



KBC Update - BUY

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Company Update

Recommendation

BUY

HSX: KBC

Property

Market price (VND) **21,800**

Target price (VND) **27,310**

Expected share price return 19.5%

Expected dividend yield 0.0%

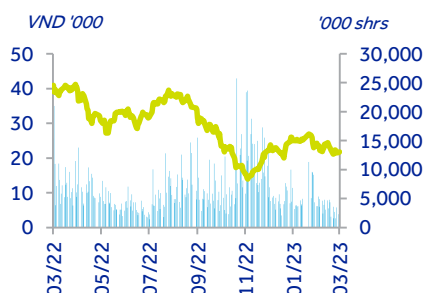
Expected total return **19.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-5.6	-6.8	-1.4	-46.8
Relative	-9.9	-4.4	-1.4	-17.1

Source: Bloomberg

Price-Volume



Ownership

Dang Thanh Tam (Chairman)	18.06%
Kinh Bac Consultancy & Investment JSC	8.11%
DC and related parties	5.95%

Stock Statistics 8-Mar-22

Bloomberg code **KBC VN**

52-week range (VND) 13,250 - 41,925

Shares O/S (m) 768

Mkt cap (VND bn) 17,540

Mkt cap (USD m) 734

Est. Foreign room left (%) 29.4

Est. free float (%) 49.6

3m avg daily vol (shrs) 4,668,685

VND/USD 23,880

Index: VNIndex / HNX 1049.18/208.68

KINH BAC CITY DEVELOPMENT HOLDING CORPORATION JSC (KBC VN)

Reiterate our Buy rating with a target price of VND27,310 at YE23 given ongoing diversification of production away from China and KBC's capability in attracting key electronic manufacturers despite a slowdown in global demand and registered FDI to Vietnam.

2022 profit mainly came from revaluation of Saigon Danang Investment JSC

Kinh Bac's 2022 net revenue dropped by 77% YoY, to VND957bn, far below its target due to:

- (1) a delay in delivering 107ha with a total contracted value of VND3,540bn at Quang Chau industrial park (IP) (77ha) and Nam Son Hap Linh IP (30ha) to 2023 as tenants were not granted investment licenses in 2022,
- (2) no bulk sales transaction recorded at Trang Cat urban area and
- (3) sales return of VND447bn for 2.2ha at Trang Due urban area from a sub-developer given a delay in approval of Hai Phong province's general planning.

In 2022, KBC delivered over 19ha of industrial land (-83% YoY), including over 17ha at Tan Phu Trung IP and nearly 2ha at Quang Chau IP. We estimated that average leasing rate at Tan Phu Trung IP in 2022 increased by 6.5% YoY, to c.USD144/sqm/remaining leasing term while that at Quang Chau IP jumped by 24% YoY, to c.USD134/sqm/remaining leasing term.

On the other hand, 2022 PAT doubled YoY, to nearly VND1,600bn thanks to nearly VND2,200bn from revaluation of Saigon Danang Investment JSC when KBC increased its ownership in this company from 19.5% to 48%.

Be able to pay back VND2,500bn of corporate bond due in June

In this year, KBC will have a total of VND2,900bn of corporate bonds matured, of which VND400bn due in February and VND2,500bn in June. Given cash and cash equivalent balance of nearly VND2,300bn at YE22 and around VND3,000bn collected in 1H23 from 2022 contracted value of VND3,540bn and a newly signed contract of USD90mn with Goertek for 62.7ha in Nam Son Hap Linh IP, we think that KBC can fulfil its debt obligation in Jun.

	2019	2020	2021	2022U	2023E
Net Sales (VNDbn)	3,210	2,151	4,246	957	5,575
Growth	28.8%	-33.0%	97.4%	-77.5%	482.4%
EBITDA (VNDbn)	1,586	455	1,924	-169	2,209
Growth	32.0%	-71.3%	322.8%	n/a	n/a
NPATMI (VNDbn)	898	224	782	1,547	1,401
Growth	19.1%	-75.1%	249.1%	97.8%	-9.4%
EPS (bonus-adjusted, VND)	1,466	358	1,190	2,019	1,825
Growth	23.1%	-75.6%	232.5%	69.7%	-9.6%
ROE	9.7%	2.3%	6.6%	10.3%	8.4%
ROIC	6.1%	1.7%	3.8%	5.2%	4.4%
Net debt/EBITDA (times)	0.8	6.1	1.3	-20.8	1.7
EV/EBITDA (times)	13.3	46.3	10.9	-124.7	9.5
PER (times)	15.6	63.9	19.2	11.3	12.5
PBR (times)	1.1	1.1	0.9	1.1	1.0
DPS (VND)	0	0	0	0	0
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

At YE22, KBC had a net debt balance of VND3,500, up by over VND1,000bn compared to YE21. Although Net debt/Equity ratio increased from 15.3% to 19.7%, we think its financial health is not a concern at this moment as signing of new leases is still optimistic.

