COMPANY REPORT

KB Securities VIETNAM

Vietnam Rubber (GVR)

Positive outlook thanks to large landbank

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Hold recommendation with a target price of VND35,700

We recommend HOLDING Vietnam Rubber Group (GVR) shares with a target price of VND35,700 per share, upside 5.9% based on SOTP valuation for the group's wood, rubber, industrial zones and other business segments.

The gross profit of natural rubber segment may grow 71.4% in 2021 thanks to high rubber prices

The rubber segment's gross margin should surge from 18.8% to 23.3% in 2021 as rubber prices rose 29.1% to USD1,653/ton. In the period 2021-2025, GVR's gross margin should be high at 22.8% thanks to the development of intensive farming. This farming method helps to minimize the cost of capital by reducing the area of rubber plantation but still achieving average output CAGR of 4.13%.

GVR plans to raise the industrial landbank to 26,000 ha in the next 15 years

A new strategy proposed in the annual meeting said every 100,000 ha of rubber plantation reduced would include 20,000 ha for industrial park development and 40,000 ha for infrastructure conversion. GVR expects to expand its landbank to 26,000 ha, 2.5 times larger than Becamex's (BCM), the largest industrial park in Vietnam. Given infrastructure conversion fee up to VND0.6 billion/ha, GVR may gain benefits of compensated 40,000 ha land in the coming years.

Industrial rubber and wood segments will grow thanks to M&As

The industrial and wood segments should achieve CAGR of 17.5% and 10% respectively in 2021-2025. We expect GVR's industrial rubber segment to grow strongly after the plan to double the glove capacity to 5 billion units/year and the M&A with Vinachem to link the tire value chain. Although the wood segment has reached 100% of capacity, it is still very potential, so the Management plans to carry out M&As to further increase the capacity of this segment.

Hold initial

Target price	VND35,700
Upside/downside	5.9%
Current price (Aug 4, 2021)	VND33,700
Consensus target price	VND30,200
Market cap (VNDbn)	134,600

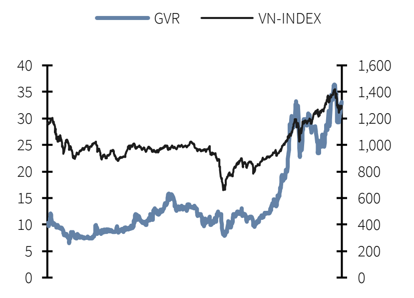
Trading data	
Free float (%)	3.21%
3M avg trading value (VND bn/USDmn)	151
Foreign ownership (%)	0.66%
Sate shareholder (CMSC)	96.77%

Share price performance

(%)	1M	3M	6M	12M
Absolute	3.65%	-8.54%	26.8%	218.54%
Relative	-1.23%	-9.08%	29%	61%

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net sales (VNDbn)	19,804	21,116	27,439	28,882
Earnings/loss (VNDbn)	2,565	2,382	3,890	4,077
Post-tax profit (VNDbn)	3,833	5,076	5,730	6,182
EPS (VND)	813	943	1,217	1,311
P/E (x)	13.05	31.77	27.5	25.5
P/B (x)	0.91	2.52	2.63	2.45
ROE (%)	7.7%	10.0%	10.6%	9.6%
Dividend yield (%)	2.96%	2.34%	1.8%	1.8%



Source: Bloomberg, KBSV

Overview

GVR was listed in 2018 with a charter capital of VND40 trillion and market capitalization of VND135 trillion

GVR was established in 1975 and officially listed on the stock exchange in 2Q18 after the Government's approval and an initial public offering. The Commission for the Management of State Capital at Enterprises (CMSC) currently holds 96.8% of GVR's capital. GVR operates three main business lines: rubber, wood and industrial park. The company leads the market share with 30% of the country's rubber output, 28% of total wood output. It expects to become the leading industrial park developer with 26,000 ha of land in the next 15 years.

92.8% of GVR's gross profit was from three core business segments: rubber, wood and industrial park

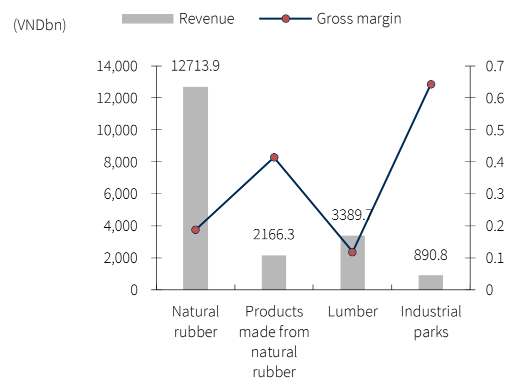
The proportions of gross profit of three business segments – rubber, wood and industrial park are 71.6%, 8.8% and 12.5%, respectively. The rubber segment will still be the main profit earner in the coming years, but its proportion may gradually decrease as the Management focuses on the other two segments which have higher growth rates. Non-core businesses are expected to account for an even smaller proportion after GVR's divestment.

Table 1. GVR – Core business fields

Segment	Products	Applications	Customers	Market cap	Revenue composition	Gross profit composition
Natural rubber	SVR 10,20	Mixing with RSS for tires, combining grades from Latex to create General Purpose products	Goodyear Bridgestone Michelin Yokohama	35%	60.20%	64%
	SVR L, 3L, 5, 5S	Tires, toys, rubber floats				
	SVR CV50,60	Elastic bands, glue, tire sidewalls, table tennis rackets				
	SVR L, 3L, 5, 5S	Guts, tires, toys, rubber floats				
Rubber products	SVR CV50,60	Elastic bands, glue, tire sidewalls, table tennis rackets	Kumho Sailun	30%	10.3%	19.6%
	RSS	Tires & Instruments, Tread Carcass, Off road tires & ADV tires, Extrusions, Footwear		N/A		
Industrial rubber	Khai Hoan medical gloves	Restaurant, medical, hotel Cars, sports, outdoor activities Furniture, wood products	N/A N/A	30% N/A N/A	10.30% 16.10%	19.60% 8.80%
	VRG tires, conveyor chains, sports balls					
Lumber	Wood billet	Furniture, wood products	N/A	N/A	16.1%	8.8%
	Wood laminated panels					
	Refined woods					
	MDF – MDB					
Industrial parks	Refined wood	Workshop and factory for rent	N/A	N/A	4.2%	12.5%
Other industries	MDF – MFB	N/A	N/A	N/A	9.1%	6.7%

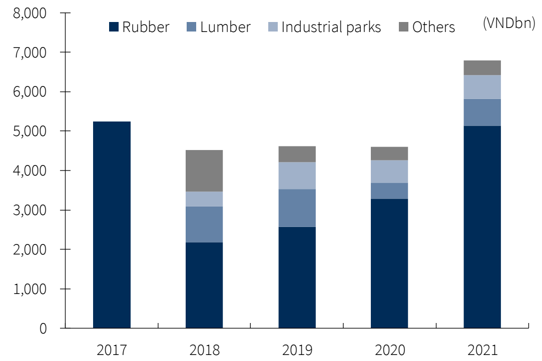
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 1. GVR – Revenue and gross profit in 2020 (VNDbn, %)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 2. GVR – Gross profit structure over the years (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

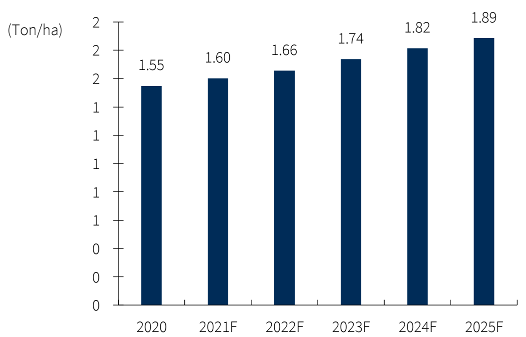
GVR is the leading enterprise in the rubber industry with a planting area of 402,000 ha

GVR is one of the leading rubber companies in Vietnam. The land area for rubber business is 240,004 ha out of the company's total 402,000 ha. Meanwhile the rubber planting areas in Vietnam, Laos and Cambodia are 288,100 ha (29.7% of Vietnam's rubber area), 87,000 ha and 30,000 ha respectively. In 2020, GVR exploited 369,731 tons of rubber, equivalent to a yield of 1.56 tons/ha – lower than the industry average of 1.68 tons/ha. Lower productivity maybe because GVR's rubber plantation in Cambodia and Laos are new (with the yields of only 1.42 tons/ha and 1.23 tons/ha). In 2021, GVR's rubber output in Cambodia is forecast to reach 100,700 tons, up 14,000 tons YoY. GVR is also the enterprise that contributes the most to exports with a proportion of up to 35% of the value.

