

# TIEN PHONG PLASTIC JSC (NTP)- UPDATE

## OVERVIEW

Tien Phong Plastic Joint Stock company (NTP) was founded in 1960 and then officially listed on Hasc in October 2006. The company's core business is to produce plastic pipe used in construction industry. In the company portfolio, uPVC pipe is the largest contributor which accounts for 75% its total revenue. NTP is currently the largest plastic pipe manufacturer in Vietnam, accounts for 65% total market share in the North and 25% nationwide.

## GENERAL INFORMATION

Industry	Construction material
Listed	HASTC
Ticker	NTP
Chartered capital (VND bn)	216
Highest price in 52W	135,000
Lowest price in 52W	24,800
Avg trading vol in 10 days	198,850

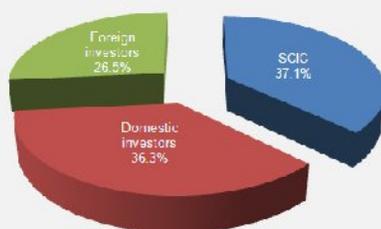
## VALUATION MEASURES

Price (22/10/2009)	135,000
Market capital (VND bn)	2,925
Trailing EPS	12,691
Trailing P/E	10.6x
P/E (2009)	8.0x
P/B (2009)	4.3x

## FINANCIAL PERFORMANCE 9M2008

Revenue (VND bn)	1,090.0
Net profit (VND bn)	264.6
Gross margin (%)	39.2
Net margin (%)	24.3
ROE (%)	48.7
ROA (%)	35.3
Total debt/equity (%)	24.0

## OWNERSHIP STRUCTURE



Source: HNX

## COMPANY HIGHLIGHTS

*NTP officially reported outstanding 9M2009 financial result with VND 1,089.9bn in revenue and VND 264.6bn net profit. Both top line and bottom line witnessed substantial growth of 26.7% and 87.2% respectively. In Q3 alone, NTP achieved revenue of VND 405.3bn and VND 103bn net profit, mostly equivalent to Q2 2009.*

**Strong top line growth in 9M2009 driven by household construction sector**, which accounts for 85% the company's revenue. NTP saw their sales surge 44.6% in Q2 from a low base Q1. Q3 continued the momentum in Q2 by selling 11,700 tons and delivering revenue of VND 405bn, a 58.7% y-o-y growth. Such performance was very encouraging since Q3 is normally the low season due to the effect of rainy weather. For 9M2009, selling volume were 32,000 tons, achieving 91% full year target of the company.

**High profitability was maintained in Q3 despite the climb in material price.** YTD 3Q net profit of NTP was 264.6bn, up 87.2% y-o-y and tripling the sales jump. In mid Q3, PVC and other plastic material prices rose 10% compared to Q2 as fueled by oil price and strong demand from China. Fortunately enough, the price declined gradually towards the end of the Quarter, reducing the average cost of NTP's inventories. As we calculated, material appreciated roughly 7% as a whole, which translated into 3% increase in COGS (as plastic material account for 50% COGS), or VND 7bn in absolute amount. Accordingly, gross margin in Q3 witnessed a slight decrease from 41.6% in Q2 2009 to 39.9% in Q3. Nevertheless, net profit remained almost unchanged at VND 103.43bn thanks to better selling and admin cost control as well as lower interest expense.

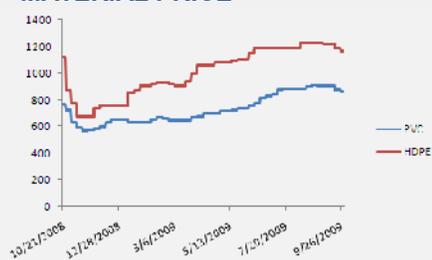
**Sales pick-up sharply in construction season Q4 along with secured gross margin may reserve another VND 103bn net profit for NTP in the next quarter.** Q4 is usually the high season as most projects will be accelerated in order to be completed before the New Year. We expect NTP's selling volume will achieve 13,000 tons, 11% higher than Q3 2009, adding up 45,000 tons for the whole year. Since selling price is expected to remain unchanged for the rest of the year, NTP's revenue is estimated at VND 450bn in Q4 or VND 1,540bn revenue for FY 2009.

At the end of Q3, NTP reserved a 45-production-day amount of inventory for the remaining 3 months of the year. In early October'09, they continued filling the stocks, making them sufficient for the whole year production demand. These inventories are stocked up at good price e.g. USD 850 per ton for PVC, roughly the same price as in Q3. On such ground, we forecast NTP's gross margin will just slide slightly in Q4 to around 38.4%, but the drop in profit margin will be compensated by increase in revenue. Therefore NTP should be able to deliver VND 172bn gross profit, or VND 103bn net income in Q4, which adds up to full year profit of VND 367bn. EPS 2009 was thereby estimated at VND 16,944.

**We keep an optimistic view on the company's 2010 top line outlook.** In 2010, we believe that demand for construction material, including plastic pipe, will further increase thanks to the recovery of the construction and real estate market. We expect NTP to see higher growth from the project construction sector, and the company can sell 51,132 tons or 15% volume increase. With no assumption on price increase, revenue can be up to VND 1,771bn.

