BINH DIEN FERTILIZER JSC (HSX: BFC)

Finding the answer for growth

Particulars (VND B)	Q3-FY18	Q2-FY18	*+/-qoq*	Q3-FY17	*+/-yoy*
Net revenue	1,661	2,004	-17.1%	1,556	6.8%
PAT	47	73	-35.2%	57	-17.2%
EBIT	97	154	-37.1%	119	-18.8%
EBIT margin	5.8%	7.7%	-185bps	7.7%	-184bps

Source: BFC, RongViet Securities

Q3/2018 result: Increasing revenues but decreasing gross margins and high selling expenses

Revenue reached VND 1,689 bn in Q3/2018, up 6.8% YoY thanks to a higher selling price while total selling volume remained stable. However, increasing output prices could not compensate the rising input prices that lowered the gross margin from 14.6% to 13.7%. Besides, BFC continues to push the marketing campaign as well as the discount policy that lifted the selling expense/revenue to 33% in Q3/2018. As a result, the company posted VND 58 bn in net profit, down 18.8% YoY.

2018 outlook: Revenue up but net profit down

Low gross margin and high selling expenses impacted negatively 9M earnings. The fourth quarter, not a peak season, will result in a low consumption of fertilizer, which signals a bad year for the company. In details, we predict that revenues will increase by 4.7% to VND 6,604 bn and the net profit attributable to the parent company will decrease by 23.8% to VND 211 bn.

Valuation and recommendation

We anticipate that the NPK market will experience a strong competition when a lot of players like LAS, DPM take part in by building more factories, adding more supply into the domestic market. Demand is stable, preventing the organic growth for BFC. So the only opportunity for BFC is to look at the export markets but the result is not so promising in our opinion. Consequently, BFC will find it difficult to increase its output. Moreover, the competition is negative for earning prospects. BFC cannot pass the increase in input price to customers if it wants to maintain its market share.

*The divestment story from Vinachem will be the rare support for the stock price as the earnings outlook for the next few years is not too bright. We adjust the target price to **VND26,800** per share, plus cash dividend of VND2,500, generating a total return of **11%**, compared to the closing price on Nov 7th 2018. So **ACCUMULATE**.*

ACCUMULATE +11%

CMP (VND)	26,500
Target price (VND)	26,800
Cash dividend (VND)*	2,500

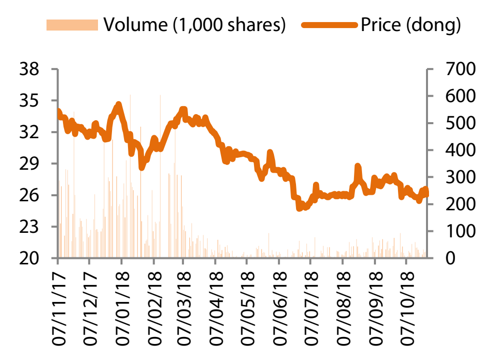
** Expected in the next 12 months*

Stock info

Sector	Fertilizer
Market Cap (VND billion)	1,489
Current Shares O/S	57,167,993
Avg. Daily Volume (in 20 sessions)	29,649
Free float (%)	21.2
52 weeks High	34,600
52 weeks Low	24,700
Beta	0.49

	FY2017	Current
EPS	4,457	3,617
EPS growth (%)	-13.8	-32.3
Adjusted EPS	4,845	3,617
P/E	5.3	7.2
P/B	1.5	1.5
EV/EBITDA	4.8	6.1
Cash dividend	3,500	2,500
ROE (%)	23.6	16.8

Price performance



Major Shareholders (%)

Vinachem	65.0
Foreign ownership room (%)	21.2

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Exhibit 1: Q3 2018 results

Particulars (VND B)	Q3-FY18	Q2-FY18	+/-(QoQ)	Q3-FY17	+/-(YoY)	3Q-FY18	+/-(YoY)
Net revenue	1,661	2,004	-17.1%	1,556	6.8%	5,006	4.7%
Gross profit	227	279	-18.6%	227	-0.2%	679	-8.6%
SG&A	56	60	-7.0%	31	76.9%	157	14.8%
Operating income	171	219	-21.8%	196	-12.5%	522	-31.8%
EBITDA	116	173	-33.0%	138	-15.9%	387	-21.5%
EBIT	97	154	-37.1%	119	-18.8%	329	-24.8%
Financial expenses	30	44	-31.8%	29	2.6%	102	6.7%
- Interest Expenses	27	30	-8.3%	27	2.3%	85	12.2%
Dep. and amortization	19	19	-0.5%	19	2.3%	58	5.2%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	73	125	-41.4%	90	-18.4%	249	-31.6%
PAT	47	73	-35.2%	57	-17.2%	154	-27.4%
(*) Adjusted PAT	47	73	-35.2%	57	-17.2%	154	

