

Sector & Company Insights

Commodity price vs stock price movements

BSC RESEARCH

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Research analyst and weather forecast experts

Weather forecast program is a rare section on television that provides the “new” news as opposed to the “old” news. The work of a weather forecast expert and of a research analyst coincide in many ways, based on the desire to foresee the future of human beings: Will tomorrow be rainy or shiny?; or will the stock market increase? (if someone asks me this question, I would ask to borrow them a coin).

“The time to repair the roof is when the sun is shining”

The commodity stocks are highly cyclical, and cycle changes create seismic wave for the whole sector, which brings investors both opportunities and risks. This story has been repeated many times with the boom and bust of some typical sectors such steel, oil, gas or minerals. The best time to pocket the profit is when the industry flourished, and vice versa, the best for bottom fishing is when all elements show their worst. The technique is very difficult to implement, since each sector is influenced by a variety of factors that can create a V bottom or a long-lasting bottom. For example, marine transportation or rubber sectors has followed downtrend for 7 years, which discouraged many investors. "The time to repair the roof is when the sun is shining" is a famous quote by John F. Kennedy in 1962 - If you know for sure the rain will come after the hot days, you'd better prepare while it's still sunny.

Commodity price and stock price movements

In this report we will discuss sectors that are closely related to basic commodities, including energy, chemicals, metals and agricultural products. Forecasting commodity price cycle is very difficult and is beyond our ability. However, if an industry has shown the worst in all elements, the first signs of recovery will bring along investment opportunities. Please be noted that the commodity price movement is influenced by many factors. Within the scope of this report, we do not provide deep analysis on some previously covered sectors such as [sugarcane](#), [rubber](#), [oil and gas](#) or [ceramic tiles](#). For more details on these sectors, investors can refer BSC reports published from November 2015 to March 2016. Instead, we focus more on the relationship between the sectors which are strongly influenced by commodity prices. The question here is if the commodity price has hit the bottom, what sectors should we pay attention to?

Content

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- Energy group: Oil & gas affect many sectors including Oil & Gas, textile, fertilizers, thermal power plant, chemicals
- Metal group: Iron and copper ore price affect the steel and electric cable sector
- Chemical group: Plastic, sulfur affect chemical, fertilizer, and plastic sector
- Agriculture product group: Corn, Sugar, dairy, cotton,

This report must be read with the Disclosure, located at the end of this report

soybean affect textile, dairy, feed

Material	2016 trend forecast	2015 average price	2016 expected average price	Current price	Notable stocks
Energy group					
Oil (USD/barrel)	Downtrend and recovery	49	40	40.24	Negative (if oil price decrease): GAS, PVD, PVS; Positive (if oil price decrease): PLC; STK, EVE
Gas (USD/mmbtu)	Downtrend	4.29	3.69	3.01	Negative: (fertilizer) DPM, (thermal power plant) NT2, TCR, VGC (ceramics tiles)
Chemical group					
Sulfur (USD/ton)	Downtrend	143	130	85	Positive: CSV, LAS
Plastic (USD/ metric tonne)	Downtrend and recovery	HDPE: 1.216 LDPE: 1.237 PP: 1.130 PVC: 741	N/A	HDPE: 1.180 LDPE: 1.220 PP: 1.085 PVC: 780	Positive: BMP, DNP, NTP, AAA
Metal group					
Iron ore (USD/ton)	Downtrend and recovery	50. 16	38	54.5	Positive: HSG, NKG; Negative (if steel price decline): HPG, VIS, VGS
copper (USD/ton)	Downtrend	5434	4725	4650	Positive: CAV, VTH, TYA, VKC
Agriculture group					
Corn (USD/metric ton)	Downtrend	400.22	400	390.75	Positive: DBC, VHC, HVG
Soybean (USD/metric ton)	Uptrend	385.5	387.5	305.05	
Dairy (USD/ton)	Low level	SMP: 2017.5	N/A	SMP:1632	Positive: VNM, HNM
Sugar (VND/kg)	Recovery	RS: 12,780 RE: 14,238	up 10-12%	RS: 14,300 RE: 16.100	Positive: SLS, SBT, BHS, LSS, KTS
Rubber (USD/ton)	Downtrend and recovery	RSS3: 156	RSS3: 140	RSS3: 136	Negative (if rubber price declines): DPR, PHR, TRC Positive: DRC, CSM, SRC
Cotton (cents/pound)	Downtrend	65.7	61	57.5	Positive: TCM, GIL, KMR, GMC; Positive: TNG, TET, NPS

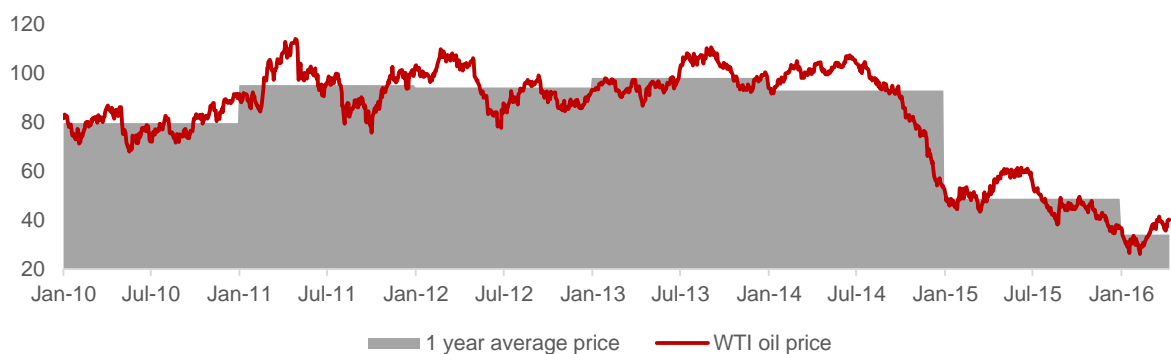
Commodity price movements form 2015 to 2016Q1

Energy (Oil& gas)

In 2015, the oil price fell by 39% from 60 to 37 USD/bbl in WTI and from 65 to 39 USD/bbl in Brent. As the date of Apr 20th 2016, after a decrease to the bottom on Jan 20th 2016, the oil price increased to 40 USD/bbl as the end of 2015. The average selling price of FO and DO in Vietnam also decreased by 30% and 34% in respectively in 2015. The oil price are in sensitive range due to information about the supply from US and Opec.

