April, 2020

KINH BAC DEVELOPMENT HOLDING CORP (HSX: KBC)

Leases Remain Stable

ACCUMULATE	**+17%**
Target price (VND)	14,200
Current market price (VND)	12,150

(VND bn)	*4Q-FY19*	*4Q-FY18*	*+/- qoq*	*3Q-FY19*	*+/- yoy*
Net revenue	763	917	-17%	845	-10%
PAT	355	110	224%	258	37%
EBIT	568	262	117%	392	45%
EBIT margin	74.4%	28.6%	4,600bps	46.4%	2,800bps

Source: KBC, Rong Viet Securities

FY2019 - Bottom line at an all-time high due to high demand for leasing

- Net sales and NPATMI came at VND 3,209 billion (+28% YoY) and VND 918 billion (+23% YoY), fulfilling 82% and 103% of the year's target, respectively. The company fulfilled 86% and 99% of our forecasts.
- Land leases reached 107 ha (-3% YoY). However, leasing sales jumped to a new peak, VND 2,288 billion, (+13% YoY). Rental rates continued to soar by 10-15% YoY thanks to high demand for leasing.
- The Phuc Ninh's handover was postponed, due to prolonged legal issues. During Q4 2019, KBC completed the delivery of 4 ha of commercial land in the Trang Due's urban area instead, bringing VND 540 billion in revenue.

FY2020 - Expecting cashflow from urban area sales & the kick off in Nam Son Hap Linh

- Total land area in Phuc Ninh and Trang Due being sold but not recorded as revenue is 17 ha, equivalent to revenue of VND 2,100 billion. We assume KBC will hand over 6 ha of land in Trang Due in 2020, and not record any profit from Phuc Ninh due to legal problems. Accordingly, revenue and gross profit for the residential segment will be VND 600 billion and VND 300 billion, respectively.
- We expect the company to lease out 87 ha (-19% YoY). Quang Chau is expected to contribute 41% of total land leased. Our forecast includes the first contribution from Nam Son Hap Linh, which is 32 ha. We maintain a conservative view, because: 1) Coronavirus 2) Leasing demand is also affected by weaker global demand.
- Projected revenue and NPATMI will be VND 2,650 billion (-17% YoY) and VND 850 billion (-7% YoY), respectively.

Valuation and recommendation

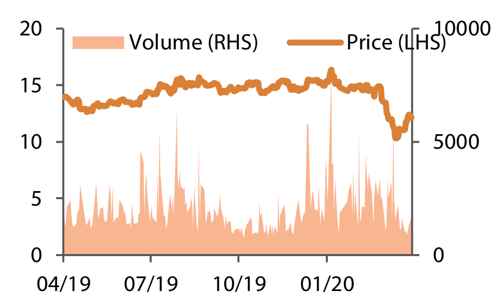
Our view on KBC's core business remains positive, but not so strong about leasing demand. KBC possesses an ample land bank, coupled with premium locations in the north of the country. The two industrial parks, Quang Chau and Tan Phu Trung, with the remaining 230 hectares of commercial land will ensure stable cash inflow in the short and medium term. The driving force for growth will come from the prospect of 300 hectares of land bank in Nam Son Hap Linh (Bac Ninh) probably exploited from 2020 onwards. There is a global mobile manufacturing company signing MOU land lease contract of 60 ha with KBC. Regarding legal procedures of the Nam Son Hap Linh, KBC expects to have the paper done in 2020 and could welcome its very first tenants from around the second half. Assuming that the coronavirus is under control by June 2020, we believe that leasing activities may come back in 2H 2020.

*Our current target price is **VND 14,200 per share** under our RNAV calculation. We have an **ACCUMULATE** rating for now. Our fair value suggests a 17% upside potential and a forward FY2020 P/E of 8.1x, based on the closing price on April 07, 2020.*

Stock Info	
Sector	Real Estate
Market Cap (VND billion)	5,520
Current Shares O/S	469,760,000
Avg. Daily Volume (in 20 sessions)	2,759,820
Free float (%)	71.4
52 weeks High	16,350
52 weeks Low	10,350
Beta	0.82

	FY2019
EPS	1,957
EPS Growth (%)	23%
Diluted EPS	1,957
P/E	7,9
P/B	0,8
Cash dividend yield (%)	6,5
ROE (%)	10%

One-year price performance



Major Shareholders (%)	
Mr. Dang Thanh Tam	16.1
Kinh Bac Investment & Consulting	9.5
Foreign ownership room (%)	25.8

