October, 2017

Binh Minh Plastic JSC (HSX: BMP)

Facing up to Challenge of Rising Input Price

Particulars (VND B)	Q2-FY17	Q1-FY17	+/- QoQ	Q2-FY16	+/- YoY
Net revenue	979	758	29%	895	9%
PAT	128	100	28%	147	-13%
EBIT	179	124	45%	213	-16%
EBIT margin	18.2%	16.3%	196bps	23.8%	-557bps

Source: BMP, RongViet Research

6M 2017 performance: PVC material price uptrend is creating huge pressure

- Sales volume inclined stably at 13% YoY owing to expanded capacity.
- Selling price remained unchanged, slightly above VND40 million per ton while trade discount was revised up due to fierce competition.
- PVC and HDPE prices went up alongside oil price, pushing production costs, thus reducing gross margin.

Q3 2017 potential: BMP needs to raise selling price in order to improve profitability

BMP has been observed to be passive in terms of pricing strategy despite having the leading market share in the plastic pipe market. The listed sales price of plastic pipes has remained unchanged in the last five years, while BMP's trade discount price has just been revised up in March in order to stay competitive. BMP's average trade discount is currently around 20%, lower than those of Tien Phong Plastic JSC (HSX:NTP) and Hoa Sen Group (HSX:HSG), two other leading producers. This raises concerns on BMP's competitiveness and its ability to maintain market shares in the future.

More importantly, the rising input price has been the major force depressing BMP's gross margin. BMP reported that 7M 2017 average purchase prices of PVC and HDPE have increased substantially by over 10% compared to the beginning of the year, which is likely to prolong in the near future. Therefore, under the current circumstance, plastic pipe producers' profitability is going to continue to decline unless they raise their sales prices. Based on this assumption, our BMP forecasts include an unchanged selling price in 2017 and 2018.

***Valuation and recommendation**: BMP is a state-linked plastic pipe producer whose long-standing brand is widely recognized. Despite being a leading producer in a profitable industry, BMP recently faces up with fierce competition from new entrants that execute aggressive trade discounts. Additionally, plastic pipe producers including BMP are experiencing deterioration in their profitability due to the recent recovery of plastic resin price, which is correlated to the oil price. Assuming the current situation prolongs, we expect BMP's profit to rebound only if the company manages to increase its sales prices.*

*We evaluate BMP price at **VND89,000/share** and anticipate a cash dividend of VND2,000 per share in the following 12 months, which results in a **19.7%** total return from the closing price on 26 October 2017 and we rate **NEUTRAL** on the stock until there are positive signals for profit improvement. This target price is lowered from that in our Strategy report published in March 2017 due to recent unfavorable market conditions that affect forecasts for the upcoming years.*

NEUTRAL

CMP (VND)	76,000
Target price (VND)	89,000
Cash dividend (VND)*	2,000

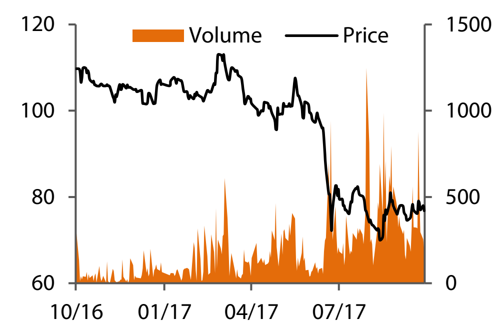
** Expected in the next 12 months*

Stock info

Sector	Construction & materials
Market cap (VND B)	6,279
Current shares O/S	81,861,000
Beta	0.50
Free float (%)	61.8
52 week high	113,036
52 week low	70,000
Avg. daily volume (20 sessions)	314,438

	FY2016	Current
EPS	7,664	6,230
EPS growth (%)	20.91	-13.07
Adjusted EPS	7,664	6,230
P/E	13.84	12.36
P/B	3.78	2.70
EV/EBITDA	9.12	7.38
Cash dividend	4,000	2,000
ROE (%)	29.10	22.97

Price performance



Major Shareholders (%)

SCIC	29.5
The Nawaplastic Industries (Saraburi)	20.4
Templeton Frontier Markets Fund	10.8
Foreign ownership room (%)	56.1

