

Kinh Bac City (KBC)

Positive outlook thanks to large landbank

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BUY recommendation – Target price: VND50,000

The area of land to be launched should surge in the next two years: 309 ha to 954 ha for industrial parks and 56 ha to 306 ha for urban areas

Gross margin remained high at 57.1% in 1H21 thanks to the significant increase in rental and selling prices

KBC valuation is attractive as the company is expanding its landbank

Buy update

Target price	VND50,000
Upside/downside (%)	20.5
Current price (Sep 27, 2021)	VND41,530
Consensus target price	VND48,600
Market cap (VNDtn/USDmn)	19.5/844

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net sales (VNDbn)	3,210	2,151	4,626	5,089
Earnings/loss (VNDbn)	1,533	366	2,580	2,780
Post-tax profit (VNDbn)	1,041	320	1,308	1,509
EPS (VND)	1,931	471	2,045	2,358
EPS growth (%)	23.1%	-75.6%	334.2%	15.3%
P/E (x)	8.0	51.7	20.3	17.6
P/B (x)	0.78	1.19	1.60	1.45
ROE (%)	10.3%	3.0%	10.2%	9.6%
Dividend yield (%)	6.5%	N/A	N/A	N/A

KBSV recommend BUYING Kinh Bac City Development (KBC) shares with a target price of VND50,000 per share, which may bring in a total return of 20.5%, based on revalued net asset value method (RNAV). Our estimates are as follows:

KBC's leasable landbank may increase from 309 ha to 954 ha, including 456 ha of leasable land in Trang Due Industrial Park (phase 3), 111 ha in Long An Industrial Park, and 78 ha in the expansion project of Quang Chau Industrial Park (currently approved with 1/2,000 planning scale). The urban area segment should make a significant contribution in revenue from 2023 after Trang Cat Urban Area is opened for sale, raising KBC's leasable urban area landbank from 56 ha to 306 ha.

Rental prices in KBC's industrial parks have improved considerably vs 2020. The prices were up from USD90/m² to USD108/m² in Quang Chau Industrial Park and from USD110/m² to USD134/m² in Tan Phu Trung, which helped the gross margin of industrial parks rise from 25.5% in 2020 to 57.4% in 1H21. We also expect KBC's upcoming projects, Phuc Ninh Urban Area and Nam Son Hap Linh Industrial Park, to have higher gross profit margin.

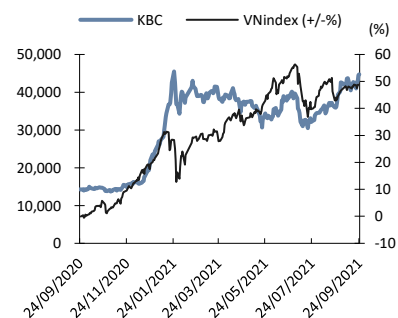
KBC has continuously expanded its landbank: Nam Vung Tau Urban Area (69 ha) with the main developer – the People's Committee of Vung Tau, Nam Tan Tap Industrial Park (245 ha, 41% capital owned by KBC) approved by the Prime Minister, and many industrial park projects in Binh Giang, Hung Yen and Long An (2,500 ha).

Trading data

Free float (%)	34
3M avg trading value (VNDbn/USDmn)	312/13.6
Foreign ownership (%)	26.74
Major shareholder – Dang Thanh Tram (%)	17.92

Share price performance

(%)	1M	3M	6M	12M
Absolute	24.7%	15.9%	15.3%	212.9%
Relative	4.3%	-1.8%	16.6%	49.2%



Source: Bloomberg, KB Securities Vietnam

1H21 business performance

Business results are improved thanks to an increase of 366% YoY in leased industrial land area

KBC's 6M21 earnings reached VND1,572 billion (+340% YoY) on revenue of VND2,752 billion (+278% YoY). Strong performance was attributable to the increase in the total area of leased industrial land (+365% YoY to 80.7 ha). In terms of revenue structure, industrial park leasing still accounted for the main proportion with 75.7%, warehouse leasing 9.6%, urban area sales 8.6% and other service fees 6.1%. Revenue from the industrial real estate segment has contributed an average of 72.7% to KBC's total revenue for the last five years.

Quang Chau and Tan Phu Trung industrial parks are the main revenue contributors with leased area accounting for 77.7% of KBC's

The total leased industrial land area of 80.6 ha in 1H21 includes 40.7 ha of Quang Chau, 1.4 ha of Trang Due, 21.9 ha of Tan Phu Trung, and 16.6 ha of Nam Son Hap Linh. However, Quang Chau Industrial Park may no longer bring in much revenue in 2H21 as its occupancy rate has reached 97%, and Nam Son Hap Linh should replace the former's position in KBC's revenue structure as it just signed a memorandum of understanding (MOU) for up to 100 ha land.

