

HOLD (Initiation)**BINH MINH PLASTICS JSC (HSX: BMP)**

Report date	Jun 30, 2020
Current price	VND 52,800
Target price	VND 59,600
Upside	+12.9%
Bloomberg	BMP VN
Market cap	VND 4,322.26bn
	USD 184mn
52 weeks movement	VND 31,800
	VND 55,000
Average daily value	VND 6.88 bn
	USD 292,948
FOL	100%
Current FO	80.06%

Stable operation with high dividend yield**Sources of opportunities**

- We recommend HOLD for BMP with target price of 59,600 VND/share (+13% upside). The strong selling point of BMP is its ability to maintain high dividend yield of 9% annually in a stable profit outlook. Thus, we use the dividend discount model (DDM) approach only to value BMP stock to reflect the value of the share simply by the expected dividend streams.
- Dividend yield can be as much as 9% in the period of FY20-FY25. The average payout ratio will be around 77% of net profit. Net profit will increase by CAGR of 2% in the period of FY21–FY25, after a strong recovery by 15% yoy in FY20.

Investment highlights

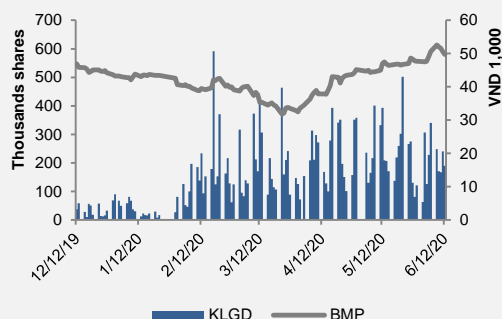
FY20 net profit forecast of VND 488bn (+15% yoy and 5% higher than plan). It is based on an increase in selling output (+7% yoy) and gross profit margin (from 23% in FY19 to 25% in FY20). BMP announced 5M20 net profit of VND 209bn (+18% yoy), equivalent to 43% of our FY20 net profit forecasted.

Stable growth in fierce competitive market. For the period of FY21 – FY25, we assume CAGR of 5% for revenue and 2% for net profit. Selling volume will increase by 7% annually, in line with the expected average growth rate of the plastic pipes industry in building and construction segment. We anticipate total decrease in selling price and expenses related to sales activities/revenue at 12% to maintain the output growth rate, assuming no new big player entering the industry. Gross profit margin is expected to decrease from 24% in FY21 to 22% in FY25, given a 1.4% yoy increase in price of PVC (Polyvinyl Chloride) plastic pellets.

Attractive dividend yield. We assume that BMP will distribute profit mainly by cash dividend in upcoming years with average payout ratio of 77% on net profit.

Valuation

Our target price is susceptible to fluctuation of material prices. If Brent oil price is 5% higher than our base case, leading to an increase in price of PVC plastic pellets, the target price would be 4% lower at 57,400 VND/share (+5% upside). We note that 50% - 55% demand of PVC resin of BMP is supplied by TPC VINA Plastic and Chemical Corporation Limited (TPC VINA). TPC VINA and The Nawaplastic Industries (Saraburi) Co., Ltd (the parent company of BMP) are subsidiaries of Thai Plastic and Chemicals Public Co., Ltd. Therefore, the price movement of raw materials may not be fully reflected in the business results of BMP, in comparison with other peers.

Price movement

Stock performance	1M	3M	12M
BMP (%)	+6%	+41%	+22%
VN-Index (%)	+3%	12%	-10%

Source: Bloomberg

Major Shareholders

The Nawaplastic Industries (Saraburi) Company Limited	54.39%
FTIF - Templeton Frontier Markets Fund	5.79%
KWE Beteiligungen AG	5.03%

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Unit: VND bn	FY19	FY20F	FY21F	FY22F	FY23F
Revenue	4,343	4,600	4,849	5,111	5,387
EBIT	529	610	604	620	641
Net profit	423	488	483	496	513
Net profit (basic)	423	488	483	496	513
EPS (VND)	5,164	5,958	5,897	6,056	6,264
EPS's growth rate (%)	-1%	15%	-1%	3%	3%
P/E (x)	10.3x	8.9x	9.0x	8.8x	8.5x
EV/EBITDA (x)	6.1x	5.5x	5.5x	5.3x	5.1x
Dividend (VND)	5,000	4,600	4,600	4,700	4,800
Dividend yield (%)	9%	8%	8%	9%	9%
P/B (x)	1.8x	1.7x	1.7x	1.6x	1.6x
ROE (%)	17%	19%	18%	18%	18%
Net debt/Equity (%)	3%	2%	-1%	0%	-1%

Source: MBS Research

Recommendation and valuation

We apply the DDM approach to reach the target price of 59,600 VND/share (+13% upside). The sole selling point of BMP is its ability to maintain high dividend yield of 9% annually in the stable profit outlook. Thus, we use DDM method only to value BMP stock to reflect the value of the share simply by the expected dividend streams.

