

10 Aug 2020

Kinh Bac City Corp (KBC)

Positioned for a recovery post-2Q20 slump

- Recovery in 2H20F helps relax FY20F net profit decrease of -23.9% yoy due to pandemic and gross margin contraction.
- FY21F net profit could bounce to VND1.2tn, +94.9% yoy driven by higher industrial land sales of Nam Son Hap Linh
- Maintain BUY rating with a RNAV-based TP of VND16,300 as the brighter sky in FY21F-22F

Facts: Pandemic weight on 2Q20 net profit

KBC reported the worst 2Q20 net profit since listed at VND1.6bn, bring total 1H20 net profit to VND55.5bn, -85.8% yoy. Shortage of land area sales by- 69.7% yoy in 1H20 dragged by COVID-19 impact was the main attributor to the sluggish 1H20 revenue growth of -53.6% yoy. 1H20 net profit was compressed due to 1) contracted gross margin (GM) by 6.2% pts yoy in 1H20 due to inflated land cost and higher SG&A cost to sales ratio by 8.3% pts yoy in 1H20 driven by surging employee bonus.

Pros & cons: GM contraction cast a shadow in FY20F

As in our AGM note, FY20F net profit could be more skewed in favour of 2H20F (est. 1H:2H profit split of 5:92). We project 2H20 revenue grow to VND2.4tn thanks to delivery of around 70ha industrial land area and 4.5ha residential area in Trang Due townhouse project. We estimate GM could narrow to 46.8%, -10.7% pts yoy in FY20F as the total land cost for land sales in FY20F was around 20% higher than in FY19. The GM contraction could result in a 23.9% yoy net profit decrease in FY20F to VND645bn.

FY21F net profit boom driven by industrial land sale growth

We expect the company could get approval for Nam Son Hap Linh industrial park in late 4Q20F. We estimate this newly-launched IP could account for 30% to total land area sales in FY20F and 70% in FY21F. Thanks to the contribution of Nam Son Hap Linh IP revenue and residential revenue, total revenue and net profit could bounce to VND5.1tn, +79.6% yoy and VND1.2tn, + 94.9% yoy.

Action: Attractive valuation, firm footprint

We think the KBC's land presales target miss in FY20F is temporary as certain land demand is shifted to 2021F due to the expected delay in lifting of travel restrictions. We believe KBC is well positioned to capture the growing interest for industrial properties (IPs), triggered by a surge in supply relocation in Vietnam's Northern region because KBC has several tech giants in its tenant portfolio.

12M rating **BUY (Maintain)**

12M TP **16,300**

Up/Downside **+19.4%**

Stock data

VNIndex (10 Aug, pt)	843
Stock price (10 Aug, VND)	13,650
Market cap (USD mn)	277
Shares outstanding (mn)	470
52-Week high/low (VND)	16,350/10,350
6M avg. daily turnover (USD mn)	1.60
Free float / Foreign ownership (%)	69.9/21.
Major shareholders (%)	
Kinh Bac Consulting and Investment	9.4
PYN Elite Fund (Non-UCITS)	4.9
VanEck Vectors ETF Trust-VanEck Vectors-Vietnam-ETF	3.6

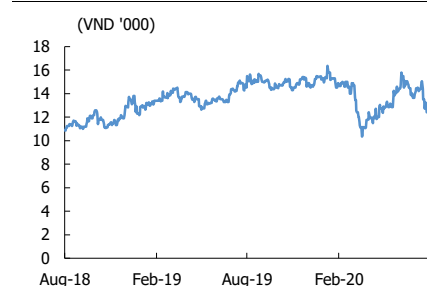
Valuation

	2019A	2020F	2021F
PE (x)	7.0	9.9	5.1
PB (x)	0.7	0.6	0.6
ROE (%)	9.9	6.6	11.7
DY (%)	7.3	0.0	0.0
EV/EBITDA (x)	5.3	6.2	3.2
EPS (VND)	1,955	1,374	2,677
BPS (VND)	20,187	21,561	24,238

Performance

	1M	6M	12M
Absolute (%)	(3.3)	(10.8)	(9.1)
Relative to VNIndex (%p)	(2.6)	(2.1)	3.1

Stock price



Source: Bloomberg

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Table 1. 2Q20 earnings

(VND bn, %, %p)

