March 11th, 2024

Shinhan Securities



Kinh Bac City Development Holding Corporation

[Vietnam / Industrial real estate]

Bloomberg Code (KBC VN) | Reuters Code (KBC.HM)

BUY

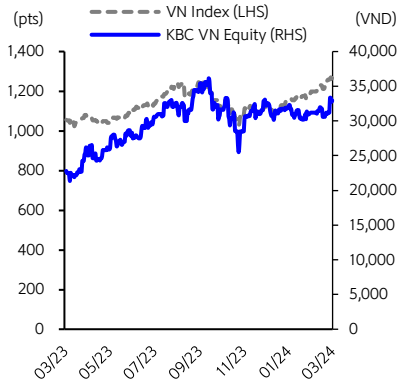
Update Coverage

Target price (12 months)	**42,400 VND**
Current price (11/03/24)	32,100 VND
Upside/downside (%)	32%

VNINDEX	1,235
HNXINDEX	233
Market Cap (bn VND)	24,640
Outstanding shares (mn)	768
Free-Floating (mn)	388
52-Wk High/Low (VND)	36,600/20,950
90-day avg trading volume (mn)	7.44
90-day avg turnover (bn VND)	221
Major shareholders (%) Dang Thanh Tam	18.06%
Major shareholders (%) Kinh Bac Consulting and Investment JSC	8.11%

Performance	3T	6T	12T
Absolute (%)	-12.9	6.1	44.7
Relative to VN-Index (%)	-3.4	8.0	36.9

Source: Bloomberg



Tien Le

(84-28) 6299-8011

tien.ld@shinhan.com

Ly Bui - Head of Research

(84-28) 6299-8029

ly.btt@shinhan.com



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Motivation from new IPs and urban areas

Update coverage with BUY call and target price of VND 42,400

Kinh Bac Urban Development Corporation (KBC) is one of the leading enterprises in the field of developing industrial parks and real estate projects. Kinh Bac owns projects in all three regions of Vietnam, in big cities such as Bac Giang, Hai Phong, Da Nang, Ho Chi Minh, and Long An. 2024 is considered a booming year for KBC when important industrial parks (IPs) and urban area projects will begin to be exploited, creating an opportunity for KBC to catch the continuous flow of FDI capital into Vietnam. We offer an updated valuation of KBC stock at VND 42,400 for a return of 32%. We use the RNAV valuation method to value KBC.

Update business results in 2023

Kinh Bac recorded business results in 2023 with revenue reaching VND 5,885 billion (+321% YoY), and profit after tax reaching VND 2,218 billion (+41% YoY). The industrial land rental segment grew 8 times over the same period and accounted for 93% of revenue. In 2023, Kinh Bac recorded revenue from 152 hectares of industrial park land out of a total of 185 hectares signed.

Growing FDI capital flows continue to strongly boost demand for IP rental

As of February 20, 2024, the total newly registered capital, adjustments and capital contributions, share purchases, and capital contributions of foreign investors (FDI) reached more than USD 4.29 billion (+38.6% YoY). The implemented capital of FDI projects is estimated to reach about USD 2.8 billion (+9.8% YoY). With more than 90% of industrial park tenants being foreign enterprises, the increasing FDI capital flows create a solid foundation for the development of Kinh Bac.

Growth potential in 2024 thanks to new industrial parks and Trang Cat urban area

We estimate revenue in 2024 to reach VND 14,001 billion (+138% YoY), and net profit to reach VND 4,973 billion (+124% YoY). We expect: (1) Revenue from IPs leasing will grow about 17% YoY thanks to the Trang Due 3 IPs and Long An IPs cluster coming into operation. We estimate the total area of IP land handed over in 2024 to be about 210 hectares. (2) Real estate handover revenue will skyrocket thanks to the important contribution of the Phuc Ninh urban area and Trang Cat urban area, with total handover areas of 4 hectares and 10 hectares respectively. Thereby, we expect the real estate segment to contribute about 50% of KBC's revenue in 2024.

Risks: (1) Risk of weakening FDI capital flows; (2) Risk of real estate market decline; (3) Risk of slow project implementation; (4) Legal risks.

