

# Kinh Bac City (KBC)

Unleash the potential from Trang Cat

February 24, 2022

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**We recommend buying KBC shares with a target price of VND75,000**

**The area of leasable land to be launched should surge in the next two years**

**The gross margin should stay high in the coming years thanks to the rising average rental price**

**KBC's valuation may increase as the company is expanding its landbank**

KBSV recommends BUYING Kinh Bac City Development (KBC) shares with a target price of VND75,000/share, which may bring a total return of 28.2% based on the revalued net asset value method (RNAV). Our estimates are as follows:

KBC's leasable landbank may surge from 309 ha to 1,369 ha thanks to approved projects, including Trang Due 3 IP (456 ha), Quang Chau IP expansion project (78 ha), Long An industrial cluster (171 ha), Nam Tan Tap IP (111 ha), and Hung Yen IP (244 ha). We expect the Trang Cat Urban Area (250 ha), KBC's key project, to be launched in 2022 as well.

Rental prices in KBC's industrial parks have climbed compared to 2020, from USD90/m<sup>2</sup> to USD108/m<sup>2</sup> in Quang Chau and from USD110 to USD134/m<sup>2</sup> in Tan Phu Trung. It helped the gross margin of the industrial park segment rise from 25.5% in 2020 to 63.2% in 2021. Thanks to increased prices, we expect the upcoming projects, Phuc Ninh Urban Area and Nam Son Hap Linh IP, to have higher gross profit margins.

KBC, the leading enterprise in the industrial real estate segment, has constantly expanded its landbank: Nam Vung Tau Urban Area (69 ha), Nam Tan Tap (245 ha, 41% of capital owned by KBC), and many industrial zones in Hai Duong, Hung Yen, and Long An (2,500 ha).

**Buy** maintain

<b>Target price</b>	<b>VND75,000</b>
Upside/Downside (%)	28.2
Current price (Feb 17, 2022)	VND58,500
Consensus target price	VND71,108
Market cap (VNDbn)	33,678

#### Forecast earnings & valuation

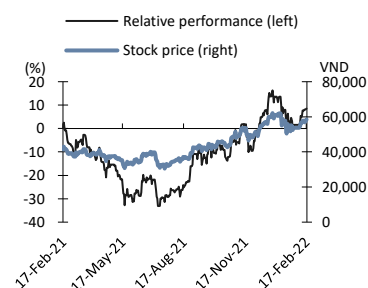
FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	2,151	4,309	14,546	16,383
EBIT (VNDbn)	366	1,845	7,904	9,344
NPATMI (VNDbn)	224	784	5,068	6,223
EPS (VND)	429	1,238	7,964	9,729
DPS Growth (%)	-75.3	188.6	543.0	22.0
P/E (x)	56.9	49.1	9.4	7.7
EV/EBITDA (x)	37.2	21.6	6.3	5.0
P/B (x)	1.1	2.1	2.0	1.5
ROE (%)	3.0	5.9	27.1	25.0

#### Trading data

Free float (%)	72.8
3M avg trading value (VNDbn)	502.32
Foreign ownership (%)	31.4
Major shareholder	Dang Thanh Tam (15.0%)

#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	8.9	12.1	60.3	36.0
<b>Relative</b>	5.0	9.7	44.9	5.9



Source: Bloomberg, KB Securities Vietnam

## Updated business performance

### Business results greatly improved thanks to a 366% YoY increase in the leased area

In 2021, KBC recorded a gross profit of VND2,466 billion (+258% YoY) on revenue of VND4,309 billion (+100% YoY), fulfilling 123.3% and 68.9% of the full-year plan, respectively. Positive results were attributable to the increase to 115.68 ha (+94.21% YoY) in leased industrial land area.

In terms of revenue structure, industrial park sales still accounted for the main proportion (74.9%), followed by urban area sales (12.5%), warehouse sales & leasing (5.2%), and other service fees (7.4%). Revenue from the industrial real estate segment has contributed an average of 70.6% to KBC's total sales over the past five years.