Trinh Nguyen

(084) 028- 6299 2006 – Ext 1331

trinh.nh@vdsc.com.vn

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Exhibit 1: Q2 2017 results

Particulars (VND B)	Q2-FY17	Q1-FY17	+/- (QoQ	Q2-FY16	+/- (YoY)	H1-FY17	+/-(YoY)
Net revenue	979	758	29.0%	895	9.4%	1,737	9%
Gross profit	253	173	46.7%	277	-8.4%	426	-22%
SG&A	75	41	82.0%	73	1.8%	116	-6%
Operating income	179	132	35.7%	203	-12.1%	310	-34%
EBITDA	203	147	38.0%	235	-13.8%	350	-26%
EBIT	179	124	44.5%	213	-16.2%	302	-29%
Financial expenses	26	11	136.3%	10	165.3%	37	74%
- Interest Expenses	0	1	-97.9%	5	-99.6%	1	-42%
Dep. and amortization	24	24	3.5%	22	9.2%	48	8%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	158	123	28.5%	208	-24.1%	280	-34%
PAT	128	100	27.7%	147	-13.1%	228	-34%
(*) Adjusted PAT	128	100	27.7%	147	-13.1%	228	-34%

Source: BMP, RongViet Research

Exhibit 2: Q2 2017 performance analysis

Particulars	Q2-FY17	Q1-FY17	+/- (QoQ)	Q2-FY16	+/- (YoY)
Profitability ratios (%)					
Gross margin	25.9%	22.7%	312bps	30.9%	-504bps
EBITDA margin	20.7%	19.4%	134bps	26.3%	-557bps
EBIT margin	18.2%	16.3%	196bps	23.8%	-557bps
Net margin	13.1%	13.2%	-14bps	16.5%	-339bps
Adjusted net margin	13.1%	13.2%	-14bps	16.5%	-339bps
Turnover *(x)					
-Inventories	5.7	4.8	1.0	7.2	-1.5
-Receivables	5.5	3.9	1.7	6.5	-0.9
-Payables	10.6	7.4	3.2	11.4	(0.8)
Leverage (%)					
Total debt/ equity	18.6%	15.0%	364bps	19.0%	-37bps

Source: BMP, (*) Annualized turnover

Exhibit 3: Q3 2017 performance forecast

Particulars (VND B)	Q3 2017	+/- QoQ	+/- YoY
Revenue	1,018	4%	16%
Gross profit	296	17%	-5%
EBIT	188	5%	-21%
NPAT	170	33%	-12%

Source: BMP, RongViet Research

Updates

BMP's total capacity has been raised by 10,000 tons per year to 130,000 tons per year, thanks to the new production lines in the three plants. Accordingly, at the estimated utilization rate of 70%, BMP targets around 90,000 tons of output in 2017, 14% higher YoY. However, the following years' volume growth is unsure since there is no further expansion plans announced and the common utilization rate for plastic pipe producers is only around 70%. Nevertheless, BMP is reported to have reserved space for machinery and storage at Long An Plant and plastic pipe machinery takes only around 6 months to set up, which enables the company to increase its capacity in a short amount of time. More importantly, having an abundant amount of cash and zero debt is going to enable BMP to expand the production efficiently.

Oil price recovery has led to the increase in PVC and HDPE resin, which is forecasted to remain steady for the rest of 2017. As a result, BMP's input price has gone up 10% YoY and is highly correlated to the global price, as the company does not hold great amounts of inventory and is not capable of hedging the price. Moreover, the current fierce competition is keeping the listed sales price unchanged while making producers increase the trade discounts, implying that they will have to accept a lower level of profitability unless they manage to raise the selling prices. BMP's annual gross margin had been hovering at around 30% since 2012 but recently went down to under 25% in 9M 2017, which we expect to prolong in the following years.

As mentioned above, **BMP and other producers are contending with aggressive movements from new entrants** to the plastic pipe market. For example, HSG has just been in the industry for 4 years, yet it is gaining market share quickly because of its attractive trade discounts. Offering a higher discount rate to the same retail system of BMP, HSG is said to discount up to 40% for its customers. As a result, HSG is currently holding around 8% market share but maybe suffering from loss at the plastic pipe business. It can be observed that in the short term, new entrants are influencing other producers' profitability but in a longer term, we expect such aggressive trade discount not to be maintained, as the new producers need to earn profit. Thus, it is likely that the actual selling price can be leveled up as the overall gross margin of the industry can be improved.

