October 30th, 2014

BINH MINH PLASTIC (BMP – HSX)

Every cloud has a silver lining

Particulars (VND bn)	3QFY13	2QFY13	*% Chg. (qoq)*	3QFY12	*% Chg. (yoy)*
Net revenue	618.5	501.3	23.4%	594.2	4.1%
NPAT	108.8	83.5	30.4%	116.1	-6.2%
EBIT	138.8	107.4	29.2%	150.7	-7.9%
EBIT margin	22.4%	21.4%	101bps	25.4%	-292bps

Source: BMP Financial statement, RongViet Securities' compilation and estimates

First movements at Long An factory

BMP finally started in early October the construction of the first phase of its long-conceived fourth factory in Long An. As the first step, BMP plans to build workshops and warehouses on the land area of around 10.000 m^2, which will allow the new factory to first operate in the 3Q2015. Phase 1 of Factory 4 using mainly machines transferred from Factory 2 (Song Than Industrial Park - Binh Duong) has a capacity of around 5,000-10,000 tons of plastic accessories and parts a year. As the result, the new factory will not add substantially amount to overall sales and earnings of BMP in its early stage. Instead, the transfer of accessory lines between Factory 2 to 4 would help relieve the former facility for overcapacity, allowing it to use the free space to expand plastic pipe production. In fact, the Company just bought 3 new pipe intrusion lines in 2Q2014.

BMP made known that the Factory 1 (District 6, HCMC) is fully occupied and the Company has been facing difficulties with insufficient storage space. Consequently, the first phase of Long An's factory will have the role of both a warehouse and a transition hub, freeing space at existing factories to expand manufacturing. Moreover, Factory 1 is located in a crowded district of HCMC where traffic is not always accommodating and will be relocated in near future. Therefore, in the long term, the Factory 4 would be able to replace the capacity of Factory 1 and the land area where the existing plant now sits will be used for the construction of the Binh Minh Viet Plaza.

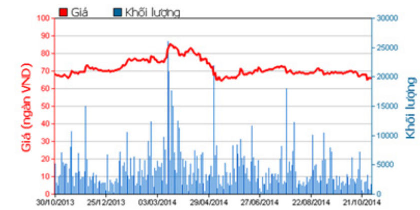
The Factory 4 in Long An being set in motion after a long time waiting proved BMP's management, though still cautious, have taken a more optimistic view on demand growth in the construction pipe market. Besides, the establishment of Long An factory will also serves as a stepping stone allowing BMP to penetrate the market of South-Western and highland provinces (e.g. Lam Dong, Dak Lak, Kon Tum, Gia Lai,…), whose building material demand is seen to increase fast in correspondence with infrastructure development.

BUY

Market price (VND)	66,000
Target Price (VND)	87,700
Investment Period	Long term

Stock Info

Sector	Building material
Market Cap (VND bn)	3,002
Current Shares O/S	45,478,480
Beta	0.50
Free float (%)	26.4
52 weeks High	85,400
52 weeks Low	61,100
Avg. Daily Volume (in 20 sessions)	25,620



Peformance (%)

	3M	1Y	3Y
BMP	-5.7%	-3.6%	88.6%
Construction Materials	14.4%	80.1%	n/a
VN30 Index	-0.30%	12.56%	n/a
VNIndex	-1.32%	17.49%	40.66%

Major Shareholders (%)

State Capital Investment Co, Ltd (SCIC)	29.5
The Nawaplastic Industries Co., Ltd.	20.4
FTIF - Templeton Frontier Markets Fund	10.0
Asean Small Cap fund	8.7
Foreigne Investor Room (%)	0

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Retroactive active tax to be reduced in part with tax fine off the table

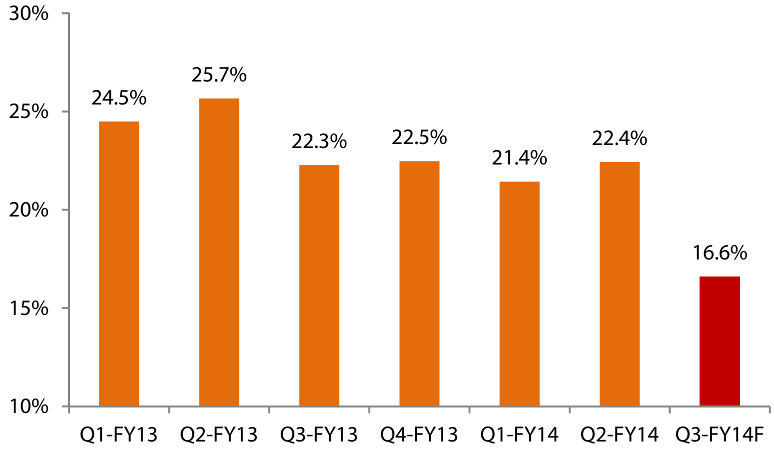
Regarding to the retroactive income tax applicable for the period 2009-2010 and the tax penalty, the Tax Bureau of HCMC issued the Decision No.3317/QĐ-CT-XP on 03/07/2014 requiring BMP to pay only a modest fine of VND0.7 billion instead of VND42 billion as per previous rulings. However, the Company is still liable for the retroactive income tax, previously announced at about VND75 billion, which is quite consistent with our prediction in the last update report. Further, according to Official Dispatch No. 14041/BTC-TCT on 03/10/2014 of the Finance Ministry, BMP's tax liability would be deducted by part of the dividends the firm already paid to SCIC (holding 29.5% of share capital) during 2009-2010. We estimate that the reduction would help save VND25-35 billion for the Company. In the case BMP books the net payment this year, NPAT would decrease about 10% from 2013 at around VND330-340 billion.

