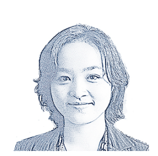
Vegetable Oil Packing JSC (VPK)

NON RATED

18 July 2012



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Visit Note

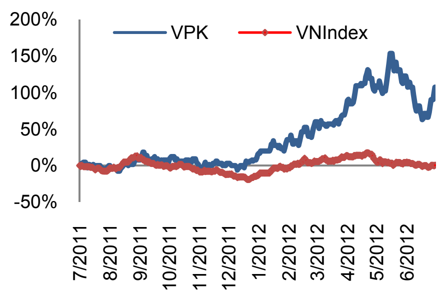
Target price	**NA**
Upside	**NA**

Industrials

Key Indicators	
Price on 17July 2012	12,100
52-week low	5,388
52-week high	14,800
Avg. 30-day trading volume	92,902
Outstanding shares (mn)	8
Market capitalization (VND bn)	97
Market capitalization (USD mn)	5
Foreign ownership	1%

Valuation	2010	2011	2012
EPS (basic)	1,388	3,236	5,000
EPS growth	9.6%	133.1%	54.5%
Dividend yield	0.0%	25.8%	12.3%
P/E (market	8.9	3.8	2.4
P/B (market	1.3	1.0	0.7
EV / EBITDA	4.1	1.9	10.0
ROE	16.0%	29.4%	31%
ROA	7.3%	16.6%	22.5%
ROIC	8.9%	20.6%	26.6%

Performance	3M	6M	12M
VPK VM	-6.9%	92.5%	107.3%
Relative to Index	-3.3%	75.7%	106.9%



Ownership Structure	
Vocarimex	44.16%
VNM	4.87%
VOT JSC	4.26%
Foreign ownership	0.93%
Local investors	45.78%

See important disclosure at the end of this document

Lower input costs drive strong earnings

We recently visited VPK, a small market cap company (USD5 million), engaged in the manufacturing and trading of carton boxes, plastic cooking oil bottles, paper and plastic materials for the packing industry. Carton box is the company's primary product, accounting for 85-90% of annual sales. Its largest customers are Vinamilk (70% turnover), Tuong An & Vocarimex (two vegetable oil producers that account for 15% combined turnover) and several smaller clients spreading from Da Nang to Can Tho. About 40-50% of raw materials (paper and starch) used to produce carton boxes are imported from Thailand and Korea. During the visit we learned that input costs have been softening leading to strong earnings this year. VPK looks quite attractive with an estimated forward of P/E 2.4x and a 12.3% expected dividend yield for 2012.

Management expects net margin to shoot up to 12.5%, highest in 5 years. 1H2012 sale increased only 15% YoY to reach VND166 billion but net profit of VND24 billion already exceeds whole year's target of VND18 billion. At this growth rate, net margin will improve significantly to ~12.5% for 2012. We expect VPK to reach at least VND320 billion in sales and VND40 billion in NPAT this year, translating to a forward PE of 2.4x on 2012 EPS of VND5,000/share. The company expects to pay a cash dividend of VND1,500/share on 2012 earnings which would yield a healthy 12.3% dividend yield.

Input cost to ease, selling price to be stable. From 2008 to 2010, the sector has been confronted with constant increases in paper price, driven by strong import demand from China and political turmoil in Thailand. Due to high input cost while output price was fixed, VPK suffered from low net profit margin of only 5-6%. The turnaround began in 2011 with the stabilisation of prices of raw materials including recycled paper, paper and starch. VPK's achieved 10% net margin in 2011. Since beginning of 2012, supported by stable FX rate, management has stocked up big time in raw materials (3x 2011 inventory levels) to take advantage of low input costs. On the other hand, VPK has already signed one-year contracts to supply carton boxes to VNM at a higher predetermined price. This represents an opportunity to improve net margin to 12-13% by year-end, nearly double that of previous years.

VNM no longer a major shareholder, but no change in relationship. In June, VNM reduced its ownership in VPK to 4.87% from 17.76%. VPK's management, however, remains unaffected by the event, saying that the sale will release more floating shares in the market and improve liquidity accordingly. CEO Le Hoang Vu also believed that VNM in a restructuring stage and therefore it is logical to reduce ownership in businesses other than milk to focus more on their core activities. Though VNM is no longer a major shareholder, they still maintain the same amount of contracts with VPK and are unlikely to switch to other suppliers. Since establishment in 2004, VPK has been supplying about 50-60% of VNM's carton output.

Current CIT rate of 7.5%, remain unchanged until 2014. VPK enjoys a favourable tax rate of 15% for first 10 years of operation thanks to the incentive package from the Tan Thoi Hiep IZ, with further 50% reduction until 2015, resulting in a final tax rate of 7.5% this year. VPK will be subject to normal tax rate of 25% starting in 2016.

Analyst Certification

I, Trang Nguyen, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

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Absolute performance, long term (fundamental) rating key: The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

Small Cap Research: VCSC Research covers companies with a market capitalisation of up to USD50mn, inclusively. Clients should note that coverage may not be consistent and that VCSC may drop coverage of small caps at any time without notice.

Target price: In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Valuation Methodology: To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

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