



KinhBac City Development Share Holding Corporation – JSC (KBC: HSX)



BENEFIT FROM FDI FLOW

FULL REPORT
20/03/2019

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KBC has accumulated and owned an industrial land bank at a low price, which has advantages compared to other companies in the same industry.

The demand for industrial real estate is increasing.

Revenue in 2019 may slightly decline, but is expected to rebound in the next few years when the Trang Due 3 Industrial Park starts operating.

Risk does exist.

INVESTMENT VIEWPOINT

KBC is a leading company in industrial real estate with a land bank of 5,174ha, accounting for 5.5% area of the state-owned industrial park land (IPL) and 1100ha of urban area land (UAL) from the North to the South, which is sufficient enough for the company to develop in the next 10 years.

According to our assessment, KBC's IPL leasing segment has been benefited from (1) FDI flow into Vietnam still sees a positive growth (2) Available large land bank (3) Northern infrastructure has gradually been improved (4) Manufactures from China have been moved to Vietnam (5) The number of satellites of Samsung and LG increased.

However, we assess that the revenue gains from IPL leasing may saw a dip 2019 as the remarkable industrial parks such as Que Vo and Trang Due almost achieved the maximum occupancy rates in the previous years. Meanwhile, earnings from sold land of Phuc Ninh urban area is expected to go up. In 2019, KBSV forecasts KBC revenue will reach VND2,403 billion (+4% yoy) and NPAT will be VND672.7 billion (-10% yoy).

The revenue from leasing IPL is expected to grow in the mid-long term as the Trang Due 3 Project is developed in 2019.

KBC might face some risks including (1) Unpredictable business performance due to one-time revenue record (2) Risks involved in legal issues of landing projects or land clearance.

Hold

Target price 17,300VND

Target price 11.5%

Up/Down 15,500VND

Current price (19/03/2019) 17,300VND

7281.3 bn VND

Target price (313.2 million USD)

Exchange rate: 1USD= 23,250 VND

Forecast revenue and valuation

	2017A	2018A	2019F	2020F
NII (bil VND)	1260.2	2505.87	2403	2726
Growth rate (%)	36.1%	98.8%	-4.1%	13.4%
Total operating income (VND bn)	649.67	1467.01	1297	1418
CIR (%)	51.6%	58.5%	54%	52%
Net profit (VND bn)	584.52	747.44	672.7	744.4
Growth rate (%)	5%	27.9%	-10%	10.7%
EPS(VND)	1244	1591	1432	1585
EPS growth	5%	27.9%	-10%	10.7%
P/E	11.8	9.2	10.8	9.8

Trading data

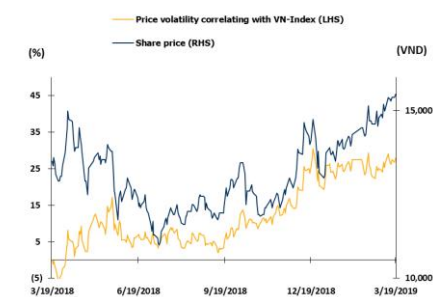
Outstanding share volume 469,760,189

3-month average trading volume 3,104,371

% foreign ownership 20%

% price change

(%)	1M	3M	6M	12M
KBC	5%	11%	24%	15%
VN-INDEX	-8%	4.6%	-8%	6%



Source: Fiinpro, KBSV

KINHBAC CITY DEVELOPMENT HOLDING CORP - SJC

I. OVERVIEW

DEVELOPMENT HISTORY

Table1: KBC Development history

2002	<ul style="list-style-type: none"> Established on March 27th 2002 The 1st project of KBC is Que Vo IP was granted by Prime Minister
2007	<ul style="list-style-type: none"> Listed on HNX with ticker: KBC
2009	<ul style="list-style-type: none"> Renamed Kinhbac City Development Holding Corporation Transferred to listing on HSX
2013	<ul style="list-style-type: none"> LG Electronics signed the first contract to rent 40ha at Trang Due IP
2014	<ul style="list-style-type: none"> LG rented 40ha more at Trang Due IP
2015	<ul style="list-style-type: none"> Increased charter capital to VND 4,775bn
2016	<ul style="list-style-type: none"> Signed the MoU with Hai Phong Authorities to develop 600ha at Trang Due IP Phase 3
2017	<ul style="list-style-type: none"> LG Innotek rented 7.2ha more at Trang Due IP Hanwha Techwin officially invested in projects at Que Vo IP
2018	<ul style="list-style-type: none"> Signed the MoU with Samkwang Co., LTD (Korea) for land leasing at Quang Chau IP

Source: KBC

BUSINESS AND OWNERSHIP STRUCTURE

By December 31, 2018, KinhBac City Development Holding Corporation – SJC (KBC) owned 06 subsidiaries (Table2).

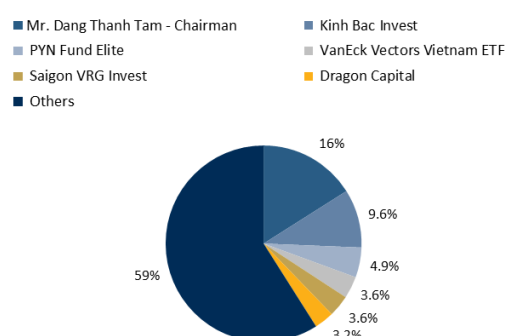
The current charter capital of KBC is VND 4,757 billion, in which 16% of the capital is held by Mr Dang Thanh Tam; 9.6% is owned by KBC; 4.9%, 3.6% and 3.2% was held by PYN Fund Elite, VNMETF and Dragon Capital (Figure 3).

Table2: Subsidiaries

Subsidiaries	Ownership (%)
Sai Gon - Bac Giang IP Corp	80.80%
Sai Gon - Hai Phong IP Corp	86.54%
Northwest Saigon City Development Corporation	74.30%
Trang Cat Urban Development One Member Co., Ltd.	100%
NGD Invest Co.,Ltd.	100%
KinhBac Office and Factory Business One Member Co., Ltd.	100%

Source: KBC

Figure 3: Shareholder structure



Source: KBC

BUSINESS ACTIVITIES AND COMPANY POSITION

KBC is the pioneer in IP construction and development

KBC’s core business is IP and urban area development the combination between Industrial park and Service Urban area. KBC’s business is mainly in Bac Ninh, Hai Phong, Cu Chi, HCMC and Bac Giang.

KBC main industrial parks include: Que Vo 1, Que Vo 2, Quang Chau, Trang Due 1, Trang Due 2, Nam Son Hap Linh, Tan Phu Trung. In addition, KBC has cooperated with other enterprises to invest in some industrial parks such as Sai Gon – Chan May, Dai Dong – Hoan Son, expanded Hoa Khanh and Lien Chieu with a land bank of 5,174ha, accounting for 5.5% of the total area of industrial park land of the whole country. The area of KBC's industrial parks (IPs) is ranging from 200ha to 600ha. These IPs are among the top in attracting FDI capital, especially from high-tech investment from the world giants such as Canon, Foxconn, JA Solar , Luxshare ICT, MITAC, Panasonic, Sanyo, LG, ... Besides, KBC has currently owned 1100ha of UAL from the North to the South. Thus, the current land bank of KBC is enough for the company to develop in the next few years.

REVENUE STRUCTURE

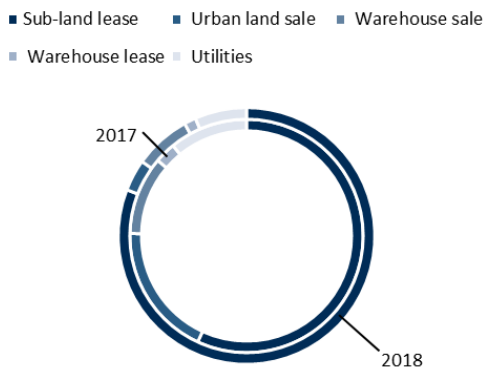
Providing IPL for lease brings the largest earnings in total revenue of KBC

KBC main business activities include: providing IPL for lease, selling and providing factories for lease, developing UAL and offering utilities services such as electricity – water and waste treatment in IPs. Providing IPL for lease brings the largest earnings in total revenue of KBC, accounting for 57% and 80% in the total revenue of 2017 and 2018 (Figure 4).