Our target price is susceptible to fluctuation of material prices. If Brent oil price increases by 5%, leading to an increase in the price of PVC plastic pellets, annual net profit and dividend will decrease by 3% compared to our base case. In this scenario, the target price would be 4% lower at 57,400 VND/share (+9% upside). For the period of FY21 – FY25, we anticipate average Brent oil price of USD 45/barrel in FY21 and gradually increase to USD 52/barrel in FY25. The PVC plastic resin is accounting for about 66% of the company's production costs.

We note that 50% - 55% demand of PVC resin is supplied by TPC VINA. TPC VINA and the Nawaplastic Industries (Saraburi) Co., Ltd (the parent company of BMP) are subsidiaries of Thai Plastic and Chemicals Public Co., Ltd. Therefore, the price movement of raw materials may not be fully reflected in the business results of BMP, in comparison with other peers.

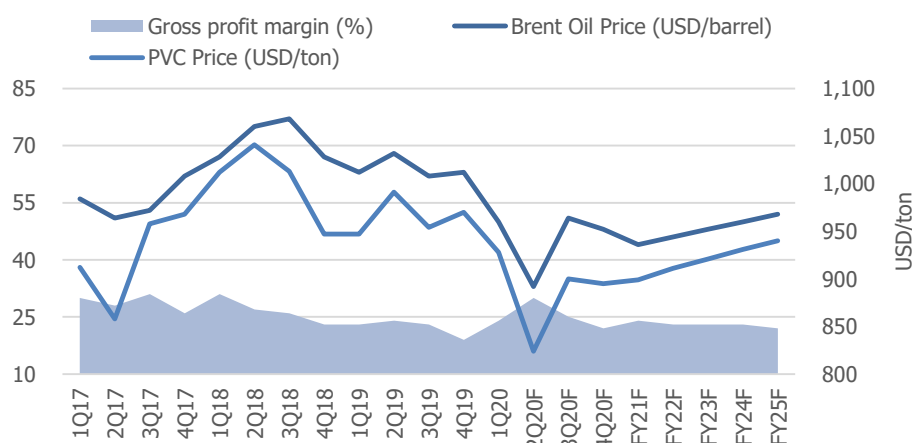
Table 1: Valuation Summary

Unit: VND billion	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Net profit	488	483	496	513	530	543
Investment and development fund	54	53	55	56	58	60
Bonus and welfare fund	49	48	50	51	53	54
Retained earnings	9	5	7	12	9	11
Cash dividend	376	377	384	394	410	418

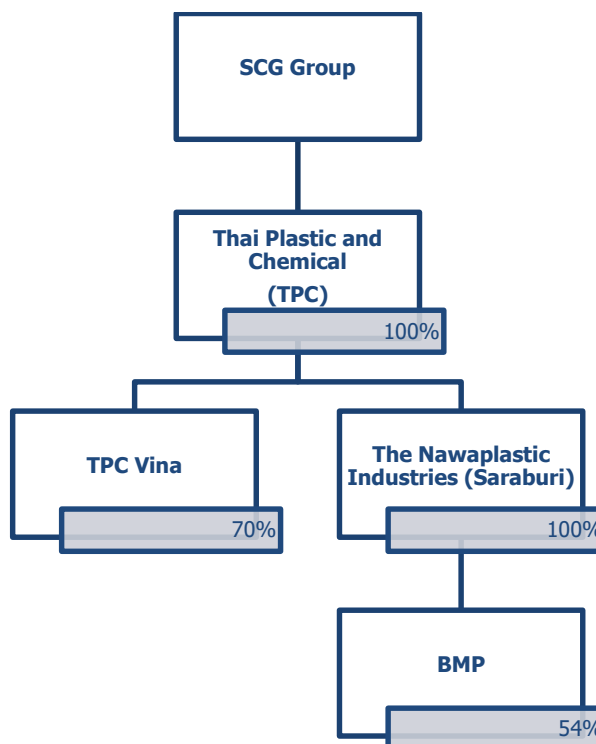
DDM		Re & g	
Present value for FY20 – FY25 cash dividend	1,908	rf	3.10%
Present value for terminal value	2,972	Beta	0.48
Total present value	4,880	rm	15.70%
Shares outstanding (mn)	81,860,938	Re	9.15%
Target share price (VND)	59,613	g	0.00%