	2Q19	3Q19	4Q19	1Q20	2Q20	QoQ	YoY	Consensus
Sales	1070	917	723	556	172	(69.1)	(83.9)	N.A
Gross profit	627	367	612	244	113	(130.5)	(513.3)	N.A
Gross margin	59	40	85	44	16	22.2	7.5	N.A
OP	562	262	544	166	65	(60.9)	(88.4)	N.A
OP margin	53	29	75	30	9	8.0	(14.6)	N.A
EBT	524	221	496	135	35	(73.7)	(93.3)	N.A
NP	302	110	355	54	2	(96.9)	(99.4)	N.A

Source: Company data, KIS

Table 2. Earnings and outlook

(VND bn, %, % p)

	2019				2020F				2019	2020F	2Q20P		
	1Q	2Q	3Q	4Q	1Q	2QP	3QF	4QF			QoQ	YoY	Consensus (BB)
Net sales	500	1070	917	723	556	172	519	1,085	3,210	2,887	(69.1)	(83.9)	
Industrial land sales	362	991	861	74	468	84	445	667	2,288	2,133	(82.0)	(91.5)	
Residential land sales				540				306	540	306			
Factory sales/leasing	95	24	9	22	26	25	50	75	148	201	(5.6)	4.6	
Others	43	55	47	87	61	63	24	36	233	246	2.7	14.3	
Gross profit	241	627	367	612	244	113	298	696	1,847	1,352	(130.5)	(513.3)	
Gross margin	48.3	58.6	40.0	84.6	43.9	15.6	57.5	64.1	57.5	46.8	(28.3)	(43.0)	
SG&A	76	65	105	68	78	48	75	112	314	314	(37.7)	(25.4)	
Operating profit	165	562	262	544	166	65	223	584	1,391	1,038	(60.9)	(88.4)	
Associate's income													
Financial income	15	15	25	25	17	11	11	48	80	86	(35.8)	(29.1)	
Financial expense	55	52	57	59	48	49	49	64	223	211	2.3	(4.6)	
Net other income	-1	-6	-9	-11	0	9	(10)	(9)	(27)	(10)	0.0	0.0	
EBT	123	524	221	496	135	35	175	558	1,364	903	(73.7)	(93.3)	
Net profit	103	410	132	435	94	15	152	470	1,041	731	(84.1)	(96.3)	
NP of controlling interest	89	302	110	355	54	2	134	456	918	645	(96.9)	(99.4)	
EBITDA	177	572	275	561	187	86	245	605	1,038	1,889	(53.8)	(84.9)	
EBITDA margin	35	53	30	78	34	12	47	56	32	65	(21.7)	(41.6)	
OP margin	33	53	29	75	30	9	43	54	43	36	(21.0)	(43.6)	

Source: Company data, KIS

Table 3. Equity valuation

(VND bn)

Commercial Name	Fair value	Ownership	Net Fair value	Method	Notes
Quang Chau IP	2,451	80%	1,959	DCF	
Tan Phu Trung IP	2,914	72%	2,110	DCF	
Nam Son Hap Linh IP	1,125	100%	1,125	DCF	
Phuc Ninh Townhouse	734	100%	734	DCF	
Trang Cat Townhouse	3,507	100%	2,455	BV	We discount 30% to BV to reflect the project has been idle for several years and would not be monetised soon
Trang Due Townhouse	998	100%	998	DCF	
Add:					
Cash and cash equivalent	652		652		
Short-term account receivables	1,353		1,353		
Long-term assets	2,521		2,521		
Cash and cash equivalent					
Less:	1,926		1,926		
Net debt	2,567		2,567		
Other liabilities	898		898		
Minority interest	3,147		8,516		
RNAV	470		470		
No. of o/s shares (mn shares)			10%		To reflect project execution risk or the risk of projects not being fully sold
Implied value per share (VND)			16,300		