II. BUSINESS ACTIVITIES

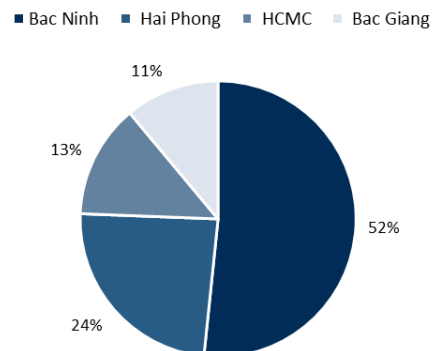
In the past few years, KBC business activities mainly focused in Bac Ninh, Bac Giang, Hai Phong, Cu Chi – Ho Chi Minh City. In 2018, revenue earned in Bac Ninh province skyrocketed thanks to fruitful land leasing in Que Vo IP, which contributed the most to KBC business performance (Figure 5).

Figure 4: Revenue structure by business activities



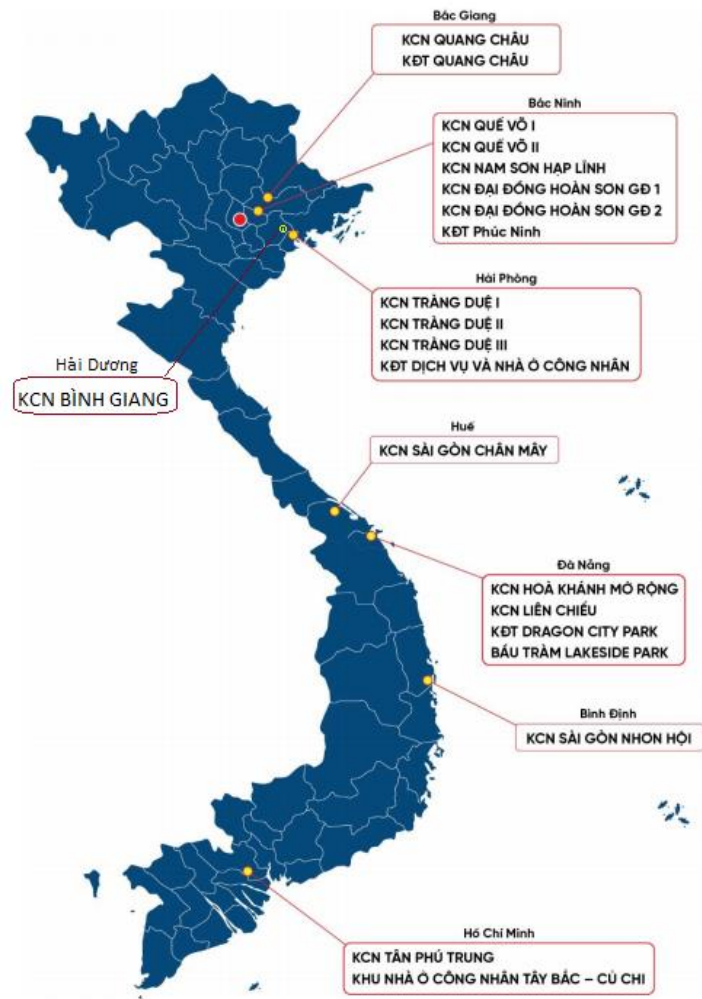
Source: KBC, KBSV

Figure 5: Revenue structure by province 2018



Source: KBC, KBSV

Figure 6: Location of KBC IPs and UAs



Source: KBC

IPL for lease accounts for the largest proportion in KBC revenue structure

KBC has only focused on Northern IPs development

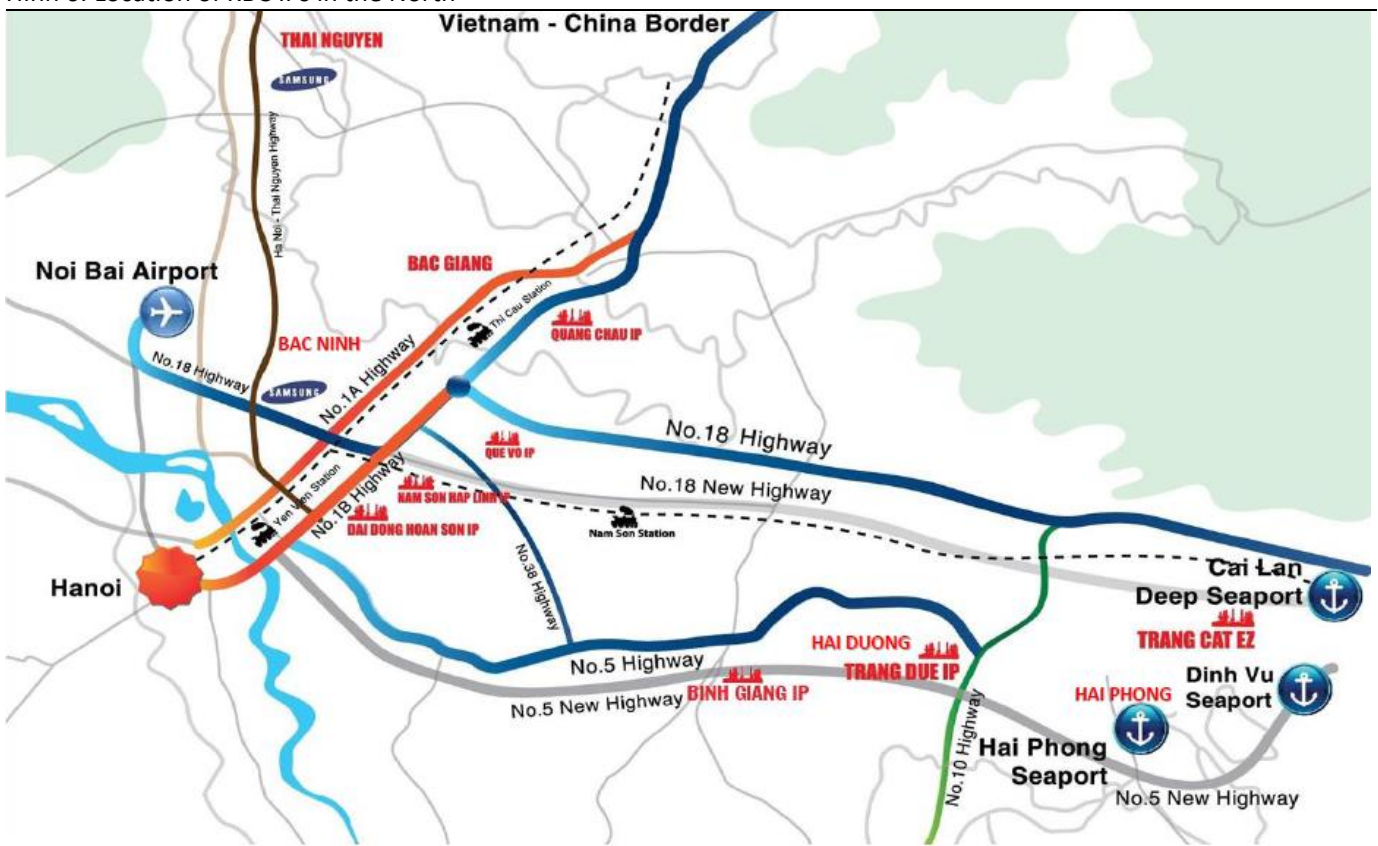
1. IPL for lease

This is the core business field of KBC, which always takes for a large proportion in the company revenue. KBC and its subsidiaries have currently owned 3000ha IPL, including some large IPs: Que Vo, Quang Chau, Nam Son Hap Linh, Trang Due, Tan Phu Trung. In addition, KBC has cooperated with other business partners to develop IPs such Sai Gon Chan May, Hoa Khanh, Nhon Hoi, Lien Chieu.

