

Tien Phong Plastic JSC (NTP-HNX)

Growth driver from the new factory

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- qoq	Q4-FY12	+/- yoy
Net Revenues	645.4	709.3	-9%	650.1	0%
NPAT	28.9	36.9	-22%	95.6	-23%
EBIT	40.1	51.0	-21%	124.7	-21%
EBIT margin (%)	6.2%	7.2%	-97bps	19.2%	-395bps

Sources: NTP, RongViet Securities

- **2013 sales picked up; hiking selling expenses upset profits.**
- **The new factory brings immediate tax benefits while expanding the overall capacity and easing the Company's southward venture**
- **30-percent stock dividend planed on top of VND3,000-per-share cash dividend passed for FY2013**
- **Commission policy seen little changed and selling expenses stablized in 2014**
- **The new factory to start contributing to revenue and profits from 1Q2014**
- **2014 net income may grow 16% thanks to tax savings and capacity growth**

Outlook:

Along with BMP, NTP is the one of the two leading plastic pipe producers in Vietnam. An aggressive sales commission policy between 2012 and 2013 helped NTP protect its market against competitors but at the expense of profit growth. The stable operation of the Nghe An factory in 2014 should give the Company more confidence concerning sales growth. Therefore, unless the material prices move significantly out of the Company's favor, selling expenses should not be growing any faster than revenue. Besides, given its advantageous tax status, the new factory would offer a substantial amount of tax savings not only in this fiscal year but also in the upcoming ones.

In optimistic expectations with regard to the Company's ability to raise capacity and expand market share, we revise out target price for NTP to VND83,500/share, up from VND71,000/share (03/09/2013) and rate the stock as **ACCUMULATE**. The changes in our recommendation are largely due to the fact that NTP's short-and-long-term growth prospect has become more positive and evident with the operation of the new factory in the central region of Vietnam. Moreover, the rise of the broad market has caused the average P/E ratio for the building material manufacturers to increase considerably, which in turn influenced the outcome of the comparable valuation approach.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014F	FY2015F
Net Revenue	2,283.5	2,554.4	2,895.5	3,385.2
% chg	4.0	11.9	13.4	16.9
NPAT	-20.2	123.5	171.0	207.7
% chg	-118.0	-712.7	38.5	21.4
EBIT margin (%)	-0.9	4.8	5.9	6.1
ROA (%)	-1.0	6.2	8.1	8.4
ROE (%)	-3.0	16.8	21.8	23.3
EPS (VND)	-452	2,516	3,476	4,221
Adjusted EPS (VND)	-176	2,516	3,476	4,221
Book value (VND)	13,926	14,956	16,932	19,347
Cash dividend (VND)	3,000	3,000	3,000	3,000
P/E (x)	-11.7	8.2	8.1*	6.7*
P/BV (x)	0.4	1.4	1.7*	1.5*

Sources: NTP, RongViet Securities, *based on market price as of 20/03/2014

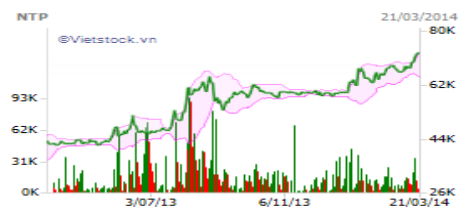
ACCUMULATE

Market price (VND)	73,000
Target price (VND)	83,500

Investment period INTERMEDIATE TERM

Stock Info

Sector	Building materials
Market Cap (VND bn)	3,163.7
Current Shares O/S	43,337,996
Beta	0.4
Free float (%)	25.8
52 weeks High	73,000
52 weeks Low	35,500
Avg. Daily Volume (20 sessions)	10,285



Performance (%)

	3T	1N	3N
NTP	24.8	77.6	121.8
Building materials	51.2	96.2	n/a
HN30 Index	50.0	55.7	n/a
HNIndex	32.9	45.6	-5.4

Major Shareholders (%)

State Capital Investment Corporation (SCIC)	37.1
The Nawaplastic Industries (Saraburi) Co., Ltd	23.8
Le Thi Thuy Hai	7.1
Windstar Resources Limited	6.2
Foreigner investor room (%)	0

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Exhibit 1: 4QFY2013 (Unit: billion VND)

