

RECOMMENDATION: **BUY**

Date: 15/11/2019

Current price: VND 51,000

Target price: VND 80,020

Upside: +57 %

Research department

Email: research@sbsi.vn

INVESTMENT HIGHLIGHTS

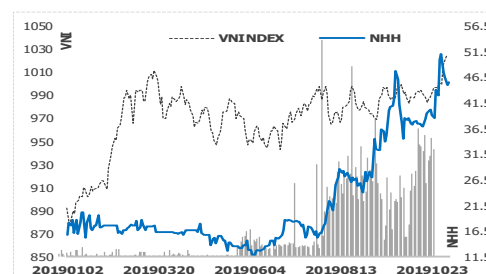
- **Brand value & profound experiences:** Hanoi Plastic Joint Stock Company (NHH), established in 1972, is a leading company in Vietnam engineering plastics industry. It has been selected by reputable FDI enterprises (Honda, Toyota ...) to be a supplier in supplying technical plastic parts.
- **Abundant room for growth:** The automotive component segment will become more attractive as competitions among manufacturers rise and localization rate will increase to 40% in the next 5 years. Trade war between US and China triggers the shifts of many electronic enterprises from China to Vietnam which in-turn create opportunities for the domestic auxiliary electronics industry. The market value for cutlery now is US \$ 2.4 billion, estimated to grow by 1.7% per year with the conversion rate to compostable products ranging from 30% up to 50% in the 2025. This is an tempting premise for NHH to produce compostable cutlery.
- **Strong financial health:** Thanks to well-known and reputable customer portfolio, the company's operating cash flow remained quite stable, business performance ratios such as ROA, ROE were all over 10%.
- **Attractive valuation:** The market value of NHH is currently traded at VND 51,000 per share. This is a relatively low price compared to the growth potential and intrinsic value of NHH. The valuation of NHH is estimated at VND 80,020 per share, which is equivalent to the potential of 57% appreciation compared to the current market price.

Financial highlights

Items (billion VND)	2016	2017	2018
Revenue	905.5	889.9	1,029.4
Gross profit	152.0	145.6	136.9
EBIT	85.8	73.8	56.4
Net profit	74.2	57.7	55.8
EPS (VND)	11,415	8,877	8,585
Gross profit margin	16.8%	16.4%	13.3%

General information

Business	Engineering Plastic
Charter capital	Billion VND 344.4
Sales 2018	Billion VND 1,029.4
Net profit 2018	Billion VND 56.4
P/E	17.2
Book value	VND 16,340

Price fluctuation**Transaction information**

Current price (VND)	51,000
52 - week highest price (VND)	51,000
51 - week lowest price (VND)	38,500
Number of listed shares	34,440,000
Number of outstanding shares	34,440,000
30-day average trading volume	90,147
% foreign ownership	0%
Market Capitalization (billion VND)	1,756
EPS trailing (VND)	1,900

Shareholder structure

	Ratio
An Phat Holdings	55.17%
Others	44.83%

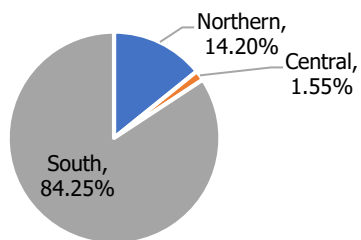
OVERVIEW OF PLASTIC INDUSTRY

Although the plastic industry is still young compared to other long-standing industries such as mechanics, electronics, chemicals, textiles, etc., there has been a strong development in recent years. From 2010 to the present, plastic industry has experienced a high growth rates of 12% - 15% per year and has been considered as a dynamic industry in the Vietnamese economy.

Vietnam currently has more than 2,000 plastic enterprises stretching from the North to the South and concentrating mainly in Ho Chi Minh City (accounting for more than 84%), of which more than 99.8% are private enterprises. The main products of these enterprises are packaging, consumer plastic products, construction plastic and high-tech engineering plastic products.

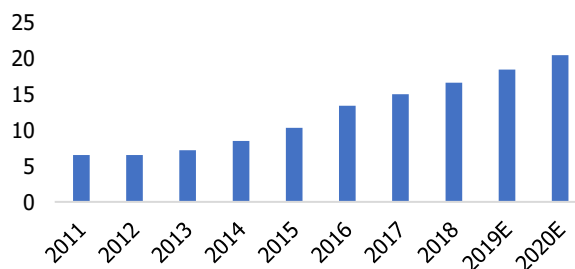
Due to the ease of processing, plastic products are diverse and have plenty of application in many different industries. In daily-life consumption, plastic products are used for packaging, household items, stationery, toys, etc. In some specific industries, plastic has also become a substitute for traditional materials, such as construction, electronics, etc.

