

07/09/2022 – HOSE: BMP

Ngành: Nhựa

**Recommendations**

**BUY**

**BINH MINH PLASTIC JSC (HSX: BMP)**

**BENEFITS FROM REDUCED MATERIALS PRICES**

|                                     |            |                                     |            |                              |       |
|-------------------------------------|------------|-------------------------------------|------------|------------------------------|-------|
| Current price                       | 62,000     | Report writing date:                | 07/09/2022 | <b>Shareholder structure</b> |       |
| Previous target price               | N/A        | Outstanding Shares (Million)        | 81.86      | Nawaplastic Industries       | 54.4% |
| 1 year target price                 | 76,900     | Market capitalization (billion VND) | 5,075      | KWE Beteiligungen AG         | 10.5% |
| Dividend yield                      | 4.3%       | Average liquidity of 10 sessions:   | 69,320     |                              |       |
| <b>Potential for price increase</b> | <b>24%</b> | Foreign ownership                   | 84.6%      |                              |       |

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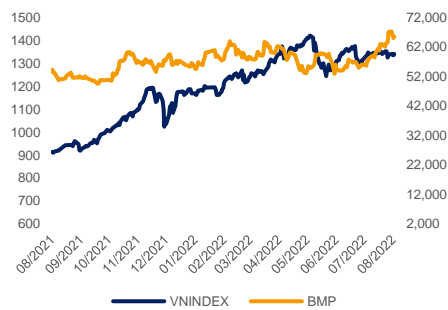
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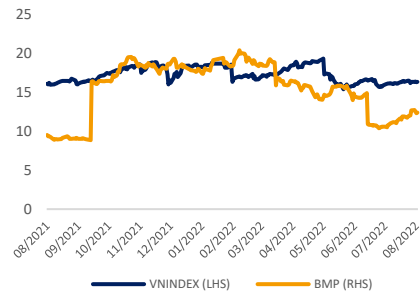
Recommended price : N/A

Stop lost price: N/A

**Price comparison table of BMP and VN-Index**



**P/E and VN index comparison table**



**Valuation**

BSC recommends to **BUY** BMP stock with a target price of VND 76,900/share, equivalent to 24% upside compared to the price on September 7, 2022 based on two valuation methods PE and FCFF, ratio 50:50.

**Forecasting business results**

BSC forecasts BMP's revenue and net profit in 2022 at VND 5,527 billion (+21.4% yoy) and VND 513 billion (+139.7% yoy) assuming: output +5.8% yoy, gross margin increase 23.6% thanks to +15% yoy selling price and flat raw material price compared to 2021.

**In 2023, BSC forecasts net profit and NPAT at VND5,937 billion (+7.1% yoy) and VND531 billion (+3.5% yoy) respectively**, assuming sales volume recovers to 105-110 thousand tons before the pandemic , approaching the maximum power level.

**Investment perspective**

Consumption output gradually recovered to maximum capacity thanks to the control of the epidemic and the dominant advantage in the market share of plastic pipes in the South.

Gross margin improved thanks to a downward trend in input prices, while selling prices decreased more slowly than cost of goods sold.

High and regular dividends. Valuation (P/E) drops to historical average .

**Risk**

- Material price fluctuations;
- Declining demand for plastic pipes..

**Business Update**

- Accumulated 6M2022, BMP's revenue is 2,905 billion VND (+11% yoy) and EAT is 273 billion VND (+117% yoy). Gross profit margin recovered to 24.4% (+930 bps) .
- Cumulative sales volume in 6M2022 -12% yoy, reaching 48,988 thousand tons.

|         | 2020  | 2021 | 2022F | VN-Index |
|---------|-------|------|-------|----------|
| PE (x)  | 10.2  | 25.0 | 10.4  | 13.3     |
| PB (x)  | 2.2   | 2.3  | 2.3   | 2.1      |
| PS (x)  | 1.1   | 1.2  | 1.0   | 3.7      |
| ROE (%) | 21.1% | 9.3% | 21.8% | 17.6%    |
| ROA (%) | 17.3% | 7.5% | 17.8% | 6.4%     |

|                  | 2019  | 2020  | 2021   | 2022F  |
|------------------|-------|-------|--------|--------|
| Revenue          | 4,337 | 4,686 | 4,553  | 5,527  |
| Gross profit     | 988   | 1,247 | 704    | 1,292  |
| Profit after tax | 423   | 523   | 214    | 513    |
| EPS              | 5,164 | 6,384 | 2,619  | 6,269  |
| EPS growth       | N/A   | 23.6% | -58.9% | 139.3% |

