubs spread in both the north and the south.

Table 08: Allocation of available remaining area (ha) from current industrial developers

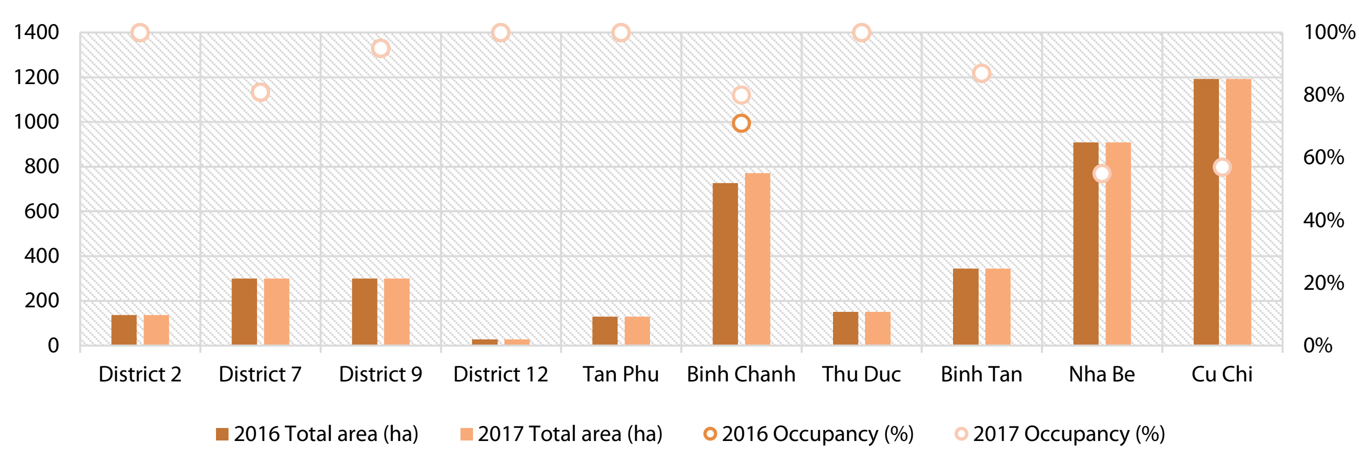
	Becamex	VGC	IDICO	KBC
Bac Ninh	-	198	158	122
Hai Phong	-	-	-	31
Quang Ninh	-	82	-	-
Bac Giang	-	-	-	143
Thai Binh	-	-	123	-
Ha Nam	-	212	-	-
Phu Tho	-	235	-	-
Nghe An	236	-	-	-
Quang Ngai	378	-	-	-
Hai Duong	98	-	-	-
Ba Ria - Vung Tau	-	-	252	-
Dong Nai	-	-	25	-
Binh Duong	1,135	-	-	-
HCMC	-	-		217
Total	**1,847**	**727**	**558**	**513**