Source: MBS Research

Figure 1: Movement of Brent oil price, PVC price and gross profit margin of BMP



Source: Investing, SunSirs, MBS Research

Figure 2: Holding structure

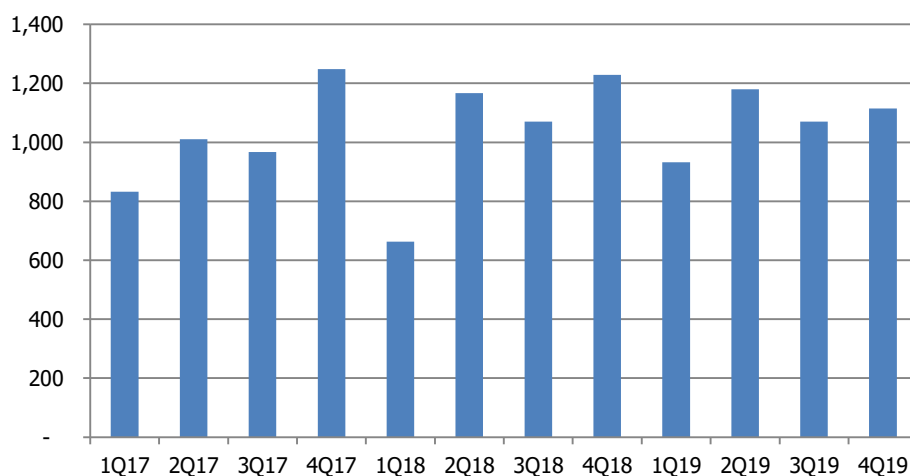
Source: TPC, BMP, MBS Research

Investment highlights

FY20 net profit forecast of VND 488bn (+15% yoy and 5% higher than FY20 plan)

BMP announced 5M20 revenue of VND 1,883bn (+8% yoy) and net profit of VND 209bn (+18% yoy). The results came from a 6.5% yoy rise in selling volume and a 10% yoy fall in PVC price. The 2nd quarter will show the best performance in terms of profit in FY20. Based on the average two months of inventories, we expect a 19% fall in PVC resin price from February to April 2020 will have positive impact on profit results in May and June 2020. Nevertheless, the price of PVC plastic resin has started to gradually recover since the end of May 2020. Hence, we anticipate the profit growth rate to cool down in 2H20 due to an estimated 7% yoy decrease in PVC resin price in the last six months, compared to a 17% yoy drop in that of 2Q20.

Totally, we anticipate a 6% yoy increase in revenue to VND 4,600bn and a 15% yoy improvement in net earnings to VND 488bn in FY20. The selling output will record 112,371 tons (+7% yoy). Sales usually peak in the 4th quarter when building and construction works are speeding up. We forecast that gross profit margin will increase from 23% in FY19 to 25% in FY20 thanks to an 8% reduction in PVC resin price. Selling price is estimated to slightly decline by 1% yoy, which is better than a 5% yoy downturn in that of FY19. The 5M20 results are equivalent to 41% and 43% of our FY20 forecasted revenue and net profit respectively.

Figure 3: Quarterly revenue of BMP

Source: BMP, MBS Research

Stable growth in fierce competitive market

For the period of FY21 – FY25, we forecast a CAGR of revenue at 5% and that of net profit at 2%. Our forecasts are based on the following key assumptions:

Selling volume will increase by 7% annually, in line with the expected average growth rate of the plastic pipes industry in building and construction segments. As a leading company with a 26% market share in Vietnam and a 42% market share in Southern region, we view selling output of BMP is unlikely to record a significant growth. The emergence of new competitors focusing on competitive pricing strategy, including Hoa Sen Group, Tan A Dai Thanh Group has reshaped the industry's market shares. We suppose a tough competitive period of FY17 – FY18 will create strong barriers to entry for potential entrants, which lend a helping hand to maintain the current major player positions. Beside, a slowdown in residential building and construction activities under the impact of credit tightening and the COVID-19 outbreak is unable to drive the plastic pipes industry currently. The volume growth rate of BMP showed a decelerating trend from a CAGR of 18% in the period of FY14 – FY16 to a CAGR of 9% in the period of FY17 – FY19.

