

Vietnam Rubber (GVR)

Expecting a rebound in rubber segment in 2H23

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Analyst Nguyen Ngoc Anh
anhntn@kbsec.com.vn

GVR's 2Q NPAT reached VND717 billion (-40% YoY) on revenue of VND4,272 billion (-23% YoY)

In 2Q23, GVR's NPAT hit VND717 billion (-40% YoY) on revenue of VND4,272 billion (-23% YoY). Of that, revenue from wood processing reached VND544 billion, recording the largest decrease (-53% YoY). The core segment, rubber, also posted a slight fall of 3% YoY in revenue to VND3,129 billion. In 1H23, GVR respectively reached 30% of revenue and 43% of profit targets for 2023.

GVR rubber segment is expected to recover in 2H23

We expect GVR's rubber business to rebound, based on (1) the recovery of rubber demand from major markets, especially China as the world rubber demand in 2023 is forecast to increase by 14% and (2) increasing rubber prices thanks to higher demand and oil prices.

Nam Tan Uyen 3 is the driving force for GVR's industrial park growth in the short and medium term

Nam Tan Uyen 3, the industrial park located in the key economic zone of Binh Duong, was allocated land at the end of last May. This has created growth potential in the short and medium term for GVR. The industrial park should contribute to GVR's business results from 2024.

GVR is accelerating the progress for eight industrial park projects

From now until 2025, the rubber group sets a goal of converting at least 2,900 ha of land to industrial parks. Due to the complex and prolonged legal process, GVR focuses its efforts on speeding up the progress of eight industrial parks which should start operating between 2024 and 2026.

BUY recommendation – target price VND26,700/share

We recommend BUY for GVR stock with the target price of VND26,700/share, 17.6% higher than the closing price on September 12, 2023.

Buy maintain

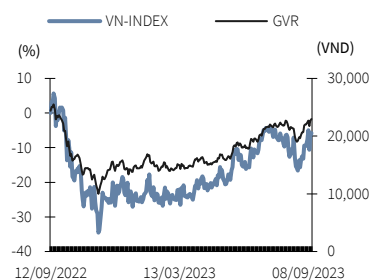
Target price	VND26,700
Upside	17.6%
Current price (Sep 12, 2023)	22,700
Consensus target price	24,850
Market cap (VNDbn/USDbn)	90,800/3.76

Trading data	
Free float	3.2%
3M avg trading value (VNDbn, USDbn)	65,355/2.71
Foreign ownership	0.49
Major shareholder	Committee for Management of State Capital at Enterprises (96.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	9	25	54	-6
Relative	8	13	34	-6

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	26,190	25,426	21,555	22,761
EBIT (VNDbn)	5,785	4,381	3,701	4,603
NPAT of parent company (VNDbn)	4,158	3,839	2,820	3,484
EPS (VND)	1,040	807	705	871
EPS growth (%)	10%	-22%	-13%	24%
P/E (x)	13.3	28.1	32.2	26.1
P/B (x)	2.8	1.0	1.9	1.7
ROE (%)	10.3%	8.9%	6.1%	7.1%
Dividend yield (%)	0.1%	0.1%	0	0