Source: BFC, RongViet Securities

Exhibit 2: Q3 2018 performance analysis

Particulars	Q3-FY18	Q2-FY18	+/-(QoQ)	Q3-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	13.7%	13.9%	-25bps	14.6%	-95bps
EBITDA margin	7.0%	8.7%	-166bps	8.9%	-189bps
EBIT margin	5.8%	7.7%	-185bps	7.7%	-184bps
Net margin	2.8%	3.6%	-79bps	3.7%	-82bps
Adjusted net margin	2.8%	3.6%	-79bps	3.7%	-82bps
Turnover *(x)					
-Inventories	3.6	3.7	-0.1	3.0	0.6
-Receivables	6.3	9.1	-2.8	7.1	-0.8
-Payables	7.7	10.0	-2.3	8.1	-0.4
Leverage (%)					
Total debt/ equity	191.4%	205.4%	-1,399bps	193.3%	-192bps

Source: BFC, (*) Annualized turnover

Exhibit 3: Q4 2018 performance forecast

Particulars (VND B)	Q4-FY18	+/-(QoQ)	+/-(YoY)
Revenue	1,598	-3.8%	4.6%
Gross profit	236	4.1%	-13.4%
EBIT	276	13.3%	-6.2%
NPAT	57	21.4%	8.0%

Source: BFC, RongViet Securities.

Update:

Output sideways in Q3/2018

Continued the stable trend of H1 2018, the selling volume remained at 169,000 tons in Q3/2018. BFC sold 519,000 tons of NPK in 9M2018, equal to the same period last year. We see this as a positive as the plantation in the Central Highlands area experienced a slowdown due to low coffee and pepper prices. Coffee and pepper prices for exports decreased by 13.5% and 38.6% respectively in 9M2018. According to our forecast, BFC is expected to consume 683,000 tons NPK in 2018, similar to 2017.

Decreasing gross margin and high selling expense in Q3/2018

BFC has been rising the selling price 6.8% in Q3/2018 but it is not enough to compensate the 7.9% higher input price. Consequently, the gross margin was down from 14.6% to 13.7% in Q3/2018. The 9M2018 gross margin was only 13.6%, down 1900 bps compared to the same period last year. The exporting activity is the only bright side posting a significant growth in gross margin, from 8.3% to 15.2%. However, this result cannot 'save' the whole business since it represents only 14.6% of total revenue.

The positive in selling volume is mitigated by higher selling expenses. The selling expense/revenue ratio was up from 4.5% to 5.6% in Q3/2018. In 9M2018, the selling expense was VND 253 bn, up 20.4% YoY.

Strong competition from new plants

High quality NPK has being focused by big players in the sector. In the North, LAS has completed and run the NPK production line with total capacity of 150,000 tons per year. DPM has also conducted a trial test for the 250.000 tons capacity NPK plant. According to our data, around 550,000 tons of NPK will be added to the market from the new plants, equals to 109% of total imported NPK volume in 2017. In 9M2018, around 367,000 tons of NPK were imported and the domestic production went up slightly, increasing by 2%. There is over-supply in the NPK market and It should be noticed that the domestic demand is stable at 4 mn tons per year for the past four years.