We forecast total decrease in selling price and expenses related to sales activities/revenue (referred to as the cost ratio for sales) at 12% to maintain a 7% yoy increase in the output, assuming no new big player entering into the industry. In FY17, although the cost ratio for sales reached 15% from 13% in FY16, selling volume growth rate still decreased from 21% yoy in FY16 to 15% yoy in FY17. Until FY19, BMP succeeded in pushing selling output growth rate to 11% yoy from only 1% yoy in FY18 and recovering its market share, given an increase the cost ratio for sales to 14% from 10% in FY18. Pricing policies offers for customers in different kinds, including a reduction in list prices, trade discount (booking in revenue deductions), supporting expenses for distributors (booking in selling expenses) and early-payment discount (booking in finance expenses).

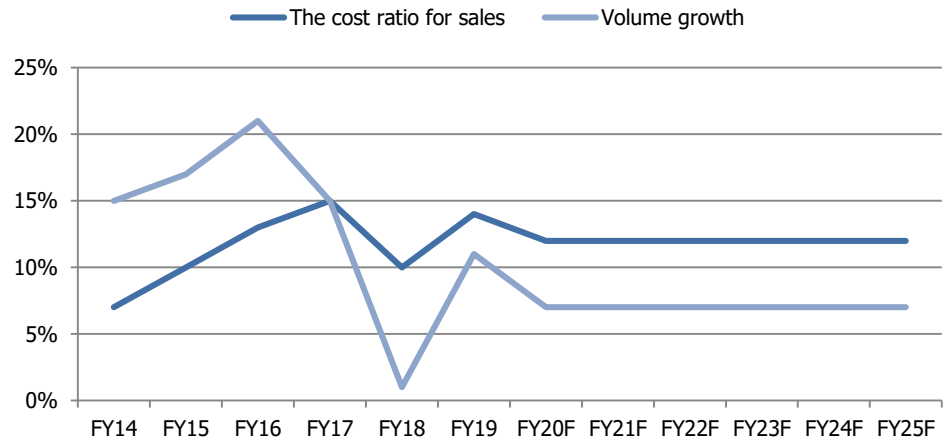
Gross profit margin is expected to decrease from 24% in FY21 to 22% in FY25. We anticipate a 1.4% yoy increase in price of PVC plastic resin. It is based on Brent oil price assumption from USD 45/barrel in FY21 to USD 52/barrel in FY25. Besides, BMP would conduct annual minor inspection of VND 160bn on average.

G&A expenses will grow by 5% yoy. In AGM 2020, there was a suggestion that BMP should enjoy tax deductions for bonus and welfare funds, rather than distributed from EAT. However, we see this issue will be determined by tax authorities, thus, we do not forecast any changes in booking these items currently.

Corporate income tax would be 20%.

Total capacity would be maintained as current utilization rate has just reached 71%.

Figure 4: Volume growth vs the cost ratio for sales of BMP



Source: BMP, MBS Research

Table 2: The cost ratio for sales of BMP

	FY14	FY15	FY16	FY17	FY18	FY19	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Selling price growth rate	2.1%	1.5%	2.4%	-3.8%	1.3%	-5.3%	-1.0%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
Trade discount/revenue	3.4%	6.0%	10.0%	5.7%	4.9%	0.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Selling expenses/revenue	5.0%	4.2%	4.5%	3.4%	4.0%	6.2%	6.8%	6.6%	6.6%	6.6%	6.6%	6.6%
Early-payment discount/revenue	0.6%	0.8%	1.0%	2.4%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Source: BMP, MBS Research

Figure 5: FY15 market shares in building & construction plastic

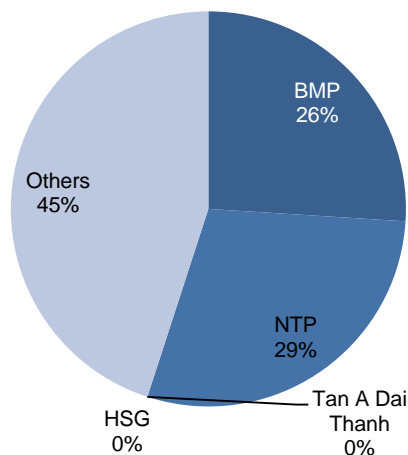
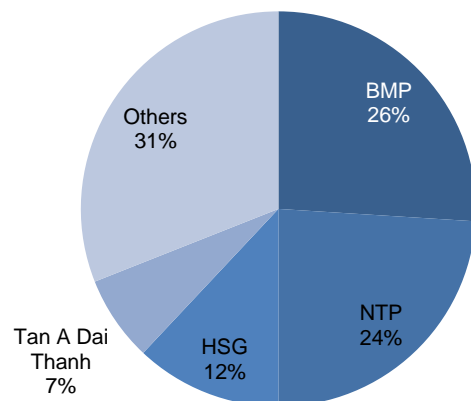