Chart 1

WTI oil price (USD/bbl)



Source: Bloomberg, BSC Research

The input gas price of power plants and urea plants follow the downtrend of oil price

The input gas price of power plants and urea plants is calculated basing on oil price. Therefore, the input gas price of these palnts are impact directly form the downtrend of oil price. As the date of Apr 20th 2016, the input gas price of DPM decreased by 19% in comparison with the average price of 2015. When comparing to 2014, the average gas price of power plants in 2015 decreased by 15% y.o.y in Cuu Long and Nam Con Son and by 45% in PM3-Ca Mau.

Chart 2

Input gas price of DPM (USD/mmbtu)

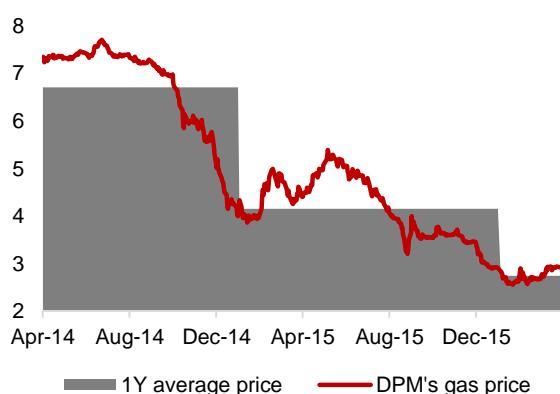
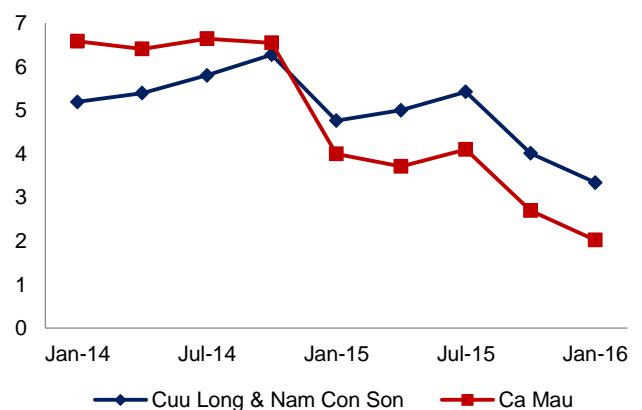


Chart 3

Input gas price of thermal power plants (USD/mmbtu)



Source: Bloomberg, BSC Research

Source: Bloomberg, BSC Research

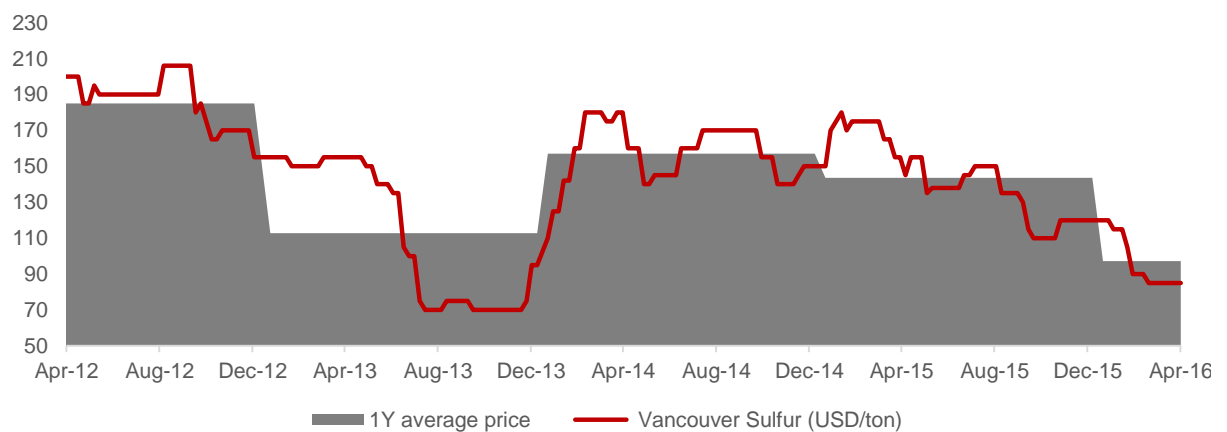
Chemical (Sulfur, plastic resin)

Sulfur

Sulfur is byproduct of oil refining, therefore, the sulfur price is affected by oil price. In 2015, sulfur price decreased by 9% to 143 USD/ton, and continued to fall by 41% to 85 USD/ton in the first 4 months of 2016

Chart 4

Sulfur price (USD/ton)

