

Phuoc Hoa Rubber (PHR)

Great potential from Nam Tan Uyen 3 & VSIP III

September 28, 2023

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PHR recorded 2Q23 net revenue of VND111 billion (-55% YoY) and NPAT of VND127 billion (+127% YoY)

PHR's rubber segment revenue may decrease dramatically YoY on (1) waning demand and (2) rubber prices much lower than 2022

PHR owns sizeable rubber land bank available for conversion, ensuring long-term growth potential

Nam Tan Uyen 3 and VSIP III may generate steady high cash flow for PHR from 2024

We recommend BUY for PHR with a target price of VND55,800/share

In 2Q23, Phuoc Hoa Rubber (PHR) earned VND111 billion in net revenue (-55% YoY). Specifically, rubber revenue fell sharply by 56% YoY to VND98 billion, while IP revenue rose slightly to VND21 billion. PHR posted 2Q23 PBT of VND154 billion (+133% YoY) on old rubber tree liquidation. Halfway through the year, the enterprise completed 34% and 79% of full-year revenue and earnings targets.

The rubber industry is expected to recover slightly against 1H23 on (1) growing rubber demand in major markets, especially China and (2) rubber prices following global price increases thanks to rising demand and oil prices and high oil price expectations. However, for 2023F, PHR's rubber revenue may still decrease as year–end recovery cannot offset a steep fall in 1H23.

PHR owns over 15,000 ha of rubber land and has a conversion plan for 6,000 ha. Due to complicated legal procedures, PHR is focusing on speeding up progress for Tan Lap 1 and Tan Binh expansion in order to launch them in 2025 – 2026.

Nam Tan Uyen 3 and VSIP III may generate steady high cash flow for PHR from 2024 when (1) Nam Tan Uyen received land handover in 2Q23 and is rushing to complete it to put it into operation from 2024, and (3) VSIP III should complete infrastructure construction to be available for rent next year.

We recommend BUY for PHR with a target price of VND55,800/share, 17% higher than the closing price on September 28, 2023.

2024F

1.235

489

841

6,206

13%

7.7

1.8

20.6%

6.8%



Forecast earnings & valuation

Net revenue (VNDbn)

FY-end

FBIT (VNDbn)

EPS (VND)

P/E (x)

P/B (x)

ROE (%)

NPATMI (VNDbn)

EPS arowth (%)

Dividend yield (%)

Target price	VND55,800
Upside	17%
Current price (Sep 28, 2023)	VND47,700
Consensus target price	VND53,300
Market cap (VNDbn/USDmn)	6,463/269

2021A

1.945

567

478

3,211

-58%

12.3

3.1

16.5%

9.8%

2022A

1,709

433

885

6,265

95%

7.6

1.6

26.9%

5.6%

Trading data		
Free float		33.4%
3M avg trading value (VNDbn/US	Dmn)	27.1/1.13
Foreign ownership		16.4
Major shareholer	Vietna	am Rubber Group
		(GVR) (66.6%)

2023F

1,141

287

745

5,495

-12%

8.7

2.0

20.3%

6.0%

(%)	1M	3M	6M	12M
Absolute	-3	0	20	-18
Relative	1	-1	11	-17



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. PHR - 1H22-1H23 business results

(VNDbn)	2Q2022	2Q2023	+/-% YoY	1H2022	1H2023	+/-% YoY	Comments
Revenue	244	111	-55%	609	437	-28%	Completed 34% of full-year revenue target of VND1,300 billion
-Rubber	222	98	-56%	573	398	-31%	Rubber revenue dropped sharply due to weak demand and rubber prices falling sharply compared to the same period in 2022.
-IPs	18	21	+17%	32	37	+16%	No new rental revenue is recorded, only the remaining allocated revenue is recorded
Gross profit	40	47	+18%	98	93	-5%	
Gross profit margin	16%	42%	+26ppts	16%	21%	+5ppts	The proportion of the segment with lower gross margin – the finished rubber segment - decreased
Financial income	31	61	+97%	60	100	+67%	Received VND16 billion in dividends from Nam Tan Uyen JSC (NTC)
Financial expense	5	8	+60%	10	13	30%	Borrowing costs expanded by VND2 billion.
SG&A	25	25	0%	53	53	0%	
Other income	0.5	70		292	276	-5%	Compensation income from VSIP III was only VND200 billion, down from VND289 billion recorded in 1H22.
Shared profits from associates	23	11	-52%	50	35	-30%	Collect an additional VND69 billion from liquidating rubber gardens compared to 1H2022.
PBT	66	154	+133%	428	438	+2%	Shared profit from Nam Tan Uyen JSC (NTC) (excluding dividends recognized as financial income) decreased from VND50 billion to VND35 billion.
NPAT	56	127	+127%	355	361	+2%	