Table 1: Finished NPK plants in 2018

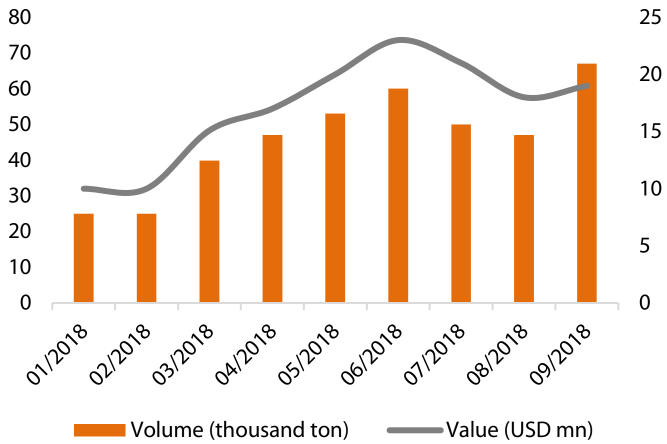
Company	Capacity (Ton/year)	Quality	Technology
Phu My Fertilizer	250,000	High	Chemical
Lam Thao	150,000	Medium – High	Liquid urea, Drum Granulation with Water
Binh Dien II (Vinacam Group)	100,000	High	N/A
Apromaco	50,000	N/A	Drum Granulation with Water

Source: Rong Viet Securities complied

Valuation view

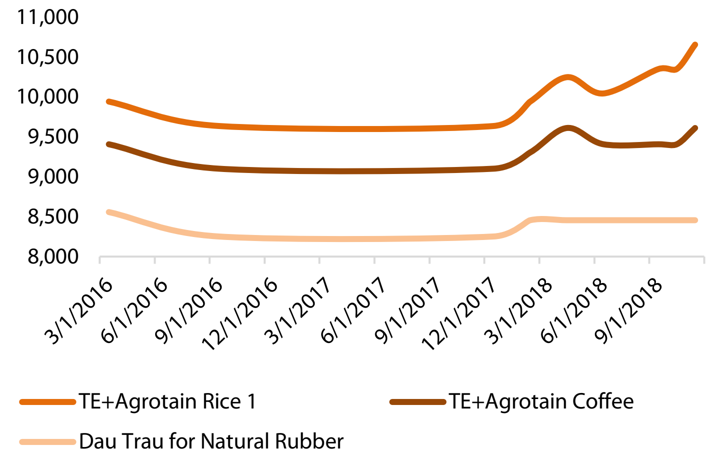
With the cash dividend of VND2,500 per share and the target price of VND26,800 per share, the dividend yield is calculated at 9.3%, quite attractive compared to the current deposit interest rate and the forecasted one next year. Despite the stable business, BFC can maintain its cash dividend policy at VND 2,500 to VND3,000. So, we think the target price of VND 26,800 per share is fair given current conditions.

Figure 1: Imported NPK volume (LHS) and value (RHS)



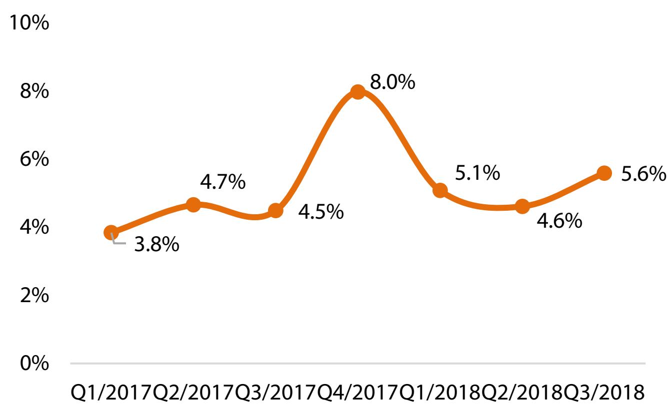
Source: MARD

Figure 2: NPK selling price of Binh Dien (VND/kg)



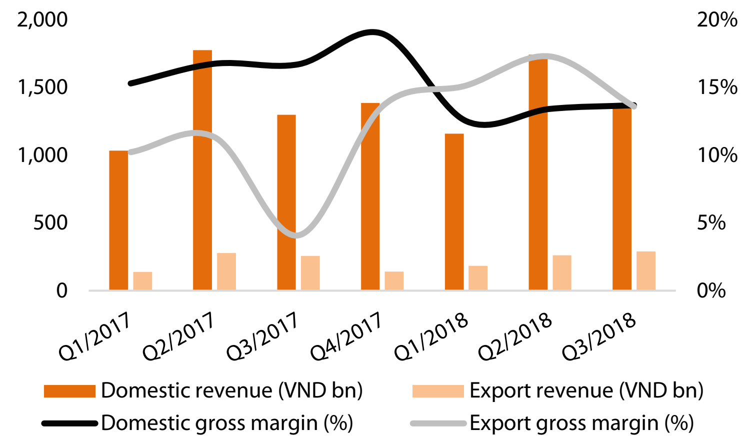
Source: BFC

Figure 3: Selling expense/revenue (%)