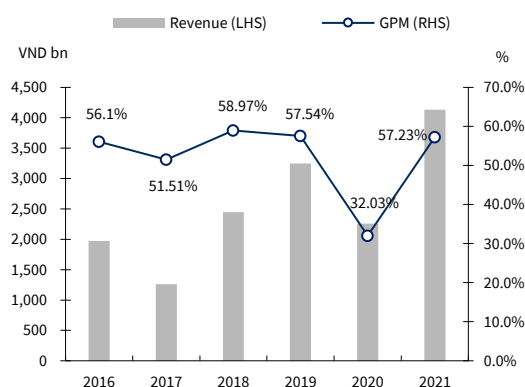
### Quang Chau, Tan Phu Trung, and Nam Son Hap Linh are the main contributors, with leased areas accounting for 98.7% in 2021

In 2021, 115.68 ha of the leased area comprised major projects like Quang Chau (56.63 ha), Trang Due (1.47 ha), Tan Phu Trung (21.93 ha), and Nam Son Hap Linh (33.83 ha). However, Quang Chau may no longer bring in revenue in the coming years since its occupancy rate has reached 100% by the end of 2021. Besides, Nam Son Hap Linh, after a long delay, recorded only 33.83 ha for lease while KBC signed memorandums of understanding (MOUs) for up to 118 ha with many partners. It might stem from the negative impacts of COVID-19 that slowed down the handover of the industrial parks. KBSV expects KBC to lease out 63 ha at USD80/m<sup>2</sup> in 2022, as per the MOU it signed with Oppo.

### Profit margin enhanced by 25.2% YoY to 57.23% in 2021 thanks to high rental prices of industrial parks and no extra expenses recorded

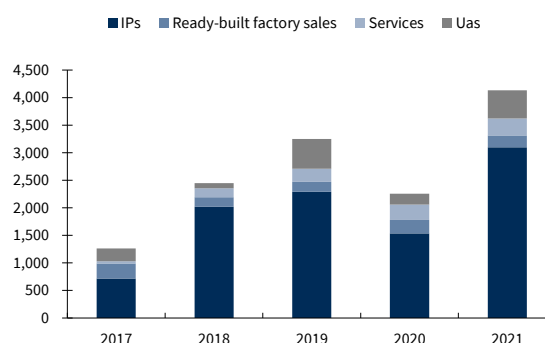
KBC's gross profit margin reached 57.23% (+25.2% YoY) by the end of FY21, given surging prices in industrial zones over the same period. In particular, the prices were up from USD90/m<sup>2</sup> to USD108/m<sup>2</sup> in Quang Chau and from USD110/m<sup>2</sup> to USD135/m<sup>2</sup> in Tan Phu Trung. The price rallies in these two industrial parks are the main reason behind the high gross profit margin. In addition, we also note that KBC did not mention the development costs of Quang Chau IP in 4Q21 as it did in 2020, helping 2021 gross profit margin return to the 2016–2019 levels.

Fig 1. KBC – Business results (VND bn, % YoY)



Source: Kinh Bac City Development, KB Securities Vietnam

Fig 2. KBC – Revenue structure (VND bn)



Source: Kinh Bac City Development, KB Securities Vietnam

Table 1. KBC – 2021A business results

VND bn	2020A	2021A	% YoY	Note
<b>IP Sales (ha)</b>	<b>59.6</b>	<b>113.9</b>	<b>91%</b>	Mainly from foreign technology and electronics enterprises
Quang Chau	22.0	56.6	157%	Quang Chau IP has handed over the entire remaining area in 2021, reaching a 100% occupancy rate
Trang Due	0.1	1.5	13.7	
Tan Phu Trung	36.2	21.9	-39.46%	
Nam Son Hap Linh	1.2	33.8	2719%	63 ha MOU signed with Oppo has not been implemented in 2021, we think the handover schedule of this MOU will be pushed back to 2022
<b>Urban area Sales (ha)</b>	<b>2.5</b>	<b>4.6</b>	<b>84%</b>	2.2 ha of land sold came from Trang Due Urban Area while Phuc Ninh Urban Area did not progress compared to the handover plan
Phuc Ninh	0.2	0.0		
Trang Due	2.3	4.6		
<b>Revenue (VND bn)</b>	<b>2,255</b>	<b>4,135</b>	<b>83%</b>	Revenue mainly comes from IP sales
IP Sales	1,537	3,099		The main contribution from Quang Chau, Tan Phu Trung, and Nam Son Hap Linh IP
Ready-built factory sales	244	217		
UAs Sales	196	515		Thanks to the handover of villas in the Trang Due Urban Area
Other	278	304	-	
<b>Gross Profit</b>	<b>689</b>	<b>2,466</b>	<b>258%</b>	
GPM (%)	49.10%	57.10%		Gross profit increased due to improved prices of industrial parks and no increase in development costs of Quang Chau IP as in 4Q20
SG&A expenses	-271	-431		
% SG&A / Revenue	-18.30%	-11.70%		
Operating revenue	366	1,845		
Financial income	314	163		
Financial expenses	-230	-535		Due to a sharp increase of 147.2% YoY in interest expenses
<b>PBT</b>	<b>453</b>	<b>1,365</b>	<b>201%</b>	
<b>NPAT</b>	<b>320</b>	<b>955</b>	<b>198%</b>	
NPM (%)	14.50%	28.80%		

