BINH MINH PLASTIC JSC (HSX: BMP)

2021 profit under pressure from surging input prices

(VND bn)	Q4-FY20	Q3-FY20	+/- qoq	Q4-FY19	+/- yoy
Net revenue	1,300	1,115	16.7%	1,159	12.2%
PAT	111	153	-27.6%	95	17.3%
EBIT	157	199	-21.2%	133	17.6%
EBIT margin	12.1%	17.9%	-579bps	11.5%	56bps

Source: BMP, RongViet Securities

4Q 2020– Consumption remained strong, but margin started to be affected by material prices

- 4Q sale volume came at +7% YoY. 2020 whole year consumption went up by 5% yoy.
- Gross margin returned to 22.4%, a normal level after jumping to 31.9% in Q3, showing that the average raw material price used in the quarter returned to a high level.
- 2020 gross margin improved by 3.8 percentage points, of which average selling price increase contributed 2.9 percentage points. This shows that BMP did not benefit too much from the sharp drop in raw material prices in the first half of the year. We believe that the company did not purchase more inventory during the time price was bottoming out.

2021 outlook – Profit margin may decrease due to high raw material price, but financial health is still there, ensuring shareholder benefits

- PVC price in the first two months of 2021 was around 1,085 USD/ton, (+ 25% YoY), and supply breakdown due to COVID is likely to keep it above 1,000 USD/ton throughout 2021.
- At this raw material price, we believe that BMP does not have much room to improve operational efficiency. We project that gross margin and net margin in 2021 will be 24.3% and 9.0%, 2.3 and 2.2 percentage points lower than 2020, respectively.
- Sale capacity will be maintained, ensuring an increase in output of 6.7%. Net income is forecasted at VND 433 billion, -17% YoY due to outstanding business results in 2020, but slightly higher by 2% compared to 2019. This profit level can ensure a cash dividend policy of about 4,000 VND per share. It is equivalent to a 6.3% dividend yield at the current market price.

Valuation and Recommendation:

BMP had a favorable year as shareholders received a total of 5,800 VND per share of cash dividend in 2020, this is one of the main reasons that BMP's share price has nearly doubled since the bottom. However, 2021 profit is likely to return to a normal level, similar to 2018-2019 due to higher material prices over the same period and an increase in selling expenses. Accordingly, cash dividends for shareholders will also be difficult to match that of 2020, but will likely be around VND 4,000.

*At a dividend yield of 6.3%, Discounted dividend method still offers a considerable valuation for BMP. However, we also recommend that investors adjust their expectations for 2021 because this may not have been factored in the stock price. Combining three methods of valuation of Discounted Dividends, FCFF and P/E, we determine a fair price for BMP at **VND 57,300** per share, along with an expected cash dividend of VND 4,000 in the next 12 months. This equates to a **negative 3%** total return on February 22nd, 2021. Hence, we are **NEUTRAL** on this stock.*

NEUTRAL	-3%
CMP (VND)	63,400
Target Price (VND)	57,300
Cash dividend (VND)*	4,000

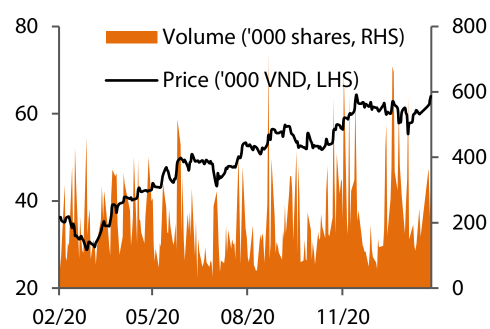
**Expected in the next 12 months*

Stock Info

Sector	Materials
Market Cap (VND billion)	5,157
Current Shares O/S	81,861,000
Avg. Daily Volume (in 20 sessions)	189,280
Free float (%)	41
52 weeks High	63,139
52 weeks Low	28,850
Beta	0.8

	FY2019	Current
EPS	5,164	5,810
EPS Growth (%)	-1.1	23.6
Diluted EPS	5,164	5,810
P/E	8.8	9.8
P/B	1.5	2.1
EV/EBITDA	4.1	4.2
Cash dividend yield (%)	10.0	9.3
ROE (%)	17.1	21.1

Price performance



Major Shareholders (%)	
Nawaplastics 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: 4Q/2020 Results

