

BSC RESEARCH

Equity analyst

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We recommend to Hold BFC at the target price of VND 40,000 per share in the next 12 months (6.4% upside) under the FCFE and P/E valuation model. On 06th, Oct, 2016, BFC was traded at VND 37,600 per share, equivalent to a P/ E FW of 9,01x and P/ B of 2,06x.

2016 forecasted business result: We estimate BFC's net revenue and net income will be VND 6,050 billion and VND 267 billion (+17% yoy), respectively, equivalent to 2016 EPS of VND 4,193 per share.

3Q2016 business result: BFC's sales volume in the first 9 months of 2016 decreased slightly of about 4% yoy because the salinity intrusion in the Southwest region and drought in the Central Highlands make a reduction of approximately 40,000 tons of NPK fertilizers. Compared to the other NPK manufacturers such as LAS, Việt Nhật, the sales volume of BFC is more positive thanks to its strong brand and distribution system. Estimated individual profit before tax will be VND 80 billion in the third quarter, 2016, up by 29% yoy by saving cost and improving gross margin.

Expectation for a growing sales volume. (1) The trend of using NPK products instead of straight fertilizers, especially with the improvement of product lines dedicated to each plant, each period of growth and development of plants. BFC is the first class manufacturer for this product line in Vietnam. (2) Trends in consumption of high-quality product lines which increase capacity to absorb fertilizer to the soil, such as Agrotain (reference to [BFC's reports](#)). These product lines account for about 20% of BFC's consumption, having the 15% higher price than that of the same normal products, which helps increase BFC's profit margin. (3) La Nina, heavier rainy season in the South and no flood on the Mekong Delta provinces boost fertilizer demand.

Binh Dien Ninh Binh JSC has contributed significant profit to BFC's business results. The total sales volume was over 80,000 tons during the first 9 months of 2016, is projected to reach 120,000 tons in 2016, and up to 150,000-160,000 tons in 2017. The Northern market maintains high growth rates, at about 20% / year over the past 5 years. We expect the growth rate in the North continue to increase strongly in the near future because of (1) the low consumption, (2) the trend changing from straight fertilizers to NPK fertilizer due to reduction labor and higher productivity, (3) shift from the low-content fertilizers into the higher ones of BFC, (4) restructuring crops from rice cultivation to fruit trees which use much more NPK fertilizers. As mentioned in the [reports of BFC](#), Binh Dien Ninh Binh plant saves transportation costs and corporate income tax for BFC. The plant is estimated to contribute about VND 45 billion to BFC (equivalent to 20% of net income in 2015) and pay 30% cash dividend. BFC plans to raise from 20,000 tons to 40,000 tons of capacity in 2nd phase of Binh Dien Ninh Binh plant at a total investment of VND 70 billion (phase 1 is invested at about VND 360 billion). Therefore, if consumption goes well, depreciation per NPK ton will decrease, BFC's profit margin will be improved.

Other information. BFC is submitting to be accepted for reduction ownership of Vinachem from 65% to 51%. In 4Q2016, BFC schedules to pay 2016 advance dividend of 20% in cash.

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: *Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.*

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy

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