

# Vietnam Rubber Group (GVR)

## Growth potential from NTC3 & Hiep Thanh 1

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**GVR recorded 2023A NPAT of VND3,370 billion (-29% YoY) On net revenue of VND22,080 billion (-13% YoY)**

In 2023, Vietnam Rubber Group (GVR) delivered net revenue of VND22,080 billion (-13% YoY). In particular, rubber-based products generated VND428 billion, marking the sharpest decrease (down 46% YoY), while the core natural rubber segment contributed VND16,933 billion (down 6% YoY) or 77% of total revenue. 2023A NPAT was down 29% YoY to VND3,370 billion.

**GVR's natural rubber segment may enjoy significant YoY growth in 2024 thanks to price hikes and increased production**

We expect GVR's rubber prices to increase by 7-8% in 2024 and output to rise ~2% on: (1) the global rubber price upward trend; (2) concerns about long-term supply shortages; and (3) recovering demand from Vietnam's major export markets such as the US, Europe, and China.

**Sizeable rubber land will ensure long-term growth for GVR's industrial park segment**

From now until 2025, GVR aims to convert at least 2,900 ha of rubber land into industrial land and concentrate on expediting progress on eight industrial parks (IPs), with the expectation of commencing operations from 2025 or in 2026 at the latest, ensuring long-term growth for the IP segment.

**Nam Tan Uyen 3 and Hiep Thanh 1 should be put into operation in the next two years**

Nam Tan Uyen 3 (NTC3) was allocated land in 2023, while Hiep Thanh 1 just received investment approval in early March 2024, driving short- and medium-term growth for the IP segment. NTC 3 and Hiep Thanh 1 should be available for lease this year and next year, respectively.

**We recommend HOLD for GVR with a target price of VND35,000/share**

We recommend HOLD for GVR with a target price of VND35,000/share, 7.5% higher than the closing price on March 19, 2024.

## Hold change

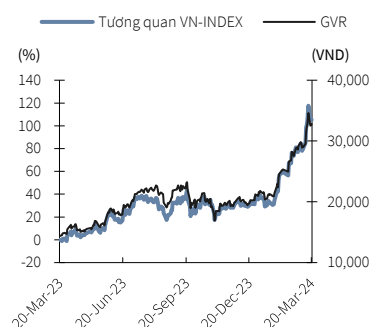
<b>Target price</b>	<b>VND35,000</b>
Upside	7.5%
Current price (Mar 19, 2024)	VND32,550
Consensus target price	VND33,800
Market cap (VNDtn/USDbn)	130.2/5.3

<b>Trading data</b>	
Free float	3.23%
3M avg trading value (VNDbn/USDmn)	111/4.5
Foreign ownership	0.32%
Major shareholder	CMSC (96.8%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	16	64	45	129
<b>Relative</b>	14	51	42	105

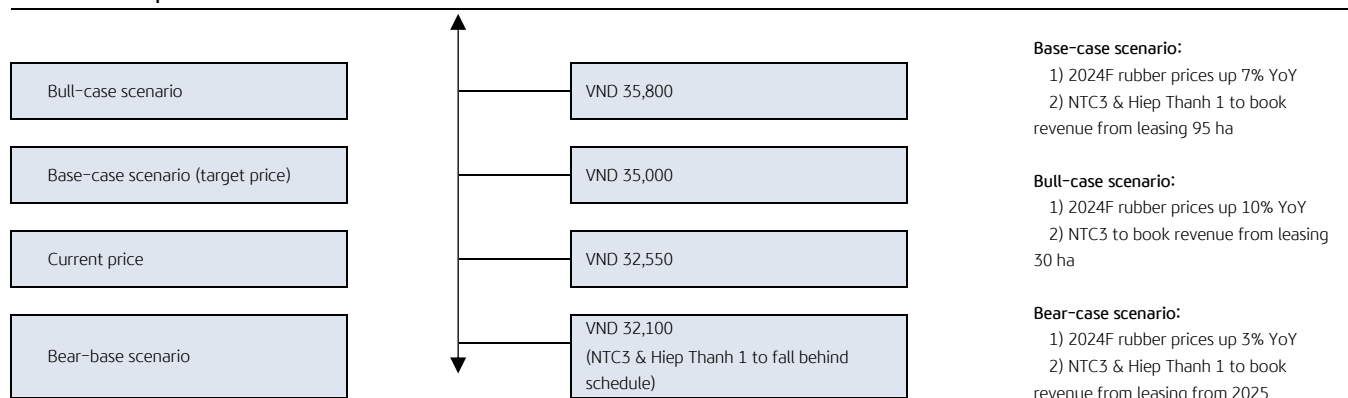
### Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	25,426	22,080	24,747	26,566
Operating income/loss (VNDbn)	4,381	2,744	4,328	5,612
NPAT-MI (VNDbn)	3,839	2,585	3,484	4,271
EPS (VND)	807	646	871	1,068
EPS growth (%)	-22%	-20%	35%	23%
P/E (x)	40.3	50.4	37.4	30.5
P/B (x)	2.4	2.4	2.2	2.0
ROE (%)	9%	6%	8%	9%
Dividend yield (%)	0.1%	0.1%	0.1%	0%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

