

June 19, 2023

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In 1Q23, GVR recorded NPAT of VND756 billion (-43% YoY) on net revenue of VND4,315 billion (-15% YoY)

In 1Q23, Vietnam Rubber Group (GVR) recorded revenue of VND4,315 billion (-15% YoY), of which the main contribution came from rubber latex of VND2,916 billion. GVR's sales volume and prices of rubber and wood products both fell sharply, pulling down GVR's gross margin from 30% in 2022 to 24% in 2023. GVR's 1Q23 PBT was VND948 billion, completing 19.6% of 2023 target.

GVR's rubber and wood segments are unlikely to recover in 2023

GVR's rubber and wood segments will hardly prosper this year. Latex prices remain low and the demand for rubber products are unlikely to recover amid the current world economic slowdown. Also, the wood segment will see damaging impacts from the housing market and economic downturn in many countries.

Nam Tan Uyen 3 is the driving force for GVR's IP growth in the short to medium term

The fact that Nam Tan Uyen 3 IP located in the key economic region of Binh Duong was handed over land at the end of May has expanded room for growth in the short and medium term for GVR. The company may expect revenue contribution from this IP from the end of 2023 or early 2024.

GVR is focusing on speeding up the progress of 8 IP projects to put them into operation before 2026

From now until 2025, GVR targets converting land for at least 2,900 ha. Due to the lengthy legal procedures, GVR is focusing on speeding up the progress of 8 IPs to be able to put them into operation next year or 2026 at the latest.

We recommend BUY for GVR with a target price of VND23,800/share

We recommend BUY for GVR with a target price of VND23,800/share, 19.7% higher than the closing price on June 16, 2023.

Buy maintain

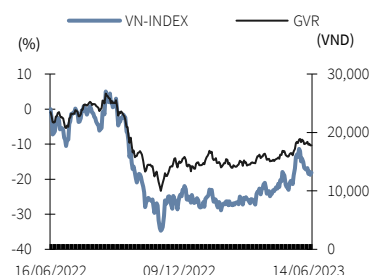
Target price	VND 23,800
Upside	33.7%
Current price (Jun 16, 2023)	VND 17,800
Consensus target price	VND 19,830
Market cap (VNDtn/USDbn)	71.2/3.03

Trading data	
Free float	3.2%
3M avg trading value (VNDbn)	50.254
Foreign ownership	0.48%
Major shareholder	Committee for Management of State Capital at Enterprises (96.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	10	20	18	-24
Relative	6	14	13	-18

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	26,190	25,426	23,205	24,639
EBIT (VNDbn)	5,785	4,381	3,831	4,504
NPAT of parent company (VNDbn)	4,158	3,839	2,963	3,453
EPS (VND)	1,040	807	741	863
EPS growth (%)	10%	-22%	-8%	17%
P/E (x)	13.3	22.1	24.0	20.6
P/B (x)	2.8	1.0	1.5	1.4
ROE (%)	10.3%	8.9%	6.4%	7.0%
Dividend yield (%)	0.2%	0.2%	0%	0%



Business performance

Table 1. GVR – 1Q22–1Q23 business results

(VNDbn)	1Q2022	1Q2023	%YoY	Comments
Revenue	4,893	4,135	-15%	Completed 15% of 2023 target (VND27,527 billion)
-Rubber latex	2,995	2,916	-2.6%	Sales volume tended to rise slightly and steadily while rubber prices dropped YoY.
-Industrial rubber products	475	93	-90.4%	The sharp decline came from waning demand for rubber gloves and 30% decrease in export volume of car tires.
-Wood & wood products	964	557	-42.2%	The demand for wood was weak while consumption and prices of wood and wood products both decreased markedly.
-IP land sales	138	140	1.5%	
Gross profit	1,470	1,006	-31%	
Gross profit margin	30%	24%	-7ppts	Prices of key rubber and wood products all dropped while input costs surged, dampening gross margin.
Financial income	178	231	30%	
Financial expense	145	143	-1.4%	
SG&A	459	471	2.6%	
Net other income	402	336	-16%	GVR was unable to sell liquidated wood from rubber trees despite being off 50%.
Shared profit from associates	53	-11	-121%	MDF VRG Donghwa recorded a loss compared to the same period last year due to a weakening wood market.
Profit before tax (PBT)	1,499	948	-37%	Completed 19.6% of 2023 target (VND4,835 billion)
NPAT	1,316	756	-43%	

Source: Vietnam Rubber Group, KB Securities Vietnam

Rubber and wood industries will less likely recover in 2023

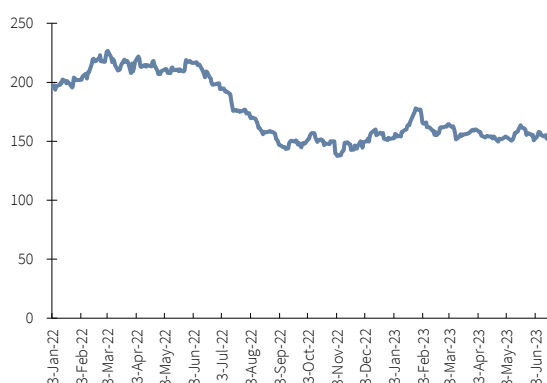
Natural rubber, industrial rubber, and wood segments are the three major contributors to GVR's overall revenue over the years. However, these segments are confronting challenges in the first quarter and will less likely recover in 2023.

