

Danang Rubber (DRC)

Regain the growth momentum

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DRC's performance in 3Q21 was hit by the fourth wave of COVID-19

Danang Rubber JSC's (DRC) 3Q21 earnings saw a contraction, declining to VND34 billion (-45.3% YoY) on net revenue of VND929 billion (-1.8% YoY), and gross profit margin decreased to 14.4% from 15.3% in the same period of last year.

DRC quickly regained its growth momentum in 4Q thanks to the domestic rubber consumption

DRC said its business started to rebound from 4Q, reflected in October's revenue of VND468 billion (+32% MoM), equivalent to 50% of the revenue of the whole 3Q. Therefore, it is expected that DRC would complete over 90% of the whole quarter plan in October and November. The domestic market recovered strongly and became the main contributor to DRC's growth in 4Q.

DRC would raise rubber prices by 5% for domestic and foreign markets

DRC recently announced to raise the prices of rubber products by 5% from November 15, 2021 for the domestic market and from December 1, 2021 for export markets to offset the costs of input materials, which is in line with the moves of some enterprises in the same industry. Accordingly, in the past year, DRC has increased its rubber prices three times with a total increase of 11%, but still lower than the increase in raw material prices.

KBSV forecasts DRC's 2022 business to grow and recommends BUYING DRC shares with a target price of VND39,900 per share

We expect DRC's 2022 profit to reach VND376 billion (+15.3 YoY) on revenue of VND4,690 billion (+7.6% YoY). This is based on the growth of radial and bias tires and improved profit margin. We recommend BUYING DRC shares and adjust the target price to VND39,900 per share, which is equal to a potential upside of 18.5% compared to the closing price on December 16, 2021.

Buy maintain

Target price VND39,900

Upside/downside (%)	18.5
Current price (Dec 9, 2021)	VND33,650
Market cap (VNDbn)	4,057

Trading data

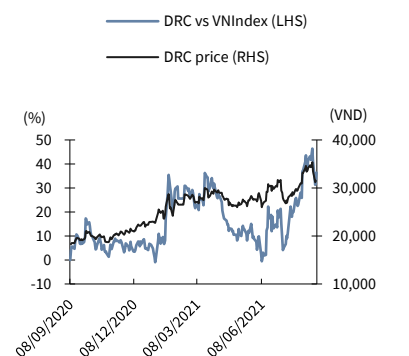
Free float (%)	46.2
3M avg trading value (VNDbn)	69.9
Foreign ownership (%)	6.8
Major shareholder	VINACHEM (50.51%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	5	-1	10	35
Relative	4	3	-3	-14

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net sales (VNDbn)	3,858	3,647	4,358	4,690
Earnings/loss (VNDbn)	312	313	409	468
Profit attributable to parent (VNDbn)	251	247	326	376
EPS (VND)	2,109	2,079	2,747	3,167
EPS growth (%)	77.7	-1.4	32.1	15.3
P/E (x)	16.0	16.2	12.3	10.6
P/B (x)	2.4	2.4	2.2	2.0
ROE (%)	15.4	14.6	17.6	18.5
Dividend yield (%)	7.7	5.1	7	4.4



Updated business performance

Social distancing measures in many provinces made DRC's business results decline in 3Q

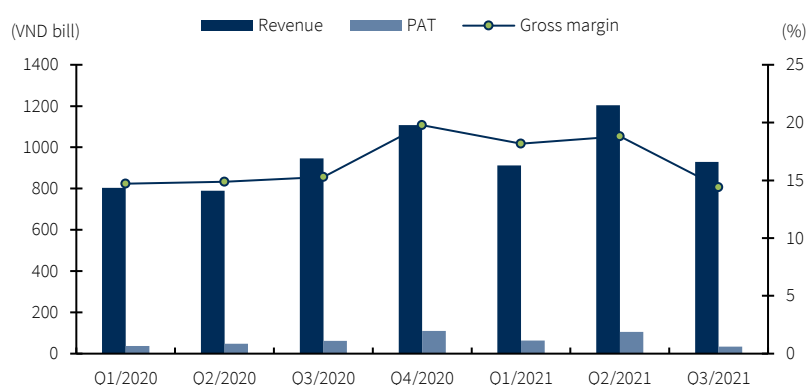
DRC's 3Q21 earnings saw a contraction to VND34 billion (-45.3% YoY) on net revenue of VND929 billion (-1.8% YoY), and gross profit margin decreased to 14.4% vs 15.3% in the same period of last year. The social distancing measures in many provinces and cities across the country, especially in the Southern region and high prices of raw materials are the main reasons for DRC's decline in business results. Accordingly, 9M21 profit was VND204 billion (+38.5% YoY) and revenue was VND3,046 billion (+20% YoY), reaching 68.7% and 73% of the year plan, respectively.