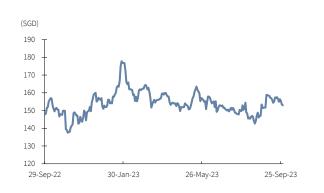
Source: Phuoc Hoa Rubber, KB Securities Vietnam

PHR's rubber revenue for 2023 may decrease dramatically compared to 2022 despite a slight recovery in 2H23 against 1H23 We expect rubber revenue to recover slightly towards the end of 2023 versus 1H23, though it cannot offset a steep fall in 1H23.

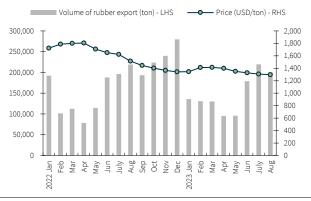
- A slight increase in natural rubber production over the past few months is expected to continue thanks to the growing demand for natural rubber as well as rubber-based products, especially rubber tires, which may recover well against the first half. However, given weak consumer demand in major markets resulting from economic instability, production is expected to grow slowly by about 15 - 20% compared to the first half. For 2023, PHR's natural rubber production may still be about 10% lower than in 2022.

Although world rubber prices have recently adjusted slightly, they are still 4% higher than the first half's average. Trading Economics anticipates rubber prices to continue to increase by about 5% from now through year-end. We expect PHR's output prices to advance 5–7% compared to the average price recorded from the beginning of the year until now following global price rises despite remaining lower than 2022's average.

Fig 2. PHR - RSS3 rubber futures (SGD)







Source: Trading Economics

PHR owns a sizeable rubber land bank available for conversion, ensuring long-term growth for the IP segment

VSIP III expects to be profitable from 2024, with a high occupancy rate shortly after operation

Source: Ministry of Industry and Commerce

PHR currently owns a sizeable rubber land bank of 15,687 ha. Under the direction of the parent company Vietnam Rubber Group (GVR) leaders, PHR has developed a land use plan for more than 10,000 ha from now until 2030, of which nearly 5,000 ha will be converted into industrial parks, 1,018 ha into industrial clusters in Phu Giao, Bac Tan Uyen, and Bau Bang. This will be a long-term growth driver for PHR, as PHR has an advantage in rubber land conversion, given lower costs for rubber land clearance.

PHR's clean land bank is running low, and Tan Binh Industrial Park only has 5 ha left for lease. Consequently, PHR's IP segment will contribute less in the near term, and its prospects will depend entirely on the progress of legal procedures for new projects. PHR is seeking approval for Tan Lap Industrial Park and Tan Binh expansion Industrial Park to launch them in 2025 – 2026.

Even before its commercial operation, VSIP III has attracted investments from the Lego Group (USD1.3 billion) and Pandora (USD100 million), with an expected leased area of 54 ha. VSIP III is predicted to have a high occupancy rate due to (1) great demand for large-scale industrial park land in Binh Duong amid limited supply due to legal problems, (2) prime location (in the World Trade Center of Binh Duong New City). VSIP III should bring high cash flow for PHR right after operation:

- From 2023, PHR will receive 20% of shared profits from VSIP III IP land sales after rubber land conversion of 691 ha for this IP.

- PHR is seeking approval from the parent company Vietnam Rubber Group (GVR) to invest 20% of VSIP III's shares (equivalent to about VND400 billion) through a Business Cooperation Contract (BCC). VSIP III's contribution to PHR will increase significantly following this BCC.

VSIP III Industrial Park is located in Tan Uyen Town and has a prime location, adjacent to the existing VSIP Industrial Park in Binh Duong and the World Trade Center of Binh Duong New City, situated on Ring Road 4, easily accessible to My Phuoc – Tan Van expressway as well as container ports, airports, Dong Nai and Ba Ria Vung Tau provinces.