- Regarding the natural rubber segment, GVR's core business, we expect its consumption to remain stable and be less impacted by the current economic slowdown, although rubber prices stay low. So far, world prices have picked up 3.15% since the start of the year but are still 27% below their peak in 2022. In the context of soft demand following China's reopening coupled with the current economic instability, we assess that rubber prices will less likely recover until the end of the year. Rubber export turnover over the first four months of the year is USD130–180 million and is expected to remain unchanged in the coming quarters.

- Industrial rubber sales dropped sharply due to weak demand. The export volume of tires and tubes has narrowed by 20–30% YoY. Besides, Vietnam's rubber-based products are also encountering price competition with products made in Thailand and Indonesia, leading to shrinking market share in some markets such as Korea. GVR's myriad factories have run at just 50% of the designed capacity.

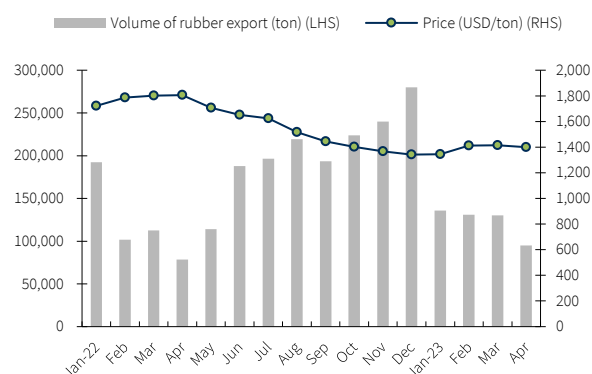
- The wood market is expected to continue to be disrupted by the domestic housing market and the economic downturn in major consumer markets, leading to a decline in selling prices and demand this year.

Fig 2. Global – Natural rubber price movement (JYP/kg)



Source: Trading Economics

Fig 3. Vietnam – Export volume & price of natural rubber (tons, USD/ton)



Source: Ministry of Industry & Trade

Nam Tan Uyen 3 is the driving force for GVR's IP growth in the short to medium term

Despite being one of the five key segments, GVR's IP segment has not seen considerable growth in recent years since the clear land bank is running low. Bottlenecks in legal procedures have slowed the progress of many ongoing projects. The fact that Nam Tan Uyen 3 was assigned more than 344 ha of land at the end of May has created more room for growth. GVR should lease out 20-25 ha from the end of this year to 2024.

Nam Tan Uyen IP is located in the key economic region of Binh Duong province. The project covers more than 345 ha, adjacent to Xa Lan and ICD Thach Phuoc ports, 32km from Cat Lat port, 90km from Cai Mep–Thi Vai deep-water international port cluster, 32km from Tan Son Nhat International Airport, well connecting with transport infrastructure.

Fig 4. GVR – Nam Tan Uyen 3 IP



Source: namtanuyen.com.vn

GVR is speeding up 8 IP projects to be able to be able to put them into operation before 2026

In 2020, GVR targeted to convert rubber land into IP land for about 7–8,000 ha by 2025 and 40,000 ha by 2030. However, due to the complexity of legal procedures, only a few projects got approval until 2020. Besides, Nam Tan Uyen 3, which has recently been allocated land, Tan Lap 1, Nam Dong Phu, Bac Dong Phu, and others should be awarded licenses by 2024 – 2025.

With a rubber land bank of 290,000 ha in Vietnam, GVR has significant potential for IP segment growth in the long term though the mid-term outlook remains uncertain due to legal issues. The complexity and delay in the approval processes are the common difficulties facing the whole industry. Nonetheless, the implementation of Decree 10 by the Ministry of Natural Resources and

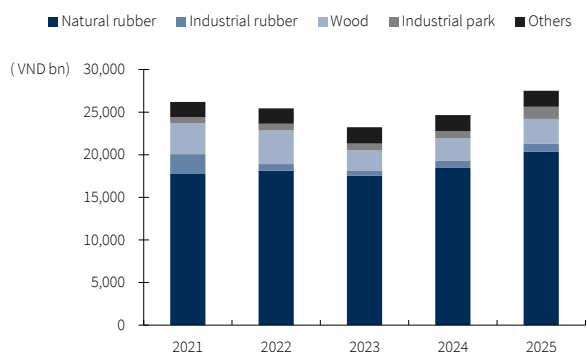
Environment in April 2023 will help unblock bottlenecks concerning the land conversion process, so GVR will no longer have to adjust the land use plan for land conversion, which should contribute to speeding up the progress of 8 IP projects of GVR to be put into operation before 2026.