Year to Dec.	2023	2024F	2025F	2026F	2027F
Revenue (bn VND)	**5,885**	**14,001**	**14,001**	**19,656**	**24,682**
OP (bn VND)	2,854	6,177	5,793	7,915	9,961
NP (bn VND)	**2,218**	**4,973**	**4,661**	**6,367**	**8,012**
EPS (VND)	1,636	5,828	5,463	7,461	9,390
BPS (VND)	14,876	28,961	33,924	40,885	49,775
OPM (%)	48%	44%	41%	40%	40%
NPM (%)	38%	36%	33%	32%	32%
ROE (%)	**11%**	**20%**	**16%**	**18%**	**19%**
PER (x)	10.72	5.35	5.71	4.18	3.32
PBR (x)	1.04	1.08	0.92	0.76	0.63
EV/EBITDA (x)	11.46	7.03	3.62	3.62	2.61

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Update valuation with BUY recommendation, target price VND 42,400

We offer an updated valuation of Kinh Bac City Development Holding Corporation (KBC) with a buy recommendation and a target price of VND 42,400, representing a 32% increase from the current price. With a strong outlook from both industrial park and real estate business segments, we expect growth for Kinh Bac with the following views:

1) Growing FDI capital flows continue to strongly boost demand for industrial park
2) Large industrial park land fund with the prospect of promoting exploitation in 2024
3) The Trang Cat & Phuc Ninh urban area project will bring large income

Valuation method

We apply the revalued net asset value (RNAV) method to value Kinh Bac City Development Holding Corporation (KBC). Based on the RNAV method, we estimate the value of KBC shares at 42,400 VND.

The RNAV method

Project	Ownership	Valuation method	Discount	Value (billion VND)
- Industrial area				**13,612**
Nam Son Hap Linh	100%	RNAV		2,372
Tan Phu Trung	72%	RNAV		904
Trang Due 3	87%	RNAV		3,915
Some other industrial parks		RNAV		5,334
Service fees for industrial parks		DCF		1,087
- Urban area				**15,137**
Trang Cat	100%	DCF	50%	10,667
Trang Due Urban Area	100%	DCF		679
Phuc Ninh Urban Area - Bac Ninh	100%	DCF		2,127
Other projects				1,664
Total				**28,749**
+ Cash and short-term investments				2,706
+ Long-term investment, fixed assets			80%	6,916
- Debt				3,659
- Minority interests				2,053
Equity value (billion VND)				32,658
Number of shares				767,604,759
The target price (VND)				**42,400**
Current price (VND)				32,100
Upside				**32%**

Variable	Value
D/E	0.15
Beta	1.2
Risk-free rate	2.5%
Cost of equity	16.7%
Cost of debt	13.0%
WACC	15.9%

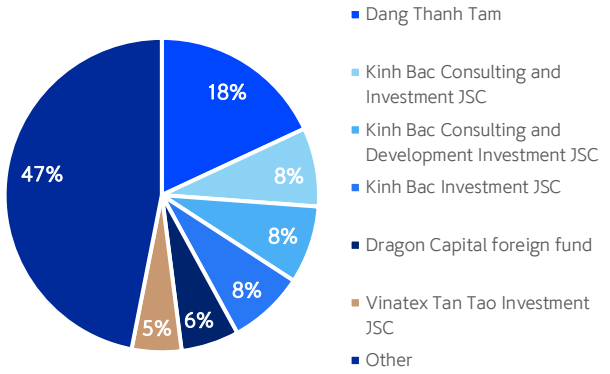
For the Weighted average cost of capital (WACC), we use the 10-year Vietnamese government bond yield at 2.5% as the risk-free rate. Beta is calculated based on historical data of the last 5 years of KBC and VNINDEX.

Company background

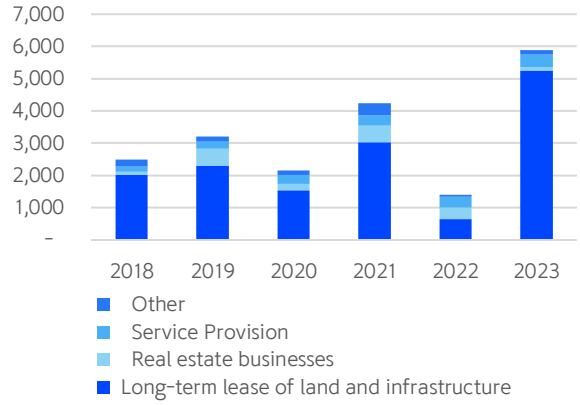
Company history

Kinh Bac City Development Holding Corporation (HoSE: KBC), established in 2002, is one of the leading industrial real estate development enterprises in Vietnam. KBC has experience working with and attracting leading FDI corporations in Vietnam. More than 90% of customers at KBC's industrial park are foreign corporations, from countries such as Japan, Taiwan, Korea, and China with big names such as Canon, Foxconn, LG... By the end of 2022, KBC owned a land fund of up to 6,386 hectares of industrial park land from North to South.

