

**Buy****BSC****Tien Phong Plastic Joint Stock Company (NTP)****Recommendations**

The target price	83,900
Closed price	73,000
Upside	15%

**Market Statistic**

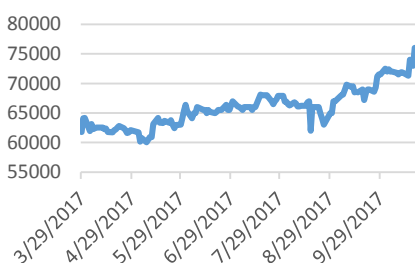
Floating Shares (million shares)	89.2
Market Cap (VND Bil.)	6,514
52-week highest price	80,000
10-day average volume (shares)	23,645

**Shareholders (%)**

SCIC	25.77%
Sekusui	15%
Lê Thúy Hải	7.13%
Đặng Quốc Dũng	6.87%
Hồ Phi Hải	4.18%
NTP Miền Nam	4.15%

**Price development**

	1M	3M	1Y
NTP	8.6%	7.4%	6.7%
VN-Index	2.9%	7.5%	20%

**Price development**

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**Company Overview:** NTP is a leading plastic pipe manufacturer with a capacity of 122,000 tonnes/year, accounting for over 60% of the market in the North. .

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**Valuation**

We recommend BUY for NTP with a target price of VND 83,900/share based on FCFF, upside 15% from current price.

**Investment Highlights**

- NTP is a leading plastic pipe manufacturer with a capacity of 122,000 tonnes/year, accounting for over 60% of the market in the North.
- Expected business results improved after SCIC divestment, shareholder structure changes.
- Subsidiary of Central Tien Phong plastic Ltd is currently enjoying tax incentives 0% until 2017, 7.5% from 2018-2028 and 15% for the remaining time..

**Investment risk.**

- High competition, especially after HSG and Tan A Dai Thanh opened new factories in the North.
- Input prices go up. 9M2017, average input price of plastic resins rose by 21% yoy.

	2014	2015	2016	2017F	2018F
Revenue	2,998	3,556	4,354	4,662	4,941
% yoy	21%	19%	22%	7%	6%
Total Assets	2,580	3,252	3,420	3,339	3,416
Equity	1,466	1,719	1,833	2,234	2,387
Net profit	325	366	398	521	517
% yoy	12%	13%	9%	31%	-1%
ROE	24%	23%	22%	23%	24%
ROA	15%	13%	12%	13%	14%
EPS	5,769	5,715	5,346	4,872	5,715
P/E			14.78	16.22	13.82
P/B			3.20	3.16	2.95

Source: BSC research, 2018 is forecasted on assumption that plastic resins price go up 5%, distributor cost / net revenue reduced to 8%.

## Business Update

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**Business results 9M2017.** Total output rose by 5% yoy to 64,000 tonnes. In particular, PVC pipes volume has no growth due to strong competition, especially after new factories of HSG and Tan A Dai Thanh which located in the North went into operation. HDPE and PPR pipes remain high growth rates of 18% and 19%, respectively. Accumulated 9M2017, net sales grew 7% yoy to VND 3,329 billion, EBT and EAT accelerated by 26% and 27% respectively, thanks to the contribution from the new issuance of Southern Tien Phong plasticJsc with surplus capital to Sekusui Chemical. Excluding this extraordinary profit, EBT only grew by 4% because selling expenses climbed.

**Changes in shareholder structures.** Nawaplastic completely divested 23.84% chartered capital of NTP (more than 21 million shares). NTP managers and relates, Southern Tien Phong Plastics and Sekusui Chemical bought all above shares. We estimate that firm's managers currently own about 34% of NTP equity. Ownership structure of the company is expected to continue to change in the coming time. SCIC, which holds more than 37% of NTP equity, plans to divest this year. The company proposes an AGM meeting on November 30, 2017 to raise the maximum ownership of foreign investors up to 100%. We suppose that Sekusui will contribute positively to NTP's business results, such as participating in consultancy, technology transfer, manufacturing new products to reduce competitive pressure and improve performance. Sekusui is the leading Japanese company in the plastic pipe industry, with a chartered capital of more than JPY 100 billion, specializing in the manufacture of glass-plastic tubes; HDPE pipes; PVC pipe; PVC control box, large glass-plastic water intake tube; power cable and telecommunication cable, ...

**Business results are expected to improve sharply from 2018.**

- **Compared to BMP, operating margins of NTP are still low and there is room to enhance.** BMP and NTP are the two leaders in pipe plastics in Vietnam, with the capacity of 123,000 tonnes and 122,000 tonnes, respectively. Net revenue of BMP and NTP was VND 1,737 billion and VND 2,053 billion in 6M2017. However, NTP net operating profit margin (11%) was lower than BMP (16%). This difference is mainly due to the high discount policy for distributors, the discount rate of NTP is about 30% (there may be up to 60%), while BMP is about 15%. NTP's distributors' cost up to VND 517 billion in 2016 and VND 236 billion in 6M2017 while pre-tax profit are VND 447 billion and VND 232 billion, respectively. Cost for distributors is at about 12% of net sales in 2016-6M2017, double than that of BMP.
- **Net profit margin of the company's business is expected to improve sharply** after the change in shareholder structure. This is expected to be reflected in from 2018. In 2017, we estimate net revenue and net profit will reach VND 4,662 billion (+7% yoy) and VND 473 billion (+19% yoy). Assuming a 6% increase in output in 2018, some scenarios of EPS 2018 are shown in the table below:
  - If the policy for distributors is unchanged, we note that the fluctuation of raw material prices does not affect the company's results. Then, the company's after-tax profit would be estimated at VND 483 billion, equivalent to EPS of VND 4,976/share.
  - Assuming that the cost to distributors is reduced to 9% of sales, raw material price up 5%, EAT will be VND 516 billion with EPS of VND 5,319/share.

- If the cost of the distributor drops to 6% (equivalent to BMP), raw material price increases by 5%, EAT is 631 billion VND, equivalent to EPS of 6,507 VND / share.
- If the cost to the distributor drops to 6%, raw material price is unchanged, EAT will be VND 713 billion, EPS is VND 7,352/share.

**Analysis of EPS sensitivity 2018 in response to fluctuations in input material prices and costs to distributors over net sales.**

		Price volatility						
		-10%	-5%	0%	5%	10%	15%	20%
Cost to distributors / net revenue	13%	6,206	5,360	4,515	3,670	2,825	1,790	734
	12%	6,666	5,821	4,976	4,130	3,285	2,366	1,309
	11%	7,062	6,217	5,372	4,526	3,681	2,836	1,804
	10%	7,458	6,613	5,768	4,922	4,077	3,232	2,299
	9%	7,854	7,009	6,164	5,319	4,473	3,628	2,783
	8%	8,250	7,405	6,560	5,715	4,869	4,024	3,179
	7%	8,646	7,801	6,956	6,111	5,265	4,420	3,575
	6%	9,042	8,197	7,352	6,507	5,661	4,816	3,971

Source: BSC research

## Disclosure

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