Table 5. GVR – IP projects

	Developer	Location	Area (ha)	GVR's ownership	Progress
Nam Tan Uyen 3	Nam Tan Uyen JSC (NTC)	Binh Duong	344	42%	GVR obtained the investment license and the land allocation decision has been issued.
Rach Bap Phase 2		Binh Duong			
Tan Lap	Phuoc Hoa Rubber JSC (PHR, 51%), Kaiser Furniture 49%	Binh Duong	360	93%	The Ministry of Planning and Investment approved and submitted to the Prime Minister.
Minh Hung III expansion		Binh Phuoc	400	34%	Completed the pre-feasibility report, submitted to the Ministry of Planning and Investment
North Dong Phu expansion	Binh Long Rubber IP JSC (MH3)	Binh Phuoc	577	55%	
Southern Dong Phu expansion	Bac Dong Phu IP JSC	Binh Phuoc	317	45%	The Ministry of Planning and Investment approved and submitted to the Prime Minister.
Hiep Thanh 1		Dong Phu JSC			
	Vietnam Rubber Group (GVR)	Tay Ninh	495	85%	The Ministry of Planning and Investment approved and submitted to the Prime Minister.

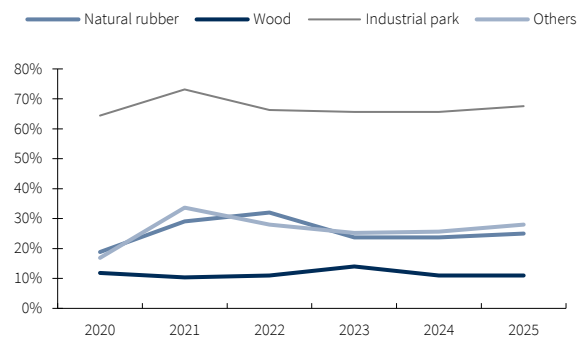
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 6. GVR – 2021A-2025F revenue breakdown (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 7. GVR – 2020A-2025F gross profit margin across segments (%)



Source: Vietnam Rubber Group, KB Securities Vietnam

Forecast & Valuation

Table 8. GVR – 2022A–2023F business results

(VNDbn)	2022A	2023F	%YoY	Comments
Revenue	25,425	23,205	-8.7%	Completed 84.3% of 2023 target
-Rubber latex	18,109	17,566	-3%	Prices decreased by about 5–6%, consumption volume remained stable, purchasing volume increased slightly
-Industrial rubber products	790	593	-25%	The drop came from both prices and volumes of key products: rubber gloves and tires
-Wood & wood products	3,930	2,358	-40%	The wooden bridge has not seen any positive changes in the whole year of 2023
-IP land sales	802	805	0.5%	
Gross profit	6,342	5,507	-13%	Selling price decreased, input cost of raw materials increased
Gross profit margin	25%	23.7%	-1.3ppt	
Net other income	1,321	643	-51%	Compensation income decreased compared to 2022, income from liquidated rubber tree wood is estimated to decrease by more than 50%
SG&A	2,354	2,483	5%	
Shared profit from associates	204	122	-40%	Profit from main contributor MDF VRG Donghwa fell sharply due to the decline of the wood market in general
Profit before tax (PBT)	5,702	4,474	-22%	Complete 92.5% PBT set for 2023
NPAT	4,753	3,669	-23%	

Source: Vietnam Rubber Group, KB Securities Vietnam

We recommend BUY for GVR with a target price of VND23,800/share

We use the sum-of-the-parts (SOTP) valuation approach to value three key businesses of GVR: (1) rubber and wood, (2) industrial parks, and (3) other businesses. We recommend BUY for GVR with a target price of VND23,800/share, 33.7% higher than the closing price on June 16, 2023:

- Natural rubber prices should fall another 6%, its production is expected to rise slightly, and sales volume may drop by 5,000 tons. The gross margin of the rubber latex segment is set to fall from 32% in 2022 to 24% in 2023.
- For industrial rubber, we anticipate the sales volume of rubber gloves to plummet 90% and revenue from other products to decrease by 20%.
- GVR expects to complete legal procedures for Nam Tan Uyen 3 IP within this year to put it into operation. The firm may start recognizing revenue from this project later this year and others like Rach Bap IP Phase 2, Bac Dong Phu expansion, Nam Dong Phu expansion, and Hiep Thanh 1 from 2025.

Table 9. GVR – Valuation result

	Method	Value (VNDbn)
Rubber & wood segments	DCF	48,525
IP segment	RNAV	24,035
Others	BV	3,565
Cash & cash equivalents, short-term investments		14,590
Net debt		7,066
Enterprise value		83,649
Outstanding shares		4,000
Target price		23,800
Current price (June 16, 2023)		17,800
Total shareholder return		33.7%

Source: KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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