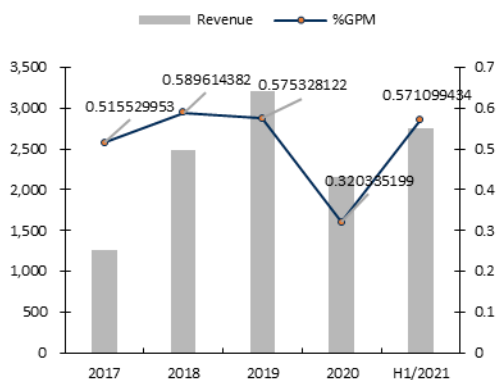
Profit margin went up from 49.1% to 57.1% YoY in 1H21 thanks to high rental prices in industrial parks

1H21 gross profit margin was 57.1% (+8% YoY) thanks to the sharp increase in industrial park rental prices. To be more specific, the rental prices climbed from USD90/m² to USD108/m² in Quang Chau and from USD110/m² to USD135/m² in Tan Phu Trung. The price increase in the two industrial parks, whose land was almost totally cleared, is the main reason for KBC's high gross profit margin.

Short-term performance was hit by the COVID pandemic

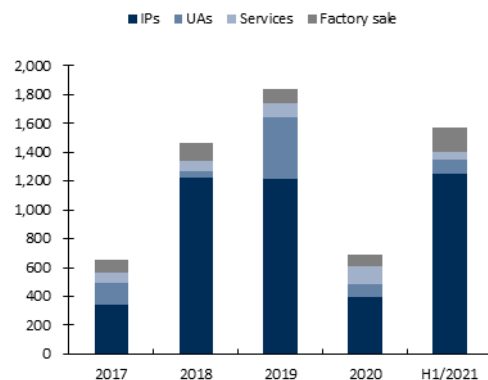
We also note that although the KBC's Northern industrial parks resumed operating from July, KBC's developing projects in the South such as Tan Phu Trung Industrial Park and Long An industrial cluster still face pandemic-caused difficulties, so investors cannot visit the project site and temporarily delay the construction. This is most clearly shown when 2Q total leased industrial area went down by 50 ha QoQ to 14 ha. However, we think this will last in a short term and the accounting of KBC's industrial parks will only be one or two quarters behind schedule.

Fig 1. KBC – Revenue and gross profit margin (VNDbn, %)



Source: Kinh Bac City Development, KB Securities Vietnam

Fig 2. KBC – Revenue structure (VNDbn)



Source: Kinh Bac City Development, KB Securities Vietnam

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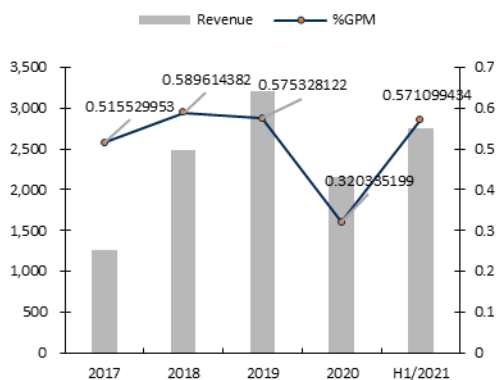
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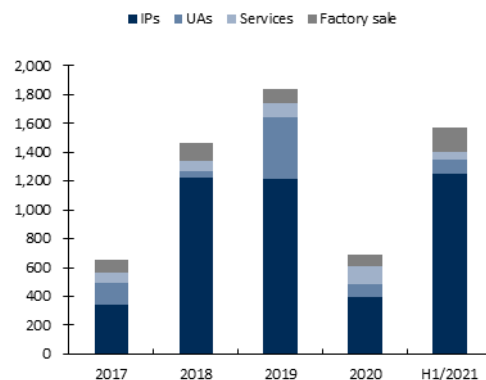
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Table 1. KBC – 1H21 business results

	2H20	1H21	YoY growth (%)	% 2021F	% 2021 plan	Comment
Industrial park sales (VNDbn)	17.3	80.6	366%	63.4%		Mainly from foreign technology and electronics enterprises
Quang Chau	2.2	40.7	1750%	89.1%		
Trang Due	0	1.4	N/A	N/A		
Tan Phu Trung	15.1	21.9	45.0%	73.0%		
Nam Son Hap Linh	0	16.6	N/A	33.2%		
Urban area sales (VNDbn)	0.9	2.2	144%	30%		2.2 ha of land sales from Trang Due Urban Area
Revenue (VNDbn)	727.3	2751.8	278%	56%	42%	Revenue mainly comes from industrial park sales
Industrial land lease	471	2082.1				Main contribution from Quang Chau, Tan Phu Trung and Nam Son Hap Linh industrial parks
Warehouse sale	0	263.1				
Urban area land sale	82.8	235.3				Trang Due sales
Others	173.5	171.3				
Gross profit (VNDbn)	357.3	1572.1				
Gross profit margin (%)	49.1%	57.1%				Margin increases due to better industrial park sale price
SG&A expenses (VNDbn)	(133)	(322)				
SG&A/revenue %(VNDbn)	-18.3%	-11.7%				
Operating profit (VNDbn)	225	1,250				
Financial income (VNDbn)	27.2	74.5				
Financial expenses (VNDbn)	(98.4)	(225.4)				
Pre-tax profit (VNDbn)	164.4	1097.8				
Post-tax profit (VNDbn)	105.1	792.4	654%	52%	40%	More cautious forecast to reflect slowed sales due to COVID
Net profit margin (%)	14.5%	28.8%				

Source: Kinh Bac City Development, KB Securities Vietnam

Investment viewpoint

The area of commercial landbank to be launched may surge in the next two years: industrial land up from 309 ha to 954 ha and urban areas up from 56 ha to 306 ha

We expect KBC's industrial landbank area to increase significantly, based on: Trang Due Industrial Park (phase 3) with an area of 687 ha was approved by the Government in March 2021, Quang Chau Industrial Park expansion project (up 90 ha) was approved in July, and Long An industrial zone with 169 ha was financed with VND1,500 billion mobilized from bonds. We expect these projects will be launched in 2023 after one or two years of land clearance and construction. About 120 ha of each should be delivered to customers per year, thereby doubling the current average leasable area of KBC. For the urban area segment, we expect the saleable land bank to improve greatly from 56 ha to 306 ha as 585 ha in Trang Cat Urban Area should be opened for sale from 2023.