Figure 6: FY19 market shares in building & construction plastic



Source: VPA, BMP, MBS Research

Table 3: Factories of BMP

Factory	Location	Area (m2)	Designed Capacity (tons/year)	Max. Operating capacity FY 2019 (tons)
Binh Minh Sai Gon	57 Nguyen Dinh Chi, Ward 9, District 6, HCM City, Vietnam	7,000	5,200	5,200
Binh Minh Binh Duong	No. 7 Street 2, Song Than 1 IP, Binh Duong, Vietnam	50,000	110,000	90,200
Binh Minh Long An	Lot C1-6 to C1-30, Vinh Loc 2 IP, Long An, Vietnam	105,000	24,000	9,600
Binh Minh Mien Bac	Street D1, Area D, Pho Noi A IP, Van Lam District, Hung Yen Province, Vietnam	40,000	30,000	15,000
Total		202,000	169,200	120,000

Source: BMP, MBS Research

Attractive dividend yield of 9% annually

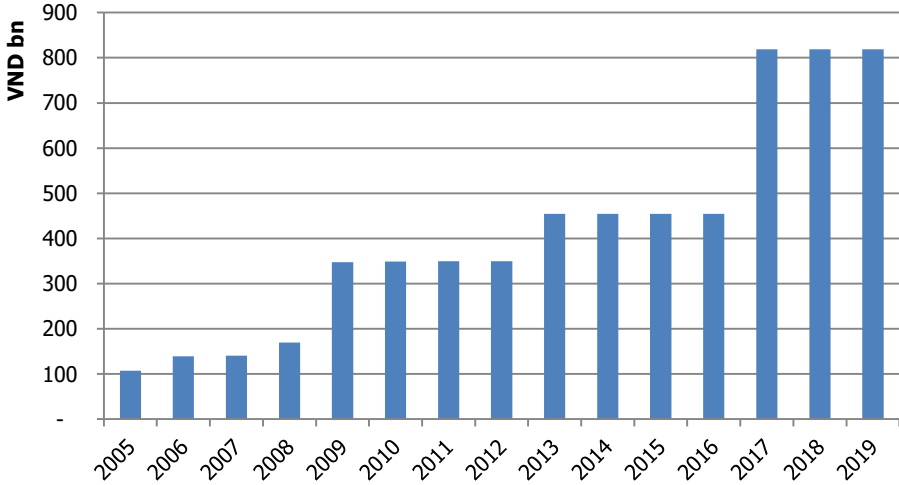
Forecasted dividend yield could be 9% (4,800 VND/share on average) in the period of FY20-FY25. The dividend payout ratio would be about 77% of net profit. We assume that BMP will distribute profit mainly by cash dividend and do not expect any shares dividend (such as that of 10:3 ratios in FY13 and 10:8 ratios in FY17) in the upcoming years.

Table 3: FY19 – FY25 financial results of BMP

	Unit	FY19	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Consumption volume	Ton	105,020	112,371	120,237	128,654	137,660	147,296	157,607
Gross revenue	VND bn	4,343	4,600	4,849	5,111	5,387	5,677	5,983
Deductibles	VND bn	6	46	48	51	54	57	60
Net Revenue	VND bn	4,337	4,554	4,801	5,060	5,333	5,620	5,923
Cost of goods sold	VND bn	3,349	3,418	3,646	3,865	4,093	4,331	4,584
Gross profit	VND bn	988	1,136	1,155	1,195	1,240	1,289	1,339
Financial income	VND bn	37	55	54	56	60	66	71
Financial expenses	VND bn	111	138	145	153	162	170	179
Selling expense	VND bn	270	314	319	336	355	373	394
G&A expenses	VND bn	117	132	144	145	145	152	161
EBT	VND bn	529	610	604	620	641	663	679
Net profit	VND bn	423	488	483	496	513	530	543
Basic EPS (VND)	VND	5,164	5,958	5,897	6,056	6,264	6,471	6,630
Expected dividend	VND	5,000	4,600	4,600	4,700	4,800	5,000	5,100

