

Sector: Chemicals | RETAIL RESEARCH

Recommendation **NEUTRAL**

South Basic Chemicals JSC (HSX: CSV) SOLID DEVELOPMENT

Current price:	32,800	Date:	22/03/2021	SHAREHOLDER STRUCTURE	
Previous target price:	-	Outstanding Shares (Million)	44.2	VINACHEM	65.0%
New target price:	40,000	Market Cap (VND billion)	1,463	America LLC	11.0%
Dividend yield	6.2%	Avg. 6M Trading vol:	309,338	Vietnam Investment Property	4.9%
Upside	21.9%	% Foreign float	14.08%	Holdings Ltd	

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Target price: 40,270 VND
Stop-loss price: 27,790 VND

VALUATION

We recommend **NEUTRAL** for CSV with a target price of **40,000 VND/share**, 21.9% upside from the price on 19/03/2021 with P/E method. This price equates to a target P/E of 10.0x .

FORECAST OF BUSINESS RESULTS

BSC forecasts that CSV's net revenue and NPAT will be **VND 1,464 billion (+9.3% YoY)** and **VND 202 billion (+11.7% YoY)**. EPS fw = VND 4.052 and P/E = 8.0, P/B = 1.5.

CATALYST

- Relocating the factory to Nhon Trach 6 Industrial Park to increase the capacity of NaOH by 50,000 tons/year.
- Vinachem plans to divest from CSV from 65% to 51%.

TECHNICAL VIEW

- Investors can buy the stock with the target price range at 40-40.5, consider to stop loss if the support level of 27.8 is penetrated.

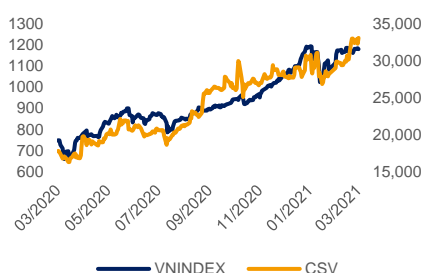
RISKS

- Fierce competition from domestic and Chinese competitors;
- Cash dividend is expected to decrease during the factory investment period.

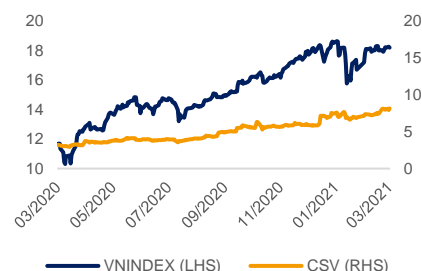
COMPANY UPDATE

- Revenue and NPAT in 2020 reached **VND 1,566 billion (-14% yoy)** and **VND 251 billion (-28% yoy)**, respectively, mainly due to a decrease in domestic demand, causing some key products such as NaOH hay H₂SO₄ to decrease in both terms of sales volume and selling price.
- CSV plans to achieve revenue and NPAT of parent company in 2021 to reach VND 1,104 billion (+5% YoY) and VND 176 billion (-3% YoY), respectively.

Price comparison between CSV and VN index



P/E comparison between CSV and VN index



	2020	2021	Peer	VN-Index
PE (x)	7.20	7.95	12.2	14.7
PB (x)	1.28	1.45	1.5	2.0
PS (x)	0.96	0.25	0.7	1.5
ROE (%)	21%	24%	22%	14%
ROA (%)	21%	10%	15%	2%

	2019	2020	2021	2022
Net Sales	1,566	1,339	1,464	1,505
Gross Profit	441	366	403	416
NPAT	251	181	202	210
EPS	5,028	3,657	4,052	4,216
EPS Growth	-4%	-27%	11%	4%

COMPANY OVERVIEW

Southern Basic Chemicals Joint Stock Company (CSV) was established in 1976, converted to joint stock company in 2013 and officially listed on HOSE in March 2015. CSV has a subsidiary, Vietnam Phosphorus JSC (owning 65%). Currently, the company has 6 affiliated units, mainly in Dong Nai, and 2 warehouses use to store and preserve imported chemical materials, Dinh Vu and Go Dau.