Shareholder structure of KBC



KBC's revenue structure from 2018 - 2022 (billion VND)

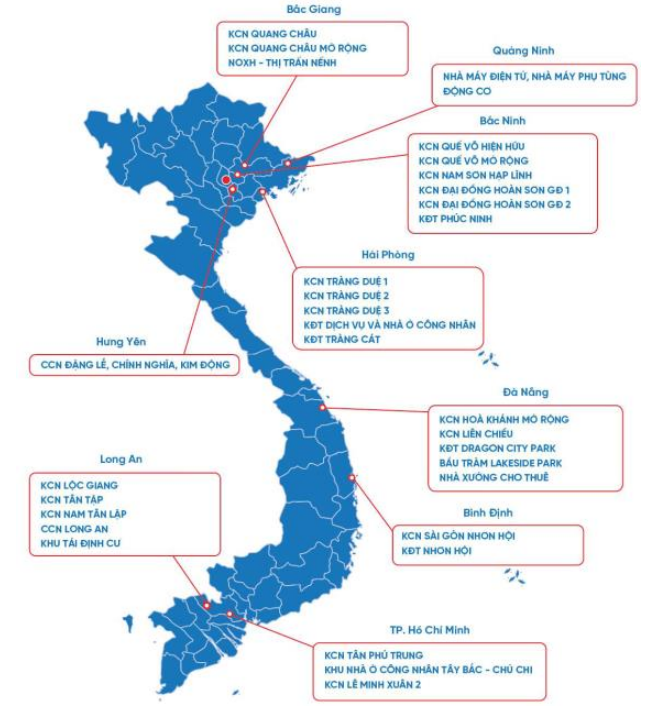


Source: Company report, Shinhan Vietnam Securities

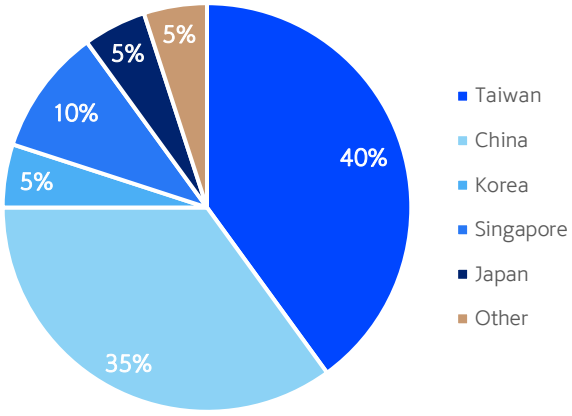
Kinh Bac is mostly owned by the Chairman of the Board of Directors Dang Thanh Tam and his related companies. Major shareholders account for 53% of the shareholder structure.

Kinh Bac's revenue mainly comes from long-term leasing of land and infrastructure in industrial parks, accounting for 50% - 70% of KBC's revenue structure. In addition, real estate business and service provision in industrial parks account for about 15% and 10%, respectively.

Overview of KBC's industrial parks in 2023



KBC's customer structure by country in 2023 (%)

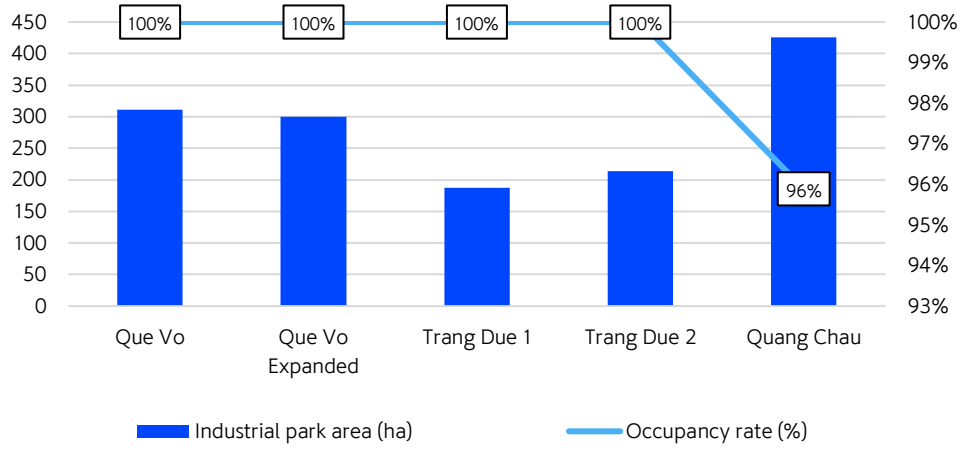


Source: Company report, Shinhan Vietnam Securities

KBC's projects are distributed in all three regions: North - Central - South, in large cities such as Bac Giang, Hai Phong, Da Nang, Ho Chi Minh, and Long An. Along with operating current projects, KBC is also establishing new projects in Hung Yen, Hai Duong, Quang Ninh, Tay Ninh, Vung Tau, Tien Giang,...