By the end of 2018, KBC owned 1243.7ha of land for lease, equal to only 36% saleable land area. Thus, the remaining land area that KBC can offer for lease is still very large, reaching over 2200ha. However, up to now, KBC has only focused on IPs development and exploitation in the North (Figure 6). These IPs are located in key Northern industrial zones which attract a large demand for lease from FDI enterprises.

After KBC land is allocated by the State, KBC will conduct compensation and land clearance, and hands over land to customers with a lease term of 50 years. KBC will transfer all rights and responsibilities to tenants, including land use fees paid to the state. The average rental fee in IPs of KBC is USD75/m² for 50 years. However, the rental prices in Trang Due IP are higher, about USD85-90/m², while the rental prices in Quang Chau IP are lower, ranging from USD65 to USD70/m². After signing the land lease contract, KBC will receive a deposit of 30-40%, the rest will be paid according to schedule within one year.

Hình 6: Location of KBC IPs in the North



Source: KBC

Que Vo is the first IP of KBC.

Que Vo benefits from abundant FDI flow.

Que Vo Industrial Park

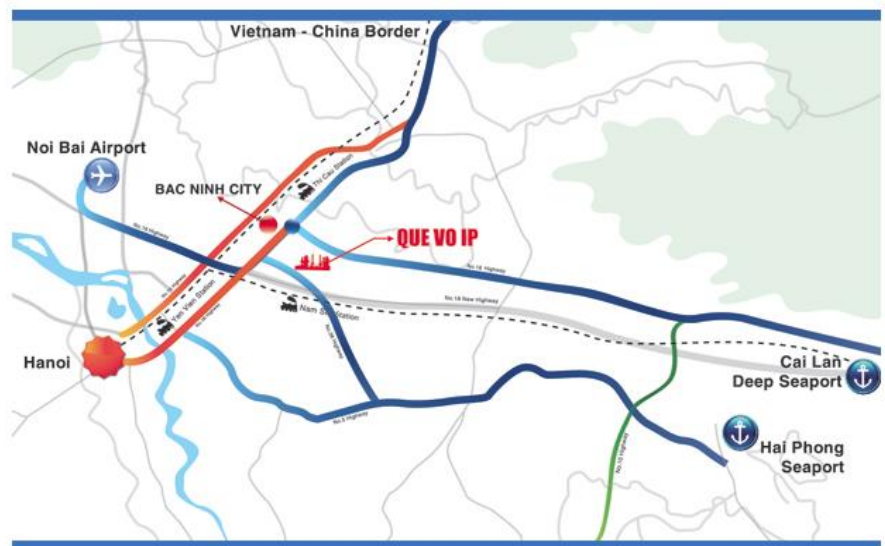
Que Vo IP is the largest and the most important IP in Bac Ninh province (Figure 7). In the past few years, FDI flowing into Bac Ninh has increased remarkably (Figure 9). Bac Ninh is one of the leading provinces which absorb the largest FDI in the country. In 2018, Bac Ninh attracted 173 projects whose total investment capital was USD1.1 billion. The project area is 611ha, and has two stages: stage 1 has been operated since 2003 with an area of 311ha and stage 2 has been operated since 2006 with an area of 300ha. In 2018, Goertek Group from Hong Kong – a top initial satellite of Samsung, has invested in the project and signed a leasing contract in Que Vo 2 IP. This is a high-tech project with the total investment capital of USD260 billion. As a result, at the end of 2018, both Que Vo IPs had an occupancy rate up to 98% (Figure 8).

Among IPs in Bac Ninh, Que Vo IP has favorable location and reasonable rental prices. Yen Phong IP has lower rental fees compared to Que Vo IP (about USD55/m2), Yen Phong’s occupancy rate has been fulfilled by Samsung; while VSIP IP has higher rental fees (around USD100/year).

After over 10 years of operations, Que Vo IP has attracted USD2.5 billion in total from 125 FDI projects, in which there are some big customers like Canon (Japan), Foxconn (Taiwan), Hanwha Techwin (Korea), and UIL (Korea). In this IP, nearly 70 factories, which were also built by KBC to serve satellite companies, have been sold out.

Que Vo IP has advantages of location and infrastructure. Located on Highway 18, is an important traffic axis connecting major economic centers like Hanoi, Hai Phong and Quang Ninh. Located 33km from Hanoi, 30km from Noi Bai International Airport, 110km from Hai Phong International Port and 110km from Cai Lan Port. This is a favorable position for high-tech investment projects as electronic components are usually transported by air.

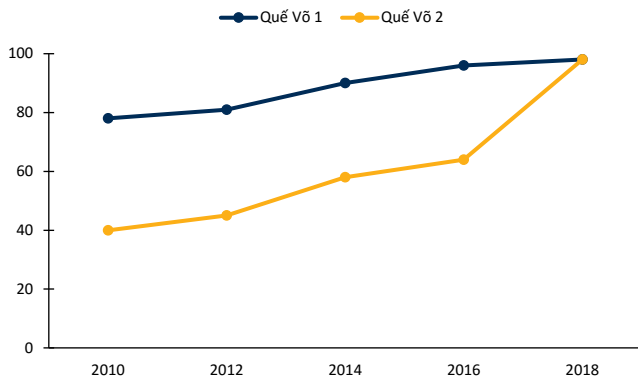
Figure 7: Location of Que Vo IP



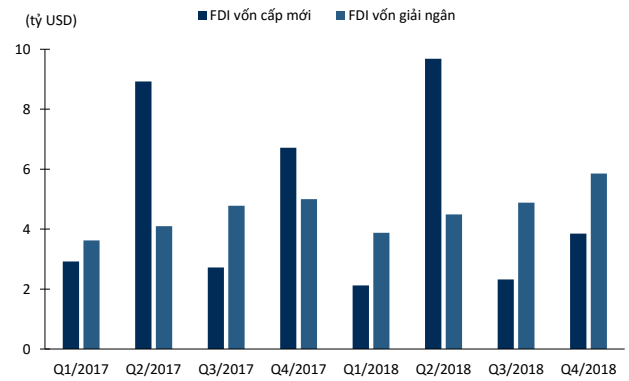
Source: KBC

Figure 8: Occupancy rate of Que Vo IP

Figure 9: FDI in Bac Ninh



Source: KBC, KBSV



Source: FIA, KBSV

Trang Due Industrial Park

Trang Due Industrial Park has a favorable position for goods circulation.

Trang Due IP is located on Highway 10, 100km far from Hanoi, 115km from Noi Bai International Airport, 7km from Hai Phong international port and 15km from Cat Bi airport.

Trang Due Industrial Park is included in Dinh Vu - Cat Hai Economic Zone, where companies are given maximum tax incentives.

The total area of this IP is 401ha, there are two stages, stage 1 has 187ha and stage 2 has 214ha. Trang Due has the fastest occupancy rate among KBC IPs, and the lowest rental prices, around USD85-90/m². Trang Due IP belongs to Dinh Vu – Cat Hai Economic Zone (Figure 10), while Hai Phong has the strongest advantages of taxes in the whole country. Companies operating in this city will be given these tax favors: Exemption of income tax for 4 years, 50% reduction of payable tax for the next 9 years, income tax rate of 10% in the first 15 years, exemption of import tax for imported goods as prescribed, 50% exemption of income tax for workers working in the IP.

New projects will ensure KBC’s revenue in the long term.

Within 1 year from the date of the Prime Minister's Decision permitting Trang Due IP to become a part of Dinh Vu - Cat Hai Economic Zone (2013), Trang Due 1 IP occupancy rate has been filled 100%. As of the end of 2018, Trang Due 2 IP of the project has been almost filled 96.2% (Figure 11).

