

**APRIL**

**21**

**TUESDAY**

*“KSB-Many factors supporting for business result in 2015”*

**ADVISORY DIARY**

- **KSB: Many factors supporting for business result in 2015**
- **GMC – ODM is still a difficult problem**

**KSB: Many factors supporting for business result in 2015**

With the warming of the real estate and construction markets, building material industry is having positive changes. On the occasion that our industry recently attended the AGM of the Binh Duong Mineral and Construction JSC (HSX: KSB), we would like to update some features of the business situation of the Company.

End of 2014, the business targets of KSB had good growth. Specifically, sales reached VND637.4 billion, up 16.3% over the previous year. Profit after tax increased by 16.2% yoy, reaching VND96.76 billion. Among all segments, mining and mineral processing is the major contribution to the revenue of KSB (87.7%) in 2014. Most of the remaining segment had growth in 2014, except real estate (land lease in Dat Cuoc Industrial Zone). In 2014, the land was leased rather low, only 1.2 ha because the real estate market remains difficult and the instability at some industrial parks in Binh Duong province. However, when the need to build plants in industrial zones is growing rapidly, KSB’s real estate segment would have some positive changes in 2015 and revenues from this segment may reach VND16 billion in 2015 (17.6% higher than the implementation of 2014).

**Table 1: Segment revenue**

Segment	2014	Compare to 2014		Compare to 2013	
		2014's plan	+/- (%)	2013	+/- (%)
Mining and mineral processing	558.7	492.5	13.4	479.13	16.6
Building material	43.1	52.3	-17.6	32.60	32.2
Pure water and service	8.7	8.5	1.4	8.53	1.5
Real estate	13.6	20.8	-34.6	20.19	-32.6
Other	13.4	5.9	126.5	7.68	74.0
<b>Total</b>	<b>637.4</b>	<b>580.0</b>	<b>9.9</b>	<b>548.1</b>	<b>16.3</b>

Sources: KSB, RongViet Research

Majority of the KSB’s key quarries remain short duration of exploitation, even Tan Dong Hiep and Phuoc Vinh only own the right to operate to the end of this year. Meanwhile, KSB always supposes that the mining and mineral processing is its core business and the base to develop other segments. Therefore, the Company is rushing for having the expansion and new exploitation license in Binh Duong province. Specifically, KSB would like to expand the areas, deep exploitation and increase time for 3 of 6 active mines, which are Tan Dong Hiep, Phuoc Vinh and Tan My. KSB also applied for 1 new clay bricks and tiles quarry and 1 mining quarry, Tan Lap, Phu Giao. Among the projects mentioned above, KSB managers are not confident enough for the possibility of Tan Hiep Dong quarry, the highest quality quarry of KSB. As a result, except Tan Hiep Dong, applications for new and expanding mining areas are favorable.

**Table 2: The duration of exploitation of the quarries in operation**

Mine	Area (ha)	Effective date	Duration (year)	Amount remaining
Tan Dong Hiep quarry (Di An town, Binh Duong)	22.8	31/12/2015	1	2,518,000
	<b>22.36</b>			<b>2,305,711</b>
Phuoc Vinh quarry (2 licences) (Phu Giao District, Binh Duong)	9.1	31/12/2015	1	
	13.26	12/10/2017	3	
	<b>28.05</b>			<b>5,483,894</b>
Tan My quarry (2 licences) (Bac Tan Uyen District, Binh Duong)	9.64	20/11/2016	2	
	18.41	01/09/2019	5	
Cat Dau Tieng quarry (Dau Tieng district, Binh Duong)	82	10/02/2020	6	604,343
Tan Lap brick clay (Bac Tan Uyen district, Binh Duong)	24	19/10/2021	7	125,821
Minh Long title quarry (Chon Thanh district, Binh Phuoc)	64	07/09/2030	24	7,847,757

Source: KSB

Along with that, the project of Thanh Binh Wedding & Convention Center (capacity of 140 tables, started from December 2014) is expected to contribute about VND6 billion in KSB's revenue this year. Initial investment stood at VND39.1 billion and KSB believed the payback period could be 10.5 years.

In 2015, the Company planned to achieve VND675 billion in revenue (+6%) and VND132 billion in EBT (+5.4%); dividend is set to be the same as the previous year with 25% by cash. Although the first quarter of the year was not the peak season but KSB reached 25% of the whole year guidance in revenue and VND36.2 billion in EBT (~27,4% of 2015 plan). Our industry analyst appreciates the possibility that KSB exceeds the plan and supposes that KSB is a fundamental stock with stable base.