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Net Revenues	649.7	573.2	13.4%	650.1	-0.1%
Gross profits	212.4	201.4	5.4%	231.6	-8.3%
SG&AC	108.2	132.8	-18.5%	113.5	-4.7%
Operating Income	97.0	65.1	49.0%	109.3	-11.2%
EBITDA	181.7	127.0	43.1%	198.5	-8.5%
EBIT	106.3	72.6	46.4%	134.0	-20.6%
Financial expenses	7.7	5.3	45.5%	9.6	-19.6%
- Interest Expenses	7.3	4.5	61.7%	9.2	-20.7%
Dep. and amortization	-75.4	-54.3	38.8%	-64.5	16.9%
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	99.0	68.1	45.3%	124.7	-20.6%
NPAT	73.3	51.3	43.0%	95.6	-23.3%
(*) Adjusted NPAT	73.3	51.3	43.0%	95.6	-23.3%

Sources: RongViet Securities

Exhibit 2: 4QFY2013 performance analysis

Particulars	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	32.7	35.1	-245bps	35.6	-294bps
EBITDA Margin	28.0	22.1	582bps	30.5	-256bps
EBIT Margin	16.4	12.7	369bps	20.6	-424bps
Net Margin	11.3	8.9	234bps	14.7	-341bps
Adjusted Net Margin	11.3	8.9	234bps	14.7	-341bps
Turnover *(x)					
-Inventories	4.4	4.1	0.3	4.5	-0.1
-Receivables	6.1	5.2	0.9	5.9	0.2
-Payables	56.3	43.9	12.5	41.5	14.8
Leverage (x)					
Total Debt/ Equity	0.5	0.4	0.0	0.5	0.0

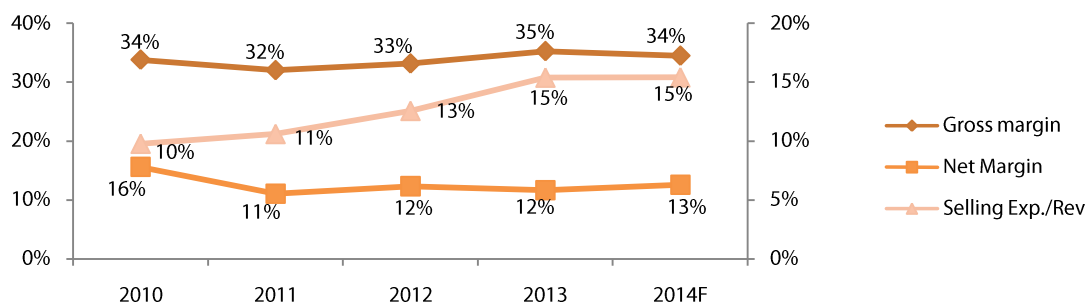
Sources: RongViet Securities

2013 sales picked up; hiking selling expense upset profits.

As the construction sector weakened, deteriorated purchasing power and increased competition from BMP as well as other domestic producers were great challenges to NTP's sales activities in 2013. To boost sales and protect its market foothold, the Company maintained the offensive stance regarding the percentage commissions for its sales agents. As the result, sales revenue climbed 5% from 2012 and the Company's share in the northern market was fixed at nearly 60%. The pursuit of such tactic, however, also increased selling expenses and put a downward pressure on profits. It was efficient inventory stocking that allowed the NTP to improve its gross margin despite hiking input prices (mainly for PVC resin) and helped keep net income largely unchanged from the previous year.



Exhibit 3: Gross profit margin, net profit margin, selling expenses/revenue, 2010-2014



Sources: RongViet Securities

The central-Vietnam factory brings immediate tax benefits while expanding the overall capacity and easing the Company’s southward venture

In September 2013, NTP opened the Central Vietnam Tien Phong Factory with design capacity of up to 20,000 ton/year, in Nam Cam Industrial Zone (Nghe An), for initial operation. The plant was set up to run at just half its design capacity, using existing machines and equipment moved down from the existing factory in Hai Phong. The new factory hardly contributed to the consolidated revenue last year yet did play a part in the Company’s increased administrative and depreciation expenses. NTP plans to push the capacity here to 10,000-11,000 tons in 2014.

The new factory enjoys a four-year income exemption starting the first year it generates positive profits and a 50-percent income tax cut in the following 9 years. By our estimations, the central-country factory may lower NTP’s marginal income tax rate by an average 8% (in absolute term) from now to the year 2017. The Company is also subject to preferential land lease rate within the industrial zone and can incur lower transport cost thanks to the factory’s advantageous location.

In 2014, NTP plans to allocate a portion of the capacity of its main factory in Hai Phong to the new one (about 15% of revenue) by relocating some existing machines and equipments to the new production site. Fresh PP&E investments are to be made in the upcoming years and the new factory’s capacity will be elevated in the process. Considering a distinctive feature of plastic pipe production that installments and the enhancement of capacity do not cost excessively, we think that the plan is much feasible. On the one hand, such arrangement would help maintaining output and sales in positive growth during the move of the An Da factory to the city outskirts as required by the authority of the city of Hai Phong. On the other hand, the split of production capacity would allow NTP to send a part of its sales away from the main battlefield where BMP and other competitors are launching fights against it.