■ Company overview

KBC was one of the first movers in the industrial park market in Northern Vietnam, and helped turn the region into a hi-tech manufacturing hub. KBC's Que Vo 1 and Que Vo 2 IPs in Bac Ninh province have been the primary manufacturing facilities for the satellite companies of Samsung Electronics Vietnam [SEV, a subsidiary of Samsung Electronics (005930 KS, Non-rated)] since 2008 and Samsung Display Vietnam [a subsidiary of Samsung SDI (006400 KS, Non-rated)] since 2014. Meanwhile, Trang Due 1 IP and Trang Due 2 IP in Hai Phong city have become the primary manufacturing facilities for LG Electronics (066570 KS, Non-rated) and its vendors since 2013. These well-known tech giants have helped KBC reach full occupancy and turned the company into the second-largest IP operator, with about 11% market share in Northern Vietnam as at end-2017.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	13,730	14,862	13,912	14,770	20,518
Cash & cash equivalents	506	227	655	1,757	2,362
Accounts & other receivables	4,744	5,842	5,493	5,493	11,020
Inventory	8,323	8,593	7,548	7,303	6,764
Non-current assets	1,316	1,433	2,369	1,499	1,473
Fixed assets	118	157	254	222	214
Investment assets	1,198	1,276	2,116	1,277	1,259
Others	734	615	151	973	973
Total assets	15,780	16,910	16,433	17,242	22,964
Advances from customers	1,206	1,191	42	815	1,976
Unearned revenue	1,340	1,242	412	1,186	2,445
Trade payables	1,656	2,300	2,264	2,130	4,435
Others	1,132	1,154	804	108	108
ST debt & bonds	1,591	1,285	1,122	1,122	1,122
LT debt & financial liabilities	1,591	1,285	1,122	1,122	1,122
Total liabilities	6,742	7,072	6,052	6,130	10,426
Controlling interest	4,757	4,757	4,757	4,757	4,757
Capital stock	989	989	989	989	989
Capital surplus					
Other reserves	2	2	2	2	2
Retained earnings	2,905	3,651	4,099	4,745	6,002
Minority interest	750	803	898	984	1,152
Shareholders' equity	9,038	9,837	10,381	11,112	12,538

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	61	129	1,622	1,784	613
Net profit	585	746	918	645	1,257
Dep'n & Amort'n	0	0	0	0	0
Net incr. in W/C	86	(516)	300	1,061	(805)
C/F from investing	(623)	(155)	105	15	(8)
Capex	(94)	(62)	(244)	(29)	(52)
Incr. in investment	(590)	(109)	(174)	30	30
C/F from financing	772	(255)	(1,037)	(696)	0
Incr. in equity	0	0	0	0	0
Incr. in debt	778	(246)	(582)	(696)	0
Dividends	(6)	(10)	(455)	0	0
C/F from others	0	0	0	0	0
Increase in cash	209	(281)	690	1,103	605

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	1,260	2,490	3,210	2,887	5,185
COGS	611	1,022	1,363	1,536	2,658
Gross profit	650	1,468	1,847	1,352	2,527
Operating profit	473	1,161	1,533	1,038	1,889
Financial income	72	200	41	41	36
Interest income	77	92	80	72	72
Financial expenses	(109)	(194)	(223)	(211)	(210)
Interest expenses	(107)	(201)	(209)	(211)	(210)
Other non-operating profit	353	(26)	(27)	(10)	(5)
Gains (Losses) in associates, subsidiaries and JV	19	14	0	14	14
Earnings before tax	812	1,047	1,364	903	1,759
Income taxes	(193)	(238)	(323)	(172)	(334)
Net profit	619	808	1,041	731	1,425
Net profit of controlling interest	585	746	918	645	1,257
EBITDA	473	1,161	1,533	1,038	1,889

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	1,244	1,587	1,955	1,374	2,677
BPS	17,644	19,232	20,187	21,561	24,238
DPS	0	0	1,000	0	0
Growth (%)					
Sales growth	(36.1)	97.6	28.9	(10.0)	79.6
OP growth	(50.4)	145.6	32.0	(32.3)	82.0
NP growth	(13.0)	30.6	28.8	(29.7)	94.9
EPS growth	4.9	27.5	23.2	(29.7)	94.9
EBITDA growth	(50.4)	145.6	32.0	(32.3)	82.0
Profitability (%)					
OP margin	6.1	3.7	2.5	2.5	1.4
NP margin	46.4	29.9	28.6	22.4	24.3
EBITDA margin	37.5	46.6	47.8	36.0	36.4
ROA	4.3	5.6	7.1	5.2	7.8
ROE	7.3	8.6	9.9	6.6	11.7
Dividend yield	0.0	0.0	7.3	0.0	0.0
Dividend payout ratio	0.0	0.0	51.2	0.0	0.0
Stability					
Net debt (VND bn)	2,217	2,212	1,271	(527)	1,132
Net debt/equity (%)	25	22	12	(5)	(9)
Valuation (x)					
PE	10.7	8.4	7.0	9.9	5.1
PB	0.8	0.7	0.7	0.6	0.6
EV/EBITDA	18.6	7.6	5.3	6.2	3.2

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