New industrial parks have great advantages from their geographical location and existing customer base. The occupancy rate should reach 90% of the leased area in five years

We expect KBC to hand over 90% of the leased area which should increase by 645 ha between 2023 and 2028:

- Trang Due Industrial Park (phase 3): Land leasing 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 rest two years). Trang Due is conveniently located right next to National Highway 10 and 15 km far from Hai Phong Port. Therefore, we expect Trang Due's (phase 3) occupancy rate to reach the maximum after five years of operation, given the demand for FDI in Vietnam is increasing and the landbank is limited. Trang Due Industrial Park (phase 2) was also 90% filled in just four years since its operation in 2014.
- Quang Chau Industrial Park expansion project: Customers leased an average of 47.8 ha per year from 2019 to 2021. The project also attracted many big customers such as Foxconn and Luxshare. Therefore, we expect all of this expansion project to be quickly leased in 2023-2027.
- Long An industrial cluster: Three KBC industrial parks are planned to be built on a total area of 169 ha, of which 110 ha would be opened for lease. Two industrial parks are located in Phuoc Vinh Dong and one in Tan Tap. The location of these industrial parks is quite convenient as it is only 20 km from Ho Chi Minh City and 30 km from Cai Mep Port. As a result, we expect the average rental price of the three to be USD140/m² (currently the average rental price in Long An area is USD130-150/m²) and the occupancy rate should be 90% after four years from the date of launch in 2023.

Table 2. KBC – Industrial park list

Industrial parks	Area (ha)	Saleable area (ha)	Occupancy rate (%)	Rental/selling price (USD/m ²)	For sale
Nam Son Hap Linh	300	187.5	8	90	2021
Quang Chau	426	7.6	97	108	2008
Tan Phu Trung	543	113.4	64	134	2011
Quang Chau expansion	90	78.0	0	110	2024
Long An industrial cluster	220	143	0	135	2022
Trang Due (phase 3)	687	456	0	100	2023

Source: Kinh Bac City Development, KB Securities Vietnam

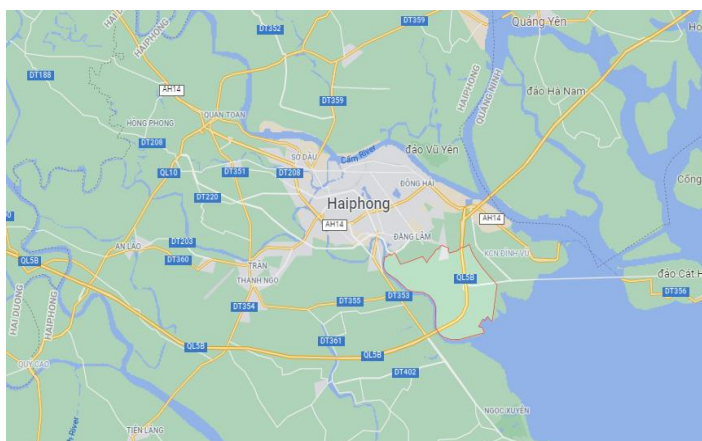
Trang Cat Urban Area saw some positive signals in the progress of implementation after many pending years

Trang Cat Urban Area was granted an investment certificate in 2011 but the construction has not started due to the lack of traffic connections: One side is separated by Hanoi – Hai Phong Highway, and Tan Vu – Lach Huyen Street does not have an intersection connecting the two branches of the above road to the project. Currently, there are some signs that bode well for Trang Cat project. KBC has invested in the Hanoi – Hai Phong Highway tunnel leading to the project, and paid the land use fee of VND3,500 billion for the project in December 2020, and increased charter capital in Trang Cat by VND1,500 billion mobilized from the issuance of 100 million shares. Therefore, we expect that in the next period, Trang Cat Urban Area will have a marked improvement and can be put into operation from 2023, increasing the saleable landbank of KBC's urban area from 56 ha to 306 ha.

Trang Cat Urban Area has a favorable location, which may become the most important urban area in Hai Phong

Trang Cat Urban Area has a convenient location which is less than 10 km from Cat Bi Airport, adjacent to Hanoi – Hai Phong Highway, and is designed as a sea encroachment urban area. When the project is put into operation, it may become the largest urban area in Hai Phong and contribute to regional economic development. Therefore, we believe that the current land price of VND16 million/m² would likely increase in the future, considering some locations in Hai Phong already have prices of more than VND100 million/m².