30-percent stock dividend planed on top of VND3,000-per-share cash dividend passed for 2013

NTP paid the first installment of cash dividend for 2013 at 15% of par value per share in December; the firm intends to offer another VND1.500 each share after the coming AGM. In a separate scheme, the Company plans to raise its chartered capital to VND563,4 billion via a 10-to-3 stock dividend in 2014. If it is carried out, the split will cause dilution to the outstanding shares, thereby lower the stock’s market price and improve its liquidity. This is considered highly beneficial to the withdrawal of SCIC from now to 2017.

Commission policy seen little changed and selling expenses stabilized in 2014

Considering the location advantage of the Nghe An factory, a capacity split may help NTP avert harsh competition. Therefore, unless the prices of raw materials have significant fluctuations, NTP may not change its sales policy. As sales commission may be kept at the current level, growth rate selling expenses should be no more than that of sales revenue, at about 8% (in 2012, the pace of growth was up to 29%).

The new factory to start contributing to revenue and profits from 1Q2014

As known from the Company's representative, the new factory in Nghe An is now running at the early phase's full capacity (~10,000 tons/year). Therefore, the tax savings may be reflected in NTP's earnings right from Q1. On the other hand, the Company has yet to change its commission policy; therefore, selling expense may grow just in line with revenue. We estimate that revenue and net earnings may expand at 6% and 14% in the first 3-month period of FY2014.

Exhibit 4: 1Q2014 Forecasts

Particulars (billion VND)	1QFY14	+/-qoq	+/-yoy
Revenue	589	-9.3%	6.3%
Gross profits	203	-4.4%	1.0%
EBIT	94	-4.9%	8.8%
NPAT	74	1.2%	13.9%

Sources: RongViet Securities

2014 net income may grow 16% thanks to tax savings and capacity growth

As mentioned above, NTP may shift 15% of revenue from its main factory in Hai Phong to the new one in Nghe An to take advantage of the income tax exemption status of the latter facility. At the assumed capacity of 10,000-11,000 tons and revenue of ~VND500 billion, the central-country factory may save NTP up to VND25 billion of income tax expense. Moreover, by the Amended Corporate Income Tax Law, the general rate for all tax brackets was adjusted down to 22% from 25% starting 01/01/2014. Therefore, even though pre-tax income may grow only 6%, net income may expand up to 16%, to VND337 billion, translating in the EPS of VND7,782 (or VND5,982 after the stock dividend).

Outlook

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Exhibit 5: Key assumptions

Particulars	Previous estimates		Revised estimates	
	FY2014F	FY2015F	FY2014F	FY2015F
Revenue growth (%)	17	14	8	7
Gross margin (%)	34	34	34	34
EBIT margin (%)	17	16	16	16
Material price changes (%)	2	2	2	2

Sources: RongViet Securities

Exhibit 6: Estimate changes

Particulars (billion VND)	FY2014F			FY2015F		
	Previous estimates	Revised estimates	Change (%)	Previous estimates	Revised estimates	Change (%)
Net revenue	2,902.5	2,677.6	-8%	3,313.1	2,854.1	-14%
Gross profit margin	34.2%	34.5%	26.4bps	33.5%	34.5%	99.35bps
SG&A expenses	525.4	519.5	-1%	599.7	559.4	-7%
Operating profit	467.3	403.4	-14%	510.2	425.1	-17%
Financial expenses	26.7	19.9	-25%	28.6	21.4	-25%
Pre-tax income	461.3	407.9	-12%	514.8	424.2	-18%
NPAT	343.0	337.3	-2%	382.6	351.7	-8%
EBITDA	575.6	525.4	-9%	650.2	560.3	-14%
EBIT	487.7	427.8	-12%	543.1	445.6	-18%

Sources: RongViet Securities

Unit: billion VND

INCOME STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Revenue	2,360.3	2,480.7	2,677.6	2,854.1
COGS	1,578.0	1,606.5	1,754.8	1,869.6
Gross profit	782.3	874.3	922.8	984.5
Selling Expense	296.4	381.5	412.4	445.2
G&A Expense	82.7	100.8	107.1	114.2
Finance Income	2.5	4.4	8.3	4.2
Finance Expense	41.2	24.1	19.9	21.4
Other profits	12.1	-1.3	2.6	2.7
PBT	385.0	384.6	407.9	424.2
Prov. of Tax	93.7	95.1	70.6	72.5
Minority's Interest	0.0	0.0	0.0	0.0
NPAT	291.3	289.6	337.3	351.7
EBIT	424.8	384.6	427.8	445.6
EBITDA	490.6	460.1	525.4	560.3

