

Industry: Paper

Quick Update

August 2015

 Recommendation **OUTPERFORM**

Target price (VND)

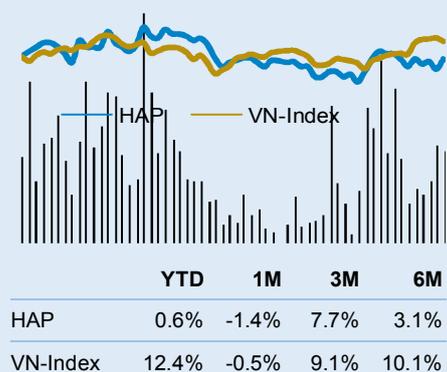
 Market price (12/08/2015) **7,300**

Expected return

STOCK INFORMATION

Exchange	HSX
52-week price range	VND5,500- 7,930
Capitalization	VND360 billion
Outstanding shares	51,364,766
10-day average volume	509,591
% foreign ownership	6.79%
Foreign ownership limit	49%
Dividend per share	VND500
Dividend yield	7.04%
Beta	0.82

PRICE MOVEMENT



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Attractive dividend, expected solid growth in 2015

Hapaco is the largest paper manufacturing company listed on the stock exchange. Its paper manufacturing activities are relatively stable with an output of about 40,000 tons, annual revenue of about VND350-360 billion and gross profit margin of 13%-15%. Besides this main activity, Hapaco also makes financial investments and project investments, notably the Green international obstetric hospital with official operations in 2015.

Target for strong profit growth and attractive dividend yield in 2015

HAP targets to obtain revenue of VND517 billion (+23% yoy) and pretax profit of VND60 billion (+69% yoy) and offer a dividend rate equal to 2014 at 10% (5% in cash and 5% in share) equivalent to a dividend yield of 14%. In our view, this dividend plan is feasible based on its profits gained and big bank deposits. After the 2014 dividend payment of 5% in cash, the remaining payout in share will be made this year.

H1/2015 profit equal to FY2014 profit thanks to financial investments

Hapaco recorded revenue of VND83 billion (+4% yoy) and net profit of VND15 billion (+614% yoy) in Q1/2015. Amid the stability in paper manufacturing, the impressive earnings growth was attributed mainly to its financial income of VND17 billion (+160% yoy), including VND15 billion from its share purchase and investment cooperation contract with Haiphong Industrial Park. HAP's representatives said that the Company continued to recognize financial income from this contract in Q2/2015 and net profit in H1/2015 was equal to the profit recorded in the whole year of 2014 (VND28 billion, +30% yoy).

Green international hospital expected to make profit from 2016

Being operational from November 2014, Green international hospital was invested by Hapaco with a capital of nearly VND450 billion (including VND360 billion already invested in the first phase), a scale of 206 beds and main activities in obstetrics, paediatrics and cosmetic surgery. The Company said that the activities of this hospital are highly appraised in quality and growth by the Ministry of Health. In 2015, revenue from the hospital is expected to reach VND36 billion. The hospital is expected to generate profit after the first year of operation (compared with an industry average of 2-3 years).

We see potential growth of this project due to its activities focused on specialities with high social needs as obstetrics and cosmetic surgery, especially when there is only one international standard hospital in Haiphong.

Paper manufacturing industry sees low potential growth

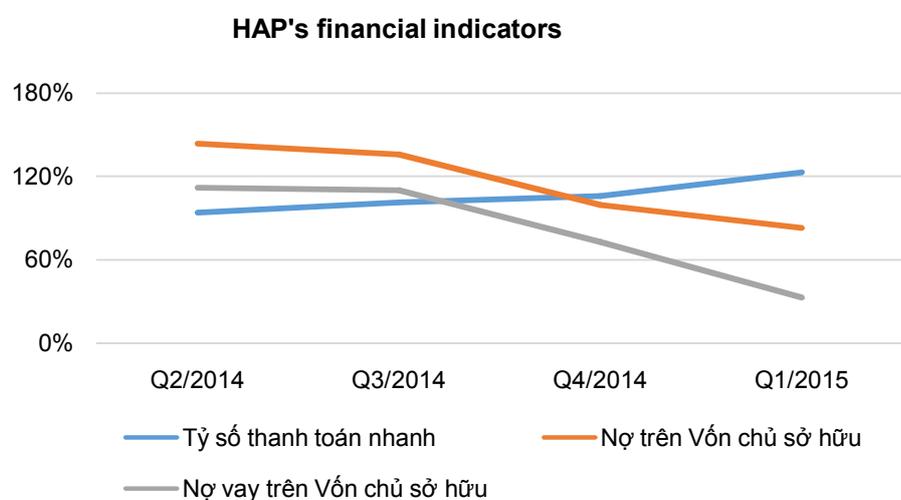
The paper industry of Vietnam is facing many difficulties. Inventories of the industry in the first half of 2015 increased 18% yoy. Input costs, mainly electricity and pulp and imported waste paper, rose significantly while products suffer great competition from imported paper products after paper import duty was cut to 0% from the beginning of 2015.

HAP has 3 main products: paper substrates, tissue paper and kraft paper. Paper substrates are key products of HAP, mainly as votive paper for export to Taiwan with annual sales of about US\$15 million; however, demand in the future is forecast to grow insignificantly. Tissue paper accounts for only 10% of total output. Although this product has high growth potential, Hapaco has no competitive advantages in this product and market share belongs to other enterprises.

Hapaco currently has no plan to raise production capacity, so revenue growth from paper manufacturing in the coming years is forecast to be low.

In this context, Hapaco will shift to other activities. In addition to medical activities with the Green international hospital, the Company plans to invest in a joint venture for vodka, fruit wines and soft drink production. Its goal is to reduce revenue from paper manufacturing to 40% of total revenue in the next years, compared with the current proportion of 99%.

Improved financial health



Thanks to divestment from Haiphong Industrial Park Corporation and establishment of Green hospital, HAP's financial health has improved considerably in recent quarters and is forecast to continue to improve in line with higher cash flows from hospital operations.

Investment recommendation

With the impressive growth of business results in the first half of this year, we predict Hapaco is able to complete its full-year plans. With pretax profit forecast to reach VND60 billion in 2015 (including VND40 billion from financial activities and VND20 billion from paper manufacturing), its forward P/E ratio is estimated at 4.9x, attractive for investment. We assess that the Company's shifting to healthcare sector is a reasonable approach to diversify business activities amid the difficulties of the paper industry. Investors can consider investing in HAP at current levels.

REPORT COMMENTARY

Target price: is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE, FCFF, DDM); NAV-based valuation; comparative indicators (P/E, P/B, EV/EBIT, EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

RECOMMENDATION SYSTEM

BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

Recommendation levels	
Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price



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