BINH MINH PLASTIC JSC (HSX: BMP)

Wisely conservative

(VND bn)	1Q-FY19	4Q-FY18	+/-qoq	1Q-FY18	+/-yoy
Net revenue	931	1,170	-20%	626	49%
PAT	91	88	4%	87	5%
EBIT	136	129	5%	115	17%
EBIT margin	14.6%	11.0%	357bps	18.4%	-387bps

Source: BMP, Rong Viet Securities

3M 2019 – Recovering

- Q1 2019 revenue and NPAT came at +49% and +5% YoY. Top-line figures grew strongly yoy due to the low base.
- Q1 2019 gross margin came at 23%, picking up from the bottom of 20% in Q4 2018, signaling an eased competition, even though input prices also contributed into the recovery.
- Selling expense doubled yoy because of the new wholesale policy, but is expected to cool down in the remaining of 2019.

FY2019 outlook – Revamping performance

Our 2019 forecasts for BMP include VND 4,123 billion (USD 175 million) in revenue (+5.2% yoy) and VND 518 billion (USD 22 million) in NPAT (+21.2% yoy).

We believe that 2018 was the most difficult time for BMP and 2019 will see a substantial recovery in the company's earnings. Even though volume growth potential is limited, BMP's gross profit can benefit from a lower PVC resin price and a settled down price competition in the plastic pipe market. We expect that after a few years of raising discount to take over market shares, firms need to target operating profits. Hence, the current gross and net margin can be sustainable for BMP as the leading player at around 23% and 12% respectively.

Despite the guidance cash dividend for 2019 earnings is set at VND 2,000 per share minimum, we predict that BMP can pay up to VND 5,000 per share should the NPAT target is achieved.

Valuation and recommendation

BMP has been among our favorite stocks because of its position as an industry leader as well as its healthy financials. We maintain our view that Binh Minh is the top plastic pipe brand perceived by consumers in Southern Vietnam. This allows the company to enjoy sustainable profitability and strong operating cash flows. Accordingly, we expect BMP to maintain its debt-free status and to hoard a substantial amount of cash, most of which would be paid out as cash dividends. Considering the recent market price movement, we suppose that the 8.6x forward P/E may be suitable for investors with a long-term target. Our valuation determines BMP's fair price at ***VND 51,100*** *per share, implying a* ***10%*** *total return as of the closing price on July 10th, 2019 as we recommend to* ***ACCUMULATE*** *the stock.*

ACCUMULATE +10%

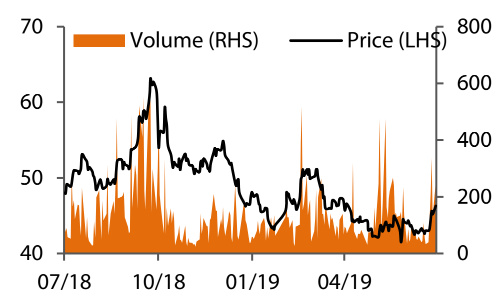
Target price (VND)	51,100
Current market price (VND)	46,400

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

	FY2018	Current
EPS	4,440	5,381
EPS Growth (%)	-7.98	5.20
Diluted EPS	4,440	5,381
P/E	10.07	8.75
P/B	1.75	1.49
EV/EBITDA	4.81	3.95
Cash div. yield (%)	9.28	-
ROE (%)	17.62	17.01

Price performance



Major Shareholders (%)

Nawaplastic Industries	54.4
FTIF - Templeton Frontier Markets Fund	6.3
Foreign ownership room (%)	25.2

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Exhibit 1: 1Q 2019 Results

(VND Bn)	1Q-FY19	4Q-FY18	+/- (qoq)	1Q-FY18	+/- (YoY)
Net revenue	931	1,170	-20.4%	626	48.7%
Gross profit	210	229	-8.1%	170	23.4%
SG&A	75	100	-25.5%	55	35.8%
Operating income	136	129	5.5%	115	17.5%
EBITDA	181	173	4.2%	157	15.3%
EBIT	136	129	5.5%	115	17.5%
Financial expenses	22	32	-29.9%	16	37.0%
- Interest Expenses	0	0	-46.8%	0	-52.0%
Dep. and amortization	45	45	0.4%	41	9.3%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	114	110	3.2%	105	8.2%
PAT	91	88	4.1%	87	5.2%
(*) Adjusted PAT	91	88	4.1%	87	5.2%

