

Kinh Bac City (KBC)

Legal procedures for Trang Due 3 should be completed within 2023

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Analyst Nguyen Thi Ngoc Anh
anhntn@kbsec.com.vn

In 1H23, KBC posted revenue of VND4,551 billion (+319% YoY) and NPAT of VND2,068 billion (+934% YoY)

In 1H23, Kinh Bac City Development Holding (KBC) recorded revenue and NPAT of VND4,551 billion (+319% YoY) and VND2,068 billion (+934% YoY) respectively thanks to recording IP land sales of as much as 128 ha. As such, the firm achieved 50.6% and 51.7% of full-year revenue and net profit objectives.

KBC expects to record more than 160 ha of IP land sales this year

Last year, KBC signed a series of IP land sales contracts and principles of lease agreements but could not carry out land handovers since its customers did not receive the investment approval. Most unbilled backlog at Nam Son Hap Linh, Tan Phu Trung and Quang Chau IPs is expected to be handed over this year.

Trang Due 3 should have legal procedures completed within 2023 and book revenue from 2024

Trang Due 3 should have its legal procedures completed by the end of 2023 or early next year and begin operation in 2024 with high occupancy rate shortly after its launch as (1) LG Innotek received investment approval for its USD1 billion capital increase for investment projects at Trang Due 3 and (2) KBC just signed four memorandums of understanding (MOUs) during Korea's recent visit on investment cooperation for projects at Trang Due 3 IP.

We recommend BUY for KBC with a target price of VND39,500/share

Based on business prospects and valuation results, we recommend BUY for KBC with a target price of VND39,500/share, 16% higher than the closing price of VND34,000 on December 22, 2023.

Buy maintain

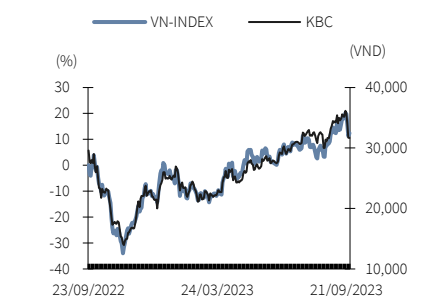
Target price	VND39,500
Upside	16%
Current price (Sep 22, 2023)	VND34,000
Consensus target price	VND36,100
Market cap (VNDbn/USDmn)	4,168/172

Trading data	
Free float	65.5%
3M avg trading value (VNDbn/USDmn)	315/13.1
Foreign ownership	20.72%
Major shareholder	Dang Thanh Tam (18.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0	5	40	7
Relative	4	5	31	12

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	4,246	957	6,427	4,228
NPAT (VNDbn)	954	1,596	3,045	1,983
NPATMI (VNDbn)	782	1,547	2,740	1,785
EPS (VND)	1,586	2,019	3,570	2,325
EPS growth (%)	232%	27%	77%	-35%
P/E (x)	15.3	16.8	9.5	14.6
P/B (x)	2.2	1.0	1.6	1.4
ROE (%)	5.9%	8.9%	15.7%	9.3%
Dividend yield (%)	0.8%	0.5%	0.8%	0.0%



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. KBC – 1H22–1H23 business results

VNDbn	2Q2022	2Q2023	+/-%YoY	1H2022	1H2023	+/-% YoY	Comments
Net revenue	394	2,051	+421%	1,085	4,551	+319%	Completed 50.6% of full-year revenue target (VND9,000 billion)
- IP segment	269	2,273	+745%	586	4,351	+642%	In 1H23, KBC handed over up to 128 ha under IP land sales contracts with high rental prices ranging from USD140-150/ha/lease term.
- Residential segment	34	9	-74%	322	30	-91%	
- Service provision	77	75	-3%	152	172	+13%	
Gross profit	184	1,493	+711%	463	3,199	+591%	
Gross profit margin	47%	73%	+26ppts	43%	70%	+27ppts	GPM improved due to increased revenue contribution of the high-margin IP segment (higher than the industry average due to low costs of the leased land bank.
Financial income	85	138	+62%	155	292	+88%	Bank deposit interest rose by more than VND25 billion. Besides, KBC recorded divestment gains of nearly VND100 billion from stake sales at Kinh Bac – Da Nang Investment Co., Ltd.
Financial expense	155	152	-2%	300	287	-4%	
SG&A	104	451	+334%	248	596	+140%	Sales and marketing expenses surged from VND37 billion in 1H22 to nearly VND303 billion in 1H23, mainly due to an increase of more than VND250 billion in legal consultancy and brokerage fees.
PBT	-276	1,027		294	2,605	+786%	
NPAT	-323	747		200	2,068	+934%	Completed 51.7% of full year NPAT target (VND4,000 billion)

Source: Kinh Bac City Development Holding, KB Securities Vietnam

KBC aims to record another 30–50 ha of IP land sales in 2H23, taking the total leased area in 2023 to 150–170 ha

In 2023, KBC's expected leased land area could exceed 160 ha, primarily from handovers of unbilled backlog in 2022, including over 90 ha at Nam Son Hap Linh IP, 77 ha at Quang Chau IP, and over 20 ha at Tan Phu Trung IP.