(VND bn)	Q4-FY20	Q3-FY20	+/- (qoq)	Q4-FY19	+/- (yoy)	4Q-FY20	+/-(yoy)
Net revenue	1,300	1,115	16.7%	1,159	12.2%	4,686	8.0%
Gross profit	292	355	-17.9%	254	14.8%	1,247	26.0%
SG&A	135	156	-13.8%	121	11.8%	549	41.8%
Operating income	157	199	-21.2%	133	17.6%	698	23.4%
EBITDA	208	251	-17.1%	185	13.0%	907	19.9%
EBIT	157	199	-21.2%	133	17.6%	698	15.8%
Financial expenses	35	29	19.6%	30	16.9%	124	11.6%
- Interest Expenses	0.02	0.01	38.2%	0.02	-35.1%	0.05	-57.9%
Dep. and amortization	52	53	-1.8%	51	0.8%	208	35.9%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	142	191	-25.6%	119	19.3%	657	23.1%
PAT	111	153	-27.6%	95	17.3%	523	23.6%
(*) Adjusted PAT	111	153	-27.6%	95	17.3%	523	23.6%

Source: BMP, RongViet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	Q4-FY20	Q3-FY20	*+/- (qoq)*	Q4-FY19	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	22.4%	31.9%	-946bps	21.9%	52bps
EBITDA Margin	16.0%	22.6%	-654bps	15.9%	11bps
EBIT Margin	12.1%	17.9%	-579bps	11.5%	56bps
Net Margin	8.5%	13.7%	-521bps	8.2%	37bps
Adjusted Net Margin	8.5%	13.7%	-521bps	8.2%	37bps
Turnover *(x)					
-Inventories	9.7	7.2	2.5	7.3	2.4
-Receivables	13.6	11.2	2.4	11.1	2.5
-Payables	6.6	5.0	1.6	14.4	(7.8)
Leverage (%)					
Total Debt/ Equity	21.1%	35.7%	-1,455bps	14.5%	665bps

Source: BMP, (*) Annualized turnover

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND bn)	Q1-FY21	+/- qoq	+/- yoy
Revenue	1,071	-18%	5%
Gross profit	236	-19%	-4%
EBIT	156	0%	15%
NPAT	84	-25%	-18%

Source: BMP, RongViet Securities

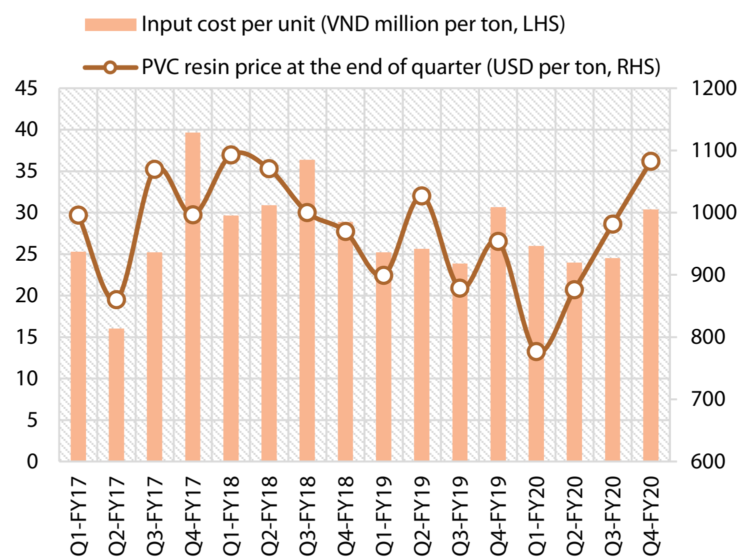
- Output is forecasted to be similar to the same period due to Tet.
- Gross margin can be around 22%, equivalent to 4Q2020 and lower than the same period last year due to our input price assumption (PVC USD 1,080 per ton). We expect the PVC price to decrease gradually throughout the year. So Q1 will be a low quarter in terms of both volume and efficiency and gross margin will gradually improve towards the end of the year.
- NPAT is forecasted at VND 84 billion, down 18% YoY. In addition to material prices, an increase in selling expenses can also impact the bottom-line.