Distribution of plastic enterprises by region



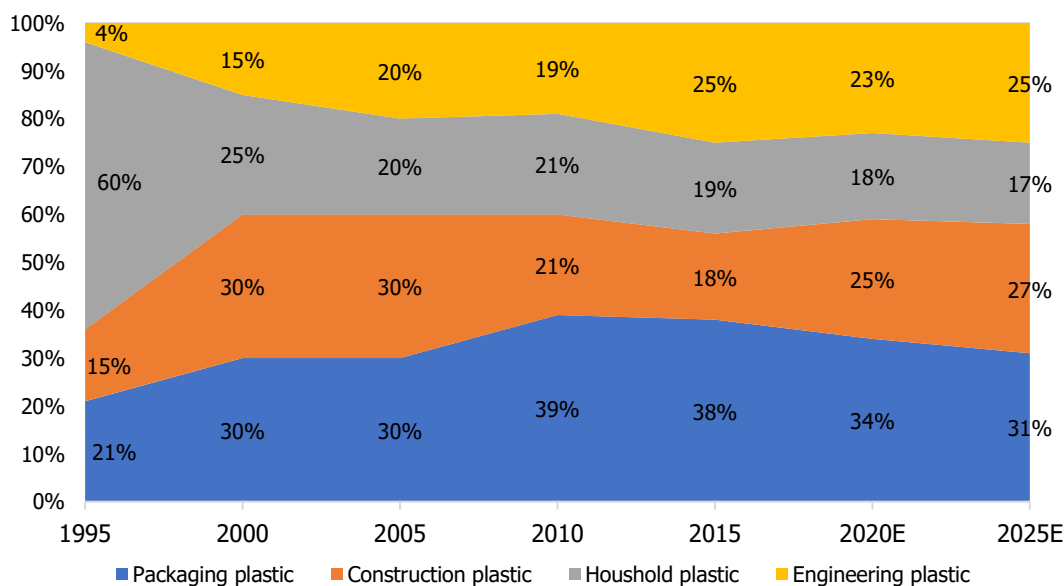
Source: SBSI

Production value of plastic industry (billion USD)



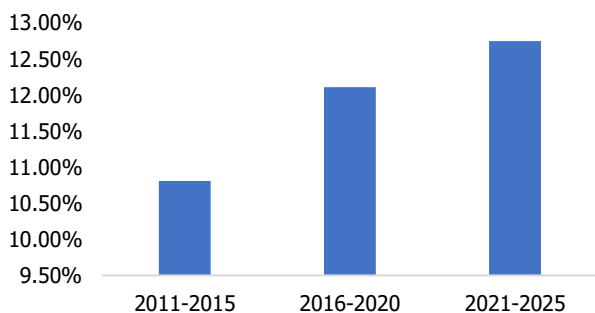
Source: SBSI

Plastic industry value structure by product ranges



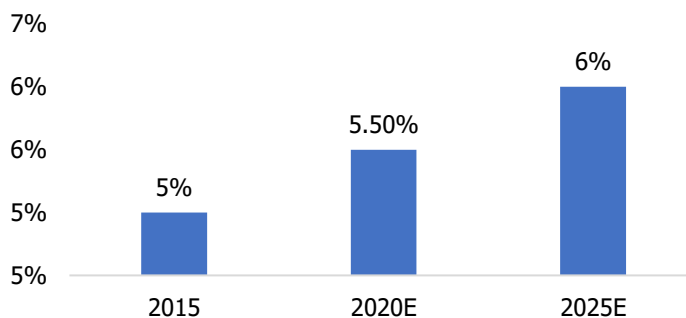
According to the plastic industry development plan until 2025, the Government aims to develop the plastic industry to become an advanced industry with ability to produce high quality products, diversified models and types, highly competitive, environment friendly, satisfying both domestic and export demands.

Plastic industry growth rate



Source: SBSI

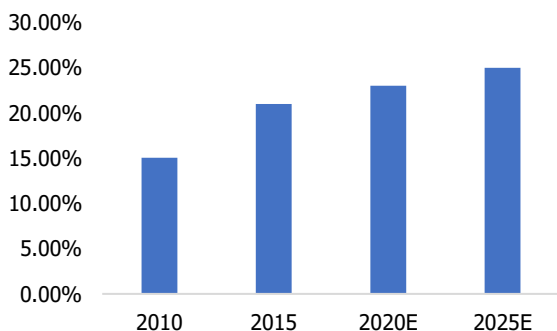
Proportion of plastic industry in all industries



Source: SBSI

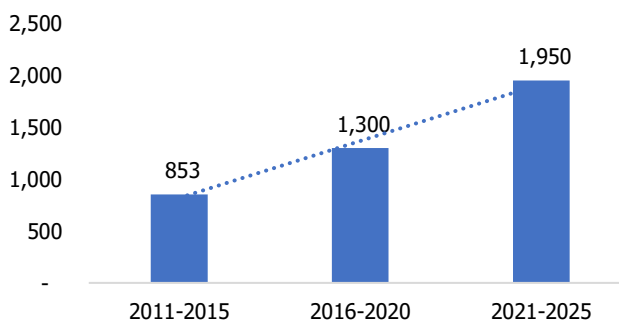
Packaging plastic and household plastic products are oriented to reduce the proportion, instead increase gradually the proportion of construction plastic and engineering plastic.