- In 1H23, KBC booked revenue for nearly 130 ha of land handover at Nam Son Hap Linh and Quang Chau expansion.
- KBC's remaining leasable land bank that has been signed an MOU includes more than 20 ha in each of Quang Chau, Tan Phu Trung, and NSHL Industrial Parks. We expect the enterprise will recognize revenue from handing over 30–50 ha of IP land in 2H23, of which the Quang Chau IP expansion will reach a 100% occupancy rate in late 2023 and early 2024.

Fig 2. KBC – Quang Chau IP



Source: Kinh Bac City Development Holding

Fig 3. KBC – Tan Phu Trung IP



Source: Kinh Bac City Development Holding

Nam Son Hap Linh, Tan Phu Trung, and Trang Due 3 are KBC's medium- and long-term growth drivers

Nam Son Hap Linh IP covers an area of 300 ha, with 204 ha being commercial land. Including 10 ha booked revenue in 1Q23 and 62 ha booked in 2Q23, Nam Son Hap Linh's remaining leasable area is 112 ha. The project has a convenient location adjacent to Highway 18B, 15km from the Samsung factory. It is the main contributor to KBC's business results in 2023.

Trang Due 3 should have legal procedures completed by the end of 2023 or early 2024 and reach a 100% occupancy rate shortly after its launch

Quang Chau IP is expected to be fully occupied by end-2023 or early next year, ongoing projects Nam Son Hap Linh, Tan Phu Trung, Tan Tap, Loc Giang, and Trang Due 3 with large land banks available for lease will be KBC's medium- and long-term growth driver when (1) new MOUs with large IP land sales still go on, implying stable demand for large-scale industrial park land amid tight supply for industrial parks meeting high standards and (2) prices at Nam Son Hap Linh and Tan Phu Trung remain high and tend to increase by 5-7% compared to the average price agreed under contracts signed at the beginning of the year.

Fig 4. KBC – Nam Son Hap Linh IP



Source: Kinh Bac City Development Holding

We expect KBC to soon complete legal procedures for Trang Due 3 IP for the following reasons:

- The need to promptly provide business premises for its major partner – LG Group. On June 26, LG Innotek received its USD1 billion capital increase approval for an investment project at Trang Due IP in Hai Phong.
- Master plan adjustments by Hai Phong authority in March 2023 to speed up legal procedures for Trang Due 3.

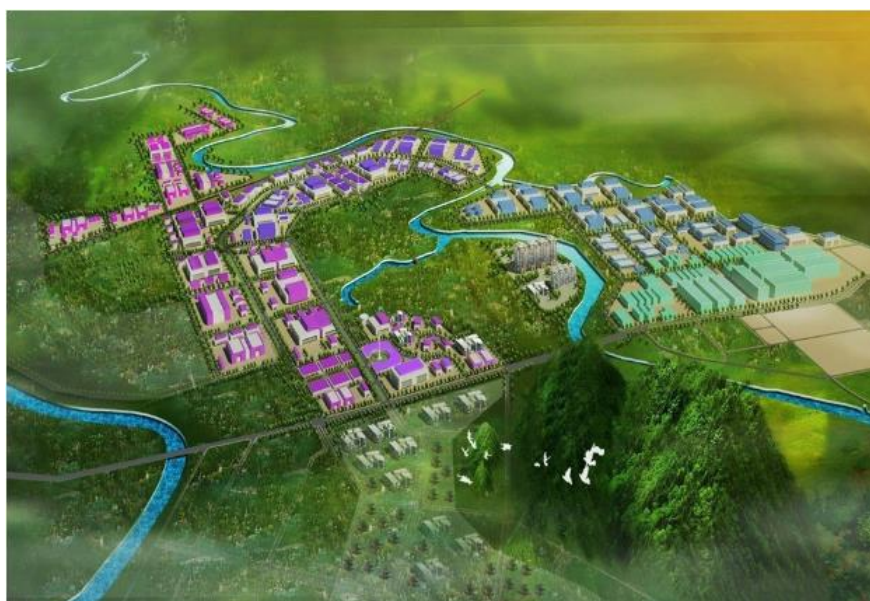
Legal documents for Trang Due 3 are expected to be approved by the end of this year, and leasing activities can begin in 2024. After legal framework completion and infrastructure construction, we expect the occupancy rate to reach 100% soon, specifically: (1) Trang Due 3 will receive more than USD4 billion that LG plans to invest in expanding production in Vietnam (most suppliers and subsidiaries of LG are in Trang Due IP, while Trang Due 1 and 2 are almost out of leasable land) and (2) KBC signed four MOUs during Korea's recent visit with STS Group, JB Financial Group, Gyeongsang National University, and Gyeongsan National University Hospital on investment cooperation for projects at Trang Due 3 IP with USD1 billion investment capital commitment.