In 2018 only, newly registered FDI into Hai Phong hit USD3.09 billion, accounting for 9% of total FDI newly registered of Vietnam (Figure 12).

Trang Due IP successfully attracted 70 investors with the total FDI of USD5.1 billion, including LG Electronics, LG Display, LG Innotek, and Haeng sung.

According to our assessment, if licensed, Trang Due 3 IP has many advantages in attracting strategic investors, such as reasonable rental prices and attractive tax incentives.

KBC has currently assigned to expand the project and become the developer of Trang Due IP stage 3, with an area of 687ha (456ha is saleable land.) At the moment, KBC is asking for a permission for making Trang Due 3 a part of Dinh Vu - Cat Hai Economic Zone, which is expected to be completed in 2019.

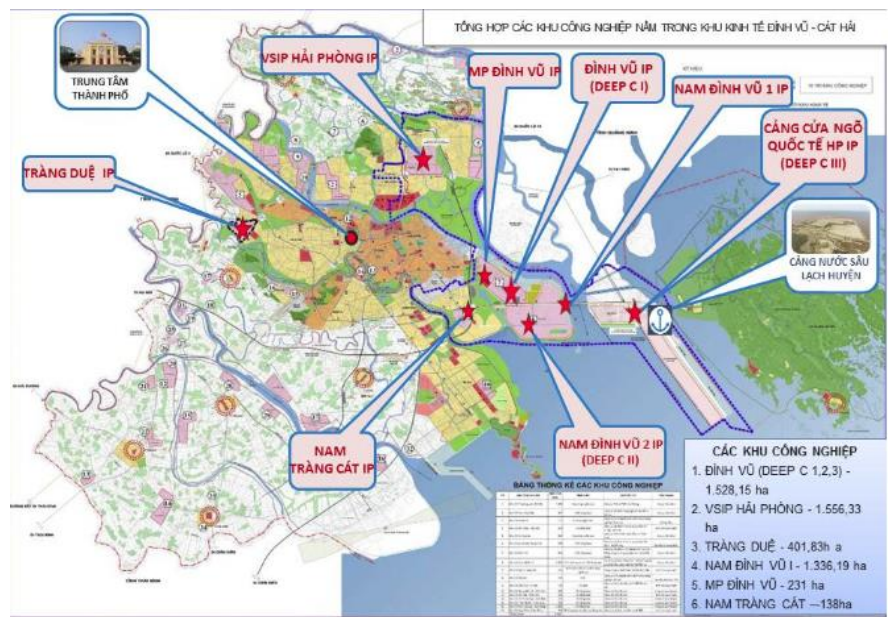
Trang Due 3 IP is adjacent to the existing Trang Due IPs. Large enterprises in the IP such as LG, when they expand invested area or raise the number of providers, they will prioritize investing in Trang Due IP 3 for convenient management and connecting between factories.

Trang Due 3 is a far-inland industrial park, so the platform there is harder than that in other sea-close IPs located in Dinh Vu - Cat Hai Economic Zone such as

Nam Dinh Vu or Deep C. Consequently, investing in Trang Due 3 IP will help investors to save costs of construction. VSIP Hai Phong IP is also located near Trang Due 3 IP and included in the Economic Zone. However, this IP has relatively high rental prices and management service fees, about USD100-120/year and USD0.07/m2 per month, the fees for IPL of Trang Due industrial zone are USD85-90 and VND10,000/m2 per year.

Trang Due 3 Industrial Park is located close to Hanoi - Hai Phong Highway, Highway 10 bordered by Hai Duong and Thai Thuy - Thai Binh, which is convenient for attracting unskilled labor to work in industrial parks.

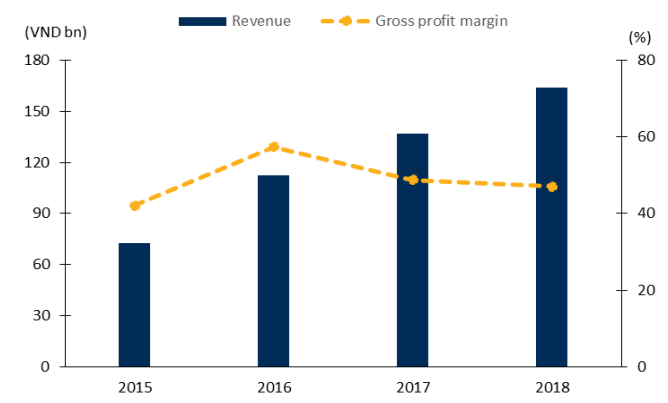
Figure 10: IPs in Dinh Vu - Cat Hai Economic Zone



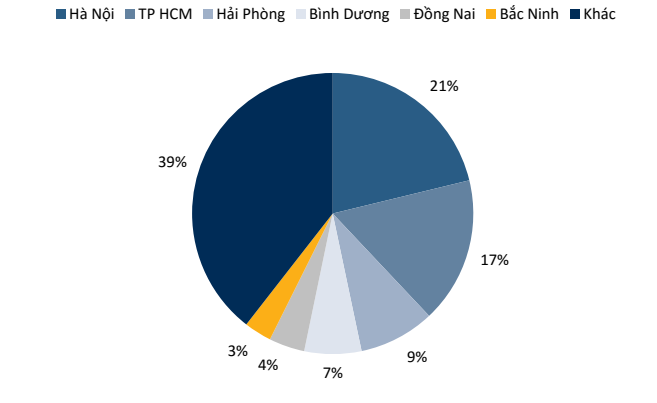
Source: Heza

Figure 11: Trang Due IP occupancy rate

Figure 12: FDI market share in the whole country



Source: KBC, KBSV



Source: KBC, KBSV

Business operations have started to thrive again thanks to a satellite company of Apple.

Quang Chau IP is expected to have positive contribution to KBC growth momentum in the short term

Tan Phu Trung is the only IP of KBC in the South.

Tan Phu Trung is one of the first IPs of KBC, but at present, the occupancy rate of this IP is only 36%, which means it has not really been successful in attracting investors.

Tan Phu Trung IP's occupancy rate is expected to rise gradually as other IPs in HCMC have been fulfilled.

Quang Chau Industrial Park

Quang Chau IP is located in Bac Giang province, and has an area of 426ha. The project has a favorable location which is adjacent to Bac Ninh province, on the National Highway 1A, 2km far from Que Vo IP, 35km from Noi Bai Airport and 115km from Cai Lan Port. Quang Chau has attracted 14 foreign enterprises including JA Solar, Samkwang, Luxshare ICT,... After many years attracting no customer, since 2016, the IP's business operations have started to thrive again after JA Solar signed a contract to lease 88ha land in Quang Chau IP for building factories to produce solar panels. The total investment of JA Solar is USD1 billion, and Luxshare – one of the biggest satellite of Apple, rented 14ha of land. In 2017, Quang Chau IP only recorded earnings from selling seven factories with a total area of 2.7ha without gaining revenue from IPLs for lease. In1Q/2018, KBC signed a contract for providing 10ha land for lease in Quang Chau IP with Samkwang – Samsung's level 1 satellite, the total investment capital is USD150 million, which is expected to rise to USD250 million in following years.

Thus, after the occupancy rate of Que Vo IP reached 100%, Quang Chau IP is expected to have positive contribution to KBC growth momentum in the short term thanks to (1) favorable location near Que Vo IP, Bac Ninh and Noi Bai Airport (2) attractive tax incentives (3) creating advantages of attracting high-tech investors.

Tan Phu Trung Industrial Park

Tan Phu Trung IP is located in Northwestern HCMC, on Highway 22, Tan Phu Trung, Cu Chi District; 25km far from HCMC centre, 15km from Tan Son Nhat Airport, and 27km from Saigon Port.