Source: Kinh Bac City Development, KB Securities Vietnam

### KBC management set a relatively conservative business plan for 2022

At the 2022 Extraordinary General Meeting on February 10, 2022, KBC management set targets for 2022F PAT at VND4,500 billion (+471% YoY) and revenue at VND9,800 billion (+237% YoY). From the BOD's perspective, 2022F earnings may grow well thanks to the acceleration of pending projects in 2021 and the 50-ha bulk sale of Trang Cat Urban Area. KBSV believes this is a relatively conservative plan when KBC has been selecting a contractor to level the first 50 ha in Trang Cat in 2Q22, which was granted the construction permit in 4Q21, reflecting the determination of the BOD in the bulk sale plan.

**KBC plans to make a private placement of 150 million shares and issue bonus shares at a ratio of 3:1**

At the Extraordinary General Meeting of Shareholders, the management approved the issuance of bonus shares at a ratio of 3:1 to lift charter capital in 2022.

Besides, KBC plans to make a private placement of 150 million shares this year, equivalent to 26.3% of the outstanding shares. Those shares will not be freely transferable for 36 months for strategic investors and 18 months for professional investors. The issue price given by the BOD has a maximum discount equal to 20% of the average closing price of the last 30 trading sessions before being approved by the State Securities Commission (SSC).

KBC also plans to sell nearly 6 million treasury shares. Along with bonus shares, the number of outstanding shares may amount to 726 million shares before the company pays bonus shares.

## Investment catalysts

**Saleable land should surge in the next two years: from 309 ha to 1,369 ha for industrial zones and from 56 ha to 306 ha for urban areas**

KBC's industrial park landbank may increase significantly in the coming years thanks to project approvals by the government: (1) Trang Due 3 IP (687 ha) in March 2021; (2) the 1/2000 planning scale of the Quang Chau IP expansion project (90 ha) in July 2021; (3) Long An industrial cluster (169 ha) in July 2021, Nam Tan Tap IP in August 2021; and (4) Hung Yen industrial cluster (244 ha) in December 2021. With an average time for clearance and construction of about 1–2 years, we expect these projects to be launched in 2022 and 2023, contributing to increasing KBC's leasable land area. We forecast the landbank of urban areas to rise from 56 ha to 306 ha given the handover of the Trang Cat Urban Area (250 ha) in 2022.

**The industrial parks' occupancy rate should reach 90% in five years, considering their favorable location and existing customer base**

We expect KBC to hand over 97% of the leased area, which should increase by 1,060 ha during 2022–2028:

- Trang Due 3 IP: IP customers enjoy the best tax incentives in the country for the first 15 years of leasing (0% tax in the first four years, 5% for the next nine years, and 2% for the last two years). Trang Due lies next to National Highway 10 and is 15 km from Hai Phong Port. Therefore, we expect Trang Due 3's occupancy rate to reach 100% after five years of operation, given the growing FDI inflow to Vietnam and the limited landbank. Trang Due 2 IP was also 90% filled in just four years since its operation in 2014.
- Quang Chau IP expansion project: Customers leased 47.8 ha per year on average during 2019–2021. We expect all of this expansion project to be leased out in 2023–2027 since it appealed to many big customers, such as Foxconn and Luxshare.
- Long An industrial cluster: KBC plans to build three industrial parks on 169 ha, with 110 ha of leasable land. Two industrial parks are in Phuoc Vinh Dong and one in Tan Tap, only 20 km from Ho Chi Minh City and 30 km from Cai Mep Port. As a result, we expect the average price of the three industrial parks to be USD140/m<sup>2</sup> (the average rental price in Long An Province is USD130–150/m<sup>2</sup> currently) and the occupancy rate to reach 90% after four years of operation in 2022.
- Nam Tan Tap IP: In August 2021, KBC got permission for construction on 110 ha of 169 ha. The IP is in Long An Province, at the confluence of the Soai Rap and Rach Cat rivers, adjacent to Provincial Highway 830 and right next to Long An International Port. We, therefore, expect the average price of Nam Tan Tap to be USD150/m<sup>2</sup> (the current price in Long An Province is USD130–150/m<sup>2</sup>) and the occupancy rate to reach 90% between 2023–2027.

