

# BINH MINH PLASTIC JS COMPANY (BMP) – UPDATE

Recommendation: Buy

Target price: VND 80,000/share

## COMPANY PROFILE

Binh Minh Plastic Joint Stock Company (BMP) was founded in 1997 and then privatized in December 2003. On the June 12, 2006 the company was officially listed on HOSE.

Core business of the company is to produce plastic pipes used in construction industry. Product portfolio of BMP is mainly uPVC plastic pipe, which accounts for 91% and 83% of its output and revenue, respectively.

## GENERAL INFORMATION

Sector	Construction Material
Listed	HOSE
Ticker	BMP
Charter Cap. (VNDbn)	169.6
52-week highest price	113,570
52-week lowest price	27,000
Average trading vol in 10 days	72,779

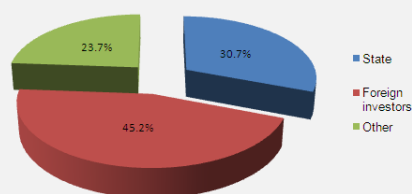
## VALUATION MEASURES

Price (17/07/2009)	69,500
Market capital (VND bn.)	1,178
EPS (2008)	5,657
P/E (2008)	12.3
P/B (2008)	2.4
ROE 2008 (%)	19.6
ROA 2008 (%)	16.9

## FINANCIAL PERFORMANCE 1H2009E

Revenue (VND bn.)	498.1
Gross profit (VND bn.)	157.3
PAT (VND bn.)	104.1
Gross profit margin (%)	31.5
Net profit margin (%)	20.9
ROE (%)	18.3
ROA (%)	16.4
Trailing EPS (VND)	8,801
Trailing PE	7.7x

## OWNERSHIP STRUCTURE



Source: HOSE

## COMPANY HIGHLIGHTS

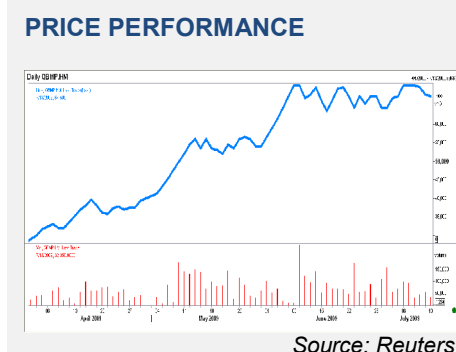
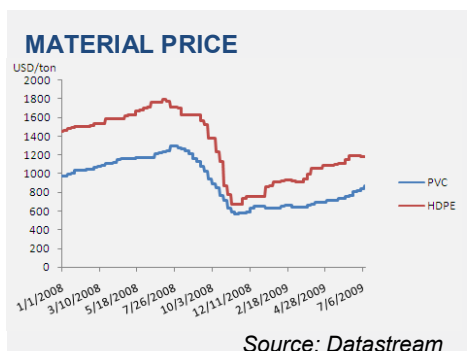
**Revenue growth is expected to achieve 59% qoq thanks to high selling volume in Q2/2009.** In Q4/2008, due to economy slowdown, the frozen construction market deteriorated BMP's revenue and profit growth. Many retail agencies stopped their new orders because of deep fall in demand. However, as the government implemented the stimulating demand policy in Q1/2009, the construction market witnessed initial recovery. Because the inventory in the retail distribution network was just enough for the demand in the first 3 months of the year, the plastic pipe supply should be much lower than the demand. As a result, BMP enjoyed a high increase in buying orders from the retailers in Q2. According to our estimate, BMP's selling volume in Q2 is about 10,180 tons, up 59% in comparison with the previous quarter. Although the selling price remains unchanged, the company's revenue in April and May equaled total revenue in Q1. We anticipate BMP's revenue in Q2 will grow about 59% compared to the previous quarter.

**High profit margin in Q2 thanks to low material price.** Together with the falling oil price, the plastic material price also decreased in Q1. The daily average price of PVC scrap was only USD645 per ton, down 5% compared to Q4/2008 or 37% compared to the average price of last year. As the plastic scraps, especially PVC, account for the major part of BMP's cost structure, around 75-80%, BMP could maintain its low production cost. Although the material price increased about 13% compared to Q1, we still believe that BMP's production cost is least likely affected. The main reason is that BMP held a quite high inventory at the end of Q1, around VND154 billion, which is enough for 60% of total material demand in Q2. Besides, although the company lowered its selling price, around 12.5%, in November 2008, its current price is still 6% higher than the average price in 2008. This is because BMP's price increased four times during the period from January to July, 9% each. We believe that BMP can maintain high gross profit margin in Q2, about 30.9%. The fact that material price increased while the inventory was not enough for the production demand slightly lowers the company profit margin compared to the previous quarter. In conclusion, higher revenue coupled with high profit margin should raise BMP's profit significantly in Q2. According to our estimate, BMP's net profit in Q2 is about VND63 billion, 54.4% and 152% higher than the previous year and Q2/2008, respectively.

