

KINH BAC DEVELOPMENT HOLDING CORP (HSX: KBC)
Handover from Phuc Ninh and Leases Remain Stable

(VND bn)	4Q-FY18	3Q-FY18	+/- qoq	4Q-FY17	+/- yoy
Net revenue	845	657	+29%	250	+238%
PAT	257	220	+17%	42	+516%
EBIT	392	325	+20%	63	+525%
EBIT margin	46.4%	49.5%	-3%	25.1%	+21%

Source: KBC, Rong Viet Securities

FY2018 - All-time high in both the top and bottom lines

- Net sales and NPATMI arrived at VND 2,506 billion (+99% YoY) and VND 747 billion (+28% YoY), fulfilling 96% and 101% of year targets, respectively. The bottom line would increase about 140% YoY if the VND 354 billion oneoff income, from selling the Lotus, was excluded.
- Land leases soared considerably as 110.5 ha were sold out (+131% YoY). Leasing sales therein jumped 184% YoY, to VND 2,033 billion, and was all-time highest.
- Phuc Ninh was booked with 0.58 ha, contributing only 4% to total sales and 77% lower than our projected amount for FY2018.

FY2019 - Expecting a fully handover of Phuc Ninh & the kick off in Nam Son Hap Linh

- Phuc Ninh should be on the spot. We expect roughly 4 ha to be transferred, bringing VND 706 billion in sales (+657% YoY) and an estimated gross margin of 59%. Construction works are done and ready to transfer.
- We expect to lease out 79 ha (-29% YoY). Of which, Quang Chau is supposed to contribute 42% of land leased. Our forecast includes the assumingly first contribution from Nam Son Hap Linh, which is 30 ha.
- Projected revenue and NPATMI arrive at VND 2,393 billion (-5% YoY) and VND 661 billion (-12% YoY), respectively.

Valuation and recommendation

Our point of view on KBC's core business remains strong given the company's ample land bank and stable rental demand in the north. It seems a bit faltering as key zones, Que Vo 2 and Trang Due 2, are fully occupied by the end of FY2018 and was sooner than our expectation. The lease engine temporarily falls into Quang Chau with 129 ha available for sale, mostly. We however see mid-term pipelines of 669 ha from Nam Son Hap Linh and Trang Due 3 promising. Demand should stay high in mid-term. Manufacturing clusters and the available of labor force, which are locationally strategic, are always the key drivers. The trade dispute, in our view, is a bit of an accelerator which may help attract such big deals. Phuc Ninh is another growth driver in three to five years, given 17 ha of commercial land unsold.

Our current target price is **VND 15,900 per share** under our RNAV calculation. We then recommend an Accumulate rating for now. Our fair value suggests a 3% upside potential and a current FY2019 P/E of 10.9x, based on the closing price on March 13, 2019.

ACCUMULATE +3%

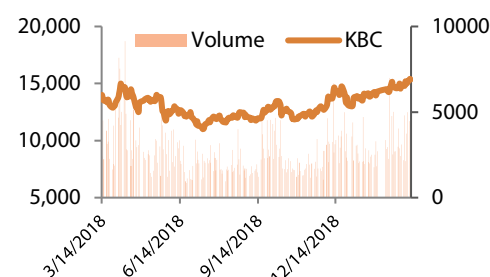
Target price (VND)	15,900
Current market price (VND)	15,350

Stock Info

Sector	Real Estate
Market Cap (VND billion)	7,211
Current Shares O/S	469,760,000
Avg. Daily Volume (in 20 sessions)	3,525,064
Free float (%)	29.5
52 weeks High	15,400
52 weeks Low	11,000
Beta	0.7

FY2018

EPS	1,591
EPS Growth (%)	28.0
Diluted EPS	1,591
P/E	8.3
P/B	0.7
EV/EBITDA	7.8
Cash dividend yield (%)	-
ROE (%)	8.6

1-year price performance

Major Shareholders (%)