From our viewpoint, the possible reasons are:

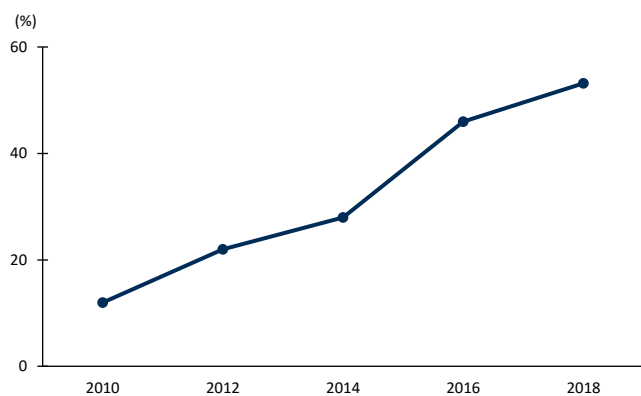
- (1) Prolonged compensation and land clearance process.
- (2) Tan Phu Trung IP is located in Tay Bac Urban Area, with many large projects that have not been implemented, and infrastructure has not been developed evenly.
- (3) Administrative procedures in HCMC last longer than those in other provinces such as Binh Duong and Long An
- (4) Land leasing fees in Tan Phu Trung IPL are higher than those of other IPs in HCMC surrounding provinces.
- (5) KBC has not focused on develop Northern IPs.

Investors in Tan Phu Trung IP are granted tax incentives such as two years of corporate income tax exemption and 50% tax reduction for the next four years for new investment projects.

Tan Phu Trung IP has an area of 542ha, which currently has an occupancy rate of 36.5%, the remaining land area can be leased is nearly 200ha. We expect that in the upcoming period, the occupancy rate of this IP will increase

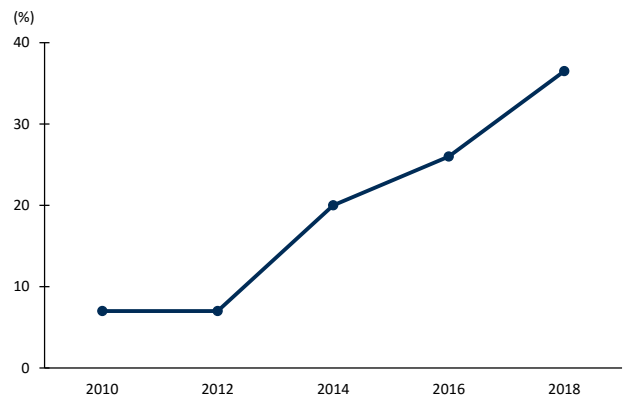
gradually thanks to (1) a favorable location (2) large available land bank (3) Other IPs in HCMC have been almost filled.

Figure 12: Quang Chau IP occupancy rate



Source: KBC, KBSV

Figure 13: Tan Phu Trung IP occupancy rate



Source: KBC, KBSV

Table 14: IPs of KBC by the end of December 31, 2018

KCN	Location	Year	% owned by KBC	Total area (ha)	Construction Area (ha)	Leased area (ha)	Occupied rate	Remaining area (ha)
I. Projects 100% owned by KBC								
Que Vo 1	Bac Ninh	2003	100%	311	192	188.2	98%	5.3
Que Vo 2	Bac Ninh	2006	100%	300	171	167.6	98%	3.4
Nam Son Hap Linh	Bac Ninh	2010	100%	433	283	0	0%	283
II. Projects of subsidiaries								
Quang Chua	Bac Giang	2006	77.93%	426	275.6	147	53.2%	128.6
Trang Due 1	Hai Phong	2007	86.54%	187	129	129	100%	0.0
Trang Due 2	Hai Phong	2015	86.54%	214	133	127.9	96.2%	5.1
Trang Due 3	Hai Phong		86.54%	687	456	0	0%	456
Tan Phu Trung	Cu Chi	2004	72.44%	542	314	114.6	36.5%	199.4
III. Project of associated companies								
Sai Gon - Chan May	Hue	2008	28.14%	658	586	0	0%	513
Lien Chieu	Da Nang	1998	20%	289	205.2	138.5	67.5%	66.7
Hoa Khanh	Da Nang	2005	20%	133	118	106.9	90.6%	29.5
Dai Dong Hoan Son	Bac Ninh	2007	21.48%	268	81	80	99%	0
Dai Dong Hoan Son	Bac Ninh		21.48%	96	62	0	0%	0
Sai Gon - Nhon Hoi	Binh Dinh	2005	10%	630	445	44	10%	401

Source: KBC

2. Storehouses and factories for sale and for lease

Pre-built factories for sale and lease serve satellite businesses of large corporations

KBC aims at providing available factories and storehouses to mid-small satellite companies under large enterprises such as LG or Samsung. The standard area of each factory is 5000m², offices and supplementary buildings are also included for investors to run their business right after leasing/selling, which helps to reduce investment risks. Customers may choose to buy a factory at USD230/m² per year during 3-5 years or rent the factory at USD 3.5/m² per month. There is a great demand for this product, which has high profit margin at about 50% on average. By the end of 2018, about 100 factories were sold and rented out by KBC. These factories are mainly concentrated in Que Vo IP

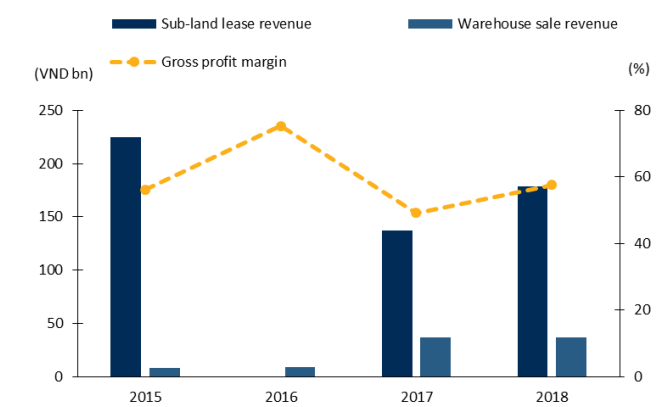
and Trang Due IP. Gross profit margin of this activity reached 67.8% in 2017 and 49.5% in 2018 (Figure 15).

3. Ancillary services

Ancillary services gain KBC stable revenue annually

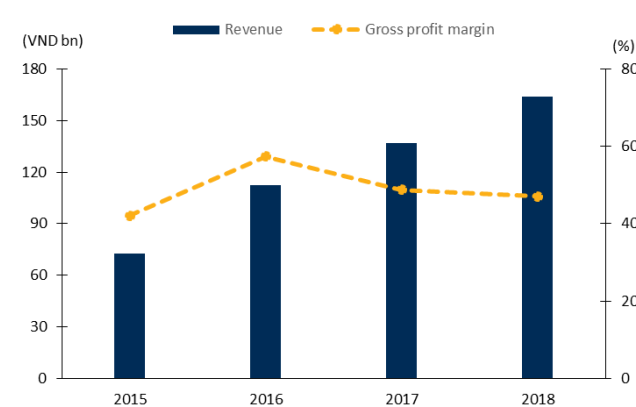
In addition to the core business operations, KBC provided ancillary services in IPs such as providing electricity – water, sewage treatment, security, infrastructure maintenance and management. These services also gain a stable revenue each year, offset KBC management fees. Gross profit margin of ancillary services reached 48.8% in 2017, and 47.1% in 2018 (Figure 16).

Figure 15: Revenue from providing factories for sale and for lease



Source: KBC, KBSV

Figure 16: Revenue from ancillary services



Source: KBC, KBSV

4. Urban area development

4.1. Phuc Ninh IP Project

Phuc Ninh IP is expected to have a positive contribution to KBC revenue growth in 2019-2020.

The detailed planning project was approved and handed over to KBC by Bac Ninh Province People’s Committee so that KBC became the developer of the infrastructure construction and business project in 2003. The project implementation process has many problems and the demand for real estate in this area is not so high, so the project is not consumed as expected, slowing the project progress for nearly 10 years. However, with the warming of Bac Ninh real estate market in the last 3 years, KBC has returned and opened Phuc Ninh IP project.

