

An Phat Bioplastics JSC (AAA: HOSE)



OUTPERFORM – 1Y Price Target: VND 15,100

Current price: VND 13,050

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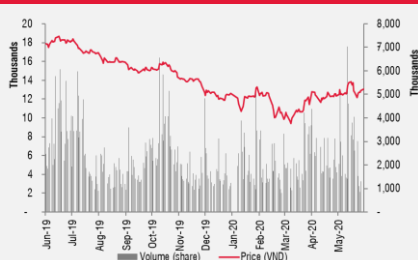
22 June 2020

INDUSTRIALS - VIETNAM

Key figures

Market cap (USD mn)	96
Market cap (VND bn)	2,234
Outstanding shares (mn)	171
52W high/low (VND 1,000)	19.4/9.2
Average 3M volume (share)	2,373,874
Average 3M value (USD mn)	1.24
Average 3M value (VND bn)	28.83
Foreign ownership (%)	4.23
State ownership (%)	0
Management ownership (%)	N.a

AAA Price & Trading Volume



Source: Bloomberg

Company Snapshot

An Phat Bioplastics JSC (AAA: HSX) is the largest plastic bag exporter in Vietnam. The company was founded by several friends with a charter capital of only VND 0.5bn. Through its 14 years history, the company has increased its charter capital on several occasions and was equitized in 2006 with a charter capital of VND 30bn. The Company was listed on the Hanoi Stock Exchange in 2010 with a charter capital of VND 99bn under the ticker of AAA.

COMPANY UPDATE

Potential earnings recovery in upcoming quarters on the back of industry park segment

AAA reported 1Q20 net profit of VND 63 bn, flattish when compared to the previous quarter - although declining significantly by -72% YoY due to the absence of new industrial park sales. Although the bottom-line was flattish linked quarter, we note that operating profit declined VND 8.5 bn (9%) during the period. Nonetheless, the operating profit margin still improves slightly to 5.4% in 1Q20 from 5.1% in 4Q19. We expect the company's earnings can increase in the coming quarters when a portion of the industrial park can be leased out which will bring around VND 500 bn additive to full year results.

We expect AAA's consolidated revenue and net profit in 2020 to reach VND 7.49 tn (-19% YoY) and VND 451 bn (-10% YoY), respectively. Although the 2020 EPS is expected to drop by 36% YoY due to the dilution affect from the upcoming conversion of APH's warrant, AAA net profit and EPS can recover by 7.6% in 2021 thanks to the interest expense saving from the new share issuance.

We maintain our Outperform rating for the stock, with a target price of VND 15,100/share. The recovery in the company's earnings on the back of the industrial park lease, attractive PE forward of 7.0x and 6.5x for 2020 and 2021 respectively, along with a cash dividend yield of 8%, can be a supportive catalyst for the stock price going forward.

(bn VND)	1Q20	1Q19	YoY	4Q19	QoQ	% annual target completed	Margin			
							1Q20	1Q19	4Q19	2019
Net sales	1,572	2,612	-39.8%	1,833	-14.2%	16%				
Gross profit	179	375	-52.3%	176	1.3%		11.4%	14.3%	9.6%	8.4%
Operating profit	85	285	-70.0%	94	-9.0%		5.4%	10.9%	5.1%	4.2%
EBIT	124	319	-61.0%	128	-2.6%		7.9%	12.2%	7.0%	4.7%
EBITDA	192	381	-49.7%	195	-1.9%		12.2%	14.6%	10.7%	7.8%
Pretax profit	74	273	-72.9%	78	-5.1%		4.7%	10.4%	4.2%	3.2%
Net income	63	224	-72.0%	64	-1.9%	11%	4.0%	8.6%	3.5%	2.6%
NI attributable to shareholders	58	214	-72.7%	59	-0.7%		3.7%	8.2%	3.2%	2.3%

Source: AAA, SSI Research

	Revenue			Gross profit			Gross margin	
	1Q19	1Q20	Growth	1Q19	1Q20	Growth	1Q19	1Q20
Total	2,612,337	1,572,347	-40%	374,652	178,766	-52%	14.51%	11.37%
Trading	1,164,476	623,426	-46%	25,599	32,131	26%	2.20%	5.15%
Plastic bag	851,600	776,264	-9%	113,264	103,385	-9%	13.30%	13.32%
Property	468,632	14,420	-97%	204,636	8,011	-96%	43.67%	55.56%

Source: AAA, SSI Research

A significant -39.8% decline in total revenue is mainly attributed to the trading and industrial park segment, while sales volume of the core business remains flat:

Revenue from the **trading segment** decreased -46.5% to VND 623 bn in 1Q20 YOY. Trading represents 40% of total revenue during the quarter. While the -24% YoY decline in ASP is in line with the fall in resin prices, the -30% decline in trading volume is in line with company's policy to reduce the size of trading activities in favor of an improving profit margins and managed receivables. As a result, trading's gross profit increased by 26% YoY, with GPM improving to 5.2% in 1Q20 from 2.2% in 1Q19 and 3% in 4Q19.