Proportion of engineering plastics in the plastic industry



Source: SBSI

Engineering plastic outputs (thousand tons / year)



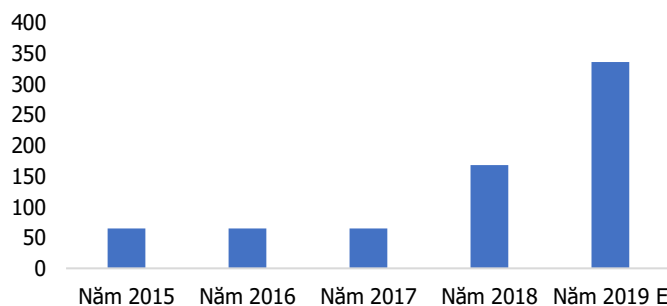
Source: SBSI

OVERVIEW OF HANOI PLASTIC JOINT STOCK COMPANY

History

Hanoi Plastic Joint Stock Company, formerly known as Hanoi Plastic Enterprise, was established in 1972. By 2005, the company was transformed into Hanoi Plastic One Member State liability limited Co., Ltd. In the 2007-2008 period, the company was equitized with a charter capital of VND 65 billion. By the end of 2018, Hanoi Plastics Joint Stock Company became a member of An Phat Holdings. Current charter capital of NHH is VND 334.4 billion. NHH has a good reputation and position among the Vietnamese plastic manufactures with many years of experience in manufacturing engineering plastic products for automobiles, motorcycles, electricity, electronics, refrigeration, ... NHH has mainly supplied engineering plastic components to the domestic market and partly exported to Japan and Europe.

Charter capital (billion VND)



The management team of the company is enthusiastic, professional, experienced, trained with Japanese partners in manufacturing plastic and molding. The direct production force has many employees, workers with high level of skills, diligence... NHH also applies Japanese production management methods 5S and TPS to manage manufacturing campus.

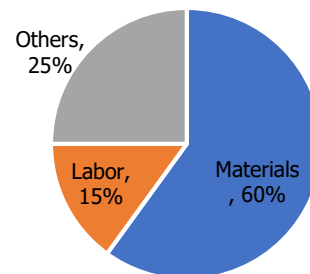
NHH production process

In order to meet high quality standards of the product, NHH uses plastic resins owing complex advanced physical properties, most of which cannot be produced domestically. The company imports PP copolymer, ABS, PC / ABS, PA66, PP 20GF, PP 30GF, PA6 20-50GF, PA66 30GF, PC, AS, TPO, TPE, PPS ... from foreign countries such as Japan, Korea, Singapore, Malaysia, Thailand ... and PVC (F), uPVC from FDI companies in Vietnam.

Steel materials for molding is also imported from well-known brands such as Hitachi, Daio (Japan), ASSAB (Sweden), THYSENKRUPP (Germany), ensuring the quality of stainless steel, high gloss and sustainable hardness. Mold components are also supplied by famous brands such as Mitsumi (Japan) and YUDO (Korea).

The areas of NHH's factory campus is around 23,000 m2 with a modern machinery system imported from the US, Western European countries and Japan.

Cost structure of NHH



	Number of machines	Capacity	Product
Mold factory	40	100 sets/year	Mold
Plastic factory	64	9,000 tons products/year	Plastic parts for motorbike, automotive and electronic devices

NHH is one of the leading and advanced plastic manufacturing companies in Vietnam. The company is capable of producing many kinds of industrial engineering plastic products with quality fulfilling international standards.

NHH's key products include electronic and telecommunication components, motorbike and automobile components, air-conditioner components, plastic pallets. All these product categories are under the exclusive registered trademark and are mass-produced on automatic machinery with advanced technology. Products satisfy international standard ISO 9001-2000 and Japanese standard JIS 10K.

Markets and customers

Parent company's products are consumed domestically with the proportion of 95%

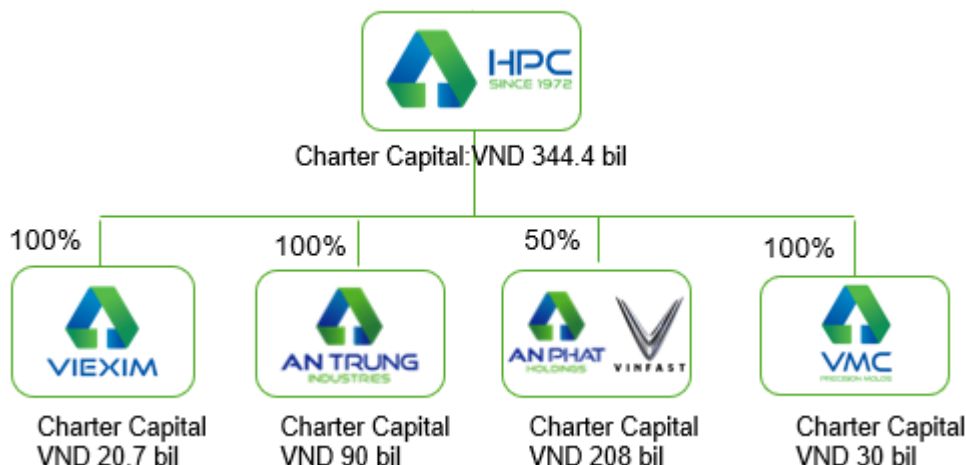
- Manufacturer of motorbikes and automobiles (75.6%): Honda, Piaggio, Toyota, Honda, Vinfast
- Electrical appliances manufacturer (13.5%): LG, Panasonic...