More than 90% of customers in KBC's industrial parks are foreign businesses from Japan, Taiwan, Korea, China, Hong Kong, etc. Some large corporations rent KBC industrial parks include Canon, Foxconn, LG, JA Solar, Luxshare – ICT, Goertek, Fuyu, Jufeng, and Ingrasys, ... Which customers from Taiwan and China are the main customer groups at KBC industrial parks.

Industrial parks area and occupancy rate of KBC's current operating industrial parks

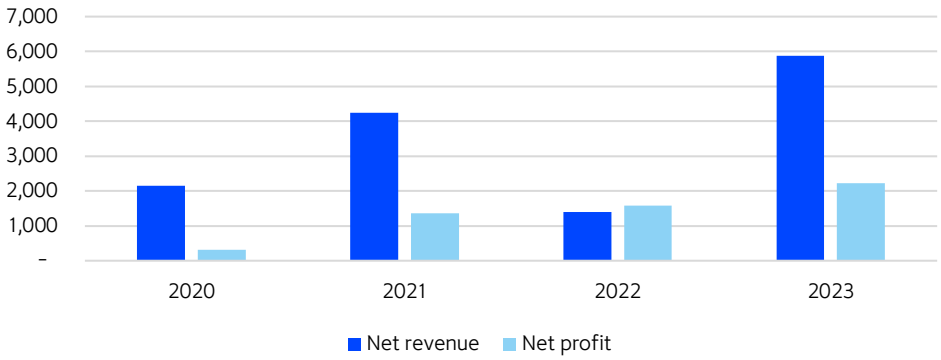


Source: Company report, Shinhan Vietnam Securities

KBC's industrial parks are located mainly in big cities with high occupancy rates. Of the total 6,386.54 hectares of industrial park land mentioned above, there are 04 industrial parks with a total area of 1,013 hectares achieving a 100% occupancy rate and 01 industrial park with an area of 426 hectares with a 96% occupancy rate. Normally it takes KBC about 6 years to reach an occupancy rate of over 90%.

Update business results in 2023

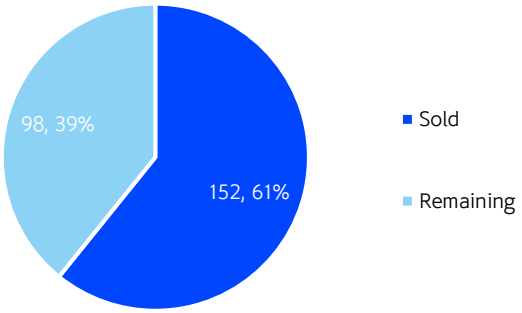
Kinh Bac revenue and profit 2020 – 2023 (billion VND)



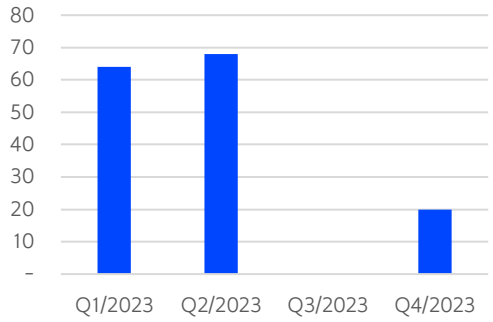
Source: Company report, Shinhan Vietnam Securities

Cumulatively for the whole year 2023, Kinh Bac Urban recorded VND 5,885 billion in revenue (+321% YoY), and profit after tax reached VND 2,218 billion (+41% YoY). In particular, the land leasing and industrial park infrastructure segment accounted for 93% of revenue, increasing dramatically to more than VND 5,247 billion, 8 times higher than the same period last year. Compared to the proposed business plan, Kinh Bac Urban has achieved 68% of the revenue target and 55% of the net profit target for the whole year.