GVR is one of the leading industrial rubber manufacturers with a medical glove market share of 30%

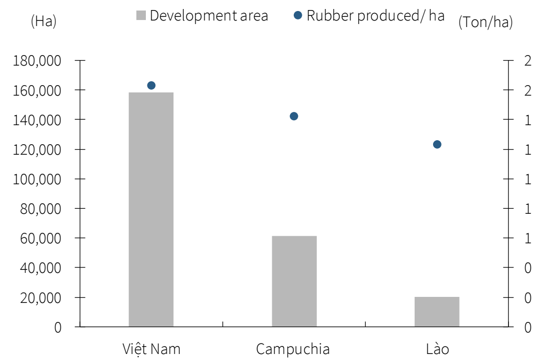
In the period of 2020 – 2021, GVR's glove factories have operated at 100% capacity and made 2.64 billion medical gloves (more than the design capacity of 2.5 billion gloves each year). As the global demand for gloves has not yet been fully met and the group has received enough orders until 2022, the glove segment is expected to double its capacity in 4Q21. A subsidiary VRG Khai Hoan brought VND1,839 billion out of the total industrial rubber revenue of VND2,689 billion.

Fig 3. GVR – Rubber planting yield (ton/ha)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 4. GVR – Rubber trading area and rubber output (ha, ton/ha)

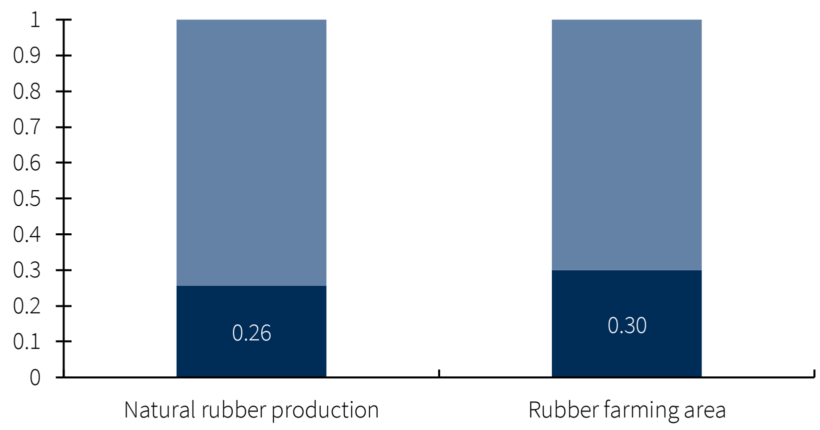


Source: Vietnam Rubber Group, KB Securities Vietnam

Leading in rubber production from wood thanks to the liquidated rubber area of up to 12,000 ha/year

GVR is also a leading wood processing enterprise thanks to its advantage in input materials. With an area of rubber liquidation from 10,000 to 12,000 ha per year, GVR can be self-sufficient in input materials for wood processing. GVR's products include billet wood, laminated wood, refined wood, and MDF – MFB. GVR currently owns 18 mills which have a total capacity of 1.1 million m^3 and an investment of VND4,575 billion. GVR ranks first in the MDF segment with more than 50% of the domestic market share. According to Forest Trend and Vietnam Timber & Forest Products Association (VIFORES), GVR's timber output and rubber area account for about 25.6% and 30% of the market.

Fig 5. GVR – Wood output and rubber planting area vs the whole country (%)



Source: Forest Trend, Vietnam Rubber Group

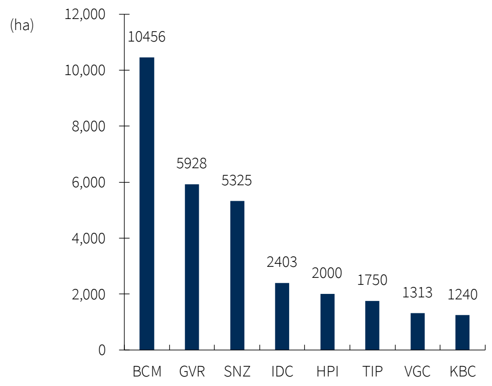
GVR owns the largest landbank for industrial park development

GVR currently manages 11 industrial park projects with a total area of 4,020 ha, mainly located in Southern industrial provinces like Binh Duong, Dong Nai, and Binh Phuoc. GVR's landbank ranks third in the country, after Sonadezi (SNZ) and BCM. However, we believe that GVR can become the largest industrial park owner in Vietnam as its landbank can grow up to 20,000 ha. GVR's industrial landbank is developed from rubber planting land, so the time and cost of land development is also optimized compared to farmland and residential land. In addition, the industrial park segment should also gain revenue via land transformation as GVR plans to convert 40,000 ha of land for infrastructure deployment in the next 15 years.

Earnings from the industrial park segment are not fully shown in gross profit

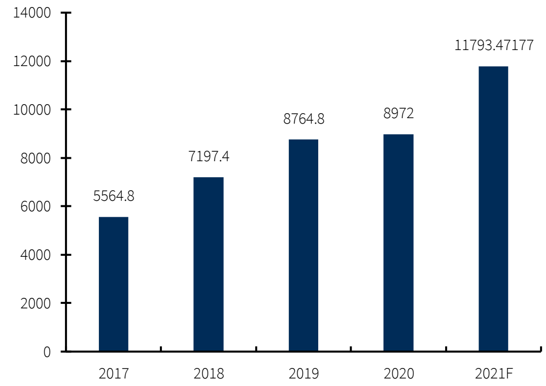
Due to GVR's method of recording revenue amortized over the lease period of the industrial park, the profit from industrial park leasing does not accurately reflect the cash flow brought from this segment. The item of unrealized revenue from real estate in 2017-2020 increased to VND3,407 billion. According to our estimates, the industrial park segment brought in VND5,800 billion for GVR in 2017-2020.

Fig 6. Industrial park developers – Current landbank (ha)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 7. GVR – Unrealized revenue from real estate (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

Table 2. GVR – Industrial parks

Industrial parks manage	Developers	Location	Ownership ratio	Year Built	Area (Ha)
Tan Binh	PHR	Binh Duong	59.60%	2012	353
Nam Tan Uyen	NTC	Binh Duong	42.30%	2004	352
Nam Tan Uyen 2	NTC	Binh Duong	42.30%	2010	289
Rach Bap	An Dien Industrial Jsc	Binh Duong	92.70%	2008	279
Ho Nai	HIZ	Dong Nai	38.20%	1998	497
Dau Giay	Dau Giay Industrial Park Jsc	Dong Nai	71.80%	2008	328
Long Khanh	Long Khanh Industrial Park Jsc	Dong Nai	75.70%	2008	264
Bau Xeo	BAX	Dong Nai	36.10%	2007	500
Minh Hung III	MH3	Binh Phuoc	55.40%	2008	294
Bac Dong Phu	Bac Dong Phu Industrial Park Jsc	Binh Phuoc	45.40%	2009	184
Cong Hoa	VRG	Hai Duong	56.70%	2008	700
Total					4,020

Source: Vietnam Rubber Group

Experienced management represent 96.8% of CMSC's capital at GVR

GVR's Management have many years of experience in the industry and are highly qualified. The board include seven members, of which five members represent 96.8% of the capital of the CMSC and two independent members.