A minor part of total products is exported to foreign countries (Japan), most of them are components for construction.

Most customers are FDI enterprises

NHH signed principal contracts with major clients such as Honda Vietnam, Toyota Vietnam, Panasonic System Networks, Panasonic Appliance Hung Yen, Piaggio, VMEP, Sanko ... Annually, these customers place order according to their market development plan in Vietnam with products quantity growing up year over year to fulfill current and new model demands. NHH's sales activities are always stable as negotiated schedule and rarely recognize bad debts.

NHH subsidiaries

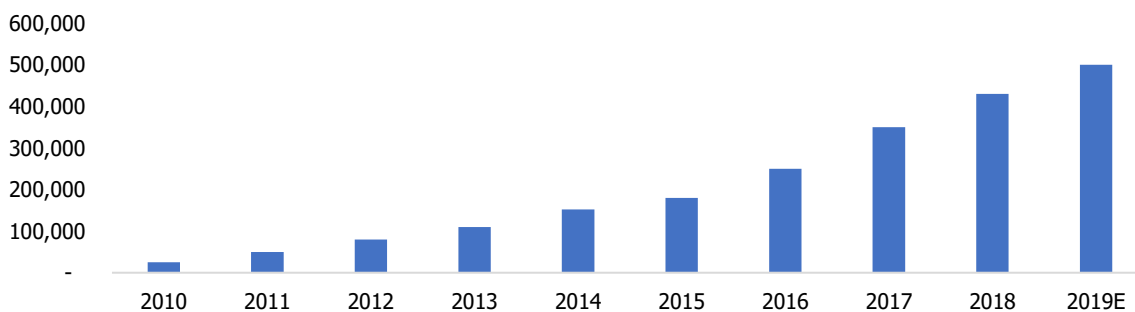


An Trung Industries Company Limited (ATI)

An Trung Industries is headquartered in An Phat High-Tech Industrial Park, with a factory area of 13,000 m2. ATI owns a modern machine system imported from Japan and South Korea. At the present, ATI focuses on producing mainly electronic plastic components with 5,000 tons products per year.

ATI's business strategy is to focus strongly on electronics customers to provide products that are its main strength. ATI's major customers are multinational and famous Vietnamese enterprises electronics such as Brother Vietnam, Elentec/ Samsung, Daiwa / Yamaha, Panasonic, VinSmart, ACE ANTENA ...

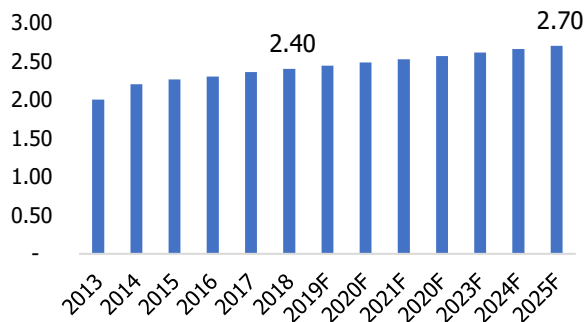
Value of electronic components in Vietnam (billion VND)



Source: SBSI synthetic

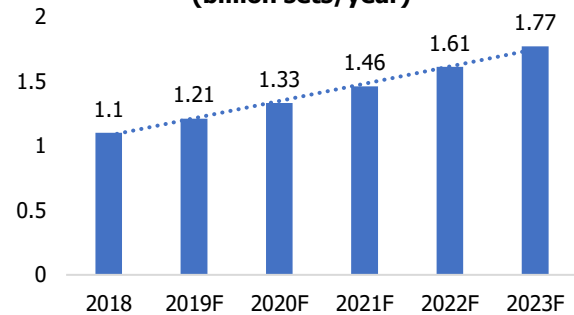
In addition to producing electronic components, ATI is also operating a production line for producing compostable cutlery. These products are made of biodegradable plastic materials and capable of decomposing in natural conditions without any harmful effects to the environment. According to ATI research, each person consumes about 10 sets of cutleries per month on average. Thus, with Vietnam population around 92.7 million, the consumption demand is more than 11 billion sets of disposal cutleries which mainly used in restaurants and hotels. This business segment is expected to boost ATI growth as the consumption behaviour change.