Source: RongViet Securities compiled and estimated

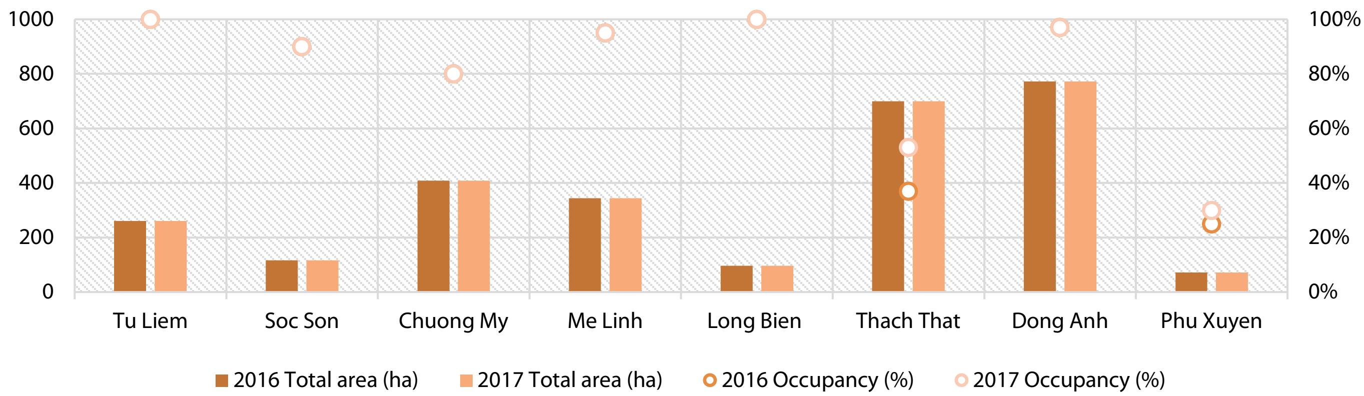
Of the southern hubs, HCMC is the largest recipient of foreign investment. Most industrial zones with favorable location in HCMC are almost sold out, tenants are therefore moving to the vicinity such as Long An, Dong Nai and Binh Duong. The industries vary from location. From what we observe, most hi-tech enterprises cluster near HCMC while labor-intensive or heavy industries scattered in Binh Duong and Dong Nai.

Figure 24: HCMC's IPs total area and occupancy rate, 2016 - 2017



Source: Colliers International

Figure 25: Ha Noi's IPs total area and occupancy rate 2016 - 2017



Source: Colliers International

In terms of current area of industrial land, IP hubs in HCMC are greater in scale with current total area of 4,261 ha – which is 1.5 times larger than that of Ha Noi. Meanwhile, current occupancy rate in Ha Noi's IPs cluster has reached 81% compared to 72% leased in HCMC, albeit the absolute increase is the same, about 110 ha per year. We expect lease area to increase 6% and 4% in Ha Noi and HCMC, respectively. Available leasable land in the north is narrowing after the expansion period of high-tech giants, especially Samsung Electronics and LG Electronics. The demand is still believed to be on the rise given optimistic GDP growth, opulent FDI and manufacturing index rebound in 2017. Ecosystems including electronic components and accessories warehouses with close proximity is also an important factor for the next satellites to keep breaking ground.

In terms of asking rental price, landlords in HCMC own pricing power thanks to solid demand for available clear land bank accompanied with well-equipped infrastructure while the supply remains the same. Furthermore, healthy absorption in the region underpinned by flourishing economic prospects can lead to excess demand in upcoming years. HCMC's current average rental price is about USD141/m^2 for a lease term of 35 years. Tan Thuan Export Processing Zone, Vinh Loc Industrial Park pose the most expensive fee of USD250-260/m^2. IPs in Cu Chi and Nha Be has the lowest occupancy rate as well as rental fee due to unfavorable location and inefficient execution. Ha Noi and other northern provinces, on the other hand, charge a lower price of about USD110/m^2 and USD74/m^2 respectively for a longer 50-year term. Selling price is expected to increase 2% per year in the next 5 years.

Unit: VND billion

INCOME STATEMENT	2016A	2017A	2018F	2019F
Revenue	1,972	1,260	2,325	2,192
COGS	865	611	1,007	1,061
Gross profit	**1,107**	**650**	**1,318**	**1,130**
Selling expense	33	22	43	40
G&A expense	121	155	134	127
Financial income	39	431	43	314
Financial expense	99	109	326	338
Other income/loss	7	(2)	(2)	(2)
Gain/(loss) from JV	22	19	19	19
PBT	**921**	**812**	**875**	**957**
Tax expense	210	193	119	101
Minority interests	154	34	35	38
PAT	**557**	**585**	**721**	**818**
EBIT	953	473	1,141	964
EBITDA	981	513	1,167	989