The increase in the dividend payment for 2014 might be a surprising point in GSM of KSB this year. Instead of paying cash dividends of 25% as mentioned in the old guidance, KSB expected to give 30% cash and 30% share dividend. Thus, after finishing the duty, the remaining profit should be only VND3 billion and will be used to pay the interest on the delayed extract funds for employees. Although KSB has maintained a stable level of dividends but the ownership concentration (83.17% owned by the organizations) made liquidity factor become an issue for investors interested in investing in KSB. Therefore, this stock may be more suitable for long-term investors loving high and stable dividend.

#### **GMC – ODM is still a difficult problem**

Exchange rate movements recently have affected the competitiveness of Vietnamese products exporting to other countries. However, exports of textile and garment in 1Q2015 still rank at the second position with \$ 4.75 billion (+ 4% yoy). Moreover, textile industry is highly recommended based on its positive outlook in 2015 in which GMC is one of our favorite stocks. As attended its AGM, we would like to the latest news to investors.

GMC owns a subsidy called Saigon Xanh. It is a subsidiary of GMC (51% ownership) established in 2012 with the goal of developing into the US market in the form ODM. 2014, this subsidiary recorded 7.32 billion losses as sales orders not even enough to cover labor costs. However,

business prospects of Saigon Green 2015 seems more optimistic customers Columbia has agreed to hold 3/7 SGX trial production orders fleece garments from last quarter 4/2014 and can be ordered for 7 units if the product quality to meet the requirements. Meanwhile, the rate of wages / turnover can be reduced from 102% to 52.2% and by the end of 2015 Saigon Green can remove accumulated loss (11.8 billion). Maybe the reason that the GMC had intended to buy the remaining stake in Saigon Green to a wholly-owned company.

Also relating to plan to develop ODM's methods, GMC tends to buy an American fashion franchise which already has the distribution system in some supermarkets (Cosco) and online sales service. The details will be negotiated in May, 2015. GMC made know that the Company does not have to pay franchise right in the first two years. Therefore, the initial investment cost might not affect much on the cash flow of the Company in 2015 and 2016. According to our industry analyst, the movement to ODM production following GMC method would bear some risks cause the Company does not have much experience on direct distribution in the US market. Besides, the GMC lacks of initiative on production cycle due to the absence in some arrays of the system such as weaving, dyeing, finishing, etc. Therefore, the Company could hardly benefit if the TPP is signed.

In 2015, GMC would like to achieve VND1,500 billion in revenue (+5.5%) and VND75 billion in EBT (+1%). Excluding the US market, the ability of having new orders in Japanese and EU markets (accounting for 30% of GMC's revenue) is quite difficult than before due to the impact of exchange rate. Therefore, GMC tends to rise its revenue share in US market to 60% from 50% in 2015. This, in contrary, would increase seasonal risk since orders from US are mainly autumn-winter sport clothes. Meanwhile, input costs such as labor force, electricity cost have tendency to rise and would affect negatively on profit margin of GMC.

In 2015, GMC plans to cooperate with the Medical and Pharmaceutical University to establish Pharmaceutical Hospital 2 at 213 Hong Bang Street. According to the plan, GMC must convert the purpose of land (from commercial center and office building to hospital), reevaluate and pay additional fare for the land. VCB has approved to loan the project in 10 years. However GMC could issue 5-year convertible bond to finance the project. Currently, the debt ratio, especially the long-term debt, is quite low so the room for increasing leverage is quite high.

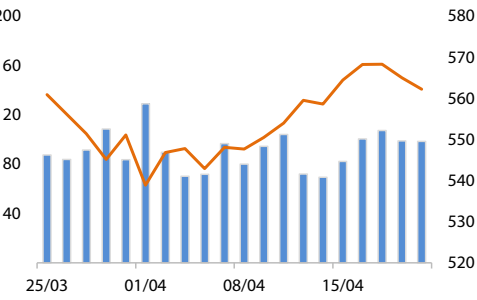
In summary, GMC is a large-size listed textile enterprise with a healthy financial foundation. Although the Company has taken some steps, our industry analyst supposes that GMC has not bravely invested in expansion projects. Similarly to KSB, GMC has low liquidity and good record of dividend payments. Our industry analyst believes that GMC should be rather suitable for long-term investors, preferred dividends.