Fig 3. KBC – Location of Trang Cat Urban Area



Source: KB Securities Vietnam

Gross margin remained high – around 57.1% in H1/2021 thanks to a significant increase in selling prices of projects

We expect KBC to keep its gross margin as high as in 1H21 (at 57.1%), supported by: (1) The increase in the number of launched industrial parks and (2) the potential increase in the prices of KBC's projects whose contracts are signed one or two years before launching (so the prices at the time of delivery are lower than the current market prices).

The rental prices of industrial parks increase 10% a year on average from 2016 to 2021

The average rental price in KBC's industrial parks has risen from USD65.8/m² in 2016 to USD106.7/m² in 2021 (average growth of 10.1% per year). The industrial parks that benefit the most are the ones that have been completed for a long time and have low costs (Quang Chau and Tan Phu Trung).

Gross margin of industrial real estate segment should increase in the coming years

The 16.6 ha of land in Nam Son Hap Linh was delivered to customers for the price of USD90/m². This price is lower than the regional average of USD100–120/m² because KBC usually signs a memorandum of understanding with investors one or two years in advance, so there is a difference between the handover price and the market price. Therefore, we expect the gross margin from Nam Son Hap Linh will also gradually improve in the coming years.

KBC's key project, Trang Cat with 584 ha, can achieve a gross profit margin of 63.3% thanks to its low cost of capital

Trang Cat Urban Area has an infrastructure investment of VND11,329 billion, equal to infrastructure cost of VND4.6 million/m². We think this cost is low as the land lot surrounding the project is already priced at VND16 million/m². We think the project is potential thanks to its good legal basis and paid-off of land use and compensation cost. We believe that KBC will maintain high gross profit margin as the key project Trang Cat has a very low cost of capital.

Table 3. KBC – Rental prices in industrial parks in the last few years

	2016	2017	2018	2019	2020	2021F
Average selling price (USD/m ²)	65.8	77.1	81.5	91.9	101.0	106.7
YoY growth (%)	-	17.2	5.8	12.7	9.9	5.7
Quang Chau	53.5	65.4	57.9	89.0	90.0	108.0
Que Vo	114.5	92.6	81.7	89.0		
Trang Due	75.0	83.5	98.9	99.0		98.8
Tan Phu Trung	71.3	69.5	79.0	99.0	110.0	133.0
Nam Son Hap Linh						90.0

Source: Kinh Bac City Development, KB Securities Vietnam

KBC is still continuously researching and expanding its landbank

KBC is doing research for many projects that can be developed in the future. Specifically, the joint venture KBC – Sai Gon Telecommunication & Technologies (SGT) – Hoa Binh Province Hung Long Trading Investment (SCC) was chosen as the main developer of 69 ha Nam Vung Tau urban area project whose total investment is VND4,620 billion. KBC has a ownership rate of 78.17% in the subsidiary Vung Tau Investment JSC (charter capital of VND1,000 billion). KBC also holds a 41.11% ownership rate in 245 ha–Nam Tan Tap Industrial Park which was approved for investment in the first eight months of 2021. We assess that these are all potential projects which are in ideal locations and have high rental prices. The South Vung Tau area has a land price of VND40 million/m², and Nam Tan Tap has the rental price of USD140/m².

KBC has established subsidiaries with affiliated companies to expand its landbank

In addition, KBC is doing initial research for other projects with associated companies, including:

- KBC established Tan Thanh Long An Investment Development Group whose charter capital of VND1,500 billion contributed by KBC, Southern Hydropower (SHP) and SGT. KBC's ownership rate in the joint venture is 65.36%. Tan Thanh Long An should focus on researching and investing in 700 ha–Tan Tap Industrial Park in Long An. However, the project is only in the research and finalization stage and has not found the main developer.
- KBC established Hung Yen Investment and Development Group with a charter capital of VND1,800 billion (ownership rate 69%) to invest in an industrial–urban complex in Hung Yen covering an area of 1,000 ha.
- In addition, KBC plans to build a number of projects in Hai Duong, Hanoi and Thai Nguyen.

However, these projects have not been licensed, and the implementation time of KBC's existing projects may take at least five more years. Therefore, we do not include these projects in KBC's valuation.

Forecast business performance

2021F profit and revenue would surge 115% YoY and 308% YoY respectively

We estimate KBC's 2021 profit and revenue to reach VND1,308 billion (+309%) and VND4,626 billion (+115%) respectively.

Strong forecast performance was based on a large area of land to be opened for lease and for sale, including

137 ha of industrial land (45.7 ha in Quang Chau, 1.4 ha in Trang Due, 30 ha in Tan Phu Trung and 60 ha in Nam Son Hap Linh) and 5.4 ha of urban area (3 ha in Phuc Ninh and 2.4 ha in Trang Due).

Our forecast is lower than KBC's plan (VND2,000 billion in earnings on revenue of VND6,600 billion) mainly due to the lower forecast for Nam Son Hap Linh Industrial Park. Our reasons include: (1) the COVID pandemic slows down the progress of KBC's projects, especially Long An and Tan Phu Trung in the Southern region; and (2) 90% of KBC's customer base is from foreign enterprises, so even if the industrial parks come back into operation, the difficulty in accessing to these customers may lead to lower profit.