Unit: %

FINANCIAL RATIO	FY2012	FY2013	FY2014E	FY2015F
Growth				
Revenue	-2.7	5.1	7.9	6.6
Operating Income	-4.8	-2.8	2.9	5.4
EBITDA	8.2	-6.2	14.2	6.6
EBIT	5.1	-9.5	11.2	4.2
PAT	8.3	-0.6	16.5	4.3
Total Assets	6.7	9.1	13.5	9.7
Equity	19.8	10.1	13.7	13.1
Internal growth rate	28.5	13.6	12.8	12.3
Profitability				
Gross profit/Revenue	33.1	35.2	34.5	34.5
Operating profit/ Revenue	17.1	15.8	15.1	14.9
EBITDA/ Revenue	20.8	18.5	19.6	19.6
EBITDA/ Revenue	18.0	15.5	16.0	15.6
Net margin	12.3	11.7	12.6	12.3
ROAA	18.1	16.0	17.4	16.3
ROIC or RONA	41.6	31.2	32.5	29.9
ROAE	28.5	23.6	25.7	23.7
Efficiency				
Receivable Turnover	5.1	5.5	5.7	5.7
Inventory Turnover	4.2	4.1	4.1	4.0
Payable Turnover	7.3	7.7	8.0	7.9
Liquidity				
Current	1.6	1.5	1.5	1.6
Quick	1.0	0.8	0.8	0.8
Solvency				
Total Debt/Equity	49.0	47.7	47.4	42.9
Current Debt/Equity	32.0	30.0	30.7	27.1
Long-term Debt/ Equity	0.0	0.0	0.0	0.0

Unit: billion VND

BALANCE SHEET	FY2012	FY2013	FY2014E	FY2015F
Cash and equivalents	98.0	29.3	40.7	49.2
Short-term investment	0.0	0.0	0.0	0.0
Receivables	465.2	454.0	482.0	513.7
Inventories	305.8	391.9	456.3	486.1
Other current assets	9.3	7.4	5.9	4.7
Total Current Asset	878.3	882.7	984.8	1,053.7
Tangible Fixed Assets	464.3	654.0	800.2	923.0
Intangible Fixed Assets	0.0	39.8	41.0	42.2
Construction in Progress	197.2	111.9	106.3	111.6
Investment Property	0.0	0.0	0.0	0.0
Long-term Invest ment	102.5	99.3	99.3	99.3
Other long-term assets	17.8	23.3	23.3	23.3
Goodwill	0.0	0.0	0.0	0.0
Long-term Asset	781.8	928.3	1,070.1	1,199.5
Total Asset	1,660.1	1,811.0	2,054.9	2,253.2
Payables	49.9	82.3	87.7	93.5
Other current liabilities	139.3	126.8	141.9	151.3
Current Debt	357.0	368.2	428.4	428.1
Long-term Debt	0.0	0.0	0.0	0.0
Other long-term liabilities	0.0	7.6	2.5	3.4
Total Liability	546.2	584.9	660.6	676.2
Owner's Equity	1,113.9	1,226.0	1,394.3	1,577.0
Capital	433.4	433.4	563.4	563.4
Retained Earnings	288.8	265.6	202.6	279.8
Funds & Reverses	391.7	527.1	628.3	733.8
Others	0.0	0.0	0.0	0.0
Total Equity	1,113.9	1,226.0	1,394.3	1,577.0
Minority's Interest	0.0	0.0	0.0	0.0
TOTAL RESOURCES	1,660.1	1,811.0	2,054.9	2,253.2
CASH FLOW STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Pretax Income	385.0	384.6	407.9	424.2
-Depreciation	65.7	75.4	97.6	114.7
-Adjustments	33.6	5.3	0.0	0.0
+/- Working capital	-71.4	-175.5	-121.4	-90.7
Net Operating CF	412.8	289.9	384.1	448.2
+/- Fixed Asset	-220.2	-224.0	-239.4	-244.0
+/- Deposit, equity investment	0.0	0.0	0.0	0.0
Interest, dividend, cash profit received	10.0	4.1	14.0	14.3
Net Investing CF	-210.1	-219.8	-225.4	-229.7
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-24.1	12.9	60.2	-0.3
Dividend paid	-130.0	-151.7	-209.7	-209.7
Net Financing CF	-154.1	-138.8	-147.4	-210.0
+/- cash & equivalents	48.6	-68.7	11.3	8.5
Beginning cash & equivalents	49.5	98.0	29.3	40.7
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	98.0	29.3	40.7	49.2

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 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.

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

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