BINH MINH PLASTIC JSC (HSX: BMP)

A rare cash cow

(VND bn)	1Q-FY20	4Q-FY19	*+/-qoq*	1Q-FY19	*+/-yoy*
Net revenue	1,020	1,159	-12%	931	10%
PAT	102	95	8%	91	12%
EBIT	136	133	2%	136	1%
EBIT margin	13.4%	11.5%	186bps	14.6%	-120bps

Source: BMP, RongViet Securities

1Q 2020 update – Substantial growth amid macroeconomic uncertainty

- Sale volume came at 24,330 tons, +8.9% YoY. BMP exploited a new market as plastic pipes demand for irrigation surged in the Mekong Delta area due to the prolonging drought.
- Gross margin improved slightly to 24%. Revenue and NPAT growth came at 9.5% and 12.4%.
- Despite the social distance, April sale volume remained unchanged compared to last year, which makes 4M2020 sale volume 6% higher YoY.
- PVC resin price dropped during 1Q, which we predict will support BMP's profitability from 2Q.

2020 outlook – Remaining stable

- Our forecast basically stays the same as previous in terms of sales growth.
- Gross margin is predicted to improve moderately by two percentage points as we think 2020 PVC resin prices will be lower YoY.
- Net income is predicted to reach VND 471 billion in 2020, 11.2% higher YoY. We think BMP can pay up to VND 5,000 per share as a cash dividend for the year.

Valuation and Recommendation:

In this update report, we wish to emphasize that Binh Minh Plastic JSC as a solid business. As an industry leader in a market that favors reputable brand names, BMP has shown no impact from COVID-19 in terms of sales. In contrast, it took advantage from the weather conditions to boost sales and became less dependent on the housing market.

Over the last quarters, BMP managed to stabilize both gross and net margins, which we think is going to be a strong trajectory for net income in the long-term. Threats from new entrants to the fertile plastic pipe market have eased, We expect BMP will keep this level of profitability in the future.

We also appreciate the new parent company's contribution to BMP's overall efficiency. During the last year, BMP restructured its distribution channel to convert more than VND 500 billion working capital into cash. This paves the way for a more generous cash dividend in 2020.

*BMP remains one of our favorite stocks because of its defensive nature. Sustainable business results, strong financials and an attractive dividend yield are a good fit for long term investors. We have added a new method to our valuation matrix: discounted dividend model to assess BMP as a mature business in addition to the existent FCFE and P/E measures. Our valuation comes to BMP's fair price at **VND 48,200** per share, along with the VND 5,000 cash dividend expected in the next twelve months, implying a **14%** total return as of the closing price on May 21st, we recommend to **ACCUMULATE** the stock.*

ACCUMULATE 14%

CMP (VND)	46,550
Target Price (VND)	48,200
Cash dividend (VND)*	5,000

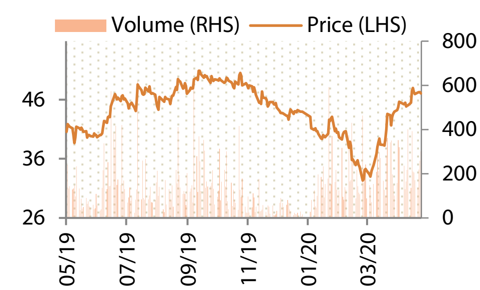
**Expected in the next 12 months*

Stock Info

Sector	Construction & Materials
Market Cap (VND billion)	3,782
Current Shares O/S	81,861,000
Avg. Daily Volume (in 20 sessions)	96,966
Free float (%)	41
52 weeks High	63,139
52 weeks Low	41,500
Beta	0.8

	FY2019	Current
EPS	5,164	5,303
EPS Growth (%)	-1.15	12.40
Diluted EPS	5,164	5,303
P/E	8.75	8.83
P/B	1.50	1.49
EV/EBITDA	3.89	3.69
Cash dividend yield (%)	9.96	13.96
ROE (%)	17.18	16.97

