

An Phat Plastic and Green Environment JSC (AAA: HOSE)



OUTPERFORM – 1Y Price Target: VND 20,100

Current price: VND 17,500

Chau Dao, CFA

chaudm@ssi.com.vn

+84 24 3936 6321 ext.624

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INDUSTRIALS - VIETNAM

Key figures

Market cap (USD mn)	130
Market cap (VND bn)	3,013
Outstanding shares (mn)	171
52W high/low (VND 1,000)	19.5/13.5
Average 3M volume (share)	3,321,468
Average 3M value (USD mn)	2.61
Average 3M value (VND bn)	60.45
Foreign ownership (%)	11.96
State ownership (%)	0
Management ownership (%)	N.a

AAA Price & Trading Volume



Source: Bloomberg

Company Snapshot

An Phat Plastic Bags and Environment JSC (AAA: HNX) is the largest plastic bag exporter in Vietnam. The company was founded by several friends with a charter capital of only VND 0.5bn. Through its 14 years history, the company has increased its charter capital on several occasions and was equitized in 2006 with a charter capital of VND 30bn. The Company was listed on the Hanoi Stock Exchange in 2010 with a charter capital of VND 99bn under the ticker of AAA.

EARNINGS UPDATE

Strong profit from IP segment continues to boost 2Q19 earnings

(bn VND)	2Q19	2Q18	YoY	1Q19	QoQ	% annual target completed	Margin			
							2Q19	2Q18	1Q19	2018
Net sales	2,430	2,318	4.8%	2,612	-7.0%	50%				
Gross profit	291	170	71.3%	375	-22.2%		12.0%	7.3%	14.3%	13.5%
Operating profit	211	104	102.7%	311	-32.2%		8.7%	4.5%	11.9%	9.7%
EBIT	211	105	100.6%	319	-33.6%		8.7%	4.5%	12.2%	10.0%
EBITDA	275	166	65.4%	381	-27.9%		11.3%	7.2%	14.6%	14.2%
Pretax profit	161	60	170.1%	273	-40.9%		6.6%	2.6%	10.4%	8.1%
Net income	140	51	177.0%	224	-37.2%	71%	5.8%	2.2%	8.6%	6.5%
NI attributable to shareholders	132	37	259.7%	214	-38.5%		5.4%	1.6%	8.2%	5.5%

Source: AAA, SSI Research

AAA's 2Q19 revenue arrived at VND 2.43 tn, a minor increase by 4.8% YoY due to the -15% drop in revenue from trading. However, gross profit and net income attained considerable growth of 71.3% YoY and 177% YoY, reaching VND 291 bn and VND 140 bn thanks to revenue generated from the industrial park segment, and the improvement in margin of the plastic bag segment.

	Revenue			Gross profit			Gross margin		
	2Q18	2Q19	Growth	2Q18	2Q19	Growth	2Q18	2Q19	
Revenue	2,321,958	2,438,667	5.0%	173,880	300,047	72.6%	7.5%	12.3%	
Trading	1,406,584	1,198,258	-14.8%	(4,551)	32,079	N.a	-0.3%	2.7%	
Plastic bag	816,648	869,425	6.5%	107,131	136,137	27.1%	13.1%	15.7%	
Land lease	-	91,013	N.a	-	61,702	N.a	-	67.8%	
Factory sales	-	125,783	N.a	-	27,786	N.a	-	22.1%	
Others	98,726	154,188	56.2%	71,301	42,344	-40.6%	72.2%	27.5%	

Source: AAA, SSI Research

Plastic bag – positive sales volume growth and margin improvement: Plastic bag revenue increased by 6.5% YoY to VND 869 bn. Sales volume for plastic bags maintained positive growth by 18% YoY in the quarter, which is higher than the growth rate of 6.7% YoY in Vietnam total plastic bag export volume on a cumulative basis up to 5M 2019 (source: General Department of Vietnam Customs), thanks to factory 6 and 7 running at optimal capacity. The segment gross margin also improved from 13.3% to 15.7%, thanks to the better margin of the new factories after running for over 1 year. In 2018, since these factories had just commenced operations, the company had to accept a lower selling price and profit margin compared to older factories. In addition, the gross margin improvement can also be attributed to the stable ratio of absolute profit per ton, despite a fall in the ASP by 10% (along with the resin input price).

Cumulatively, sales volume of plastic bags in the first 6 months of the year increased by 29% YoY to 45.8k tons. The EU is still the largest market of AAA, responsible for 49.6% of total sales volume in the first half of the year. However, the growth driver for new growth came from Japan and US markets, which are the target markets of the new factories. Specifically, the sales volume to Japan and US increased by 40% and 82% YoY, accounting for 32.6% and 10.3% of total plastic sales volume in the period.

Significant performance of industrial park: In Q2 '19, sales and lease of the An Phat Hi tech IP continues to bring VND 217 bn of revenue and VND 89.5 bn of gross profit, exemplifying significant performance and constituting 9% and 30% of AAA total revenue and gross profit during the quarter. AAA sold out 9.5 ha of land and 6 ha of factory during the quarter, equivalent to around 37% of the industrial park area. The company expect the IP to be fully occupied in 2021.