Table 3. GVR – Management

Name	Position	Appointment time	Education	% of shares owned	% of representative shares
Management					
Tran Duc Thuan	Chairman of the Board	06/01/2018	Agricultural Mechanical Engineer	0.01%	31.80%
Pham Van Thanh	Member of the Board of Directors cum CEO	06/01/2018	Bachelor of Economics	0.00%	20.00%
Ha Van Khuong	Member of the Board of Directors	06/01/2018	Bachelor of Economics, Accounting	0.00%	15.00%
Nguyen Hay	Member of the Board of Directors	06/01/2018	Economic masters	0.00%	15.00%
Phan Manh Hung	Member of the Board of Directors	06/01/2018	Master of Agricultural Science	0.00%	15.00%
Board of Directors	Independent member of the Board of Directors	06/01/2018	Professor, Doctor of Mechanical – Electrical Engineering	0.00%	0.00%
Hyunh Van Bao	Independent member of the Board of Directors	06/01/2018	Bachelor of Business Administration, Bachelor of Literature	0.00%	0.00%
Truong Minh Trung					
Nguyen Tien Duc	Member of the Board of Directors cum CEO	06/01/2018	Bachelor of Economics in Agricultural Accounting	0.00%	20.00%
Tran Cong Kha	Deputy General Director	06/01/2018	Master of Business Administration	0.00%	0.00%
Le Thanh Ti	Deputy General Director	06/01/2018	University of Agriculture and Forestry of Rubber	0.00%	0.00%
Tran Thanh Phung	Deputy General Director	06/01/2018	Doctor of Economics	0.00%	0.00%
Le Thanh Hung	Deputy General Director	06/01/2018	Bachelor of Science and Technology	0.00%	0.00%
Tran Duc Thuan	Deputy General Director	06/01/2018	Master of Business Administration	0.00%	0.00%
Pham Van Thanh	Deputy General Director	06/01/2018	Economic masters	0.00%	0.00%
Total				0.02%	96.80%

Source: Vietnam Rubber Group

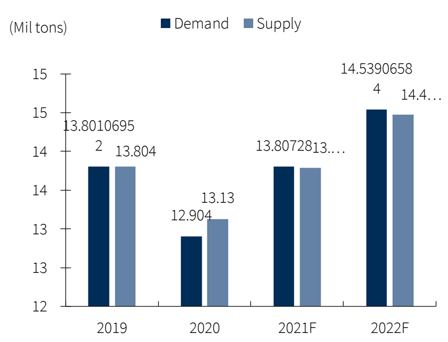
Business operations

Rubber market

Rubber demand grows again, making rubber prices surge 29.1% in 2021

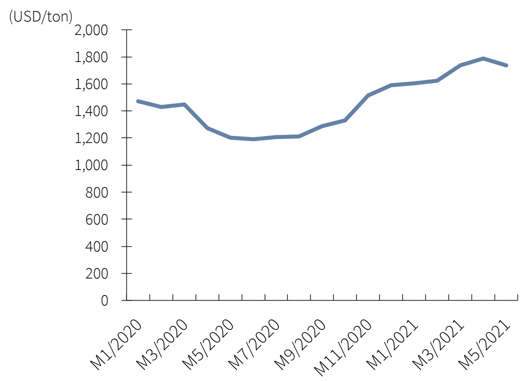
According to the International Rubber Study Group (IRSG), rubber consumption should grow 7% in 2021 and 5.3% in 2022. The high demand for rubber while the rubber planting area cannot be increased immediately leads to a temporary supply shortage, causing the prices of natural rubber to rise in the first six months of the year. The average rubber price of the first two quarters was USD1,692 billion per ton. The resurgence of the COVID-19 in some major rubber exporting countries such as Malaysia and Thailand also caused a global rubber shortage.

Fig 8. Global – Demand/output of natural rubber



Source: International Rubber Study Group, KB Securities Vietnam

Fig 9. Global – Natural rubber producing cost



Source: Vietnam Customs, KB Securities Vietnam

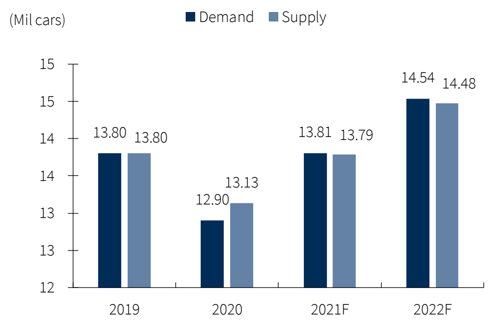
The recovery of car demand helps increase the prices of rubber

According to S&P Global Ratings, the demand for cars in 2021 may grow 9.1% from 77.2 million units to 84.2 million units. Currently, Vietnam's main rubber export market – China with a share of up to 64.2% – has shown signs of recovery in demand when the growth in car consumption is expected to reach 7% this year. China market will be the driving force for Vietnamese rubber export turnover.

Rubber gloves still have a supply deficit of 72 billion units

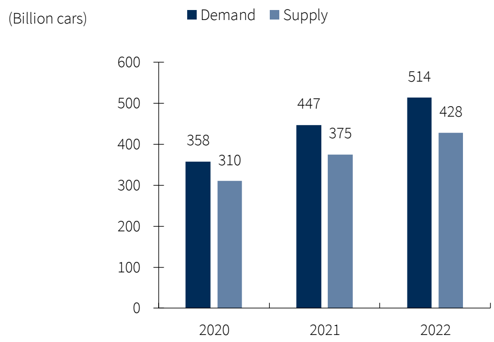
Malaysian RHB Bank (RHB) and Malaysian Rubber Glove Manufacturers Association (MARGMA) forecast the output of rubber gloves would only be 375 billion units a year while the current demand reaches 447 billion units. The COVID-19 led to an increase in demand for gloves in the food & beverage and aviation industries. We think this high demand will continue for another one or two years. In addition, high prices due to rising input prices and high demand will help to increase gross profit margin for businesses with closed glove production chain like GVR.

Fig 10. Global – Car demand (million units)



Source: International Rubber Study Group, KB Securities Vietnam

Fig 11. Global – Demand and supply of rubber gloves (billion units)



Source: RHB Research, MARGMA, rubber companies

GVR's competitiveness in the rubber industry

GVR still have room for growth thanks to the transformation into intensive farming

Currently, the average yield of GVR is only 1.55 tons/ha, lower than the national average of 1.67 tons/ha. Therefore, we expect that GVR still has the potential to improve production after converting to intensive farming, thereby bringing the productivity up to 1.89 tons/ha by 2025. With this expected capacity, GVR would become the company with largest scale and highest operational efficiency in Vietnam, while the national average productivity is only 1.67 tons/ha. According to the plan of the management, the output of natural rubber will reach 527,000 tons in 2025, corresponding to a CAGR of 4.13% in the period of 2021-2025. Therefore, although rubber cultivation area is expected to decrease by 100,000 ha in the next 15 years, GVR should maintain the industry average growth.

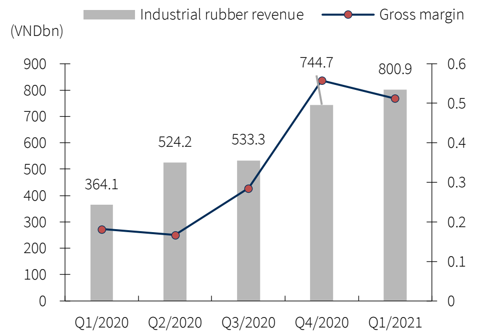
Profit of the rubber segment surged thanks to high demand for medical gloves

Currently, the glove segment has reached 100% capacity of 2.5 billion units, and GVR is building a new factory, which is expected to double its capacity by the end of this year. Due to the global shortage of glove supply and the ongoing COVID pandemic in many countries, we expect the demand for gloves to remain high in the next few years, and GVR can reach 100% capacity of 5 billion units per year as soon as the new factory comes into operation in 4Q this year. Other industrial products may grow slowly because GVR is planning to merge with Vinachem to create a self-contained tire chain.

The high season of rubber is usually in the last two quarters of the year

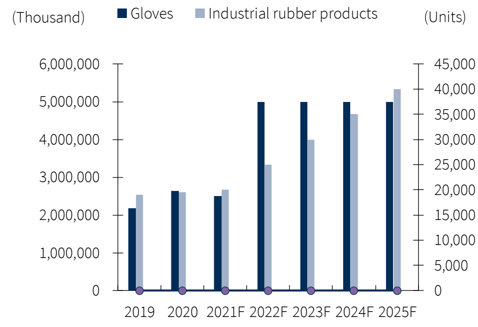
After five or six years of cultivation, rubber can be harvested. The harvesting cycle of the tree usually lasts for 20-25 years. Rubber trees are harvested for nine months, the remaining three months are not harvested. This is the time when rubber trees change leaves, exploitation will affect the physiology of the tree. Normally, the rubber tapping cycle starts in March and ends in January of the next year. Therefore, 1Q is usually the low season of GVR, while and 3Q and 4Q will be the main rubber tapping season. Rubber trees grow well in humid tropical areas (22°C to 30°C) and need a lot of rain (2,000 mm).