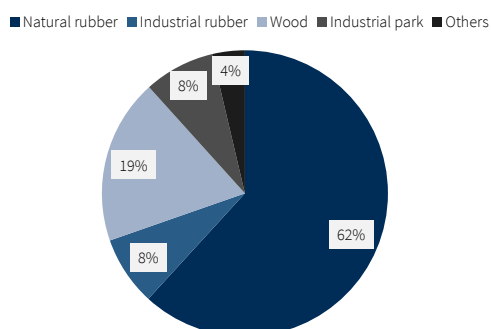
## Business performance

Table 1. GVR – 2-22A-2023A business results

(VNDbn)	4Q2022	4Q2023	+/-% YoY	2022A	2023A	+/-% YoY	KBSV's comments
<b>Revenue</b>	<b>9,013</b>	<b>7,591</b>	<b>-16%</b>	<b>25,425</b>	<b>22,080</b>	<b>-13%</b>	Completed 91% of adjusted revenue objective for 2023 (VND24,200 billion)
-Rubber latex	7,572	6,065	-20%	18,109	16,933	-6%	2023's average rubber export price was down nearly 12% YoY.
-Rubber-based products	- 37	131	-455%	790	428	-46%	Demand for rubber-based products weakened, and selling prices dropped sharply, especially revenue from rubber gloves.
-Wood processing	833	660	-21%	3,930	2,319	-41%	Due to (1) spending cuts across Vietnam's export markets amid high inflation and (2) trade defense measures from Japan, Germany, the US... towards wood products originating from Vietnam, dampening exports
-Industrial park leasing	226	211	-6%	802	784	-2%	No new leased land was recorded.
Gross profit	1,688	1,603	-5%	6,342	4,749	-25%	
Gross profit margin	22%	26%	+4 ppts	25%	22%	- 3ppts	Prices of rubber and wood products fell sharply while input costs spiked YoY.
Financial income	268	351	31%	885	1,186	34%	Driven by deposit interest and lending (combined up nearly VND80 billion in 4Q2023)
Financial expenses	231	131	-43%	696	530	-24%	Driven by reduced borrowing costs and foreign exchange losses
SG&A	775	885	14%	2,354	2,460	4%	
SG&A/Revenue	9%	12%	+3 ppts	9%	11%	+2 ppts	
Other income	581	649	12%	1,321	1,380	4%	
Shared profits from associates	34	85	150%	204	- 201	-199%	(1) Donghwa MDF Wood JSC saw improvement in financial performance, from a loss of more than VND23 billion in 4Q2022 to a loss of VND6 billion. (2) Vietnam Rubber Industrial Zone and Urban Development JSC contributed more than VND71 billion to GVR, up from VND14 billion.
PBT	1,659	1,672	1%	5,702	4,124	-28%	
<b>NPAT</b>	<b>1,311</b>	<b>1,416</b>	<b>8%</b>	<b>4,753</b>	<b>3,370</b>	<b>-29%</b>	Completed 100% of the adjusted NPAT objective for 2023 (VND3,360 billion)

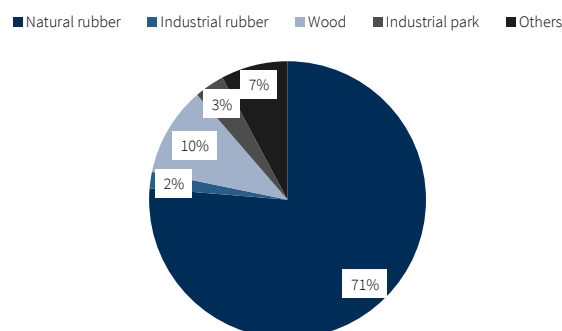
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 2. GVR – Revenue breakdown in 2022 (%)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 3. GVR – Revenue breakdown in 2023 (%)