Update:

BMP might have benefited from dropping input prices in 2020, but this advantage is not going to last in 2021

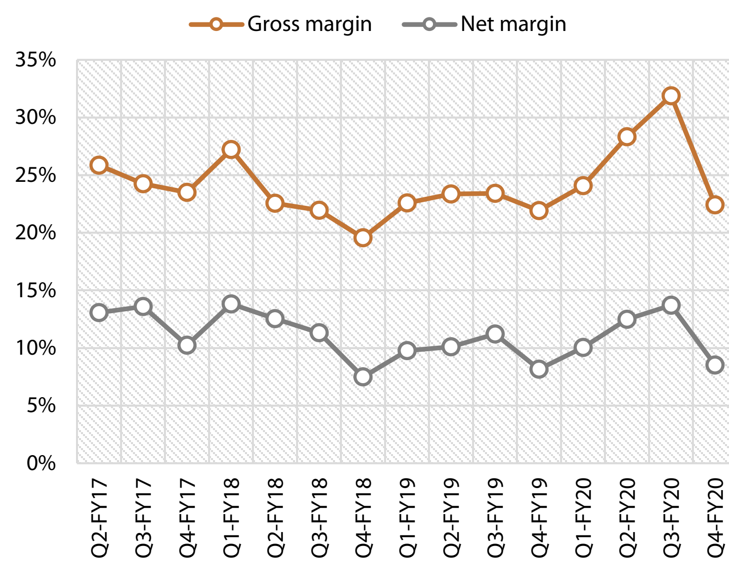
As can be seen from Figure 1, PVC bottoming out during 1Q resulted in lower raw material cost per unit in Q2 and Q3. However, BMP's inventory value decreased continuously during the year (Figure 3), so in Q4 when the price of PVC powder rebounded to over USD 1,000 / ton (highest in history), profit margin decreased. strong in the last quarter of the year (Figure 2).

Figure 1: Average input price and PVC price



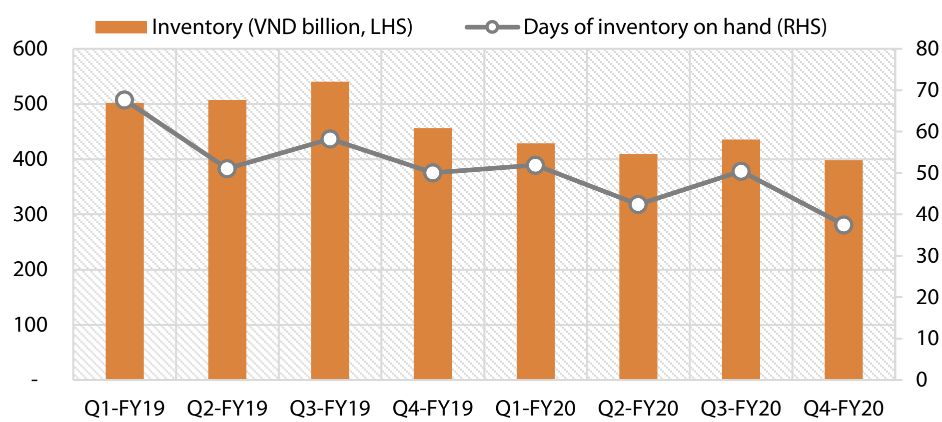
Source: BMP, RongViet Securities estimated

Figure 2: Quarterly gross and net margin



Source: BMP, RongViet Securities

Figure 3: Inventory and average inventory holding days



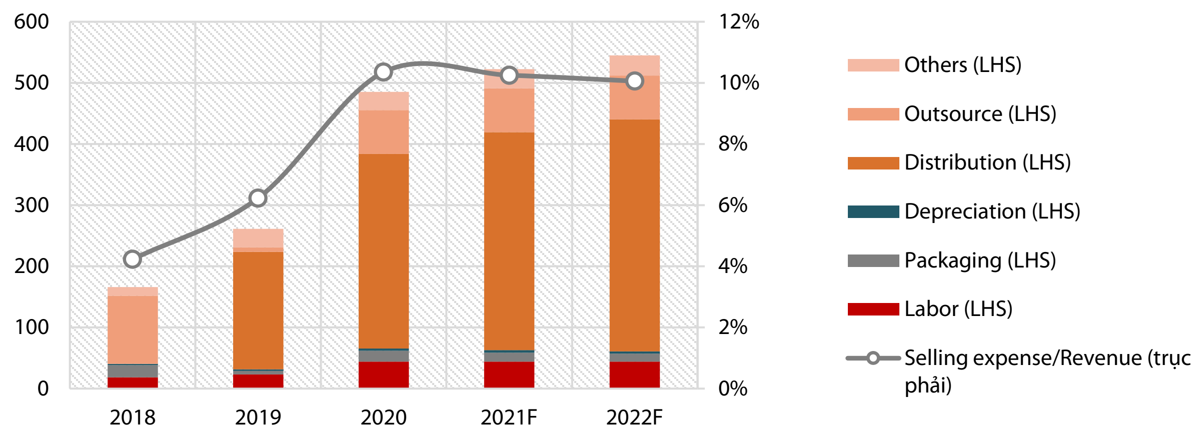
Source: BMP, RongViet Securities

The PVC resin price, after recovering to about 900 USD / ton, has remained high. In the first two months of 2021, PVC prices averaged USD 1,080 / ton due to rising oil prices and supply breakdown as a result of the second COVID wave. BMP's working capital saving activities in the last two years has helped improve financial income. On the other hand, core business margins are more sensitive to raw material prices. We note that by the end of 2020, inventories (including raw materials and finished products) were only 40 days of COGS (Figure 3). In the situation where raw material prices have remained high for the past two months, this inventory policy could be a disadvantage to the gross margin for at least 1Q and 2Q2021.

