

BINH MINH PLASTIC JSC (BMP) – COMPANY NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND86,000	NA	3.4%	NA	CONSTRUCTION MATERIALS

8 March 2018

Quang Hinh Dinh

hinh.dinh@vndirect.com.vn

Key statistics

52w high (VND)	111,100
52w low (VND)	68,800
10d Avg daily volume (shares)	728,569
Market cap (VNDbn)	7,106
Outstanding shares (m)	81.8
TTM P/E	14.9
Current P/B	2.9

Ownership

SCIC	29.5%
The Nawaplastic Industries	20.4%
FTIF	10.8%
Others	29.3%

Auction information

Auction day	March 9, 2018
Initial price (VND/share)	96,500
Shares offered (shares)	24,159,906
& of current outstanding shares	29.5%

Source: VNDIRECT

State Capital Investment Corporation (SCIC) will hold an auction to sell 24.2mn shares (equivalent to 29.52% of total shares) in BMP on March 9th 2018 at the initial offering price of VND 96,500VND, equivalent to a TTM P/E of 16.8x. We expect sizeable participation in the auction from Nawaplastic, which has the opportunity to increase its stake in BMP from 20.4% currently to 49.9%, potentially becoming a controlling shareholder in BMP.

BMP still has plenty of room for growth as according to BMI, plastic pipe and fitting sales in Vietnam are forecasted to grow at 14% per year over 2016-2024. This will leave significant room for BMP to grow despite the fierce competition from new entrants in the market, including Hoa Sen Group and Dai Thanh Group.

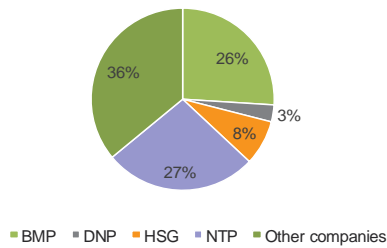
For 2018, we expect a boost in sales volume thanks to the operation of Long An plant phase 2. However, raw material prices will remain at elevated levels and will pressure gross margins.

The FOL removal will open an opportunity for Thai-based Nawaplastic Industries to take a controlling stake in BMP. BMP lifted its Foreign Ownership Limit (FOL) to 100% on September 26th last year. Foreign investors currently hold 43.3% of BMP's total outstanding shares. Strategic investor Nawaplastics which currently holds a 20.4% stake in BMP is now able to buy enough shares to raise its stake to over 49% and control BMP's operations. Nawaplastic has sent an offering letter to the auction's organizing committee stating its intent to purchase all the shares on offer in the auction.

If Nawaplastic becomes the largest shareholder of BMP, it could help BMP grow its market share and improve operational efficiency by (1) providing stable raw materials supply from TPC Vina (Nawaplastic's related company), (2) induction of management best practices (3) technology sharing, (4) financial support and (5) opening up new markets from both a product and geographical perspective through exports to the rest of ASEAN where Nawaplastic already has established distribution networks. .

At the current price of VND86,000/share, BMP is trading at a P/E of 14.9x, and P/B of 2.9x, which is higher than the average of its domestic peers. We believe that the current valuation is fair due to the company's strong brand name and high profitability. The current price is still 9% lower than the initial offering price of the auction. At the starting price, its 2017 P/E is 16.8x, which is higher than its 1-year average P/E of 14.6x but 19% lower than current P/E of the VN-INDEX (20.7x).

Figure 1: Market share of plastic pipe and fittings



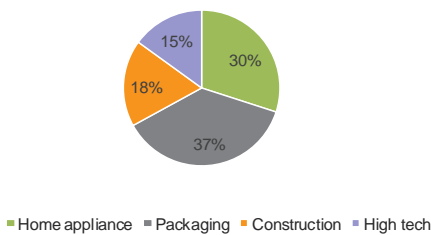
Source: VNDIRECT

Figure 2: Sales structure

Type (pipe and fittings)	BMP	NTP
PVC	93%	71%
HDPE	4%	12%
PP-R	3%	17%

Source: VNDIRECT

Figure 3: Industry-wide split of plastic product application areas by volume



Source: VNDIRECT

COMPANY PROFILE

BMP is the number two player in manufacturing and supplying plastic pipes and fittings for water supply and drainage, telecommunication, electricity, industrial and especially civil construction in Vietnam.

