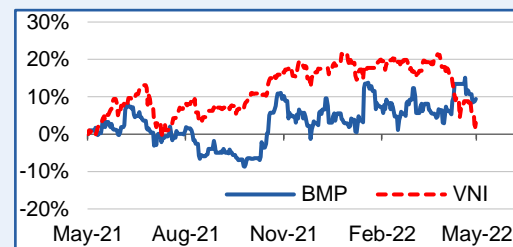




Binh Minh Plastics (BMP) [BUY +25.5%]

Update Report

Industry Report Date	Plastics May 12, 2022		2021	2022F	2023F	2024F
Current Price	VND55,600	Rev y/y	-2.8%	24.2%	4.3%	4.3%
Target Price	VND66,800	EPS y/y	-59.0%	126.5%	1.5%	17.5%
Last Target Price	VND65,000	GPM	15.3%	21.3%	21.1%	22.4%
Upside to TP	+20.1%	NPM	4.7%	8.6%	8.4%	9.4%
Dividend Yield	5.4%	EV/EBITDA	7.0x	4.2x	4.4x	4.4x
TSR	+25.5%	P/B	2.0x	2.0x	1.8x	1.7x
		P/E	21.5x	9.5x	9.3x	7.9x



Market Cap	USD197.9mn		BMP	Peers*	VNI
Foreign Room	USD28.5mn	P/E (ttm)	17.8x	10.1x	14.1x
ADTV30D	USD187,000	P/B (curr)	1.9x	1.7x	2.2x
State Ownership	0.0%	Net D/E	-36.9%	-12.4%	N/A
Outstanding Shares	81.9 mn	ROE	10.9%	13.3%	15.8%
Fully Diluted O/S	81.9 mn	ROA	9.0%	8.4%	2.6%

* Foreign peers

Company Overview

Established in 1977, BMP is the pioneer of Vietnam's plastic pipe industry. In March 2018, BMP's largest shareholder, the State Capital Investment Corporation (SCIC), divested its 29.5% holding to Nawaplastic. Subsequently, Nawaplastic raised its holding to a controlling stake of 54.4%.

Vy Nguyen
Manager

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Margin expansion, sales recovery fuel 2022F profit growth

- We upgrade our rating for BMP to BUY from OUTPERFORM and nudge up our target price by 3% as we increase our 2022F NPAT-MI by 7% to VND485bn (USD21.1mn; implying 127% growth from 2021's low base) and roll over our target price horizon to mid-2023.
- Our upward revision for 2022F NPAT-MI is driven by increasing our 2022F gross margin assumption to 21.3% from previously 20.7% as BMP has been able to 1) pass on higher input plastic costs better than our expectation and 2) secure input plastic resin inventory at favorable prices. BMP achieved strong Q1 2022 NPAT-MI of VND127bn (USD5.5mn; +52% YoY and +11% QoQ), which was mainly due to margin expansion.
- BMP's share price has decreased 13% over the last three months; as a result, we believe it has fallen to an attractive valuation. BMP is trading at 2022F P/E of 9.5x (based on our forecast) vs the two-year average of the regional peer LTM PER median of 12.2x.
- Downside risk: Weaker-than-expected gross margin due to high input plastic costs.
- Upside risk: Stronger-than-expected sales recovery in 2022.

We maintain our 2022F sales volume growth assumption of 11% YoY from 2021's low base.

BMP's total plastic pipe & accessory sales volume dropped 12% YoY to 22,635 tonnes in Q1 2022 as domestic demand slowly recovered from COVID-related disruptions. Nevertheless, BMP's sales volume has started to gain growth momentum in Q2 2022, per management. While we expect demand for construction materials to recover throughout 2022 amid increasing infrastructure investments and residential construction activities resuming post-COVID to support BMP's sales volume recovery in 2022F, ongoing competition could limit BMP's recovery momentum. We currently forecast 2022F sales volume of 102,700 tonnes (+11% YoY) — unchanged from our last [Update Report](#), dated February 21, 2022. We also continue to expect that increased sales volume in 2022F vs 2021's low base will allow BMP to partially pass on higher input plastic prices through increasing selling prices. Therefore, we maintain our 2022F revenue forecast of VND5.7tn (USD245.9mn; +24% YoY).