Selling expenses increased after applying the new distribution policy

In 2020, BMP's selling expenses increased sharply due to changes in policies for the distribution implemented in 2019. As a result, these expenses are registered under selling expenses instead of cost of sales, but in general this has no effect on net profit margin. Now selling expenses accounted for 10.4% of revenue in 2020 (6.2% in 2019, Figure 5) and this number is likely to be stable in the long term. In particular, about 70% is the cost of the distribution system, including shipping costs and payment discounts, we think this is a reasonable level to maintain a loyal and healthy sale system. It should also be noted that BMP offers one of the lowest discount rates for distributors, and this advantage exists mainly because the Binh Minh Plastic brand is highly appreciated among consumers.

Figure 4: Selling expenses breakdown (VND billion)



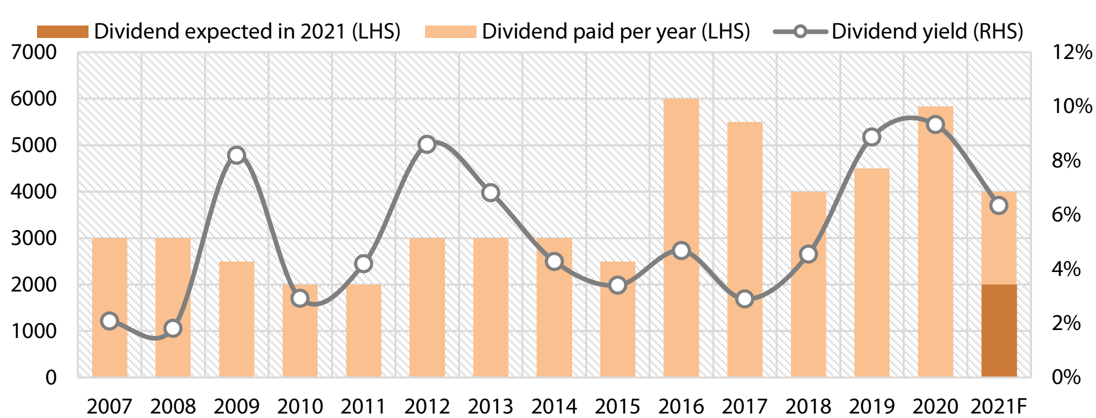
Source: BMP, RongViet Securities

In short, shareholders now have an overview of how BMP allocates costs. By giving the distribution system certain benefits, it is able to grow sales volume steadily and save working capital and improve cash flow.

Dividends for 2020 surpassed expectations because of financial income. BMP can still maintain a good cash dividend policy from 2021 onwards

BMP had a favorable year as the epidemic had a minimal impact on sales. In contrast, the company benefited more or less from the sharp drop in raw material prices during the year. Tightening working capital helped BMP to improve operating cash flow and gain more income from interest to compensate for the increase in selling expenses. Most importantly, BMP's shareholders in 2020 received a total of 5,800 VND / share of cash dividends, which is one of the reasons for the rally of the share price since the bottom.

Figure 5: Cash dividend (VND per share) and dividend yield



Source: RongViet Securities

We forecast that BMP will pay VND 4,000 / share in 2020, equivalent to a dividend yield of 6.3% at the current market price. Obviously, this is a low cash dividend, mostly because of the negative earnings growth in 2021. However, investors should note that the 6.3% dividend yield is still considered acceptable. In terms of valuation, if BMP continues to keep the dividend payout around 80% of its earnings, the valuation by the discounted dividend method (DDM) will reach 65,000 VND per share. Thus, holding BMP will be suitable for a defensive, long-term portfolio.