Mr. Dang Thanh Tam	16.0
Kinh Bac Investment & Consulting	9.6
Foreign ownership room (%)	29.2

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Exhibit 1: 4Q FY2018 Results

(VND Bn)	4Q-FY18	3Q-FY18	+/- (qoq)	4Q-FY17	+/- (yoy)
Net revenue	845	657	28.6%	250	238.2%
Gross profit	509	416	22.3%	118	332.6%
SG&A	117	91	28.6%	55	112.9%
Operating income	392	325	20.5%	63	525.5%
EBITDA	405	336	20.6%	71	474.1%
EBIT	392	325	20.5%	63	525.5%
Financial expenses	38	45	-14.7%	40	-6.1%
- Interest Expenses	34	55	-38.0%	37	-6.9%
Dep. and amortization	13	10	23.9%	8	64.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	375	299	25.4%	46	708.8%
PAT	258	220	17.4%	42	516.5%
(*) Adjusted PAT	258	220	17.4%	42	516.5%

Source: KBC, Rong Viet Securities

Exhibit 2: 4Q FY2018 Performance Analysis

Particulars	4Q-FY18	3Q-FY18	+/- (qoq)	4Q-FY17	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	60.2	63.3	-3.1	47.1	13.1
EBITDA Margin	47.9	51.1	-3.2	28.2	19.7
EBIT Margin	46.4	49.5	-3.1	25.1	21.3
Net Margin	30.6	33.5	-2.9	16.8	13.8
Adjusted Net Margin	30.6	33.5	-2.9	16.8	13.8
Turnover *(x)					
-Inventories	0.2	0.1	0.0	0.1	0.1
-Receivables	0.6	0.5	0.1	0.2	0.4
-Payables	0.5	0.4	0.1	0.3	0.3
Leverage (%)					
Total Debt/ Equity	39.1	41.5	-2.4	36.8	2.3

Source: Rong Viet Securities

Exhibit 3: 1Q FY2019 Performance Forecast

Particulars (VND Bn)	1Q-FY19	+/- qoq	+/- yoy
Revenue	495	-41%	-24%
Gross profit	253	-50%	-31%
EBIT	360	-8%	13%
NPAT	210	-19%	1%

Source: Rong Viet Securities

Updates

Core business of industrial park leases outbid expectations in FY2018.

KBC has seen a booming year with revenue of VND 2,506 billion (+99% YoY) and VND 747 billion of NPAT (+28% YoY). The result was all-time highest. Accelerating sales in industrial parks contributed 80% to the total revenue and gross profit. Under is our key notes:

- Land & infrastructure leases to soar considerably, of 110.5 ha (+131% YoY), equivalent to VND 2,033 billion in revenue (+184% YoY). This outpaced 22% and 10% of our expectations on sales and leased area. Of which, Que Vo 2 accounted for 48% of land leased during the year, with 53 ha (+1,033% YoY). Trang Due 2 also recorded 26 ha (+ 53% YoY). Average asking prices in these two zones might increase by 10 - 12% in FY2018 as our estimates. This contributes to increase gross profit margin to 58% compared to the average of 45% in the period of 2015 - 2017. Tan Phu Trung and Quang Chau IPs also recorded leasing area of 17 ha (+ 17% YoY) and 15 ha (+ 144% YoY).

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; whereas the US-China trade dispute has been creating opportunities for such large contracts. Some big deals have been signed or are under negotiation. This correspondingly swelled selling expense to VND 142 billion (+542% YoY). Commission for brokerages took a major part.

- Selling ~35,000 sqm of warehouses (+30% YoY) in Que Vo 2, leading to 30% increase in warehouse sales, of VND 179 billion.
- Recording 0.58 ha (-61% YoY) from Phuc Ninh, equivalent to VND 93 billion in revenue (-60% YoY). The booking was 2.6 ha lower than our expectation. The project only contributed 4% and 3% respectively to total revenue and gross profit in FY2018. However, we think that this was due to the timing because construction works was almost finished off at the end of FY2018. The remaining part of Phuc Ninh is ready to transfer at this time round.
- Interest expense surged 77% YoY, to VND 194 billion, in line with the rising debt and interest pressure since FY2018.