**Huong Pham**

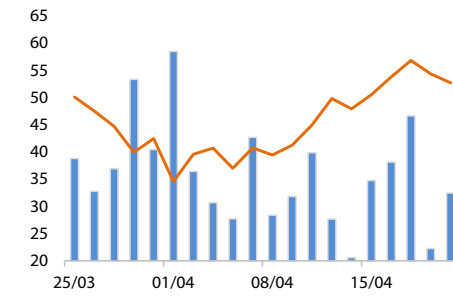
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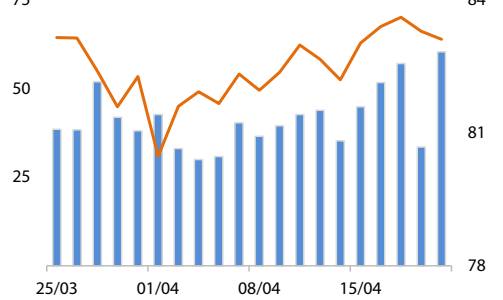
**VNINDEX -0.50% 562.24**



**VN30 -0.36% 593.67**



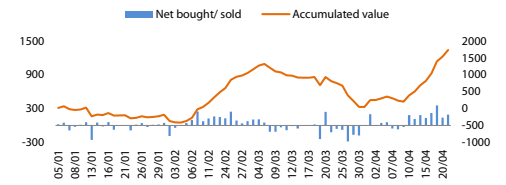
**HNXINDEX -0.22% 83.11**



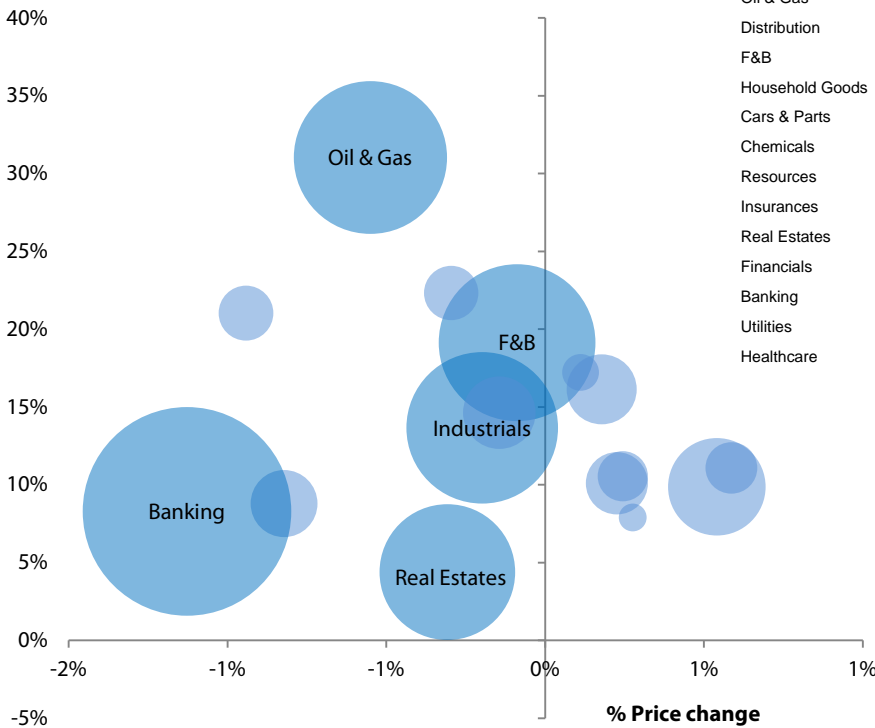
**Industry Movement**

Industry	% change
Technologies	-0.9%
Industrials	-0.2%
Constructions	0.5%
Oil & Gas	-0.6%
Distribution	0.3%
F&B	-0.1%
Household Goods	0.6%
Cars & Parts	0.1%
Chemicals	0.2%
Resources	-0.3%
Insurances	-0.1%
Real Estates	-0.3%
Financials	-0.8%
Banking	-1.1%
Utilities	0.2%
Healthcare	0.2%