Competition and high input plastic price environment to limit 2022F gross margin expansion.

According to management, the strong recovery in Q1 2022 gross margin (23.6% compared to 17.9% in Q1 2021 and 19.9% in Q4 2021) was supported by BMP being able to secure an amount of low-cost input plastic before the commodity's strong rally that began in late 2021. As BMP's Q1 2022 gross margin was better than our expectation, we revise up our 2022F gross margin assumption to 21.3% from previously 20.7%. However, as we expect plastic prices to remain high in 2022F, we believe the impact of low-cost input plastic inventory will diminish in the remainder of 2022. Our current 2022F gross margin assumption of 21.3% is still lower compared to BMP's average of 23.9% in 2017-2020.

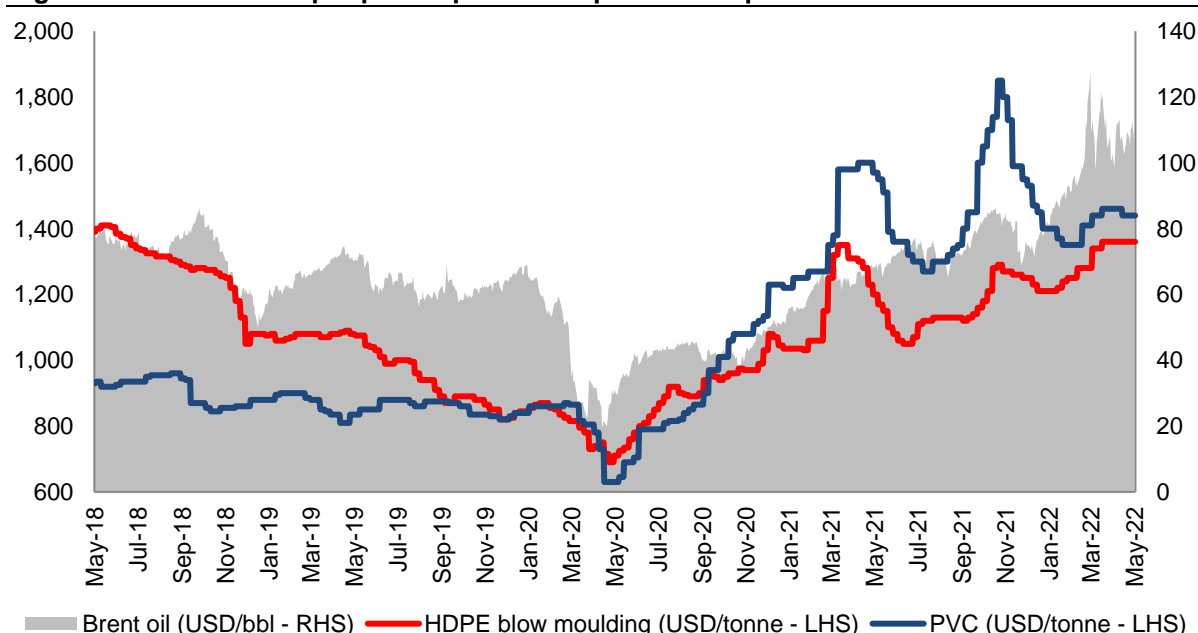
Q1 2022 Recap: Strong earnings growth amid margin expansion