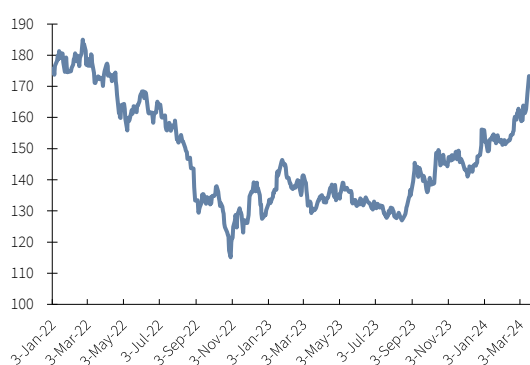
Source: Vietnam Rubber Group, KB Securities Vietnam

**GVR's natural rubber segment may enjoy significant YoY growth in 2024 thanks to price hikes and increased output**

World rubber prices have continued their upward trend since September 2023, reaching 170 USD cents/kg (+10.25% YTD), the highest since April 2022 due to: (1) concerns over supply shortages from major exporting countries; (2) high global oil prices, a primary input for synthetic rubber production, remaining high; and (3) recovering demand in Vietnam's major export markets such as the US, Europe, and especially China. Trading Economics raised its forecast for the average rubber price in 2024F to 170 USD cents/kg. In Vietnam, export rubber prices have also been recovering over the last six months, up 2-5%/month.

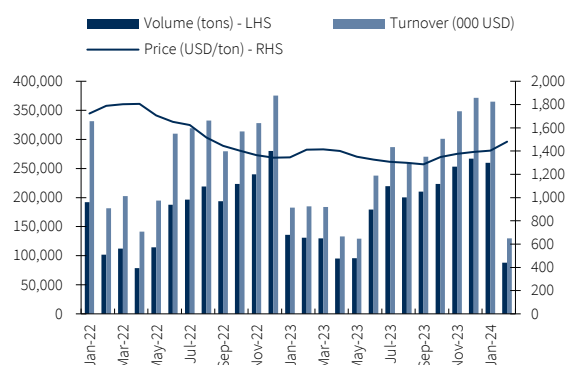
We expect GVR's rubber prices to increase by 7-8% in 2024 and output to rise ~2% on the back of: (1) the global rubber price uptrend; (2) concerns about long-term rubber supply shortages caused by extreme weather that has been negatively affecting rubber production in Thailand, Malaysia, and Indonesia; and (3) growing demand from China as the country implements various policies to promote clean vehicle production.

**Fig 4. Global – Rubber TSR20 futures price (cent/kg)**



Source: investing.com

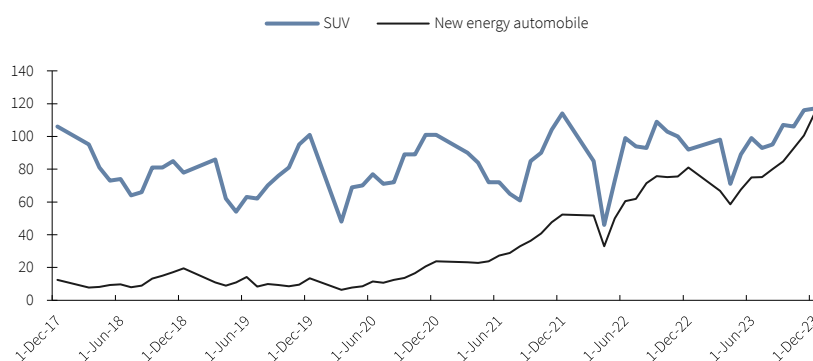
**Fig 5. Vietnam – Export volume, price, turnover (ton, USD/ton, '000 USD)**



Source: Ministry of Industry & Trade

**Fig 6. China – Production of electric vehicles and SUVs (million units)**

Currently, China has initiated many policies to promote the electric vehicle industry, positively affecting rubber demand in this country. China's tire and inner tube exports from 2023 up to now are still maintaining a strong increase in both volume and value. The number of SUVs and electric vehicles in China in the second half of 2023 alone jumped by 50 - 75%.



Source: Bloomberg, KB Securities Vietnam

**Nam Tan Uyen 3 and Hiep Thanh 1 are expected to start recording revenue this year and next year**

Nam Tan Uyen Industrial Park is located in the key economic region of Binh Duong province. NTC3 spans a total area of over 345 ha, near Xa Lan port and ICD (inland container depot) Thach Phuoc, 32km away from Cat Lat port, 90km from Cai Mep international deep-water port cluster, 32km from Tan Son Nhat International Airport. It enjoys good connectivity with transportation infrastructure

After receiving the land allocation decision in mid-2023, NTC 3 is awaiting land use fee appraisal. In 4Q2023, NTC3 signed an additional memorandum of understanding (MOU) for 35 ha of land with an average price of USD140/m2, taking the total area under the MOU to 85 ha.