Market value of cutlery (billion USD)



Source: SBSI

Vietnam's demand for cutlery (billion sets/year)



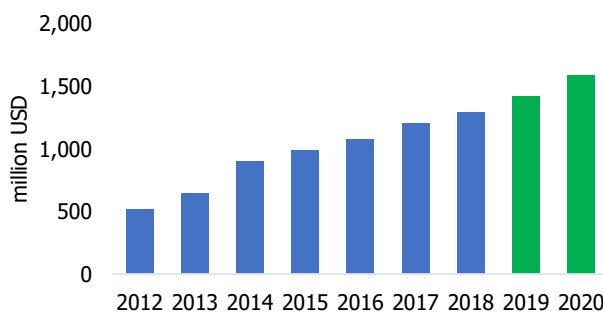
Source: SBSI

Vietnam Pattern Manufacture and Precision Mechanical Company Limited (VMC)

VMC is located in An Phat High-Tech Industrial Park with a factory area of 3,200 m². VMC is designed with a capacity of 70 to 100 plastic mold sets per year. The pressure of steel mold ranges from hundreds tons to 3,200 tons or above which are customized based on requirements of different industries such as automotive, motorbike, printer, computers and home appliances.

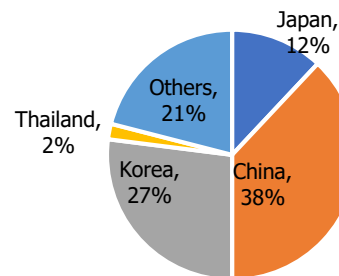
Although, Vietnam's molding market has large potential capacity, it has not been invested and exploited by domestic enterprises. According to the statistics of the Department of Technology Application and Development, the molding market value is about 1.3 billion USD in 2018 with the CARG is about 18%. Molding products have applications in various areas such as home appliances, motorbikes, and electronics. Manufacturing companies in Vietnam mainly import mold from countries like China, Korea, and Japan, thus NHH decided to invest in this segment to exploit the market share and believe that this sector shall be a growth driver for NHH in the upcoming period.

Mold market value



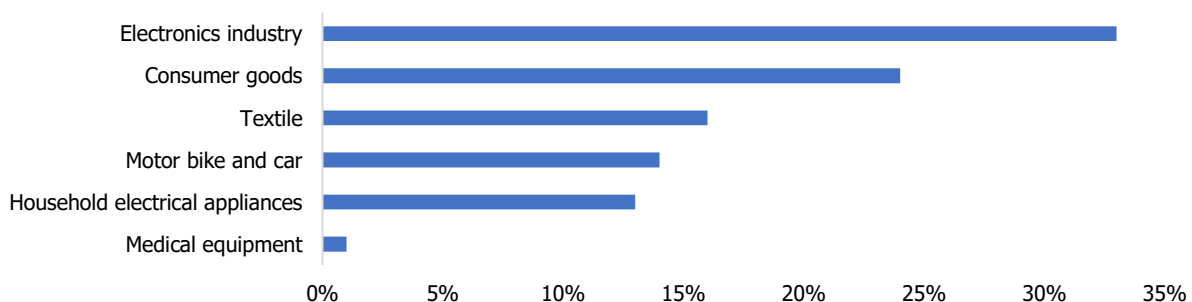
Source: SBSI

Mold importing by country



Source: SBSI

Mold import by industry

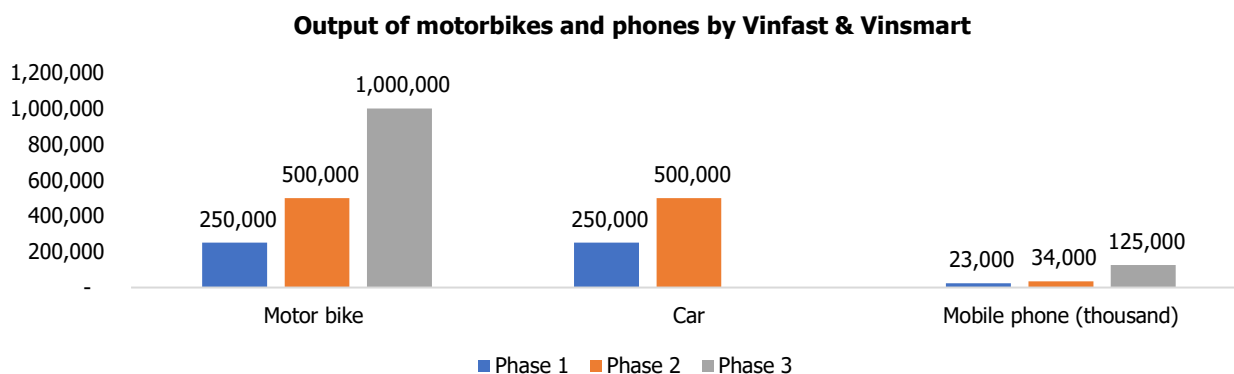


Source: SBSI

Vinfast - An Phat (VAPA)

VAPA is a plastic injection molding factory based at Vinfast Automotive Manufacturing Complex, Dinh Vu - Cat Hai Economic Zone, Hai Phong. The main task of this joint venture is to produce spare parts and accessories for cars and other motor vehicles manufactured by Vinfast.