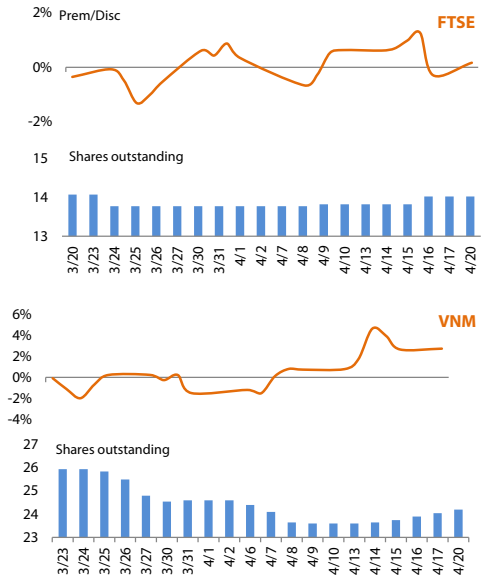
**Foreign Investors Trading**



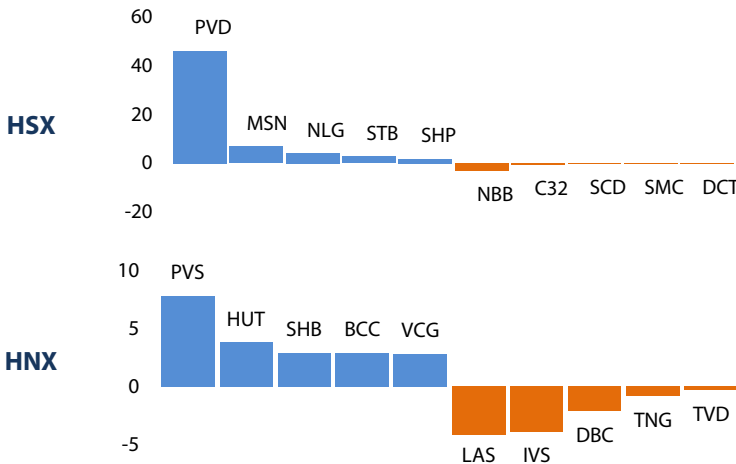
**Industry ROE**



**ETF**



**Top net bought/sold by foreigners (VND bn)**



**Top Active**

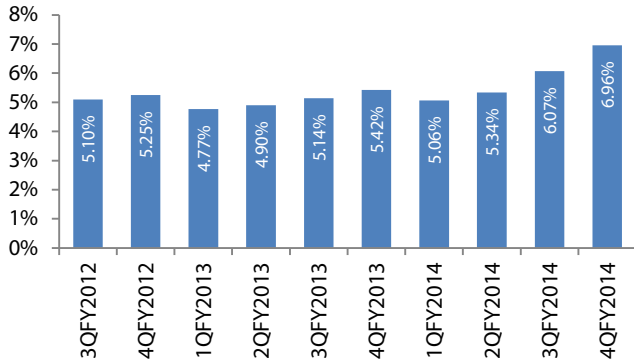
Ticker	Price	Volume	% price change
OGC	4.3	9.13	-2.3%
CII	21.8	4.74	2.3%
FLC	10.6	4.27	1.0%
HHS	20.4	3.63	-1.4%
SAM	12.8	3.55	-5.2%

Ticker	Price	Volume	% price change
KLF	9.5	18.51	8.0%
ITQ	11.9	5.04	0.0%
FIT	14.6	4.20	-0.7%
SHN	3.5	1.96	9.4%
PVS	25.9	1.81	-0.4%

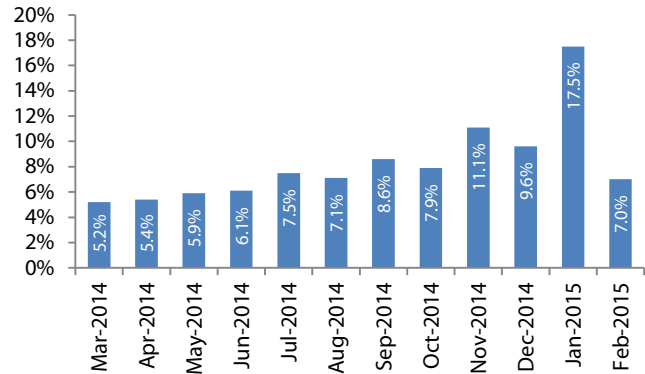
**MACRO WATCH**

**Graph 1: GDP Growth**



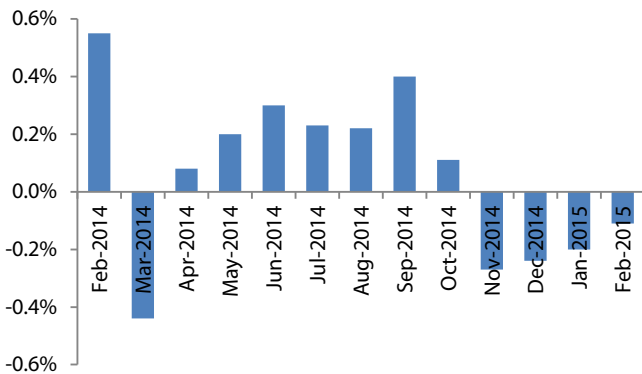
Sources: GSO. Rongviet Securities database  
(\* Comparison price in 1994)