Saigon – Hai Phong Industrial Park JSC (SHP) – KBC’s subsidiary is the investor of the 1,088-hectare Trang Due IP with three phases:

- Phase 1 & 2 (401 ha) have been fully occupied, attracting USD9.6 billion of foreign direct investment (FDI), of which USD8.2 billion is from LG Group.

- Trang Due 3 IP belongs to Dinh Vu – Cat Hai Economic Zone with a scale of 687 ha, targeting electronics and high-tech industries. KBC applied for project approval in 2022 and has completed clearance for 300 ha of land.

Fig 5. KBC – Trang Due 3 IP



Source: Kinh Bac City Development Holding

KBC’s urban area sales should remain weak in 2H23, and Trang Cat Urban Area is expected to be opened for sale from 2025

In 2023, KBC may record a small revenue contribution from the residential segment following the lower-than-expected performance in 1H23 due to the quietness of the real estate market in general as well as the legal problems facing key projects (Phuc Ninh Urban Area, Trang Cat Urban Area).

Concerning Trang Cat Urban Area, following master plan adjustments as well as coercive measures to speed up legal procedures by Hai Phong authority, we expect KBC to receive land allocation for this project by the end of 2023 or early next year, starting construction in 2024 to open for sale from 2025.

Fig 6. KBC – Trang Cat Urban Area



Source: Kinh Bac City Development Holding

Fig 7. KBC – Phuc Ninh Urban Area



Source: Kinh Bac City Development Holding

Fig 8. KBC – Social housing project for workers in Nenh new urban area

KBC completed all legal procedures for this project. Construction commenced in 4Q21 and should be completed by 4Q23. Currently, five buildings at Lot CT1 are under construction, three of which have been topped off and are being completed.



Source: Kinh Bac City Development Holding

Table 9. KBC – Key industrial park projects

Project	Location	Leasable land (ha)	Occupancy rate (%)	Estimated price (USD/ha)	Comments
Launched IPs					
Que Vo 1	Nam Son, Que Vo, Bac Ninh	192	100%	75	
Que Vo 2	Nam Son, Que Vo, Bac Ninh	171	100%	90	
Trang Due 1	An Duong, Hai Phong	129	100%	80	
Trang Due 2	An Duong, Hai Phong	133	100%	85	
Quang Chau	Viet Yen, Bac Giang	306.9	96%	136	Compensated 97% of the total land area
Quang Chau expansion	Viet Yen, Bac Giang	67	80%	140	Signed MOU for the entire area
Nam Son Hap Linh	Dai Dong, Tien Du, Bac Ninh	204	20%	140	108 ha has not been compensated
Tan Phu Trung	Tan Phu Trung, HCM	314	74%	140	Invested VND1,296 billion at the end of 2022, compensated 94%
IPs about to be launched/waiting for approval					
Long An Industrial Cluster	Long An	110.6	0%	120	100 ha for potential customers under negotiation
- Phuoc Vinh Dong 2	Phuoc Vinh Dong, Long An	32.4			
- Tan Tap industrial cluster	Tan Tap, Long An	46.3			
- Phuoc Vinh Dong 4	Phuoc Vinh Dong, Long An	31.9			
Hung Yen Industrial Park Cluster	Hung Yen	245	0%	115	
Long An Industrial Parks	Long An		0%		
- Loc Giang		327		125	Investment plan for 2022 was approved
- Nam Tan Tap		159			
- Tan Tap		461		125	Invested VND128 billion by the end of 2022
Trang Due 3	An Duong, Hai Phong	456	0%	120	Signed MOU for 115 ha, completed clearance for 300 ha of land