Figure 1: BMP's Q1 2022 results

VND bn	Q1 2021	Q1 2022	% YoY Growth	2022F old	Q1 as % of 2022F old	VCSC comments
Net revenue	1,153	1,350	17%	5,656	24%	* BMP's total plastic pipe & accessory sales volume dropped 12% YoY to 22,635 tonnes in Q1 2022 as domestic demand slowly recovered from COVID-related disruptions in 2021. Nevertheless, the company was able to pass on higher input plastic prices by increasing selling prices, per management.
Gross profit	206	319	55%	1,171	27%	
SG&A expenses	-91	-136	49%	-522	26%	* Higher YoY due to BMP increasing trade discounts for buyers from 2021's low base.
EBIT	115	183	59%	650	28%	
Financial income	18	12	-36%	65	18%	
Financial expenses	-32	-36	14%	-154	23%	
Net other income/loss	2.57	0.65	-75%	5	14%	
PBT	105	159	52%	565	28%	
NPAT-MI	84	127	52%	452	28%	* Full-year 2021 earnings beat our forecast by a high margin.
Gross margin	17.9%	23.6%		20.7%		* BMP's gross margin expanded to 23.6% in Q1 2022 compared to 17.9% in Q1 2021 and 19.9% in Q4 2021. * We attribute this increase to BMP 1) being able to pass on higher input plastic costs amid domestic demand for construction materials (including plastic pipes), which allowed the company to gradually recover from COVID-related disruptions in 2021, and 2) securing input plastic resin inventory at favorable prices.
SG&A exp./Sales	7.9%	10.1%		9.2%		
EBIT margin	10.0%	13.6%		11.5%		
NPAT-MI margin	7.3%	9.4%		8.0%		

Source: BMP's financial statements, VCSC forecast.

Figure 2: BMP's main input plastic prices compared to oil prices



Source: Bloomberg, VCSC compilation

2022 Outlook: Recovery from low base in 2021

Figure 3: 2022 forecast

VND bn	2021	2022F Old	2022F Revised	2022F revised vs old	2022F revised vs 2021F	VCSC assumptions/forecasts for 2022F
Net revenue	4,553	5,656	5,656	0%	24%	* As Q1 2021 sales volume was in line with our expectation, we maintain our 2022F sales volume assumption at 102,700 tonnes (+11% YoY). * We continue to expect rising demand for construction materials amid increasing infrastructure investment and residential construction activities resuming post-COVID will support BMP's sales volume recovery.
Gross profit	699	1,171	1,207	3%	73%	* We revise up due to better-than-expected gross margin in Q1 2022 amid input plastic inventory secured at favorable prices.
SG&A expenses	-370	-522	-533	2%	44%	* We expect 2022F SG&A to increase from 2021 due to a higher YoY sales volume forecast as well as higher sales and trade discounts for buyers to push sales volume.
EBIT	329	650	673	4%	105%	
Financial income	60	65	65	0%	9%	
Financial expenses	-125	-154	-136	-12%	9%	
Net other income/loss	5	5	5	0%	0%	
Profit before tax	268	565	607	7%	126%	
NPAT-MI	214	452	485	7%	127%	* Strong YoY growth on the back of sales volume and margin recovering from COVID-19 disruptions in 2021.
Gross margin	15.3%	20.7%	21.3%			* We revise up our 2022F gross margin assumption to 21.3% from 20.7% due to better-than-expected Q1 2021 gross margin amid the low-cost input plastic inventory. * Nevertheless, as we expect plastic prices to remain high in 2022F, our 2022F gross margin assumption of 20.7% is lower compared to BMP's average of 23.1% in 2017-2019.
SG&A exp./Sales	8.1%	9.2%	9.4%			* We revise up our 2022F SG&A expenses to sales ratio to 9.4% vs previously 9.2% as we expect BMP to increase its sales and trade discounts for buyers to push sales volume.
EBIT margin	7.2%	11.5%	11.9%			
NPAT-MI margin	4.7%	8.0%	8.6%			

Source: BMP's financial statements, VCSC forecast

Valuation

We continue to use a combination of the DCF (70% weighting) and P/E (30% weighting) methodologies to derive a target price of VND 66,800/share for BMP.

1. Our DCF-derived valuation is relatively flat compared to our last Update Report due to 1) our 3% increase in aggregate 2022-2026F NPAT-MI on the back of BMP's better-than-expected ability to protect gross margin in the high input cost environment and 2) rolling over our target price horizon to mid-2023 being offset by BMP's lower cash balance at end-Q1 2021 (VND952bn/USD41.4mn) vs end-2021 (VND1.0tn/USD44.7mn).
2. Our P/E-derived valuation is 8% higher than our last Update Report as we apply average 2022-2023F EPS of VND5,913 compared to 2022F VND5,464 as previously; we also maintain our target P/E of 11.9x.