A groundbreaking ceremony for the 1,000-ha VSIP III Industrial Park was held, and the project received investment approval in March 2022.

Nam Tan Uyen 3 should start operation and contribute to PHR's profits from 2024

Nam Tan Uyen Industrial Park is located in the key economic zone of Binh Duong province. It covers more than 345 ha, near Thach Phuoc Inland Container Deport, 32km from Cat Lat Port, 90km from Cai Mep international deepwater port cluster, and 32km from Tan Son Nhat International Airport. It is well connected with transportation infrastructure. Nam Tan Uyen 3 may start operation in 2024.

At the 2023 AGM, PHR approved the plan to pay a 59.5% cash dividend

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Source: Vietnam-Singapore Industrial Park Joint Venture Co., Ltd

Most of PHR's current industrial parks have been fully occupied, with no new clean land bank added in recent years due to legal problems. Nam Tan Uyen 3's land allocation this past May ensures short- and medium-term growth prospects for PHR's IP segment. The Board of Directors of Nam Tan Uyen is working with Binh Duong authority to receive a certificate of land use rights for Nam Tan Uyen 3, quickly implement basic infrastructure construction, and develop a suitable business plan.





Source: namtanuyen.com.vn

Thanks to stable cash flow from rubber sales and industrial clusters from rubber land conversion, PHR has a history of paying cash dividends in recent years. At the 2023 AGM, PHR approved a plan to pay a 59.5% cash dividend (VND5,950/share) for FY22. The figure for FY23 is expected at a minimum of 30% of par value.

Table 6. PHR – Key projects

	Investor	Location	Scale (ha)	vnership	Progress
Tan Binh 1	Tan Binh Industrial Park JSC	Binh Duong	352	85%	In operation
Tan Lap 1	PHR 51%, Kaiser Furniture 49%	Binh Duong	200	51%	Waiting for land allocation
Tan Binh expanded	80% PHR, 15% NTC, 5% Duc Viet	Binh Duong	1055	85%	Working on legal procedures
Hoi Nghia	Phuoc Hoa Rubber (PHR)	Binh Duong	715	100%	
Binh My	Phuoc Hoa Rubber (PHR)	Binh Duong	1002	100%	
Nam Tan Uyen 3		Binh Duong			Investment plan has been approved
	Nam Tan Uyen JSC (NTC)		344	33%	Received land allocation
	Vietnam-Singapore Industrial Park	Binh Duong			Construction started in March 2022
VSIP III	Joint Venture Co., Ltd		1,000	20%	

Source: Phuoc Hoa Rubber, KB Securities Vietnam

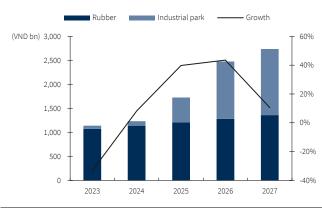
Forecast & Valuation

Table 7. PHR - 2022A-2023F business results

(VNDbn)	2022A	2023F	+/-% YoY	Comments
Revenue	1,709	1,141	-33%	Completed 88% of full-year revenue target
				The decline comes from a decrease in both average rubber price and natural rubber
-Rubber	1,457	1,075	-26%	production. We forecast the average rubber price in 2023 to decrease by 18% YoY and
				production to contract by 10% YoY.
-IPs	250	66	-74%	2023 may not record any new IP land sales, except for 1-2 ha that can be handed over at the
11.5	250	00	7170	end of this year from the remaining 5 ha of commercial land in Tan Binh Industrial Park.
Gross profit	401	204	-49%	
Gross profit margin	23%	18%	-5ppts	GPM decreased since rubber margin shrank to 15%.
Financial income	179	216	20%	High dividends from Nam Tan Uyen JSC (NTC) are expected.
Financial expense	21	34	67%	
SG&A	157	125	-20%	
				Compensation income from VSIP III was only VND200 billion, down from VND698 billion
Other income	717	697	-3%	recorded in 2022.
				In 2023, PHR recorded an additional VND69 billion in old rubber tree liquidation versus 2022.
PBT	1,127	949	-16%	
NPAT	926	778	-16%	

Source: Phuoc Hoa Rubber, KB Securities Vietnam

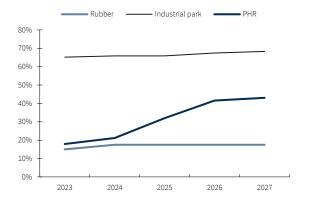
Fig 8. PHR - 2023F-2027F revenue breakdown (VNDbn, %)