Vinfast's annual capacity designed for automobile, motorbike and mobile phone respectively 500,000, 1,000,000 and 125 million, forecasting a tremendous potential growth for VAPA



Source: Vinfast, SBSI

Viexim Import and Export Development and Investment Company Limited (Viexim)

Viexim is headquartered in Hao village, Lieu Xa commune, Yen My district, Hung Yen with factory area up to 23,000 m². Viexim owns a comprehensive production line system with more than 57 plastic injection machines weighing from 50 to 850 tons. The capacity of Viexim reaches 6,000 new products per year with the main products being molds and high-tech plastic products used in supporting industries and households.

An Cuong High-tech Building Materials Joint Stock Company (ACP)

ACP possesses a brand named Anpro with factory area of 13,000m² located in An Phat High-technology Industrial Park, Hai Duong city, Hai Duong province. As a part of long-term strategy, NHH is to invest in ACP at the beginning of 2020.

ACP has production capacity approximately 3.5 – 4 million m² /year with major products including:

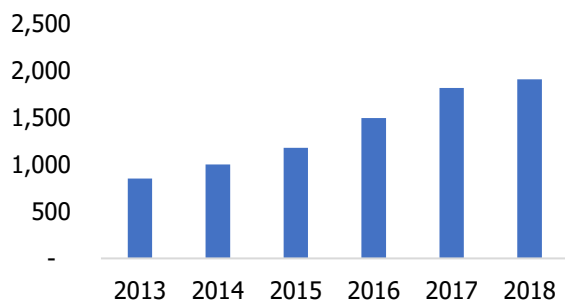
- Wall panels: wooden, stone, wallpaper imitation
- Decorating mould
- 4D picture
- SPC flooring

SPC flooring is the key product of ACP. ACP plans to export this product to the US market in 2020 (accounting for 70% of total revenue) with the capacity of 3 – 4 million m²/year. The US is a huge market for construction plastics including SPC products.

SPC flooring is a type of LVT flooring (Luxury Vinyl Tile), which is a product with fastest growth in flooring market in the US. Statistically, the current volume of this type of product attains USD 2.4 billion with CAGR 15%/year.

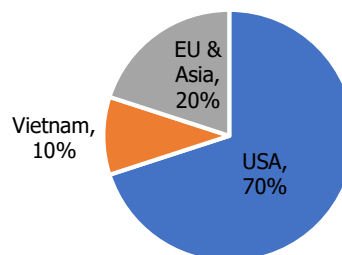
Together with the circumstance of volume and growth in the US market, the US-China trade war also gained ACP various advantages. At this time, China is the biggest LVT flooring exporter to the US market; however, the 25%-higher tariffs imposed resulting in a disadvantage in price for Chinese products; in reverse, this is an opportunity for ACP to choose the US as a main market to export.

**LTV floor volume in the US
(million m2)**



Source: Catalina Research

ACP's sales structure



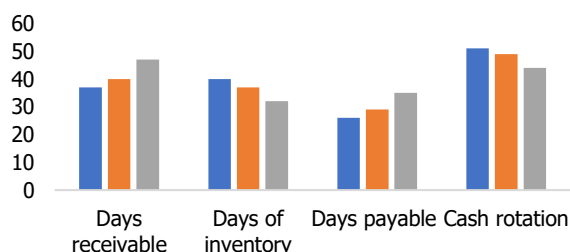
Source: SBSI

NHH financial health

NHH's financial position is sustainable with continuously improved cash flow turnover. In 2018, the number of cash circulation days was 44 days, decreasing of 5 days compared to 2017. The company did not have outstanding bad debt provisions for receivables through the years.

Performance as well as financial health indicators are stable, for example ROE and ROA in 2018 stood at 16.3% and 10.3% respectively. Borrowing of the company is quite low (only about VND 46 billion, equivalent to 8.8% of total assets).

Days



Items	2016	2017	2018
EBIT/Interest exp	12.1	15.7	80.6
Current ratio	2.3	2.5	2.2
Quick ratio	1.7	1.9	1.8
Total debt/Total asset	38.4%	33.2%	35.2%
Debt/Equity	17.9%	11.1%	13.6%

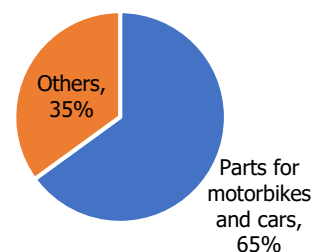
NHH business results

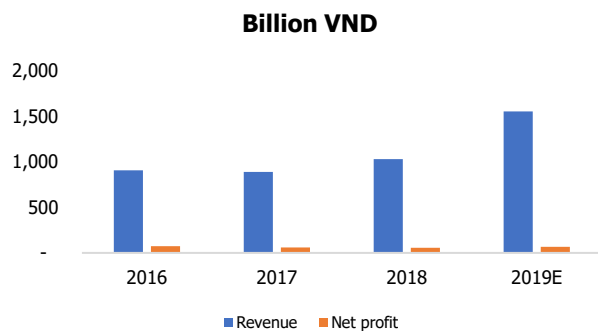
From 2016 to 2018, NHH's CAGR stabled at around 6%, mainly came from the processing of automotive and motorbike parts.