BMP has a 50% market share in southern Vietnam and a 26% market share nationwide. As of 2017, BMP had an extensive distribution network, with 1,500 distributors nationwide. The company is also involved in major public projects, providing plastic pipes for water supply and civil construction.

BMP's plants are operating at 63% of total designed capacity. BMP has four plants in HCMC, Binh Duong, Long An and Hai Duong with total designed capacity of 150,000 tonnes annually. 2017 output was 94,399 tonnes, implying that there is plenty of room to grow without additional capex needed to expand production capacity.

Raw material costs accounted for nearly 80% of BMP's COGS, which makes its margins very vulnerable to commodity price fluctuations. BMP's major products are pipes and fittings made from a wide range of different plastic components, such as uPVC, HDPE and PP-R. PVC powder is the key raw material and its price is mainly driven by oil and coal price movements.

INDUSTRY OVERVIEW

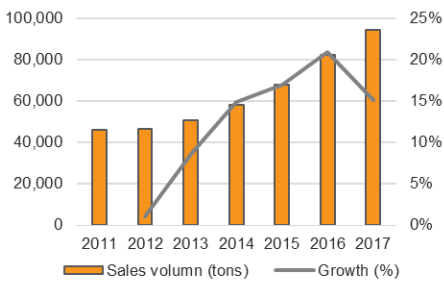
The plastic pipes and fittings market has been growing by 15-20% per year thanks to the cyclical recovery in the construction and real estate sectors. According to BMI, Vietnam's annual infrastructure spend will increase by 9.9% per year over the 2016-2024 period, fuelling plastic pipes and fittings demand CAGR of 14% over the period. The construction vertical accounts for around 18% of the total demand for plastics products in Vietnam and is the key driver of demand for BMP's products.

BMP is facing tougher competition from new entrants entering the plastic pipes market, such as HSG and Dai Thanh Group. In 2017, HSG and Dai Thanh Group started gaining more market share due to their aggressive discounted pricing offered to distributors. HSG offered discounts of up to 20% for uPVC pipes, 25% for HDPE pipes and 40-45% for PP-R pipes. These discount rates were higher than the discount rate of other major competitors such as BMP and NTP. BMP had to deepen its own discounts to agents from 10% to 15% starting from April 2017 due to increasing competition in the market.

Almost all major pipe manufacturers are expanding their capacity, setting the stage for intense competition going forward.

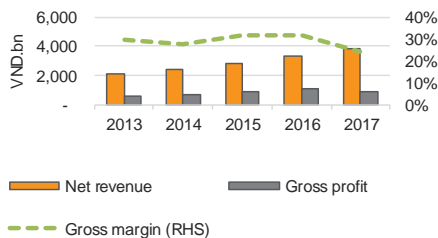
- BMP completed Long An factory phase 2 in 4Q2017, raising its total designed capacity to 150,000 tonnes annually (+15.4%).
- NTP also developed a factory specializing in the production of HDPE pipes with a capacity of 40,000 tonnes per year. This increased NTP's total designed capacity by 23%. They have completed this plant and put it into production in 4Q2017.
- HSG and Dai Thanh Group, have been continuously increasing their design capacity and have now touched 120,000 tonnes per year and 70,000 tonnes per year, respectively.

Figure 4: Plastic pipe output of BMP



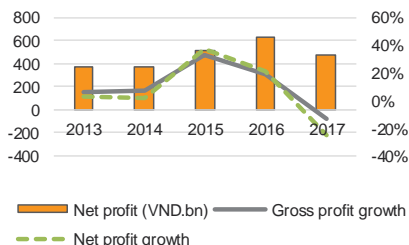
Source: VNDIRECT

Figure 5: Net revenue, gross profit and GPM (2013-2017)



Source: VNDIRECT

Figure 6: Net profit growth versus gross profit growth (2013-2017)



Source: VNDIRECT

Figure 7: Designed capacity

Designed capacity	tons/year
NTP	170,000
BMP	130,000
HSG	110,000
Dai Thanh Group	70,000

Source: VNDIRECT

BUSINESS RESULTS IN 2017: EARNINGS PLUNGED DESPITE STRONG VOLUME GROWTH

BMP has released its 2017 unaudited results with net revenue reaching VND3,825bn (+15.6% YoY) and net profit landing at VND471.4bn (-24.9% YoY).