2022F profit and revenue would grow 17.2% YoY and 32.3% YoY respectively

KBC's 2022 earnings and revenue may reach VND5,089 billion (+10%) and VND1,509 billion (+15%). Our projections are based on:

- The area of industrial land for lease is 122 ha, of which Tan Phu Trung is 40 ha and Nam Son Hap Linh is 80 ha. We expect Nam Son Hap Linh to have a high rental rate as KBC signed a MOU for 100 ha in this industrial park.
- We think that Long An project may receive advances from customers from 2022, but its implementation is delayed as Long An Province is now in the pandemic epicenter (KBC has mobilized VND1,500 billion capital from bonds at the end of June).
- The land for Trang Due project has not been cleared yet (its inventory value rose VND9.7 billion in 2Q21), so it is difficult to open the project for sale before one year of construction completion.
- 9 ha of the urban area land should be sold, of which there is 6 ha in Phuc Ninh and 32 ha in Trang Due. We believe that Phuc Ninh phase 2 cannot immediately be opened for sale in 2022 when phase 1 is still underway to hand over 7.9 ha land that already received advances. However, KBC usually takes deposit a few years in advance, so it is expected that Phuc Ninh Urban Area can attract investors from 2022.

Table 4. KBC – 2021–2022F performance

	2020	2021	2022	YoY growth (%)	Comment
Industrial park sales (VNDbn)	66.2	137.1	122.6	-11	Sales are predicted to decrease because Trang Due and Long An cannot be launched in 2022
Quang Chau	30	45.7	2.6	-94	Rental price averages USD108/m ²
Trang Due	0	1.4	0	-100	Trang Due phase 3 will be launched in 2023
Tan Phu Trung	36.2	30	40	33	Rental price averages USD135/m ²
Nam Son Hap Linh	0	60	80	33	The project will soon be filled thanks to 100 ha MOU signed
Long An industrial cluster	0	0	0		
Urban area sales (VNDbn)	2.35	5.4	9	67	Phuc Ninh contributes 6 ha (from phase 1), while Trang Due contributes 3 ha
Revenue (VNDbn)	2,151	4,626	5,089	10	Revenue growth is attributable to higher urban area sales
Industrial land lease	1,537	3,341	3,161		Nam Son Hap Linh and Tan Phu Trung are the main contributors
Warehouse sale	140	188	193		
Urban area land sale	196	800	1,411		Forecast reflects Phuc Ninh's remaining 7.9 ha sold will be booked in early 1Q22
Others	277	297	324		
Gross profit (VNDbn)	689	2,580	2,780		
Gross profit margin (%)	32.0%	55.8%	54.6%		
SG&A expenses (VNDbn)	-323	-483	-465		
SG&A/revenue (%) (VNDbn)	-15.01%	-10.44%	-9.14%		
Operating profit (VNDbn)	366	2,098	2,314		
Financial income (VNDbn)	314	172	345		
Financial expenses (VNDbn)	-230	-637	-776		
Pre-tax profit (VNDbn)	453	1,635	1,886		
Post-tax profit (VNDbn)	320	1,308	1,509	15	Sales will improve in 2022 when Vietnam is less affected by COVID-19
Net profit margin (%)	14.87	28.27	29.64		

Source: Kinh Bac City Development, KB Securities Vietnam

Valuation

Valuation method

By using RNAV method, we recommend BUYING KBC shares with a target price of VND50,000 per share, 20.5% higher than the closing price of VND 41,500 per share on September 27, 2021.

Valuation includes the private placement of 100 million outstanding shares with the price of VND34,096 per share

Our valuation includes the upcoming private placement of 100 million shares (VND34,096 per share). KBC expects the earnings of roughly VND3,410 billion, of which VND419 billion should be used to supplement the working capital, VND1,180 billion to increase Trang Cat's scale and VND1,811 billion to restructure 12 debts. KBC's outstanding shares are forecast to increase by 21.5% or VND569.7 million from VND469.7 million.

New projects included in valuation: Trang Due Industrial Park (Phase 3), Trang Cat Industrial Park and Long An Industrial Zone

Our valuation also covers three newly approved projects which are KBC's development orientation in the upcoming time, namely Trang Due Industrial Park (Phase 3), Long An industrial cluster and Trang Cat Urban Area. Trang Due (687ha) has been added to the master plan of Dinh Vu – Cat Hai economic zone. Moreover, Long An industrial zone (169 ha) and Trang Cat Urban Area have also completed their compensation and land use payment.

Table 5. KBC – Valuation

Valuation	Method	Ownership %	Project NPV (VNDbn)	Value attributable to KBC (VNDbn)
Industrial parks				6,751
- Quang Chau	DCF	88	87	76
- Quang Chau expanded	DCF	88	551	485
- Nam Son Hap Linh	DCF	100	1,446	1,446
- Trang Due (Phase 3)	DCF	87	3,223	2,789
- Tan Phu Trung	DCF	72	1,152	834
- Long An industrial cluster	DCF	83	804	667
- Nam Tan Tap	DCF	41	1,103	453
Urban areas				23,627
- Phuc Ninh	DCF	100	4,004	4,004
- Trang Due	DCF	87	367	318
- Trang Cat	DCF	100	18,749	19,305
Revalued inventories				30,378
(+) Cash and cash convertibles				7,093
(-) Net borrowings				8,990
RNAV				28,481
Shares in circulation				569,760,189
Target share value				50,000
Current share price				41,500
Total profit				20.5%

Source: KB Securities Vietnam

Valuation of industrial real estate segment

Our industrial park segment valuation comprises KBC's industrial parks that have either been opened for sale like Quang Chau, Nam Son Hap Linh, and Tan Phu Trung or approved by the government, namely Trang Due (Phase 3) and Long An industrial cluster.