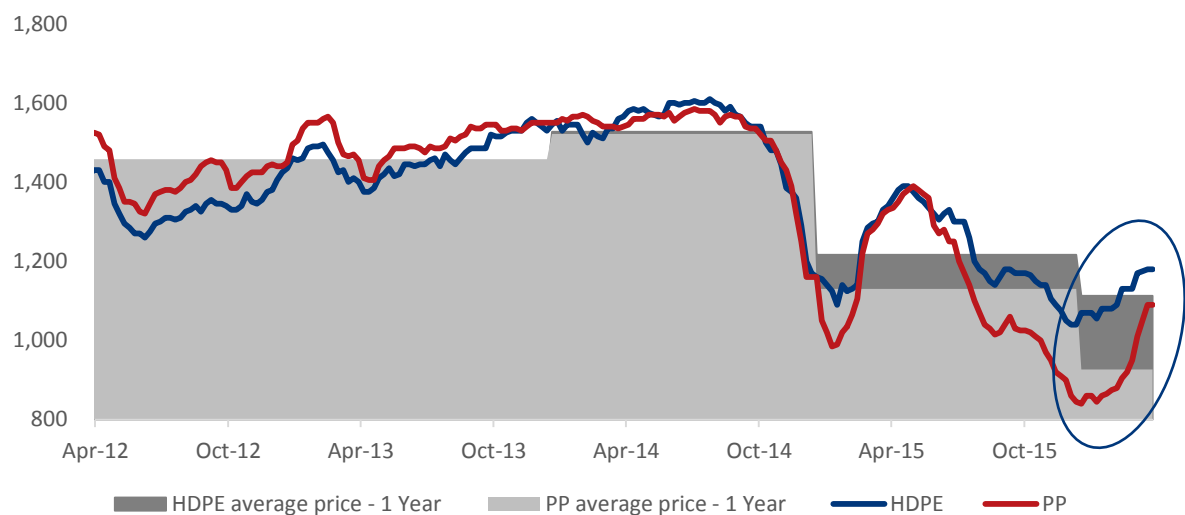


Source: Bloomberg, BSC Research

Plastics: Til 31st Dec 2015, the HDPE, LDPE, PVE and PP prices fell by 11%, 13%, 27% and 19% respectively in comparison with its in the same period in 2014. In the beginning of 2016, plastic prices rose slightly.

Graph 6

Plastic raisin price movement 2012 - 2016



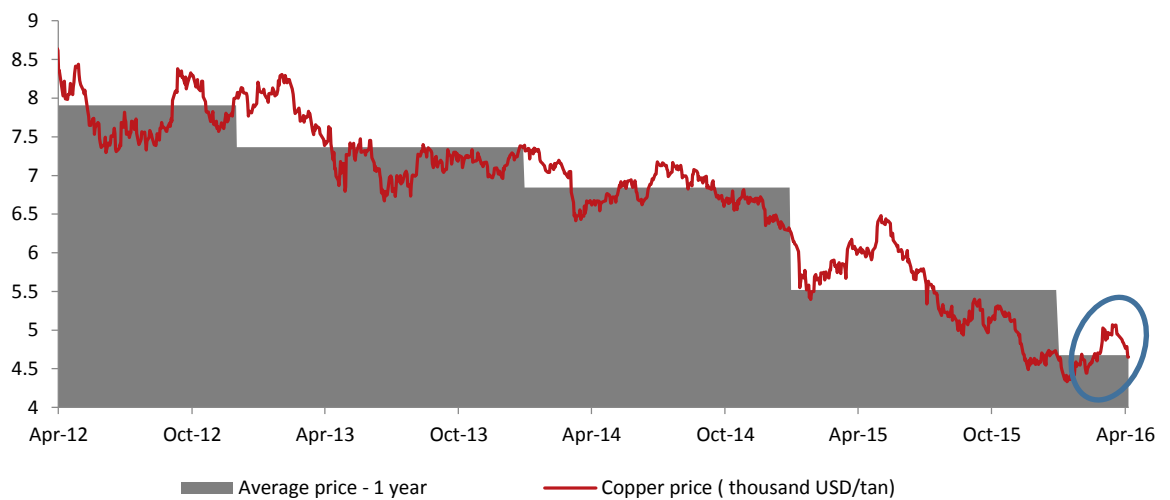
Source: Bloomberg, BSC Research

Metal (Iron ore, Copper)

Copper price fell by 25% compared to the end of 2014 to \$ 4,705 per ton due to the decreasing demand from China, which consumes 50% of the global copper production and the market continued the oversupply state. Copper price recovered slightly in 2016Q1, but was still relatively low compared with the price level of 2015.

Graph 4

Copper price 2012-2016

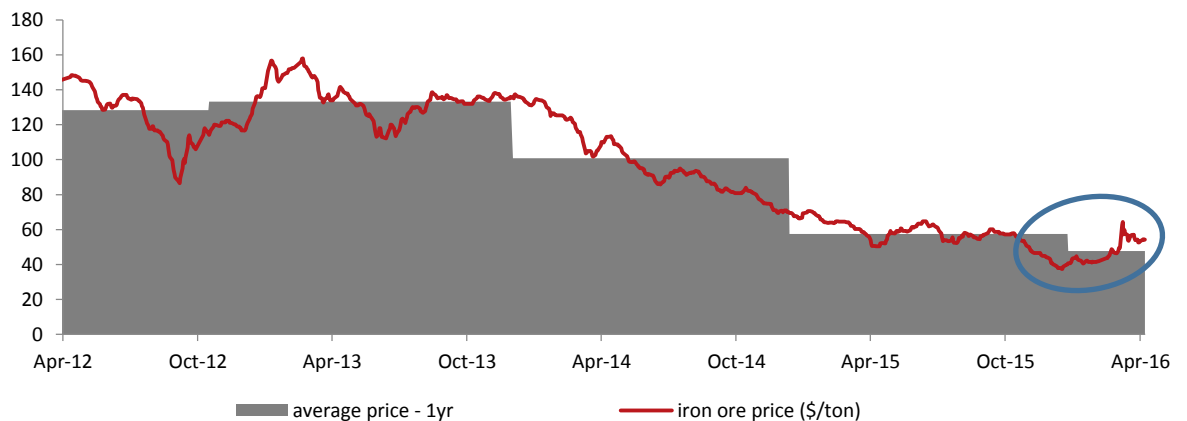


Source: Bloomberg, BSC Research

Iron ore price fell by 37% to \$43/ton compared with 2014 year-end due to the concerns about China's economic slowdown. In Q1, iron ore price recovered strongly, with mines in Vietnam have sold price from 7.8 to 8.3 million dong begin to be profitable again. Steel price also increases. This will benefit steel companies with large inventories.