Source: Phuoc Hoa Rubber, KB Securities Vietnam

We recommend BUY for PHR with a target price of VND55,800/share

Fig 9. PHR - GPM of rubber & IP segments (%)



Source: Phuoc Hoa Rubber, KB Securities Vietnam

We value PHR using the sum-of-the-parts (SOTP) valuation method with two core businesses: (1) rubber and wood and (2) industrial parks. We recommend BUY for PHR with a target price of VND55,800/share, equivalent to an upside of 17% compared to the closing price of VND47,700/share on September 28, 2023 based on the following factors:

- In 2023, rubber prices should drop by 18% from 2022's average despite a slight recovery towards the end of 2023, and natural rubber production may decrease by 10% YoY. Rubber latex margin should shrink from 16% in 2022 to 15% in 2023.

- This year, PHR received the remaining land compensation income of VND200 billion from VSIP III. As a result, other income will decline from 2024.

- In the short term, industrial parks will not generate much profit as the clean

land bank is running low. We expect PHR to successfully hand over the remaining 5 ha until the end of 2024. Tan Lap 1 and Tan Binh expansion projects are expected to start operation in 2025 and 2026.

 In the foreseeable future, PHR expects to earn a large amount of shared profit from associates when Nam Tan Uyen 3 is expected to generate revenue from 2024 and VSIP will likely win IP land sales contracts for 40 - 50 ha from 2024.

Table 10. PHR - Model assumptions

Model assumptions	Value
Risk-free rate	5.20%
Market risk premium	8.22%
Beta	1.05
Average interest rate	8%
Required rate of return	10.8%

Source: Phuoc Hoa Rubber, KB Securities Vietnam

Table 11. PHR - Valuation result

	Valuation method	Value (VNDbn)
Rubber & wood	DCF	1,617
IPs	RNAV	6,016
Cash & equivalents & short-term investments		185
Net debt		262
Enterprise value		7,555
Outstanding shares		135,499,198
Target price		55,800
Current price (September 28, 2023)		47,700
Total shareholder return		17.0%
Source: KB Securities Vietnam		

Fig 12. PHR - Historical P/B (x)



Source: Bloomberg, KB Securities Vietnam

2023F

2024F

PHR - 2021A-2024F financials

Income Statement

(VND billion)	2021	2022	2023F	2024F
Net sales	1,945	1,709	1,141	1,235
Cost of sales	1,429	1,307	937	973
Gross Profit	517	401	204	262
Financial income	237	179	216	227
Financial expenses	26	21	34	23
of which: interest expenses	20	17	0	0
Gain/(loss) from joint ventures	-13	30	26	152
Selling expenses	32	41	34	31
General and admin expenses	115	116	91	99
Operating profit/(loss)	567	433	287	489
Other incomes	40	717	697	614
Other expenses	9	23	35	31
Net other income/(expenses)	31	694	662	584
Net accounting profit/(loss) before tax	597	1,127	949	1,072
Corporate income tax expenses	84	201	171	193
Net profit/(loss) after tax	513	926	778	879
Minority interests	36	40	34	38
Attributable to parent company	478	885	745	841

Margin ratio				
(%)	2021	2022	2023F	2024F
Gross profit margin	26.6%	23.5%	17.9%	21,2%
EBITDA margin	37.9%	74.2%	94.5%	98.2%
EBIT margin	31.7%	66.9%	83.2%	86.8%
Pre-tax profit margin	30.7%	66.0%	83.2%	86.8%
Operating profit margin	29.1%	25.4%	25.2%	39.6%
Net profit margin	26.6%	23.5%	68.2%	71.2%