Source: BMP, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

Particulars	1Q-FY19	4Q-FY18	*+/-(qoq)*	1Q-FY18	*+/-(YoY)*
Profitability Ratios (%)					
Gross Margin	22.6%	19.6%	302bps	27.2%	-463bps
EBITDA Margin	19.4%	14.8%	458bps	25.0%	-561bps
EBIT Margin	14.6%	11.0%	357bps	18.4%	-387bps
Net Margin	9.8%	7.5%	230bps	13.8%	-404bps
Adjusted Net Margin	9.8%	7.5%	230bps	13.8%	-404bps
Turnover *(x)					
-Inventories	5.4	6.3	-0.9	3.8	1.6
-Receivables	6.0	7.9	-1.9	4.5	1.5
-Payables	12.7	16.0	-3.4	7.5	5.1
Leverage (%)					
Total Debt/ Equity	10.0%	14.5%	-452bps	9.2%	85bps

Source: Rong Viet Securities

Exhibit 3: 2Q 2019 Performance Forecast

Particulars (VND Bn)	2Q-FY19	+/-qoq	+/-YoY
Revenue	1,130	15%	2%
Gross profit	261	3%	5%
EBIT	176	-1%	-12%
NPAT	142	11%	3%

Source: Rong Viet Securities

Updates

Competition from new producers has eased

It needs mentioning that a great amount of new capacity entered the market during 2014-2016 period. Existing producers expanded their capacity while new players joined the market to enjoy the appealing profit margin of plastic pipes. Many producers offered high discount to their wholesalers in order to take over market shares. For example, HSG was reported to discount their plastic pipes up to 40%, which put pressure on other competitors. Despite having the leading sale volume at the time, BMP had to adjust its wholesale discount upward in 4Q 2017, accepting a lowered gross margin to maintain competitiveness.

However, we think that continuously reducing the price might not be affordable in the long-term profit wise. Therefore, as the competitors ceased to raise discount, BMP can now stabilize its profitability at around 24% and 12% for gross and net margin respectively. Additionally, according to the management, the domestic market is having an excess supply given the fact that plastic pipe cannot be exported economically. Thus, we expect minimal new capacity in the near future and we also predict that all producers will keep their offer unchanged for profit's sake.

New owner, new targets

Even though the board of management stays the same post-divestment, we notice several changes in the company's objectives as BMP now is a subsidiary of The Nawaplastic Industries (Saraburi) Co., Ltd, also a plastic pipe producer from Thailand. Accordingly, BMP's BoM announced that they now aim to improve the efficiency of the company to meet the parent company's standards. We think that BMP will make small changes in its operating management. BMP plans to disburse VND 200 billion (USD 8.5 million) of capex in 2019, a major proportion of which will be spent on automation and new storage system. The enhancements, requested by the parent company, are expected to improve BMP's long-term capacity and operating efficiency. In addition, BMP will carry out other measures to enhance efficiency including High Value-Added products, Data Warehouse and other LEAN principles. As a result, we predict that BMP's administration expense will increase in 2019 and 2020 while effects will be seen in the longer term.

The caution in capacity planning might not promise a strong volume growth

In contrast, we notice that BMP's market strategy stays unchanged, as the company plans no new capacity in 2019 and 2020. It implies that our 5-year forecast for BMP will also have moderate growth. Investors should bear in mind that even though the overall utilization rate is around 70%, the excess capacity is mostly large diameter products which are not commonly sold. The capacity is also cannot be interchanged with common-sized machines. More importantly, BMP has advantage in housing construction products and the capacity for this product line has reached maximum utilization. Therefore, unless BMP targets the infrastructure market to employ their industrial-sized capacity, volume growth for the next few years should be one-digit.