Cash dividend and share buyback

In the Extraordinary general meeting held at the end of 2022, KBC was approved to pay cash dividend of VND2,000/share (which cost over VND1,500bn) and buyback 100mn shares (equivalent to 7% of outstanding shares) at the maximum price of VND34,000/share. Given VND2,500bn of bonds matured in 2023, cancelation of a private placement of 150mn shares and ~VND5,000bn of planned capex for 2023, we think plans for cash dividend and share buyback may not be completed in this year.

2023 forecast and valuation

We forecast a big jump in 2023 revenue to VND5,575bn (+482% YoY) thanks to delivery of 146ha at Quang Chau, Nam Son Hap Linh and Tan Phu Trung IPs and a social housing project at Nenh town, Bac Giang province compared with only 19ha delivered in 2022. Quang Chau IP will be the key project in 2023 with expected industrial land delivered of over 77ha and estimated revenue of VND2,460bn. Given pending Hai Phong province's general planning and delayed in infrastructure acceptance procedure in Bac Ninh, we expect that contribution of Trang Due, Trang Cat and Phuc Ninh urban areas in 2023 will be insignificant. PAT, however, was forecast to slightly decrease to VND1,445bn (-9% YoY) given no unusual profit expected while in 2022 recorded nearly VND2,200bn of revaluation surplus.

Using NAV method, we suggest a target price of VND27,310 at YE23 which is much lower than the previous target price as we increase discount rate, decrease industrial area delivered and delay launches of Trang Cat urban area and new IPs in Long An, Hai Phong, Hai Duong and Hung Yen by a few years to reflect a slowdown in global demand and registered FDI. However, we reiterate our Buy rating for this stock given ongoing diversification of production away from China and KBC's capability in attracting well-known electronic manufacturers compared to peers.

Appendix 1: KBC's industrial projects summary

No.	IP name	Location	Ownership	NLA (ha)	YE22 Occupancy rate
1	Que Vo 1	Bac Ninh	100.0%	192	100.0%
2	Que Vo 2	Bac Ninh	100.0%	173	100.0%
3	Nam Son Hap Linh	Bac Ninh	100.0%	204	26.8%
4	Quang Chau	Bac Giang	88.1%	294	97.3%
	Quang Chau expansion	Bac Giang	88.1%	77	n/a
5	Trang Due 1	Hai Phong	86.5%	129	100.0%
6	Trang Due 2	Hai Phong	86.5%	133	100.0%
7	Trang Due 3	Hai Phong	86.5%	456	n/a
8	Trang Cat	Hai Phong	100.0%	126	n/a
9	Tan Phu Trung	HCMC	72.4%	314	74.1%
10	Phuoc Vinh Dong 1	Long An	100.0%	35	n/a
11	Phuoc Vinh Dong 2	Long An	88.1%	31	n/a
12	Phuoc Vinh Dong 4	Long An	72.4%	36	n/a
13	Tan Tap	Long An	65.4%	438*	n/a
14	Loc Giang	Long An	65.4%	312*	n/a
15	Binh Giang	Hai Duong	100.0%	304*	n/a
16	Kim Dong An Thi	Hung Yen	93.7%	251*	n/a

