



# An Phat Plastic and Green Environment JSC (AAA:HSX)



VISIT NOTE  
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**2018 revenue went up by 50% yoy, NPAT decreased by 24% yoy, which completed 60% of the plan.**

**2019 revenue is expected to gain 100% yoy, and NPAT will increase by 155% yoy**

**The production of packaging segment in 2018 climbed 14% yoy. In 2019, EBT is supposed to increase by VND40 bn, equal to 20% yoy.**

## BUSINESS PERFORMANCE & PLAN IN 2018 - 2019

Revenue in 2018 was about VND8,000 bn, increasing by 50% yoy, 33% more than expected. This was achieved by boosting the production in Factory No.6 and No.7. The production was 86,500 tons, up by 14% yoy, revenue from packaging rose by 40% yoy, equal to VND 800 bn.

NPAT is forecasted to reach VND200 bn, decreasing by 24% yoy, only completing 60% of the previous plan. The plunge in NPAT was triggered by: (1) gross profit margin went down due to the policy on cutting sales, raising competitiveness to boost the production in the two new factories No.6-7 to the maximum level. (2) The trade segment has not achieved the expected results because the contract on buying PP resin produced by Binh Son Petrochemical Refinery (BSR) was delayed due to prolonged procedures. (3) The key projects at An Phat Complex Industrial Park are not profitable.

In 2019, AAA has set its business plan with positive prospect. In particular, the expected revenue is VND10,000 bn, up by 100% yoy and NPAT is VND510 bn, up by 155% yoy thanks to: (1) The improvement in gross margin of plastic products manufacturing; (2) Enhancing business activities in An Phat Complex; (3) Positive growth in trading segment. We believe that apart from the obvious positive prospect of An Phat Complex, the improvement of gross margin of packaging segment will have to face many obstacles due to increasing competitiveness. In particular, the growth in trading mainly depends on the progress of the PP resin buying contract with BSR.

## BUSINESS OPERATIONS

AAA main business is Nylon packaging with 16 years' experience. In 2018, the total production of AAA was 86,542 tons, climbing 14% yoy, in which there was 11% of eco-friendly product Aneco, and the rest was traditional products. 98% of products was consumed in foreign markets in which EU is the largest one (accounting for 44%), followed by Japan (29%) and Americas (19%). Thanks to Factory No.6 and 7, the total number of products exported to Japan and the U.S became 1.5 times more than that in 2017.

AAA plans to increase profit from packaging segment of VND 40 bn in 2019 based on: (1) Price renegotiation, gross profit margin improvement; (2) Sino-US trade war which helps to raise consumed production in the US; (3) Product portfolio restructuring, focusing on products with higher gross margin. We suppose the target of profit growth of AAA will face many obstacles. In particular, AAA packaging products do not have a remarkable competitive advantage amid increasingly fierce market competition, which may cause difficulties for the company to renegotiate the price. The US-China trade war can help AAA increase

**6 blocks in An Phat Complex are supposed to be sold or used for lease to gain a profit of VND190 bn.**

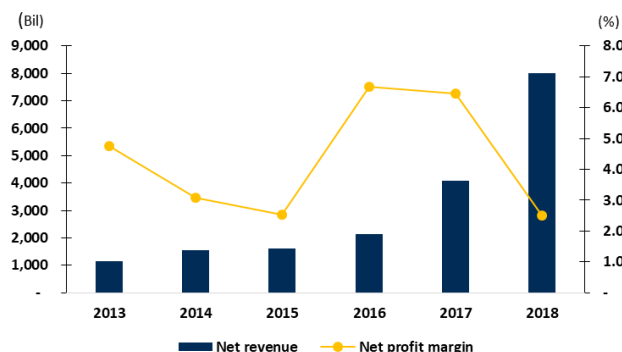
**The contract on buying PP resin from BSR is expected to become effective in 2019**

the number of products consumed in the US, but also decrease this number in other markets. In other words, Chinese product which cannot be imported by the US will be exported to other alternative markets. Furthermore, AAA also need time to assess the economic effectiveness and market response of its new products.

AAA owns An Phat Complex with an area of 46ha in Hai Duong. With this area, AAA can build 26 blocks at maximum. An Phat industrial plant has currently had 14 block, in which 8 blocks have been used by AAA and 6 ones are expected to be sold and used for lease with the total revenue of VND190 bn. Movements of US-China trade war give bright outlook for industrial real estate industry, thereby increasing the chance of fulfilling blocks for AAA in the next years.

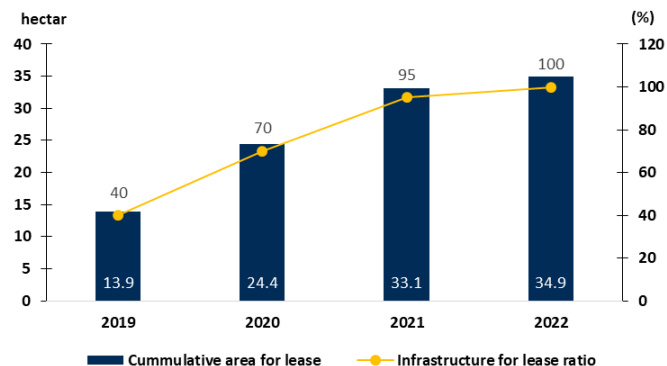
PP resin underwriting contract with BSR will be applied in 2019 after being delayed in 2018. This contract is one of the privileges the Petrochemical corporation give to AAA thanks to An Phat cooperation with PVTEX to resume operations of Dinh Vu Polyester Plant. In particular, AAA will be distributed at least 35% PP resin from BSR. The selling price is expected to be 20-30USD/ton lower than the market price. Low cost of PP resin will benefit AAA in improving gross profit margin or lower the price to increase sales. We believe that the effectiveness and duration of the contract strongly depends on AAA performance in PVTEX project.

Figure 1: Business performance in 2013-2018F



Source: AAA

Figure 2: An Phat Complex exploitation plan



Source: AAA

## ASSESSMENT

We highly appreciate AAA in industrial real estate industry with favorable condition of the industry and convenient land location. Regarding the core segment – package manufacturing, AAA will likely face many obstacles from strong competition and AAA insignificant competitive advantage in the world market. This may cause many difficulties in raising the selling price.

At the moment, AAA stocks are traded at VND14,400 (recorded on January 18, 2019), which means P/E trailing is 11.83x. With future dramatic profit from An Phat Complex, contract on buying PP resin made by BSR in 2019 and positive outlook of the main business segment, AAA is believed to have **POSITIVE** outlook in the short term (under 1 year) and **NEUTRAL** in mid-long term.

## Investment portfolio recommendations

**Buy:** +15% or more

**Hold:** between +15% and -15%

**Sell:** -15% or less

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