

### COMPANY RESULTS

#### Vinythai (VNT TB)

1Q18: Earnings In Line; Believes Earnings Have Peaked

**VNT recorded a good 1Q18 net profit (+24% yoy, +29% qoq), backed by higher ASPs for caustic soda and epichlorohydrin (ECH). We believe core earnings have peaked in 1Q18 since we are concerned about the sustainability of caustic soda and ECH prices. Moreover, in 2Q18, there is downside risk from the three-week production turnaround. Maintain HOLD. Target price: Bt31.00. Entry price: Bt25.00.**

#### 1Q18 RESULTS

Year to 31 Dec (Btm)	1Q17	4Q17	1Q18	yoy % chg	qoq % chg
Sales	4,736	5,213	5,467	15	5
Gross Profit	1,062	1,133	1,309		
EBITDA	1,095	1,114	1,324	21	19
Pre-tax Profit	766	787	1007	31	28
Net Profit	770	739	954	24	29
EPS (Bt)	0.65	0.62	0.80	24	29
Gross Margin (%)	22	22	24		
EBITDA Margin (%)	23	21	24		
Net Margin (%)	16	14	17		

Source: VNT, UOB Kay Hian

#### RESULTS

- Good 1Q18 results as expected.** Vinythai (VNT) posted net profit of Bt954m in 1Q18 (+24% yoy, +29% qoq), in line with our and consensus expectations. The stronger yoy and qoq performances were mainly due to higher caustic soda ASP (+39% yoy, +32% qoq) and ECH ASP (+76% yoy, +32% qoq) backed by limited export volumes from China which production were regulated by environmental policies.

#### KEY FINANCIALS

Year to 31 Dec (Btm)	2016	2017	2018F	2019F	2020F
Net turnover	15,659.0	19,281.8	22,368.0	23,341.5	23,341.5
EBITDA	2,439.4	3,525.3	4,355.2	4,975.0	5,046.0
Operating profit	947.8	2,246.0	3,055.2	3,525.0	3,546.0
Net profit (rep./act.)	1,123.7	2,248.3	3,083.3	3,520.1	3,539.5
Net profit (adj.)	1,189.1	2,602.4	3,133.3	3,570.1	3,589.5
EPS (Bt)	1.0	2.2	2.6	3.0	3.0
PE (x)	27.7	12.6	10.5	9.2	9.2
P/B (x)	2.1	1.8	1.8	1.6	1.4
EV/EBITDA (x)	11.3	7.8	6.3	5.6	5.5
Dividend yield (%)	0.0	2.7	3.7	4.3	4.3
Net margin (%)	7.2	11.7	13.8	15.1	15.2
Net debt/(cash) to equity (%)	(17.1)	(28.2)	(28.0)	(33.4)	(35.3)
Interest cover (x)	49.8	149.6	108.9	124.4	126.1
ROE (%)	7.1	13.5	16.9	17.8	16.2
Consensus net profit	-	-	3,303	3,742	3,419
UOBKH/Consensus (x)	-	-	0.95	0.95	1.05

Source: VNT, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	Bt27.75
Target Price	Bt31.00
Upside	+11.6%

#### COMPANY DESCRIPTION

Second-largest PVC manufacturer in Thailand with a fully Integrated production structure. The company produces PVC, VCM, caustic soda and epichlorohydrin.

#### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	VNT TB
Shares issued (m):	1,185.2
Market cap (Btm):	32,889.1
Market cap (US\$m):	1,024.8
3-mth avg daily t'over (US\$m):	4.4

#### Price Performance (%)

52-week high/low Bt35.75/Bt18.40

1mth	3mth	6mth	1yr	YTD
(11.9)	(4.3)	45.3	42.3	34.1

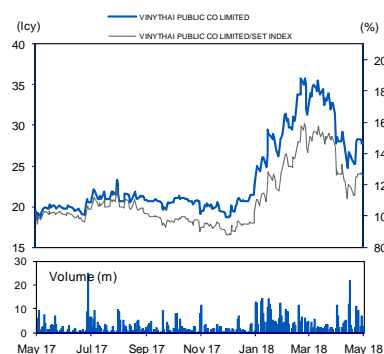
#### Major Shareholders

	%
ASAHI GLASS CO.,LTD.	58.8
PTTGC	25.0
NORTRUST NOMINEES LIMITED-THE NORTHERN TRUST COMPANY	0.86

FY18 NAV/Share (Bt) 15.79

FY18 Net Cash/Share (Bt) 4.42

#### PRICE CHART



Source: Bloomberg

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### KEY VALUE DRIVERS

	1Q17	4Q17	1Q18	yoy % chg	qoq % chg
Average selling price (US\$/tonne)					
PVC-ethylene spread	406	301	340	-16	13
Caustic soda (3-month lag from POLICSSA Index)	489	518	682	39	32
ECH	1,049	1,405	1,849	76	32
Gross Margin (%)	22	22	24		
EBITDA Margin (%)	23	21	24		
Net Margin (%)	16	14	17		