Fig 12. GVR – Revenue & GPM of industrial rubber (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 13. GVR – Gloves and industrial rubber products (units)



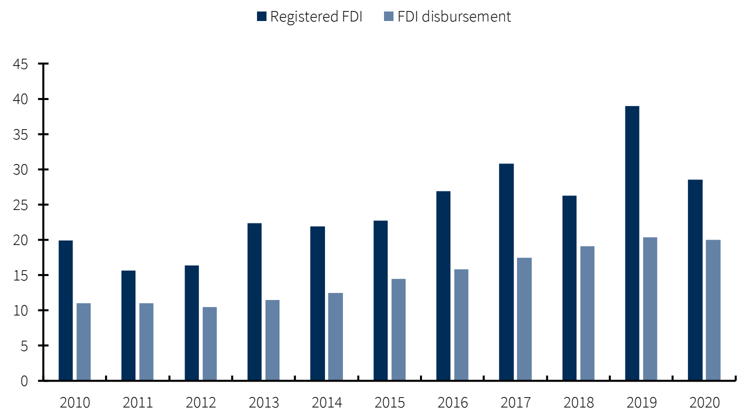
Source: Vietnam Rubber Group, KB Securities Vietnam

Industrial parks

FDI into Vietnam will continue to maintain a CAGR of 7% in 2021–2025

During 2011–2020, disbursed FDI had a CAGR of 6.15%, growing from USD11 billion to USD19.98 billion. We believe that in the coming period, FDI into Vietnam will maintain its growth momentum and make important contributions to Vietnam's industrial zones, based on the following observations: relocated supply chains, developing infrastructure, easing policies and trade agreements.

Fig 14. Vietnam – FDI inflows over the years (USDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

The trend of shifting the supply chain from China to Vietnam

The relocating trend of production bases from China to Vietnam started from 2015. Some reasons from China are: (1) Chinese labor costs three times higher than Vietnam (968 USD/month); (2) The US-China trade war encourages manufacturers to move production bases away from China; and (3) China's policies are aimed to increase the value chain and reduce environmental pollution. According to our research, many big manufacturers like Foxconn, LG, Samsung and Luxshare decided to relocate most of their manufacturing bases to Vietnam. While in the past, factories in Vietnam mainly operated as outsourced bases and contributed to the final segment of products, now companies put the entire production line in Vietnam. Samsung no longer has a TV manufacturing plant TV in China.

Table 4. Vietnam – List of companies tending to move their production bases to Vietnam

Company name	Industry	Location	Production	Investment scale	Transition state
Uniqlo	Textile	N/A	40% of products produced in Vietnam	N/A	Moved
Adidas	Textile	N/A	Outsourcing to Vietnam. Adidas footwear output from Vietnam reached 44% in 2017	N/A	Moved
LG	Electronics	Hai Phong	Electronics	2 billion USD	Moved
Samsung	Electronics	N/A	Moving TV factory from China to Vietnam	N/A	Moved
Foxconn	Electronics	Thanh Hoa	Producing Ipad and MacBook	700 million USD (1.5 billion USD invested)	Moving
Luxshare	Electronics	Bac Giang	Airpods manufacturing	40 million USD	Moved
Goertek	Electronics	Bac Ninh	Airpods manufacturing	260 million USD	Moved
Pegatron	Electronics	Hai Phong	Supplying components for Apple, Microsoft, Sony, Lenovo	500 million USD	Moving
Sharp	Electronics	Binh Duong	Air purifier, LCD	25 million USD	Moved
Kyocera	Electronics	Hai Phong	Multifunction printer and copie.	187.5 million USD	Moving

Source: Savills

Low costs attract foreign investors

Vietnam currently has the lowest labor cost in the region (USD252/m^2), less than a quarter of China's labor cost. Preferential electricity prices are USD0.08/kWh compared to China's USD0.10/kWh. The average rental price of Vietnamese industrial parks in the key economic areas (neighboring to Ho Chi Minh City) is USD103/m^2, only equal to the Southeast Asian region average of 52%, and the preferential corporate income tax is 20%. The advantage of low cost will help Vietnam become an investment attraction compared to other competitors.

Infrastructure develops rapidly thanks to new public investment policy – Law on Public Investment 2019 (No. 39)

Disbursed public investment spiked 44.3% from VND270,000 billion to VND390,000 billion in 2020, fulfilling 82.8% of the government's disbursement plan (the highest in the last five years). We believe that in the coming years, the disbursement rate will continue to be high (over 80%) thanks to changes in 2019 public investment law which requires localities and departments to disburse funds on schedule or their assigned fund will be deducted in the medium and long term. The promotion of infrastructure disbursement in typical projects such as Metro lines 1 & 2, Long Thanh airport, which concentrated in the Southern area, will create favorable conditions for industrial parks to raise prices and convert infrastructure land of GVR.

Tariff incentives and FTAs help to attract foreign capital to Vietnam

The industrial park segment is also promoted by preferential tariff policy, tax exemption for two years and 50% tax reduction for the next four years. Furthermore, the EVFTA and CPTPP and 15 other FTAs of Vietnam also serve as an incentive for Vietnam's industrial parks to grow.

The legal procedure to build an industrial park in Vietnam includes: (1) The industrial park project must be approved in the provincial planning and submitted to the government; (2) the license to establish the industrial park is approved by the local government; (3) the owner of rubber land converts the land to the developer of the industrial park; (4) the plan to convert highland land to industrial zones needs to be approved by local authorities; (5) the owner of rubber land returns the land to the local government; (6) the developer of the industrial park pays land compensation; and (7) local authorities would allow the industrial park developer to lease rubber cultivation land to build industrial parks.

Table 5. Neighboring countries – Industrial park development costs

Cost comparison of industrial manufacturing	Industrial Park rental price (USD/m2)	Production workers salary (USD/month)	Industrial electricity price (USD/Kwh)	CIT (%)
Vietnam	102	252	0.077	20%
Philippines	225	300	0.106	30%
Indonesia	198	198	0.072	25%
Malaysia	282	766	0.097	24%
Thailand	183	431	0.115	20%
China	175	968	0.103	25%

Source: KB Securities Vietnam estimates

Overview of domestic industrial zones by region: North, Central, and South

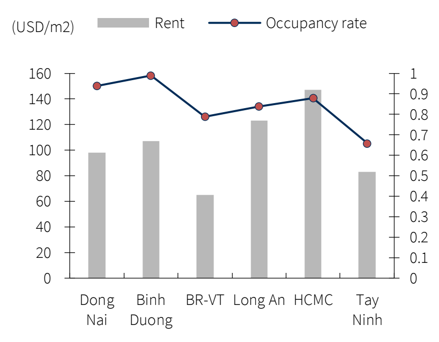
The key Southern industrial park cluster of the country is superior in rental price and scale

According to Jones Lang Lasalle, the rental prices in Southern industrial parks (USD104 a year on average) are much higher (>14.5%) than their North counterparts. The total area of the industrial parks in the South reached 43,482 ha (2.35 times the area of the North). The Southern region has the advantage of logistics. Cat Lai, Tan Cang Hiep Phuoc and Tan Cang Cai Mep terminals contribute 57% of the domestic market share.