Chart 5

Iron ore price 2012 –2016



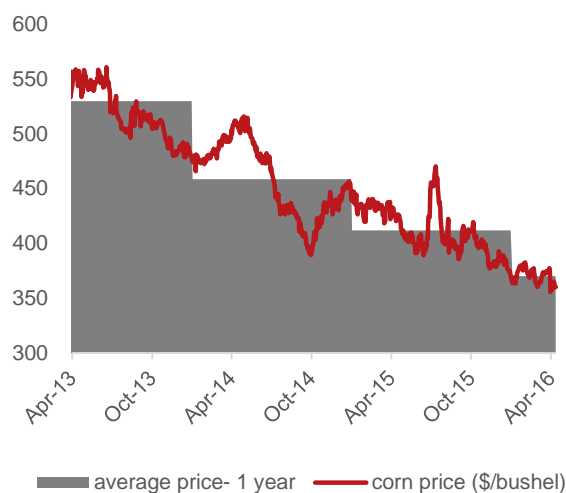
Source: Bloomberg, BSC Research

Agriculture sector (Corn, đậu Soybean, Dairy, Sugar, Rubber)

Corn and soybean prices fell by 7%yoy and 15.9% yoy respectively due to the supply increase from main exporters such as USA, Brazil or Argentina.

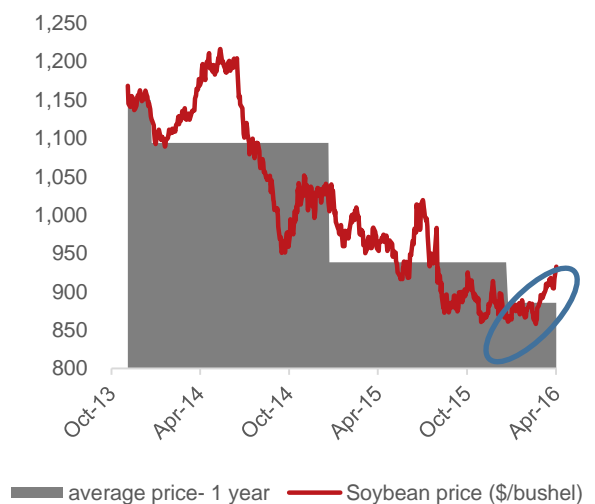
Feed Sector: Corn, soybean, wheat are the main material input of feed sector. However, gross profit margin was kept stable despite input price increased. Due to the high competition, to keep market share, firms reduced selling prices and increased discount when input prices fall. Accordingly, DBC's gross profit margin was slightly increased from 17.9% in 2014 to 18.6% in 2015 while soybean, wheat and corn average prices plummeted by 16%, 14% and 7% respectively.

Graph 7
Corn price 2014- 2016



Source: Bloomberg, BSC Research

Graph 8
Soybean price 2014- 2016

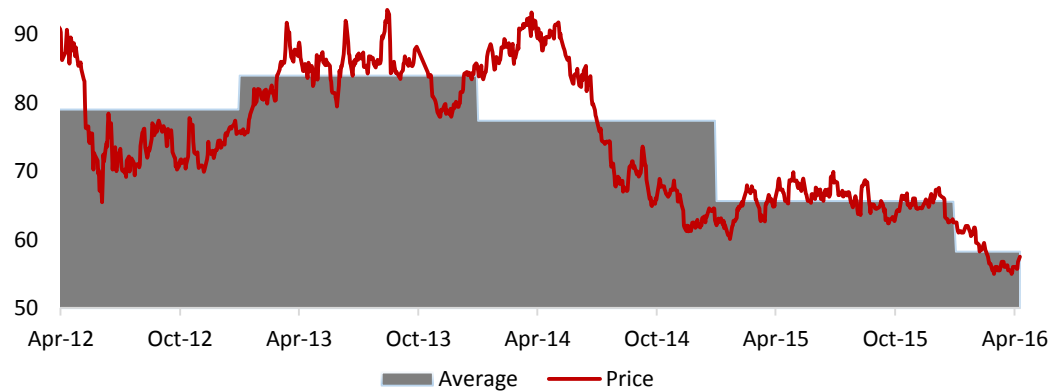


Source: Bloomberg, BSC Research

The global cotton price remains at a low level: In 2016Q1, the average global cotton price was at 59.6 cent per pound, decreased by 9.6% yoy and 7.8% lower than in 2015Q4. The reason are: (1) Cotton production continued to increase slightly, exceeding demand by 9.5%, with high level of cotton inventory; (2) China, the largest cotton importer cut cotton quota; (3) Crude oil price continued to fall, reducing the production cost of artificial fibers products.