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EV/ EBITDA (x)

5.8

10.0

6.3

27.2

Nợ gộp/ VCSH

2.3%

2.2%

2.5%

2.7%

## BUSINESS UPDATE

In Q2/2022, BMP's revenue increased slightly (+7% yoy) but NPAT grew strongly (2.5x svck) benefiting from lower raw material prices.

The business is in good financial position, has almost no debt, the balance of money and financial investment accounts for 35% of total assets. In addition, large fixed assets are expected to be fully depreciated in 2024 and will add about VND200 billion to the company's annual operating profit.

**Table 1: Summary of Q2/2022 results**

| Billion VND                                     | Q2/2022      | Q2/2021      | % yoy       | %qoq       | 6T2022       | 6T2020       | % yoy       | Note   |
|---|--------------|--------------|-------------|------------|--------------|--------------|-------------|--|
| Consumption                                     |              |              |             |            |              |              |             |  |
| Output (tons)                                   | 26,353       | 30,216       | -13%        | 16%        | 48,988       | 55,800       | -12%        |  |
| Net Revenue                                     | <b>1,555</b> | <b>1,452</b> | <b>7%</b>   | <b>15%</b> | <b>2,905</b> | <b>2,606</b> | <b>11%</b>  | Revenue increased slightly due to average selling price +27% yoy                         |
| Gross profit                                    | <b>391</b>   | <b>187</b>   | <b>109%</b> | <b>23%</b> | <b>710</b>   | <b>393</b>   | <b>81%</b>  |  |
| Gross margin                                    | 25.1%        | 12.9%        |             |            | 24.4%        | 15.1%        |             | Gross margin recovered thanks to high anchor selling price while COGS fell svck          |
| CPBH & Corporate Governance                     | <b>180</b>   | <b>114</b>   | <b>58%</b>  | <b>32%</b> | <b>316</b>   | <b>205</b>   | <b>54%</b>  | CPBH increased due to increased policy to support shipping fees to the construction site |
| % CPBH&QLDN/DTT                                 | 11.6%        | 7.8%         |             |            | 10.9%        | 7.9%         |             |  |
| EBIT  | <b>211</b>   | <b>73</b>    | <b>190%</b> | <b>15%</b> | <b>394</b>   | <b>188</b>   | <b>110%</b> |  |
| Interest  | 0            | 0            | N/A         | N/A        | 0            | 0            | N/A         |  |
| Financial revenue                               | 12           | 17           | -29%        | 3%         | 24           | 36           | -33%        | Financial income decreased due to decrease in value of financial investment              |
| NPAT  | <b>145</b>   | <b>42</b>    | <b>247%</b> | <b>14%</b> | <b>273</b>   | <b>126</b>   | <b>117%</b> |  |
| Some indicators of the balance sheet            |              |              |             |            |              |              |             |  |
| Short-term debt                                 | 55           | 55           | 0%          | -4%        |              |              |             | Borrowing at 0% interest rate with related parties                                       |
| Long-term debt                                  | 0            | 0            | N/A         | N/A        |              |              |             |  |
| Inventory                                       | 684          | 620          | 10%         | -5%        |              |              |             |  |
| Tangible fixed assets                           |              |              |             |            |              |              |             |  |
| - Original price                                | 1,925        | 1,849        | 4%          | 1%         |              |              |             | Tangible fixed assets are almost fully depreciated                                       |
| - Accumulated depreciation                      | (1,591)      | (1,418)      | 12%         | 3%         |              |              |             |  |
| Cash, cash equivalents & Short-term investments | 1,020        | 921          | 11%         | 7%         |              |              |             | Value of financial investment decreased compared to the end of 2021                      |