- Revenue growth was mainly driven by a 15% increase in sales volume, while average sales price stabilized at US\$1,780/tonne (+0.5% YoY).
- BMP's gross profit margin dropped from 32.1% in 2016 to 24.1% in 2017. Average input prices rose 8.3% YoY, while average selling prices remain more-or-less flat, as companies witnessed erosion of pricing power given the rising competition and strong capacity increases. Specifically, the price of PVC, a key raw material rose by 8 % in 2017.
- Discount payments rocketed to VND96.3bn (+173.4% YoY) in a bid to combat increasing competition, thus boosting financial expenses to VND97.8bn (+136% YoY). In contrast, financial income dropped by 50% due to the sharp 50% decrease in interest income. As a result, BMP recorded financial losses of VND73.4bn, compared to net financial income of VND7.5bn realized in 2016.
- Profits plunged due to the gross margin contraction and the net financial losses. PBT was posted at VND582.9bn (-25.6%) and NPAT was recorded at VND471.4bn (-24.9%). 2017 EPS dropped to VND5,182.

BMP showed mixed signals in 4Q2017:

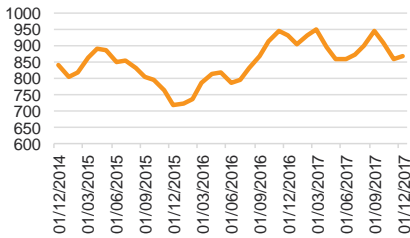
- Net revenue surged by 45.2% YoY to touch VND1,205bn (accounting for 31.5% of 2017 total revenue) thanks to the new contribution of Long An factory phase 2. This factory started operating in November 2017 and raised BMP's total designed capacity by 15.4%.
- GM in 4Q2017 slightly decreased to 23.5% from 24.2% in 3Q2017 and 25% in 1H2017 due to the high price of raw materials and higher depreciation. The new factory is expected to add an estimated VND95bn of annual depreciation expenses (2.5% of 2017 net revenue).
- NPAT reached VND123.3bn (+40.4% YoY) and 4Q2017 EPS reached VND1,506, increasing by 40.5% YoY.

OUTLOOK FOR 2018: MARGINS TO STAY UNDER PRESSURE

The Long An Plant phase 2 will boost BMP's revenue growth. The Long An phase 2 has increased the total designed capacity of BMP by 15.4% to 150,000 tonnes, and we expect this project will boost sales volume by 5% in 2018. BMP's plants are only operating at 63% of total capacity (plus Long An phase 2) so BMP has plenty of room to increase its volume in the next few years. However, it is expected to add an estimated VND95bn of annual depreciation expenses and put more pressure on the gross profit margin of the company, as unit economics will be weak during the production ramp-up phase.

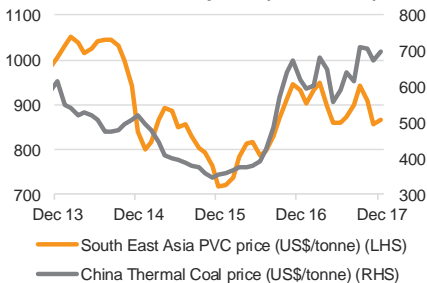
BMP plans to raise its market share in central and Northern Vietnam through M&A and upgrades of its distribution network. Although BMP failed to merge with Da Nang Plastic (DPC) by swapping shares in 2017, it still holds a 29% stake in DPC and will be

Figure 8: PVC price in South East Asia (USD per tonne)



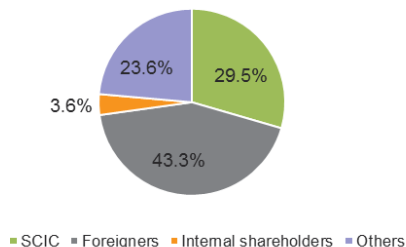
Source: VNDIRECT

Figure 9: PVC price in South East Asia versus Chinese coal price (2013-2018)



Source: Bloomberg

Figure 10: Ownership structure (%)