Graph 9
World cotton price 2011- 2016Q1

USD cents/pound

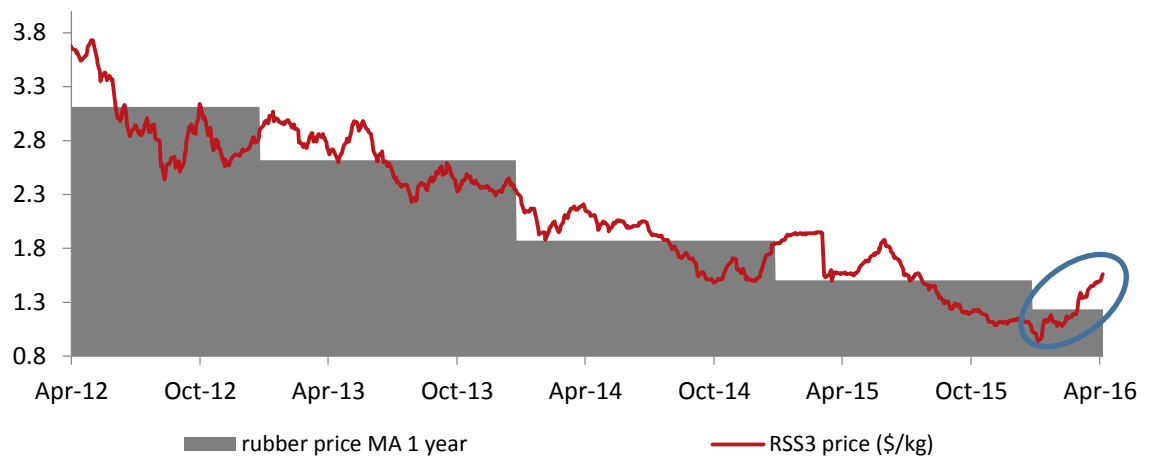


Source: Bloomberg, BSC Research

Natural rubber recovered in 2016Q1. From 7-year low of \$ 0.94 / kg, the rubber price increased by 80% to \$ 1.7 / kg on Apr 19th 2016. Accordingly, the year-to-date average price of rubber was at \$ 1.28 / kg, 18% lower than the same period last year.

Graph 10

Rubber price movement

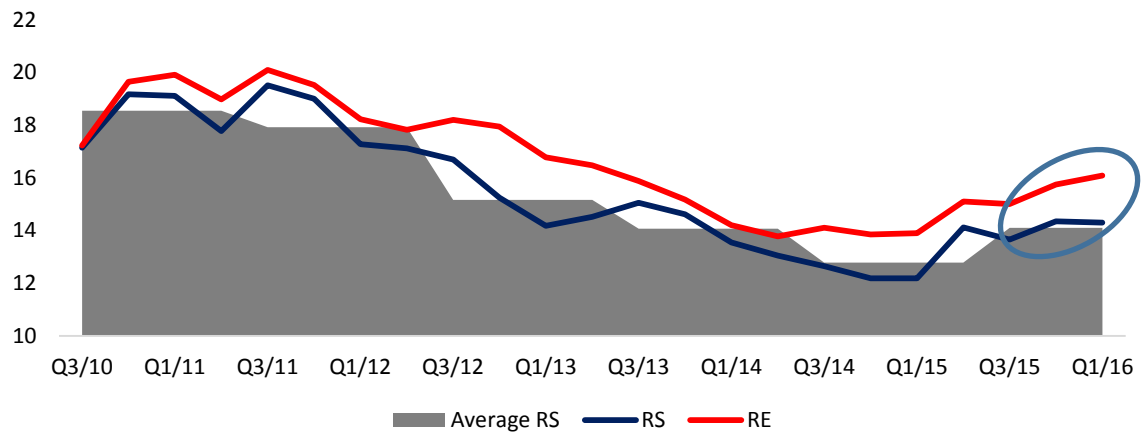


Source: Bloomberg, BSC Research

Domestic sugar prices rose slightly: As of Mar, 31st 2016, the average wholesale price of sugar reached VND14,200 per kg for RS type and VND 15,800 per kg for RE type, respectively down 1.05% and up 0.2% compared to 2015Q4, and increased by 20.3% and 15.4% respectively compared to the same period in 2015 due to the decline in sugarcane areas in the crop year 2015/16.

Graph 11

Domestic sugar price (Unit: VND 1,000 per kg)

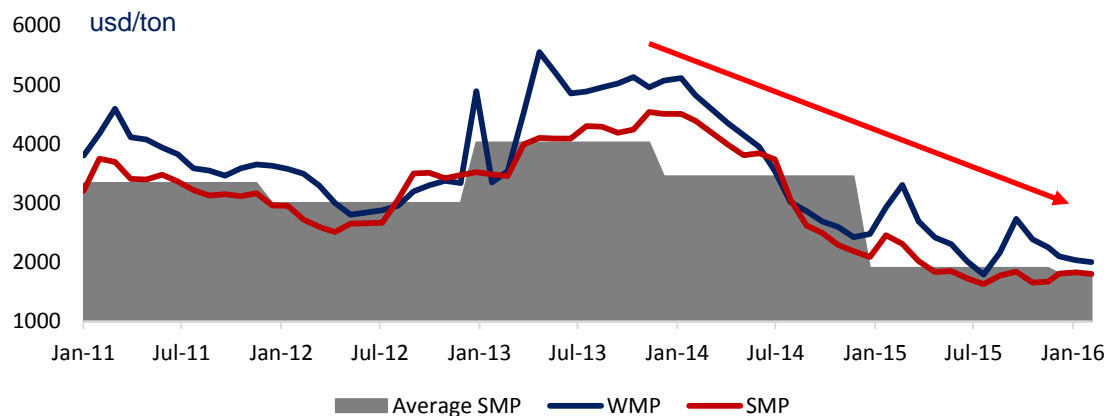


Source: Bloomberg, BSC Research

World raw milk prices maintained at low level: Compared to the beginning of 2016, raw milk prices in the end of March rose slightly by 2.1% for SMP, while decreased slightly by 3.9% for WMP. Compared to the same period in 2015, the average milk price in 2016Q1 decreased by 20.7% for SMP and by 29.6% for WMP. The main reasons are: (1) The export volume from Europe grew 6% compared to 2015 due to the elimination of milk production quotas in Europe, making milk production firms increase output to achieve economies of scale and expand the world market; while (2) the demand dropped in the second largest milk importer - China (-8%) and Russia (down 75% from the same period due to embargo import from Europe to Russia. The ban extends to Aug 2016).

Graph 12

World raw milk price (2011-2015)



Source: Bloomberg, BSC Research

Commodity price forecast, impact and notable stocks

Energy (Oil, Gas, Sulfur)

Downtrend:

- Based on the fluctuation of oil price in year-end 2015 and early 2016 and the imbalance of oil demand and supply and the influence of financial factors and politic factors, we assess that oil price is likely to decrease in the first half of 2016 and increase in the last half of 2016. The average oil price in 2016 may be around 40 USD/bbl (down 18%)
- The downtrend of oil price in 2016 will reduce the input price of gas thermal power plants and ure plants. If the average oil price is 40 USD/bbl in 2016, the input gas price will fall by 14% in urea plants and 13% in power plants.
- In term of sulfur, the supply increases from Northwest due to the operation of new refinery. In contrast, import demand from US is weaker. Therefore, the sulfur market tend to move to oversupply. Moreover, oil price continues to be low. Hence, sulfur price is forecasted to decrease in long term.