Price performance



Major Shareholders (%)	
Nawaplastic Industries	54.4
FTIF - Templeton Frontier Markets Fund	6.3
KWE Beteilgungen AG	5.0
Foreign ownership room (%)	25.2

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Exhibit 1: 1Q/2020 Results

(VND bn)	1Q-FY20	4Q-FY19	+/- (qoq)	1Q-FY19	+/- (yoy)
Net revenue	1,020	1,159	-12.0%	931	9.5%
Gross profit	246	254	-3.3%	210	16.8%
SG&A	109	121	-9.3%	75	46.4%
Operating income	136	133	2.2%	136	0.5%
EBITDA	188	185	1.9%	181	4.1%
EBIT	136	133	2.2%	136	0.5%
Financial expenses	26	30	-14.3%	22	15.0%
- Interest Expenses	*0*	*0*	*-61.9%*	*0*	*-75.9%*
Dep. and amortization	52	51	1.2%	45	15.0%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	128	119	7.3%	114	12.4%
PAT	102	95	8.3%	91	12.4%
(*) Adjusted PAT	102	95	8.3%	91	12.4%

Source: BMP, RongViet Securities

Exhibit 2: 1Q/2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	*+/-(qoq)*	1Q-FY19	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	24.1%	21.9%	218bps	22.6%	151bps
EBITDA Margin	18.4%	15.9%	252bps	19.4%	-95bps
EBIT Margin	13.4%	11.5%	186bps	14.6%	-120bps
Net Margin	10.0%	8.2%	188bps	9.8%	26bps
Adjusted Net Margin	10.0%	8.2%	188bps	9.8%	26bps
Turnover *(x)					
-Inventories	7.0	7.3	-0.3	5.4	1.6
-Receivables	10.9	11.1	-0.2	6.0	4.9
-Payables	10.7	14.4	-3.7	12.7	(2.0)
Leverage (%)					
Total Debt/ Equity	13.8%	14.5%	-70bps	10.0%	377bps

Source: BMP, (*) Annualized turnover

Exhibit 3: 2Q/2020 Performance Forecast

Particulars (VND bn)	2Q-FY20	+/-qoq	+/-yoy
Revenue	1,368	34%	16%
Gross profit	342	39%	24%
EBIT	222	63%	32%
NPAT	164	60%	38%

Source: BMP, RongViet Securities

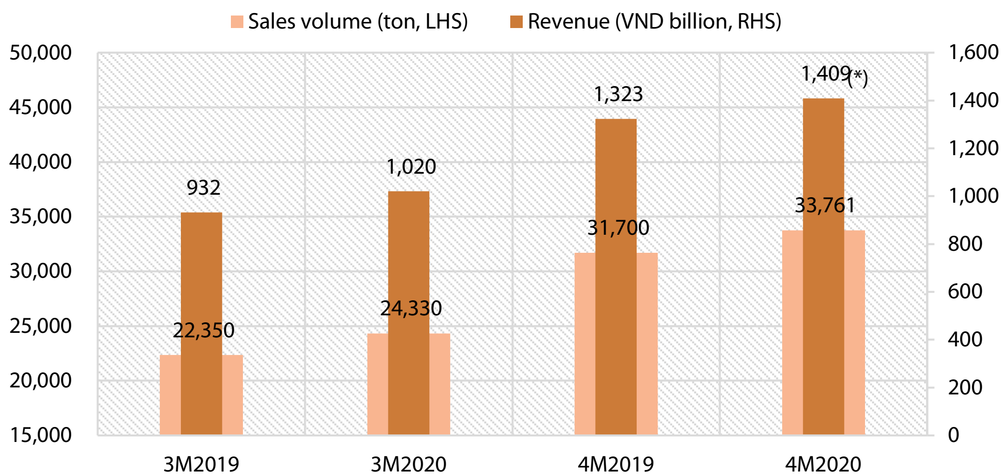
- Sales are going to continue to grow as droughts have not subsided in the Mekong Delta area. Meanwhile, construction activities resumed after two weeks of social distancing.
- Gross margin is going to improve as PVC resin prices decreased during the last few months.
- Net income will reach VND 164 billion, equivalent to a 12% net margin.