Table: Units under CSV

Unit name	Address
Bien Hoa Chemical Factory	Road 5, Bien Hoa 1 Industrial Park, Dong Nai
Tan Binh 2 Chemical Factory	Road 5, Bien Hoa 1 Industrial Park, Dong Nai
Dong Nai Chemical Factory	Road 1, Bien Hoa 1 Industrial Park, Dong Nai
Bao Loc Bauxite Mine	62 Ly Thuong Kiet, Bao Loc, Lam Dong
Tan Binh Branch	46/6 Phan Huy Ich, Tan Binh, HCMC
Nhon Trach Chemical Factory	Subdivision 6C, Nhon Trach 6 Industrial Park, Dong Nai

Source: CSV, BSC Research

CSV is one of the leading manufacturers of basic inorganic chemicals in Vietnam, with a diversified product portfolio with more than 40 chemicals used in many industries such as food, fertilizer, textile dyeing, paper. and fast moving consumer goods. However, the main products (accounting for about 57% of revenue and more than 70% of gross profit) are Caustic soda (27% of total revenue), Chlorine (15%), Sulfuric (7-8%), Silicate (6-7%) and Phosphoric (1%-2%).

Table: Main products of CSV

Product	Main application	Competitor	Market share
Caustic soda (NaOH)	Water filtration, pulp and paper production, textile dyeing, soap	Vedan, HVT, Bai Bang Paper	About 25%
Sulfuric acid (H ₂ SO ₄)	Batteries, fertilizer, alum	Longcheng Superphosphate, China	About 50%
Hydrochloric acid (HCl)	Producing MSG, removing steel plating	Viet Tri Chemicals (HVT), Vedan	About 50%
Phosphoric acid (H ₃ PO ₄)	Fertilizer	China, South Korea	About 20%
P.A.C	Water treatment	Bac Giai, Tan Luas	About 20%

Source: CSV, BSC Research

Figure: Structure of consumption of sulfuric acid

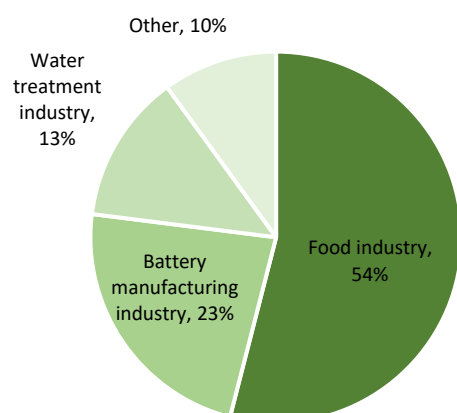
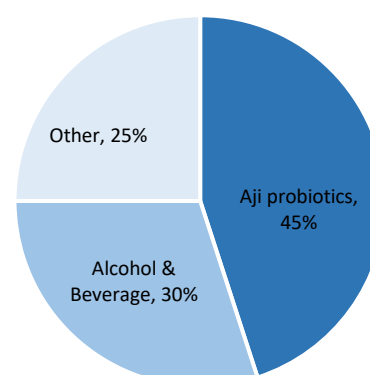


Figure: Structure of production and consumption of Phosphoric Acid

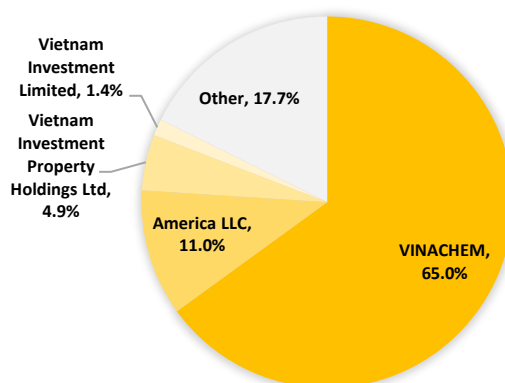


Source: CSV, BSC Research

Ownership structure

CSV currently has a fairly concentrated shareholder structure, when major shareholders hold more than 80% of the business. In which, the largest shareholder is Vietnam Chemical Group (Vinachem) holding 65%, followed by America LLC (11%) and Vinacapital (6.5%).

Figure: CSV's shareholder structure



Source: CSV, BSC Research

Business location & customers

The company sells widely in the Central - Central Highlands provinces to the Southwest provinces and Ho Chi Minh City with a variety of basic chemical products. **CSV's main customers are large industrial enterprises** that use CSV's chemicals as raw materials. Among them are Ulwha (textiles), Unilever, P&G, NET, LIX, Sabeco, Ajinomoto (fast-moving consumer goods), Sawaco (water), Pinaco (batteries) and SFG (fertilizers). Although CSV's business model is mainly B2B, CSV's risk of concentration is not too high, as the largest customer, Ajinomoto, accounts for only about 14% of core revenue and about 6% of total revenue.