Impact: low oil price will lead to difficulties for oil & gas companies (GAS, PVD, PVS,...) while it will benefit other producing companies thanks to low input price such as chemical (PLC, CSV), gas thermal power plants (NT2) and fertilizer plants (DPM).

- Chemical:** A number of input materials such as sulfur, base oil, bitumen,... are products of refinery. Hence, low oil price will reduce these input materials' price. Moreover, low oil price will lead to cheaper transport cost because most input materials of chemical production in Vietnam are imported.

PLC: the company has 3 core segments including lubricant, bitumen and chemical. The input materials of PLC are refining products (base oil, bitumen, sulfur...) imported from Singapore and Thai. All PLC's segments are indirectly benefited from low oil price. In 2015, the gross profit of PLC was 4% higher than 2014, reached 18%.

CSV: sulfur accounts for 16% in COGS structure of CSV. Moreover, transport cost is major cost of company when main materials are imported.

Ticker	REV 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
PLC	7,933	351	4,344	8.31	2.09	19.92%	15% stock & 33% cash	29,000	34,750
CSV	1611	181	3334	6.30	1.32	26.81%	26% cash	23,000	26,666

Source: BSC Research

- **Gas thermal powerplant:** Curde oil and gas are input material of thermal powerplant. Gas price of thermal powerplants are calculated by market price (based on 46% MFO price of Singapore . market). Therefore, gas thermal powerplants will be directly benefited from low oil price.

NT2 – gas cost accounts for about 70% COGS. Therefore, low oil price will increase the competitive advantages of NT2 on Vietnam Competitive Generation Market (VCGM). 10-20% output of NT2 are sold on VCGM.

Ticker	REV 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
NT2 ¹	5,902	1,048	3,636	9.13	1.50	17.00%	22% cash & 7% stock	30,600	36,405

Source: BSC Research

- **Fertilizer:** gas pice of fertilizer plants is calculated by FO price. Hence, fertilizer plants are directly benefited from downtrend of oil price. Moreover, sulfur is an important material to produce phosphate fertilizers. Due to being refining product, sulfur price may be going to oil price's trend. Moreover, fertilizer sectors has major transport costs. Therefore, low oil price will save transport cost for fertilizer plants.

DPM – gas accounts for 75% cost of urea producing. Urea price is forecasted to decrease by 2-3%- lower than decrease rate in gas price (14%). Therefore, gross profit of DPM increased by 8% to 33% in 2015.

LAS: sulfur accounts for 10% cost of phosphate producing. Moreover, transport cost also accounts for 5% LAS'cost.

Ticker	REV 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
DPM	8,901	1,709	3,754	7.70	1.36	19.00%	40% cash	29,700	34,770
LAS	4,189	393	4,797	6.46	1.73	28.00%	55% cash	29,500	31,180

Source: BSC Research

- **Textiles:** EVE, STK: Input materials of EVE mainly are synthetic fibers, of STK are PET resin, which is derived from petroleum. With oil prices being forecasted to keep declining in 2016, the impact on gross margin of the two firms depends on the difference between input prices and output prices changes. In 2015, oil prices had a positive impact on both businesses because selling price decreased less, helping marginal increase by 2% for EVE and increase from 14.6% up to 18.08% for STK.

¹ FX loss in 2016 is 118 tỷ đồng based on USD/VND up 5% and EUR/VND=1

Chemical (Plastics)

Plastics:

- **Downward trend:** being refined from crude oil, plastics prices are correlated to oil price. Based on oil price forecast in 2016, we reckon that plastic price of many kind such as PE, PP, PVC,... will be witnessing downtrend in the last quarters of 2016 and will be lightly recovered in the last quarter of 2016. Specifically:

PE price: according to Resin Technology, Inc (RTi), if oil price increase/decrease USD 10/bbl, PE price will increase/decrease 4-5 cents/lb relatively. We notice that in 2016 some PE manufacturing factories will be maintained (the number of factory which will be put into maintainance will increase 30% compared with 2015) slowing PE falling price.

PP price is expected to sideway thanks to balance between supply and demand.

PVC price is expected to fall in accordance with falling oil price and oversupply in Asian countries.

- **Impacts:** BMP and NTP (construction plastics); AAA, RDP, DNP (package plastics)

Plastics beads account for about 70-80% plastic companies' input costs. Therefore, plastics beads price decrease or are forecasted to stay at low level will help boost firms' margins.

BMP: BMP's material inputs are mainly PVC buying from domestic suppliers. With policy of inventory stored 1 quarter forward, stable selling prices, BMP's margin will be improved when oil price falls. 9M2015, BMP's margin stood at 27%, improved compared with 20% in 2014 thanks to 15% decrease in plastic price.

DNP: Inventory on hand staying low (around 1-2 months), falling in input price will have a positive impact on margin of plastic pipe manufacturing.

NTP: although PVC input price fell, NTP's margin was barely improved due to increasing in discount for distributors. 9M2015, NTP's margin was 11%, slightly decreased compared with its in 2014 which was 12%.

AAA: firm material inputs were mainly HDPE, PP. Relatively with NTP, due to pressure on reducing selling price, AAA was barely benefited from falling in plastic bead price.