The major customer generated a large proportion of NHH's revenue is Honda Vietnam. Profit margin decreased in 2018 was due to NHH expanded its investment, restructured its products, factories and personnel after becoming a member of An Phat Holdings. In the first 9 months of 2019, NHH achieved net revenue of VND 864.5 billion (+ 21% yoy), profit after tax reached VND 39.7 billion (+ 30% yoy). In 2019,

NHH's Board of Directors plans to achieve VND 1,030 billion in revenue and VND 67 billion in profit after tax. We estimate that NHH will exceed both revenue and profit targets in 2019.

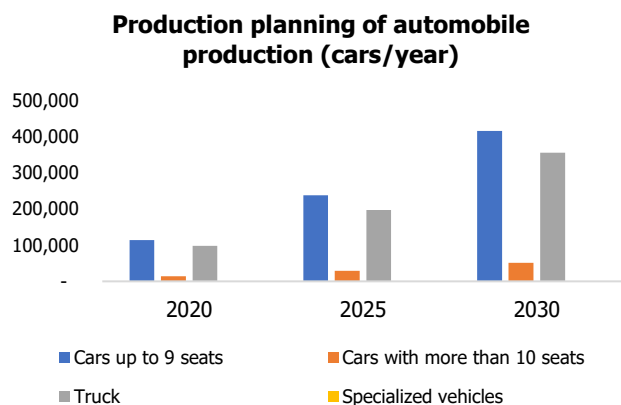
Revenue structure



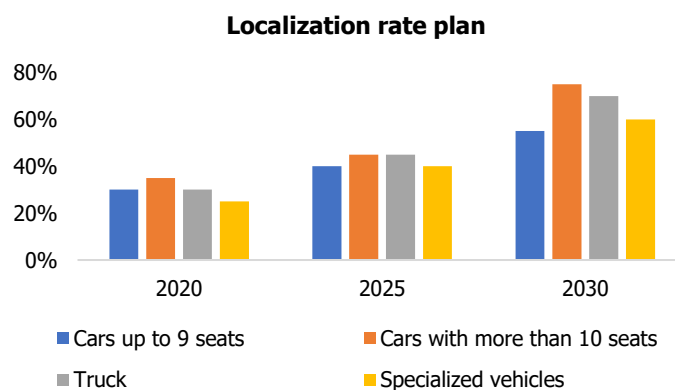


Items	2016	2017	2018
Gross profit margin	16.8%	16.4%	13.3%
Net profit margin	8.2%	6.5%	5.4%
ROE	25.1%	19.2%	16.3%
ROA	15.5%	12.9%	10.6%

- Motorbike parts segment:** It is forecasted to slow down due to saturation in the next several years as a result of a Government's plan in consideration to restrict motorcycles in major cities. Moreover, the popular appearance of public transportation such as bus, BRT... limits the development of motorcycles. However, according to Honda's proposal, their outputs in Vietnam will not go down in the next 10 years thanks to the increase in export turnover to foreign markets.
- Automobile components segment:** It is expected to continue supporting to the growth of NHH. According to the development plan of the automobile industry of the Prime Minister, by 2020 the localization rate must reach 40% compared to the current rate which is only 7% -10%. This is an opportunity for NHH to continue to deeply participate in the localization of the automobile industry. NHH has been approaching and working with many major partners such as Hyundai, Mitsubishi ... to diversify its customer portfolio.



Source: Ministry of Industry & Trade, SBSI synthetic



Source: Ministry of Industry & Trade, SBSI synthetic

- Electronic components segment:** It is expected to be main driver for NHH revenue in the future due to the benefits from the US and China trade war, leading to the shift of FDI enterprises to Vietnam.

Attractive valuation

During 2019, NHH spent huge amount of money on renovating and investing in new machinery, , NHH's profit is estimated to grow strongly from 2020.

- Parent company and Viexim are expected to achieve a stable revenue growth of 10% per year after completing the investment in new machinery (5-6 machines, estimated at VND 60 billion) to increase utilization efficiency.
- An Trung has started operation since Q3/2019 with processing orders from electronic customers such as Brother, Elentec (Samsung) ... Average revenue is expected to achieve VND 30-40 billion per month when the factories running at full capacity in 2020. In 2020, An Trung will invest 15 new plastic injection machines, divided into 3

phases: Q1/2020 - 6 machines, Q2/2020 - 3 machines, Q3/2020 - 6 machines, total investment approximately VND 60 billion. This investment is to serve the production of compostable plastic products for export with expected revenue of VND 180-200 billion per year.