Structure of production and business costs by factor

The main production materials such as industrial salt and sulfur account for a large proportion of over one third of CSV's production cost structure. In addition, the cost of electricity accounts for nearly 40% of the cost of producing caustic soda (NaOH) and 28% of the overall cost of CSV. The Company's machinery and equipment has been fully depreciated, resulting in insignificant depreciation expense.

Criteria	2020	2019	% Increase/Decrease	2020 weight	2019 weight
Raw materials expenses	346	494	-30%	35%	41%
Labor expenses	151	178	-15%	15%	15%
Depreciation expenses	45	32	42%	5%	3%
Outsource service expenses	290	348	-17%	29%	29%
Other expenses	152	150	1%	15%	12%
Total	985	1202	-18%	100%	100%

Source: CSV, BSC Research

COMPANY UPDATE

(1) Update on 2020 business results

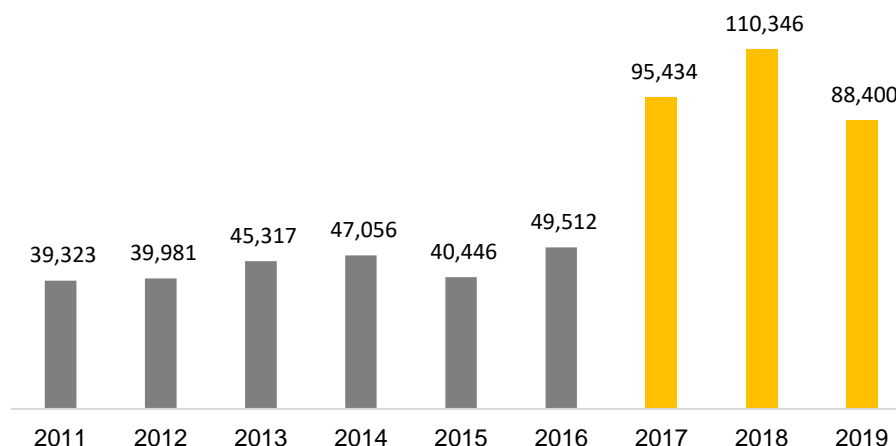
Billion VND	Q4/20	Q4/19	%YoY	2020	2019	%YoY	Comment
Net revenue	344	420	-18%	1,339	1,566	-14%	- Net revenue in 2020 will reach VND 1,339 billion (-14% YoY). The main reason was the decrease in domestic demand, causing a decrease in consumption of some main products of the parent company (NaOH 32% decreased 29%, H2SO4 decreased 45%). Besides, the selling prices of the above products also decreased by 38% and 45% YoY, respectively, causing the company's gross profit to decrease by 17% YoY (gross profit margin reached 27.3%).
Gross profit	87	122	-29%	366	441	-17%	
GPM	25.3%	29.1%		27.3%	28.2%		
Selling expenses	19	18	6%	71	70	1%	
G&A expenses	19	18	6%	67	62	8%	
SG&A/ DTT	11.1%	8.6%		10.3%	8.4%		- Selling expenses and administrative expenses both increased slightly over the same period, raising the ratio of SG&A/Net revenue to 10.3%
EBIT	48	86	-44%	228	310	-26%	
DT tài chính	2	3	-33%	12	18	-33%	
CP tài chính	-3	-4	-25%	-13	-13	0%	- Financial income -33% YoY, mainly due to decrease in term deposit interest.
LNTT	47	85	-45%	227	315	-28%	
LNST	38	68	-44%	181	251	-28%	
Biên LNST	11.1%	16.2%		13.5%	16.0%		
EPS				3,657	5,028	-27%	

Source: CSV, BSC Research

BUSINESS OUTLOOK

The outlook for the basic chemical industry is positive. Vietnam's industrial chemical demand grows at an average of 10% per year, domestic supply has only partially met, and still has to depend on imports. Specifically, since 2017, the domestic market demand for caustic soda-chlorine products has reached about 400,000 tons of caustic soda/year, while domestic enterprises can only produce nearly 100,000 tons of caustic soda/year.