The flat DCF-derived valuation and higher P/E-derived valuation result in our target price increasing by 3% to VND66,800/share from VND65,000/share as previously.

Figure 4: Valuation summary

Valuation method	Fair price	Weight	(VND/share)
DCF	65,200	70%	45,600
Targeted P/E of 11.9x	70,400	30%	21,200
Target price			66,800
2022F P/E at target price			11.4x

Source: VCSC

Discounted cash flow (DCF)

We continue to apply a five-year DCF valuation and a terminal growth rate of 1%.

Figure 5: Discounted cash flow

Assumptions (VND bn)	2022F	2023F	2024F	2025F	2026F
EBIT	673	687	800	800	800
- Tax	-135	-137	-160	-160	-160
+ Depreciation	201	141	38	50	63
- Capex	-100	-100	-100	-100	-100
- Working cap increase	74	-158	-121	-127	-149
Free Cash Flow	713	433	456	464	453
Present value of FCF	675	367	346	315	276
Total PV of FCF	675	1,041	1,388	1,703	1,978

Cost of Capital	Previous report	Revised	DCF	VND bn
Beta	0.9	0.9	PV of Free Cash Flow	1,978
Market Risk Premium %	7.0	7.0	PV of Terminal Val	2,465
Risk Free Rate %	5.5	5.5	PV of FCF and TV	4,444
Cost of Equity %	11.8	11.8	Plus: Cash + Short term deposit	952
Cost of Debt %	9.0	9.0	Less: Debt	57
Corporate Tax Rate %	20.0	20.0	Value of Equity	5,338
Debt-to-capital ratio %	1.7	1.7	Fully diluted shares (million)	82
WACC %	11.7	11.7	DCF value per share (VND)	65,207
Terminal Growth Rate %	1.0	1.0		

Source: VCSC

Figure 6: Sensitivity analysis of our target price for BMP in relation to DCF's WACC and terminal growth rate, ceteris paribus

Terminal growth rate %	WACC						
	10.2%	10.7%	11.2%	11.7%	12.2%	12.7%	13.2%
0.0%	69,600	67,800	66,200	64,800	63,400	62,200	61,000
0.5%	70,900	69,000	67,300	65,700	64,300	63,000	61,700
1.0%	72,400	70,300	68,400	66,800	65,200	63,800	62,500
1.5%	74,000	71,800	69,700	67,900	66,200	64,700	63,300
2.0%	75,900	73,400	71,100	69,200	67,400	65,700	64,200
2.5%	78,000	75,200	72,700	70,500	68,600	66,800	65,200
3.0%	80,300	77,200	74,500	72,100	70,000	68,000	66,300

Source: VCSC

Peer P/E multiple

We select plastic pipe producers in China, Japan, South Korea and the Philippines to form a comparable universe for BMP. In H1 2021, share prices and earnings results of BMP's peers reflected high plastic prices; as such, BMP's peer group median P/E dropped to below 10.0x in mid-2021. While the peer group median P/E started to slowly recover in H2 2021, weak reported earnings in H2 2021 caused BMP's P/E to jump to over 20.0x. As BMP's share price has started to reflect expectations for positive 2022F earnings, we maintain our target P/E for BMP at 11.9x in this Update Report. We believe that BMP deserves to trade at least on par with its peers due to the company's superior profitability (2022F ROE of 21.0% vs TTM ROE of 10.9% of peer median).

Figure 7: Local peer

Ticker	Company name	Market cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y %	TTM NPAT (USD mn)	Y-o-Y %	Net debt/Equity (%)	ROE (%)	ROA (%)	TTM P/E	LQ P/B
NTP	Tien Phong Plastics	253	212	6.6	21	-2.9	28.4	16.9	10.4	12.4	2.0
BMP	Binh Minh Plastics	198	206	-1.5	11	-50.7	-36.9	10.9	9.0	17.8	1.9