- VMC operates with a capacity of 70-100 sets of molds per year with expected annual revenue of VND 120 billion and plans to invest about VND 100 billion to double capacity by 2022.
- VAPA is forecasted to contribute VND 100 billion revenue per year and thrive correlatively with Vinfast's expansion plan.
- ACP is planned to be merged into NHH in 2020. With an output of 3-4 million m2 of SPC flooring per year, ACP expects to add VND 600-1,000 billion to NHH total revenue.

In our estimation, NHH's revenue in 2019 is able to achieve VND 1,326 billion (+28.9 yoy) and 2020 will reach VND 2,806 billion (+ 112% yoy), the profit after tax of these two years is estimated at VND 71.6 billion (+ 28.3% yoy) and VND 221.7 billion (+210 yoy) respectively. In the next business period from 2020 to 2025, we estimate that NHH's revenue will continue growing at a CAGR of 25% when new investment projects come into operation.

Estimate the fair value of NHH based on DCF valuation method and P/E comparison method, with the assumption for DCF method is as below:

- Capital cost is 15%
- Long-term growth is 1.5%.

DCF Method

Enterprise value (Billion VND)	2,946
Number of stocks	34,400,000
Share price (VND)	82,800

P/E Comparison Method

Company	Ticker	P/E
Da Nang Plastics JSC	DPC	14.7
Dong A Plastics JSC	DAG	6.5
Binh Minh Plastics JSC	BMP	10.5
Tien Phong Plastics JSC	NTP	7.4
Rang Dong Holding Plastic JSC	RDP	20.7
Average		12

Using the P/E average of plastic industry (12x), the share price of NHH is valued at VND 77,240, equivalent to 6.436 VND EPS.

Summary of all valuation approaches

	Valuation value	Proportion
DCF	82,800	50%
P/E	77,240	50%
Average of DCF and P/E	80,020	
Potential price appreciation	57%	

Based on two valuation approaches above, we recommend BUY NHH stock with possibility of 57% growth compared to current market price.

NHH's Financial Statement

BALANCE SHEET	2016	2017	2018	2019F	2020F	2021F
Cash and Cash equivalent	147.2	121.6	29.6	228.0	311.4	571.5
Account receivables	92.8	98.1	275.1	263.9	476.2	545.2
Inventories	82.4	76.3	77.1	90.2	198.3	219.2
Other current assets	327.8	307.6	415.1	595.5	1,039.1	1,377.4
Long term receivables	-	-	-	-	1.0	2.0
Tangible assets	133.8	126.7	93.9	400.6	628.3	517.8
Other long-term assets	151.5	141.1	111.9	589.0	903.9	784.1
Total assets	479.4	448.7	527.1	1,184.5	1,942.9	2,161.5
Account payables	52.7	58.7	84.6	116.4	239.7	263.5
Short term debts	12.8	7.4	46.5	19.5	236.6	298.2
Other short-term payables	0.8	0.9	0.3	43.8	90.1	107.5
Short-term debt	143.9	123.1	185.6	179.7	566.4	669.2
Long term bank loan	40.1	25.8	-	306.2	505.4	354.9
Long-term debt	40.1	25.8	-	306.2	505.4	354.9
Charter capital	65.0	65.0	65.0	344.4	344.4	344.4
Retain earning	162.9	144.3	185.9	187.6	360.2	626.4
Total equity	295.4	299.9	341.5	698.6	871.2	1,137.3
Total debt and equity	479.4	448.7	527.1	1,184.5	1,942.9	2,161.5

PROFIT AND LOSS	2016	2017	2018	2019F	2020F	2021F
Revenue	905.5	889.9	1,029.4	1,325.8	2,806.5	3,317.2
Cost of sales	753.5	744.3	892.5	1,135.1	2,320.3	2,541.7
Gross profit	152.0	145.6	136.9	190.7	486.2	775.5
Financial expenses	7.3	4.9	0.9	18.0	65.4	73.7
Selling expenses	34.9	37.7	42.1	52.3	105.3	271.6
General and administration expenses	31.3	34.1	38.4	49.1	85.2	91.7
Operating profit/loss	85.8	73.8	56.4	82.4	243.1	388.9
Other income	11.9	3.4	9.4	6.5	6.5	6.5
Profit	74.2	57.7	55.8	71.6	221.7	341.6

Recommendation guidelines

With long-term investment (>12 months). SBSI recommends BUY, HOLD or SELL based on the expected profitability of stocks compared to the required market return of 20% (*). We recommend BUY when the stock is expected to increase by 20% or more, recommend SELL when the stock is expected to drop by 10% or more and HOLD when the expected return is around -10%. 20%.

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Head office

9th Floor, TNR Building, 54A Nguyen Chi Thanh, Lang Thuong ward, Dong Da district, Hanoi city.

Tel:(84) 2433776699

Email: info@sbsi.vn