Phuc Ninh IP has advantages of favorable location in Bac Ninh city centre and low land costs

The project is located in Bac Ninh City, right next to Highway 1A, with an area of 136.4ha, and has three stages (Figure 18). 3.5ha of saleable land in the stage 1 was sold out. The revenue gained from 2ha land was recorded in 2017 and 2018, the area which has to be recored in the next period is 1.5ha. Stage 2 has an area of 22ha, and 10.4ha of saleabe land was sold out. KBC is projected to record 3ha more from stage 2 this year (Table17).

4.2. Other industrial parks

KBC does not plan to develop both of

Additionally, KBC owns Trang Cat – Hai Phong Urban Area with a scale of 581ha and the Diplomatic Corp project on Pham Van Dong Street, Hanoi with

the projects by itself, instead, the company will likely seek business partners to transfer the ownership of the projects.

an area of 2ha. KBC does not plan to develop both of the projects by itself, instead, the company will likely seek business partners to transfer the ownership of the projects. We think this is a reasonable plan for KBC because KBC is not a strong company in housing real estate, leading to inefficiency in independently developing the project. Furthermore, if the project is successfully transferred, the company will receive money right away to reduce loans and focus on stimulating the main business field, which is renting out IPL and providing factories for sale and for lease.

Financial data of real estate transference was accumulated into IPL renting out in the financial statement. We estimated that the gross profit margin of this segment was 66.4% and 57.3% in 2017 and 2018.

Table 17: Details about Phuc Ninh IP project

Location	Dai Phuc, Bac Ninh		
Total area	136.47ha		
Density	55%		
Product	Villas and land		
Price	700-1000USD/m2		
	Area (ha)	Construction Area (ha)	Status
Phase 1	6.3	3.5	Sold-out
Phase 2	22	10	Sold-out
Phase 3			Planning

Source: KBC, KBSV

Figure 18: Location of Phuc Ninh IP project



Source: KBSV

III. BUSINESS PERFORMANCE & FINANCIAL STATE

KBC revenue growth in 2014-2016 stayed positive thanks to earnings from IPLs for lease, but it plunged in 2017

KBC revenue growth in 2014-2016 stayed positive with CAGR reaching 35.8%. Nevertheless, by 2017, revenue of KBC tumbled to only VND1,260 billion (-36.1% yoy) due to declining earnings from IPL for lease. The area of leased IPL only hit 47.6ha (-40% yoy) in 2017, sharply dropping from 79.3ha of handed-over land in 2016.

Revenue in 2018 rebounded strongly thanks to an increase in the area of rented IPL to 110ha

Although the revenue in 2017 was less than 2016, NPAT still gained 4.9% thanks to the recorded financial revenue of VND354 billion from transferring the ownership of Hoa Sen hotel.

Net revenue of KBC in 2018 was VND2,505.9 billion (+98.8% yoy) (Figure 19). In particular:

- IPL for lease segment growth skyrocketed 182.7% yoy to VND2,026 billion. This is the business segment that had the largest proportion in total revenue of KBC (80.9%).

By the end of 2018, Que Vo 2 and Trang Due 2 IPs have almost fulfilled the occupancy rate.

In 2018, the area of rented land in KBC reached 110.5ha, soaring 131% over 2017. In particular, the two main IPs, Que Vo 2 and Trang Due 2 have almost fulfilled the occupancy rate at the end of 2018. To be more specific:

Que Vo 2 IP's area for lease is 53ha (+1033% yoy), raising the occupancy rate

to 98%.

Meanwhile the total land area of Trang Due 2 for lease is 25.5ha (+53% yoy), raising the occupancy rate to 96.2%.

The area for lease of the two IPs added 70% to the total rented land area of KBC in 2018. Tan Phu Trung and Quang Chau IPs had 17ha (up 17% yoy) and 15ha (up 144% yoy) of land for lease.

- The sale of factories gained VND178.8 billion (+30% yoy) thanks to the revenue from selling factories in Que Vo 2 IP, while real estate transferring dropped to only approximately VND100 billion, declining -57% yoy against 2017 thanks to the sale 0.5ha land in Phuc Ninh Project.

- Factories for lease and other services earnings hit VND37 billion (+ 1%yoy) and VND163.7 billion (+19.5% yoy) respectively.

NPAT in 2018 witness more positive growth compared to that in 2017.

NPAT of the parent shareholder was VND747.4 billion (+28.3% yoy). Excluding the dramatic profit from transferring Hoa Sen Hotel in 2017, NPAT growth 2018 was about 143% yoy.

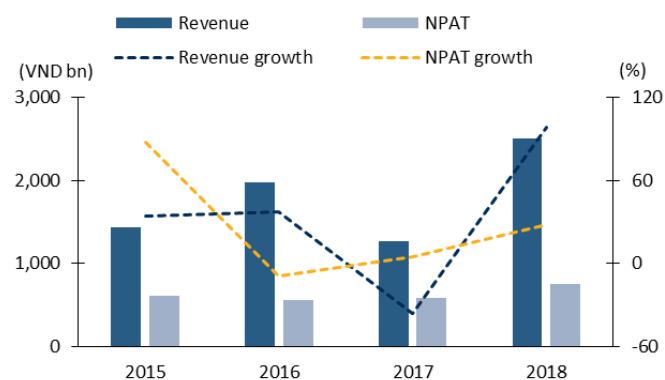
Gross profit margin was improved as Que Vo 2 IP took for the biggest proportion in revenue structure thanks to low costs of land clearance.

Gross profit margin in 2018 hit 58.5%, more than the 51.6% increase in 2017. Gross profit margin was improved as Que Vo 2 IP took for the biggest proportion in revenue structure thanks to low costs of land clearance.

The cost of selling rose but SG&A/revenue ratio fell.

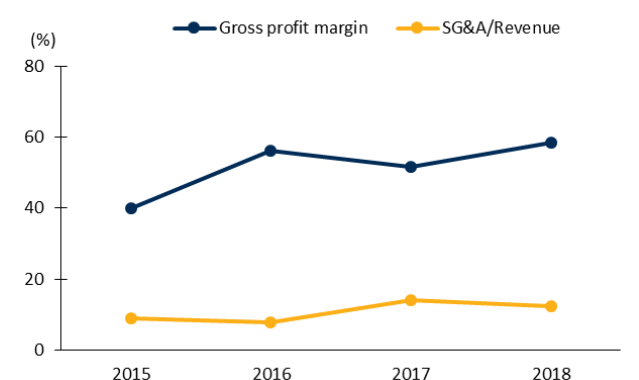
The cost of selling in 2018 surged to VND142 billion (+545% yoy), mainly concentrating on brokerage and sale promotion expenses in Que Vo 2 IP spent on high valued contracts (Figure 20).

Figure 19: Revenue and NPAT in 2015-2018



Source: KBC

Figure 20: GPM and SG&A/revenue



Source: KBC

Table21: Business performance in 2018

	Revenue 2018 (bn VND)	Growth (yoy)	% revenue	Gross profit margin 2018	Gross profit margin 2017
Land lease	2026.4	182.7%	80.9%	59.6%	47.8%
Urban land sale	100	-57.0%	4.0%	57.3%	66.4%
Factory/warehouse sale	178.8	30.0%	7.1%	56.6%	48.5%
Factory/warehouse lease	37	1.0%	1.5%	62.2%	51.9%
Utilities	163.7	19.5%	6.5%	47.1%	48.8%
Revenue	2505.87	98.8%	100.0%	58.5%	51.6%

Source: KBC

Inventories and receivables have the highest weight in KBC’s asset structure.

Short-term assets always accounts for a large proportion in asset structure of KBC (more than 85%), in which inventories and receivables have the highest weight (Figure 22).