DRC increased the proportion of export sales in 3Q to compensate for the decreasing sales in the domestic market

In 3Q, DRC boosted exporting products to compensate for the domestic sales which was hindered by the social distancing protocols. 3Q export sales hit VND616 billion (+42.1% YoY), while domestic sales were down to VND313 billion (-39% YoY). The proportion of export sales went up from 45.8% in 3Q20 to 66.3% in 3Q21. As a result, the consumption of radial tires (the main product of the export market) climbed 9.4% YoY while the consumption of bias tires, bicycle tires and motorcycle tires dropped 23.5%, 41.6% and 41.4% YoY respectively.

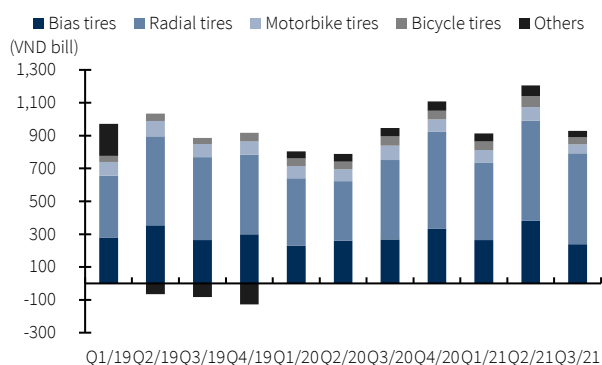
Earnings witnessed a bigger contraction compared to revenue mainly because the increase in input material costs was much stronger than that of output product prices, labor costs were higher due to on-site production, and transportation costs were high while boosting exports led to a sharp increase in selling expenses. However, DRC also managed to control administrative costs, and financial expenses decreased because it had paid off almost all of its long-term loans and was partially compensated by cutting depreciation costs by VND26 billion as the first phase of the radial factory fully depreciated at the end of August 2020.

Fig 1. DRC - Quarterly performance in 2020-2021 (VNDbn, %)



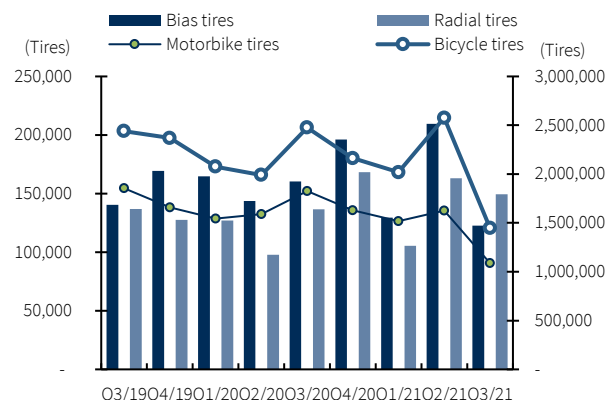
Source: Danang Rubber, KB Securities Vietnam

Fig 2. DRC – Revenue structure (VNDbn)



Source: Danang Rubber, KB Securities Vietnam

Fig 3. DRC – Sold products (unit)



Source: Danang Rubber, KB Securities Vietnam

DRC quickly rebound in 4Q

After being hit by the pandemic in 3Q, DRC regained its growth momentum in 4Q. According to the Management, October's revenue reached VND468 billion (+32% MoM), equivalent to 50% of the revenue of the whole 3Q. The domestic market recovered strongly and became the main contributor to DRC's growth in 4Q. After the strict lockdown protocols were lifted, the factory's performance exceeded design capacity and the export value remained stable at around USD9 million. November revenue should surpass VND500 billion as customers try to buy more goods ahead of the increase in rubber prices, and the demand for rubber continues to recover. Accordingly, it is expected that DRC would complete over 90% of the whole 4Q targets in October and November.