Figure: Value of imported soda into Vietnam (thousand USD)



Source: Trademap, BSC Research

CSV has a monopoly advantage on the southern basic chemicals market due to the high barriers to entry. The chemical production business must comply with the Government's planning and ensure environmental issues. In addition, the cost for the container of inorganic chemicals and transportation costs is quite large.

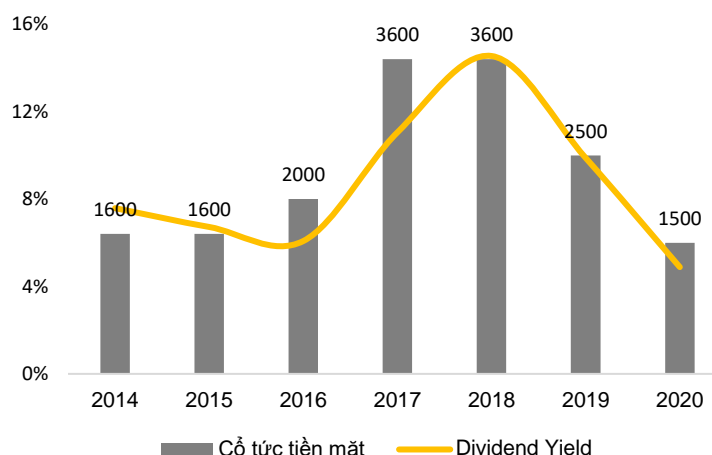
CSV has a healthy financial position and stable business operations. Specifically:

- CSV's fixed assets are almost depreciated. The fact that CSV's annual depreciation expense is only about 30-40 billion VND/year will help the company's gross profit margin maintain at 27-30% in the coming years.
- CSV has a net cash position, and no debt. The amount of cash and cash equivalents in 2020 reached VND 315 billion, while the total short-term and long-term debt was just over VND 100 billion.
- Cash flow from operating activities is stable and averages over VND 200 billion/year.

CSV plans to relocate the factory to Nhon Trach 6 Industrial Park. According to the management, the preliminary estimate of the total investment is more than 1,700 billion VND, of which the capital structure will include 30% equity capital, the remaining 70% will be equity capital. loans. Currently, the project is only at the stage of selecting a contractor to prepare a feasibility study report. BSC believes that the relocation of the factory will have a less positive impact on CSV's business activities in the coming period, as the company has to invest in new construction and incur additional interest costs.

Cash dividend is difficult to maintain at a high level as the company will focus on deploying a new factory. The planned dividend in 2020 is only 1500 VND/share, a significant decrease compared to the 2017-2019 period..

Figure: CSV's dividend payment over the years



Source: CSV, BSC Research

The divestment progress is still open. Vietnam Chemical Group (Vinachem) plans to divest from 65% to 51% through auction. Even so, the divestment has not been carried out yet. We will continue to update and monitor the divestment roadmap of CSV at Vinachem in the near future.

FORECAST OF BUSINESS RESULTS

BSC forecasts that CSV's net profit and net profit will be VND 1,464 billion (+9.3% YoY) and VND 202 billion (+11.7% YoY). EPS fw = VND 4,052 and P/E = 8.0, P/B = 1.5, based on the following assumptions:

- The output of key chemical products such as NaOH, Sodium Silicate, or hydrochloride acid increased by 10-20%. Besides, the selling price of caustic soda and water treatment products also increased by 5-15% on average, equivalent to the increase of chemical prices in some countries such as China.
- The consumption of Sulfuric products decreased due to the influence of Ajinomoto's change in production technology, and competitive pressure.
- The factory relocation plan has not been implemented in 2021.