Source: BMP, BSC Research

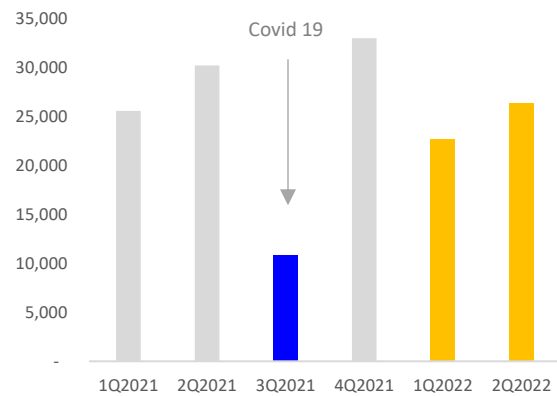
**BUSINESS OUTLOOK 2022-2023**

**Consumption demand will recover to a stable level before the epidemic**

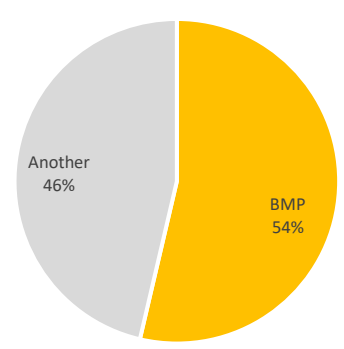
**Consumption of plastic pipes and fittings decreased slightly in the first 6 months of 2022.** Consumption volume in 6M2022 -12% yoy, completing 48% of the consumption plan in 2022. We believe that consumption volume decreased due to slowing market demand when the price of construction materials increased in the first months of the year and the recent tightening of credit in the real estate sector affected the progress of construction works. build.

**We expect sales volume to be +11.9% yoy in the second half of 2022, bringing the whole 2022 output to grow slightly, at +5.9% yoy thanks to a sharp increase in Q3/2022 output due to a lack of sales.** affected by the epidemic, and the advantage of dominant market share in the South will help BMP's consumption volume recover to pre-epidemic levels.

**Figure : Sales volume is forecasted to increase over the same period due to not being affected by the epidemic**



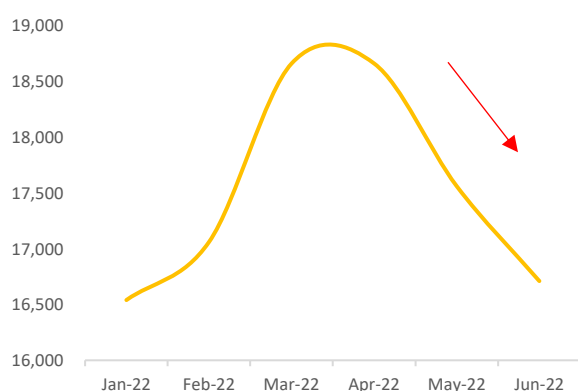
**Figure : BMP has the majority of the market share of plastic pipes and fittings in the South region**



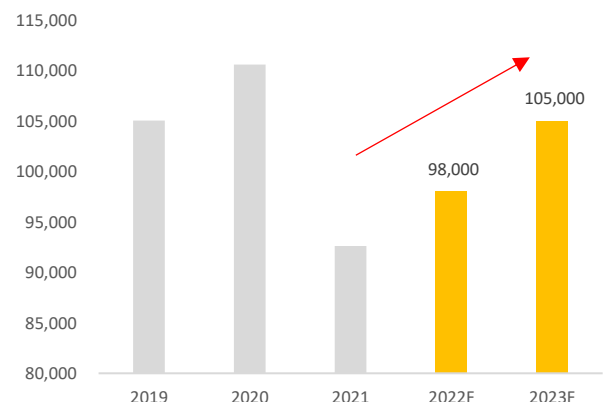
*Nguồn: BMP, BSC Research*

**We expect consumption volume to recover to 105 - 110 thousand tons from 2023:** In fact, demand for plastic pipes in Vietnam is relatively stable, especially for enterprises with a dominant market share. like BMP. We believe that sales volume will return to the pre-epidemic average thanks to (i) the recovery of civil construction activity when the cost of construction materials is stable, in which steel price (accounting for 20%-30% of total expenditure). construction costs) have fallen sharply, and (ii) players in the industry have no plans to increase capacity next year.