Trading: Revenue from trading dropped by -15% YoY to VND 1.2 tn, mainly due to the -10 to -20% decline in the plastic resin price. However, the segment gross margin improved significantly from -0.3% in Q2 '18 to 2.7%, which can be attributed to the trading of BSR PP resin starting from Jan 2019, and improved experience in trading activities.

Cumulatively, AAA revenue and PBT in 1H 2019 posted at VND 5.042 tn and VND 434 bn, increasing by 39.4% and 228% YoY.

(bn VND)	6M2019	6M2018	YoY	% annual target completed	Margin		
					6M2019	6M2018	2018
Net sales	5,042	3,616	39.4%	50%			
Gross profit	666	318	109.7%		13.2%	8.8%	13.5%
Operating profit	523	198	163.6%		10.4%	5.5%	9.7%
EBIT	530	201	163.3%		10.5%	5.6%	10.0%
EBITDA	656	322	103.5%		13.0%	8.9%	14.2%
Pretax profit	434	132	227.8%		8.6%	3.7%	8.1%
Net income	364	111	228.9%	71%	7.2%	3.1%	6.5%
NI attributable to shareholders	346	86	302.7%		6.9%	2.4%	5.5%

Source: AAA, SSI Research

Expansion plan in biodegradable plastic: At present, biodegradable plastic resin accounts for 10% of total AAA plastic bag sales volume. In the next 3-5 years, AAA expects that the share of the product line can increase to 30-50% along with the global trend of switching from conventional plastic bags, to biodegradable products that are more environment-friendly.

In addition to the change in the product mix, AAA also aims to integrate its value chain by producing biodegradable materials. Anphat Holding, the parent of AAA, has recently signed a MOU with TLC, a Korean biodegradable material manufacturer, on a strategic cooperation basis in the research and production of fully biodegradable materials in Korea and Vietnam. Accordingly, Anphat Holding would acquire a 51% stake in TLC, which has possessed a license in producing PBAT biodegradable resin. After that, the group expects to launch a PBAT factory

in 2020, with a capacity of 25k tons/year and a capex of \$30 mn USD. The factory would include several phases. Phase 1 will commence with a production capacity of 5k tons/year, with a capex of \$6 mn USD, and is expected to commence operations in late 2020. The project is expected to save the cost of biodegradable material input by around 30% compared to the current source.

Earnings estimates

According to the aforementioned data points, we fine-tune our revenue and net profit forecast for AAA from VND 10.14 tn and VND 515 bn respectively to VND 10.057 tn (+25.5% YoY) and VND 518 bn (+144.3% YoY) respectively.

Regarding **plastic bags**, we expect sales volume of plastic bags would increase by 10.8% YoY to 95.8k tons, bringing revenue and gross profit of VND 3.57 tn (+1.4% YoY) and VND 533 bn (+11% YoY). Regarding **industrial parks**, we expect AAA would lease around 10 ha of land and 70k m2 of factory in 2019, which would in turn bring a total revenue and gross profit of VND 790 bn and VND 332 bn for the whole year. Additionally, revenue and gross profit from trading is expected to reach VND 4.6 tn (+10.7% YoY) and VND 120 bn (+7.5% YoY) for this year.

For 2020, as the current plastic bag factory has reached full capacity, we expect AAA revenue and net profit would virtually flatline at VND 10.081 tn and VND 525 bn. We expect AA Hitech Industrial park can maintain a 10 ha leasing rate in 2020 before attaining a full occupancy rate in 2021. In the longer term, we expect the biodegradable resin project would materialize in AAA future business results, starting in 2021.

Valuation

At the current price, AAA is trading at 2019 and 2020 PER levels of 7.6x and 7.5x respectively. We maintain our Outperform rating for the stock, with an unchanged target price of VND 20,100/share based on the SOTP method. AAA is an interesting case to follow in the coming years, given the short-term profit boosts from property and long-term prospects from the penetration into biodegradable product lines. Besides, the cash dividend of 10% on par, equivalent to a dividend yield of 5.7%, can also be a supportive catalyst for the stock price.

Segments	Method	Valuation
Property	RNAV	1,189
Others	PE - based on target PR of 9x	2,259
Total value		3,448
Fair price/share		20,100
Current price		17,500
Upside		15.1%