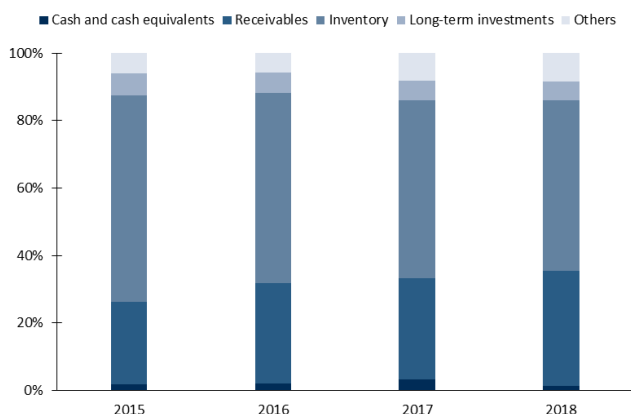
In 2018, KBC inventories were still high at VND8,592.6 billion, equal to more than 50% of asset structure. Inventories focus in Trang Cat UA and Tan Phu Trung IP. Tan Phu Trung IP is located in the South, but it has not been really focused by KBC, so it cannot attract much investment capital. Trang Cat- Hai Phong UA has not been started yet.

KBC receivables stayed high, and continued to rise to VND5799 billion (+22% yoy) in 2018, equal to over 34% in asset structure. There are two remarkable receivables which are the receivable from transferring 48.3 million shares of SBD Power Corp to Kinh Bac Services Corp – an affiliated company of KBC; and the receivable from transferring Saigon Investment Corp shares valued at VND583 billion. These are the two receivables that need to be followed for the assessment of asset quality and financial structure of KBC.

ROE of KBC was lower compared to that in same-industry companies

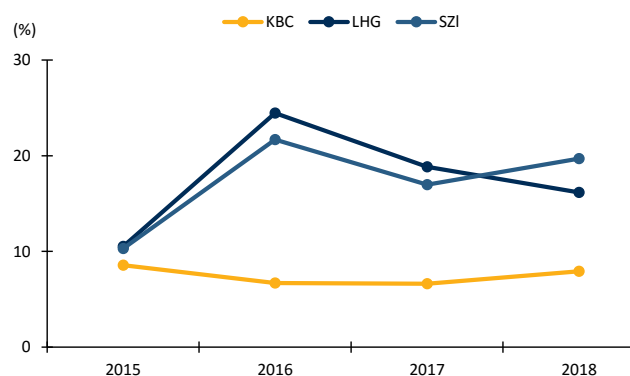
ROE in 2018 hit 7.92%, inching up against 2017, but has no considerable improvements in recent years (Figure 23). ROE of KBC was lower compared to that in same-industry companies such as LHG or SZL as KBC kept low leverage ratio (about 1.7 times since 2016) and the total asset turnover ratio was also lower than in LHG and SZL. It is expected that ROE will be improved year by year as KBC plans to increase the loan capital to invest in projects (Table24).

Figure 22: KBC asset structure



Source: KBC

Figure 23: ROE (%)



Source: KBC

Table24: ROE comparison

KBC	2015	2016	2017	2018	LHG	2015	2016	2017	2018	SZL	2015	2016	2017	2018
ROE	8.6%	6.7%	6.6%	7.9%	ROE	10.5%	24.4%	18.8%	16.2%	ROE	10.3%	21.7%	17.0%	19.7%
Net profit margin	43%	28%	46%	30%	Net profit margin	30%	34%	34%	42%	Net profit margin	24%	37%	28%	30%
Asset turnover	0.11	0.14	0.08	0.15	Asset turnover	0.16	0.33	0.28	0.21	Asset turnover	0.15	0.20	0.21	0.23
Leverage ratio	1.87	1.70	1.72	1.74	Leverage ratio	2.16	2.15	2.00	1.83	Leverage ratio	2.83	2.94	2.88	2.81

Source: KBSV

IV. INVESTMENT HIGHLIGHTS

KBC benefits from the increase of FDI invested in Vietnam

In the first two months of 2019, the total newly registered capital, added capital and capital contributed to buy shares of foreign investors reached USD8.47 billion, 2.5 times more than that in the same period of 2018. By February 20, 2019, disbursed FDI projects was estimated at USD2.58 billion, +9.8% YoY. Processing – manufacturing, and real estate are the two sectors that absorb the largest investment capital in the first two months. Processing and manufacturing sector started to rebound (+11.5% YoY), and it is also the most-invested sector in Jan and Feb 2019 (Figure 25). CT-TPP and EVFTA, which are typical FTAs, will help Vietnam to attract a large capital flow from foreign investors.

The available land bank and new projects waiting to be licensed bring KBC big opportunities

KBC has currently owned more than 5000ha of land to be developed by IPs, mainly in Bac Ninh and Hai Phong, and 1100 of land for urban area development. Besides, KBC is still in the progress of asking for a license for Binh Giang IP project in Hai Duong, with an area of 860ha. According to our assessment, when the Government is still tightening the issue of licensing for industrial zone development projects, the land bank that KBC owns brings a great competitive advantage and is enough to maintain the growth momentum for KBC in the next five years. We expect this will be the main growth driver for KBC in the medium and long term.

Northern infrastructure has been being completed

In recent years, the Northern economic triangle of Hanoi - Hai Phong - Quang Ninh has absorbed a large amount of investment capital in infrastructure with the main connecting axes such as the Hanoi - Hai Phong highway and Ha Long - Hai Phong highway, which helps shorten the travel time between Hanoi - Hai Phong to 1 hour, Ha Noi - Ha Long to 1.5 hours. Hanoi - Hai Phong - Ha Long - Mong Cai Highway, Bach Dang bridge connecting Hai Phong and Ha Long... will be put into operation, connecting with Lao Cai - Hanoi Highway to become the longest highway in Vietnam. This will be an important route connecting China. Tan Vu - Lach Huyen motorway is built to connect Lach Huyen gateway port with Hanoi - Hai Phong highway system and Highway 5. It is expected that the first point of the project is located at Tan Vu intersection, which is in the Hanoi - Hai Phong Highway project; and the end point is adjacent Lach Huyen Gateway Port. In 2017, Van Don Airport was put into operation, in 2018, Cat Bi Airport was upgraded and added one more station (Station No.2).

The shift of factories out of China is the opportunity for Vietnam IPs

According to our assessment, KBC has gained many benefits from the infrastructure because (1) Many high-tech industries concentrated in Northern IPs of KBC, so assembled products such as electronic components are usually transported by air. More convenient transportation and shorter travel time between airports and IPs will have positive impacts on IPL renting out, especially in Trang Due IP (2) There are advantages of goods transportation to China.

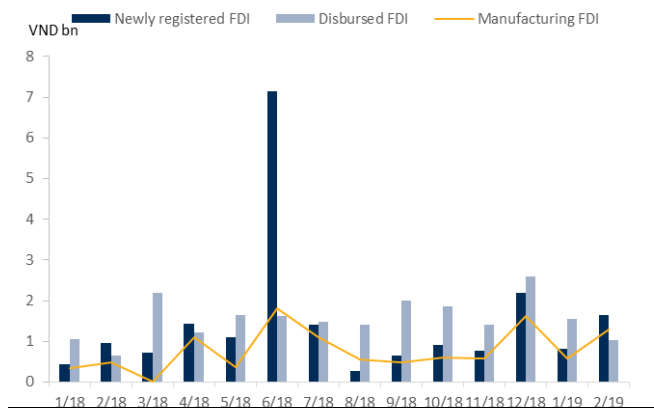
KBC is considered a favorable alternative option for investors who want to move their factories out of China. The US-China trade war makes many multinational companies want to move to Vietnam. In addition, the prices of industrial land in China are also increasing considerably compared to the prices in Vietnam. According to JLL, industrial land prices in China surged to

The number of Samsung and LG satellite companies is expected to keep climbing in the next period

USD 180/m², while land prices in Vietnam are just around USD100-USD140/m².