Financial health is one of BMP's strength that can enable the company to achieve long-term stability without depending on trade discounts. BMP has a sufficient amount of cash and equivalents as well as zero long-term debt and minimal short-term borrowings, which grant it the positions against its stakeholders. Firstly, BMP is capable of making payments in time, enhancing supplier's credits and having flexible inventory policy as they can increase the inventory without bearing financial burdens. Secondly, it is able to support its customers by holding events, which are highly appreciated by its loyal wholesalers and retailers. BMP has been also giving advances as trade discounts to purchasing construction companies. It can be seen that BMP utilizes its strength by focusing on supporting its customers, helping the company to reduce its dependence on trade discounts in order to maintain its market share. We consider this as an appropriate long-term strategy for BMP as it enables the company to create value as a competitive advantage and to strengthen the buyers' loyalty to the brand.

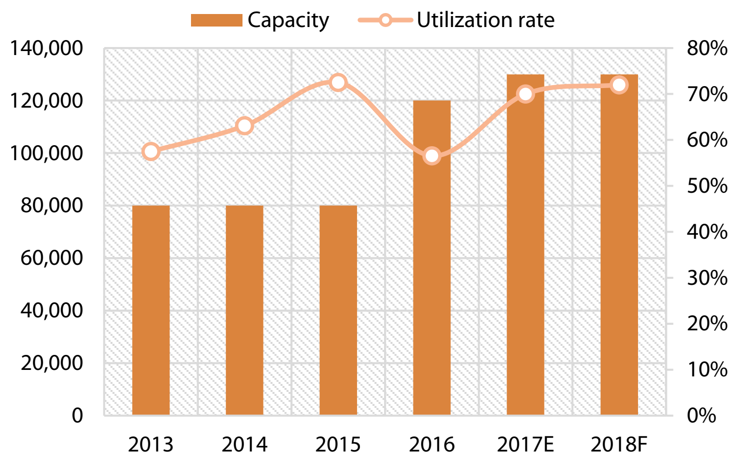
Ownership at Da Nang Plastic JSC (HNX:DPC) is going to make way for BMP's expansion toward the Central region. Establishing ties with the peer provides BMP with the leasing space in the Central region. Besides, DPC's management has been operating stably enough for BMP to take advantage of the existing relationships with its clients who are local developers and contractors. BMP had plans for a stock swap with DPC, which was canceled and the two companies are reported to have been working on another approach to M&A.

BMP is going to pay VND2,000 per share of cash dividend in 2017, making 2017 total cash dividend VND3,111 per share, equivalent to VND5,600 per share before the 10:8 stock dividend in June. BMP is one of the few companies which have been consistently offering cash dividends for nine years straight. This explains the company's superior P/E ratio compared with other building material firms that spend heavily on Capex and occasionally pay cash dividends.

BMP's foreign owner limit has just been removed. The recent action by Thai major shareholder The Nawaplastic Industries to divest at NTP may be a positive signal following the BMP foreign cap removal event, where BMP margins are at the top level among its peers and the plastic industry itself is offering attractive profitability to investors.

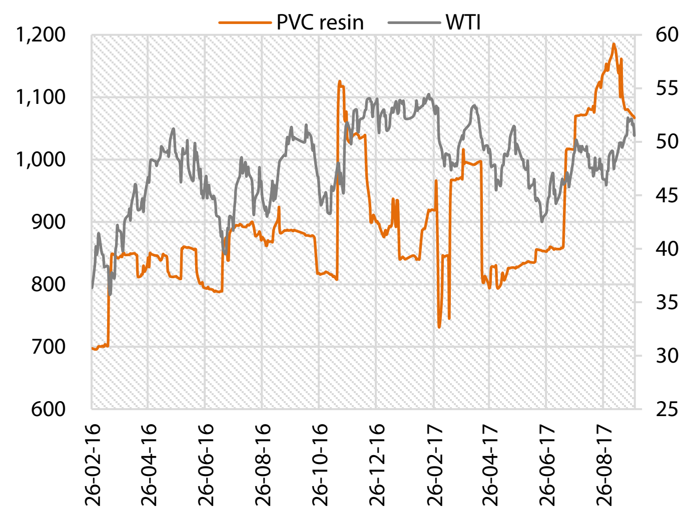
Appendix:

Figure 1: BMP's capacity (tons per year) and utilization



Source: BMP

Figure 2: Input prices



Source: Bloomberg

VND in billions

Income statement	FY2015	FY2016	FY2017E	FY2018F
Revenue	2,792	3,309	3,773	3,901
COGS	1,902	2,248	2,756	2,813
Gross profit	890	1,061	1,017	1,087
Selling expense	126	167	189	195
G&A expense	96	115	131	171
Finance income	28	49	64	71
Finance expense	30	42	46	48
Other profits	-2	-2	-2	-2
PBT	665	784	714	742
Prov. of tax	146	157	121	134
Minority's interest	0	0	0	0
PAT to equity S/H	519	627	592	609
EBIT	668	778	697	721
EBITDA	734	866	803	856