Ticker	REV 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
BMP	3,368	626	12,585	11.52	3.19	29.30%	45% cash div	133.000	157,946
NTP	4,063	409	6,228	10.84	2.43	22%	30% cash div	70,000	N/A
AAA	2,046	72	1,360	12.35x	1.01x	8%	25% stock div	18.200	N/A

Source: BSC Research

Metal (Iron ore, Copper)

Copper:

- **The downtrend in price:** Copper price is expected to keep declining in 2016 with the average price being forecasted by Goldman Sachs is \$ 4,725 per tonne (-15% compared to the average price in 2015) due to: (1) supply rose sharply in the period 2016-2017 with a growth rate of 3% due to 5 large mines in the stage of exploitation, including Cerro Verde's (Peru), Las Bambas (Peru), Buenavista (Mexico), Sentinel (Zambia), Grasberg (Indonesia); (2) The deceleration in China economic makes the forecasted demand increase only by 1.4% and the market will continue to oversupply in the period 2016-2018.

- **Impact:** CAV, VTH, TYA, VKC (cables)

Copper is the main material in the production of electrical cables, accounting for about 70% -75% of cost. Copper price remained at low levels will help to improve profit margins of companies producing electric cable, when selling prices decreased less because the current need to build electricity infrastructure is still very large. Specifically, the gross profit margin of CAV in 9M2015 was 7.5%, up 0.8% compared to 9M2014, of VTH is 4.3% (0.8%).

Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price, 20 April 2016	Target price
CAV	5,562	155.7	5,406	9.7	2.2	26.3%	30% Cash	73,500	N/A
VTH	551.2	15.4	3,080	51.1	0.7	19.76%	20% Cash	17,000	N/A

Source: BSC Research

Iron ore

- **Downward trend:** According to Goldman Sachs, iron ore average price will fall to USD 38 usd/ton in 2016 (decrease by 32% compared with 2015 average price). Plus, Goldman Sachs also made a prediction that iron ore price will hardly turn all way around and stay at usd 35/ton in period 2017-2018.
- **Impact:** HPG, POM, TIS, TVN, VIS (construction steel); NKG, HSG, VGS (pipe steel); TLH, SMC (Steel commercial), SSm (structural steel)

Although selling price was falling in accordance with falling in material input prices, sheets and pipe steel firms with export tax benefit are able to keep their margins more stable than firms who are manufacturing constructional steel

HPG, HSG, NKG: Margins in general are witnessing diversified trend between Constructional steel firms and Sheets/Pine steel firms. Specifically, gross margins of constructional steel firms are trending downward: in 9M2015, HPG's gross margin fell from 21.92% in 9M2014 to 21.03%; besides, margins of VIS and VGS were declined relatively. Meanwhile, HSG's gross margin stood at 8.23% in 9M2015, significantly increased compared with it in 9M2014 which was just 5.39%.

Ticker	Rev 2016	LNST 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
HPG	29,166	4,240	5,727	5.10	1.25	24.73%	10% cash div	31,200	N/A
HSG	15,200	716	5,467	5.76	1.14	19.76%	15% Cash div	39,500	33,897
NKG	5,350	180	3,598	3.50	0.76	21.80%	share div 100:8	15,000	13,671

Source: BSC Research

Agriculture group (Corn, soybean, feed,dairy, sugarcane, rubber)

Cotton

- Downward trend in price:** In the crop year 2015/16, US Department of Agriculture (USDA) expects that world cotton prices will decline by 7.6% compared to the average level of 61 cents per pound because the cotton inventories are still very high. During the crop year 2015/16, the production is forecast to reach 22.6 million tons (-14.4% yoy), the lowest level since 2010/11 because cotton areas and cotton yield decreased by 7% and 3% respectively. Cotton consumption is forecast to rise slightly by 0.83% to reach 24.3 million tons, exceeding 7.5% of the production, making inventories fall slightly by 2.75% but remain at a very high level of 21.2 million tons, nearly double the inventory in the crop year 2010/11.

- Impact: TCM, TNG, STK ...**

Cotton price accounted for about 60% of natural fiber cost, 30% of the fabric cost. The decrease in cotton prices reduce input costs for textile enterprises. However, the impact is positive or negative depends on cost management capabilities of each company:

TCM: the firm directly uses raw cotton, so input prices are low but output prices also decrease, making gross margin in 2015 only slightly increased by 0.64% over the previous year. In 2016, if TCM cannot keep a good output prices, the gross margin can be affected adversely.

GIL, KMR, GMC, TNG, TET, NPS: most input material using is fabric. Cotton price and oil price are expected to keep declining in 2016, which will decrease the input cost for those firms. However, the difference in output price changes makes the gross margin of those firms varies: In 2015, gross margin of GIL and GMC increased respectively from 16.54% to 18.03% and 14.76% to 16.81%, gross margin of TNG declined 0.9%, while the gross margin of NPS and TET plunged from 20.24% to 14.12%, and from 65.6% to 42.1% respectively in 2015.

Ticker	Rev 2016 (bil VND)	EAT 2016 (bil VND)	EPS 2016	PE 2016	PB 2016	ROE 2016	Dividend 2015	Price, 20 April 2016	Target price
TNG	2,230	125	5,187	3.66	1.17	32%	6% Cash	18,000	28,264
TCM	2,856	186.3	3,802	8.1	1.37	17%	6% cash div	24,900	34,220
STK	1,672	134	2,873	11.1	1.84	16.5%	10% Share Div	27,900	n/a

Source: BSC Research

Sugar

Uptrend in sugar price: We expect that sugar prices in the crop year 2015/16 will increase by 10-12% compared to the previous season when the forecasted supply is lower than the demand for the first time after four consecutive crop oversupplied. According to the Vietnam Sugar Association's forecast, the total sugar supply for 2015/16 is at 1,521 million tonnes (+ 1.4%yoy), in which 1.4 million tonnes from production (-1.3%), 121,000 tons from imports. Sugar demand is expected to be 1.6 million tons (+ 6.7%), equivalent to about 79,000 tons exceeds supply.