Table 1: FY2018 revenue breakdown (VND billion) and gross margin (%)

	Revenue		Gross margin	
	(VND billion)	+/- YoY	FY2018	FY2017
Land & infrastructure lease	2,033	184%	58%	48%
Warehouse sales	179	30%	57%	48%
Warehouse lease	37	1%	62%	52%
Services	164	19%	73%	49%
Properties sales	93	-60%	54%	66%
Total	2,506	99%	59%	52%

Source: KBC

Table 2: Leasing status in KBC's industrial parks at the end of FY2018

	Total area	Total leasable area	Leased land		Occupancy	Remaining leasable land
	(ha)	(ha)	FY2018	+/- YoY	(%)	(ha)
Que Vo 1	311	192	-	-	97%	6
Que Vo 2	300	171	53	1,033%	98%	3
Quang Chau	426	276	15	144%	53%	129
Trang Due 1	188	129	-	-	99%	1
Trang Due 2	214	133	26	53%	96%	5
Nam Son Hap Linh	332	213	-	-	0%	213
Tan Phu Trung	543	314	17	17%	36%	200
Trang Due 3	687	456	-	-	0%	456
Total	3,001	1,884	111	131%		1,013

Source: KBC, Rong Viet Securities

Expecting a notable handover amount in Phuc Ninh UA and the sales launch in Nam Son Hap Linh in FY2019.

Our FY2019 projected revenue slightly decreases 5% to VND 2,393 billion and NPATMI drops 12% to VND 661 billion. Our estimate shows gross margin of industrial park lease to shrink to 45%, dragging the overall gross margin down to 51% compared to 59% in FY2018. Here are our key assumptions:

- Land & infrastructure lease to reach 79 ha (-21% YoY), bringing VND 1,229 billion in revenue, down 40% YoY. Estimated gross margin should fall to 45% versus the average of 52% during 2016 - 2018. The decline is due to relatively higher land cost in Tan Phu Trung and lower rental price in Quang Chau. Also, Nam Son Hap Linh is supposed to experience higher site clearance cost than existing zones. These are the three zones that will contribute the most to the company's leasing activities in FY2019.

In particular, the leasing area includes **(1) 33 ha in Quang Chau, (2) 30 ha in Nam Son Hap Linh and (3) 16 ha in Tan Phu Trung**. Saying that, we assume Nam Son Hap Linh, estimated at 213 ha of commercial land, will begin construction works since about 3Q. The project is temporarily postponed due to the adjustment of the general planning of urban areas in Bac Ninh City. According to KBC, there are about 100 ha compensated and 66 ha available for sale in Nam Son Hap Linh. We believe this zone will have a great contribution in terms of rental area since FY2019 (or FY2020) given its favorable standing which is underpinned by solid transportation system.

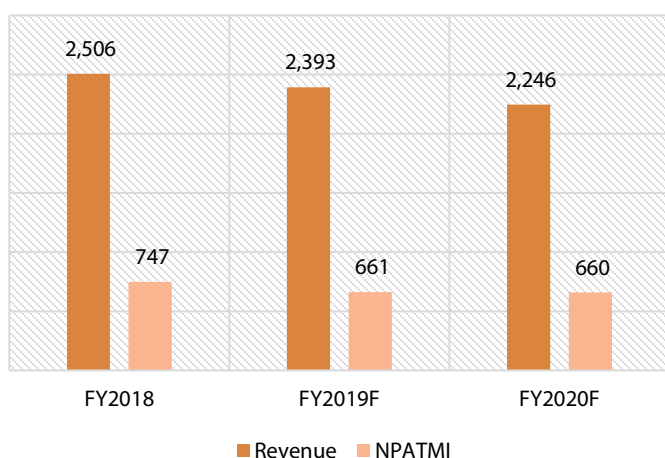
- Phuc Ninh to transfer 3.92 ha (+575% YoY), corresponding to VND 706 billion in revenue (+ 657% YoY). Assumed gross margin is 56%. The project expects to contribute 30% of revenue and 35% of gross profit.
- Selling 50,000 sqm of warehouses (+ 43% YoY) in Quang Chau, equaling to VND 264 billion in sales (+48% YoY). We assume 10 warehouses to be sold in Quang Chau with gross margin of 53%.
- Service and administration activities to bring about VND 173 billion (+ 5% YoY).