Industrial park leasing plan of Kinh Bac in 2023 (ha)



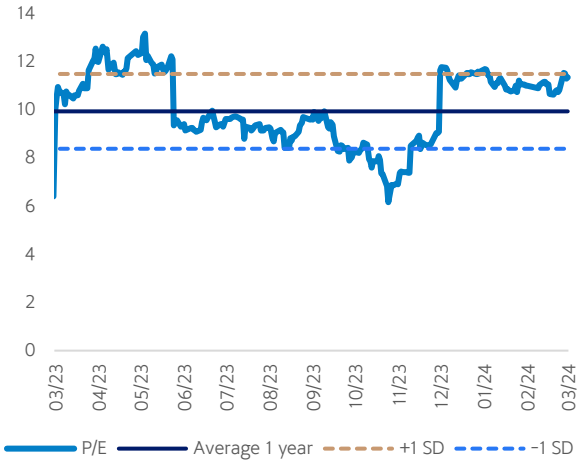
Area of land leased in 2023 (ha)



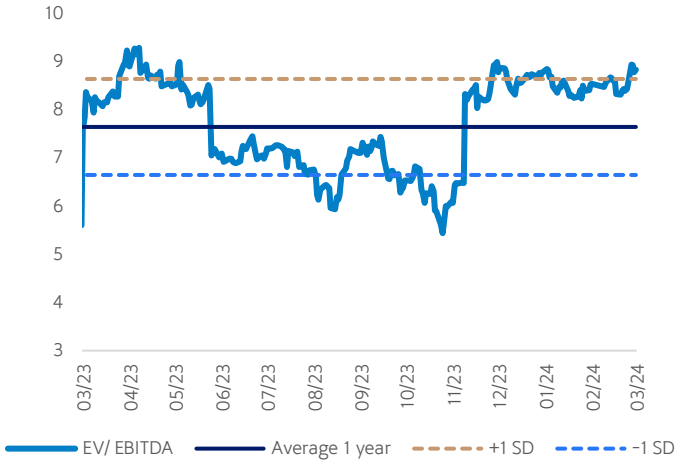
Source: Company report, Shinhan Vietnam Securities

For the whole year 2023, KBC has handed over about 152 ha of industrial park land, reaching 61% of the total plan to sell 250 ha in 2023. Compared to the total number of signed contracts of 185 ha, KBC expects It is expected to record revenue from the remaining 33 hectares in 2024.