After years without new additions to the clean land reserve, the land allocation for NTC3 in 2023 and the recent investment approval for Hiep Thanh 1 are expected to drive short- and medium-term growth for GVR's IP segment. We anticipate that NTC3 could commence leasing from the end of this year, while Hiep Thanh 1 should complete land use fee payments and start recognizing revenue from 2025.

**Fig 7. GVR – Nam Tan Uyen 3**



Source: namtanuyen.com.vn

**Fig 8. GVR – Hiep Thanh 1**

Phase 1 of the investment project for the construction and usage of Hiep Thanh Industrial Park's infrastructure covers an area of over 494 ha with a total investment capital of VND2,350 billion.

The project was approved for investment and also approved GVR as the investor on April 3, 2024. It is anticipated to start leasing from 2025.



Source: Vietnam Rubber Group

Table 9. GVR – Projects in 2024–2026

Project	Investor	Location	Scale (ha)	GVR's ownership	Progress
Nam Tan Uyen 3	Nam Tan Uyen JSC (NTC)	Binh Duong	344	42%	Received investment approval and land allocation decision
Rach Bap IP Phase 2	An Dien Industrial JSC	Binh Duong	360	93%	Awaiting land use fee determination
Tan Lap IP	Phuoc Hoa Rubber (PHR, 51%), Kaiser Furniture 49%	Binh Duong	400	34%	Appraised by the Ministry of Planning and Investment and submitted to the Prime Minister
Minh Hung III IP expansion	Binh Long Rubber IP JSC	Binh Phuoc	577	55%	The pre-feasibility report has been completed and submitted to the Ministry of Planning and Investment.
Bac Dong Phu IP expansion	Bac Dong Phu IP JSC	Binh Phuoc	317	45%	Appraised by the Ministry of Planning and Investment and submitted to the Prime Minister
Nam Dong Phu IP expansion	Dong Phu Infrastructure And Real Estate Business Investment JSC	Binh Phuoc	480	45%	
Hiep Thanh 1	Vietnam Rubber Group (GVR)	Tay Ninh	495	85%	Received investment approval in early March 2024

Source: Vietnam Rubber Group, KB Securities Vietnam

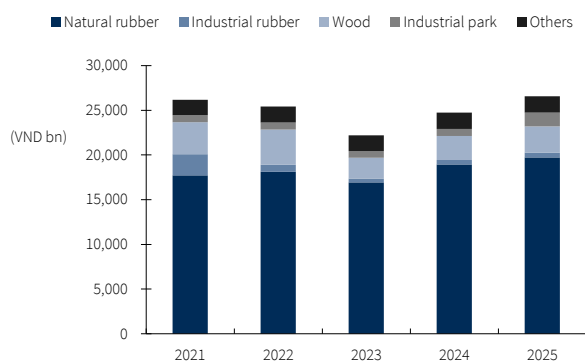
## Forecast & Valuation

Table 10. GVR – 2023A–2024F business results

(VNDbn)	2023A	2024F	+/-% YoY	KBSV's comments
<b>Doanh thu</b>	<b>22,080</b>	<b>24,747</b>	<b>12%</b>	
-Rubber latex	16,933	18,942	12%	Rubber production in 2024 is expected to recover, up 1% YoY. The average rubber price in 2024 is forecast to increase by 7% YoY.
-Rubber-based products	428	492	15%	A slight recovery is expected in 2024, helped by (1) increased demand for tires and inner tubes and (2) rising rubber prices.
-Wood processing	2,319	2,680	16%	Production and prices of wood and wood products should remain low in the first half of 2024 and improve slightly at the end of the year. Wood export volume is set to increase.
-Industrial park leasing	784	789	1%	
Gross profit	4,749	5,870	24%	
Gross profit margin	22%	24%		Gross margin is projected to increase on improved gross margins of rubber and wood segments thanks to higher selling prices.
Financial income	1,186	1,208	2%	Driven by increased deposit interest
Financial expenses	530	434	-18%	
SG&A	2,460	2,598	6%	
SG&A/Revenue	10%	11%		
Other income	1,380	1,344	-3%	
Shared profit from associates	-201	282		MDF-Donghwa is expected to turn profitable. Profit from NTC should increase after NTC3 is put into operation.
PBT	4,124	5,672	38%	
<b>NPAT</b>	<b>3,370</b>	<b>4,707</b>	<b>40%</b>	