DRC recently raised prices of its rubber products by 5% for both domestic and foreign markets

Like other peers in the industry, DRC recently announced a 5% increase in prices of its products domestically from November 15, 2021 and for the export markets from December 1, 2021 to make up for high input material costs. During the past year, the enterprise raised its selling prices by 11% after three increases, which was still lower than the rise in raw material prices. The business expects the costs of raw materials to decrease after the fourth quarter with factories' resumption of operation. China's power shortage in 4Q affected raw material prices, but the situation will get better next quarter after the dry season is over.

Table 2. DRC – Price increases in 2021 (%)

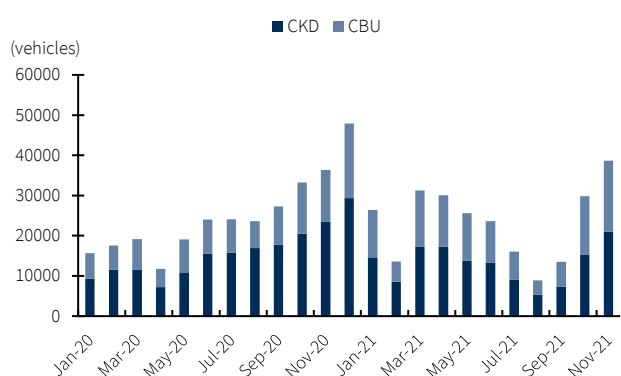
	March	July	November 15	December 1
Domestic prices	3%	3%	5%	
Export prices	3%	3%		5%

Source: Danang Rubber, KB Securities Vietnam

Registration fees for domestically assembled vehicles are cut by 50% from December 1, 2021 to May 31, 2022

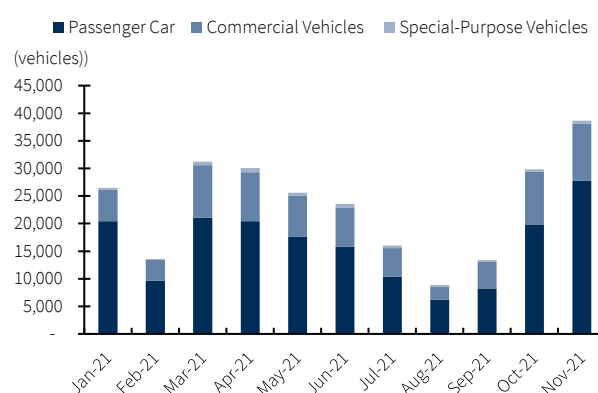
In order to help domestic enterprises involved in auto manufacturing and assembly overcome hardship, DPM Le Minh Khai recently approved Decree No. 103/2021/ND-CP dated November 26, 2021 prescribing the rates of registration fees for motor vehicles, trailers or semi-trailers towed by motor vehicles and the likes that are domestically manufactured and assembled. Accordingly, from December 1, 2021 to the end of May 2022, the initial registration fees are decreased by 50% from which were specified in Decree No. 20/2019/ND-CP. Along with that, manufacturers offered incentive programs for many models to accelerate year-end sales, thereby boosting tire demand.

Fig 4. Vietnam – Homemade and imported auto sales (unit)



Source: Vietnam automobile manufacturers' association

Fig 5. Vietnam – Auto sales of different types (unit)



Source: Vietnam automobile manufacturers' association

The expansion project of radial tire factory in Phase 3 is currently on schedule

Thanks to increased machinery and production efficiency, the capacity of the radial factory of DRC has now exceeded its designed capacity of 50,000 units/month by 40% to 70,000 units/month. The expansion project in Phase 3 is currently on schedule with two legal phases approved and construction expected from late 2021 till the end of 2023. However, thanks to the partial construction, part of the project can be put into operation by the end of 2022, thereby increasing the capacity to 800,000 products/year.

Forecast business results & valuation

KBSV expects DRC to record a profit of VND326 billion (+32.1% YoY) on revenue of VND4,358 billion (+19.5% YoY) for 2021

We revise up our 2021F revenue for DRC to VND4,358 billion (+19.5% YoY) because the strong recovery of revenue in the last quarter of the year owing to higher product prices in the second half of 4Q made up for 3Q results worsened by the impact of social distancing restrictions. Shortly after the relaxation of restrictive measures, business performance in October and November rebounded strongly thanks to recovery of consumer demand. In 3Q21, the operation of the DRC's factory despite temporary shutdown of many businesses in the industry, together with the domestic production of cars' registration fee continuing to be reduced 50% and policies to stimulate demand at the end of the year played as a stepping stone for DRC after the lockdown. However, we adjust down our forecast for profit to VND326 billion (+32.1YoY), 15.8% lower than our previous estimate due to lower-than-expected profit and gross margin in 3Q resulting from rising raw material and transportation costs which pushed up selling expenses (+79% YoY). In 4Q alone, profit is expected at VND122 billion (+11.8YoY) on revenue of VND1,312 billion (+18.4 YoY).

