



Company Visit Note

AAA - An Phat Plastic & Green Environment JSC (HOSE)

BSC RESEARCH

Equity analyst

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On February 17, 2017, An Phat Plastics stock (AAA) was traded at 26,000VND per share, equivalent to P/E FW of 7.5x and P/E after dilution of 11.05x.

Business Performance 2016: Total quantity of end products reached 62,321 tons (+68% yoy) in which 46,313 tons of plastic bags (24% yoy). The company achieved a 33% rise in net revenue (2.144 billion VND) and 255% increase in net profit (143 billion VND). Company overall business performance was significantly improved due to high quantity of product consumed as well as no customer discount continued.

Business strategy in 2017: An Phat Plastics sets the 2017 goal for products sold to be above 70,000 tons of plastic bags and 86,000 tons of plastics bags and Calcium Carbonate (CaCO₃). The targeted revenue in the coming year is set to be 2.900 billion VND and net profit of 200 billion VND (Net gains from withdrawing 1 million shares from VBC was excluded from these target figure). The improved business performance in 2017 will be generated by factory number 6 and 7 with expected quantity of product to be 24,000 tons and 9,600 tons, respectively, leading to the forecasted 2017 EPS of 3,484VND per share and diluted EPS of 2,352 VND per share.

Expanding capacity, An Phat Plastics plans to become the largest-scale company in South East Asia in term of plastic products. The overall capacity of factory number 1, 2, 3 and 5 reaches 48 thousand tons. The operation of factory number 6 and 7 in 2017 is expected to contribute 38,400 tons and 9,600 tons respectively, double the company overall capacity to 95,000 tons. Recently, 80% of the machinery of factory 6A, which focuses on producing plastic bags used in super markets, has been installed, and 10% of machinery 6B, which focuses on fashion bags, zipper bags and medical wrappings, has been put in place for production. These products are set to be exported to Japanese market in 2018. Factory number 7 mainly provides drawings bags for trades to US market and are planned to start operation in the first quarter of 2017. An Phat Plastics may have to face some barriers from US market namely antidumping duty imposed on Vietnam product lines of plastic bags (52.3%-76.11%) and the effect from President Trump's policies to protect US domestic manufacturing, therefore it is possible for An Phat Plastic to seek an alternative export market such as EU. The company also launched the project of factory number 8 with the main product line of composite film packaging and the target capacity of 24,000 tons per year, providing 7200 tons per year

of composite film packaging for the domestic market and 16,800 tons per year of self-decomposed packaging. Total capital invested in factory number 8 was around 500 billion VND and the factory is expected to operate in 2019. With the operation of all said factories, AAA's total capacity may reach 118,800 tons per year, which will help An Phat Plastics take up the leading position in producing plastic package in South East Asia area.

Chartered capital and dividend: The most recent shareholders meeting agreed on 20% dividend in 2016, 10% of which was paid in advance, the remaining 10% was paid out in April 2016. The 2017 dividend is around 20%-30% of par value. In 2017, company's chartered capital is forecasted to be 591 billion VND due to (1) the conversion of 435 thousand convertible bonds and (2) the issuance of ESOP 2.98%, with share price of 10,000VND.

Risks: (1) Share dilution. As we have mentioned in our previous updated AAA report in 2015, the company issued 300 billion VND convertible bonds with the conversion price of 11,500VND/ share. As a result, 5,065,000 shares were converted in December 2016, and 435,000 shares will continued to be converted in 2017 and the remaining 24,500,000 shares in 2018. In addition, 1.7 million of share will be issued under ESOP. These issuance will lead to the dilution of 47% in ownership of An Phat compare to 2016. (2) Risk of consumer markets. The export to EU market may face some difficulties due to the reduction in plastic bag usage and negative impact of Brexit on EU economy. Sales to US market may tumble as the result of antidumping duty imposed on plastic packaging product lines and President Trump's new policies. Sales to Japanese market, if low will have the strong negative impact on company revenue and profit growth.

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: *Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.*

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when

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