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Exhibit 1: 4Q FY2019 Results

(VND Bn)	4Q-FY19	3Q-FY19	+/-(qoq)	4Q-FY18	+/-(yoy)
Net revenue	763	917	-16.7%	845	-9.7%
Gross profit	635	367	73.1%	509	24.7%
SG&A	67	105	-36.3%	117	-43.1%
Operating income	568	262	116.8%	392	44.9%
EBITDA	585	275	112.6%	405	44.6%
EBIT	568	262	116.8%	392	44.9%
Financial expenses	58	57	1.6%	38	51.9%
- Interest Expenses	49	51	-3.8%	34	43.8%
Dep. and amortization	17	13	30.5%	13	33.7%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	521	221	136.2%	375	38.8%
PAT	355	110	223.9%	258	37.5%
(*) Adjusted PAT	355	110	223.9%	258	37.5%

Source: KBC, Rong Viet Securities

Exhibit 2: 4Q FY2019 Performance Analysis

Particulars	4Q-FY19	3Q-FY19	+/-(qoq)	4Q-FY18	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	83.2%	40.0%	4,310bps	60.2%	2,290bps
EBITDA Margin	76.7%	30.0%	4,660bps	47.9%	2,880bps
EBIT Margin	74.4%	28.6%	4,580bps	46.4%	2,800bps
Net Margin	46.5%	12.0%	3,450bps	30.6%	1,590bps
Adjusted Net Margin	46.5%	12.0%	3,450bps	30.6%	1,590bps
Turnover *(x)					
-Inventories	0.1	0.3	-0.2	0.2	-0.1
-Receivables	0.5	0.6	-0.1	0.6	-0.1
-Payables	0.2	0.8	-0.6	0.5	-0.3
Leverage (%)					
Total Debt/ Equity	28.4%	40.3%	-1,200bps	39.1%	-1,070bps

Source: Rong Viet Securities, (*) Annualized turnover

Exhibit 3: 1Q FY2020 Performance Forecast

Particulars (VND Bn)	1Q-FY20	+/- qoq	+/- yoy
Revenue	317	-59%	-37%
Gross profit	136	-79%	-44%
EBIT	113	-79%	-9%
NPAT	76	-79%	-15%

Source: Rong Viet Securities

Update

Industrial park leases exceeded expectations in FY2019

KBC has seen a booming year with revenue of VND 3,209 billion (+28% YoY) and VND 918 billion of NPAT (+23% YoY), fulfilling 82% and 103% of the year's target. The company achieved 86% and 99% of our forecasts. The growth driver was the accelerating sales in industrial parks, contributing 66% to the total gross profit. Key notes:

- Land & infrastructure leases rose by 107 ha (-3% YoY). However, revenue peaked at VND 2,288 billion (+ 13% YoY) due to an increase in the average rental rate of 10-15% YoY across industrial zones. The result exceeded 16% and 22% of our expectations for gross profit and leased area, respectively. Specifically, Quang Chau contributed 63% of the total leased area with 68 ha (+ 362% YoY), while Tan Phu Trung also recorded 17 hectares leased (+ 59% YoY). The rental price in these two industrial zones increased by 10-15% during the year. Gross profit margin was 53%, compared to the average of 50% in the period of 2014-2019. The remaining 12 ha of leased area was from Que Vo 2 and Trang Due 2 industrial parks.

  Rental results are supported by, as our previous expectations, stable demand from electronics enterprises and partly from the trend of relocating production from China. The expansion in the supply chain of FDI enterprises helps maintain the demand for rent in the northern region. The US-China trade dispute has been creating opportunities for large contracts. Some big deals have been signed or are under negotiation. Selling expenses will remain at the same level as 2018's (VND 142 billion). Commission for brokerages are a major part of that.

- 4 ha in Trang Due, equivalent to VND 540 billion in revenue (+480% YoY). Phuc Ninh's handover is possibly postponed, with only revenue of 2 billion recognized in 2019. That is compared to the company's estimation of approximate 4 ha being handed over in 2019. Currently, the legal procedures have not been completed.

  The handover at Trang Due Industrial Park was sufficient to cover the shortage of profit for the whole year. Currently, the company has sold 12 ha of commercial land, equivalent to more than 1,200 billion VND in sales. Unlike the Phuc Ninh Urban Area, the legal status in Trang Due has been completed and the company can hand over the total remaining. The handover progress will depend on KBC's plan in the next AGM.