Figure 1: Capacity and utilization rate

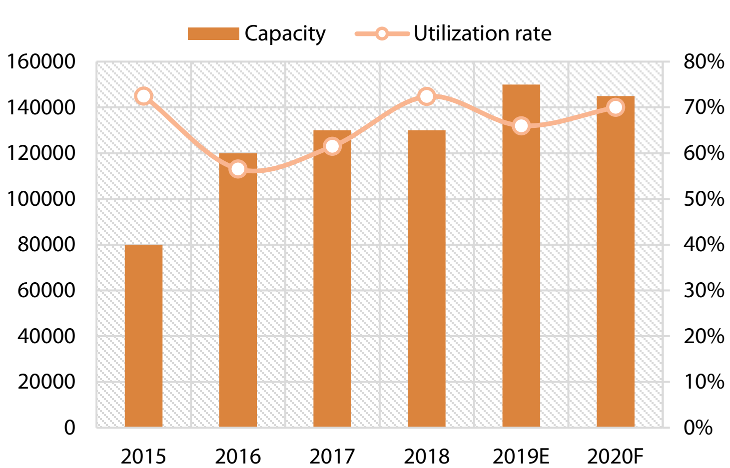
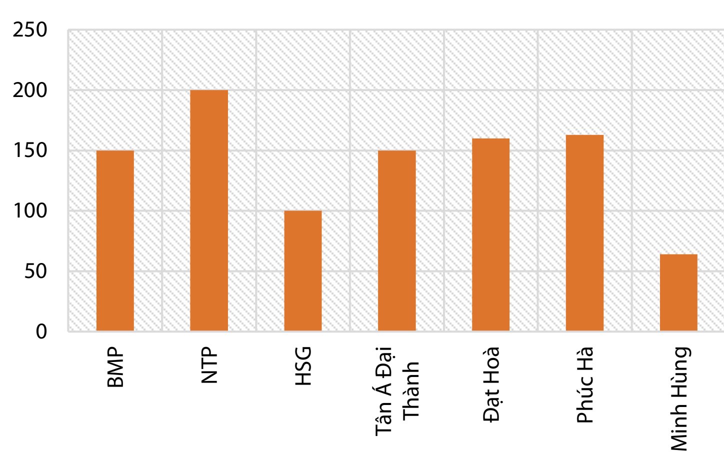


Figure 2: Producers' capacity in 2019 (thousand tons)