**Figure : Steel prices have fallen sharply since the peak, helping to reduce construction costs (VND/kg)**



**Figure : Consumption volume is forecasted to recover to the pre-epidemic average in 2023 (tons)**



**Gross profit margin increased sharply over the same period thanks to the decrease in plastic raw material prices**

The price of plastic raw materials has fallen deeply since the end of June 2022. The main input material of BMP is PVC resin. PVC price was relatively stable in the first 6 months of 2022, 3.8% lower than the average level in 2021, but has decreased sharply since the end of June 2022, to around \$900/ton (-30% Ytd), following the decline in global commodity prices. We don't think PVC prices will rise back to their peak at the beginning of the year due to:

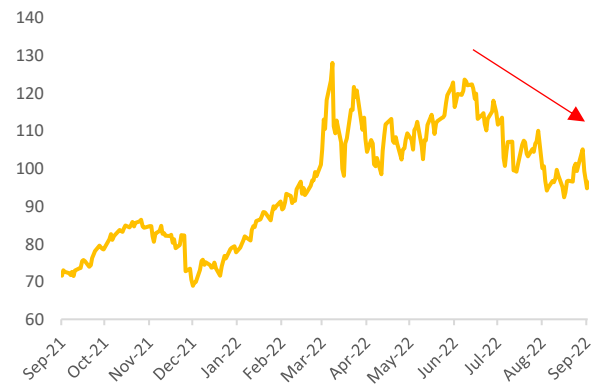
(i) China's PVC demand declines. China is the world's largest PVC consumer (accounting for 28.8% of global PVC consumption). Continuing to maintain the Zero Covid policy causes the demand for PVC for manufacturing and infrastructure construction in China to decline.

(ii) Oil prices have fallen sharply. In the past, there was a correlation between the price of crude oil and the price of plastic resin (a product of the refining process). Oil price dropped sharply due to concern that the economic recession will reduce consumption demand, so we believe that plastic resin price will not recover to the peak at the beginning of the year when oil price peaks.

**Figure : PVC price on Dalian trading floor, China (USD/ton) has fallen sharply since the end of June 2022**



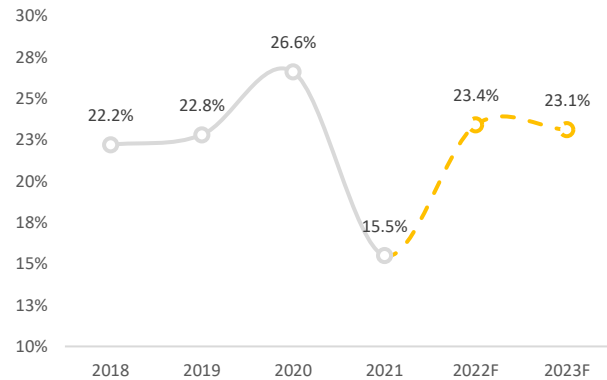
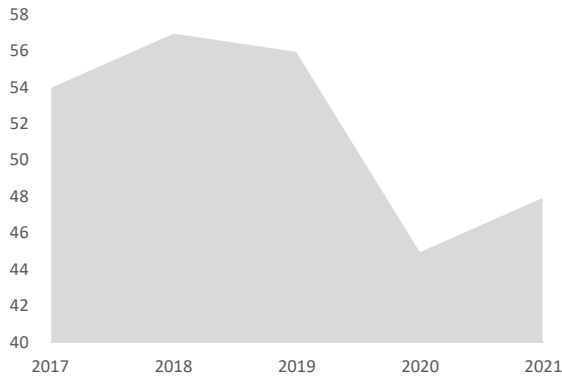
**Figure : Brent oil price has -23% since the peak at the beginning of the year (USD/barrel)**



**We estimate 2022 gross margin to grow to 23.4% (+790 bps Yoy).** The sharing business does not carry out bulk inventory, so we expect the decrease in input material prices in the second half of 2022 to have an impact on COGS right in the third quarter, helping increase the gross profit margin of the enterprise.