Valuation is raised mainly due to potential cash flow improvement and dividend policy

Our new valuation for BMP has been revised up from the most recent update due to an increase in the valuation of FCFE, P/E and DDM. Regarding FCFE, based on the improvement in working capital over the past two years, we believe that BMP can continue to maintain a low level of inventory and receivables and keep as much money as possible. Therefore, its free cash flow in the future can be improved, hence a higher FCFE valuation. As for the P/E valuation, we increase the multiple from 9 to 11 times to match the overall market valuation, which is still the average P/E in its history (the highest was 15.1 times in 2017). As for DDM valuation, we believe that after 2021, 2022 might see a dividend policy up back to VND 5,000 / share per year and higher. Taking into account BMP's small demand for capex in the future, its retained earnings can ensure that annual dividends stay around VND 5,000 per share. We maintain our view that BMP will keep paying high cash dividends to adhere to its parent company's direction.

On average, FCFE and DDM are adjusted upward while the P/E valuation is lowered due to the decreasing profit in 2021. Our recommendation for BMP is NEUTRAL. We believe that existing shareholders can still hold BMP because this is a stock with stable fundamentals and good dividend policy. We also recommend investors to consider accumulating only when the market price returns to a more actionable range because quarterly profit might decrease later in the year.

Table 1: Valuation

Method	Price	Weight	WA target price
FCFE	54,654	40%	21,861
P/E (11,0x)	52,932	30%	15,880
DDM	65,227	30%	19,568
Total		**100%**	**57,300**

Source: RongViet Securities

VND billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	**4,337**	**4,686**	**5,098**	**5,417**
COGS	3,349	3,439	3,858	4,103
Gross profit	**988**	**1,247**	**1,240**	**1,313**
Selling Expense	270	485	523	545
G&A Expense	117	64	137	74
Finance Income	37	78	85	94
Finance Expenses	111	124	128	135
Other profits	2	4	4	4
PBT	**529**	**657**	**541**	**658**
Prov. of Tax	107	134	108	132
Minority's Interest	0	0	0	0
PAT to Equity S/H	**423**	**523**	**433**	**526**
EBIT	601	698	580	695
EBITDA	754	907	795	920

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	10.7	8.0	8.8	6.3
Operating Income	-3.4	20.2	-12.3	15.8
EBITDA	-1.2	16.2	-16.9	19.7
PAT	-1.1	23.6	-17.2	21.6
Total Assets	1.3	5.9	0.2	2.3
Equity	0.6	0.1	2.7	2.7
Profitability (%)				
Gross margin	22.8	26.6	24.3	24.2
EBITDA margin	17.4	19.4	15.6	17.0
EBIT margin	13.9	14.9	11.4	12.8
Net margin	9.7	11.2	8.5	9.7
ROA	14.8	17.3	14.3	17.0
ROE	17.1	21.1	17.1	20.2
Efficiency				
Receivable Turnover	11.3	14.5	14.9	14.9
Inventory Turnover	7.4	8.7	8.7	8.7
Payable Turnover	12.0	7.5	9.3	10.1
Liquidity				
Current	4.5	4.2	4.7	5.2
Finance Structure (%)				
Total Debt/Equity	2.3	2.2	2.4	2.6
Current Debt/Equity	2.3	2.2	2.4	2.6
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	304	196	184	260
Short-term investments	386	1,210	1,271	1,334
Accounts receivable	383	323	342	364
Inventories	454	396	445	473
Other current assets	1	4	4	5
Property, plant & equipment	623	501	393	274
Acquired intangible assets	19	11	11	10
Long-term investments	369	70	72	74
Other non-current assets	311	306	303	299
Total assets	**2,850**	**3,017**	**3,024**	**3,093**
Accounts payable	280	456	413	405
Short-term borrowings	56	55	61	67
Long-term borrowings	0	0	0	0
Other non-current liabilities	23	23	0	0
Bonus and Welfare fund	22	11	12	13
Technology-science, dev. fund	0	0	0	0
Total liabilities	**381**	**546**	**486**	**485**
Common stock and APIC	820	820	820	820
Treasury stock (enter as -)	0	0	0	0
Retained earnings	263	449	494	537
Other comprehensive income	45	45	45	45
Inv. and Dev. Fund	1,341	1,157	1,179	1,205
Total equity	**2,469**	**2,472**	**2,538**	**2,608**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	5,164	5,810	4,812	5,851
P/E (x)	8.8	9.8	13.1	10.8
BV (dong)	30,164	30,193	31,005	31,855
P/B (x)	1.5	2.1	2.0	2.0
DPS (dong/cp)	4,500	5,840	4,000	5,000
Dividend yield (%)	10.0	9.33	6.3	7.9

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFF	54,654	40%	21,861
P/E	52,932	30%	15,880
DDM	65,227	30%	19,568
Target price (dong)			**57,300**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
22/05/2020	42,360	Accumulate	Long term
21/08/2020	47,960	Accumulate	Long 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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