Table: Forecast of CSV's business results

Unit: billion VND	2020	2021F	2022F
Net revenue	1,339	1,464	1,505
- NaOH 100%	244	306	323
- HCl 32%	83	88	93
- H ₂ SO ₄	54	26	27
- H ₃ PO ₄	41	42	44
- Liquid chlorine	127	130	137
- Phosphorus	166	205	279
- P.A.C	113	118	128
- Javel	111	117	126
COGS	(973)	(1,019)	(1,052)
Gross profit	366	403	416
<i>GPM</i>	27.3%	27.5%	27.6%
Selling expenses	(71)	(77)	(79)
<i>Selling expenses margin</i>	5.3%	5.2%	5.3%
G&A expenses	(67)	(73)	(75)
<i>G&A expenses margin</i>	5.0%	5.1%	5.1%
Profit before tax	227	253	263
Profit after tax	181	202	210
EPS	3,657	4,052	4,216

Source: BSC Research

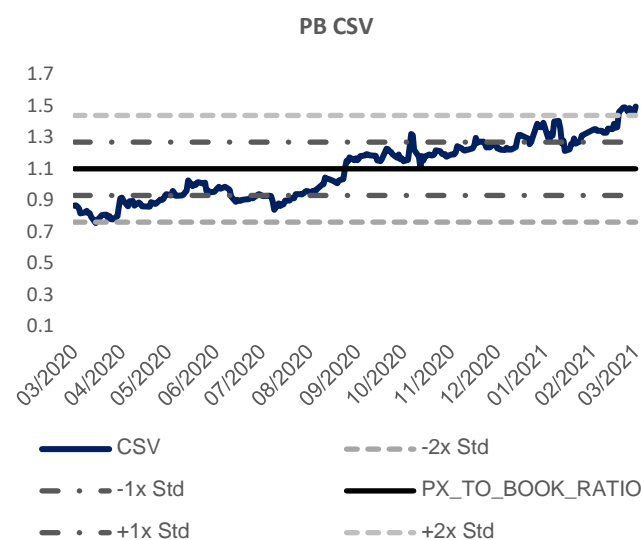
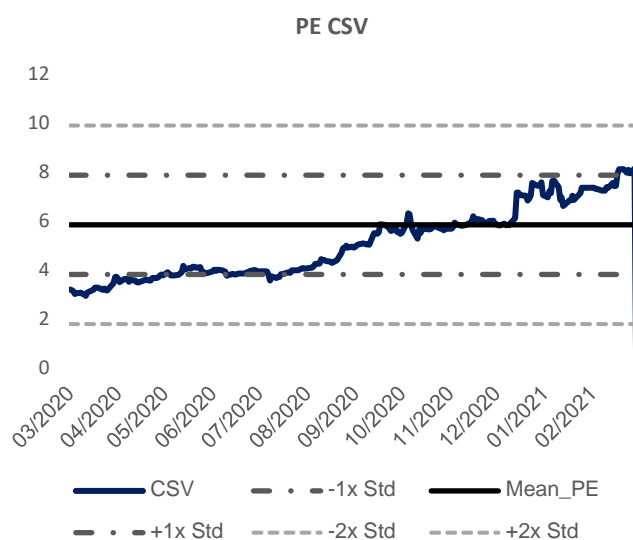
VALUATION

We recommend **NEUTRAL** for CSV with target price of 40,000 VND/share, 21.9% upside from the price on March 19, 2021 with P/E method. CSV is currently trading at a P/E of about 8x, higher than the valuation range of the last 3 years, but still 35% below the industry PE of 12.2.

Summary table of enterprises in the industry by capitalization

Stock code	Company	Exchange	Market cap (billion VND)	Basic P/E (TTM)	P/B (TTM)	P/S (TTM)	EV/EBITDA
DGC	Duc Giang Chemicals	HOSE	11,097.95	12.24	2.84	1.78	9.92
PLC	Petrolimex Petrochemical	HNX	2,423.93	16.29	1.93	0.43	12.43
DDV	DAP - Vinachem	UPCOM	1,944.43	119.59	1.53	1.03	10.15
VFG	Viet Nam Disinfection	HOSE	1,620.39	9.75	1.67	0.85	7.20
CSV	Southern Basic Chemicals	HOSE	1,427.66	7.95	1.46	1.07	5.24
VET	NAVETCO National Veterinary	UPCOM	1,344.00	18.16	3.52	2.19	10.46
HVT	Viet Tri Chemicals	HNX	417.55	14.81	1.87	0.59	4.43
VPS	Vietnam Pesticide	HOSE	347.34	26.62	1.05	0.68	8.47
PSE	Southeastern Petroleum Chemicals	HNX	102.50	12.14	0.66	0.06	11.44
CPC	Can Tho Pesticides	HNX	74.28	7.32	0.91	0.39	4.89
HPH	Hung Phat Ha Bac Chemicals	UPCOM	36.12	12.09	0.36	0.48	3.63
Median			1,344.00	12.24	1.53	0.68	8.47