Updates:

1Q 2020 updates: New markets

BMP sold 24,330 tons of plastic pipes during the first quarter of 2020, 8.9% higher YoY. Its 1Q2020 revenue and NPAT came at VND 1,020 and VND 102 billion respectively, 9.4% and 12.1% higher YoY. The growth came from a newly exploited market, which is the irrigation in the Mekong Delta. As per BMP's management, the long drought in the area has caused a rise in the demand for new irrigation systems, of which plastic pipe is a common component.

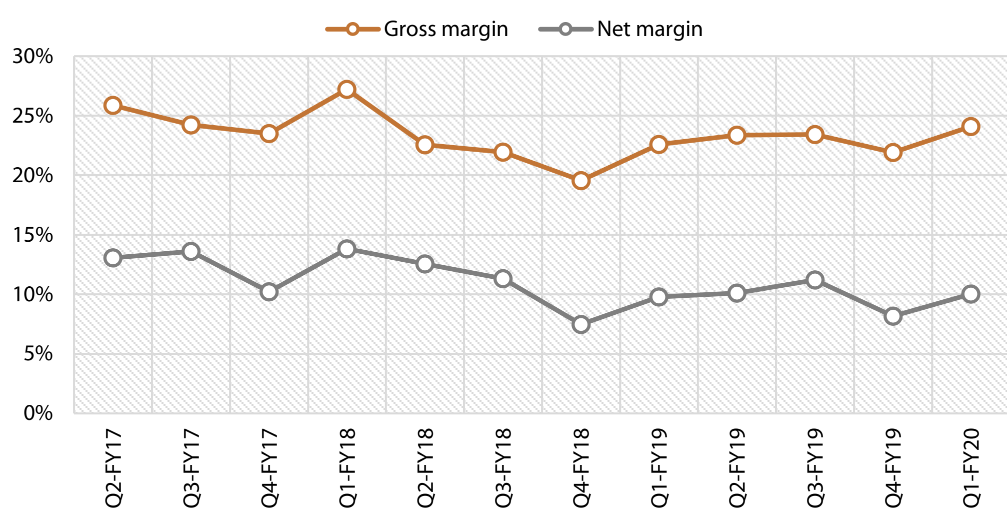
Figure 1: BMP's sale volume and revenue



Source: BMP, RongViet Securities. (*) estimated

We notice a slight improvement in BMP's gross margin from 22.6% in 1Q2019 to 24.0% in 1Q2020. This could have been due to PVC resin price's downtrend during the last twelve months. In addition, the fact that BMP's gross margin has been kept at the current level for a few quarters has been in-line with our view regarding the competition in the industry. We have been maintaining our opinion that competition in the plastic pipe industry would become less fierce. Accordingly, competitors would stop aggressive discount policies and BMP could keep its gross margin stable above 20%.