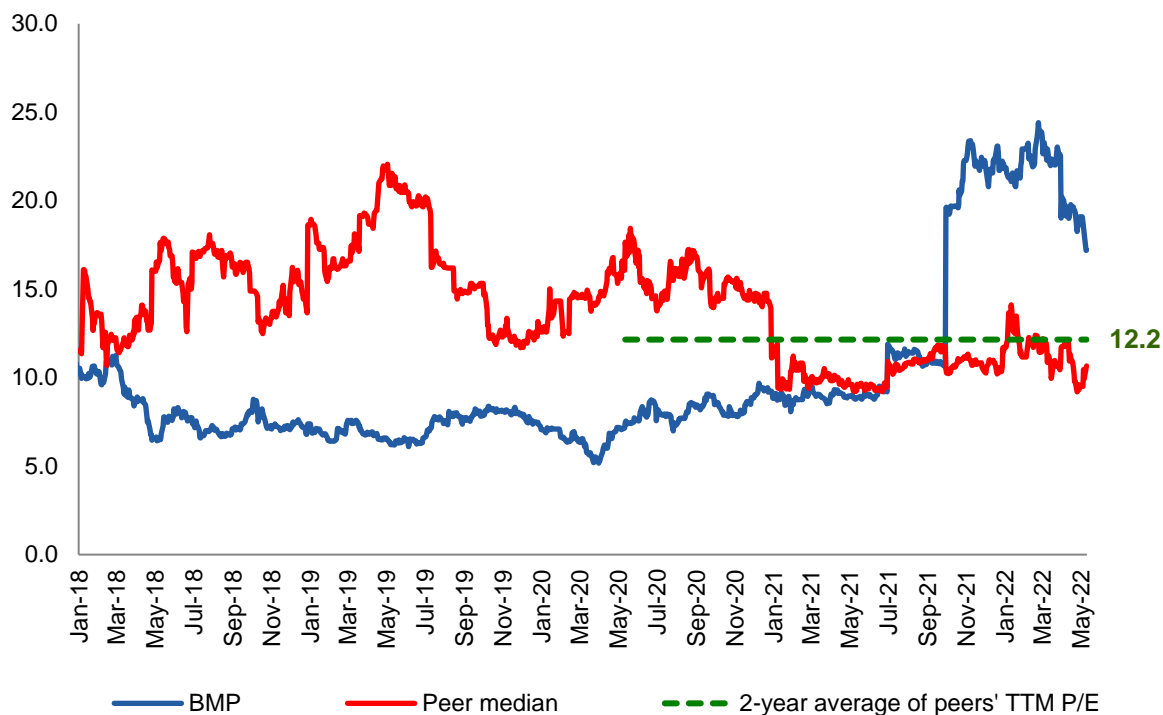
Source: Bloomberg, VCSC. Note: Data as of May 11, 2022.

Figure 8: Regional peers

Company	Country	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y (%)	TTM NPAT (USD mn)	Y-o-Y (%)	Net debt/Equity (%)	ROE (%)	ROA (%)	TTM P/E (x)	LQ P/B (x)
Zhejiang Weixing New Building Materials	China	4,571	1,013	19.5	191	0.7	-51.8	25.9	20.3	25.2	2.8
Cangzhou Mingzhu Plastic	China	1,025	438	-7.7	49	-17.8	10.9	8.5	5.7	22.0	0.8
Era Co.	China	849	1,404	16.0	83	-33.8	13.5	10.9	6.0	10.6	0.5
China General Plastics	China	592	736	35.9	75	-2.7	-7.1	18.9	13.0	8.5	0.9
Daiichi Jitsugyo	Japan	301	1,359	4.4	49	16.7	-47.3	9.9	4.4	7.0	0.7
Plumb Fast	S. Korea	43	26	17.1	2	42.5	-38.5	6.0	5.4	22.5	1.5
Crown Asia Chemicals	Philippines	20	37	52.9	5	87.8	-5.3	15.6	12.3	4.3	0.5
Average		1,057	716	19.7	65	13.3	-18.0	13.7	9.6	14.3	1.1
Median		592	736	17.1	49	0.7	-7.1	10.9	6.0	10.6	0.8
Binh Minh Plastics	Vietnam	198	206	-1.5	11	-50.7	-36.9	10.9	9.0	17.8	1.9

Source: Bloomberg, VCSC. Note: Data as of May 11, 2022.