Table 1: FY2019 revenue breakdown (VND billion) and gross margin (%)

	Revenue		Gross margin	
	(VND billion)	+/- YoY	FY2019	FY2018
Land & infrastructure lease	2,288	13%	53%	61%
Warehouse sales	100	-44%	66%	57%
Warehouse lease	48	30%	73%	67%
Services	236	44%	43%	44%
Properties sales	540	480%	52%	79%
Total	**3,250**	**30%**	**57%**	**59%**

Source: KBC

Table 2: Leasing status of KBC's industrial parks at the end of FY2019

	Total area	Total leasable area	Leased land		Occupancy	Remaining leasable land
	(ha)	(ha)	FY2018	+/- YoY	(%)	(ha)
Que Vo 2	300	171	8	-85%	100	-
Quang Chau	426	276	68	362%	78	61
Trang Due 2	214	133	4	-84%	100	-
Nam Son Hap Linh	332	213	-	-	0	213
Tan Phu Trung	543	314	27	59%	45	172
Trang Due 3	687	456	-	-	0	456
Total	**3,001**	**1,884**	**107**	**-3%**		**902**

Source: KBC, Rong Viet Securities

Expecting a notable handover amount from Trand Due UA and the launch of Nam Son Hap Linh in FY2020.

Our FY2020 projected revenue is for a decrease of 17% to VND 2,650 billion and NPATMI dropping by seven percent to VND 850 billion. Gross margin of industrial parks will shrink to 52%. Here are our key assumptions:

- Land & infrastructure leases to reach 87 ha (-19% YoY), bringing VND 1,703 billion in revenue, down 26% YoY. Estimated gross profit margin decreases to 52% compared to 53% in 2019. The average rental price will be USD85 / m2 (-8% YoY). The reason for the decrease in the average rental price is due to the rental rate in Nam Son Hap Linh which is lower than the average rental price in 2019. FY2020 no longer contributes from high-rental-rate areas likes Trang Due or Que Vo.

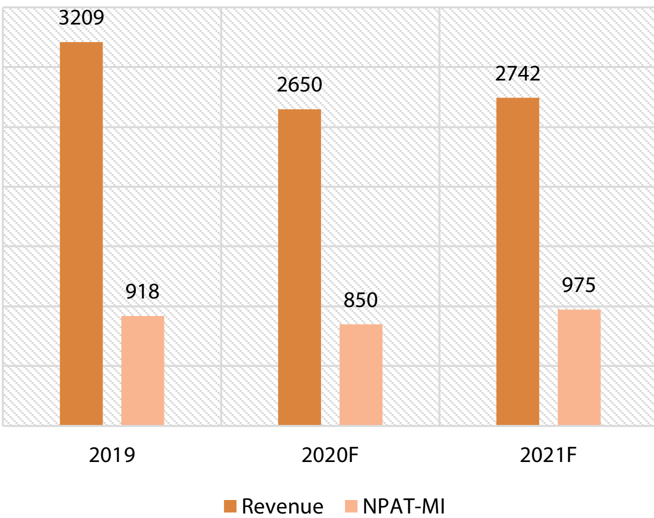
  Leasing area include **(1) 36 ha in Quang Chau, (2) 32 ha in Nam Son Hap Linh and (3) 19 ha in Tan Phu Trung**. We assume that Nam Son Hap Linh, estimated at 213 ha of commercial land, will begin construction work from about 3Q. The project is temporarily postponed due to the adjustment of the general planning of urban areas in Bac Ninh City. By end-2019, Bac Ninh province has approved the adjustment of industrial park planning, thereby reducing the total area to around 300 hectares. According to KBC, there are about 100 ha of land area compensated and 66 ha available for sale in Nam Son Hap Linh. We believe this industrial park will contribute in terms of rental area from 2020 onwards. There is a global mobile manufacturing company signing an MOU land lease contract of 60 ha with KBC.

- Handover of 6 ha land commercial in the Trang Due urban area, equivalent to VND 600 billion in revenue. Gross profit margin is estimated at 50%. The delivery plan depends on KBC's willingness. Currently 12 ha/17 ha of clean commercial land have been sold and wait for handover. In 2019, KBC recorded 4 ha in sales, thereby, the remaining total of 12 ha, equivalent to VND 1,200 billion, will gradually be recorded as revenue in 2020-2021. For the Phuc Ninh urban area, we have not included the handover plan in 2020 due to the risk of prolonged legal process. Moreover, the recognition of Trang Due also helped KBC to partly relieve the pressure from profit growth. Up to date, KBC has sold nearly 5 ha of commercial land of Phuc Ninh UA with a total value of nearly VND 900 billion.

