

October 26, 2004

Vinythai Plc. (VNT)

NEW : BUY
PREVIOUS : BUY

CHEMICAL

Expectations of a 45% yoy jump in 3Q04 earnings to Bt293mn

Price Target
Bt12.40
Bt18.00

Vinythai (VNT) is expected to post a 3Q04 net profit of Bt293mn (EPS Bt0.31), up 45% yoy due to higher spread margin between PVC and ethylene, as well as lower interest expenses. However, the company's earnings are expected to slightly decrease from the previous quarter as prices for its major raw material price, ethylene, increased at a faster rate than its finished product, PVC during the quarter.

In 3Q04, we expect the company achieved average PVC sales price of \$870/tonne, up 34% yoy, while the price of its major by-product, caustic soda, declined 13% yoy. We estimate the company's total revenues in the quarter surged 19% yoy. Meanwhile, cost of goods sold also increased 19% yoy due to ethylene prices soaring 81% yoy to around \$867/tonne.

As a result, VNT's spread margin grew 6% yoy to approximately of \$437/tonne. We expect the company's interest expenses dropped 34% yoy following repayment of its debentures of around Bt1.36bn per annum.

Analyst: Kitichan
 Sirisukarcha
 Tel : 0-2658-6300 Ext
 1570
 E-mail:
kitichan.s@kimeng.co.th

Income statement (Bt mn)	3Q04F	2Q04	QOQ	3Q03	YOY	9M04F	FY04F	%
Sales	1,880	1,823	3%	1,577	19%	5,346	7,004	76%
COGS	1,366	1,292	6%	1,143	19%	3,866	4,794	81%
Gross profit	514	531	(3%)	434	19%	1,480	2,210	67%
Gross margin (%)	27%	29%	N.A.	28%	N.A.	28%	32%	N.A.
SG&A	179	164	9%	165	8%	469	700	67%
EBITDA	439	469	(6%)	374	17%	1,320	1,919	69%
EBITDA margin (%)	23%	26%	N.A.	24%	N.A.	25%	27%	N.A.
Interest expense	48	49	(3%)	73	(34%)	152	235	65%
Net profit before extra items	293	323	(9%)	202	45%	880	1,289	68%
Extraordinary gain (loss)								
- Forex gain (loss)	0	(10)	N.A.	0	N.A.	(5)	0	N.A.
- Other (loss)	0	0	N.A.	(1)	N.A.	0	0	N.A.
Net profit	293	313	(6%)	202	45%	875	1,289	68%
EPS (Bt) before extra items	0.31	0.34	(9%)	0.21	45%	0.93	1.36	68%
EPS (Bt)	0.31	0.33	(6%)	0.21	45%	0.92	1.36	68%

Source : KELIVE Research estimate

If VNT produces 3Q04 earnings as expected, 9M04 earnings would account for 68% of our full-year earnings forecast. Therefore, we might revise down our projection after 3Q04 net profit announcement.

However, we still expect VNT's 4Q04 earnings prospects still looks bright due to the recovery of its spread margin to the current of \$455/tonne, up 8% yoy and 4% qoq, following softening spot ethylene prices from a peak of \$1,330/tonne in September to the current \$1,040/tonne. At the same time, spot PVC prices rebounded to \$975/tonne, an increase of 39% yoy and 12% qoq.

Recently, there was a rumour in the market that Thai Olefins (TOC) had intended to buy VNT's stake from its major shareholders, resulting in speculative in VNT's shares over the last week. However, TOC's management announced that the company has a policy to study investment in all ethylene-derivative products including PVC but that it still had not concluded any deal yet.

VNT currently has a long-term contract to purchase ethylene of 61,000 tonnes from TOC. The acquisition would, therefore, make sense as it would help secure a captive market for TOC in the longer term.

However, whether TOC purchases a stake in VNT or does not, the chief point is that VNT is currently attractively priced. VNT shares still an offer attractive potential upside of 45% to our fair value estimate of Bt18 based on 2004 PER of 13x. Therefore, we are maintaining our **BUY** recommendation on VNT.