– Hung Yen industrial cluster: It covers an area of 375 ha, with 244 ha of leasable land, and should be launched in 2023. With the government's policy to turn Hung Yen into an industrial province, leasing enterprises are exempt from tax for the first two years and enjoy a 50% tax reduction for the next three years. KBC management said potential customers are negotiating to lease 300 ha in Hung Yen. Besides, KBC and ACI Capital also signed an MOU on investment cooperation in the Hung Yen industrial cluster with a total investment of USD1 billion. As a result, we expect the average price of these industrial parks to be USD90/m<sup>2</sup> (the current price in Hung Yen is about USD75/m<sup>2</sup>) and the occupancy rate to reach 90% by 2028.

**Table 2. KBC – Industrial parks**

IP	Location	Net selling area (ha)	Leasable area (ha)	Occupancy rate (2021)	Average Selling Price (USD/m <sup>2</sup> )	Handover
Nam Son Hap Linh	Bac Ninh	204	170	17%	116	2021
Tan Phu Trung	HCMC	314	111.6	64%	134	2008
Trang Due 3	Hai Phong	456	456	0%	140	2023
Quang Chau expansion	Bac Giang	78	78	0%	110	2023
Nam Tan Tap	Long An	171	171	0%	150	2022
Long An industrial cluster	Long An	111	111	0%	140	2022
Hung Yen industrial cluster	Hung Yen	244	244	0%	90	2023

Source: Kinh Bac City Development, KB Securities Vietnam

**Gross margin should remain high in the coming years thanks to the average rental price increase of 12%/year**

We expect KBC to maintain a high gross margin of over 60% on expectations that the average price will rise to the market prices in the surrounding regions after the handover of MOUs.

The average price in KBC's industrial zones has increased from USD65.8/m<sup>2</sup> in 2016 to USD117.8/m<sup>2</sup> in 2021, equivalent to a CAGR of 12.4%/year (Table 3). Quang Chau and Tan Phu Trung, having completed construction a long time ago at low costs, benefit the most from the price rallies.

We also note that the MOU signed with Oppo will be handed over in 2022 instead of 2021 due to the impact of the COVID-19 pandemic, leading to lower average prices as calculated below (Table 3). It will return to par with the market price following the MOU handover.

**Table 3. KBC – Rental prices in industrial parks (USD/m<sup>2</sup>)**

USD/m <sup>2</sup>	2016	2017	2018	2019	2020	2021	2022F	2023F
Average selling price	65.8	77.1	81.5	91.9	101	117.8	72.17	119.33
Growth	–	17.17%	5.71%	12.76%	9.90%	16.63%	-38.73%	65.34%
Quang Chau IP	53.5	65.4	57.9	89	90	108		
Que Vo IP	114.5	92.6	81.7	89				
Trang Due IP	75	83.5	98.9	99		98.8		
Tan Phu Trung IP	71.3	69.5	79	99	110	133	145	160
Nam Son Hap Linh IP						116	88	125
Trang Due 3 IP								135
Quang Chau expansion IP								110
Nam Tan Tap IP								145
Long An industrial cluster							135	142
Hung Yen industrial cluster								85

Source: Kinh Bac City Development, KB Securities Vietnam

**The bulk sale plan for Trang Cat Urban Area shows positive signals with a high gross profit margin of 70% thanks to the low capital cost**

KBC plans to hand over 50 ha annually in the Trang Cat Urban Area in a bulk sale instead of retail and bulk sale as previously, which may bring in cash flow faster thanks to the prompt delivery after ground leveling.

KBC expects a lease price of USD20 million/m<sup>2</sup>. In our estimates, the infrastructure costs of the urban area are relatively low at VND6.5 million/m<sup>2</sup>, meaning KBC may record VND10,000 billion in revenue from Trang Cat, equivalent to a profit margin of about 68%. We greatly value this project given its legality, with the land use fee and compensation paid off. We believe that KBC's gross profit margin will remain high in the coming years as this project has a low capital cost and a favorable location, which will facilitate the handover.