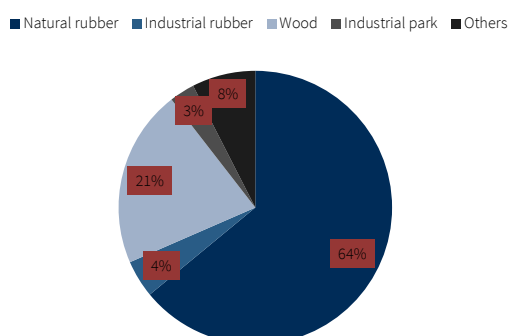
1H23 performance updates

Table 1. GVR – Updated results

	1H22	1H23	+/-% YoY	KBSV's notes
Revenue (VNDbn)	10,455	8,293	-20.7%	GVR reached 30% of planned revenue set for 2023 (VND27,527 billion).
-Latex	6,694	5,934	-11.4%	Despite higher output, revenue declined. Although the average rubber price in 1H23 has partially recovered from the bottom at the end of October 2022, it is still 20% lower than the average rubber price in the first half of 2022.
-Rubber industry	464	187	-59.7%	The demand for rubber products weakened, rubber prices dropped sharply, especially for rubber gloves.
-Wood and wood products	2,199	1,124	-48.9%	The plunge in revenue was attributable to (1) tightening consumption from inflation in Vietnam's main forest product importing countries and (2) trade defense instruments from Japan, Germany, and the US against wood products from Vietnam.
-Real estate/Infrastructure	312	267	-14.5%	
Gross profit (VNDbn)	2,941	1,912	-35%	
Gross profit margin (%)	28.1%	23%	-5.1 ppts	As the prices of rubber latex decreased YoY, the prices of industrial rubber and wood products plunged despite the increase in many input material costs.
Financial income (VNDbn)	417	550	+31.9%	The increase was mainly attributable to interest on deposits and loans increasing from VND306 billion to VND452 billion.
Financial expenses (VNDbn)	314	282	-10.2%	
SG&A (VNDbn)	987	964	-2.3%	
SG&A/Revenue ratio (%)	9.4%	11.6%	+3.2 ppts	
Other incomes (VNDbn)	822	724	-12%	The decrease was due to a decrease in two main contributions: (1) income from liquidation of rubber trees decreased by 10% YoY (from VND407 billion to VND366 billion); and (2) income from compensation decreased by nearly 30% YoY (from VND310 billion to VND219 billion).
Profit/loss from joint venture companies (VNDbn)	123	-18	-115%	Profit write-downs were mainly due to the decrease in profits from VRG – Donghwa MDF Wood JSC (from a profit of nearly VND122 billion in 1H22 to a loss of more than VND11 billion in 1H23).
Profit before taxes (VNDbn)	2,897	1,830	-36.8%	
Profit after taxes (VNDbn)	2,493	1,460	-41.4%	GVR completed 42.9% of 2023 NPAT objective (VND4,264 billion).

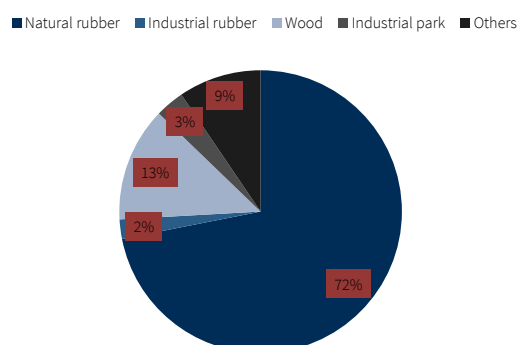
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 2. GVR – 1H22 revenue structure



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 3. GVR – 1H23 revenue structure



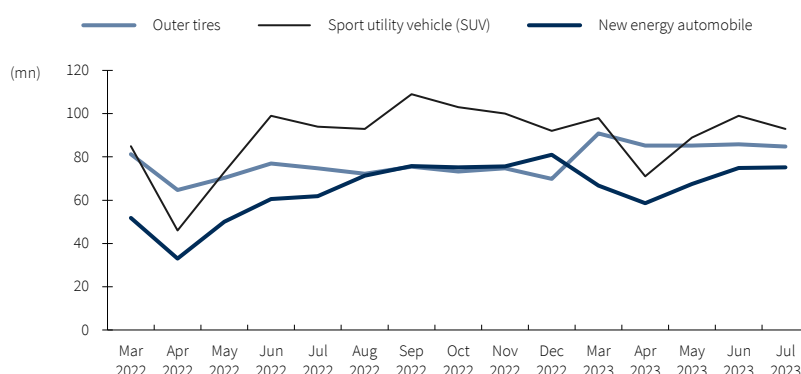
Source: Vietnam Rubber Group, KB Securities Vietnam

Rubber output is expected to continue the slight increase of recent months thanks to demand recovery

Currently, China has many policies to promote the electric vehicle industry, positively affecting rubber demand in this country. China's tire and tube exports have maintained a strong increase in both output and price since the beginning of the year

We expect demand for natural rubber and rubber products, especially automobile tires and tubes, to significantly recover from 1H23. According to the Association of Natural Rubber Producing Countries, the demand for rubber in 2023 is forecast to increase by 14.6% to VND14.7 million, while the output is expected to increase by just over 2.5% to 14,693 million tons. With demand recovery from major markets, GVR's rubber consumption is expected to increase slightly compared to 2022, reaching more than 502 thousand tons.

Fig 4. China - The output of tires, electric vehicles and SUV (million)

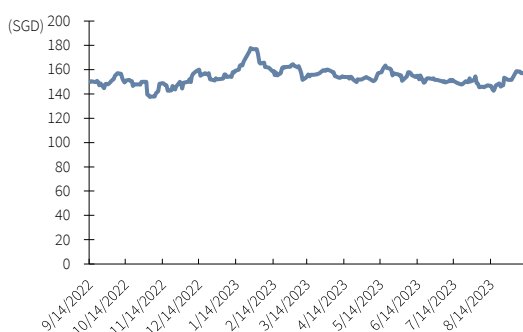


Source: Bloomberg

Rubber prices are expected to increase by 5~7% compared to the average price from the beginning of the year