Dong Nai and Binh Duong are the two leading provinces in the country in terms of size and occupancy rate

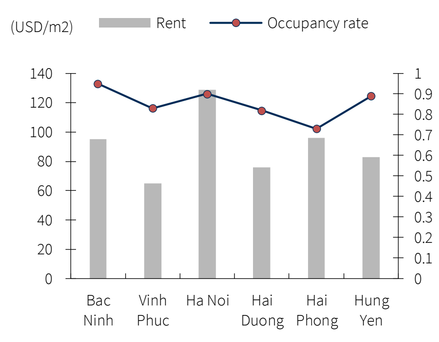
The top three provinces of Vietnam that own the largest rental area are Binh Duong, Dong Nai and Ba Ria – Vung Tau with an area of 10,159 ha, 10,066 ha and 9,327 ha, respectively, far larger than the fourthly ranked province – Long An with 5,837 ha. However, Binh Duong and Dong Nai have the advantage of high average occupancy rate (99% and 94% respect tively) compared to Ba Ria –Vung Tau (79%) and higher rental prices (USD107/m^2 and USD98/m^2) vs Ba Ria –Vung Tau (USD65/m^2). The highest occupancy rates in the country the higher-than-average rental prices show the attractiveness of these two provinces, ensuring that the supply of new land is always absorbed quickly.

Fig 16. Vietnam – Southern industrial parks



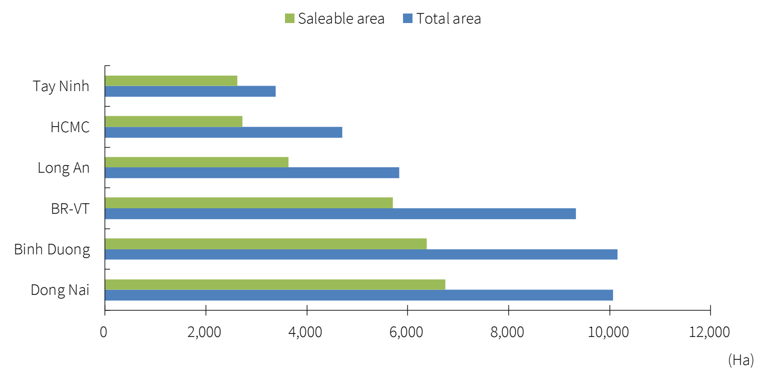
Source: Jones Lang Lasalle

Fig 17. Vietnam – Northern industrial parks



Source: Jones Lang Lasalle

Fig 18. Vietnam – The landbank of Southern provinces (ha)



Source: Jones Lang Lasalle

The new decree will improve the approval process and promote FDI into Vietnam

The new decree replacing Decree 82 with clearer and more detailed regulations helped industrial park developers and the People's Committees of provinces and cities to conduct a quick approval process. This is aimed at solving the current legal problems that delay the deployment of some key industrial parks in Binh Duong and Dong Nai, while their occupancy rates have reached over 95%. In general, the new draft will give the People's Committee more power to approve the project and allow developers to build the project as soon as it is approved (instead of having to wait for the completion of all legal procedures).

The COVID-19 adversely affects industrial parks in the short term may be undermined in the long term

The peaking Coronavirus infections in Ho Chi Minh City and neighboring provinces made it impossible for foreign developers to conduct surveys and carry out land leasing procedures with industrial parks in Vietnam. Registered capital reached USD16.7 billion in July, down 11% YoY. In the long-term, FDI inflows are likely to decrease unless the COVID-19 is not controlled soon. However, we are still optimistic about the industry outlook thanks to the plan to bring 110 million doses of COVID-19 vaccine to Vietnam and the long-term competitive advantage of Vietnam's industrial parks.

GVR's position in the industrial real estate industry

Large landbank in two provinces – Binh Duong and Dong Nai, which has a strong advantage over other regions

GVR's development plan for 20,000 ha of industrial land mainly focuses on two provinces, Binh Duong and Dong Nai. Industrial parks in Binh Duong and Dong Nai have superior advantages of geographical location and occupancy rates. They are close to the economic center and major ports, so the average rental price is higher than the average of USD103/m^2 (15.6% higher than the national average, excluding Hanoi and Ho Chi Minh City), and their occupancy rates are up to 97%, ranked top in the country. The two provinces are both in short supply of industrial land as the occupancy rates almost reach the maximum while the demand for renting is still increasing given FDI grows by 6.6% a year.

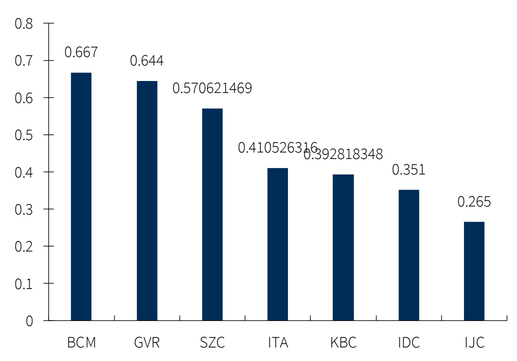
The rubber land clearing cost is only VND2.5 billion/ha – 10% of the selling price

In addition to the selling prices on the market, another factor that greatly affects the gross margin is the land clearing cost. Enterprises that have built-in land in the past or have land that is easy to convert - rubber tends to have high gross margin. Currently, GVR's compensation cost is estimated at VND2.5 billion/ha (equal to 10% of the market price). Lower-than-average cost help the business to have a higher gross profit margin.

GVR is the only enterprise in the industry that has a cash ratio of larger than debt, ensuring capital for project development

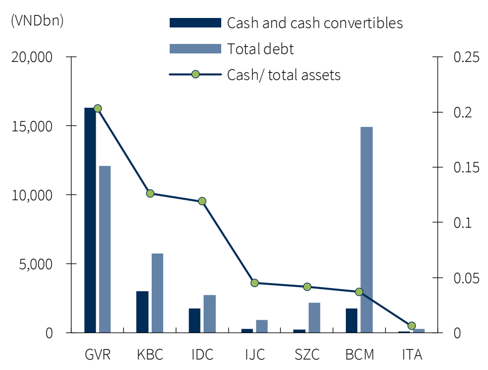
GVR currently has a cash ratio of up to 20.3% of total assets, which is also the highest in the industry and makes GVR the only enterprise to have a larger cash ratio than debt. With this outstanding advantage, GVR should not face any problem in raising capital while its closest competitor BCM has a fairly high debt ratio and is insufficient in cash flow for the plan of expanding industrial land by 2,000 ha in the next two years.

Fig 19. Vietnam – GPM of industrial parks (%)



Source: KB Securities Vietnam

Fig 20. Vietnam – Cash ratio of industrial parks



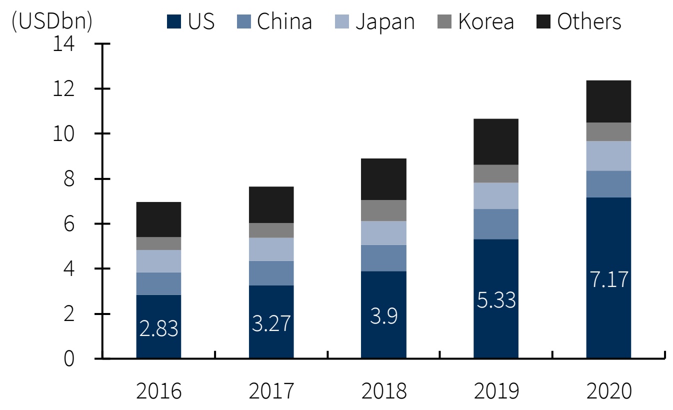
Source: KB Securities Vietnam

Wood market

The wood industry has grown steadily over the years and is expected to maintain the growth rate of 10% a year in the medium term

The export turnover of Vietnam's wood and wood products in 2016-2020 grew 15.4% per year on average. The main export markets of Vietnam's wood include: the US (58%), China (9.7%), Japan (10.4%), and South Korea (6.6%). The main growth driver of the wood industry still comes from the US market (40.6% in 2016 and 58% currently). The reasons for the increase in this market are: 1) the US-China trade war causes China to lose market share; 2) Vietnam has the advantage of low labor costs and more competitive goods prices compared to China.