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2017	2018	2019F	2020F
Balance Sheet				
+ Cash	510	645	545	644
+ Short-term investments	50	721	0	0
+ Account receivables	961	1,613	2,746	2,752
+ Inventories	537	863	1,515	1,522
+ Other current assets	85	147	167	167
Total Current Assets	2,143	3,989	4,973	5,086
+ LT Receivables	0	21	25	25
+ Net Fixed Assets	2,299	2,199	2,454	2,674
+ Investment properties	0	0	0	0
+ LT Assets in progress	98	1,208	1,208	1,208
+ LT Investments	0	48	48	48
+ Other LT Assets	36	63	71	72
Total Long-Term Assets	2,433	3,540	3,807	4,027
Total Assets	4,576	7,529	8,780	9,113
+ Current Liabilities	1,991	3,206	3,632	3,648
<i>In which: ST debt</i>	<i>1,418</i>	<i>2,492</i>	<i>2,763</i>	<i>2,776</i>
+ Non-current Liabilities	960	1,343	1,694	1,701
<i>In which: LT debt</i>	<i>960</i>	<i>1,343</i>	<i>1,694</i>	<i>1,701</i>
Total Liabilities	2,951	4,549	5,325	5,349
+ Contributed capital	836	1,712	1,712	1,712
+ Share premium	198	532	532	532
+ Retained earnings	284	266	662	893
+ Other capital/fund	307	470	548	627
Shareholders' Equity	1,625	2,980	3,454	3,764
Total Liabilities & Equity	4,576	7,529	8,780	9,113
Cash Flow				
CF from operating activities	-81	39	-223	750
CF from investing activities	-699	-2,628	-500	-500
CF from financing activities	882	2,726	622	-151
Net increase in cash	103	136	-100	99
Beginning cash	407	510	645	545
Ending cash	510	645	545	644
Liquidity Ratios				
Current ratio	1.08	1.24	1.37	1.39
Acid-test ratio	0.76	0.93	0.91	0.93
Cash ratio	0.28	0.43	0.15	0.18
Net debt / EBITDA	2.81	4.05	3.25	3.54
Interest coverage	5.07	3.02	4.23	5.19
Days of receivables	28.6	25.3	34.4	43.7
Days of payables	42.7	28.4	28.3	31.0
Days of inventory	51.2	34.8	48.7	61.9
Capital Structure				
Equity/Total asset	0.36	0.40	0.39	0.41
Liabilities/Total Assets	0.64	0.60	0.61	0.59
Liabilities/Equity	1.82	1.53	1.54	1.42
Debt/Equity	1.46	1.29	1.29	1.19
ST Debt/Equity	0.87	0.84	0.80	0.74

VND Billion	2017	2018	2019F	2020F
Income Statement				
Net Sales	4,070	8,012	10,057	10,081
COGS	-3,519	-7,339	-8,914	-8,954
Gross Profit	550	673	1,143	1,127
Financial Income	56	62	146	128
Financial Expense	-95	-209	-290	-246
Income from associates	0	0	0	0
Selling Expense	-106	-157	-201	-202
Admin Expense	-79	-124	-151	-151
Income from business operation	326	246	648	656
Net Other Income	2	8	0	0
Profit Before Tax	328	254	648	656
Net Income	263	212	518	525
NI attributable to shareholders	223	180	441	446
Minority interest	40	32	78	79
Basic EPS (VND)	3,426	1,115	2,316	2,345
BVPS (VND)	16,470	15,075	17,391	18,736
Dividend (VND/share)	500	0	1,000	1,000
EBIT	409	380	848	813
EBITDA	577	625	1,093	1,093
Growth				
Sales	89.8%	96.9%	25.5%	0.2%
EBITDA	101.0%	8.4%	74.9%	0.0%
EBIT	110.8%	-7.0%	123.3%	-4.2%
NI	84.3%	-19.4%	144.3%	1.3%
Equity	70.2%	83.4%	15.9%	8.9%
Chartered Capital	46.8%	104.8%	0.0%	0.0%
Total assets	48.7%	64.5%	16.6%	3.8%
Valuation				
P/E	9.7	13.2	7.6	7.5
P/B	2.0	1.0	1.0	0.9
P/Sales	0.7	0.3	0.3	0.3
Dividend yield	1.5%	0.0%	5.7%	5.7%
EV/EBITDA	8.0	8.0	5.3	5.3
EV/Sales	1.1	0.6	0.6	0.6
Profitability Ratios				
Gross Margin	13.5%	8.4%	11.4%	11.2%
Operating Margin	9.7%	4.2%	7.3%	7.1%
Net Margin	6.5%	2.6%	5.2%	5.2%
Selling exp./Net sales	2.6%	2.0%	2.0%	2.0%
Admin exp./Net sales	1.9%	1.5%	1.5%	1.5%
ROE	20.4%	9.2%	16.1%	14.5%
ROA	6.9%	3.5%	6.4%	5.9%
ROIC	9.7%	5.9%	9.2%	8.1%

Source: AAA, SSI Research

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4. CONTACT INFORMATION

Institutional Research & Investment Advisory

 **Chau Dao, CFA**

Senior Analyst, Industrials

 Tel: (84-24) 3936 6321 ext. 624

 chaudm@ssi.com.vn

 **Phuong Hoang**

Deputy Managing Director,

Head of Institutional Research & Investment Advisory

 phuonghv@ssi.com.vn

 **Hung Pham**

Associate Director

 hungpl@ssi.com.vn

 **Giang Nguyen**

Associate Director

 giangntt@ssi.com.vn