**The North business is currently in the penetration phase.** The plan to expand the market in the North is still ineffective. The meter standard uPVC products, which accounts for 50% of the North factory capacity, have not been successful to penetrate into this market because of the difference in consumer habit. As the North consumers usually use the inch standard uPVC products (the old standard), changing their habit is clearly a difficult task. We believe that the company will not earn any profit from these products within the next 2 years. Therefore, the growth of BMP in the North should rely solely on PE products - using the same meter standard as existing products in the North - these products will compete directly with those of NTP. The prestigious brand of NTP is a tough barrier to entry this market. In 2009, we think that the success of BMP will be very limited in this region. The North Binh Minh factory will suffer a loss of VND 15 billion which is mainly contributed by the depreciation cost.

**2009 outlook: We believe that the company will achieve its plan.** According to our estimate, BMP's net profit in 1H2009 should approximately equal to the its 2009 plan. Looking forward to the next 2 quarters, we anticipate lower profit than 1H2009.

On revenue aspect, the construction market usually tends to slow down in Q3 because of the rainy season. And therefore, the demand for construction



material will decrease compared to Q2. Besides, we believe that high growth of Q2 revenue is partially due to the speculation of retailers. Consequently, new orders from retailers in Q3 will be least likely to increase as those in 1H2009.

On the profit aspect, the fact that the material price started to increase will raise BMP's production cost. Although BMP may increase its selling price, we will not witness a huge increase like 2008. In addition, raising selling price usually lags behind the increase of material price. We anticipate that BMP's profit in Q3 and Q4 will be lower than 1H2009. With the expected net profit of VND 153 billion, the net profit margin in 2009 will be 16.94%.

## RECOMMENDATION

According to our estimate, BMP's revenue in 2009 will be VND906 billion, up 10% compared to the previous year. BMP's gross profit margin should be around 27%, lower than the level of 32.7% in Q1 due to the increase of material price. The company net profit will be VND 153 billion after deducting a loss of VND 15 billion from North Binh Minh factory.

With the current share price of VND 69,500 per share, BMP is traded at PE 2009 7.7x, 15% lower than our target price. Very high growth in the bottom line makes BMP become a very attractive investment compared to other stocks. Besides, considering BMP as the market leader in plastic pipe sector in the South, we are very optimistic about the company revenue and profit growth when the construction market recovers. Therefore, we recommend a BUY for this stock at the current price.

## FINANCIAL RATIOS

Financial ratios	2007	2008	2009	2010	2011
Net revenue growth rate y-o-y (%)	35.1	20.7	10.3	20.8	27.2
Gross margin (%)	20.9	22.8	27.3	25.7	25.8
Net margin (%)	14.1	11.7	16.9	15.9	13.8
ROA (%)	19.3	16.9	23.1	21.5	19.9
ROE (%)	22.8	19.6	25.2	23.4	21.8
ROIC (%)	22.5	17.9	24.8	23.1	21.5
EPS (VND)	6,838	5,657	8,994	10,114	11,147
EPS growth rate y-o-y (%)	14.7	-17.3	59.0	12.5	10.2
BPS (VND)	30,026	28,802	35,678	43,132	51,073
BPS growth rate y-o-y (%)	11.4	-4.1	23.9	20.9	18.4
D/E (%)	1	10	1	1	2
P/E (x)	10.2	12.3	7.7	6.9	6.2
P/B (x)	2.3	2.4	1.9	1.6	1.4