Valuation of industrial zones opened for sale

Our valuation of industrial parks launched includes Quang Chau, Nam Son Hap Linh and Tan Phu Trung.

- Quang Chau Industrial Park (426ha) is located in Viet Yen District of Bac Giang Province with 278 ha for lease at an average rental price of around USD108/m². As of 1H21, the project filled up 97% of the total land area. KBSV estimates its 2H21 earnings of VND67 billion on revenue of VND162 billion for the remaining 7.6ha, assuming an average rental price of USD108/m² and 100% of occupancy by the end of 2021.
- Nam Son Hap Linh Industrial Park (300ha) is located in Tien Du of Bac Ninh Province with 204 ha of leasable land. As of 1H21, 16.6ha was rented, the rest was 187.5ha. Its average rental cost is USD90/m², lower than 100-USD120/m² average price in the region. This might be due to KBC's signing an MOU with the investors in advance, which may result in a gap between the selling price and market price. We, however, expect an improvement in the rental cost to an average of USD11/m² in the coming years. The project value may reach VND1,446 billion, with an assumption that the rental area would account for 90% of the total area during 2021-2024.
- Tan Phu Trung Industrial Park (543ha in total and 314ha for lease) is located in Tan Phu Trung Ward, Ho Chi Minh City with. Its average rental price now is roughly at USD135/m². 1H21 occupancy rate reached 64% with 113.4 ha left. The remaining net present value of the project is estimated at around VND1,152 billion.

Valuation of legally eligible industrial parks about to be launched

Our industrial parks segment valuation also consists of projects that have been fully approved but not opened for sale which are Trang Due (687ha) and Long An (219 ha).

- Trang Due Industrial Park (Phase 3) (687ha) with 456ha of land for lease has been included in the master plan of Dinh Vu – Cat Hai Economic Zone on March 25, 2021. Its occupancy rate outperformed thanks to its income tax incentives and favorable geographical location. Enterprises investing in Trang Due Industrial Park would receive tax exemption in the first four years and a reduction of 50% of the tax in the next nine years under the applied profit tax of 10% during the first 15 years. In the past, it took Trang Due (Phase 2) only four years from 2018 to get an occupancy rate of 90%. Moreover, Trang Due Industrial Park is situated right next to National Highway No.10 and only 15 km from Hai Phong Port, which is very convenient for traffic. As a result, it is very likely that the occupancy rate would reach 90% within five years starting from 2023 since it is launched and would attract foreign investment, especially those whose factories have already been in the industrial park such as LG, Dongjin, Haengsung. Assuming a rental price of USD110/m² and 90% of occupancy during 2023–2027, we would price the project at VND3,223 billion.

- Long An industrial cluster: KBC has successfully bid for three industrial park projects on a total scale of 169ha in Long An in 2020 and owned 83% of each project's investment capital. Long An is expected to record VND1,495 billion in earnings on revenue of VND4,455 billion during 2022–2027 with an estimated rental price of USD135/m². The project is priced at VND804 billion for shareholders of the parent KBC.

- Quang Chau Industrial Park has been expanded 90ha, of which leasable land is expected to increase by 78ha. The project has now been approved for 1/2000 zoning plan, so we assume that it will not be launched until 2024. The project may post the earnings of VND778 billion on revenue of VNDVND1,982 billion with the current rental price of USD100/m² during 2024–2028. We think the value of the project is VND551 billion.

- Nam Tan Tap Industrial Park covers an area of 245ha, of which leasable land amounted to 152ha. KBC's capital to the project is 41.1% or so. The project is invested by SGT and was approved by the government in August. We estimate the project may contribute VND453 billion to KBC's value.

Valuation does not include unapproved industrial parks

Please note that our valuation does not involve projects of small-scale subsidiaries or unapproved ones in the initial research for planning which are Binh Giang (960ha), Hung Yen (1,000ha), Long An (616ha) as well as projects of associate companies, namely Dai Dong Hoan Son Industrial Park (completion: 21.5% of 95ha) opened for sale in 2021 and Tan Tap Industrial Park (completion: 65.36% of 700ha).

Industrial zone segment is priced at VND6,298 billion or 22.2% of the total valuation

We forecast KBC may earn around VND6,298 billion or 22.2% of the total valuation which for the most part focuses on newly approved projects like Trang Due (Phase 3), Long An and Quang Chau expansion project. These are expected to be the backbone of KBC from 2023 as 90% area of KBC's available-for-lease projects has been rented.