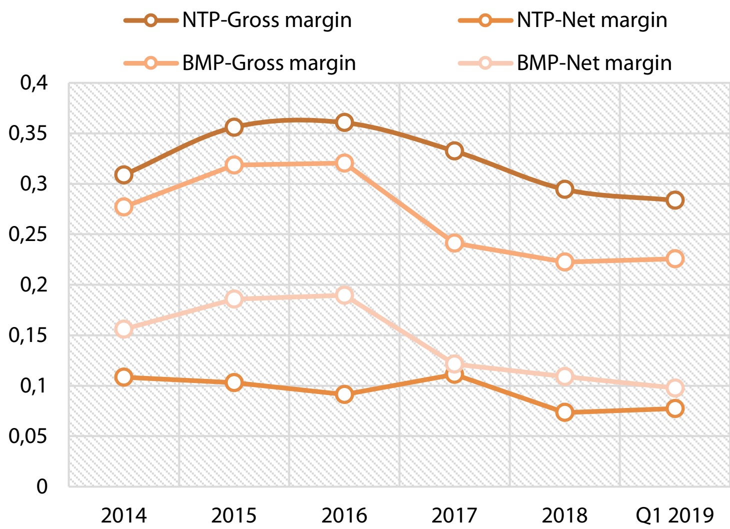


Source: BMP, Rong Viet Securities

BMP's healthy financials can be a strong rationale for a long-term investment

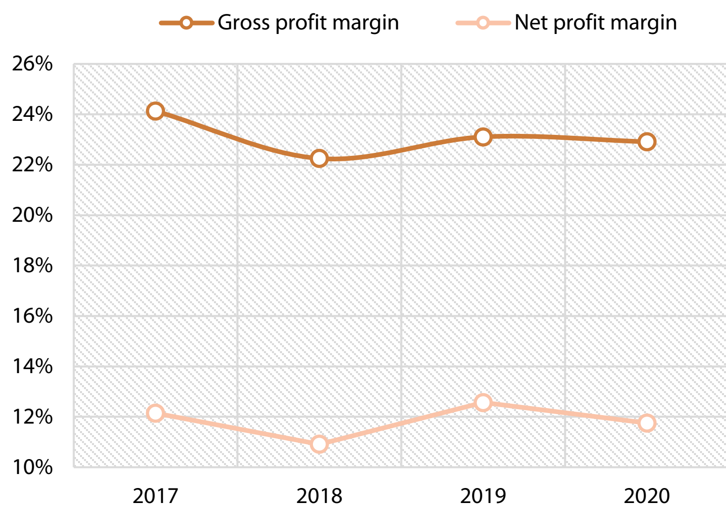
Regarding profitability, while the gross and net margins declined in the last few years due to strong competition, the current levels can be maintained and are among the highest in the industry. The sustainable margin is enforced by BMP's well-perceived brand name among consumers. We forecast that PVC resin price will stay around USD 1,000 per ton in 2019, thus keeping BMP's gross margin stable at 23.1%. However, the gross margin can be affected by PVC resin price in the long-run, as we forecast that BMP's 2020 gross margin will decline to 22.9%. Nonetheless, its net margin is going to maintain over 10%, which is desirable for companies in the construction and material sector. That would mean ROE above 20% and ROA above 17% in both 2019 and 2020 for BMP.