Unit: %

FINANCIAL RATIO	2016A	2017A	2018F	2019F
Growth				
Revenue	37.5%	-36.1%	84.5%	-5.7%
EBITDA	106.9%	-47.7%	127.8%	-15.3%
EBIT	113.9%	-50.4%	141.3%	-15.5%
PAT	-8.9%	4.9%	23.3%	13.5%
Total Asset	7.4%	7.7%	8.0%	0.9%
Total Equity	7.5%	7.6%	2.9%	9.6%
Profitability				
Gross profit margin	56.1%	51.6%	56.7%	51.6%
EBITDA margin	49.7%	40.7%	50.2%	45.1%
EBIT margin	48.3%	37.5%	49.1%	44.0%
Net profit margin	28.3%	46.4%	31.0%	37.3%
ROA	3.8%	3.7%	4.2%	4.8%
ROIC or RONA	8.4%	3.8%	8.6%	7.0%
ROE	7.2%	7.1%	8.4%	8.7%
Efficiency (x)				
Receivables turnover	0.5	0.3	0.4	0.4
Inventories turnover	0.1	0.1	0.1	0.1
Payables turnover	0.3	0.3	0.4	0.3
Liquidity (x)				
Current	3.9	4.1	3.9	4.3
Quick	1.4	1.6	1.6	1.8
Financial Structure				
Total debt/ Equity	25.5%	32.8%	35.8%	19.5%
ST debt / Equity	11.2%	13.7%	12.8%	3.4%
LT debt/ Equity	14.3%	19.2%	23.0%	16.1%

Unit: VND billion

BALANCE SHEET	2016A	2017A	2018F	2019F
Cash and cash equivalents	295	505	408	244
Short term investment	1	1	1	1
Accounts receivable	4,382	4,744	5,580	5,787
Inventories	8,244	8,323	8,760	8,917
Other current assets	89	158	166	174
Tangible Fixed Assets	445	404	427	319
Intangible Fixed Assets	0	0	0	0
Long term investment	893	912	931	950
Other non-current assets	309	734	770	809
Total Asset	**14,658**	**15,780**	**17,044**	**17,201**
Account Payable	2,503	2,187	2,754	3,193
Short term borrowings	863	1,132	1,095	317
Long term borrowings	1,105	1,591	1,958	1,502
Other non-current liabilities	1,559	1,825	1,916	2,012
Bonus and Welfare fund	7	7	7	7
Technology – Science dev fund	0	0	0	0
Total Liabilities	**6,036**	**6,742**	**7,730**	**7,031**
Common stock and APIC	5,746	5,746	5,841	5,841
Treasury stock	(364)	(364)	(269)	(269)
Retained Earnings	2,319	2,905	2,955	3,773
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	2	2	2	2
Total Equity	**7,703**	**8,288**	**8,530**	**9,347**
Minority Interest	918	750	785	823
Total Resources	**14,658**	**15,780**	**17,044**	**17,201**

CASH FLOW STATEMENT	2016A	2017A	2018F	2019F
Profit before tax	921	812	875	957
Depreciation	27	35	27	25
Adjustment	32	(320)	-	-
Working capital	(70)	(466)	(834)	(33)
Net Operating CFs	**910**	**61**	**67**	**949**
Fixed Asset	(74)	(76)	(112)	(94)
Deposit, equity investment	(206)	(921)	(532)	(647)
Interest, dividend, cash profit received	27	374	392	412
Net Investing CFs	**(253)**	**(623)**	**(251)**	**(329)**
Capital	-	-	95	-
Debt	(589)	754	330	(1,234)
Dividend paid & other	(294)	17	(338)	450
Net Financing CFs	**(589)**	**772**	**87**	**(783)**
Net Cash flow	67	209	(96)	(163)
Beginning cash & equivalents	**228**	**295**	**505**	**408**
Effect of exchange rate	0,0	0,0	0,0	0,0
Ending cash & equivalents	**295**	**505**	**408**	**244**

Initial Coverage

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 that 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.

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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