

Company Update report

CSV_ Southern Basic Chemicals Joint Stock Company **BSC**

12/05/2020

Recommendation Neutral

Tu Nguyen

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Target price	N/A
Current price	20,600
Upside	N/A

Duc Nguyen

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Target price	N/A
Buy zone	N/A

Market data

Outstanding shares (mil)	44.2
Mkt cap (VND. bil)	893
High of 52 w	46,400
Avg Vol 10 days (share)	367,663
Foreign ownership	9.84%

Major shareholders (%)

Vietnam National Chemicals Group	65.0%
Vietnam Investment Property Holdings Limited	6.6%
Vietnam Investment Limited	1.4%
Vietnam Enterprise Limited	0.2%

Chart (1 year)



Company Overview: CSV is leading chemical manufacturer with 40 different chemical products. The company is famous for inorganic chemical products such as liquid soda, chlorine, hydrogen chloride, sulfuric acid, ...

FIRST QUARTER 2020 BUSINESS UPDATE

Valuation

By May 12 2020, CSV closed at VND 20,150 per share, equivalent to PE valuation of 4.3, the lowest historical valuation.

FY 2020 Company Guidance

CSV set the target for revenue of VND 1,643bn (+4.9% YoY) and for PBT of VND 257bn (-18.3% YoY). EPS 2020 is VND 4,652 per share, P/E fw is 4.3. This target does not take into account of the impact of Covid pandemic.

Catalyst

- Factory relocation to Nhon Trach 6 Industrial Park
- Divestment of Vinachem down to 51% of ownership in 2020

Investment risks

- Low demand of chemical products amid corona virus crisis
- Decrease in cash dividends

Business update

In 1Q 2020, revenue suffered just a 6 percent fall in sales to VND 329 bn but profit before tax fell more than 18% percent to VND 59 bn.

Volume of sale in 1Q 2020 slumped due to low demand. Liquid soda volume fell by 9.7% YoY, hydrogen chloride fell by 19.2% YoY, sulfuric acid fell by 13.4% YoY.

Sale price of all major products also record a decrease. Liquid soda price fell to VND 3.7mn/ton (-9.7% YoY), hydrogen chloride down to VND 1.9mn/ton (-19.2% YoY), sulfuric acid down to VND 1.9mn/ton (-13.4% YoY).

Factory relocation has been approved by Vinachem. CSV will hire independent consultancy party to do feasibility study report

Vinachem expects to divest from CSV down to the 51% of ownership in 2020. Currently, Vinachem has valuation done by third party.

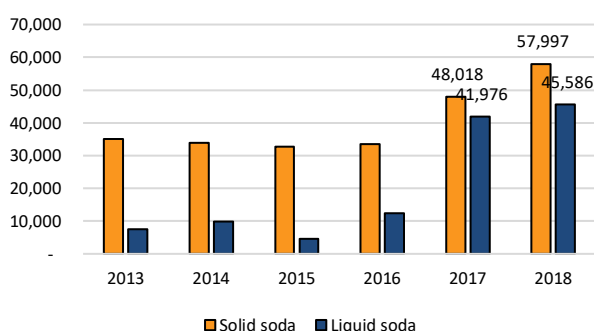
Southern Basic Chemicals Joint Stock Company



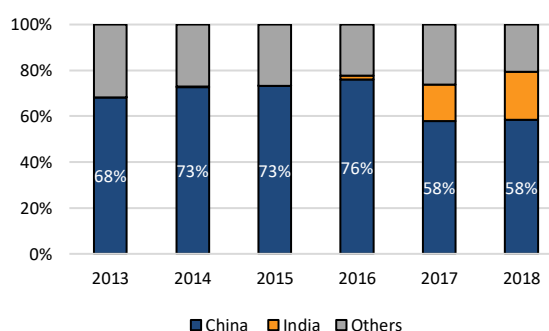
BSC had a brief discussion with CSV representatives about 1Q2020 business environment and 2020 forward outlook. We had some following notes as below:

(1) Local demand are mainly supplied by imported soda from China and India. Average local demand consumption of soda each year is around 200,000 tonnes with the historical growth of 10% per year. However, local large manufacturers are only Vedan with interal usage and CSV whose factories are operated at 97% of maximum capacity. Therefore, clients tend to buy from manufacturers in China and India, enlarging larger marketshare of imported soda. According to Trademap, CAGR of imported soda reached 23% per year in the period from 2015 to 2018.

Value of soda imported to Viet nam (thousand USD)



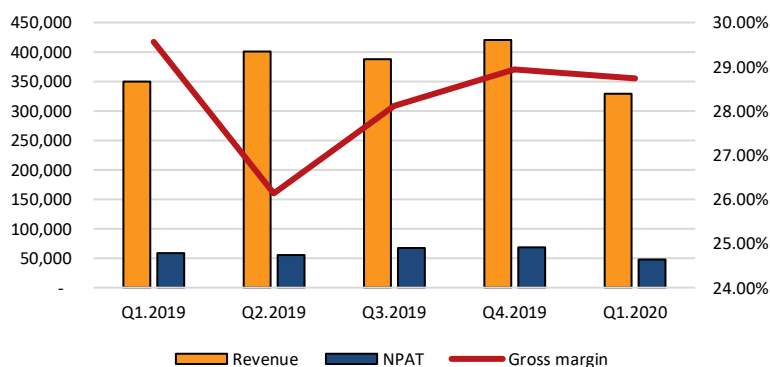
Proportion of China and India's soda imported to Vietnam