- We estimate that SG&A expenses will be lower than in 2019 at about VND 199 billion (-36% YoY). In 2020, KBC will also continue to issue a maximum of VND 1,000 billion bond value to fund the development costs of industrial parks likes Quang Chau and Nam Son Han Linh. We estimate that the cash flow from leasing activities will remain positive (cash flow from operating and investment activities is estimated at VND 700 billion). As a result, we use a base-case scenario of issuance of no more than VND 500 billion bond over the year. Thereby, the total debt by the end of the year should be about VND 1,700 billion (-10% YoY), reducing interest expenses to VND 189 billion (-15% YoY).

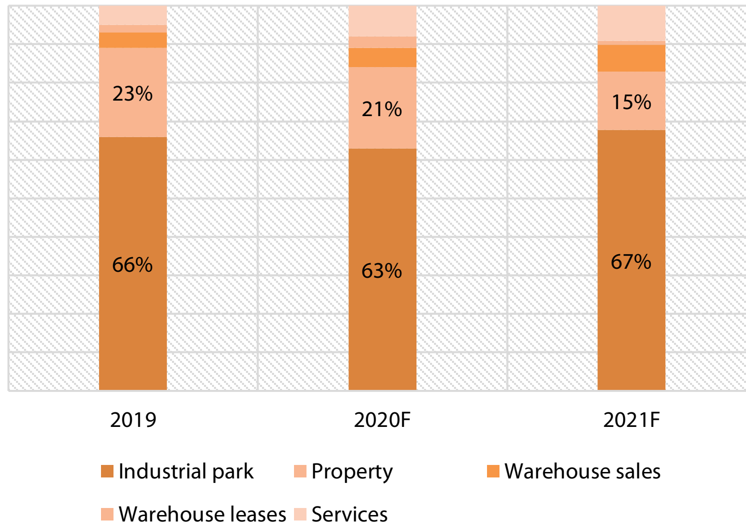
- For Q1 2020, we estimate that revenue and profit will be VND 317 billion (-37% YoY) and VND 76 billion (-15% YoY), respectively. The first quarter of the year is not a peak season for profit recognition. The Covid-19 virus epidemic could partly affect the construction and handover progress of industrial parks. Accordingly, we forecast that the company will hand over 10% of total land sales for the whole year (~ 9ha) and three factories during the first quarter, corresponding to revenue of VND 213 billion and VND 81 billion, respectively.

Figure 1: Forecasted revenue and NPATMI (VND billion)



Source: Rong Viet Securities

Figure 2: Revenue breakdown (%)



Source: Rong Viet Securities

Valuation

Using the RNAV method, we arrived at a target price of **VND 14,200**, 13% lower than our valuation in the 2020 strategy report published on 1/1/2020, due to: 1) The discount rate applied for projects is 15.0%, and 2) The discount rate applied for Trang Cat project in 30%. Accordingly, FY2020 P/E of 8.1x and a total return of 17%, based on the closing price on April 07, 2020.

As mentioned in the previous report, we believe that **(1) Trang Due 3 to be off the ground** and (2) **the possibility of Trang Due Urban Area (42 ha) to be transferred or deployed** are the potentials for higher upside for the stock. Nam Son Hap Linh to kick off and Trang Due 3 to obtain investment license in FY2020 will be the best case scenario. Current high rental demand in Bac Ninh and Hai Phong are the drivers. For the time being, our forecast and valuation are based on a conservative scenario and do not include the contribution from Trang Due 3.