**KBC's valuation may increase as the company is expanding the landbank**

KBC has continuously expanded its land bank. Specifically, the joint venture company of KBC–Sai Gon Telecommunication & Technologies (SGT)–Hoa Binh Province Hung Long Trading Investment (SCC) is the investor of the Nam Vung Tau Urban Area (69 ha) with a total investment of VND4,620 billion. KBC established Vung Tau Investment Group JSC (VND1,000 billion of charter capital) with an ownership ratio of 78.17% to implement this project. KBC also founded Hung Yen Investment and Development Group JSC (VND1,800 billion of charter capital) with an ownership ratio of 60% on February 4, 2021, to develop an industrial park project (860 ha) in the Binh Giang District, Hai Duong Province. Hai Duong lies at the center of the economic triangle in the North (Hanoi–Hai Phong–Quang Ninh), adjacent to Bac Ninh, Hai Phong, Bac Giang, and Hung Yen. We, therefore, believe Hai Duong will be among those attracting suppliers/subcontractors of tech giants the most, namely Foxconn, Samsung, and OPPO.

The prospect for those projects is bright thanks to their prime locations and high prices (VND40 million/m<sup>2</sup> in Nam Vung Tau and USD75/m<sup>2</sup> in Hai Duong).

## Forecast business performance

### We forecast KBC's PAT and revenue to surge by 521% YoY and 238% YoY in 2022

In 2022, we estimate KBC's PAT at VND5,934 billion (+521% YoY) and revenue at VND14,546 billion (+238% YoY), assuming the handover plan and the rental prices as follows:

- 130 ha in the industrial zones: 80 ha in Nam Son Hap Linh, 30 ha in Tan Phu Trung, and 20 ha in the Long An industrial cluster.
- 60 ha in the urban areas: 7 ha in Phuc Ninh, 3 ha in Trang Due, and 50 ha in Trang Cat.
- Average price of industrial parks: Nam Son Hap Linh USD89/m<sup>2</sup> (lower than USD116/m<sup>2</sup> in 2021 since the MOU signed with Oppo for 63 ha at USD80/m<sup>2</sup> will be handed over in 2022), Tan Phu Trung USD145/m<sup>2</sup>, Long An USD135/m<sup>2</sup>.
- Average price of urban areas: Phuc Ninh VND18 million/m<sup>2</sup>, Trang Due VND17 million/m<sup>2</sup>, and Trang Cat VND20 million/m<sup>2</sup> (after ground leveling).

### We forecast KBC's PAT and revenue to increase by 22% YoY and 15% YoY in 2023

We estimate KBC to achieve VND9,108 billion (+23% YoY) in PAT and VND16,383 billion (+13% YoY) in revenue, assuming the handover plan and the rental prices as follows:

- 260 ha in industrial zones: 40 ha in Nam Son Hap Linh, 30 ha in Tan Phu Trung, 100 ha in Trang Due, 20 ha in the Quang Chau expansion project, 20 ha in Nam Tan Tap, 20 ha in Long An, and 30 ha in Hung Yen.
- 40 ha in urban areas: 7 ha in Phuc Ninh, 3 ha in Trang Due, and 50 ha bulk sale in Trang Cat.
- Average price of industrial parks: Nam Son Hap Linh USD125/m<sup>2</sup>, Tan Phu Trung USD160/m<sup>2</sup>, Trang Due USD135/m<sup>2</sup>, Quang Chau expansion project USD110/m<sup>2</sup>, Nam Tan Tap USD145/m<sup>2</sup>, Long An USD142/m<sup>2</sup>, Hung Yen USD85/m<sup>2</sup>.
- Average price of urban areas: Phuc Ninh VND19.8 million/m<sup>2</sup>, Trang Due VND18.7 million/m<sup>2</sup>, and Trang Cat VND22 million/m<sup>2</sup>.