Source: VNDIRECT

Figure 11: Peer comparison

Company	Country	Market Cap (US\$ mn)	TTM NPAT growth (%)	TTM EPS growth (%)	TTM ROA (%)	TTM ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)
NTP	Vietnam	259.1	23.9%	24.4%	12.8%	25.1%	2.0	12.0	2.8
DNP	Vietnam	44.4	-1.4%	-42.6%	2.7%	15.3%	5.8	9.8	1.5
DAG	Vietnam	19.0	16.6%	-49.7%	5.1%	11.0%	2.2	6.5	0.7
DPC	Vietnam	1.2	60.0%	N/A*	7.1%	7.7%	1.1	6.9	0.7
BMP	Vietnam	309.8	-24.9%	2.0%	15.5%	18.3%	1.2	14.9	2.9
Peer average					14.8%	14.8%	2.8	8.8	1.4
Peer median					6.1%	13.2%	2.1	8.4	1.1

Source: VNDIRECT, Bloomberg

(*) NTP's 2017 strong earnings growth comes from abnormal profit/loss from affiliated companies and JVs

able to expand its business in central Vietnam through DPC's distribution network.

Raw material costs remain high, which is putting pressure on BMP's gross profit margin. Specifically, the PVC price in Southeast Asia witnessed a significant uptrend during 2016, increasing from \$719/tonne at the beginning of the year to \$933/tonne by the end of the year, largely driven by the strong recovery in crude oil prices. Prices stayed at elevated levels throughout 2017, recording an average level of US\$899/tonne (+10.8% YoY) for the full year. The PVC price heavily depends on the movement of coal prices and oil prices in Asia, especially coal prices in China. Considering that the Brent oil should average US\$60-65/barrel this year and given that China will further cut its coal production, it is likely that PVC prices will continue to remain high in 2018, which will continue to put pressure on BMP's gross margin.

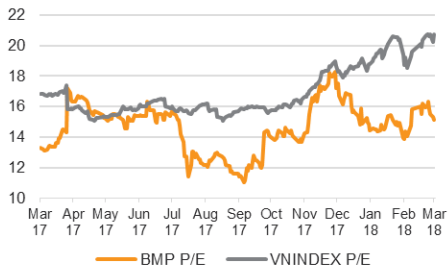
SCIC WILL DIVEST ITS BMP STAKE THROUGH AN AUCTION WHICH WILL TAKE PLACE ON MARCH 9TH, 2018.

State Capital Investment Corporation (SCIC) will hold an auction to sell 24.2mn shares (equivalent to 29.52% of BMP's total shares) on March 9th 2018 at the initial offering price of VND96,500. The divestment was delayed from 4Q2017 because of some land valuation issues, but this has finally been resolved.

Nawaplastic is expected to be the biggest participant in the auction. BMP's strategic investor, Nawaplastic from Thailand, now holds a 20.4% stake in BMP. Nawaplastic is the subsidiary of TPC (Thai Plastic Chemical Plc), which is a member of SCG (The Siam Cement Group), the largest materials company in Thailand. SCG has sought to expand its market share and dominate the building materials market in Vietnam for a long time. SCG holds a 90% stake in TPC and TPC holds a 70% stake in TPC Vina which controls 15% of the total PVC raw materials supply in Vietnam. Following the full NTP stake divestment in October 2017 (Nawaplastic previously owned 23.8% stake in NTP), it is expected that Nawaplastic will increase its stake in BMP so that it can have more control over BMP's operations. This move will be in line with SCG's long-term strategy in Vietnam. Nawaplastic has sent an offering letter to the auction's organizing committee for the registration of participation in buying shares. The company has registered to buy all 24,159,906 shares of BMP on offer.

VALUATION

Figure 12: Historical P/E of BMP and VNINDEX



Source: VNDIRECT

The P/E, P/B and EV/EBITDA multiples of BMP are higher than the industry average. We think that the valuation is fair due to BMP's strong brand name, high profitability (BMP has highest ROA ratio, high ROE and lower than average financial leverage ratio) and the participation from a leading regional strategic investor in BMP's equity structure. The prospect of Nawaplastic increasing its control over BMP's operations further justifies the premium as it could help improve BMP's profitability further through improvements in raw material pricing power and improving scale economies realized from faster capacity expansion.

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Description:	Excellent	Very Good	Good	N/A	

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Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Dinh Quang Hinh – Analyst

Email: hinh.dinh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>