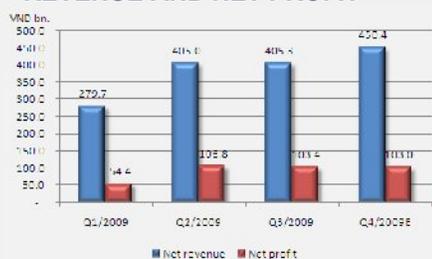
The recovery of oil price will cause raw material price to increase, and taking this into careful account, we conservatively estimate gross margin will decrease to 34.1% in 2010 and net margin at 20.1%. As the result, NTP's net profit is forecasted at VND 355.5bn. However, it is worth noting that NTP could be able to transfer this impact to its customers through price increase thanks to its market leader position in the North.

### MATERIAL PRICE



Source: Datastream

### REVENUE AND NET PROFIT



Source: NTP, VCSC estimate

### PRICE PERFORMANCE



Source: Reuters

**Production capacity will be enhanced to meet increasing demand through reallocation of current factory to bigger site and installment of new production lines.** NTP is planning to move its current factory to Duong Kinh district on a premise of 13.6ha. The total investment of this reallocation project is estimated around VND 200bn. At initial step, HDPE line will be moved first to new factory in November'09 as this is the most space-consuming production line.

At the same time, NTP is buying 3 new production lines of VND 30bn to fill in the space lot of HDPE. Once operated, NTP's annual capacity will increase from 60,000 tons to 70,000 tons. On such enforcement, capacity constraint is not a big deal for now.

**Real estate project on current site after completing reallocation can be attractive in the longer term.** After relocating the current factory to the new site, NTP plans to use the current land to develop commercial real estate. It is not yet decided whether the project will be office building or residential apartment building, but we think the location at 5 An Da, Ngo Quyen District is good for both purposes as it is just very near the Central Business District of Hai Phong city. Current area 3.2ha will reduce to 2.7ha after the An Da Street is expanded. We estimate that the current premise is worth VND 160bn in terms of land value.

### RECOMMENDATION

Overall, NTP is one of our favourite stocks in construction material sector. We think the stock is attractive to growth investors in light of a market leader in plastic pipe industry, impressive growth track record as well as the feasibility of future development from the recovery of construction industry. The company also showed improvement in managing its working capital and achieved positive operating cash flow this year. We believe that NTP is a strong fundamental stock which is suitable for both short term and long term investment.

With the current price of VND 135,000/share, NTP is traded at PE 2009 8x and PE 2010 8.2x, a good discount versus average PE 14x of other manufacturing sectors. Given the fundamentals of a growth stock and healthy financial position, we value the stock at VND 170,000 per share and recommend a BUY for NTP.

## FINANCIAL STATEMENTS

INCOME STATEMENTS (VND mil)	2007A	2008A	9M2009	2009E	2010F
Net revenue	903,296	1,094,482	1,089,961	1,540,318	1,771,366
Cost of goods sold	687,848	794,304	662,983	940,607	1,167,031
Gross profit	215,448	300,178	426,978	599,711	604,335
Operating profit	127,561	187,076	314,619	433,356	413,027
Profit before tax	125,441	154,408	302,442	420,183	406,248
<b>Profit after tax</b>	<b>125,441</b>	<b>154,408</b>	<b>264,637</b>	<b>367,660</b>	<b>355,467</b>

BALANCE SHEET (VND mil)	2007A	2008A	9M2009	2009E	2010F
Cash and cash equivalents	21,661	42,575	80,326	58,485	75,557
Short term financial investments	-	-	-	100,000	270,000
Receivables	241,929	223,562	322,166	337,604	388,244
Inventory	153,255	271,651	120,634	257,701	319,734
Other current assets	0	4,572	10,061	7,702	8,857
Fixed assets	80,528	106,602	128,414	129,412	155,369
Long term financial investments	23,798	59,498	75,835	9,348	10,019
Other long term assets	22,366	25,890	12,579	38,508	44,284
<b>TOTAL ASSETS</b>	<b>543,537</b>	<b>734,349</b>	<b>750,015</b>	<b>938,759</b>	<b>1,272,065</b>
Short term liabilities	205,429	324,545	206,869	257,112	269,603
Long term liabilities	0	0	0	0	0
Chartered capital	216,690	216,690	216,690	216,690	216,690
Retained earning and funds	121,418	193,115	326,456	455,957	735,792
<b>Minority interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49,000</b>	<b>49,980</b>
<b>TOTAL CAPITAL</b>	<b>543,537</b>	<b>734,349</b>	<b>750,015</b>	<b>978,759</b>	<b>1,272,065</b>

FINANCIAL RATIOS	2007A	2008A	9M2009	2009E	2010F
Revenue growth (%)	26.1	21.2	25.7	40.7	15.0
Gross profit margin (%)	23.9	27.4	39.2	38.9	34.1
Net profit margin (%)	13.9	14.1	24.3	23.9	20.1
ROA (%)	23.1	21.0	35.3	39.2	27.9
ROE (%)	37.1	37.7	48.7	54.7	37.3
ROIC (%)	27.9	23.5	40.8	44.5	32.5
EPS (VND)	5,789	7,126	12,691	16,967	16,404
EPS growth (%)	(29.7)	23.1	78.1	138.1	(3.3)

Cash Flow Statement (VND mil)	2006	2007	2008	9M2009
Cash Flow From Operating Activities	168,113	(1,429)	39,046	277,611
Cash Flow From Investing Activities	(18,303)	(62,370)	(75,531)	(57,875)
Cash Flow From Financing Activities	(101,071)	27,502	57,509	(181,771)
Net Cash Flow	48,739	(36,297)	21,024	37,965
Beginning cash balance	9,216	57,955	21,661	42,575
Exchange rate change	(0)	4	(111)	(215)
Ending cash balance	57,955	21,662	42,575	80,326

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