Source: Fiinpro, BSC Research



Source: Bloomberg, BSC Research

APPENDIX

IS (VND billion)	2018	2019	2020	2021F
Net revenue	1,588	1,566	1,339	1,464
COGS	(1,165)	(1,125)	(973)	(1,060)
Gross profit	423	441	366	403
Selling expenses	(71)	(70)	(71)	(77)
G&A	(65)	(62)	(67)	(73)
Operating income	308	315	227	254
Financial income	27	18	12	9
Financial expenses	(6)	(13)	(13)	(8)
Interest expenses	(5)	(11)	(13)	(7)
Gain/loss from affiliates	-	-	-	-
Other gain/loss	10	(0)	(1)	(1)
Profit before tax	319	315	227	253
Corporate tax payment	(64)	(63)	(46)	(51)
Profit after tax	254	251	181	202
Minority interest	(2)	(5)	(2)	(3)
NPATMI	252	246	180	199
EBITDA	313	342	273	314
EPS	5,245	5,028	3,657	4,052

BS (VND billion)	2018	2019	2020	2021F
Cash & cash equivalent	170	154	115	165
Short term investment	230	80	200	200
Account receivables	159	184	174	202
Inventory	296	283	235	240
Other current assets	28	40	50	26
Total current assets	883	742	775	834
Tangible assets	60	146	123	80
Depreciation	(823)	(832)	(876)	(920)
Long term incomplete assets	90	7	34	34
Long term investment	-	-	-	-
Other non-current assets	90	366	359	361
Total non-current assets	245	523	521	481
Total Assets	1,128	1,265	1,296	1,315
Account payables	285	329	290	235
Short-term debt	50	92	73	27
Other short-term debt	188	125	165	164
Current liabilities	238	217	238	191
Long-term debt	47	112	52	44
Other long-term debt	-	-	-	-
Non-current liabilities	47	112	52	44
Total Liabilities	97	204	125	71
Paid-in capital	442	442	442	442
Capital surplus	0	0	0	0
Retained earnings	176	187	141	242
Other equity	23	23	23	23
Minority interest	-	-	-	-
Shareholder's equity	842	936	1,005	1,080
Total Resources	1,128	1,265	1,296	1,315
Number of shares outstanding (million)	442	442	442	442

CF (VND billion)	2018	2019	2020	2021F
Profit after tax	319	315	227	253
Depreciation	26	32	45	61
Change in NWC	(237)	(466)	15	(131)
Other adjustments	-	-	-	-
CF from operating activities	107	(119)	287	184
Fixed assets investment	(98)	(35)	(47)	(34)
Other investment	(103)	169	(108)	9
CF from investing activities	(200)	134	(156)	(25)
Dividend paid	(195)	(137)	(92)	(88)
Cash from net borrowing	(28)	107	(79)	(54)
Other revenue	-	-	-	-
CF from financing activities	(222)	(30)	(171)	(143)
Beginning cash balance	485	170	154	115
Cash in year	(315)	(16)	(39)	50
Ending cash balance	170	154	115	165

Ratios (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	3.7	3.4	3.3	4.4
Quick ratio	2.5	2.1	2.3	3.1
Solvency ratios				
Debt/ Total assets	0.3	0.3	0.2	0.2
Debt/ Equity	0.3	0.4	0.3	0.2
Efficiency ratios				
Days of inventories	77	94	97	82
Days of receivables	41	40	49	47
Days of payables	18	17	18	28
CCC	99	117	128	100
Profitability ratios				
Gross profit margin	26.7%	28.2%	27.3%	27.5%
PBT margin	16.0%	16.0%	13.5%	13.8%
ROE	30.2%	26.8%	18.0%	18.7%
ROA	22.5%	19.9%	14.0%	15.4%
Valuation				
PE	7.0	4.9	7.2	8.0
PB	1.5	1	1.3	1.5
Growth				
Net revenue growth	8%	-1%	-15%	9%
EBIT growth	3%	4%	-26%	11%
PBT growth	3%	-1%	-28%	12%
EPS growth	5%	-4%	-27%	11%

Source: CSV, BSC Research

Disclosure

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