In 2022, we forecast DRC's profit to reach VND376 billion (+15.3% YoY) on revenue of VND4,690 billion (+7.6% YoY)

In 2022, we forecast DRC's profit at VND376 billion (+15.3% YoY) on revenue of VND4,690 billion (+7.6% YoY). The gain mainly comes from the growth of radial and bias tires in both consumption and selling prices while the motorcycle and bicycle tire segment remain stable on the assumption that production and business activities will not be interrupted. On the exporting front, the enterprise continues to promote the export of radial tires to the US and Brazil to take advantage of preferential tax rates over Chinese products amid huge demand in these two countries and maintains exports of bias tires to Southeast Asian countries and the Middle East. Profit should be more positive with improved gross profit margin thanks to increased selling prices and production efficiency and freight rates expected to cool down when many countries basically achieve high vaccination rates.

Table 2. DRC – 2021F–2022F business performance

	2019	2020	2021F	2022F
Net sales	3,858	3,647	4,358	4,690
Cost of goods sold	3,287	3,047	3,581	3,844
Gross profit	571	590	777	847
Selling expenses	127	165	296	253
Administration cost	61	62	57	75
Financial expenses	12	18	29	19
Profit before tax	313	311	410	473
NPAT of parent company	251	247	326	376

Source: KB Securities Vietnam

We recommend BUYING DRC shares with a target price revised up to VND39,900 apiece

Basing on discounted cash flow (DCF) valuation method, we revise the target price of DRC shares up to VND39,900/share for 2022, 18.5% higher than the closing price on December 16, 2021 with the momentum gained from better business results thanks to higher selling prices and rising demand in both domestic and export markets. DRC shares are currently trading at an FY22 P/E of 10.6x.

Table 3. DRC – Share price according to FCF (VND)

Model assumptions	Value
WACC	12.4%
Risk-free rate	3.5%
Market risk premium	8.2%
Beta	1.34
Long-term growth	2%
Duration	6 years

Source: KB Securities Vietnam

DRC – 2019A–2022F financials

Income Statement

(VND billion)	2019A	2020A	2021F	2022F
Net sales	3,858	3,647	4,358	4,690
Cost of sales	3,287	3,047	3,581	3,844
Gross Profit	571	590	777	847
Financial income	12	18	29	19
Financial expenses	82	68	44	69
of which: interest expenses	40	20	9	29
Gain/(loss) from joint ventures	0	0	0	0
Selling expenses	127	165	296	253
General and admin expenses	61	62	57	75
Operating profit/(loss)	312	313	409	468
Other incomes	1	0	1	9
Other expenses	0	2	0	0
Net other income/(expenses)	1	-2	1	5
Net accounting profit/(loss) before tax	313	311	410	473
Corporate income tax expenses	63	64	84	0
Net profit/(loss) after tax	251	247	326	376
Minority interests	0	0	0	0
Attributable to parent company	251	247	326	376

Margin ratio

(%)	2019A	2020A	2021F	2022F
Gross profit margin	14.8%	16.2%	17.8%	18.1%
EBITDA margin	16.2%	14.8%	12.4%	13.6%
EBIT margin	9.2%	9.1%	9.6%	10.7%
Pre-tax profit margin	8.1%	8.5%	9.4%	10.1%
Operating profit margin	8.1%	8.6%	9.4%	10.0%
Net profit margin	6.5%	6.8%	7.5%	8.0%