**Figure : Relatively short inventory cycle (days)**

**Figure : BMP's gross margin is forecast to recover in 2022**

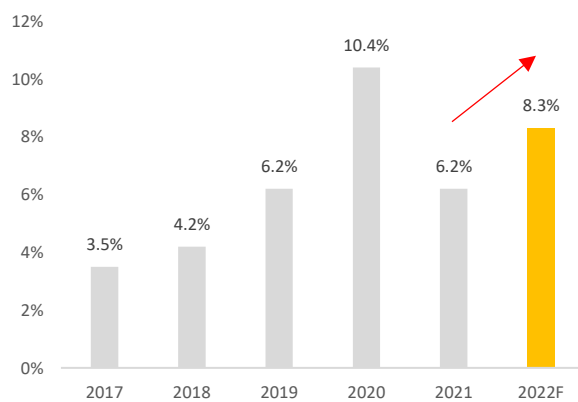


Nguồn: BMP, BSC Research

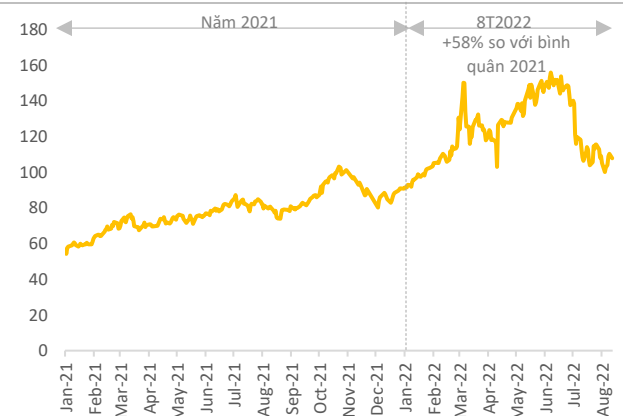
**Selling expenses are forecasted to increase sharply due to the policy of supporting shipping fees**

**BSC forecasts a sharp increase in selling expenses in 2022.** The company still maintains a non-competitive policy by increasing the sales discount rate for agents, instead applying a policy to support shipping fees. Works apply to orders reaching a certain payment value. Gasoline prices have fallen sharply since the peak but are still much higher than the average in 2021, so we forecast the ratio of selling expenses to net sales to increase to 8.3% in 2022.

**Figure : The ratio of selling expenses to net sales is forecasted to increase sharply in 2022**



**Figure : Gasoline prices have fallen sharply since the peak, but still increased sharply compared to the average level in 2021**



Source: BMP, Platts, BSC Research

**High and stable cash dividend**

**BMP pays high and regular cash dividends.** The normal cash dividend payment is at 40%-60%, even in a difficult business period like 2021, the business still pays a dividend of 26%. In 2022, the enterprise plans to pay a dividend of at least 50% of the company's after-tax profit. However, we also emphasize that in the past 5 years, BMP has paid dividends at an average rate of 88% of profit after tax, and we expect BMP to continue to pay dividends at a high rate in 2022 due to The company is still operating near maximum capacity and has no plans to invest in increasing capacity, which equates to a dividend yield of 7.6% in our estimation.

**Valuations are returning to historical averages**

**We estimate the PE forward in 2022-2023 at 9.9x and 9.6x, lower than BMP's 5-year average PE (~12.5x).** We think this valuation is attractive based on the prospect of profit in 2022 recovering to the level of 2020, and with stable industry characteristics and industry leading position, BMP's stock valuation deserves to be a worthy investment. past average.