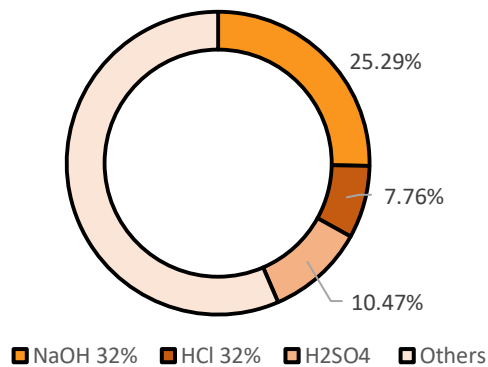
Source: Trademap

(2) 1Q2020 business result recored a significant drop in net earning due to a squeeze in consumer demand under lockdown. Net sales totaled VND 329bn (-6.2% YoY), fulfilling 20% of guidance while profit before tax posted VND 56bn (-18.6% YoY), completing 23% of guidance. Breakdown revenue by products did not have major shift among products. Soda accounted for 25% of revenue, Sulfuric acid of 10% revenue and Hydrogen Chloride of 8% revenue. Gross profit margin was around 28.7%, down from 29.6% in the same period last year, partly due to a rise in depreciation which is around VND 30bn per year of new electrolytic tanks.

Quarterly business result



Breakdown revenue by products



Southern Basic Chemicals Joint Stock Company

BSC

Source: CSV

*Electrolytic tanks of NaOH 100% has a capacity of 10,000 tonnes per year, increasing the total capacity of 40,000 tonnes per year.

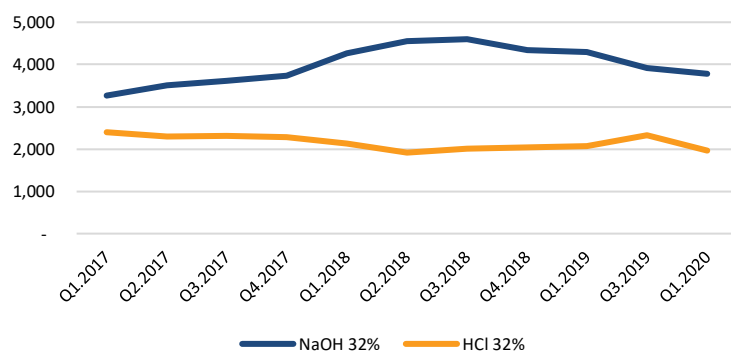
In 1Q2020, that most of main products fell in volume of sale and selling price was driven by (1) demand for chemicals products slumped as industrial activities were limited amid coronavirus pandemic (2) sale price reduction under fiercely competitive environment. We think that in the coming quarters, industrial activities recovery will push demand for basic chemical products when lockdown are eased. However, competition with imported products and a decrease in consumption of a major client (Ajinomoto Vietnam) due to technology change are challenges for the company.

Table: Volume and selling price of some basic chemical products*

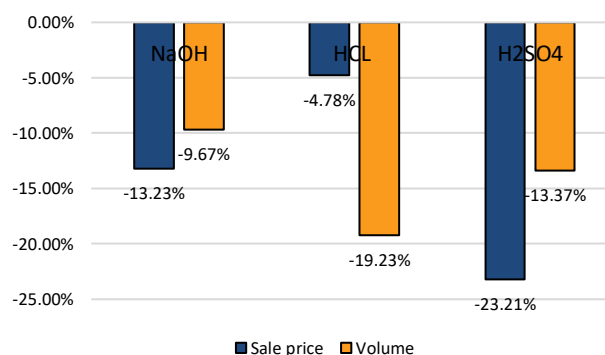
Product	Volume in 2019 (ton)	Volume in 1Q2020 (ton)	Selling price (VND mn)
NaOH (100%)	28,400	17,823	11,834
Hydrogen Chloride	47,481	10,508	1,970
Sulfuric acid	62,990	14,529	1,924

*BSC estimate

Sale price movement of liquid soda and hydrogen chloride



Increase/Decrease of volume and price of some basic chemicals products



Source: CSV

(3) Factory relocation: Currently, factory relocation has been approved by Vinachem. CSV will hire an independent outside party to do feasibility study report which will be submitted for shareholders' approval.

BSC estimates that in the first year after factory relocation, revenue is at VND 1,754bn (+12% compared to FY 2018) and profit before tax at VND 236bn (-5.9% compared to FY 2019) due to an increase in depreciation which is about VND 116bn. We assume that depreciation time horizon of the project is 15 years.

Information

Capacity	NaOH 100%: 50,000 tonnes; Hydrogen Chloride 32%: 103,000 tonnes; Chlorine: 8,000 tonnes; PAC: 33,000 tonnes; Silicat: 40,000 tonnes
Capital expense	Total capital expense: VND 2,180bn (including land rent); in which VND 1,774 bn is for equipments, tanks, storage,...

Source: CSV

Table BSC's forecast revenue of major products after factory relocation

	Capacity (ton)	Price (VND mn)	Revenue (VND mn)	Added revenue (VND mn)
NaOH100%	50,000	11.5	575,000	181,000
Sulfuric acid	100,000	1.9	190,000	26,000
Hydrogen chloride 32%	103,000	1.9	195,700	74,000

(4) Vinachem expects to divest from CSV to 51% of ownership in 2020. The group has hired third party to evaluation the valuation of the holdings.

(5) FY 2020 Company Guidance. CSV set the target for revenue of VND 1,643bn (+4.9% YoY) and profit before tax of VND 257bn (-18.3% yoY). EPS 2020 is about at VND 4,652. This guidance does not take into account of negative impact of corona virus.

Disclosure

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