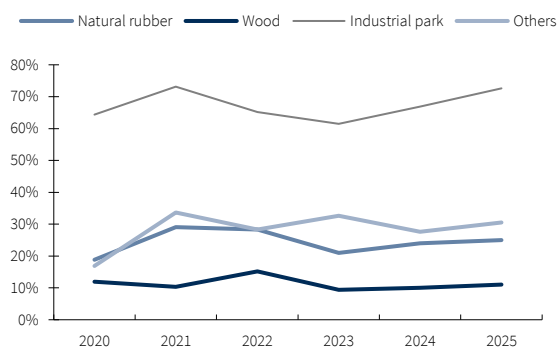
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 11. GVR – 2021A–2025F revenue breakdown (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 12. GVR – GPM of business segments (%)



Source: Vietnam Rubber Group, KB Securities Vietnam

**We recommend HOLD for GVR with a target price of VND35,000/share**

We employ the Sum-of-the-Parts (SOTP) valuation method to assess GVR's business segments: (1) rubber and wood, (2) industrial parks, and (3) others. Specifically:

- For the IP segment: we utilize the revalued net asset value (RNAV) method to revalue GVR's industrial park projects based on potential lease areas.
- For the rubber & wood segments: we use the discounted cash flow (DCF) method over a 5-year period, given its stable cash flows.

The target price for GVR is VND35,000/share, corresponding to a potential upside of 7.5% compared to the closing price of VND32,550/share on March 19, 2024, based on:

- The average rubber price in 2024 is projected to increase by 7% YoY, production should improve by 1-2%, and stable procurement volumes. Gross margin of the rubber latex segment should increase from 21% in 2023 to 24% in 2024.
- For rubber-based products, revenue from rubber gloves is expected to remain stable, while revenue from other products is projected to increase by 15%.
- NTC3 is expected to complete land use fee payments this year and may contribute to GVR's business results from the end of 2024 with an average price of USD140/m<sup>2</sup>/leasing cycle. Hiep Thanh 1 should be leasable from 2025 at a rate of USD100/m<sup>2</sup>/leasing cycle. Rach Bap IP Phase 2, Bac Dong Phu IP expansion, and Nam Dong Phu IP expansion are expected to start contributing to GVR's business results from 2026 with relatively rapid occupancy rates due to tight supply and a consistently high absorption rate of industrial land in the southern region.

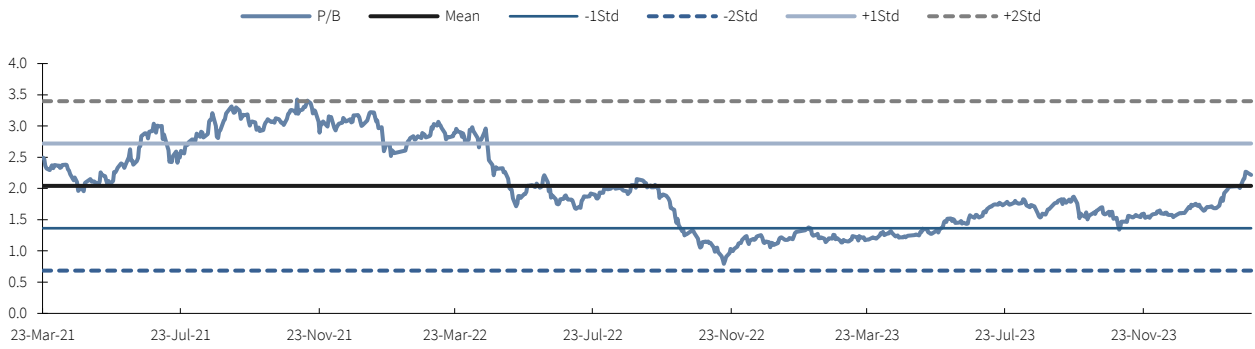
**Table 13. GVR – Valuation results**

	Valuation method	Value (VNDbn)
Rubber & wood	DCF	82,427
Industrial parks	RNAV	43,146
Others	Book value	3,850
Cash, equivalents, short-term investments		16,905
Total debt		6,579
<b>Enterprise value</b>		<b>139,749</b>
Outstanding shares		4,000
<b>Target price</b>		<b>35,000</b>
Current price		32,550
<b>Total shareholder return</b>		<b>7.5%</b>

Source: Vietnam Rubber Group, KB Securities Vietnam



Fig 14. GVR – Historical P/B in 2021–2024 (x)



Source: Bloomberg, KB Securities Vietnam



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

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

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

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