Table 6. KBC – Industrial zone segment valuation

Valuation	Method	Ownership (%)	Launch for sale	Remaining leasable area (ha)	Sale price (USD/m ²)	Project NPV (VNDbn)	Value attributable to KBC (VNDbn)
Industrial parks							6,751
- Quang Chau	DCF	88	2008	7.6	110	87	76
- Quang Chau expanded	DCF	88	2024	78.0	110	551	485
- Nam Son Hap Linh	DCF	100	2021	187.5	100	1,446	1,446
- Trang Due (Phase 3)	DCF	87	2023	456.0	120	3,223	2,789
- Tan Phu Trung	DCF	72	2011	113.4	140	1,152	834
- Cum CN Long An	DCF	83	2022	110.6	140	804	667
- KCN Nam Tan Tap	DCF	41	2023	151.7	140	1,103	453

Source: KB Securities Vietnam estimates

Valuation of the urban area segment

Our urban area valuation includes ongoing and approved projects of KBC like Phuc Ninh Urban Area (114ha), Trang Due Urban Area (42ha), and Trang Cat Urban Area (584ha).

Phuc Ninh Urban Area

Phuc Ninh Urban Area lies in Dau Ma, Phu Ninh District, Bac Ninh Province and covers a total area of 114ha with 44.5ha of saleable land. Up to present, 2.56ha of the project has been transferred at/for an average price of VND15 million/m². In addition, 7.43ha was deposited with an average price of VND18 million/m² and should be fully handed over late this year or early next year. However, this does not reflect the current market price in the region because KBC received this down payment in 2018. According to our research, the land lot in Phuc Ninh is sold at VND38 million/m² thanks to its prime location right in the center of Bac Ninh Province, only 800m from Kinh Bac Cultural Center and 1 km from the main road of Tran Hung Dao. Therefore, we expect that the project, after selling out 9.9ha of pre-deposited land, will be resumed and reopened for sale with an average selling price of VND30 million/m². Having completed 70% of compensation, the project benefited from high gross profit margin thanks to low construction costs and increasing selling prices. We estimate the project will receive the remaining earnings of VND4,502 billion on revenue of VND11,689 billion, of which 7.9ha pre-deposited will be delivered in 2021 and early 2022, and the rest will be launched between 2022 and 2025. The project is expected to contribute VND4,004 billion to KBC's valuation.

Trang Due Urban Area

Trang Due Urban Area covers an area of 42ha, of which 22.6ha is saleable land. As of 1H21, 2.2ha was sold at an average price of VND10.7 billion/m² and the remaining saleable area now is 14.45ha. According to our estimates, KBC would obtain VND497 billion in earnings on revenue of VND1,734 billion during 2021–2023. The project is priced at VND318 billion.

Trang Cat Urban Area

Trang Cat Urban Area with a total area of 585ha in Trang Cat, Hai An, Hai Phong has fully completed the compensation and land use payment but has not had any specific implementation plan. However, it is expected to be KBC's key project in the coming years with the largest proportion at 63% of KBC's total valuation and has an estimated infrastructure investment of 11,328 billion, of which VND3,502 billion is for land use of Hai Phong city, VND3704 billion is for compensation and construction of underground highway Hanoi – Hai Phong, VND4,122 billion is for infrastructure construction during 2021–2023. In our view, the total infrastructure investment of VND11,328 billion or VND4.6 million/m² is quite low. We estimate the value of the total project at VND19,305 billion, considering the delivery will be completed during 2023–2028 and apartments will be sold at VND26 million/m² compared to the current land lot price VND16million/m².

Urban area's value is estimated at VND23,627 billion or 77.8% of total valuation

We believe KBC may record the earnings of VND23,627 billion from urban areas or 77.7% of our total valuation. However, our valuation does not cover the 69.5ha project in the Southern coastal province of Ba Ria – Vung Tau because its specific plan has not been revealed.

Table 7. KBC – Valuation of urban areas

Valuation	Method	Ownership (%)	Sale debut	Remaining saleable area (ha)	Sale price (VNDmn)	Project NPV (VNDbn)	Value attributable to KBC (VNDbn)
Urban areas							23,627
- Phuc Ninh	DCF	100	2018	41.9	32	4,004	4,004
- Trang Due	DCF	87	2016	14.5	12	367	318
- Trang Cat	DCF	100	2023	250.0	26	18,749	19,305

Source: KB Securities Vietnam

Total valuation

In conclusion, we find that the reasonable RNAV valuation for KBC's industrial zones and urban areas is VND28,071 billion or VND49,300 per share (up 11.7%) compared to current price of VND44,150 per share.

Valuation does not cover money from increasing selling prices and other potential landbank of KBC

In our assessment, KBC's valuation is likely to go up as the prices have continuously increased in industrial parks (up 10% on average) and urban areas (Phuc Ninh Urban Area increased its selling price from VND18 million/m² to VND30 million/m² in 2021). Moreover, KBC's valuation will be revised up when projects have detailed plans or approvals, namely the urban areas in the Southern coastal province of Vung Tau (69ha) and Tan Tap (700ha).

Risks

Risk of industrial zones not selling as quickly as expected

We found two main reasons that may fail the expectation of industrial park sales: (1) Complicated legal procedures leading to slow implementation and (2) Decreasing FDI into Vietnam due to the impact of the unpredictable pandemic developments, which adversely affected KBC as 90% of its customers is foreigners. However, we assess these two as low risks, supported by: (1) Our valuation only includes KBC's approved projects with high compensation cost like Trang Cat which has paid off its compensation; (2) Vietnam will maintain a competitive advantage thanks to much cheaper labor force with an average salary of USD252 per month 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 next year.