Figure : Dividend/EAT ratio has remained high in recent years

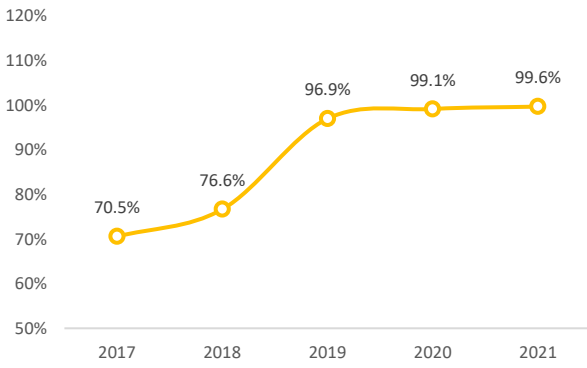
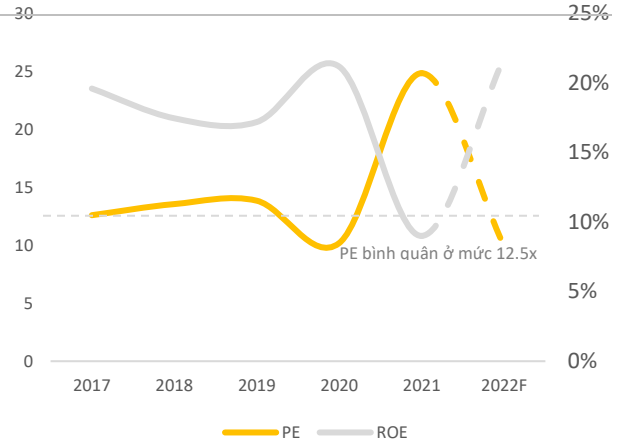


Figure : Valuation (PE) is returning to the 5-year average

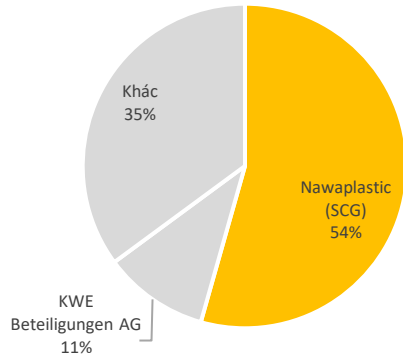


Source: BMP, Fiiipro, BSC Research

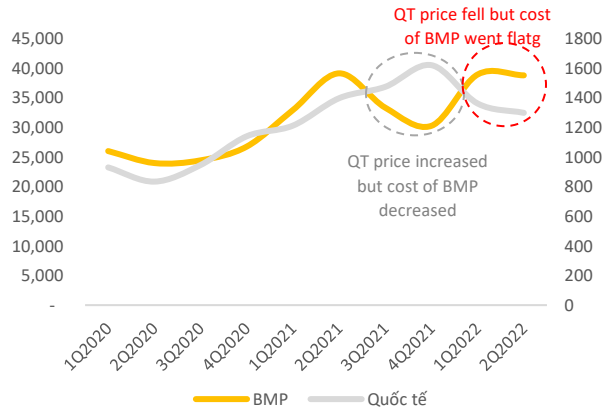
**RISK**

**Price fluctuations of raw materials: Raw materials account for about 75% of the enterprise's production expenditure structure.** Therefore, fluctuations in the price of plastic raw materials (mainly PVC) have a great impact on COGS. In addition, we note that BMP's plastic raw material source mainly comes from suppliers owned by the major shareholder SCG Group (Thailand), so the price of BMP's input materials will depend largely on to the prices offered by these suppliers.

**Figure : SCG holds dominant ownership in BMP**



**Figure : Correlation of international PVC prices and input prices of BMP**



Source: BMP, Bloomberg, BSC Research

**Declining demand: low sales volume increases fixed costs per unit.** However, we assess this risk is not large because: (i) the disease is currently well controlled in Vietnam and the demand for plastic pipes is relatively stable; (ii) the percentage of depreciation expense in the production cost structure is relatively low, at only 5% for BMP.

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## FORECAST OF BUSINESS RESULTS

BSC forecasts BMP's revenue and NPAT in 2022 at VND 5,527 billion (+21.4% yoy) and VND 513 billion (+139.7% yoy) respectively, based on the following assumptions:

- Consumption volume increased slightly, +5.8% yoy as (i) production in Q3/2022 was no longer affected by the epidemic, however (ii) output in the remaining quarters decreased slightly due to construction activities. construction will slow down in 2022.
- Average selling price +15% yoy
- Average raw material prices are flat compared to 2021

In 2023, BSC forecasts net profit and net profit at VND 5,937 billion (+7.1% yoy) and VND 531 billion (+3.5% yoy) respectively, assuming sales volume recovers to 105-110 thousand tons before the pandemic. , approaching the maximum power level.