Earnings summary

	2001	2002	2003	2004F	2005F
Sales (Btmn)	5,546	5,845	6,130	7,004	7,924
EBITDA (Btmn)	1,050	1,654	1,553	1,919	2,175
Normalised earnings (Btmn)	47	817	862	1,289	1,620
Earnings (Btmn)	88	802	871	1,289	1,620
EPS (Bt)	0.10	0.89	0.96	1.36	1.71
PER (x)	126.6	14.0	12.9	9.1	7.3
EV/EBITDA (x)	16.5	9.7	9.4	7.0	5.3
Free cash flow (Btmn)	1,127	1,852	1,735	1,791	2,016
CF/share (Bt)	0.6	1.5	1.6	1.6	2.0
BVPS (Bt)	5.1	6.0	8.3	9.5	11.2
P/BV (x)	2.4	2.1	1.5	1.3	1.1
DPS (Bt)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0%	0%	0%	0%	0%
Net debt/equity (x)	1.3	0.9	0.5	0.2	Cash
ROA (%)	0.7%	6.9%	7.1%	10.2%	12.5%
ROE (%)	1.9%	16.0%	13.6%	15.7%	16.5%

Source : KELIVE Research estimate

Singapore

Kim Eng Securities
(Private) Limited
(Member of the SES)
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989
Telephone: 65 6336 9090
Telex: KESECS RS 25871
& RS 21857
Facsimile: 65 6339 6003

London

Kim Eng Securities
(London) Limited
(Member of the FSA)
6th Floor, 20 St. Dunstan's Hill
London EC3R 8HY, UK
Telephone: 20 7621 9298
Dealers' telephone: 20 7626 2828
Facsimile: 20 7283 6674

New York

Kim Eng Securities USA Inc
(Member of the NASD)
406, East 50th Street
New York, NY 10022
U.S.A.
Telephone: 212 688 8886
Facsimile: 212 688 3500

Hong Kong

Kim Eng Securities
(Hong Kong) Limited
(Exchange Participant)
Room 1901, Bank of America
Tower 12 Harcourt Road
Central, Hong Kong
Telephone: 852 2810 7755
Telex: KIMEN HX 68698
Facsimile: 852 2877 0104

Malaysia

Kim Eng Research Sdn Bhd
(Formerly known as
Mutual Scope Sdn Bhd)
Co. No. 274244V
Suite 16.02, 16th Floor
Kompleks Antarabangsa
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
Telephone: 603 2141 1555
Facsimile: 603 2141 1045

Indonesia

PT Kim Eng Securities
9th Floor, Deutsche Bank Bldg
Jl. Imam Bonjol 80
Jakarta 10310
Indonesia
Telephone: 62 21 3983 1360
Facsimile: 62 21 3983 1361

Philippines

ATR-Kim Eng Securities, Inc.
(Member of the PSE)
17th Floor Tower One &
Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines
Telephone: 63 2 849 8888
Facsimile: 63 2 848 5738

Thailand

Kim Eng Securities (Thailand)
Limited
(Member of the SET)
10th Floor, Mercury Tower
540 Ploenchit Road
Bangkok 10330
Thailand
Telephone: 66 2 658 6300
Facsimile: 66 2 658 6384

Taiwan

Yuanta Core Pacific Securities
11/F, No 225, Nanking East Rd
Section 3 Taipei
Taiwan
Telephone: 63 2 849 8888
Facsimile: 63 2 848 5738

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation, or particular needs of any specific person who may receive this report. The information contained herein is provided on the basis of information received or provided to us, but its completeness and accuracy are not guaranteed. Opinions expressed in this report are subject to change without notice, and no part of this publication is to be construed as an offer, or solicitation of an offer, to buy or sell any securities or financial instruments whether referred to therein or otherwise. We do not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report, or a reliance on our opinion expressed in this report. Kim Eng Securities (Thailand) Public Company Limited, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.