Besides, interest expense should remain high at VND 211 billion (+10% YoY) whereas SG&A cost is estimated at VND 197 billion (-36% YoY). Debt pressure still presents as a principal of 550 billion is going to come due in FY2019. We however believe favorable leasing prospect and the handover of Phuc Ninh will help the company reduce the pressure on cash flow, especially when loans for debt restructuring as well as real estate enterprises is tightening.

We believe the company's advantages in terms of land bank and incoming phases of Phuc Ninh UA will ensure long-term growth, specifically:

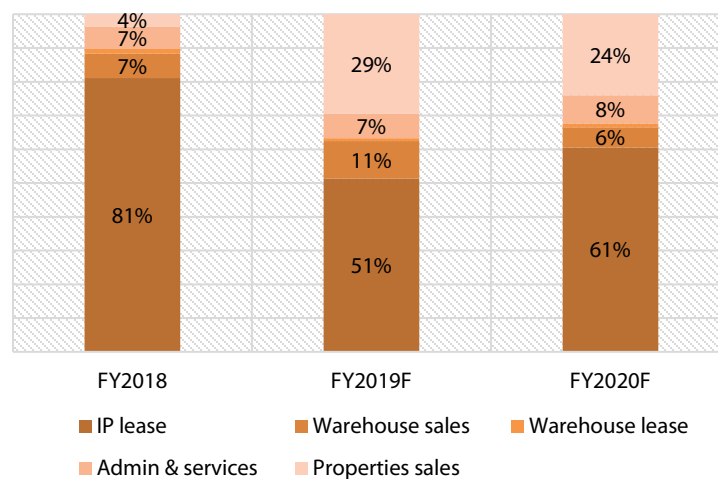
- Zones including Binh Giang, Nam Son Hap Linh and Trang Due 3 with a total land area of 1,919 ha are long-term growth drivers;
- Phuc Ninh is expected to contribute an average of 27% to revenue and 30% to gross profit in the period of 2019 - 2022.

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, Rong Viet Securities arrived the target price of **VND 15,900** for KBC stock, equivalent to a current FY2019 P/E of 10.9x and a total return of 3%, based on the closing price on March 12, 2019. The discount rate applied for projects is 12.3%.

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 of higher upside for KBC stock. Nam Son Hap Linh to kick off and Trang Due 3 to obtain investment license in FY2019 will be the best case. Current tremendous rental demand in Bac Ninh and Hai Phong is always the drive for pushing up the process. 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	533	100	533
Quang Chau	DCF	1,580	78	1,231
Trang Due 1 & 2	DCF	398	87	345
Nam Son Hap Linh	DCF	1,571	100	1,571
Tan Phu Trung	DCF	1,390	72	1,007
Industrial Parks		5,473		4,687
Phuc Ninh Urban Area	DCF	1,157	100	1,157
Trang Cat	BV	3,505	100	3,505
Trang Due Urban Area	BV	476	87	412
Revaluation Value				9,762
(-) Net Debt				-2,263
Net Asset Value				7,499
Total outstanding shares (million shares)				469
Value Per Share (dong)				15,963

Source: Rong Viet Securities

(VND Billion)