Source: ACBS summary. Note: *estimated by ACBS

KBC FINANCIALS MODEL	Price (VND):	21,800	Target (VND):	27,310	Mkt cap (VND bn):	17,540
(VND bn except where stated)		2019	2020	2021	2022U	2023E
Total Net Sales		3,210	2,151	4,246	957	5,575
Of which: Land and warehouse leasing/sale		2,437	1,678	3,426	715	4,831
Sale of residential projects		540	196	515	353	375
Others		233	277	305	336	370
<i>Sales growth</i>		<i>28.8%</i>	<i>-33.0%</i>	<i>97.4%</i>	<i>-77.5%</i>	<i>482.4%</i>
CoGS ex-dep'n		1,310	1,373	1,703	622	2,542
SG&A		314	323	618	505	825
<i>SG&A as % of sales</i>		<i>9.8%</i>	<i>15.0%</i>	<i>14.6%</i>	<i>52.7%</i>	<i>14.8%</i>
EBITDA		1,586	455	1,924	-169	2,209
<i>EBITDA margin</i>		<i>49.4%</i>	<i>21.2%</i>	<i>45.3%</i>	<i>-17.6%</i>	<i>39.6%</i>
Depreciation		53	89	76	68	75
Operating profit		1,533	366	1,848	-237	2,134
<i>Operating profit margin</i>		<i>47.8%</i>	<i>17.0%</i>	<i>43.5%</i>	<i>-24.7%</i>	<i>38.3%</i>
Profit/loss from associates and JVs		0	3	14	2,199	-
Financial income (excl. saving interest)		42	269	0	4	4
Financial expenses (excl. interest expense)		47	35	61	69	77
Net interest expense		181	204	652	531	536
<i>as % of avg. net debt</i>		<i>10.2%</i>	<i>10.1%</i>	<i>24.8%</i>	<i>17.7%</i>	<i>14.5%</i>
Other profit/loss		-27	1	-127	10	10
Tax		323	133	410	123	428
<i>Effective tax rate</i>		<i>24.1%</i>	<i>29.4%</i>	<i>30.1%</i>	<i>7.2%</i>	<i>22.8%</i>
PAT		1,021	320	954	1,596	1,445
Minorities		122	96	172	48	44
Net profit		898	224	782	1,547	1,401
<i>Net profit margin</i>		<i>28.0%</i>	<i>10.4%</i>	<i>18.4%</i>	<i>161.6%</i>	<i>25.1%</i>
Cash earnings		951	313	858	1,615	1,476
Number of shares (m)		470	470	570	768	768
EPS (VND)		1,955	477	1,586	2,019	1,825
Bonus factor (x)		0.8	0.8	0.8	1.0	1.0
Adjusted EPS (VND)		1,466	358	1,190	2,019	1,825
<i>EPS growth</i>		<i>23.1%</i>	<i>-75.6%</i>	<i>232.5%</i>	<i>69.7%</i>	<i>-9.6%</i>

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022U	2023E
Increase in working capital	-1,929	2,979	3,109	794	767
Capex	275	212	240	171	171
Other cash flow items	-1,161	1,436	-1,774	-2,022	-880
Free cash flow	1,444	-1,442	-4,265	-1,372	-342
Share issues	-	-	4,583	335	-
Dividends paid	455	62	19	0	-
Increase in net debt	-989	1,504	-299	1,037	342
Net debt, end of year	1,271	2,775	2,476	3,514	3,856
Shareholders' equity	10,381	10,653	16,171	17,865	19,266
Minority interest	898	953	2,280	1,779	1,957
BVPS (VND)	20,187	20,650	24,380	20,956	22,549
<i>Net debt / equity</i>	<i>12.2%</i>	<i>26.1%</i>	<i>15.3%</i>	<i>19.7%</i>	<i>20.0%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.8</i>	<i>6.1</i>	<i>1.3</i>	<i>-20.8</i>	<i>1.7</i>
Total assets	16,433	23,786	30,604	34,932	36,676

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022U	2023E
<i>ROE</i>	<i>9.7%</i>	<i>2.3%</i>	<i>6.6%</i>	<i>10.3%</i>	<i>8.4%</i>
<i>ROA</i>	<i>5.4%</i>	<i>1.1%</i>	<i>2.9%</i>	<i>4.7%</i>	<i>3.9%</i>
<i>ROIC</i>	<i>6.1%</i>	<i>1.7%</i>	<i>3.8%</i>	<i>5.2%</i>	<i>4.4%</i>
<i>WACC</i>	<i>14.3%</i>	<i>16.4%</i>	<i>17.8%</i>	<i>17.3%</i>	<i>17.3%</i>
<i>EVA</i>	<i>-8.1%</i>	<i>-14.7%</i>	<i>-14.0%</i>	<i>-12.1%</i>	<i>-13.0%</i>
<i>PER (x)</i>	<i>15.6</i>	<i>63.9</i>	<i>19.2</i>	<i>11.3</i>	<i>12.5</i>
<i>EV/EBITDA (x)</i>	<i>13.3</i>	<i>46.3</i>	<i>10.9</i>	<i>-124.7</i>	<i>9.5</i>
<i>EV/FCF (x)</i>	<i>14.6</i>	<i>-14.6</i>	<i>-4.9</i>	<i>-15.3</i>	<i>-61.5</i>
<i>PBR (x)</i>	<i>1.1</i>	<i>1.1</i>	<i>0.9</i>	<i>1.1</i>	<i>1.0</i>
<i>PSR (x)</i>	<i>5.5</i>	<i>8.2</i>	<i>4.1</i>	<i>18.3</i>	<i>3.1</i>
<i>EV/sales (x)</i>	<i>6.6</i>	<i>9.8</i>	<i>5.0</i>	<i>22.0</i>	<i>3.8</i>
<i>Dividend yield</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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