P/E 1 year

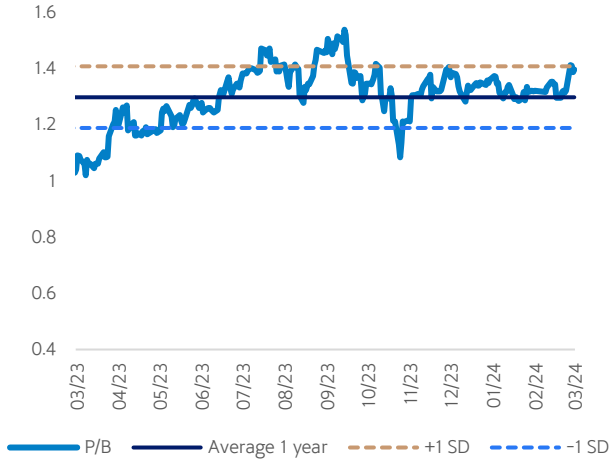


EV/EBITDA 1 year

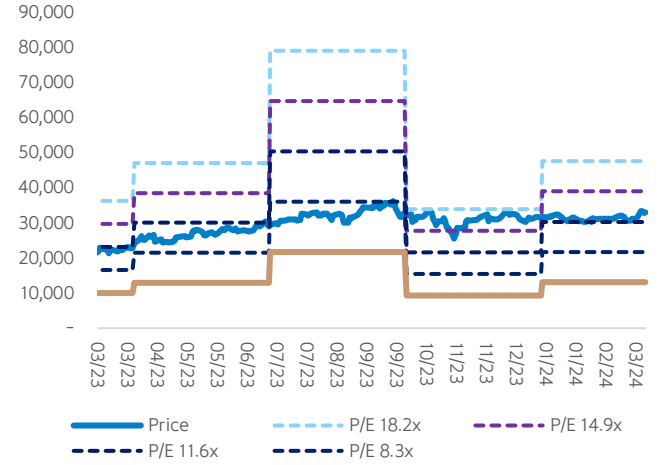


Source: Bloomberg data, Shinhan Securities Vietnam

P/B 1 year

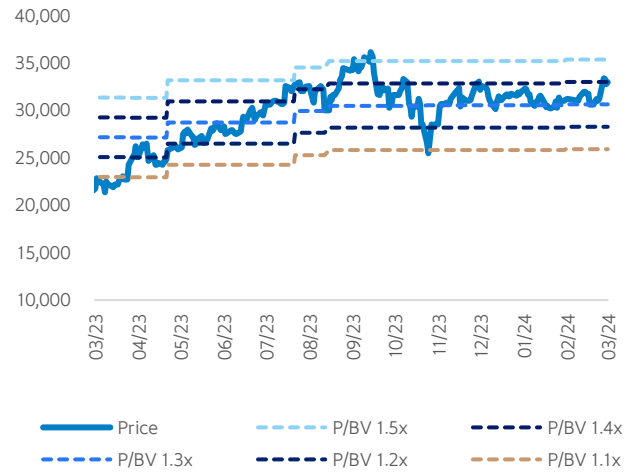


P/CF band

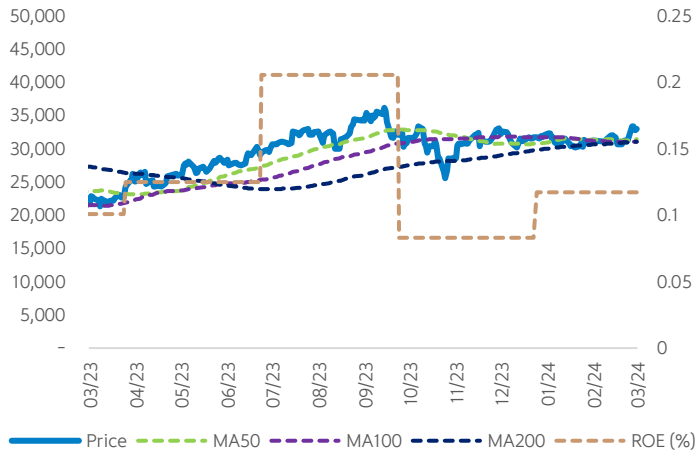


Source: Bloomberg data, Shinhan Securities Vietnam

P/B band

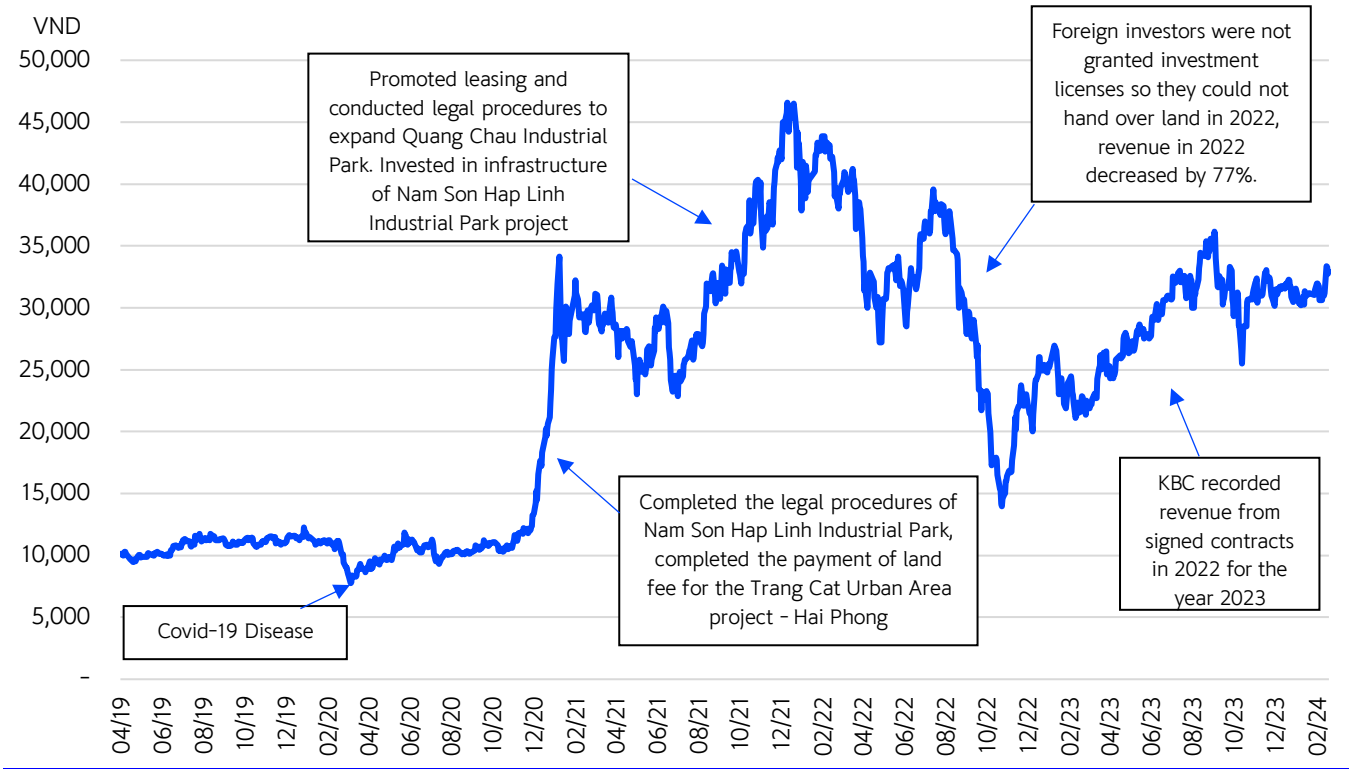


ROE and MA



Source: Bloomberg data, Shinhan Securities Vietnam

Key event chart of KBC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Total assets	**33,420**	**43,212**	**57,504**	**69,018**	**83,329**
Current assets	25,291	34,899	49,045	60,408	74,561
Cash & equivalents	786	2,169	2,217	4,524	7,786
Short-term financial asset	1,919	1,919	1,919	1,919	1,919
Accounts receivable	10,374	12,494	17,434	20,995	25,291
Inventories	12,211	18,317	27,475	32,971	39,565
Non-current assets	8,129	8,313	8,459	8,610	8,768
Net fixed assets	449	516	530	536	535
Investment assets	-	-	-	-	-
Other long-term assets	7,680	7,797	7,930	8,074	8,233
Total liabilities	**13,226**	**18,928**	**29,411**	**35,581**	**43,068**
Current liabilities	6,579	9,046	16,206	20,768	26,269
Accounts payable	436	1,349	1,349	1,811	2,199
Short-term borrowings	337	1,737	8,738	12,669	17,605
Others	5,806	5,959	6,119	6,288	6,464
Non-current liabilities	6,647	9,882	13,205	14,813	16,799
Long-term borrowings	3,322	6,122	8,922	9,905	11,139
Other financial liabilities	3,325	3,760	4,282	4,908	5,659
Total shareholders' equity	**20,194**	**24,284**	**28,093**	**33,437**	**40,261**
Charter capital	7,676	7,676	7,676	7,676	7,676
Capital surplus	2,744	2,744	2,744	2,744	2,744