Flat sales volume of plastic bags: Sales volume of plastic bags were virtually flat when compared to 1Q19 at 22k tons. The slight decrease in sales volume to the EU and Japan market was offset by the increase by 10% in sales volume to the US market. The EU market remained the largest, with 49% of total sales by volume, while the Japan and US market accounted for 32% and 11% of the Company's sales volume, respectively. GPM from the segment was also flat at 13.3%. The segment was unaffected by the fluctuation in the oil price, as the company fixes the margin for most of its products.

Profit from the industrial park segment can recover in 2Q or 3Q20: AAA is currently in the midst talks with a counterparty to lease a portion of its industrial park. AAA is hopeful to lease 20k m2 of land and 40k m2 of workshop in either 2Q20 or 3Q20. If completed, revenue would increase to over VND 200 bn.

Updates on the biodegradable materials project: Anphat Holdings, the parent company of AAA, PBAT project with a capex of \$73.5 mn USD, is expected to be launched in early 2021 and completed after 18 months. The project has an annual capacity of 20k tons of PBAT resin, a type of biodegradable material. According to management, this biodegradable material project may help AAA mitigate its production cost for biodegradable plastic bags and cutlery, which currently generates around 10% of total AAA sales volume of finished products. This proportion is expected to increase to 30-40%, equivalent to 30-40 ktons/year, in the next 3-5 years. As noted in previous report, the project is expected to help reduce the bio plastic material cost by roughly 30% compared to import price.

Anphat Holdings conversion plan of AAA shares: APH expects to exercise their warrant in 2020 to get 40 mn shares at a price of VND 14,000/share. After this, APH will increase their stake in AAA from 48% to 58%. Although the warrant conversion will increase AAA's outstanding shares by 23.4% and bring a dilution effect, the cash flow of VND 560 bn from the deal would help to reduce AAA's interest expense per year by around VND 40 bn.

Earnings estimates

Although earnings from the manufacturing and trading segments are along our consensus, we revise down our earnings forecast from VND 543 bn to VND 450 bn (-10% YoY) due to the delay in the lease of the Anphat Complex resultant of the Covid-19 pandemic slowdown. We assume that the company would lease 35k sqm of land (-63% YoY) and lease 40k sqm (-33% YoY) of workshop in 2020, bringing forth a revenue and gross profit of VND 501 bn (-29% YoY) and VND 207 bn (-33% YoY) in 2020, respectively.

On the other hand, we expect plastic bag factories to reach full production capacity, bringing with it a sales volume of 101k tons (+6% YoY). Accordingly, revenue and gross profit from this segment is expected to be VND 3.05 tn (-12% YoY) and VND 497 bn (+1% YoY). Meanwhile, revenue and gross profit from trading is expected at VND 3.2 tn (-29% YoY) and VND 129 bn (+11% YoY).

Given these assumptions, we expect AAA consolidated revenue and net profit in 2020 to decline VND 7.49 tn or -19% YoY and VND 451 bn or -10% YoY, respectively. For 2021, as the company's plastic bag plant reaches full capacity, we expect revenue to mildly decline to VND 7.354 tn (-2% YoY). After-tax profit is expected to increase by 7.6% to VND 488 bn thanks to a reduction in interest expense as mentioned above. We assume that the company will fully lease out its remaining area (around 65k sqm) of the Anphat Complex in the next year. Accordingly, 2020 and 2021 EPS is expected at VND 1,858 (-35.9% YoY) and VND 1,998 (+7.6% YoY)

Valuation and investment view

At the current price, AAA is trading at 2020 and 2021 P/E forwards of 7.0x and 6.5x, which is quite attractive in our view. We maintain our Outperform rating for the stock, with a target price of VND 15,100/share based on the SoTP method, implying an upside of 16% from the current share price. The target price has taken into account the EPS dilutive effect of the APH warrant conversion, as mentioned above. The recovery in the company's earnings on the back of the industrial park lease, along with a cash dividend yield of 8%, can be a supportive catalyst for the stock price going forward.