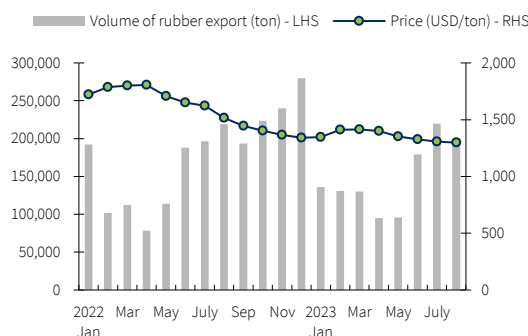
World rubber prices have been rising since mid-August and currently been at their highest level since early February. The strong recovery of rubber prices is strongly influenced by expectations of improved rubber demand from China. In addition, oil prices are maintained at high levels, which also contributes to the continuous increase in rubber prices recently (oil is an input material to produce artificial rubber, a substitute product for natural rubber). According to Trading Economics, rubber prices should continue to increase to 145.46 US cents/kg by the end of this quarter and may gain 5% in the next 12 months. We expect GVR's rubber prices will also increase by 5~7% compared to the average price from the beginning of the year, following the increase in world rubber prices, although they are still lower than the average rubber price in 2022.

Fig 5. Global - Rubber prices (SDG/00 kg)



Source: Investing.com, KB Securities Vietnam

Fig 6. Vietnam - Rubber output & prices (ton, USD/ton)



Source: Ministry of Industry & Trade, KB Securities Vietnam

Profits from the wood segment may stay low until the end of the year due to falling demand

The wood industry is expected to continue to face difficulties until the end of this year. Currently, wood businesses are facing a scarcity of orders. In 8M23, the turnover of wood and wood products only reached USD8.3 billion, down 26% YoY. Export turnover to all major markets in the United States, Japan, China, EU and Korea decreased sharply due to (1) consumers tightening spending due to the impact of economic instability and (2) many new barriers in export markets, especially the EU. GVR's wood segment profits may not be able to improve in the last months of the year due to general difficulties of the industry, including (1) low probability of demand recovery in the main markets due to the lack of new motivation and (2) the continued declines in world wood prices until early 2024.

GVR is actively accelerating the progress of ongoing industrial park projects, expecting to be able to put six to eight more industrial parks into operation from now to 2026

Owning a land area of up to 290,000 ha in Vietnam, GVR holds a great potential for long-term industrial park development as the strategy of converting rubber plantations to industrial park land can benefit from plantations' prime location and convenience in land clearance.

However, due to the complexity of legal procedures for industrial park approval, only a few projects have progressed in 2023, even though the GVR plan set for the period 2020 – 2025 is to convert 7,000–8,000 ha of rubber plantations into industrial land. Currently, besides Nam Tan Uyen 3, which has recently been allocated land, GVR is also focusing on completing procedures for the projects Tan Lap 1, Nam Dong Phu, and North Dong Phu. These should be approved in the 2024–2026 period.

Table 7. GVR – Main projects in 2023–2025

Project	Developer	Location	Scale (ha)	Ownership	Progress
Nam Tan Uyen 3	NTC	Binh Duong	344	42%	Investment policy has been approved, and land allocation decision has been made
Rach Bap Phase 2	An Dien Industrial JSC	Binh Duong	360	93%	Appraised by the Ministry of Planning and Investment and presented to the Prime Minister
Tan Lap	PHR 51%, Kaiser Furniture 49%	Binh Duong	400	34%	
Minh Hung III Expansion	Binh Long Rubber Industrial Park JSC	Binh Phuoc	577	55%	The prefeasibility report has been completed and submitted to the Ministry of Planning and Investment
Bac Dong Phu Expansion	Bac Dong Phu Industrial Park JSC	Binh Phuoc	317	45%	Appraised by the Ministry of Planning and Investment and presented to the Prime Minister
Nam Dong Phu Expansion	Dong Phu Infrastructure & Real Estate JSC	Binh Phuoc	480	45%	
Hiep Thanh 1	GVR	Tay Ninh	495	85%	Appraised by the Ministry of Planning and Investment and presented to the Prime Minister

Source: Vietnam Rubber Group, KB Securities Vietnam

Nam Tan Uyen 3 can be available for lease and become profitable from 2024

Currently, most of GVR's existing industrial parks have reached the maximum occupancy rate, and new clean land banks have not been added in recent years due to legal problems. Nam Tan Uyen 3's land allocation last May brought short and medium-term growth prospects for GVR's industrial park segment. The Management of Nam Tan Uyen plans to focus on working with the competent authority of Binh Duong province so that Nam Tan Uyen 3 will soon be granted a land use right certificate and quickly implemented.