Retained earnings	7,719	11,809	15,618	20,962	27,786
Other capital	2	2	2	2	2
Non-controlling interest equity	2,053	2,053	2,053	2,053	2,053
*Total debt	3,659	7,860	17,660	22,574	28,745
*Net debt (cash)	2,873	5,690	15,444	18,051	20,959

Statement of comprehensive income

Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Revenue	**5,885**	**14,001**	**14,001**	**19,656**	**24,682**
Growth (%)	321%	138%	0%	40%	26%
COGS	**(1,958)**	**(5,944)**	**(5,944)**	**(7,978)**	**(9,688)**
Gross profit	**3,686**	**8,057**	**8,057**	**11,678**	**14,994**
GPM (%)	63%	58%	58%	59%	61%
SG&A	**(825)**	**(2,566)**	**(2,566)**	**(3,602)**	**(4,523)**
Operating profit	**2,861**	**5,491**	**5,491**	**8,076**	**10,470**
Growth (%)	-1270%	92%	0%	47%	30%
OPM (%)	49%	39%	39%	41%	42%
Non-operating profit	**4**	**628**	**244**	**(242)**	**(611)**
Financial income	454	454	454	454	454
Financial expense	(450)	(419)	(803)	(1,265)	(1,614)
In which: interest expenses	(407)	(419)	(803)	(1,265)	(1,614)
Net other non-operating profit	0	593	593	569	549
Pre-tax profit	**2,865**	**6,119**	**5,736**	**7,834**	**9,859**
Income tax	(647)	(1,146)	(1,074)	(1,467)	(1,847)
Net profit	**2,218**	**4,973**	**4,661**	**6,367**	**8,012**
Growth (%)	41%	124%	-6%	37%	26%
NPM (%)	38%	36%	33%	32%	32%
Controlling interest	1,996	4,474	4,193	5,727	7,208
Non-controlling interest	223	499	468	639	805
EBIT	**3,272**	**6,538**	**6,538**	**9,099**	**11,473**
Growth (%)	47%	100%	0%	39%	26%
EBIT Margin (%)	56%	47%	47%	46%	46%
EBITDA	**3,407**	**6,611**	**6,621**	**9,190**	**11,571**
Growth (%)	48%	94%	0%	39%	26%
EBITDA margin (%)	58%	47%	47%	47%	47%