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,260	2,506	2,393	2,246
COGS	(611)	(1,039)	(1,161)	(1,104)
Gross profit	650	1,467	1,231	1,141
Selling Expense	(22)	(142)	(65)	(60)
G&A Expense	(155)	(165)	(132)	(130)
Finance Income	431	95	83	100
Finance Expense	(109)	(194)	(211)	(198)
Other profits	(2)	(26)	1	(7)
Gain/loss in associates	19	13	18	17
PBT	812	1,049	926	862
CIT	(193)	(238)	(172)	(121)
Minority's Interest	(34)	(63)	(93)	(81)
PAT to Equity S/H	585	747	661	660
EBIT	473	1,160	1,035	951
EBITDA	513	1,201	1,059	979

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth				(%)
Revenue	-36.1	98.8	-4.5	-6.2
Operating Income	-47.7	134.4	-11.9	-7.6
EBITDA	-50.4	145.4	-10.8	-8.1
PAT	4.9	27.9	-11.5	-0.2
Total Assets	7.7	7.6	-1.6	-0.1
Equity	7.6	9.0	7.3	6.8
Profitability				(%)
Gross margin	51.6	58.5	51.5	50.8
EBITDA margin	40.7	47.9	44.3	43.6
EBIT margin	37.5	46.3	43.2	42.3
Net margin	46.4	29.8	27.6	29.4
ROA	3.7	4.4	4.0	4.0
ROE	3.8	8.8	7.5	6.9
Efficiency				(times)
Receivable Turnover	0.3	0.4	0.4	0.4
Inventory Turnover	0.1	0.1	0.1	0.1
Payable Turnover	0.3	0.4	0.7	0.6
Liquidity				(times)
Current	4.1	3.9	4.9	4.9
Quick	1.6	1.6	2.2	2.2
Finance Structure				(%)
Total Debt/Equity	32.8	27.5	28.8	21.6
Current Debt/Equity	13.7	12.8	12.6	12.0
Long-term Debt/Equity	19.2	14.8	16.2	9.6

(VND Billion)

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	505	224	352	196
Short-term investments	1	3	3	3
Accounts receivable	4,744	5,799	5,853	5,989
Inventories	8,323	8,593	8,069	7,872
Other current assets	158	196	274	411
Property, plant & equipment	404	483	421	435
Acquired intangible assets	0	0	0	0
Long-term investments	912	947	960	975
Other non-current assets	734	728	764	802
Total assets	15,780	16,973	16,695	16,683
Accounts payable	2,187	2,681	1,742	1,712
Short-term borrowings	1,132	1,154	1,222	1,242
Long-term borrowings	1,591	1,333	1,574	997
Other non-current liabilities	1,825	1,959	1,567	1,411
Bonus and Welfare fund	7	7	7	7
Technology-science, dev. fund	0	0	0	0
Total liabilities	6,742	7,134	6,112	5,369
Common stock and APIC	5,746	5,746	5,746	5,746
Treasury stock (enter as -)	(364)	(364)	(364)	(364)
Retained earnings	2,905	3,652	4,313	4,973
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	2	2	2	2
Total equity	8,288	9,036	9,697	10,357
Minority Interest	750	803	886	958

VALUATION RATIO	FY2017	FY2018	FY2019F	FY2020F
EPS (VND)	1,244	1,591	1,407	1,404
P/E (x)	10.8	8.3	10.9	10.9
BV (VND)	17,644	19,235	20,463	22,047
P/B (x)	0.8	0.7	0.7	0.7
DPS (VND/share)	-	-	-	-
Dividend yield (%)	-	-	-	-

VALUATION MODEL	Price	Weight	Average
RNAV	15,900	100%	15,900

Target price (VND) **15,900**

VALUATION HISTORY	Price	Recommendation	Period
2018/05/09	16,270	Buy	Long term
2018/11/27	15,644	Buy	Long term
2019/03/13	15,900	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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