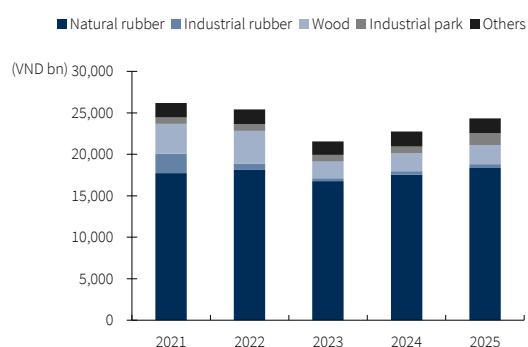
Forecast & valuation

Table 9. GVR – 2023F results

	2022	2023F	+/-% YoY	KBSV's notes
Revenue (VNDbn)	25,425	21,555	-15.2%	GVR should reach 78.3% of 2023 planned revenue (VND27,527 billion).
-Latex	18,109	16,751	-7.5%	Rubber output is expected to increase slightly compared to recovering demand. Rubber prices should rise until the end of the year. However, the average price in 2023 may be 9% lower than that in 2022.
-Rubber industry	790	364	-53.9%	Continued negative growth comes from the decline in rubber glove output.
-Wood and wood products	3,930	2,008	-48.9%	Output and prices of wood and wood products may plunge due to reduced demand.
-Real estate/Infrastructure	802	817	1.9%	
Gross profit (VNDbn)	6,342	5,553	-12.4%	
Gross profit margin (%)	25%	25%		Gross margin maintained despite the increase in input material prices because we expect the rubber industry segment to bring profit again instead of recording a loss of more than VND900 billion as in 2022.
Financial income (VNDbn)	885	1,265	42.9%	Financial income should gain thanks to increased interests from deposits.
Financial expenses (VNDbn)	696	774	11.2%	
SG&A (VNDbn)	2,354	2,371	0.7%	
SG&A/Revenue ratio (%)	9.3%	11%	1.7ppts	
Other incomes (VNDbn)	1,321	557	-57.8%	Other incomes may decrease due to a sharp decrease in income from land compensation compared to 2022.
Profit/loss from joint venture companies (VNDbn)	204	28	-86.3%	The negative growth mainly comes from the declining business results of rubber product companies, many wood companies are expected to record losses in 2023.
Profit before taxes (VNDbn)	5,702	4,258	-25.3%	
Profit after taxes (VNDbn)	4,753	3,492	-26.5%	GVR should achieve 72.2% of 2023 planned NPAT (VND4,832 billion).

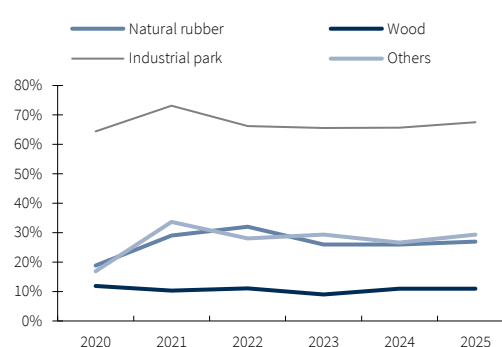
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 10. GVR – Forecast revenue structure



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 11. GVR – Estimated GPM of business segments



Source: Vietnam Rubber Group, KB Securities Vietnam

**Valuation: BUY recommendation –
Target price VND26,700/share**

We use SOTP to value GVR with three main valuation segments: (1) rubber and wood, (2) industrial parks and (3) other business segments. The target price for GVR is VND26,700/share, corresponding to a potential upside of 17.6% compared to the closing price of VND22,700/share on September 12, 2023. The main assumptions are as follows:

- Rubber prices in 2023 may drop 9% compared to the average in 2022 although it is expected to recover slightly from now until the end of the year. Exploitation output should be flat, purchasing output will increase by 5,000 tons, and consumption output will increase slightly to more than 502 thousand tons. Gross profit margin of latex exploitation segment decreases from 32% in 2022 to 26% in 2023.
- Regarding the rubber industry, revenue from rubber gloves should fall by up to 84%, and revenue from other products may also decrease sharply by 75%.
- Nam Tan Uyen 3 should complete procedures this year and can contribute to GVR's business results from 2024. Rach Bap Industrial Parks Phase 2, North Dong Phu Expansion, Nam Dong Phu Expansion, and Hiep Thanh 1 will begin to contribute to GVR's business results from 2025 with quickly increasing occupancy rate as the supply of industrial land is still low, and the absorption rate of industrial park land in the South remains high.

Table 12. GVR – Final valuation

Pricing parts	Method	Value (VNDbn)
Rubber and wood	DCF	65,793
Industrial parks	RNAV	28,875
Others	BV	4,565
Cash, cash equivalents and short-term investments		14,590
Debts		7,066
Equity value		106,757
Number of outstanding shares		4,000
The target price		26,700
Current price		22,700
Potential upside		17.6%

Source: KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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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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