Source: Bloomberg, Ministry of Commerce, UOB Kay Hian

### STOCK IMPACT

- **No positive share price catalysts for the rest of 2018.** The reasons are as follows:
  - We believe the spike in caustic soda and ECH prices from 4Q17 until now might partly be due to panic hoarding. Prices of caustic soda and ECH p are now likely in the upper bound. For 2018, management expect caustic soda ASP at US\$550-600/tonne (Jan-May 18: US\$672/tonne) and ECH ASP at US\$1,500-1,800/tonne (Jan-Mar 18: US\$1,850/tonne).
  - The potential upside for an increase in production volume is small as VNT is running at production capacities of 97%, 91% and 100% for PVC, caustic soda and ECH respectively.
  - The completion of its capacity expansion plans in VCM and PVC production would be extended to 2019 from the previous target of mid-18.
- **Downside risk from three-week turnaround.** VNT is scheduled to do a turnaround for all its production lines during 11-31 May 18. Although VNT is prepared to build up its inventory to maintain its sale volume target, there is still downside risk. Note that VNT had inventory turnover of 14x in 2016 and 2017

### EARNINGS REVISION/RISK

- None. 1Q18 core profit accounted for 30% of our full-year forecast.
- Every US\$5/tonne increase in PVC-ethylene spread will raise our 2018 earnings forecast by Bt44m.
- Every US\$5/tonne increase in caustic soda ASP will raise our 2018 earnings forecast by Bt42m.
- Every US\$100/tonne increase in ECH ASP will raise our 2018 earnings forecast by Bt317m.
- Every Bt1 appreciation against the US dollar will lower our 2018 earnings forecast by Bt285m.

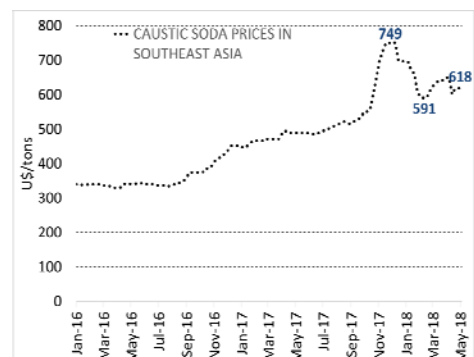
### VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of Bt31.00 despite the impressive earnings in 1Q18.** Our target price is based on regional petrochemical peers' average of 12x 2018F PE. We expect earnings to have peaked in 1Q18. There are still no clear positive share price catalysts. Entry price is Bt25.00.

### SHARE PRICE CATALYST

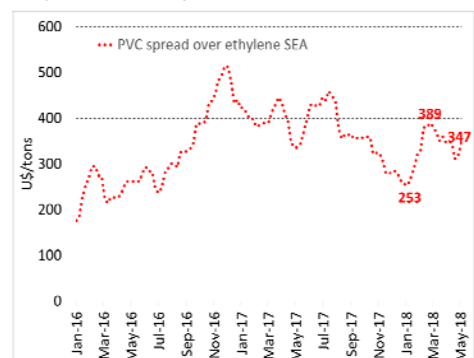
- Better-than-expected PVC spread.