Fig 21. Vietnam – Wood export turnover (USDbn)

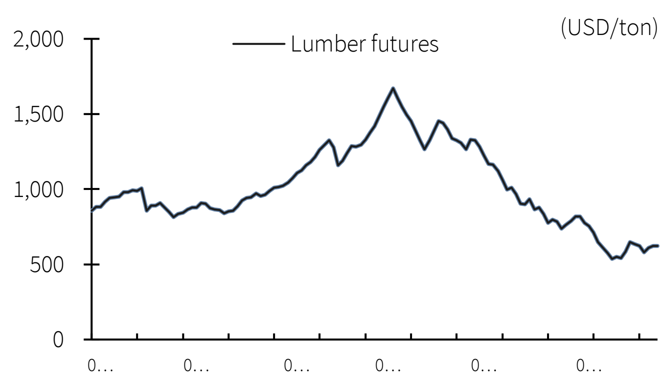


Source: Vietnam Customs, KB Securities Vietnam

The export value of wood and wood products reached USD8.1 billion, up 61%

Increasing global wood prices, especially the prices in the main export market – the US supports the growth of the wood industry. The US market witnessed a strong economic recovery (+7% in 2021) and a surge in house prices (+15.7% YoY in May), which is translated into higher wood prices. However, we believe that the current increase in wood prices will not be able to sustain in the second half of the year, when the wood prices in futures traded on the US NASDAQ plummeted from USD1670 to USD622.

Fig 22. US – Future wood prices on the NASDAQ exchange



Source: Vietnam Rubber Group, KB Securities Vietnam

The demand for wood grew again in 2021, helping revenue and gross profit to increase by 29.3% and 60.7% respectively

We believe that GVR's wood segment will bring in VND810 billion in gross profit on revenue of VND4,385 billion. GVR's gross margin is currently quite low at only 18.3% because the company focuses on selling wood billets and processed wood rather than selling high-end products.

Development orientation in the coming years will depend on M&A with enterprises in the same industry

GVR's wood supply comes from the annual liquidation of rubber trees which cover 10,000 – 12,000 ha of land. GVR has exploited almost 100% of the factory capacity (1.1 million/m^3) and fully utilized the liquidated rubber supply, so there is not much room for growth from the existing land. Therefore, the company will have to depend on the M&A with other companies.

Other business segments

Other business segments of GVR contribute 9.13% to total revenue and 6.67% of gross profit

GVR also provides hospitality and electricity and water services. However, the Management planned to divest from these business segments and focus on the best profitable segments which are industrial parks, wood and industrial rubber.

Profit from divestment should be VND2,853 billion

GVR plans to divest from non-core businesses such as hydropower and services. It also expects to reduce cross-ownership in subsidiaries in the same industry, including: 2% stake in Sai Gon VRG Investment (SIP), 20.4% stake in Nam Tan Uyen (NTC), and 15.1% stake in Viet Nam Rubber Industrial Zone and Urban Development (VRG). It would lower the ownership in Phuoc Hoa Rubber (PHR) and Dong Phu Rubber (DPR) to 51% and divest from five hydropower plants. According to our estimation, the current divestment portfolio will bring GVR VND2,853 billion in profit and VND3,793 billion in revenue. However, we believe that GVR will not divest from NTC and PHR (adding VND2,257 billion to divestment revenue) this year because these two companies still have room to grow thanks to their large landbank and regular dividend yield.

Table 6. GVR – Divestment plan

Divestment	Number of shares needed to divest	Current price (VND)	Investment value	Cost of capital (billion VND)	Expected profit
2% SIP	1,401,044	173,000	242.4	91	151.4
20.4% NTC	4,900,400	212,800	1,042.80	80	962.8
15.05% VRG	3,792,280	24,900	94.4	37.9	56.5
Reduce ownership in PHR from 66.62% to 51%	21,164,974	57,400	1,214.90	211.6	1,003.20
Reduce ownership in DPR from	1,930,002	62,000	119.7	19.3	100.4
Divestment from 5 hydropower plants	-	-	1,079	500	579
		Revenue	3,793.10	Profit	2,853.30

Source: Vietnam Rubber Group, KB Securities Vietnam

Business performance and financial health

1H21 revenue increased 76.8% YoY and pre-tax earnings rose 174.3% YoY

GVR recorded net revenue of VND10,545 billion in 1H21, up 76.8% YoY, mainly supported by natural rubber revenue of VND6015 billion (+98.5% YoY), industrial products of VND1,679 billion (+106.5% YoY), and wood segment of VND 1,966 billion (+46% YoY). Gross profit also improved significantly 28.6% to VND 3,025 billion (+85.8% YoY). Net revenue and gross profit strongly grew thanks to high selling prices (+27.2% YoY) while GVR did not have to bear much pressure from input materials as it has a closed-loop supply chain.

Revenue from industrial real estate decreased by 28.4% YoY

1H21 recorded and unrecorded revenue from the real estate segment reached VND488 billion, down 28.4% YoY. Currently, GVR has almost run out of industrial land for lease, so the revenue is still low. According to our forecast, GVR will probably record a part of revenue from Rach Bap Industrial Park expansion (360 ha) and Nam Tan Uyen 3 (NTC 3, 346 ha, invested by NTC) in the last quarter of 2021, thereby increasing industrial park segment revenue.

GVR paid VND2,066 billion of financial loans in 1H21, and financial loans tend to decrease

In the first half of the year, GVR paid VND2,066 billion of short- and long-term loans and financial leases, thereby raising the ratio of cash and cash equivalents to debt to 1.53 times. GVR is one of the companies with very little debt compared to its business potential, so we expect GVR to increase its dividend yield in the coming years. This year, the company's management planned to spend VND2,400 billion (6%) to pay dividends.

The ratio of debt to total assets tends to increase in the coming years

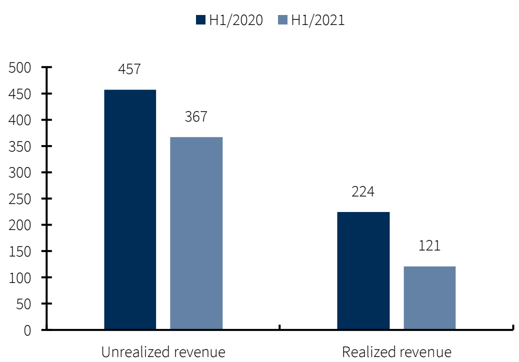
According to our forecast, GVR's debt to total assets ratio may rise from 35.9% in 2020 to 46.6% in 2025. However, we think this upward trend is quite healthy as it mainly arises from the long-term unrealized revenue items.

Table 7. GVR – 1H21 business performance

	H1 2020	H1 2021	%G YoY	% of 2021 guidance	% forecast by KBSV
Revenue (VNDbn)	5,965	10,545	76.8%	39.2%	38.4%
Profit before tax (VNDbn)	970	2,661	174.3%	46.5%	38.3%
Profit after tax (VNDbn)	842	2,376	182.2%	52.1%	41.5%

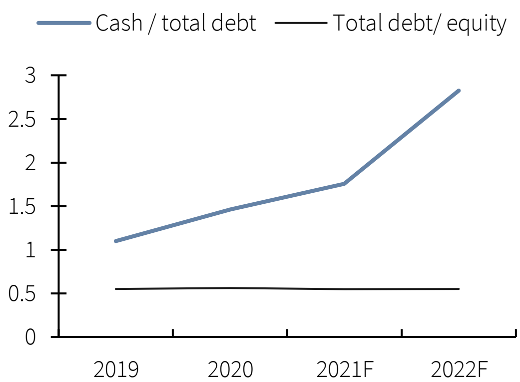
Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 23. GVR – Revenue from real estate (VNDbn)



Source: Vietnam Rubber Group, KB Securities Vietnam

Fig 24. GVR – Financial indices



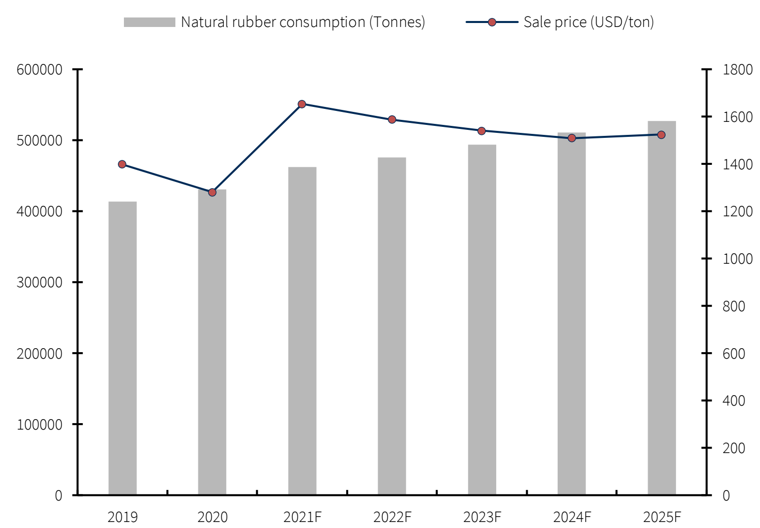
Source: Vietnam Rubber Group, KB Securities Vietnam

Investment viewpoint

2021 gross profit of natural rubber segment should grow 71.4% thanks to high product prices

We forecast that gross profit of the natural rubber segment will grow 71.4% to VND4,102 billion, driven by a strong 29.1% increase in rubber prices from USD1,281/ton to USD1,653/ton and a 7.4% growth in the consumption of rubber latex to 462,263 tons. Thanks to the closed-loop production chain from cultivation to industrial production and export, GVR's gross margin will be mainly affected by the output prices. Therefore, we believe that GVR's NR gross margin will improve strongly from 18.8% to 23.3% in 2021 and only decrease slightly by 0.4% in 2022, based on the assumption that the selling prices will reach USD1,653/ton and USD 1,587/ton for 2021 and 2022.