- **Impact:** LSS, LSS, SBT, KTS, BHS
- The increase expectation in sugar price will have a positive impact on sugar production firms at different levels:

LSS, SLS, SBT, KTS, BHS: mainly producing sugar from sugar cane, then wholesaling refined sugar for food plants or raw sugar for other sugar firms. These companies will benefit from the uptrend in sugar prices as input costs (i.e. sugarcane price) is expected to stabilize. The profit margin of those firms therefore could improve. Note that, sugarcane areas are narrowing, so revenues and net income may not rise significantly.

BHS: mainly retailing sugar, so the gross margin will be improved later than the wholesale firms, because retail prices tend to be more stable than wholesale prices.

Ticker	Rev 2016 (bil VND)	EAT 2016 (bil VND)	EPS 2016	PE 2016	PB 2016	ROE 2016	Dividend 2015	Price, 20 April 2016	Target price
BHS	4,858	162.0	1,251	15.6	1.23	7.9%	5% cash div	18,900	n/a
SBT	3,090	233.0	1,255	19.2	1.71	8.9%	7% cash div	31,800	n/a
LSS	1,697	34.4	506	17.8	0.41	2.3%	1.5% cash div	10,600	n/a
SLS	741	94.8	13,941	3.7	1.20	32.4%	15%, 10%, 40% cash	76,000	64,705

Source: BSC Research

Dairy

- **The downward trend:** In 2016, according to USDA, raw milk powder prices are expected to remain low due to (1) The supply is forecasted to remain exceeding demand by 25% (2) Import demand from some major countries such as China is expected to decline.

- **Impact:** VNM, HNM

Low raw milk prices will have a positive impact on the milk production firms that importing milk powder for the production because the selling milk price in Vietnam is expected to remain stable in the coming year:

VNM, HNM: Raw milk price is usually signed for a whole year from the end of 2015 to reduce the risks of input price fluctuations. If only considering the impact of raw milk price, raw milk usually accounts for 20-

25% of the production cost, gross margin of the companies can be improved slightly by 2% when raw milk prices down 8.92%, comparing the price in the period Nov 2015 – Jan 2016 to the price in same period last year.

Ticker	Rev 2016 (bil VND)	EAT 2016 (bil VND)	EPS 2016	PE 2016	PB 2016	ROE 2016	Dividend 2015	Price, 20 April 2016	Target price
VNM	45,016	8,823	7,353	17.4	7.1	41%	40% Cash div, 1st	136,000	148,000
HNM	260	3.4	170	52.4	0.8	1.6%	0	9,200	n/a

Source: BSC Research

Natural rubber

- **Downtrend and recovery:** The recovery of rubber prices was the result of: (1) The Thai government policy supports rubber planters by directly purchasing 100,000 tons of rubber, at higher price than the market price, (2) the International Tripartite Rubber Council (ITRC), including Thailand, Malaysia and Indonesia agreed to cut export volume by total of 615 thousand tons in 6 months, starting on March 2016, as discussed in our [rubber sector report](#), and (3) the rebound of oil price has increased the production cost of synthetic rubber, which is a replacement of natural rubber in many areas.
- **Related Ticker:** DPR, PHR, TRC (natural rubber sector); DRC, CSM, SRC (tire)

Natural rubber: With preliminary processed rubber as output, natural rubber companies depend largely on the movement of rubber prices. Domestic rubber prices usually lagged one month compared with the global rubber price, and currently increased from VND 26 million/ton at the beginning of 2016 to \$28-29 million at the end of Quarter 1. Most rubber companies has applied extreme cost cut program to cope with the low-price level of rubber. The current gross profit margin of listed businesses averaged at 14%, and the breakeven point is at VND 24-25 million/ton.

Tires: Natural rubber and synthetic rubber respectively accounted for 34% and 23% of input cost of tire companies. Additionally, due to high competition, especially with Chinese tire products, the domestic tire companies have to cut prices further and increased sales and marketing costs. Therefore, we believe that, although the price of rubber is forecast to remain at a low level, pre-tax profit margin of businesses tires may decline next year

Ticker	Rev 2016 (VND Bil)	PAT 2016 (VND Bil)	2016 EPS	PE F	PB F	2016 ROE	2015 Dividend	Price as of Apr 20 th 2016	Target price
DPR	649.1	134.9	3,136	11.5	0.67	5.7%	30% cash	34,400	n/a
PHR	1,080	90.1	1,108	15.1	0.59	4.0%	35% cash	17,100	n/a
TRC	375.5	35.2	1,170	17.5	0.42	2.4%	32.5% cash	21,600	n/a

Source: BSC Research

Feed

Trend:

- Corn price in 2016 may sideway or fall lightly compared with 2015 due to increase in supply from USA and other main exporters such as Brazil or Argentina. According to FAPRI (the Food and Agriculture Policy Research Institute) corn price will be around 4 USD/bu til 2020.
- The soybean price may slightly increase to 387.5 USD/ton in 2016 from 385.5 USD/ton in 2015 (EIU forecasted) due to falling in supply from USA (soybean supply in 2015-2016 season of America will be 66 mil bu lower, export volume will be 50 mil bu lower staying at 1,675 mil bu), however, it is staying at lower level compared with 2015 (standing at 983.5 USD/ton on 21st Jan 2015). However, import tax increasing from 0% to 2% may increase domestic soybean price to around 390 usd/ton.

Impact: DBC

DBC: corn, soybean and wheat are main material input of feed. However, gross margin is kept stable even though material input price fell. Due to high competition, in order to keep market share, firms decreased selling price, increase discount when material price falls. The DBC's gross profit margin was lightly increased from 17.9% in 2014 to 18.6% in 2015 while soybean, wheat and corn average prices fell strongly by 16%, 14% and 7% respectively.

Ticker	REV 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 20/04/2016	Target price
DBC	5.521	227	3,615	7.28	0.88	11.65%	20%	29,200	

Source: BSC Research

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