Along with Samsung, LG is also a foreign group that has continuously invested into large projects in Hai Phong, Bac Ninh, and Thai Nguyen. Localization rates of the two groups are quite low, since domestic enterprises are not qualified to become suppliers. Currently, more than 50% satellite companies of Samsung are located in KBC IPs and, this number is expected to rise in the upcoming period.

Figure 25: FDI of manufacturing industry



Source: TCTK, KBSV

VI. RISKS

The business performance is unpredictable

KBC chose to record revenue from IPL for lease once, right after customers pay rental fees instead of allocating revenue according to the rental term of 50 years, so annual revenue of KBC depends on the area of rented IPL each year. However, the state of renting out is usually not stable, which creates big gaps between revenue over the years. Furthermore, KBC also faces risks of high financial pressure due to paying land rental fees once instead of paying annually.

Risks involved in legal issues

Developers of IPs are currently having difficulties involved in legal issues of the project and costs of land clearance. This is the biggest risk that may adversely affect businesses investing and developing IPs.

+ Legal issues: The Government is still restricting licensing for industrial development projects under Decree 164/2013 / ND-CP, so projects face difficulties in obtaining permits. Specifically, some expanded projects of KBC are in the process of approving investment policies such as Trang Due 3, Binh Giang, which also partly slowed down due to changing policy mechanisms.

+ Land clearance: Land clearance is the most difficult stage for businesses to develop IPs because high clearance costs create obstacles for investors while the project has not gained any cash flow to offset this cost. These reasons lead to difficulties in compensation stage, which also causes the project to be prolonged.

VII. VALUATION

FORECAST BUSINESS PERFORMANCE IN 2019-2020

KBSV forecast revenue of KBC in 2019 to reach VND2,403 billion, down by 4% yoy, and NPAT will hit VND672.7 billion, losing 10% yoy.

❖ Revenue of KBC in 2019 comes from:

- Revenue from IPL for lease hit VND1,190 billion, declining 70% yoy as the occupancy rates of IPs have been fulfilled. A large proportion of revenue comes from Quang Chau, Nam Son, Nam Son Hap Linh and Tan Phu Trung IPs. The total area of rented IPL in 2019 is about 68.7ha (-46% yoy), the average rental price is around USD77.5/m²

- Revenue from real estate transferring reached VND760 billion, (+660% yoy) thanks to selling 3.8ha of land in Phuc Ninh IP.

- Other business segments all saw a positive growth of VND453 billion (+19.4% yoy).

➤ Accordingly, GPM declined to 54% from 58.5% in 2018 since Que Vo 2 IP handed over in 2018 had better GPM.

❖ KBC earnings in 2020 will come from:

- Revenue from renting out IPL is likely to reach VND1,231 billion (+3.4% yoy), mainly contributed by Quang Chau, Nam Son Hap Linh and Tan Phu Trung IPs. The total rented IPL in 2020 will be around 71.1ha (+3% yoy), with an average rental price of USD77.5/m².

- Revenue from real estate transferring will be VND1,000 billion, (+13.2% yoy) thanks to recording earnings from 5ha of land sold in Phuc Ninh IP

- Other segment revenue will hit VND498 billion (+9 yoy).

➤ As a result, GPM will decrease to 52% from 54% in 2019.

KBSV forecast revenue in 2020 of KBC to reach VND2,726 billion, gaining 13% yoy and NPAT is VND744.4 billion (increasing 10.6% yoy).

Our 2019 and 2020 business performance forecast for KBC only includes core business segments from existing IPs of KBC, excluding the contribution of Trang Due 3 IP and abnormal profits from transferring Trang Due UA and Diplomatic Corp projects as planned by KBC. If Trang Due 3 IP is licensed and the two mentioned projects are transferred, KBC revenue and profit will grow positively.

Table 26: Forecast revenue – profit in 2019-2020

Forecast revenue in 2019 - 2020			
(VND bn)	2018	2019F	2020F
Net revenue from selling and providing services	2,505.8	2,403	2,726
IPL for lease	2,026.4	1,190	1,231
Quế Võ 1		59	36
Quế Võ 2		61	
Tràng Duệ 2		42	65
Quang Châu		326	358
Nam Sơn Hạp Lĩnh		349	384
Tân Phú Trung		353.4	389
Real estate transfer	100.0	760	1,000
Warehouse selling	178.8	197	217
Warehouse Renting out	36.9	77	84
Other services	163.7	179	194
Cost of goods sold	1,038.9	1,105.18	1,308.28
IPL for lease	818.4		
Quế Võ 1			
Quế Võ 2			
Tràng Duệ 2			
Quang Châu			
Nam Sơn Hạp Lĩnh			
Tân Phú Trung			
Real estate transfer	42.4		
Warehouse selling	77.6		
Warehouse Renting out	13.9		
Other services	86.6		
Gross profit	1,466.9	1,297	1,418
Revenue from financial activities	95.3	120	136
Financial cost	193.9	219	207
Cost of selling and business management	306.9	240.3	272.6
Net profit	1,048.7	958	1074.2
NPAT	810.21	747	827.2
NPAT of the parent company	747.44	672.7	744.4
EPS	1.591	1.432	1.585

Source: KBSV

VALUATION METHODS AND RECCOMENDATION

To find out the reasonable price for KBC shares, we used RNAV model and P/E comparison between other peers in the same industry. With typical features of a real estate company, the value of KBC heavily depends on the value of land bank of IPs and future projects. Therefore, KBSV believe that RNAV is a reasonable method to evaluate KBC asset quality. In addition, we used P/E comparison method to have a more comprehensive reflection of the market. We suppose that the ideal ratio of the two methods is RNAV:P/E = 80:20.

We have re-evaluated IP and KDT projects based on the remaining leasing area (Table 28).

RNAV method

- Trang Due 3 IP has not been approved yet so it will not be included in the model. We do not have enough information as well as development plan of Trang Due urban area, so we remain the book value of this urban area.
- We discount the value of Trang Cat UA due to long-term capital

stagnation.

- We removed unclear receivables from KBC assets.

P/E method

The reasonable price for KBC shares according to this method is VND18,100 per share. The current average P/E of industrial real estate is estimated at 9.8x. Consequently, the reasonable price for KBC shares according to P/E comparison method is VND14,100 per share.

Recommendation

As we mentioned, when Trang Due 3 IP is put into operation and the two projects of Trang Due and Diplomatic Corp are transferred, KBC shares will also increase in the coming time. However, based on valuation results and business prospects in the upcoming period, on a cautious point of view, KBSV has a HOLD recommendation for KBC shares with a target price of VND17,300 per share, higher than the closing price on March 19, 2019.

Table 27: Valuation

Methods	Estimate price	Weight	Weighted Price
P/E	14,100	20%	2,820
RNAV	18,100	80%	14,480
Target Price (VND)			17,300

Source: KBSV

Table 28: RNAV method

(bn VND)	Book value (31/12/2018)	RNAV
CURRENT ASSETS	14,814.4	13,794.4
Cash and cash equivalents	224.1	224.1
Short-term investments	3.0	3.0
Accounts receivable	5,799.1	4,690.8
Inventories	8,592.7	8,681.0
Industrial Parks		
Que Vo 1	57.9	85.8
Que Vo 2	120.4	57.7
Nam Son Hap Linh	359.2	936.4
Quang Chau	685.7	1,165.9
Trang Due	137.4	100.8
Tan Phu Trung	2,377.2	1,847.6
Urban Areas		
Phuc Ninh	859.6	1,641.3
Trang Cat	3,505.3	2,369.3
Trang Due	476.2	476.2
Others	195.6	195.6
Utilities		495.0
LONG-TERM ASSETS	2,158.5	2,158.5
LIABILITIES	7,134.3	7,134.3
Minority interests	802.8	802.8
OWNER'S EQUITY		8,510.9
Share price (VND)		18,100

Source: KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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