Table 4. KBC – 2022F–2023F business performance

VND bn	2021A	2022F	2023F	Note
<b>IP Sales (ha)</b>	<b>114</b>	<b>130</b>	<b>260</b>	
Quang Chau IP	56.6	0	0	Quang Chau has reached a 100% occupancy rate at the end of 2021
Nam Son Hap Linh IP	33.8	80	40	Nam Son Hap Linh should be leased out quickly because more than 100 ha of MOU has been signed
Tan Phu Trung IP	21.9	30	30	The average selling price is 140 USD/m <sup>2</sup>
Trang Due 3 IP	0	0	100	In 2023, Trang Due 3 goes into operation, 115 ha MOU has been signed
Quang Chau expansion IP	0	0	20	
Nam Tan Tap IP	0	0	20	
Long An industrial cluster	0	20	20	
Hung Yen industrial cluster	0	0	30	
<b>Urban Area Sales (ha)</b>	<b>4.6</b>	<b>60</b>	<b>40</b>	Mainly from the re-launch of Trang Cat Urban Area
Phuc Ninh	0	7	7	
Trang Due	4.6	3	3	
Trang Cat	0	50	30	
<b>Revenue (VND bn)</b>	<b>4,309</b>	<b>14,546</b>	<b>16,383</b>	Revenue growth thanks to selling more Urban Areas and higher IP's average price
IPs Sales	3,099	2,158	7,136	Main contributions in 2022 will come from Nam Son Hap Linh and Tan Phu Trung
Ready-built factory sales	391	112	121	
UAs Sales	515	11,770	8,547	Our projections reflect that the recognition of the remaining 7.9 ha of Phuc Ninh will be partially pushed back to the first quarters of 2022 and Trang Cat's bulk sale of 50 ha
Other	304	338	401	
<b>Gross Profit</b>	<b>2,466</b>	<b>9,680</b>	<b>11,345</b>	
GPM (%)	57.23%	66.55%	69.25%	Higher gross profit margin thanks to industrial parks opened for sale in the later period with high average leasing price
SG&A expenses	-621	-1,776	-2,001	
% SG&A / Revenue	-14.41%	-12.21%	-12.21%	
Operating revenue	1,845	7,904	9,344	
Financial income	163	244	356	
Financial expenses	-535	-609	-505	Driven by high interest expenses thanks to raising more capital for new projects
PBT	1,365	7,418	9,108	
<b>NPAT</b>	<b>955</b>	<b>5,934</b>	<b>7,286</b>	The handover will be easier in 2022–2023 when less affected by the COVID-19 pandemic
Net profit margin (%)	22.16%	40.79%	44.47%	

Source: Kinh Bac City Development, KB Securities Vietnam

## Valuation

**We recommend BUYING KBC shares with a target price of VND75,000 per share**

Based on the RNAV valuation method, we recommend buying KBC shares with a target price of VND75,000/share, equivalent to an upside of 28.2% compared to the closing price of VND58,500/share on February 17, 2022.

**The valuation does not include the private placement of 150 million shares and the sale of treasury shares**

Our valuation does not cover the private placement of 150 million shares in 2022 due to the need for further information. Assuming an issue price of VND44,000/share, KBC may record VND6,600 billion to supplement capital for new projects. Moreover, KBC plans to sell nearly 6 million treasury shares in 2022.

**The valuation covers the Hung Yen industrial cluster and the bulk sale plan for the Trang Cat Urban Area**

Our valuation covers newly approved projects that are the development orientation of KBC in the upcoming period, namely the Hung Yen industrial cluster. We also adjusted KBC's valuation on the potential bulk sale plan for the Trang Cat Urban Area.

**Table 5. KBC – Valuation**

Valuation	Method	Effective rate	Project NPV	KBC's value
<b>IPs</b>				<b>11,891</b>
- Nam Son Hap Linh	DCF	100.00%	1,969	1,969
- Tan Phu Trung	DCF	72.44%	2,541	1,841
- Trang Due 3	DCF	86.54%	5,727	4,956
- Quang Chau expansion	DCF	88.06%	764	673
- Nam Tan Tap	DCF	41.11%	1,953	803
- Long An industrial cluster	DCF	82.94%	1,154	957
- Hung Yen industrial cluster	DCF	69.00%	1,003	692
<b>Urban areas</b>				<b>33,291</b>
- Phuc Ninh	DCF	100.00%	2,663	2,663
- Trang Due	DCF	86.54%	1,146	992
- Trang Cat	DCF	100.00%	29,636	29,636
<b>Total revaluation value</b>				<b>45,182</b>
(+) Cash & Equivalents				3,897
(+) ST investment				2,117
(-) Net debt				8,010
<b>NAV</b>				<b>43,186</b>
Number of outstanding shares (million shares)				575.7
<b>Equity value</b>				<b>75,000</b>
Current price (Feb 17, 2022)				58,500
<b>Total shareholders return</b>				<b>28.20%</b>

Source: KB Securities Vietnam

**We added the Hung Yen industrial cluster to the valuation**

KBSV estimates that the Hung Yen industrial cluster (69% capital owned by KBC) may bring in VND1,501 billion in PAT and VND5,040 billion in revenue during 2023–2029. We value the project at VND692 billion.