Source: BMP, MBS Research

Figure 7: Chartered capital of BMP



Source: BMP, MBS Research

Financial Summary

Income Statement (VND bn)					Financial ratios				
	FY19	FY20F	FY21F	FY22F		FY19	FY20F	FY21F	FY22F
Revenue	4,343	4,600	4,849	5,111	Valuation				
Deductibles	6	46	48	51	EPS (VND)	5,164	5,958	5,897	6,056
Cost of goods sold (COGS)	3,349	3,418	3,646	3,865	BVPS (VND)	30,161	31,590	32,299	33,056
Gross profit	994	1,182	1,203	1,246	P/E	10.3	8.9	9.0	8.8
Financial revenue	37	55	54	56	P/B	1.8	1.7	1.6	1.6
Financial expenses	111	138	145	153	Profitability				
Selling expenses	270	314	319	336	Gross profit margin	23%	25%	24%	23%
G&A expenses	117	132	144	145	EBITDA margin	17%	17%	16%	16%
EBT	529	610	604	620	Net profit margin	10%	11%	10%	10%
EAT	423	488	483	496	ROE	17%	19%	18%	18%
Minority interests	-	-	-	-	ROA	15%	17%	16%	16%
					Growth				
					Revenue growth	5%	6%	5%	5%
					EBT growth	0%	15%	-1%	3%
					Net profit growth	-1%	15%	-1%	3%
					EPS growth	-1%	15%	-1%	3%
					Total assets growth	1%	5%	1%	3%
					Equity growth	1%	5%	2%	2%
					Liquidity & Solvency				
					Current liquidity ratio	4.20	4.14	4.78	4.86
					Quick liquidity ratio	2.93	2.82	3.21	3.28
					Debt/Total assets	2%	2%	0%	0%
					Debt/Equity	0.02	0.02	-	-
					Operating Efficiency				
					Receivables turnover	11.02	11.00	11.00	11.00
					Days of sales outstanding	33	33	33	33
					Inventories turnover	6.57	7.00	6.75	6.72
					Days of inventories	56	52	54	54
					Payables turnover	27.68	28.97	28.15	28.21
					Days of payables	13	13	13	13
Balance Sheet (VND bn)					Cash Flow Statement (VND bn)				
	FY19	FY20F	FY21F	FY22F		FY19	FY20F	FY21F	FY22F
Current assets	1,502	1,641	1,696	1,819	CFO	963	403	657	439
I. Cash and cash equivalent	314	364	393	392	CFI	(692)	24	(195)	(55)
II. Short term financial investment	376	250	350	300	CFF	(371)	(377)	(433)	(385)
III. Current account receivables	358	503	394	534	Net cash flow during this period	(99)	50	29	(1)
IV. Inventories	453	523	558	592					
V. Other current assets	1	1	1	1					
Non-current assets	1,349	1,364	1,326	1,284					
I. Fixed assets	640	666	633	594					
1. <i>Tangible fixed assets</i>	<i>621</i>	<i>650</i>	<i>612</i>	<i>570</i>					
2. <i>Intangible fixed assets</i>	<i>19</i>	<i>16</i>	<i>21</i>	<i>24</i>					
II. Investment properties	-	-	-	-					
III. Long term assets in progress	28	23	24	26					
IV. Long term financial investments	369	369	369	369					
V. Other long term assets	312	306	300	295					
TOTAL ASSETS	2,851	3,005	3,022	3,103					
Liabilities	381	419	378	397					
I. Current liabilities	358	396	355	374					
1. Current payables	302	340	355	374					
2. Short term loans	56	56	-	-					
II. Non-current liabilities	23	23	23	23					
1. Long term payables	23	23	23	23					
2. Long term loans	-	-	-	-					
Equity	2,469	2,586	2,644	2,706					
1. Paid in capital	819	819	819	819					
2. Common shares surplus	2	2	2	2					
3. Retained earnings	316	325	330	337					
4. Investment and Development fund	1,341	1,395	1,448	1,503					
5. Other equity's fund	45	45	45	45					
6. Minority interests	-	-	-	-					
TOTAL RESOURCES	2,851	3,005	3,022	3,103					

Source: MBS Research

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Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

MB SECURITIES (MBS)

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