## VALUATION

We use 2 methods of comparing **P/E and discounted cash flow FCFF** (ratio 50:50). We recommend a **BUY** for BMP stock with a **target price of VND 76,900/share, 24% upside from the closing price on September 7, 2022.**

**Table : Target price (VND/share)**

| Valuation method      | Target Price Ratio | Target Price Ratio |
|-----------------------|--------------------|--------------------|
| P/E                   | 50%                | 78,360             |
| FCFF                  | 50%                | 75,354             |
| Summary of valuations |                    | <b>76,857</b>      |

Source: BSC Research

**Table : Summary of valuations by P/E method**

| EPS 2022               | P/E target | Price target |
|------------------------|------------|--------------|
| <b>6,269 VND/Share</b> | 12.5x (*)  | 78,360       |

(\*) 5 year average P/E level

Source: BSC Research

**Table : FCFF . method of valuation summary**

|                     |       |   |       |
|---------------------|-------|---|-------|
| Beta                | 0.40x | Last year EBITDA (VND billion)            | 910   |
| Market risk premium | 8.0%  | Target EV/EBITDA                          | 5.5x  |
| Risk-free rate      | 6.0%  | Liquidation price (billion VND)           | 5,006 |
| Cost of equity      | 9.2%  | Discount value (billion VND)              | 5,999 |
| Loan cost           | 10.0% | (-) Net debt (VND billion)                | (170) |
| Debt/TTS . Ratio    | 19.0% | Reasonable enterprise value (billion VND) | 6,169 |



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|          |       |                            |        |
|----------|-------|----------------------------|--------|
| Tax      | 20.0% | Number of shares (million) | 82     |
| WACC (%) | 8.98% | The target price           | 75,354 |

Nguồn: BSC Research

Figure : P/E ratio of BMP

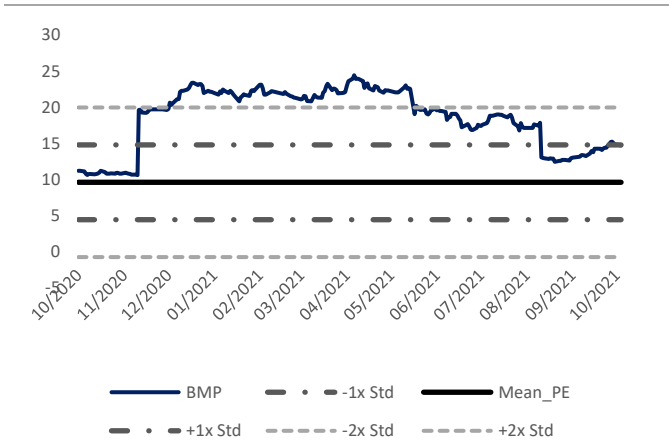
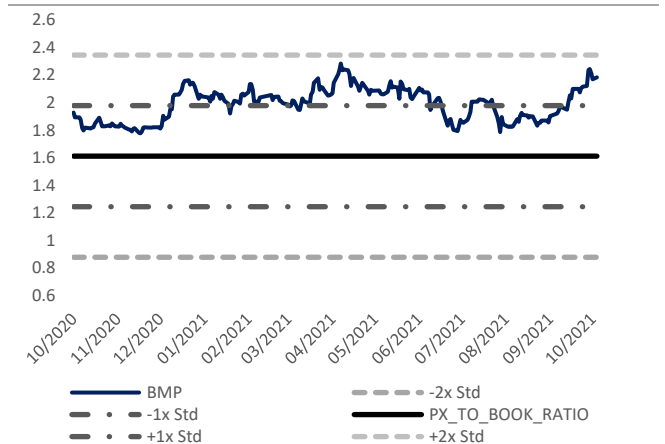


Figure : BMP's P/B Ratio



Source: Bloomberg, BSC Research



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|                |       |       |       |       |
|----------------|-------|-------|-------|-------|
| Total capital  | 3,023 | 2,838 | 2,890 | 3,023 |
| SLCP (million) | 82    | 82    | 82    | 82    |

|            |     |      |      |    |
|------------|-----|------|------|----|
| EBT growth | 24% | -59% | 139% | 3% |
| EPS growth | 24% | -59% | 139% | 3% |

Source: BMP, BSC Research

## Disclosure

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*

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