Figure 1: BMP and NTP's gross and net margins



Source: Rong Viet Securities

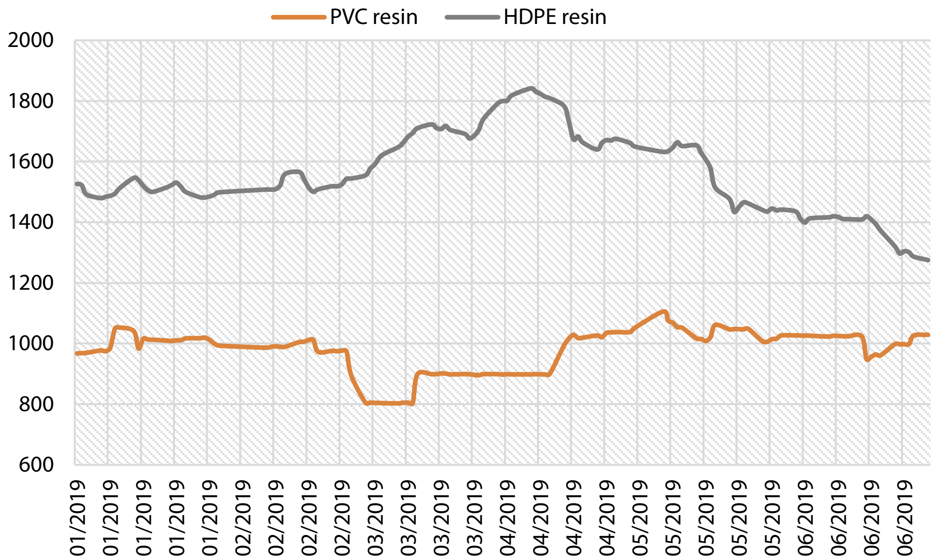
Figure 2: BMP's forecast margins



Source: Rong Viet Securities

In contrast to many investors' belief, we emphasize that the moderate capacity plan is actually a suitable strategy for BMP at the moment. As mentioned above, the market is oversupplied at the moment while slow-down construction demand might not benefit future plastic pipe demand. Therefore, it is wise to restrain from expanding capacity and to focus on improving cash flows. This has been well done by BMP, as its operating cash flow has been positive for the last twelve years, which we expect it to prolong in the future. We forecast that its FCFE reaches VND 630 billion and 571 billion in 2019 and 2020. It allows BMP to maintain its debt-free status (only minimal short-term borrowings) while enjoying annual interest incomes from its large cash hoard. Last but not least, shareholders can continue to benefit from the consistent cash dividends from BMP. Even though the guidance dividend for 2019 is set at VND 2,000 per share minimum, we believe that BMP can pay out VND 4,000 per share similar to last year's. Additionally, if the parent company requires, BMP might pay out 100% of its 2019 earnings, which would equivalent to a VND 5,000 per share cash dividend provided BMP reaches its pre-tax profit target (VND 540 billion). Therefore, we think that at the current market price, BMP share is worth considering in terms of dividend yields. BMP is trading at 8.6x forward P/E as per our 2019 forecast, which is also an attractive valuation for a leading company of its industry.

Appendix: PVC and HDPE resin prices



Source: Bloomberg, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	3,825	3,920	4,123	4,248
COGS	2,902	3,048	3,171	3,275
Gross profit	923	872	953	973
Selling expenses	136	166	206	212
G&A expenses	124	98	103	134
Financial income	24	25	22	24
Financial expense	98	105	43	45
Other income/loss	-7	1	1	1
Gain/(loss) from JVs	0	1	1	1
PBT	583	530	624	609
Tax expense	118	102	106	110
Minority interests	0	0	0	0
PAT	465	428	518	499
EBIT	663	608	644	627

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	15.6	2.5	5.2	3.0
Operating Income	-12.0	2.5	4.5	-0.9
EBITDA	-14.9	-8.2	5.8	-2.6
PAT	-25.9	-8.0	21.2	-3.7
Total Assets	-0.7	-2.1	3.2	1.2
Equity	6.6	0.2	1.3	0.6
Profitability (%)				
Gross margin	24.1	22.2	23.1	22.9
EBITDA margin	19.9	19.9	19.8	19.0
EBIT margin	17.3	15.5	15.6	14.8
Net margin	12.1	10.9	12.6	11.7
ROA	16.2	15.2	17.9	17.0
ROE	26.7	24.5	25.5	24.7
Efficiency (times)				
Receivable Turnover	7.5	6.5	6.3	6.3
Inventory Turnover	7.5	5.4	6.0	6.2
Payable Turnover	8.7	11.3	10.0	10.0
Liquidity (times)				
Current	4.6	5.5	5.2	5.3
Quick	3.6	3.8	3.8	4.0
Finance Structure (%)				
Total Debt/Equity	2.5	2.4	2.6	2.8
Current Debt/Equity	2.5	2.4	2.6	2.8
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	445	412	512	589
Short-term investments	450	200	260	286
Accounts receivable	510	599	660	680
Inventories	385	567	530	532
Other current assets	26	28	30	33
Property, plant & equipment	688	612	523	437
Acquired intangible assets	257	259	247	235
Long-term investments	67	68	69	70
Other non-current assets	45	67	71	74
Total assets	**2,872**	**2,812**	**2,901**	**2,936**
Accounts payable	332	269	317	328
Short-term borrowings	61	59	64	71
Long-term borrowings	0	0	0	0
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	30	31	35	38
Technology-science, dev. fund	0	0	0	0
Total liabilities	**423**	**359**	**416**	**436**
Common stock and APIC	820	820	820	820
Treasury stock (enter as -)	0	0	0	0
Retained earnings	346	309	55	-180
Other comprehensive income	45	45	45	45
Inv. and Dev. Fund	1,238	1,280	1,565	1,814
Total equity	**2,449**	**2,454**	**2,485**	**2,500**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	4,825	4,440	5,381	5,183
P/E (x)	13.2	9.5	8.6	9.0
BV (dong)	29,918	53,952	30,355	30,538
P/B (x)	2.5	1.7	1.5	1.5
DPS (dong/cp)	4,000	4,000	5,000	5,000
Dividend yield (%)	5.3	8.0	10.8	10.8

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	55,480	50%	27,740
P/E	46,645	50%	23,323
Target price (VND)			**51,100**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
26/10/2017	76,900	Neutral	Intermediate-term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

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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