**We adjusted the valuation for the Trang Cat Urban Area**

Given current progress, KBSV expects Trang Cat to sell 50 ha of bulk sale land for investment in 2H22 at VND20 million/m<sup>2</sup>. With infrastructure costs at VND6.5 million/m<sup>2</sup>, the urban area may record VND38,532 billion in PAT and VND68,710 billion in revenue during 2022–2029. We value the project at VND29,636 billion.

**Industrial parks' valuation is VND11,891 billion, or 25.6% of KBC's**

We estimate the industrial parks may bring in VND11,891 billion for KBC, accounting for 26.3% of the total valuation. We focus on newly approved projects such as Trang Due 3, Quang Chau expansion project, Long An, Nam Tan Tap, and Hung Yen. They should be the driving force for KBC from 2023 when the launched industrial parks' occupancy rate has nearly reached 90%.

**Urban areas' valuation is VND33,291 billion, or 73.7% of KBC's**

We estimate the urban areas may bring in VND33,291 billion for KBC, accounting for 73.7% of the total valuation. However, we note that our valuation does not include the Nam Vung Tau Urban Area (69 ha) since it has not had any specific implementation plan.

**We value KBC at VND43,186 billion**

Based on the valuation results for industrial parks and urban areas, we value KBC at VND43,186 billion, equivalent to VND75,000/share, which may bring a total return of 28.2%.

**The valuation does not cover the money from rising selling prices and other potential landbank of KBC's**

We believe that KBC's valuation may increase in the future given rising prices in its industrial parks and urban areas over the past years (+12% on average in industrial zones; VND18 million/m<sup>2</sup> in 2018 to VND30 million/m<sup>2</sup> in 2021 in Phuc Ninh Urban Area). Apart from that, the current valuation of KBC will be revised when new projects have detailed plans or approvals, such as Nam Vung Tau Urban Area, Hai Duong industrial cluster.

## Risks

### Industrial park sales may fall short of expectations

We found two main reasons that may cause industrial park sales to fall short of expectations: (1) Complicated legal procedures leading to slow project implementation; and (2) decreasing FDI into Vietnam due to the unpredictable pandemic developments, which adversely affected KBC as 90% of its customers are foreigners. However, we assess these two as low risks because: (1) Our valuation only includes KBC's approved projects with high compensation costs (Trang Cat, accounting for the largest proportion in the valuation, has paid off their compensation); (2) Vietnam will maintain competitive advantages in the next 10 years thanks to much lower labor costs at USD252 vs. USD968 per month in China and supply chain diversification; and (3) the pandemic will only have a short-term impact on FDI into Vietnam once the country achieves herd immunity in 2022.

### The delivery of the Trang Cat Urban Area may be behind schedule

As we mentioned earlier, KBC has changed its plan from retail & bulk sale to bulk sale only and is looking for a contractor for ground leveling. The risk of construction and delivery delays may occur resulting from prolonged leveling progress under the impact of the pandemic. However, this risk appears low since Vietnam may achieve herd immunity this year. In addition, thanks to the approval and prime location, we believe that Trang Cat will be handed over soon in 2022.

### Landbanks may increase

KBC has been actively working with authorities to get construction permits for new projects involving Nam Vung Tau Urban Area, Hai Duong industrial cluster, and Meridian Tower (900 ha) in Da Nang. Furthermore, KBC may also work with the Hai Phong City People's Committee to adjust the planning of the Trang Cat Urban Area from 582 ha to 900 ha due to sea encroachment. KBSV considers the approval of KBC's new projects a positive signal and upside risk to our forecast.

### Stocks might be diluted

The recently announced private placement of 150 million shares may cause a stock dilution to existing shareholders. However, we are upbeat about this issuance given the rising prices in all projects. Besides, to enhance its financial health for project implementation, KBC needs more financing from investors.