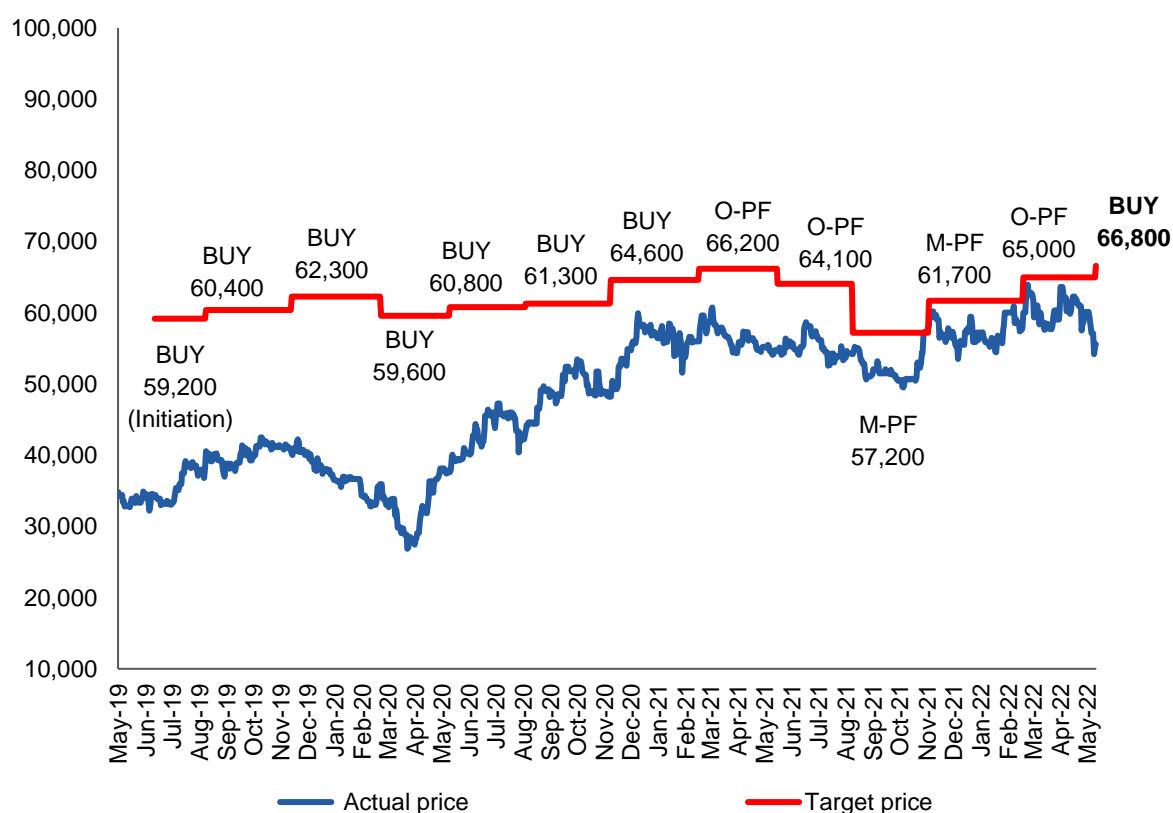
Figure 9: Historical Price-to-Earnings Ratio (P/E) of BMP vs peers



Source: Bloomberg, VCSC

Recommendation History

Figure 10: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC. Note: Historical target prices adjusted for changes in shares outstanding.