Source: BFC

Figure 4: Revenue (LHS) and gross margin (RHS) by geography



Source: BFC

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	5,944	6,306	6,604	6,478
COGS	5,036	5,296	5,690	5,584
Gross profit	**908**	**1,010**	**915**	**894**
Selling expense	254	320	343	337
G&A expense	116	132	132	130
Financial income	7	5	9	11
Financial expense	125	142	140	143
Other income/loss	0	6	15	6
Gain/(loss) from JV	0	0	0	0
PBT	**420**	**428**	**323**	**301**
Tax expense	70	79	59	60
Minority interests	73	72	53	49
PAT	**277**	**277**	**211**	**192**
EBIT	538	558	439	428
EBITDA	607	634	521	516

%

Financial ratio	FY2016	FY2016	FY2018E	FY2019F
Growth (%)				
Revenue	-1.5	6.1	4.7	-1.9
Operating income	26.2	4.3	-17.8	-1.0
EBITDA	23.0	3.7	-21.3	-2.6
PAT	20.9	0.0	-23.9	-8.7
Total assets	-4.0	12.1	5.6	-6.5
Equity	-1.0	8.3	5.2	3.3
Profitability (%)				
Gross margin	15.3	16.0	13.9	13.8
EBITDA margin	10.2	10.1	7.9	8.0
EBIT margin	9.1	8.9	6.7	6.6
Net margin	4.7	4.4	3.2	3.0
ROA	8.1	7.2	5.2	5.1
ROE	40.6	39.7	29.9	29.4
Efficiency (x)				
Receivable turnover	9.8	12.6	10.0	9.1
Inventory turnover	3.2	2.5	2.9	3.3
Payable turnover	7.9	8.0	10.1	10.1
Liquidity (x)				
Current	1.2	1.2	1.3	1.3
Solvency (%)				
Total debt/equity	183.6	199.1	215.3	181.2
Current debt/equity	162.8	181.6	197.6	168.6
Long-term Debt/equity	20.8	17.5	17.7	12.5

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	393	345	675	722
Short term investment	12	18	18	18
Accounts receivable	606	499	660	713
Inventories	1,564	2,099	1,991	1,675
Other current assets	47	40	42	44
Tangible fixed assets	528	523	607	566
Intangible fixed assets	257	295	53	52
Long term investment	9	9	9	9
Other non-current assets	9	13	13	14
Total asset	**3,426**	**3,841**	**4,068**	**3,813**
Account payable	634	665	561	551
Short term borrowings	1,466	1,770	2,026	1,787
Long term borrowings	187	171	182	133
Other non-current liabilities	0	0	0	0
Bonus and welfare fund	11	14	14	14
Technology -science dev fund	0	0	0	0
Total liabilities	**2,298**	**2,620**	**2,783**	**2,486**
Common stock and APIC	572	572	572	572
Treasury stock	0	0	0	0
Retained earnings	225	254	284	299
Other comprehensive income / (loss)	11	27	27	27
Investment and development fund	93	122	143	162
Total equity	**900**	**975**	**1,026**	**1,060**
Minority interest	227	246	259	268
Total resources	**3,426**	**3,841**	**4,068**	**3,813**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019E
EPS (VND)	4,456	4,554	3,393	3,098
P/E (x)	5.7	7.5	7.8	8.6
BV (VND)	15,749	17,049	17,942	18,539
P/B (x)	1.5	1.6	1.5	1.4
DPS (VND/cp)	3,000	3,500	2,500	2,500
Dividend yield	10.2%	10.4%	9.4%	9.4%

Valuation model	Price	Weight	Average
DDM	26,520	50%	13,260
PE	27,140	50%	13,570
Target price (VND)			**26,830**

Valuation history	Price	Recommendation	Period
26/10/2016	43,000	Buy	Long term
13/07/2017	41,000	Accumulate	Short term

RESULTS 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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