## KBC – 2021A–2023E financials

Income Statement					Balance Sheet				
(VND billion)	2020	2021	2022F	2023F	(VND billion)	2020	2021	2022F	2023F
Net sales	2,151	4,309	14,546	16,383	CURRENT ASSETS	23,786	30,605	41,810	48,430
Cost of sales	-1,462	-1,843	-4,866	-5,038	Cash and cash equivalents	21,403	26,435	37,418	44,069
Gross Profit	689	2,466	9,680	11,345	Short-term investments	1,050	2,562	3,897	6,852
Financial income	314	163	244	356	Accounts receivable	1,940	2,016	2,117	2,223
Financial expenses	-230	-535	-609	-505	Inventories	6,638	10,150	11,956	12,119
of which: interest expenses	-195	-482	-609	-505	LONG-TERM ASSETS	11,534	11,461	11,998	11,180
Gain/(loss) from joint ventures (from 2015)	0	3	0	34	Long-term trade receivables	2,383	4,170	4,392	4,361
Selling expenses	-52	-190	-321	-362	Fixed assets	182	711	711	711
General and admin expenses	-271	-431	-1,455	-1,639	Investment properties	256	249	247	243
Operating profit/(loss)	450	1,476	7,539	9,229	Long-term incomplete assets	869	1,102	1,102	1,102
Other incomes	3	5	5	5	Long-term investments	394	191	415	388
Other expenses	3	127	127	127	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	0	-122	-122	-122	LIABILITIES	13,133	14,432	19,892	19,286
Income from investments in other entities	0	0	0	0	Current liabilities	6,962	6,652	11,111	11,905
Net accounting profit/(loss) before tax	450	1,354	7,417	9,107	Trade accounts payable	155	152	399	462
Corporate income tax expenses	-133	-410	-1,484	-1,822	Advances from customers	894	514	591	544
Net profit/(loss) after tax	320	955	5,934	7,286	Short-term unrealized revenue	1,547	1,436	1,368	1,392
Minority interests	96	171	866	1,063	Short-term borrowings	6,171	7,781	8,781	7,381
Attributable to parent company	224	784	5,068	6,223	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	5	5	5	5
					Unrealized revenue	4,218	5,642	6,642	5,242
					Long-term borrowings	10,653	16,173	21,918	29,144
					OWNER'S EQUITY	4,757	5,757	5,817	5,817
					Paid-in capital	989	3,397	3,397	3,397
					Share premium	4,316	5,100	9,860	15,719
					Undistributed earnings	2	3	2	2
					Minority interests	953	2,280	3,146	4,209
Margin ratio					Key ratios				
	2020	2021	2022F	2023F	Multiple				
Gross profit margin	32.0%	57.2%	66.6%	69.3%	P/E	56.9	49.1	9.4	7.7
EBITDA margin	21.2%	44.6%	54.8%	57.6%	P/E diluted	56.9	49.1	9.4	7.7
EBIT margin	17.0%	42.8%	54.3%	57.0%	P/B	1.1	2.1	2.0	1.5
Pre-tax profit margin	21.1%	31.7%	51.0%	55.6%	P/S	5.3	8.0	3.0	2.6
Operating profit margin	20.9%	34.3%	51.8%	56.3%	P/Tangible Book	1.1	2.1	2.0	1.5
Net profit margin	14.9%	22.2%	40.8%	44.5%	P/Cash Flow	-4.0	-37.7	12.0	5.4
					EV/EBITDA	37.2	21.6	6.3	5.0
					EV/EBIT	46.2	22.5	6.3	5.1
					Operating performance				
					ROE	0.03	0.06	0.27	0.25
					ROA	0.01	0.03	0.14	0.15
					ROIC	0.02	0.08	0.28	0.30
					Financial structure				
					Cash Ratio	0.4	0.7	0.5	0.8
					Quick Ratio	1.4	2.2	1.6	1.8
					Current Ratio	3.1	4.0	3.4	3.7
					LT Debt/Equity	0.4	0.3	0.3	0.2
					LT Debt/Total Assets	0.2	0.2	0.2	0.1
					Debt/Equity	0.1	0.1	0.1	0.0
					Debt/Total Assets	0.1	0.0	0.0	0.0
					ST Liabilities/Equity	0.7	0.4	0.5	0.4
					ST Liabilities/Total Assets	0.3	0.2	0.3	0.2
					Total Liabilities/Equity	1.2	0.9	0.9	0.7
					Total Liabilities/Total Assets	0.6	0.5	0.5	0.4
					Activity ratios				
					Account Receivable Turnover	0.4	0.5	1.3	1.4
					Inventory Turnover	0.2	0.2	0.8	0.7
					Account Payable Turnover	8.2	28.1	52.8	38.1

Source: Kinh Bac City Development, KB Securities Vietnam

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## Investment ratings & definitions

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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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