Fig 25. GVR – Natural rubber output and prices (ton, USD/ton)

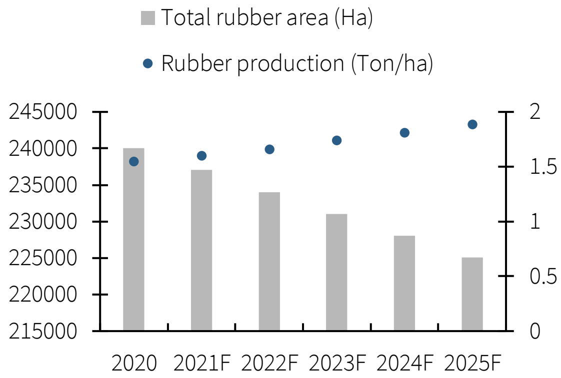


Source: KB Securities Vietnam collects

Although we project that rubber prices may decrease from a peak of USD1,653/ton in 2021 to USD 1,524/ton in 2025, we still believe in GVR's ability to maintain gross profit around VND4,000 billion in 2021 because: (1) Sales volume still have a 4.13% CAGR in 2021-2025; (2) The shift to intensive farming can improve productivity and gross profit margin of the company.

Considering GVR's plan to convert 100,000 ha of business land in the next 15 years, we assume that GVR's rubber cultivation area would decrease from 240,004 ha to 210,201 ha in 2021-2025, however the average yield will increase from 1.55 tons/ha to 1.89 tons/ha - thereby making GVR the most effective business in Vietnam. We believe that less area to manage will also help GVR reduce selling expenses and keep a high average gross margin at 22.8% in 2021-2025.

Fig 26. GVR – Exploited area and yield per ha (ha, ton/ha)



Source: KB Securities Vietnam

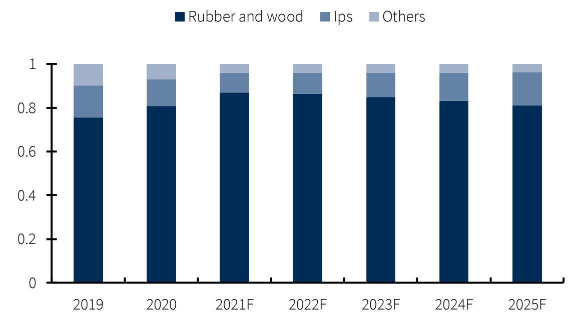
GVR is the leading real estate developer which aims at increasing its industrial landbank to 26,000 ha in the next 15 years

GVR has a plan to develop 20,000 ha of industrial land within the next 15 years, of which 17,000 ha will be used for self-developed industrial parks and 3,000 ha will be transferred to other investors. Thereby, the landbank under management of GVR will be raised to 26,000 ha, 2.5 times higher than the landbank of Becamex – the enterprise managing the largest industrial park land today. We appreciate this land bank of GVR because (1) Rubber land has lower and faster conversion costs; (2) The land area concentrated mainly in Binh Duong and Dong Nai has the rental price 14.5% higher than the national average at 103 USD/m2 and the occupancy rate is 97%; (3) Great potential for price increase thanks to infrastructure development, logistics and other macro factors – the average rental rate in the South 2020-2021 will increase by 7.8%. Other income from the transfer of infrastructure is also expected to be maintained thanks to the transfer plan of 40,000 ha in the next 15 years and the average liquidation of timber from 2,000 ha to 5,000 ha per year.

Industrial rubber and wood segments will develop via M&As, increasing the value chain

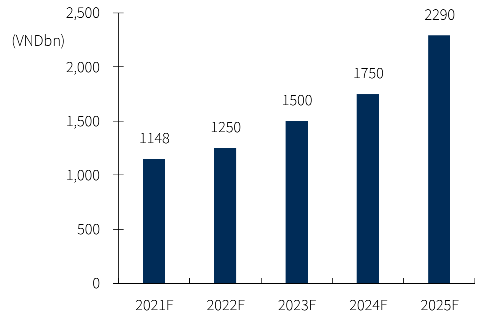
In addition to the two core business segments of natural rubber and industrial park, we also have high expectations for other business plans of GVR such as: (1) industrial construction with a CAGR of 17.5% in 2021-2025 thanks to an increase in the production capacity of rubber gloves and tires, and (2) wood segment with an average growth rate of 10%/year. The main growth driver for the industrial segment will come from the doubling capacity of the glove segment (up from 2.5 billion to 5 billion units in 4Q21) and other industrial products doubling production from 20,000 to 40,000 units in 2021-2025. We believe that GVR has a lot of potential to improve this segment thanks to ambitious plans such as buying shares of Vinachem, thereby building a closed-loop chain for tire and other industrial product manufacturing. The wood segment is also expected to grow at 10% CAGR in the period 2021-2025 thanks to benefits from the trade war and its stable average annual growth of 15.4% since 2016.

Fig 27. GVR – Gross profit margin of each segment (%)



Source: KB Securities Vietnam

Fig 28. GVR – Revenue from infrastructure transfer (VNDbn)



Source: KB Securities Vietnam

Forecast business performance

For 2021, gross profit and revenue and may grow strongly by 47.6% YoY and 29.9% YoY

Our projections for 2021 are based on the following assumptions:

- Natural rubber: The prices and consumption volume reached USD1,650/ton (+29.1%) and 462,000 tons (+7.4% YoY). We think the assumption on consumption is reasonable with the industry's overall growth of about 7% for 2021. However, the biggest risk will be the decrease in rubber prices in the last two quarters of the year, which means revenue and profit may not live up to expectations.
- Industrial rubber: The segment is still thriving and achieved earnings and revenue VND827 billion (+465.8 percent YoY) and VND1,680 billion (+106.5% YoY), exceeding our expectations. Industrial rubber may be subject to the biggest fluctuations from rubber prices as rubber prices were at a low level in 1Q and 2Q20, the gross margin of this segment was only 10%. Therefore, our forecast for this segment is still quite modest.
- Wood: The wood segment may rise 29.4% this year, which is quite suitable for the market as the export value in the first six months of the country increased by 64%.
- Industrial real estate: We expect GVR's unrealized revenue from real estate to gain 26.4% in 2021 thanks to the year-end sale plan of industrial parks such as Rach Bap expansion and NTC 3. The company may sell about 340 ha of industrial land.
- Gross profit margin is likely to gain 47.6% but pre-tax earnings may only increase 17.7% as the forecast profit from financial activities decreases from VND2,968 billion to VND1,765 billion when the divestment item goes down.