## HISTORICAL AND FORECASTED FINANCIAL STATEMENTS

Income statement (VND mil)	2007A	2008A	Q1/2009	2009E	2010F	2011F
<b>Net revenue</b>	<b>680,000</b>	<b>820,964</b>	<b>192,047</b>	<b>905,827</b>	<b>1,093,786</b>	<b>1,391,296</b>
COGS	538,023	633,927	129,330	658,481	812,250	1,032,105
<b>Gross profit</b>	<b>141,977</b>	<b>187,037</b>	<b>62,716</b>	<b>247,346</b>	<b>281,536</b>	<b>359,191</b>
Selling expense	19,645	25,476	6,620	36,233	43,751	55,652
Administration expense	19,528	27,526	7,427	36,233	43,751	55,652
<b>Operating Profit</b>	<b>102,805</b>	<b>134,035</b>	<b>48,669</b>	<b>174,880</b>	<b>194,033</b>	<b>247,887</b>
Financial revenue	8,121	1,633	342	2,800	7,200	12,400
Financial expense	212	13,538	563	1,196	1,444	1,837
Other income	856	2,238	78	-	-	-
<b>EBIT</b>	<b>111,570</b>	<b>124,369</b>	<b>48,525</b>	<b>176,484</b>	<b>199,789</b>	<b>258,451</b>
Interest expense	298	10,236	1,151	1,087	1,313	1,670
<b>EBT</b>	<b>111,272</b>	<b>114,133</b>	<b>47,374</b>	<b>175,397</b>	<b>198,477</b>	<b>256,781</b>
Tax	15,262	18,210	6,468	21,925	24,810	64,195
<b>Net income</b>	<b>96,010</b>	<b>95,923</b>	<b>40,906</b>	<b>153,473</b>	<b>173,667</b>	<b>192,586</b>

Balance Sheet (VND mil)	2007A	2008A	Q1/2009	2009E	2010F	2011F
<b>Current Assets</b>	<b>348,998</b>	<b>341,933</b>	<b>367,523</b>	<b>390,897</b>	<b>538,630</b>	<b>702,912</b>
Cash & cash equivalents	8,066	18,123	61,246	19,702	37,980	25,860
Short term investments	22,150	13,432	13,432	35,000	90,000	155,000
Receivables	156,000	90,365	123,450	124,086	149,834	190,589
Inventory	138,254	188,776	154,595	180,406	222,534	282,769
Other current assets	24,528	31,236	14,800	31,704	38,283	48,695
<b>Non-current Assets</b>	<b>148,739</b>	<b>224,078</b>	<b>225,456</b>	<b>272,943</b>	<b>269,623</b>	<b>265,497</b>
Fixed assets	148,709	217,557	218,958	259,355	253,216	244,628
Tangible fixed assets	80,186	186,637	188,229	229,090	223,580	215,621
Intangible fixed assets	16,843	30,894	30,703	30,265	29,636	29,007
Construction in progress	51,680	25	25	-	-	-
Long term investments	30	6,465	6,465	9,058	10,938	13,913
Other long term assets	-	57	33	4,529	5,469	6,956
<b>TOTAL ASSETS</b>	<b>497,737</b>	<b>566,011</b>	<b>592,979</b>	<b>663,840</b>	<b>808,253</b>	<b>968,410</b>

<b>LIABILITIES</b>	<b>76,150</b>	<b>77,655</b>	<b>68,110</b>	<b>55,066</b>	<b>67,665</b>	<b>85,996</b>
Current liabilities	75,627	76,899	58,450	54,160	66,571	84,605
Short term debt	4,600	48,535	13,940	9,058	10,938	13,913
Payables	71,027	28,364	44,510	45,101	55,634	70,692
Long term liabilities	524	755	9,660	906	1,094	1,391
<b>OWNER's EQUITY</b>	<b>421,587</b>	<b>488,356</b>	<b>524,869</b>	<b>608,774</b>	<b>740,588</b>	<b>882,413</b>
Charter Capital	140,406	169,559	169,559	170,631	171,702	172,774
Capital Surplus	104,021	104,021	104,021	104,021	104,021	104,021
Retained earnings	54,290	52,448	83,101	171,794	302,536	443,289
Other resources & funds	122,870	162,329	168,188	162,329	162,329	162,329
<b>TOTAL CAPITAL</b>	<b>497,737</b>	<b>566,011</b>	<b>592,979</b>	<b>663,840</b>	<b>808,253</b>	<b>968,410</b>

Cash Flow Statement (VND mil)	2006	2007	2008	Q1/2009
Cash Flow From Operating Activities	10,439	55,950	95,212	80,481
Cash Flow From Investing Activities	(17,078)	(108,506)	(112,134)	(11,607)
Cash Flow From Financing Activities	92,531	(41,657)	26,979	(25,750)
Net Cash Flow	85,892	(94,214)	10,057	43,124
Beginning cash balance	16,363	102,254	8,066	18,123
Exchange rate change	-	25	-	-
Ending cash balance	102,254	8,066	18,123	61,246

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