**Graph 2: IIP**



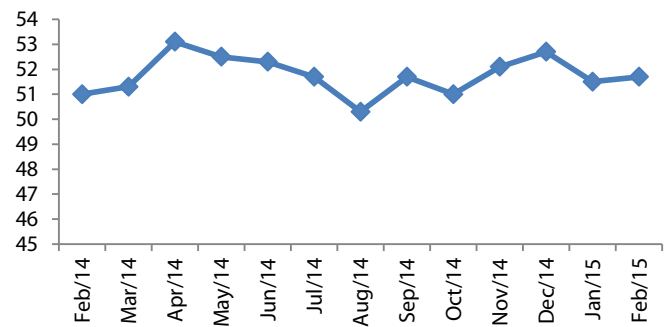
Sources: GSO. Rongviet Securities database

**Graph 3: Monthly CPI**



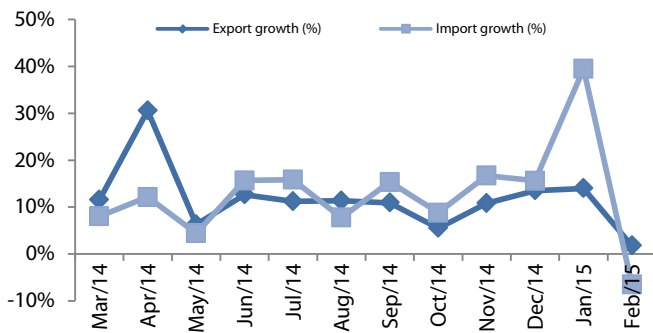
Sources: GSO. Rongviet Securities database

**Graph 4: HSBC - PMI**



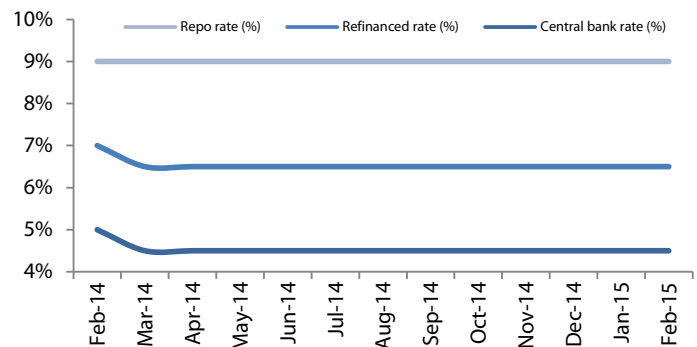
Sources: GSO. Rongviet Securities database

**Graph 5: Trade Growth**



Sources: GSO. Rongviet Securities database

**Graph 6: Interest**



Sources: SBV. Rongviet Securities database

## RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
PLC - A firm foothold	April 14 <sup>th</sup> , 2015	Accumulate – Intermediate term	40,000
BT6 - Restructuring scheme to bring a brighter prospect	Jan 27 <sup>th</sup> , 2015	Monitor	
PAC- Opportunities along with challenges	Jan 14 <sup>th</sup> , 2015	Accumulate – Intermediate term	27,500
HMH - Positive outlook from various supporting factors	Jan 06 <sup>th</sup> , 2015	Accumulate – Long term	33,800
DPM - Tail wind from crude oil	Dec 26 <sup>th</sup> , 2014	Buy – Intermediate term	36,100

Please find more information at <http://vdsc.com.vn/tabid/149/language/vi-VN/default.aspx>

## FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	07/04/2015	0%-0.75%	0%-2.5%	11,783	11,757	0.22%
VEOF	07/04/2015	0%-0.75%	0%-2.5%	9,405	9,357	0.51%
VF1	16/04/2015	0.2% - 1%	0.5%-1.5%	21,202	20,973	1.09%
VF4	15/04/2015	0.2% - 1%	0%-1.5%	9,097	9,006	1.01 %
VFA	10/04/2015	0.2% - 1%	0%-1.5%	7,124	7,087	0.53%
VFB	10/04/2015	0.3% - 0.6%	0%-1%	12,152	12,152	0.01%
ENF	10/04/2015	0% - 3%	0%	10,798	10,633	1.55%
MBVF	09/04/2015	1%	0%-1%	10,267	10,854	-5.41%
MBBF	08/04/2015	0%-0.5%	0%-1%	12,083	12,072	0.09%

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