Statement of cash flow

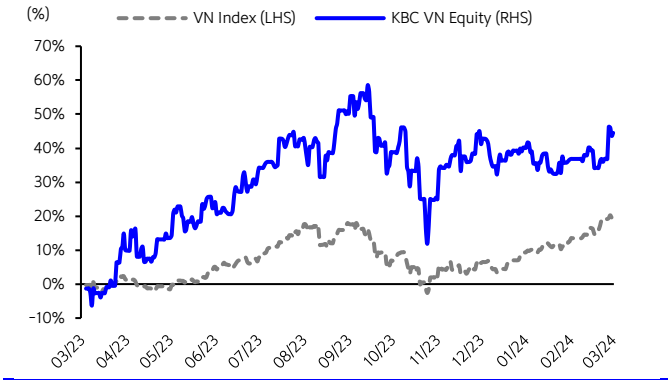
Year to Dec. (bn VND)	2023	2024F	2025F	2026F	2027F
Cash flow from operations	**2,167**	**(2,293)**	**(9,273)**	**(2,126)**	**(2,428)**
Net profit	2,865	6,119	5,736	7,834	9,859
Depreciation expense	135	73	83	90	98
(Gain) from investing activities	(447)	-	-	-	-
Interest expense/ income	125	-	-	-	-
Change in working capital	(382)	(6,710)	(13,375)	(7,721)	(9,442)
Others	(130)	(1,276)	(1,248)	(1,691)	(2,138)
Cash flow from investments	**338**	**(140)**	**(97)**	**(97)**	**(97)**
Change in fixed assets	(1,319)	(140)	(97)	(97)	(97)
Change in investment assets	0	-	-	-	-
Others	1,656	-	-	-	-
Cash flow from financing	**(3,402)**	**3,817**	**9,417**	**4,530**	**5,787**
Change in equity	130	-	-	-	-
Net borrowing	(3,532)	4,200	9,801	4,914	6,170
Dividends	-	(384)	(384)	(384)	(384)
Change in total cash	**(897)**	**1,383**	**47**	**2,307**	**3,262**
Beginning cash	1,683	786	2,169	2,217	4,524
Change in FX rates	-	-	-	-	-
Ending cash	786	2,169	2,217	4,524	7,786

Key ratios

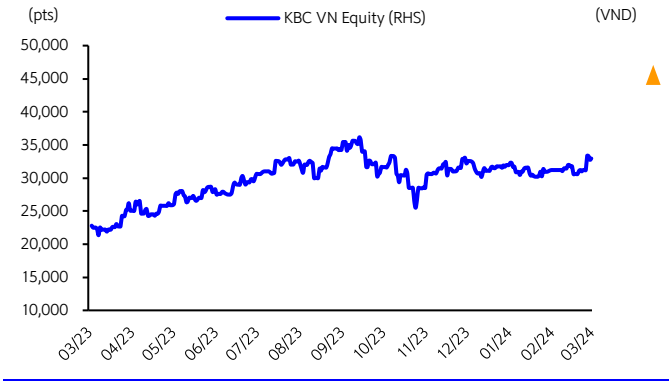
Year to Dec.	2023	2024F	2025F	2026F	2027F
EPS (VND)	1,636	5,828	5,463	7,461	9,390
BPS (VND)	14,876	28,961	33,924	40,885	49,775
DPS (VND)	-	500	500	500	500
PER (x)	10.72	5.35	5.71	4.18	3.32
PBR (x)	1.04	1.08	0.92	0.76	0.63
EV/EBITDA (x)	11.46	7.03	3.62	3.62	2.61
Dividend payout ratio (%)	0%	2%	1%	1%	1%
Dividend yield (%)	0%	2%	2%	2%	2%
Profitability					
EBITDA margin (%)	58%	47%	47%	47%	47%
OPM (%)	49%	39%	39%	41%	42%
NPM (%)	38%	36%	33%	32%	32%
ROA (%)	6%	13%	9%	10%	11%
ROE (%)	12%	22%	18%	21%	22%
Stability					
Debt to equity ratio (%)	18%	32%	63%	68%	71%
Net debt ratio (%)	84%	86%	233%	196%	181%
Cash ratio (%)	12%	24%	14%	22%	30%
Interest coverage ratio (x)	8.05	15.61	8.15	7.19	7.11
Activity (%)					
Inventory turnover (days)	761	398	597	561	536
Accounts receivable turnover (days)	646	285	373	341	326
Accounts payable turnover (days)	83	55	83	72	76

Kinh Bac City Development Holding Corporation (KBC)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
29/12/2023 (Initiate)	BUY	42,400	50%	16%/114%
11/03/2024 (Update)	BUY	42,400	48%	16%/103%

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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Shinhan Investment Network

SEOUL

Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

NEW YORK

Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

Hong Kong

Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

Indonesia

PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599

Shanghai

Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

Ho Chi Minh

Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

Ha Noi

Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District, Hanoi, Vietnam.
Tel : (84-8) 6299-8000