The 3Q2014 operation performance as expected

By BMP's preliminary estimation, consolidated revenue and EBT in 3Q2014 were VND645 billion and VND107 billion, respectively. Due to the recovery of civil and industrial construction nationwide, the sale volume increased by 24% over the same period last year to 40,074 tons, fueling an increase of 23.2% in revenue.

However, the EBT margin declined dramatically during the 3 months ended September (Exhibit 01) as COGS and SG&A increased sharply. As the price of PVC resin, the type of material accounting for 90% of raw material cost, increased by 6-9% from a year earlier, COGS swelled significantly in 9 months through September. BMP informed that though the PVC price has declined slightly in consistence with the decrease of the recent oil price slump, the 9-month average price remained high. Also, a provision of VND17.5 billion for the receivable from Duc Thanh Plastic Ltd. Co. increased administration expense in Q3. Selling cost also jumped as BMP held a sales seminar for over 1,000 agents in Singapore in July.

Exhibit 01: EBT margin (1Q2013-3Q2014F)



Source: BMP Financial statement, RongViet Securities' compilation and estimates

Upbeat earnings outlook seen in 2014 & 2015

By September 2014, BMP's projected revenue reached at VND1,764 billion, or 80% of the whole-year target. Considering seasonally higher demand of building material in months nearing the year's end, we expect BMP's revenue to surpass 2014's guidance by 10%. Nevertheless, due to squeezed profit margins under the impact of rising plastic prices and unexpected expenditures already incurred in first nine months, BMP's management expect to achieve only 96-98% of the annual PBT target of VND500 billion.

In 2015, obstacles in expanding production and consumption will be mitigated in part after the Long An-based factory goes into operation. However, as mentioned above, the fourth factory will only be running in 2015's second half with the main purpose to relieve overcapacity at Factory 1 & 2 in its early phase. Therefore, BMP may be able to expand its production capacity by just 4% in 2015. In ensuing year, when Phase 1 of the fourth factory reaches maximum capacity, production output may increase by 15% from the current level.

Outlook

In this update, we realize such hardship that constrains BMP's financials and production as the tax penalty and difficulties in capacity expansion has been partly resolved. In fact, by the recent rulings of the tax authorities, the retroactive income tax due by may be lower than initially estimated. Also, the launch of the first stage of the Long An factory next year will help lift the limitation of manufacturing space and the overcapacity at existing factories while make BMP to set a foothold on new markets such as South-Western and highland provinces in front to threat of competition with new market entries such as Hoa Sen Group.

The performance of the third quarter may be not up to the expectations of many investors given the crunch in PBT margin after extraordinary expenses. However, the BMP core business still remains mostly stable and positive progresses have been observed. With a history of high-yield and consistent dividends, the stock of BMP should suit for long-term/value investors. On looking forward, the divestment of SCIC may also improve BMP's liquidity and make stock suitable for a wider variety of investment styles. However, since the business' performance still have no significant improvements thus far and the contribution of Long An factory is still not in clear sight, we maintain our target price of VND87,700/share from the last update (04 /04/2014) and upgraded our recommendation from **NEUTRAL** to **BUY** in **LONG TERM**.

Exhibit 01: Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	1,890.7	2,088.1	2,244.3	2,353.0
% chg	3.5	10.4	7.5	4.8
PAT	360.5	370.8	392.9	425.4
% chg	22.4	2.8	5.9	8.3
EBIT margin (%)	19.1	17.8	17.5	18.1
ROA (%)	27.8	22.1	22.4	21.8
ROE (%)	31.0	24.9	24.8	23.7
EPS (VND)	10,306	8,134	8,638	9,353
Adjusted EPS (VND)	3,439	8,134	8,638	9,353
Book value (VND)	36,420	32,742	36,807	42,160
Cash dividend (VND)	3.000	3,000	3.000	4.000
P/E (x)	3.2	8.6	9.4	8.7
P/BV (x)	0.9	2.1	2.2	1.9

*Source: BMP Financial statement, RongViet Securities' compilation and estimates, *As of 30/10/2014*

BRIEF 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 which 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 / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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