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	15.6	18.5	14.0	3.4
Operating income	35.2	18.0	-7.3	6.7
EBITDA	41.4	16.6	-10.5	3.5
PAT	37.7	20.9	-5.6	2.8
Total assets	26.4	18.6	22.2	6.8
Equity	17.3	14.0	26.7	6.5
Profitability (%)				
Gross margin	31.9	32.1	27.0	27.9
EBITDA margin	26.3	26.2	21.3	22.0
EBIT margin	23.9	23.5	18.5	18.5
Net margin	18.6	19.0	15.7	15.6
ROA	21.3	21.7	16.8	16.1
ROE	33.0	33.8	23.9	23.2
Efficiency (x)				
Receivable turnover	5.5	4.1	4.0	3.8
Inventory turnover	5.7	4.8	4.9	5.1
Payable Turnover	5.3	4.7	5.6	5.3
Liquidity (x)				
Current	4.5	3.7	4.5	4.4
Solvency (%)				
Total debt/equity	3.0	4.6	4.0	4.1
Current debt/equity	3.0	4.6	4.0	4.1
Long-term Debt/equity	0.0	0.0	0.0	0.0

VND in billions

Balance sheet	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	371	405	604	639
Short-term investments	670	490	637	701
Accounts receivable	505	810	932	1,025
Inventories	333	472	563	549
Other current assets	8	9	10	11
Property, plant & equipment	263	375	468	552
Acquired intangible assets	28	252	239	216
Long-term investments	14	67	67	68
Other non-current assets	248	11	11	12
Total assets	**2,438**	**2,891**	**3,532**	**3,773**
Accounts payable	356	479	496	535
Short-term borrowings	61	106	117	128
Long-term borrowings	0	0	0	0
Other non-current liabilities	0	0	0	0
Bonus and welfare fund	6	8	9	10
Technology-science, dev. fund	0	0	0	0
Total liabilities	**423**	**594**	**622**	**673**
Common stock and APIC	456	456	820	820
Treasury stock (enter as -)	0	0	0	0
Retained earnings	448	540	463	349
Other comprehensive income	45	45	45	45
Inv. and dev. fund	1,066	1,256	1,581	1,886
Total equity	**2,015**	**2,297**	**2,910**	**3,100**
Minority interest	**0**	**0**	**0**	**0**

Valuation ratio	FY2015	FY2016	FY2017E	FY2018F
EPS (VND)	5,388	6,515	6,149	6,320
P/E (x)	9.7	13.2	12.5	12.2
BV (VND)	44,313	50,515	35,547	37,867
P/B (x)	2.5	3.6	2.2	2.0
DPS (dong/cp)	4,000	6,500	3,111	4,000
Dividend yield (%)	3.60%	3.56%	4.05%	5.21%

Valuation model	*Price*	*Weight*	*Average*
FCFF	83,270	50%	41,635
PE	94,798	50%	47,399
Target price (VND)			**89,000**

Valuation history	*Price*	*Recommendation*	*Period*
15/03/2017	114,700*	Neutral	Long term

*adjusted price

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	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Truc Doan
Head of Research
truc.dtt@vdsc.com.vn
+ 84 28 62992006 (1308)

Ha My Tran
Deputy Manager
my.tth@vdsc.com.vn
+ 84 28 62992006 (1309)
- Macroeconomics

Lam Nguyen
Senior Strategist
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Conglomerates

Thien Bui
Senior Analyst
thien.bv@vdsc.com.vn
+ 84 28 6299 2006 (1321)
- Market Strategy
- Financial Services
- Personal Goods

Hoang Nguyen
Senior Analyst
hoang.nh@vdsc.com.vn
+ 84 28 6299 2006 (1319)
- Transportation
- Infrastructure
- Industrial Real Estates

Hieu Nguyen
Senior Analyst
hieu.nd@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Market Strategy
- Pharmaceuticals
- Durable Household Goods

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estates
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Food & Beverage

Trinh Nguyen
Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1331)
- Steel
- Construction
- Technology

Quang Vo
Analyst
quang.vv@vdsc.com.vn
+ 84 28 6299 2006 (1517)
- Market Strategy
- Basic Materials
- Personal Goods

Son Phan
Analyst
son.pnt@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Utilities
- Natural Rubber

Thu Le
Analyst
thu.lta@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Automobiles and Parts

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

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