Risk of urban projects' feasibility

As we mentioned earlier, 77% of KBC's valuation comes from urban projects although it has strength in industrial park segment, which may greatly affect KBC's valuation. However, KBC owns both projects' legality and financial capacity, two decisive key factors that affect its valuation. More importantly, the main reason for construction delay in Trang Cat as a result from the lack of roads to the urban area has now been resolved.

Risk of stock dilution

We forecast stock dilution of 9.4% from the upcoming issuance of 21.5% of the total outstanding shares or 100 million shares. However, we consider this to be positive because KBC's current projects have seen a dramatic increase in prices, and KBC also needs more capital from investors to maximize the profit from projects.

KBC – Forecast financials

Income statement					Balance sheet				
(VN Dbn)	2019	2020	2021F	2022F	(VN Dbn)	2019	2020	2021F	2022F
(VN GAAP)					(VN GAAP)				
Net sales	3,210	2,151	4,626	5,089	Total assets	16,433	23,786	29,811	31,124
Cost of sales	-1,363	-1,462	-2,046	-2,310	Current assets	13,912	21,403	26,143	27,446
Gross profit	1,847	689	2,580	2,780	Cash and cash equivalents	652	1,050	1,529	-1,118
Financial income	80	314	172	345	Short-term investments	3	1,940	2,037	2,207
Financial expense	-223	-230	-637	-776	Accounts receivables	5,493	6,638	8,696	9,616
Of which: financial expense	-196	-195	-637	-776	Inventories	7,548	11,534	13,639	16,500
Gain/(loss) from joint ventures (since 2015)	0	3	0	0	Non-current assets	2,521	2,383	3,668	3,677
Selling expenses	-142	-52	-185	-153	Long-term receivables	128	182	1,458	1,458
General & administrative expenses	-172	-271	-298	-313	Fixed assets	1,076	1,126	1,132	1,140
Operating profit/(loss)	1,391	452	1,632	1,883	Constructions in progress	822	869	869	869
Other income	8	3	0	0	Long-term investments	861	661	661	661
Other expense	35	3	0	0	Goodwill				
Net other income	-27	0	0	0	Liabilities	6,052	13,133	14,850	14,729
Gain/(loss) from joint ventures	0	0	0	0	Current liabilities	804	1,547	1,663	1,663
Pretax profit/(loss)	1,364	452	1,632	1,883	Trade account payables	371	155	268	403
Income tax	-323	-133	-327	-377	Advances from customers	414	894	894	1,139
Net profit/(loss)	1,041	320	1,308	1,509	Short-term borrowings	804	1,547	1,663	1,663
Minority interests	122	96	131	151	Long-term liabilities	1,984	6,171	7,670	7,170
Net profit after MI	918	224	1,177	1,358	Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	5	5	5	5
					Long-term borrowings	1,122	4,218	5,718	5,218
					Owners' equity	10,381	10,653	14,961	16,469
					Paid-in capital	4,757	4,757	5,757	5,757
					Share premium	989	989	2,989	2,989
					Undistributed earnings	4,099	4,316	5,494	6,851
					State budget and other funds	0	0	0	0
					Minority interests	898	953	1,083	1,234
Activity ratio					Key ratios				
	2019	2020	2021F	2022F	(x, % VND)				
Gross profit margin	57.5%	32.0%	55.8%	54.6%	Multiple				
EBITDA margin	49.4%	21.2%	47.3%	47.5%	P/E	8.0	51.7	20.3	17.6
EBIT margin	47.8%	17.0%	45.3%	45.5%	P/E diluted	8.0	51.7	20.3	17.6
Profit before tax margin	42.5%	21.1%	35.3%	37.1%	P/B	0.8	1.2	1.6	1.5
Operating profit margin	47.8%	17.0%	45.3%	45.5%	P/S	2.3	5.4	5.2	4.7
Net margin	32.4%	14.9%	28.3%	29.6%	P/Tangible Book	0.8	1.2	1.6	1.5
					P/Cash Flow	4.8	-4.0	49.8	-9.0
					EV/EBITDA	14.2	56.9	13.6	13.2
					EV/EBIT	14.7	70.8	14.2	13.8
					Operating performance				
					ROE%	10.3%	3.0%	10.2%	9.6%
					ROA%	5.5%	1.1%	4.4%	4.5%
					ROIC%	7.5%	1.6%	6.1%	5.9%
					Financial structure				
					Cash ratio	0.2	0.4	0.2	-0.1
					Quick ratio	1.5	1.4	1.7	1.4
					Current ratio	3.4	3.1	3.6	3.6
					LT debt/ Equity	0.1	0.4	0.4	0.3
					LT debt/ Total assets	0.1	0.2	0.2	0.2
					Debt/ Equity	0.2	0.5	0.5	0.4
					Debt/ Total assets	0.1	0.2	0.2	0.2
					ST liabilities/ Equity	0.4	0.7	0.5	0.5
					ST liabilities/ Total assets	0.3	0.3	0.2	0.2
					Total liabilities/ Equity	0.6	1.2	1.0	0.9
					Total liabilities/ Total assets	0.4	0.6	0.5	0.5
					Activity ratios				
					Account receivables turnover	2.1	1.6	0.6	0.6
					Inventory turnover	0.2	0.2	0.2	0.2
					Accounts payable turnover	4.6	5.6	21.8	15.2

Source: Fiiipro

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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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