Cash Flow Statement

(VND billion)	2019A	2020A	2021F	2022F
Net profit/(loss) before tax	313	311	410	473
Depreciation and amortisation	273	209	122	136
Profit/loss from investing activities	0	0	0	0
Interest expense	40	20	9	29
Operating profit/(loss) before changes in Working Capital	627	541	541	638
(Increase)/decrease in receivables	173	11	-48	-14
(Increase)/decrease in inventories	-307	365	-326	-82
Increase/(decrease) in payables	-20	1	41	1
(Increase)/decrease in prepaid expenses	-3	-4	0	0
Interest expense	-40	-20	-9	0
Net cash inflows/(outflows) from operating activities	406	853	77	427
Purchases of fixed assets and other long term assets	-16	-9	-239	-259
Proceeds from disposal of fixed assets	0	0	0	0
Loans granted, purchases of debt instruments	0	-234	0	0
Collection of loans, proceeds from sales of debts instruments	0	84	0	0
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	2	4	0	0
Net cash inflows/(outflows) from investing activities	-14	-155	-239	-259
Proceeds from issue of shares	0	0	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	3,335	2,448	5	168
Repayment of borrowings	-3,602	-2,823	-306	0
Finance lease principal payments	0	0	0	0
Dividends paid	-131	-178	-163	-188
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-397	-554	158	-267
Net increase in cash and cash equivalents	-5	143	-4	-99
Cash and cash equivalents at the beginning of period	51	46	189	185
Cash and cash equivalents at the end of period	46	189	185	86

Balance Sheet

(VND billion)	2019A	2020A	2021F	2022F
TOTAL ASSETS	2,708	2,431	2,993	3,048
CURRENT ASSETS	1,377	1,312	1,758	1,689
Cash and cash equivalents	46	189	185	86
Short-term investments	0	150	215	145
Accounts receivable	142	131	179	193
Inventories	1,153	788	1,114	1,196
LONG-TERM ASSETS	1,331	1,119	1,236	1,359
Long-term trade receivables	0	0	0	0
Fixed assets	1,261	1,064	1,180	1,303
Long-term incomplete assets	0	0	0	0
Long-term investments	3	4	4	4
Goodwill	0	0	0	0
LIABILITIES	1,076	743	1,143	1,009
Current liabilities	927	742	1,137	836
Trade accounts payable	223	224	266	267
Short-term unrealized revenue	0	0	0	0
Short-term borrowings	532	306	622	375
Long-term liabilities	149	1	6	174
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	0	0	0	0
Long-term borrowings	149	1	5	173
OWNER'S EQUITY	1,632	1,687	1,850	2,039
Paid-in capital	1,188	1,188	1,188	1,188
Share premium	0	0	0	0
Undistributed earnings	201	206	369	557
Other funds	243	293	663	293
Minority interests	0	0	0	0

Key ratios

(x, %, VND)	2019A	2020A	2021F	2022F
Multiple				
P/E	16.0	16.2	12.3	10.6
P/E diluted	16.0	16.2	12.3	10.6
P/B	2.4	2.4	2.2	2.0
P/S	1.0	1.1	0.9	0.9
P/Tangible Book	1.5	1.6	1.3	1.3
P/Cash Flow	9.8	4.7	51.6	9.4
EV/EBITDA	6.4	7.4	7.4	6.3
EV/EBIT	11.3	12.1	9.5	8.0
Operating performance				
ROE	15.4%	14.6%	17.6%	18.5%
ROA	9.3%	10.2%	10.9%	12.3%
ROIC	11.1%	13.7%	14.2%	15.0%
Financial structure				
Cash Ratio	4.9%	45.7%	35.2%	27.6%
Quick Ratio	17.5%	63.2%	50.7%	42.0%
Current Ratio	148.5%	176.7%	154.5%	202.1%
LT Debt/Equity	9.1%	0.0%	0.3%	8.5%
LT Debt/Total Assets	5.5%	0.0%	0.2%	5.7%
ST Debt/Equity	32.6%	18.1%	33.6%	18.4%
ST Debt/Total Assets	19.6%	12.6%	20.8%	12.3%
ST Liabilities/Equity	56.8%	44.0%	61.5%	41.0%
ST Liabilities/Total Assets	34.2%	30.5%	38.0%	27.4%
Total Liabilities/Equity	65.9%	44.1%	61.8%	49.5%
Total Liabilities/Total Assets	39.7%	30.6%	38.2%	33.1%
Activity ratios				
Account Receivable Turnover	16.9	26.7	28.1	25.2
Inventory Turnover	3.3	3.1	3.8	3.3
Account Payable Turnover	14.8	13.8	16.1	12.0

Source: KB Securities Vietnam

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Investment ratings & definitions

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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