Cash Flow Statement

(VND billion)	2021	2022	2023F	2024F
Net profit/(loss) before tax	597	1,127	949	1,072
Depreciation and amortisation	113	124	116	119
Profit/loss from investing activities	0	0	0	0
Interest expense	20	17	34	23
Operating profit/(loss) before changes in Working Capital	509	1,064	1,099	1,214
(Increase)/decrease in receivables	-9	28	78	-13
(Increase)/decrease in inventories	-22	14	95	-9
Increase/(decrease) in payables	-50	-192	-83	95
(Increase)/decrease in prepaid expenses	45	38	-51	4
Interest expense	-40	-50	-371	1
Net cash inflows/(outflows) from operating activities	255	780	635	1,094
Purchases of fixed assets and other long term assets	-115	-127	-56	-72
Proceeds from disposal of fixed assets	32	28	0	0
Loans granted, purchases of debt instruments	-1,759	-2,072	0	0
Collection of loans, proceeds from sales of debts instruments	1,952	1,758	0	0
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	204	182	0	0
Net cash inflows/(outflows) from investing activities	315	-231	-56	-72
Proceeds from issue of shares	0	0	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	225	387	264	0
Repayment of borrowings	-447	-548	-119	-409
Finance lease principal payments	0	0	0	0
Dividends paid	-636	-362	-389	-440
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-858	-523	-244	-849
Net increase in cash and cash equivalents	-289	27	334	173
Cash and cash equivalents at the beginning of period	428	139	166	500
Cash and cash equivalents at the end of period	139	166	500	673

TOTAL ASSETS	6,027	6,329	6,577	6,730
CURRENT ASSETS	2,738	3,055	3,178	3,378
Cash and cash equivalents	139	166	500	673
Short-term investments	1,898	2,234	2,234	2,234
Accounts receivable	273	237	159	173
Inventories	336	321	225	234
LONG-TERM ASSETS	3,289	3,273	3,399	3,352
Long-term trade receivables	0	0	0	0
Fixed assets	1,744	1,767	1,893	1,847
Long-term incomplete assets	531	521	521	521
Long-term investments	376	382	382	382
Goodwill	0	0	0	0
LIABILITIES	2,918	2,893	2,571	2,284
Current liabilities	1,192	1,294	725	827
Trade accounts payable	50	77	-6	89
Short-term unrealized revenue	48	46	0	0
Short-term borrowings	176	119	21	0
Long-term liabilities	1,726	1,599	1,846	1,457
Long-term trade payables	0	0	0	0
Long-term advances from customers	78	79	79	79
Unrealized revenue	1,404	1,374	1,374	1,374
Long-term borrowings	242	146	388	0
OWNER'S EQUITY	3,109	3,435	3,824	4,264
Paid-in capital	1,355	1,355	1,355	1,355
Share premium	21	21	21	21
Undistributed earnings	291	500	389	440

2021

0

0

0

0

0

0

0

0

2022

Key ratios

Other funds

Minority interests

Balance Sheet (VND billion)

(x,%,VND)	2021	2022	2023F	2024F
Multiple				
P/E	12.3	7.6	8.7	7.7
P/E diluted	12.3	7.6	8.7	7.7
P/B	3.1	1.6	2.0	1.8
P/S	4.9	3.1	6.6	6.1
P/Tangible Book	3.1	1.6	2,1	1.9
P/Cash Flow	37.7	6.8	11.9	6.9
EV/EBITDA	13.0	4.2	7.0	6.2
EV/EBIT	15.5	4.7	8.0	7.1
Operating performance				
ROE	16.5%	26.9%	20.4%	20.69
ROA	8.5%	14.6%	11.8%	13.19
ROIC	12.7%	22.9%	17.7%	20.5%
Financial structure				
Cash Ratio	170.9%	185.5%	377.1%	351.69
Quick Ratio	76.9%	111.0%	105.0%	101.9%
Current Ratio	193.9%	203.8%	399.1%	372.59
LT Debt/Equity	7.8%	4.2%	10.2%	0.09
LT Debt/Total Assets	4.0%	2.3%	5.9%	0.09
ST Debt/Equity	5.7%	3.5%	0.5%	0.09
ST Debt/Total Assets	2.9%	1.9%	0.3%	0.09
ST Liabilities/Equity	38.3%	37.7%	19.0%	19.49
ST Liabilities/Total Assets	19.8%	20.4%	11.0%	12.39
Total Liabilities/Equity	93.8%	84.2%	67.2%	53.69
Total Liabilities/Total Assets	48.4%	45.7%	39.1%	33.99
Activity ratios				
Account Receivable Turnover	7.1	7.2	7.2	7.
Inventory Turnover	4.3	4.1	4.2	4.2
Account Payable Turnover	28.8	20.3	23.8	23.8

Source: Phuoc Hoa Rubber, 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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