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	4,553	5,656	5,898	6,151
COGS	-3,854	-4,449	-4,655	-4,771
Gross Profit	699	1,207	1,243	1,380
Sales & Marketing exp	-281	-448	-467	-487
General & Admin exp	-88	-85	-89	-93
Operating Profit	329	673	687	800
Financial income	60	65	65	65
Financial expenses	-125	-136	-141	-146
- o/w interest expense	0	0	0	0
Associates	2	2	2	2
Net other income/(loss)	2	2	2	2
Profit before Tax	268	607	616	723
Income Tax	-54	-121	-123	-145
NPAT before MI	214	485	493	579
Minority Interest	0	0	0	0
NPAT less MI, reported	214	485	493	579
NPAT less MI, adjusted	214	485	493	579

EBITDA	520	874	828	837
EPS reported, VND	2,591	5,871	5,956	6,998
EPS adjusted, VND	2,591	5,871	5,956	6,998
EPS fully diluted, VND	2,591	5,871	5,956	6,998
DPS, VND	2,600	3,000	5,000	5,000
DPS/EPS (%)	100%	51%	84%	71%

RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	-2.8%	24.2%	4.3%	4.3%
Op profit (EBIT) growth	-52.9%	104.8%	2.0%	16.4%
PBT growth	-59.2%	126.3%	1.5%	17.5%
EPS growth, adjusted	-59.0%	126.5%	1.5%	17.5%

Profitability				
Gross Profit Margin	15.3%	21.3%	21.1%	22.4%
Op Profit, (EBIT) Margin	7.2%	11.9%	11.7%	13.0%
EBITDA Margin	11.4%	15.5%	14.0%	13.6%
NPAT-MI Margin, adj,	4.7%	8.6%	8.4%	9.4%
ROE	9.0%	21.0%	20.2%	21.8%
ROA	7.3%	17.0%	16.4%	17.8%

Efficiency				
Days Inventory On Hand	62.3	68.6	63.9	70.2
Days Accts, Receivable	19.8	17.5	21.1	23.8
Days Accts, Payable	17.0	16.5	15.4	15.0
Cash Conversion Days	65.1	69.6	69.6	79.0

Liquidity				
Current Ratio x	3.9	4.3	4.5	4.5
Quick Ratio x	2.4	3.0	3.1	3.1
Cash Ratio x	0.3	0.7	0.9	0.9
Debt / Assets	2.0%	2.0%	2.2%	2.8%
Debt / Capital	2.4%	2.4%	2.7%	3.3%
Net Debt / Equity	-42.3%	-50.5%	-50.7%	-47.1%
Interest Coverage x	N/M	N/M	N/M	N/M

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	173	374	518	525
ST investment	855	855	855	855
Accounts receivables	237	304	376	425
Inventories	919	754	877	959
Other current assets	-127	-127	-127	-127
Total Current assets	2,057	2,160	2,498	2,638
Fix assets, gross	1,941	2,041	2,141	2,241
- Depreciation	-1,539	-1,740	-1,881	-1,918
Fix assets, net	402	301	260	323
LT investment	72	72	72	72
LT assets other	316	316	316	316
Total LT assets	790	689	648	710
Total Assets	2,847	2,849	3,146	3,348

Accounts payable	208	195	197	196
Short-term debt	57	57	71	92
Other ST liabilities	266	255	289	301
Total current liabilities	531	507	557	589
Long term debt	0	0	0	0
Other LT liabilities	22	22	22	22
Total Liabilities	553	528	579	611

Preferred Equity	0	0	0	0
Paid in capital	819	819	819	819
Share premium	2	2	2	2
Retained earnings	271	298	545	714
Other equity	1,202	1,202	1,202	1,202
Minority interest	0	0	0	0
Total equity	2,293	2,320	2,567	2,737
Liabilities & equity	2,847	2,849	3,146	3,348

Y/E shares out, mn	82	82	82	82
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CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	196	173	374	518
Net Income	214	485	493	579
Dep, & amortization	191	201	141	38
Chge in Working Cap	-304	74	-158	-121
Other adjustments	-96	0	0	0
Cash from Operations	5	760	475	495

Capital Expenditures, net	-81	-100	-100	-100
Investments, net	439	0	0	0
Cash from Investments	358	-100	-100	-100

Dividends Paid	-387	-458	-246	-409
Δ in Share Capital	0	0	0	0
Δ in ST debt	2	-1	14	21
Δ in LT debt	0	0	0	0
Other financing C/F	0	0	0	0
Cash from Financing	-385	-459	-231	-388

Net Change in Cash	-23	201	144	7
Ending Cash Balance	173	374	518	525

Source: Company's financial statements, VCSC forecasts

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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