Figure 2: BMP's gross and net margin



Source: BMP, RongViet Securities

COVID-19 has not impacted BMP

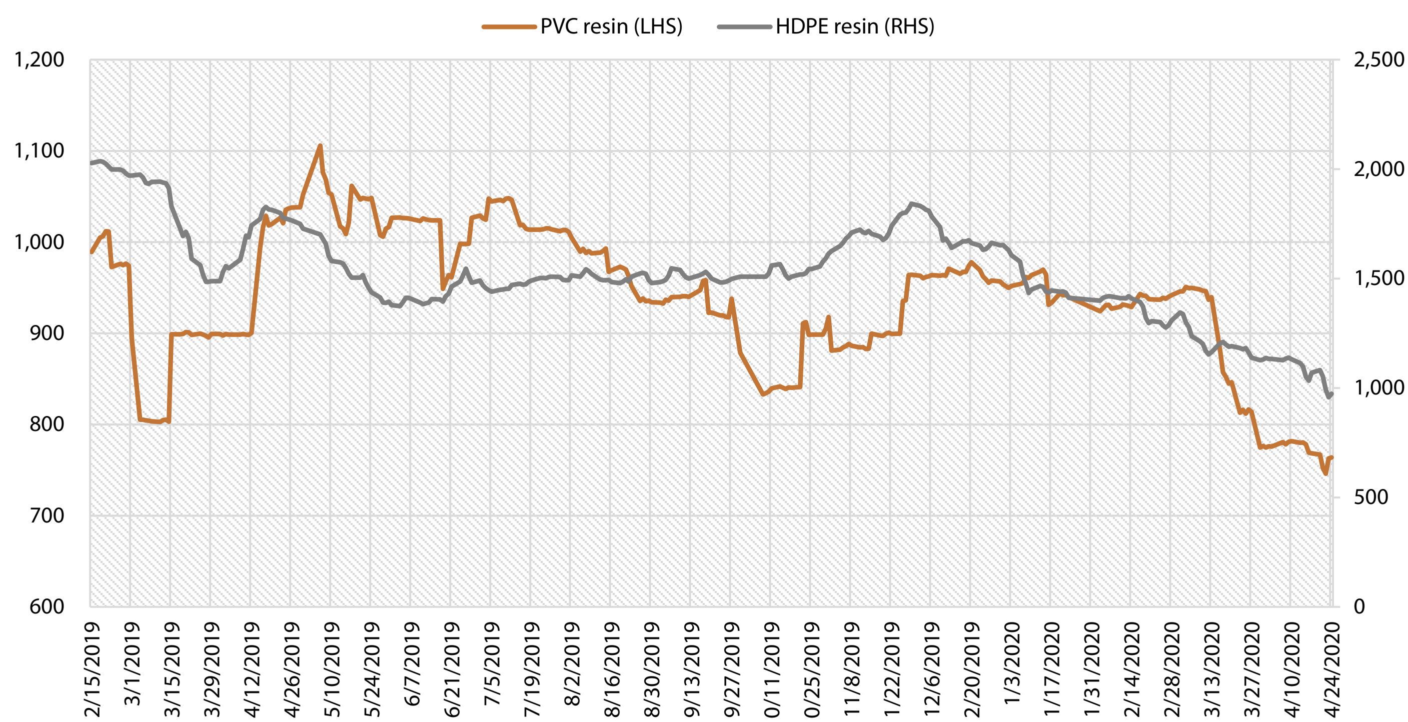
BMP's management announced an estimated growth rate of 4M2020 sale volume from 6 to 7%. Accordingly, we calculated that April sales could be similar to that of last year. It implies that even though the first two weeks of April were under mandatory isolation due to COVID-19, BMP managed to stabilize its sale activities. We also think that BMP's major segment, retail housing construction was one of the least affected by the pandemic. This shows BMP's brand name power as well as its independence over large construction projects, including public infrastructure. NTP, its counterpart in Northern Vietnam, on the other hand, saw its revenue decline by 4% in 1Q2020, due to the impact of COVID-19.

2020 forecast

Sale growth is going to stay moderate throughout 2020. BMP's sale might have grown a tad stronger than expectations during the first months of 2020 but we think the pace should slow down toward year-end due to both internal and external limitations. Firstly, it should be noted that BMP does not strategically invest in capacity expansion. As management supposes the domestic market has been oversupplied. The company prefers lower growth in exchange for profitability. Therefore, we think BMP can reduce inventories to boost sales in the short term, but its capacity would limit sale growth in the intermediate term. Secondly, the growth factor in 1Q, which is the irrigation demand, might not continue to contribute to growth in the following quarters. The rainy season in Southern Vietnam is approaching, which implies that plastic pipes sold to farms and fields might have peaked. In short, we expect that 2H2020 sales' growth will slow down and will average 5.9% for 2020.

Gross margin is going to benefit from low input prices. The price of PVC resin has gone down by more than 20% since mid-March, while HDPE resin price has been in a steady downtrend since late-2019. PVC, BMP's main input material, has touched a 3-year low at around USD 746 per ton. If it remains around this level during 2Q, we might see BMP's gross margin continue to improve in the near future. We forecast that BMP's average input price will drop by 5.5% in 2020. As a result, BMP's gross margin will improve by two percentage points, from 22.8% in 2019 to 24.8% in 2020.