Table 3: KBC valuation (VND billion)

Projects	Valuation Method	NPV	Ownership (%)	Effective NPV
Que Vo 1 & 2	DCF	338	100	338
Quang Chau	DCF	1.368	78	1.066
Trang Due 1 & 2	DCF	269	87	233
Nam Son Hap Linh	DCF	1.262	100	1.262
Tan Phu Trung	DCF	1.404	72	1.017
Industrial Parks		**4.642**		**3.916**
Phuc Ninh Urban Area	**DCF**	**759**	**100**	**759**
Trang Cat	**BV**	**2.455***	**100**	**2.455**
Trang Due Urban Area	**BV**	**1.001**	**87**	**866**
Revaluation Value				**7.996**
(-) Net Debt				-1.926
Net Asset Value				**6.727**
Total outstanding shares (million shares)				469
Value Per Share (dong)				**14.200**

(*) 30% discount to Book value @31 Dec 2019

Source: Rong Viet Securities

(VND Billion)

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	2,506	3,209	2,650	2,742
COGS	1,039	1,363	1,186	1,207
Gross profit	1,467	1,846	1,464	1,536
Selling Expense	142	142	41	39
G&A Expense	165	172	158	150
Finance Income	95	80	100	114
Finance Expense	194	223	189	141
Other profits	-26	-27	-7	-18
Gain/loss in associates	13	0	11	8
PBT	1,049	1,363	1,180	1,310
CIT	238	309	208	230
Minority's Interest	63	122	123	105
PAT to Equity S/H	747	918	850	975
EBIT	1,160	1,532	1,265	1,347
EBITDA	1,201	1,586	1,301	1,391

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth				(%)
Revenue	98.8%	28.1%	-17.4%	3.5%
Operating Income	134.4%	32.0%	-17.9%	6.9%
EBITDA	145.4%	32.1%	-17.5%	6.5%
PAT	27.9%	24.6%	-8.8%	14.7%
Total Assets	7.6%	-2.6%	5.1%	2.2%
Equity	9.0%	4.2%	9.0%	9.5%
Profitability				(%)
Gross margin	58.5%	57.5%	55.2%	56.0%
EBITDA margin	47.9%	49.4%	49.1%	50.7%
EBIT margin	46.3%	47.8%	47.7%	49.1%
Net margin	29.8%	29.0%	32.1%	35.5%
ROA	4.4%	5.6%	4.9%	5.5%
ROE	8.8%	11.3%	8.6%	9.1%
Efficiency				(times)
Receivable Turnover	0.4	0.6	0.5	0.5
Inventory Turnover	0.1	0.2	0.2	0.2
Payable Turnover	0.4	0.6	0.6	0.6
Liquidity				(times)
Current	3.9	4.7	5.2	5.0
Quick	1.6	2.2	2.5	2.6
Finance Structure				(%)
Total Debt/Equity	27.5%	20.4%	16.9%	9.1%
Current Debt/Equity	12.8%	8.8%	5.7%	8.1%
Long-term Debt/Equity	14.8%	11.7%	11.2%	1.0%

(VND Billion)

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	224	653	624	1,479
Short-term investments	3	3	3	3
Accounts receivable	5,799	5,516	5,879	5,657
Inventories	8,593	7,605	7,339	7,107
Other current assets	196	198	238	285
Property, plant & equipment	483	1,524	1,474	1,461
Acquired intangible assets	0	0	0	0
Long-term investments	947	865	878	891
Other non-current assets	728	162	934	864
Total assets	**16,973**	**16,527**	**17,368**	**17,748**
Accounts payable	2,681	2,127	2,138	1,979
Short-term borrowings	1,154	826	583	914
Long-term borrowings	1,333	1,100	1,152	112
Other non-current liabilities	1,959	2,031	1,876	1,839
Bonus and Welfare fund	7	7	7	7
Technology-science, dev. fund	0	0	0	0
Total liabilities	**7,134**	**6,090**	**5,755**	**4,851**
Common stock and APIC	5,746	5,746	5,746	5,746
Treasury stock (enter as -)	-364	-364	-364	-364
Retained earnings	3,652	4,036	4,885	5,860
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	2	2	2	2
Total equity	**9,036**	**9,420**	**10,269**	**11,244**
Minority Interest	**803**	**1,017**	**1,343**	**1,653**

VALUATION RATIO	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	1,591	1,820	1,811	2,018
P/E (x)	7.7	8.5	6.2	5.4
BV (VND)	18,990	19,802	21,500	23,600
P/B (x)	0.6	0.8	0.5	0.5
DPS (VND/share)	-	1,000	-	-
Dividend yield (%)	-	6.5	-	-

VALUATION MODEL	Price	Weight	Average
RNAV	14,200	100%	14,,200
Target price (VND)			**15,900**

VALUATION HISTORY	Price	Recommendation	Period
2018/11/27	15,644	Buy	Long term
2019/03/13	15,900	Accumulate	Long term
08/04/2020	14,200	Accumulate	Long term

RESULT UPDATE

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.

RATING GUIDANCE

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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