Source: Kinh Bac City Development Holding, KB Securities Vietnam

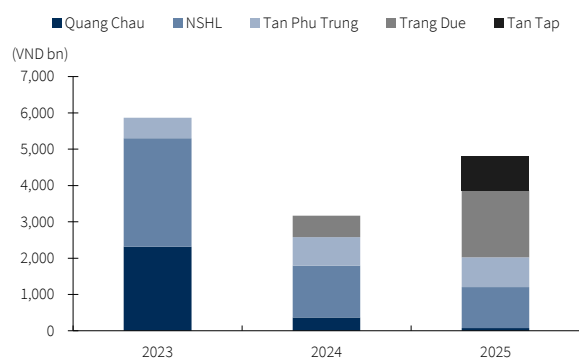
Forecast

Table 10. KBC – 2022A–2023F business results

(VNDbn)	2022A	2023F	+/-%YoY	Comments
Revenue	957	6,427	+572%	Completed 71.4% of full-year revenue target of VND9,000 billion
- IP segment	657	5,859	+792%	Recorded sales for 170.7 ha of IP land: 15ha at Tan Phu Trung, 87.7ha at Nam Son Hap Linh, 68 ha at Quang Chau
- Residential segment	353	71	-80%	
- Service provision	337	369	+9%	
Gross profit	268	4,418	+1,549%	
<i>Gross profit margin</i>	28%	69%	+41ppts	Driven by the high-margin IP segment. We estimate the GPM of the IP segment is 70.4% and of the residential segment is 37%.
Financial income	338	401	+19%	
Financial expense	592	557	-6%	Due to a reduction in loan balance from the end of 2Q23
SG&A	505	951	+88%	
PBT	1,719	3,336	+94%	
Corporate tax	123	291	+137%	
NPAT	1,596	3,045	+91%	Completed 76% of full-year NPAT target of VND4,000 billion

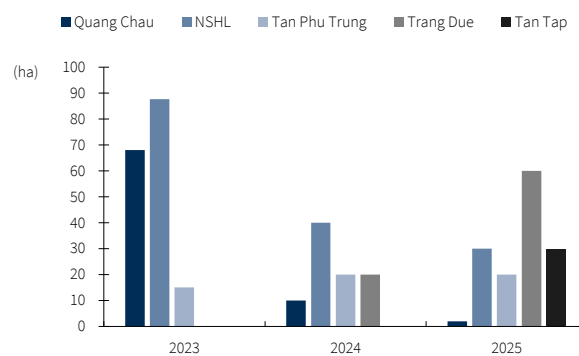
Source: Kinh Bac City Development Holding, KB Securities Vietnam

Fig 11. KBC – IP land sales breakdown (VNDbn)



Source: Kinh Bac City Development Holding, KB Securities Vietnam

Fig 12. KBC – 2023–25F IP land sales (ha)



Source: Kinh Bac City Development Holding, KB Securities Vietnam

- We remain upbeat about KBC for (1) impressive performance in 2023 following unbilled backlog handovers in 2022; (2) Trang Due 3 IP profitable from 2024 thanks to high occupancy due to high demand for industrial land for lease in Hai Phong and many MOUs for leasing Trang Due 3 signed this year; (3) land bank expansion following a slew of projects approved in 2022, which is the medium- and long-term growth momentum of KBC; and (4) recently signed contracts enjoying high rental prices which are expected to rise further.
- Regarding urban development projects, because of difficulties during the site clearance progress at Phuc Ninh Urban Area as well as legal problems faced by Trang Cat Urban Area, we pushed back revenue recognition to 2025 with slow sales velocity.

Table 12. KBC – Valuation result

Project	Valuation method	KBC's ownership	Project's net present value	Value attributed to KBC
IPs				15,005
- Quang Chau & Quang Chau expansion	DCF	88%	1,623	1,429
- Nam Son Hap Linh	DCF	100%	2,968	2,968
- Trang Due 3	DCF	87%	4,384	3,794
- Tan Phu Trung	DCF	72%	1,524	1,104
- Long An Industrial Cluster	DCF	83%	761	631
- Hung Yen Industrial Cluster	DCF	69%	1,380	948
- Long An Industrial Parks	DCF	66%	6,264	4,131
Urban areas				17,340
- Phuc Ninh	DCF	100%	1,913	1,913
- Trang Due	DCF	87%	617	534
- Trang Cat	DCF	100%	13,868	13,868
- Social housing in Nenh	DCF	74%	1,394	1,025
Other				627
Inventory revaluation				32,973
(+) Cash & equivalents				1,505
(-) Net debt				4,166
RNAV				30,312
Outstanding shares				767,604,759
Value per share (VND)				39,500
Current price (December 22, 2023)				34,000
Total shareholder return				16.2%

Source: Kinh Bac City Development Holding, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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