Figure 3: Input price (USD per ton)



Source: Bloomberg, RongViet Securities

Selling expenses are going to increase as part of the new distributor policy. We noticed that 1Q 2020's discount expenses were VND 59 billion, increasing from VND 36 billion per quarter in 2019. Accordingly, we forecast that selling expenses will be 8.0% of sales, up from 6.2% in 2019.

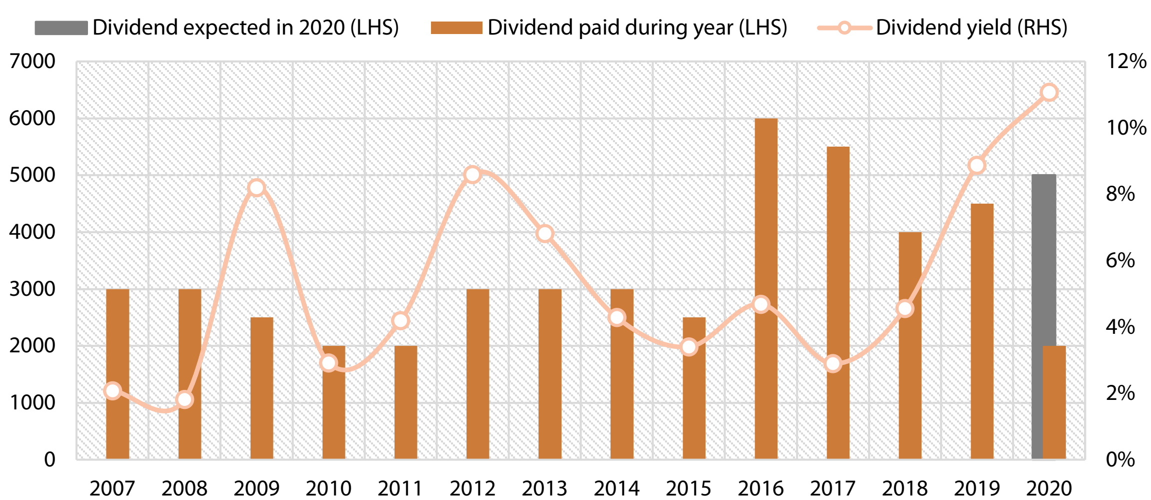
Interest income will gradually contribute more into BMP's earnings. BMP has been known for its large hoard of cash because of healthy cash flows and we expect its interest income will grow steadily over the years. At the end of 2019, BMP had long-term deposits at bank owing to debt collecting activities during the year. This amount, along with BMP's cash and equivalents and short-term investments, will generate VND 49 billion in interest income, contributing 8.3% into the company's pretax profit.

2020 net income is predicted at VND 471 billion, 11.3% higher YoY. It is equivalent to a net margin of 10.2%, 50bps higher than last year.

New valuation method

We have introduced the discounted dividend method into our valuation matrix. This valuation measures the present value of all future cash dividends, which is applicable to very few stocks on the Vietnamese stock exchange. We have noticed that BMP is one of the few businesses that have entered the "Cash Cow" phase. Founded on stable operating activities, strong financials, healthy cash flows, BMP's annual cash flows need to be taken into account regarding its intrinsic value.

Figure 4: Cash dividend and yield



Source: RongViet Securities

We forecast that BMP will pay out VND 5,000 per share as dividend in 2020, equivalent to a 10.7% dividend yield at the current market price. If BMP pays a similar dividend to last year's, VND 4,500 per share, the dividend yield would be 9.6%. In the longer term, we assess that BMP's net income and cash hoard will allow the company to pay VND 5,000 per share annually. Using 9.31% as a cost of equity, we determine the DDM price for BMP at VND 56,021 per share.

Thus, combining DDM with the other two existing methods, we have BMP's target price at VND 48,200, similar to our previous one.