### CAUSTIC SODA PRICES IN SOUTHEAST ASIA



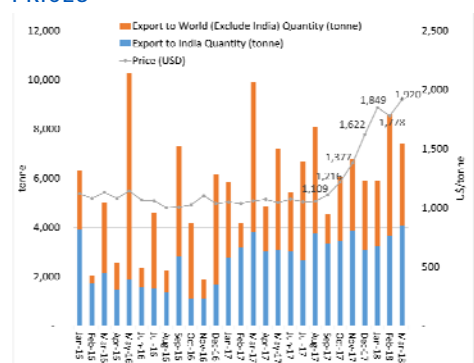
Source: Bloomberg

### PVC-ETHYLENE SPREAD



Source: Bloomberg

### THAILAND - ECH EXPORT VOLUME AND PRICES



Source: Ministry of Commerce, Thailand

### PROFIT & LOSS

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Net turnover	19,282	22,368	23,341	23,341
EBITDA	3,525	4,355	4,975	5,046
Deprec. & amort.	1,279	1,300	1,450	1,500
EBIT	2,246	3,055	3,525	3,546
Total other non-operating income	122	300	300	300
Associate contributions	0	0	0	0
Net interest income/(expense)	(24)	(40)	(40)	(40)
<b>Pre-tax profit</b>	<b>2,344</b>	<b>3,315</b>	<b>3,785</b>	<b>3,806</b>
Tax	(96)	(232)	(265)	(266)
Minorities	0	0	0	0
<b>Net profit</b>	<b>2,248</b>	<b>3,083</b>	<b>3,520</b>	<b>3,540</b>
Net profit (adj.)	2,602	3,133	3,570	3,590

### BALANCE SHEET

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Fixed assets	9,728	9,728	10,000	11,000
Other LT assets	942	1,193	1,193	1,193
Cash/ST investment	5,213	5,437	7,173	8,298
Other current assets	3,996	4,797	4,988	4,988
<b>Total assets</b>	<b>19,879</b>	<b>21,154</b>	<b>23,354</b>	<b>25,479</b>
ST debt	172	199	208	208
Other current liabilities	1,669	2,089	2,167	2,168
LT debt	0	0	0	0
Other LT liabilities	170	155	155	155
Shareholders' equity	17,868	18,712	20,824	22,948
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>19,879</b>	<b>21,154</b>	<b>23,354</b>	<b>25,479</b>

### CASH FLOW

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
<b>Operating (BTm)</b>	<b>3,409</b>	<b>3,602</b>	<b>4,858</b>	<b>5,041</b>
Pre-tax profit (BTm)	2,344	3,315	3,785	3,806
Tax (BTm)	(96)	(232)	(265)	(266)
Deprec. & amort. (BTm)	1,279	1,300	1,450	1,500
Associates (BTm)	0	0	0	0
Working capital changes (BTm)	(594)	(419)	(114)	0
Non-cash items (BTm)	0	38	1	1
Other operating cashflows (BTm)	475	(400)	0	0
<b>Investing (BTm)</b>	<b>(288)</b>	<b>(1,737)</b>	<b>(1,722)</b>	<b>(2,500)</b>
Capex (growth) (BTm)	(260)	(1,300)	(1,722)	(2,500)
Investments (BTm)	1	1	1	1
Others (BTm)	(29)	(438)	(1)	(1)
<b>Financing (BTm)</b>	<b>(1,181)</b>	<b>(1,641)</b>	<b>(1,399)</b>	<b>(1,416)</b>
Dividend payments (BTm)	(533)	(1,233)	(1,408)	(1,416)
Issue of shares (BTm)	0	0	0	0
Proceeds from borrowings (BTm)	(618)	27	9	0
Others/interest paid (BTm)	(30)	(435)	0	0
<b>Net cash inflow (outflow) (BTm)</b>	<b>1,939</b>	<b>224</b>	<b>1,736</b>	<b>1,125</b>
Beginning cash & cash equivalent (BTm)	3,274	5,213	5,437	7,173
Ending cash & cash equivalent (BTm)	5,213	5,437	7,173	8,298

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	18.3	19.5	21.3	21.6
Pre-tax margin	12.2	14.8	16.2	16.3
Net margin	11.7	13.8	15.1	15.2
ROA	11.9	15.0	15.8	14.5
ROE	13.5	16.9	17.8	16.2
<b>Growth</b>				
Turnover	23.1	16.0	4.4	0.0
EBITDA	44.5	23.5	14.2	1.4
Pre-tax profit	108.1	41.4	14.2	0.6
Net profit	100.1	37.1	14.2	0.6
Net profit (adj.)	118.9	20.4	13.9	0.5
EPS	118.9	20.4	13.9	0.5
<b>Leverage</b>				
Debt to total capital	1.0	1.1	1.0	0.9
Debt to equity	1.0	1.1	1.0	0.9
Net debt/(cash) to equity	(28.2)	(28.0)	(33.4)	(35.3)
Interest cover (x)	149.6	108.9	124.4	126.1

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