Property	RNAV	787 bn
Others	PE - based on target PR of 8x	2,408 bn
Total value		3,195 bn
Fair price/share		15,100

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2018	2019	2020F	2021F
Balance Sheet				
+ Cash	645	350	377	647
+ Short-term investments	721	1,194	1,460	1,460
+ Account receivables	1,613	2,077	1,684	1,655
+ Inventories	863	1,226	976	956
+ Other current assets	147	128	94	93
Total Current Assets	3,989	4,974	4,591	4,811
+ LT Receivables	21	96	75	74
+ Net Fixed Assets	2,199	2,081	2,053	2,010
+ Investment properties	0	223	224	225
+ LT Assets in progress	1,208	294	294	294
+ LT Investments	48	124	15	15
+ Other LT Assets	63	198	130	128
Total Long-Term Assets	3,540	3,016	2,790	2,745
Total Assets	7,529	7,990	7,382	7,555
+ Current Liabilities	3,206	3,226	2,513	2,463
<i>In which: ST debt</i>	<i>2,492</i>	<i>2,397</i>	<i>1,887</i>	<i>1,849</i>
+ Non-current Liabilities	1,343	1,499	814	798
<i>In which: LT debt</i>	<i>1,343</i>	<i>1,375</i>	<i>846</i>	<i>829</i>
Total Liabilities	4,549	4,724	3,327	3,261
+ Contributed capital	1,712	1,712	2,112	2,112
+ Share premium	532	532	712	712
+ Retained earnings	266	611	792	1,003
+ Other capital/fund	470	411	438	468
Shareholders' Equity	2,980	3,266	4,054	4,294
Total Liabilities & Equity	7,529	7,990	7,382	7,555
Cash Flow				
CF from operating activities	39	805	789	736
CF from investing activities	-2,628	-1,117	-92	-200
CF from financing activities	2,726	17	-670	-266
Net increase in cash	136	-295	27	270
Beginning cash	510	645	350	377
Ending cash	645	350	377	647
Liquidity Ratios				
Current ratio	1.24	1.54	1.83	1.95
Acid-test ratio	0.93	1.12	1.40	1.53
Cash ratio	0.43	0.48	0.73	0.86
Net debt / EBITDA	4.05	3.06	2.37	2.23
Interest coverage	3.02	3.65	3.71	4.62
Days of receivables	25.3	28.0	32.3	29.5
Days of payables	28.4	27.4	29.8	25.8
Days of inventory	34.8	46.5	61.8	55.3
Capital Structure				
Equity/Total asset	0.40	0.41	0.55	0.57
Liabilities/Total Assets	0.60	0.59	0.45	0.43
Liabilities/Equity	1.53	1.45	0.82	0.76
Debt/Equity	1.29	1.15	0.67	0.62
ST Debt/Equity	0.84	0.73	0.47	0.43

VND Billion	2018	2019	2020F	2021F
Income Statement				
Net Sales	8,012	9,240	7,486	7,354
COGS	-7,339	-8,198	-6,506	-6,377
Gross Profit	673	1,042	980	977
Financial Income	62	180	145	143
Financial Expense	-209	-266	-225	-186
Income from associates	0	0	0	0
Selling Expense	-157	-217	-210	-206
Admin Expense	-124	-149	-150	-147
Income from business operation	246	590	540	581
Net Other Income	8	7	0	0
Profit Before Tax	254	597	540	581
Net Income	212	502	454	488
NI attributable to shareholders	180	468	426	459
Minority interest	32	33	27	29
Growth				
Sales	96.9%	15.3%	-19.0%	-1.8%
EBITDA	8.4%	73.1%	-10.6%	1.7%
EBIT	-7.0%	116.6%	-10.1%	0.3%
NI	-19.4%	136.5%	-9.6%	7.6%
Equity	83.4%	9.6%	24.1%	5.9%
Chartered Capital	104.8%	0.0%	23.4%	0.0%
Total assets	64.5%	6.1%	-7.6%	2.4%
Valuation				
P/E	13.2	4.4	7.0	6.5
P/B	1.0	0.7	0.7	0.7
P/Sales	0.3	0.2	0.4	0.4
Dividend yield	0.0%	7.9%	7.7%	7.7%
EV/EBITDA	8.0	4.1	0.9	0.9
EV/Sales	0.6	0.5	0.1	0.1
Profitability Ratios				
Gross Margin	8.4%	11.3%	13.1%	13.3%
Operating Margin	4.2%	7.5%	8.2%	8.4%
Net Margin	2.6%	5.4%	6.1%	6.6%
Selling exp./Net sales	2.0%	2.3%	2.8%	2.8%
Admin exp./Net sales	1.5%	1.6%	2.0%	2.0%
ROE	9.2%	16.1%	12.4%	11.7%
ROA	3.5%	6.5%	5.9%	6.5%
ROIC	5.9%	10.0%	9.0%	9.1%

Source: Company, SSI Research

ANALYST CERTIFICATION

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RATING

Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

Outperform: Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

Market Perform: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

Sell: Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

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