Table 1: Valuation matrix

Method	Valuation	Weight	Weighted average
FCFE	45,357	40%	18,143
P/E (9.0x)	44,312	30%	13,294
DDM	56,021	30%	16,806
Total		**100%**	**48,200**

Source: RongViet Securities

VND billion

INCOME STATEMENT	FY2018	FY2019	FY2020E	FY2021F
Revenue	3,920	4,337	4,615	4,948
COGS	3,048	3,349	3,469	3,783
Gross profit	**872**	**988**	**1,147**	**1,165**
Selling Expense	166	270	369	396
G&A Expense	98	117	124	149
Finance Income	25	37	49	54
Finance Expense	105	111	116	122
Other profits	1	1	1	1
PBT	**530**	**529**	**588**	**554**
Prov. of Tax	102	107	118	111
Minority's Interest	0	0	0	0
PAT to Equity S/H	**428**	**423**	**471**	**443**
EBIT	608	601	653	620
EBITDA	781	754	839	825

%

FINANCIAL RATIO	FY2018	FY2019	FY2020E	FY2021F
Growth (%)				
Revenue	2.5	10.7	6.4	7.2
Operating Income	2.5	-3.4	11.2	-1.6
EBITDA	-8.2	-1.2	8.7	-5.1
PAT	-8.0	-1.1	11.3	-5.9
Total Assets	-2.1	1.3	0.3	1.7
Equity	0.2	0.6	0.8	-0.3
Profitability (%)				
Gross margin	22.2	22.8	24.8	23.5
EBITDA margin	19.9	17.4	18.2	16.7
EBIT margin	15.5	13.9	14.2	12.5
Net margin	10.9	9.7	10.2	9.0
ROA	15.2	14.8	16.5	15.2
ROE	17.4	17.1	18.9	17.8
Efficiency				
Receivable Turnover	6.5	11.3	11.3	11.3
Inventory Turnover	5.4	7.4	7.1	6.7
Payable Turnover	11.3	12.0	12.2	11.4
Liquidity				
Current	5.5	4.5	4.5	4.2
Finance Structure (%)				
Total Debt/Equity	2.4	2.3	2.5	2.7
Current Debt/Equity	2.4	2.3	2.5	2.7
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND billion

BALANCE SHEET	FY2018	FY2019	FY2020E	FY2021F
Cash and cash equivalents	412	304	263	246
Short-term investments	200	386	405	426
Accounts receivable	599	383	407	437
Inventories	567	454	486	564
Other current assets	28	1	1	2
Property, plant & equipment	612	623	599	539
Acquired intangible assets	259	19	18	18
Long-term investments	68	369	370	372
Other non-current assets	67	311	308	304
Total assets	**2,812**	**2,850**	**2,857**	**2,906**
Accounts payable	269	280	284	331
Short-term borrowings	59	56	61	67
Long-term borrowings	0	0	0	0
Other non-current liabilities	0	23	0	0
Bonus and Welfare fund	31	22	24	26
Technology-science, dev. fund	0	0	0	0
Total liabilities	**359**	**381**	**369**	**424**
Common stock and APIC	820	820	820	820
Treasury stock (enter as -)	0	0	0	0
Retained earnings	309	263	258	230
Other comprehensive income	45	45	45	45
Inv. and Dev. Fund	1,280	1,341	1,365	1,387
Total equity	**2,454**	**2,469**	**2,488**	**2,482**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2018	FY2019	FY2020	FY2021
EPS (dong)	5,224	4,700	5,231	4,924
P/E (x)	10.1	8.8	8.9	9.5
BV (dong)	29,973	30,164	30,396	30,319
P/B (x)	1.8	1.5	1.5	1.5
DPS (dong/cp)	4,000	4,500	5,000	5,000
Dividend yield (%)	7.6	10.0	10.7	10.7

VALUATION MODEL	Price	Weight	Average
FCFE	45,368	40%	18,147
P/E	44,312	30%	13,294
DDM	56,035	30%	16,811
Target price (dong)			**48,200**

VALUATION HISTORY	Price	Recommendation	Period
25/12/2019	49,100	Buy	Long term
10/07/2019	47,100	Accumulate	Long term

RESULT UPDATE

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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