In 2022, pre-tax earnings may grow by a mere of 7.9%, but unrealized revenue from real estate should continue to spike by 26.4%

Our projections for 2022 are based on the following assumptions:
- Rubber prices may decrease by 4% to USD1,587/ton in 2022, which will reduce natural rubber revenue by 1.1%.
- Revenue growth will be mainly supported by the industrial rubber segment (up 45% to VND4,250 billion). Industrial rubber growth should be driven by the prospect of a new factory opening in 4Q this year, bringing GVR's glove capacity up to 5 billion units.
- The wood segment will depend on many M&A plans of the Board of Directors as the capacity of plants and the current exploitation scale has reached nearly 100% of capacity.
- Gross profit increased by 4.7% while pre-tax profit rose 7.9% as financial revenue improved from VND1,765 billion to VND2,065 billion thanks to increasing savings deposit revenue.
- The main highlight of 2022 will come from the growth of industrial parks: we assess that the Management's plan to sell 484 ha of industrial land is completely feasible when a series of projects begin to get legal approval such as NTC 3, Rach Bap expansion and Tan Lap 1. Accordingly, unrecognized revenue from real estate will increase by 26.4% YoY to VND13,809 billion.

Table 8. GVR – 2021-2022F performance

	2020	2021F	+/-% yoy	2022F	+/-% yoy
Revenue	21,116	27,439	29.9%	28,846	5.1%
Natural rubber	12,791	17,580	37.4%	17,378	-1.1%
Industrial rubber	2,166	2,925	35.0%	4,250	45.3%
Wood	3,390	4,385	29.4%	4,486	2.3%
Industrial parks	891	941	5.6%	1,075	14.2%
Others	1,956	1,609	-17.7%	1,657	3.0%
Gross profit	4,599	6,787	47.6%	7,105	4.7%
Profit before tax	5,911	6,957	17.7%	7,506	7.9%
Profit attributable to parent company	3,771	4,869	29.1%	5,253	7.9%
Unrecognized revenue from real estate (financial statements)	8,675	10,926	26.0%	13,809	26.4%

Source: KB Securities Vietnam

Valuation

Valuation method

We apply the SOTP analysis to price GVR and divide it into three main valuation segments: (1) Rubber and wood, (2) industrial park and (3) other business segments. Thereby, we set a target price of VND35,700, equivalent to a total upside of 5.9%.

We applied different methods to the three business segments:
Rubber and wood segment: We use discounted cash flow (DCF) valuation as the cash flow of this segment is quite stable and we can forecast future growth. In addition, the cash flow from this segment also comes from the monthly liquidation of timber and dividends from affiliated companies.
Industrial real estate segment: We use the revalued net asset value (RNAV) for the industrial real estate segment, based on GVR's land use plan for the next 15 years: 20,000 ha for investment in industrial development and 40,000 for infrastructure transformation. We believe that this plan of GVR is feasible as GVR's main problem is the government's approval schedule. Therefore, when this problem is solved, GVR will be able to develop more than 1,000 ha per year.
Other segments: We value other business segments of GVR basing on book value as GVR plans to divest from non-core businesses in the near future.

WACC

We offer WACC of 10.2% for GVR, based on a beta of 0.9, and a debt/total equity ratio of 19%. Stable cash flow from the industrial park segment will help GVR reduce debt in the near future, however, due to the rapid expansion of industrial parks in the coming years, we expect GVR to maintain its current debt/total capital ratio. Our assumptions about WACC are as follows.

Table 9. GVR – WACC

Capital asset pricing model (CAPM)	Indices
Beta	0.9
Risk-free rate (%)	2%
Risk premium for Vietnam market (%)	10.50%
Cost of equity (%)	11.50%
Cost of debt	4.74%
Corporate income tax (%)	17.60%
Debt/ total capital ratio	19.1%
WACC (%)	10.0%

Source: Vietnam Rubber Group, KB Securities Vietnam estimates

Valuation of rubber and wood segment

We price the wood and rubber segment at VND46,255 billion, based on the FCFF method and the following assumptions:

- Natural rubber production grows at an average of 4.1% in the period of 2021-2025, based on the plan of intensive farming conversion and the goals set by the leadership.
- Industrial has net profit and revenue in the period 2021 and 2025 growing by 9.65% and 17.5% respectively: the output of gloves and industrial products will double in this period to 5 billion and 40,000 units per year, but the gross margin will not be as high as in 2021 because rubber prices slide from the peak in 2021.
- The wood segment grows at an average of 10% per year and the revenue from liquidation of rubber trees is based on the assumption that 2,000 - 5,000 ha are liquidated each year. Currently, GVR has exploited almost its full capacity in the wood segment, so the growth is expected to depend on the upcoming M&A plan. Liquidation of wood should bring in 300-800 billion annually.
- Terminal growth of 1% represents the expectation that GVR will continue to expand intensive exploitation in the following years and improve productivity.

Table 10. GVR – FCFF for rubber and wood segments

Net cash flow valuation under FCFF	2021	2022	2023	2024	2025
Profit from business activities	3,829	3,938	3,936	3,968	4,114
Actual income tax	-674	-693	-693	-698	-724
Depreciation	2,170	2,257	2,324	2,371	2,395
Capex	-1,199	-1,258	-1,278	-1,304	-1,355
Change in working capital	-1,232	-228	-78	-101	-193
Free cash flow	2,894	4,016	4,211	4,235	4,236
Present value of FCF	2,763	3,485	3,322	3,036	2,761
Total present value of FCF	2,763	6,249	9,571	12,607	15,367

Source: Vietnam Rubber Group, KB Securities Vietnam

Table 11. GVR – Valuation for rubber and wood segments

FCFF valuation method	Valuation (VNDbn)
Present value of FCF 2021-2025	15,367
Terminal value (1% G)	30,887
Valuation of rubber & wood segments	46,255

Source: Vietnam Rubber Group, KB Securities Vietnam

Industrial real estate segment valuation

We think the value of GVR's real estate segment is about VND86,808 billion, based on the net asset value method. Of that, the proportion of self-developed industrial park construction is the highest, accounting for 89% of GVR's NAV. We are assuming that GVR's industrial parks will have a higher ownership ratio in the future when GVR focuses resources on developing this segment.

Table 12. GVR – Real estate segment valuation

Valuation of IP's net asset value	Method	Total area (Ha)	Saleable area (Ha)	Construction time	Value (VND bn)	Ownership ratio (GVR)	Value for GVR (VNDbn)
Identified self-developed IPs	DCF	6,769	4,400	2021-2028	51,356	61.8%	31,745
Unspecified self-developed IPs	DCF	10,231	6,650	2025-2035	63,897	70%	44,728
Land transferred to other IP's developers (VSIP III 1000 ha)	DCF	1,000	650	2021-2024F	686	80%	549
Unspecified land transferred to other IP's developers	DCF	2000	1,300	2024-2025F	2,547	80%	2,037
Converted land for infrastructure projects	DCF	40,000	40,000	2020-2035F	8,639	80%	6,911
Valuation of IPs segments					127,124		86,808

Source: KB Securities Vietnam

The average rental price is 25.9% lower than other industrial parks in the region, creating a premise for strong price growth in the future and continuing to attract investment capital

Out of 20,000 ha for industrial park development, GVR will deploy 17,000 ha by itself and 3,000 ha will be handed over to other investors. According to JLL, the current average rental price in Dong Nai and Binh Duong is USD107/m^2, which means our assumption about GVR's rental price is 25.9% lower than the market when 90% of GVR's land is located in these two regions. Therefore, we believe that rental price growth for the following years is possible as these two markets have averaged 7.8% growth in the past two years.

Industrial park progress accelerates from 2023 as more projects are approved

The progress of industrial park development accelerates from 2023 compared to the plan of the Board of Directors: we think that the plan of the Management in the coming years is still quite modest because most of the projects are waiting for the government's approval., so they cannot be included in the business plan. However, with the financial potential as well as the available land bank of GVR, we believe that the group can completely implement more than 1,000 industrial park land per year.

Table 13. GVR – Assumption on new leasing area and rental prices

IPs for rents	Unit	2021	2022	2023	2024	2025	2026-2035
Identified self-developed IPs	Ha	340	484	600	800	1,000	3,545
Unspecified self-developed IPs	Ha	0	0	0	0	0	10,231
Average selling price	USD/m2	85	92	100	109	120	130

Source: KB Securities Vietnam

Assumption on existing projects to pay compensation costs: VSIP 3 and Long Thanh Airport

Among the identified projects of GVR, Long Thanh Airport has about 300 ha left to compensate in 2024 for phase 2 and VSIP 3 is expected to record compensation this year at the price of VND0.9 billion/ha and 20% of net profit.

Assumption on the conversion of another 40,000 ha into infrastructure in the next 15 years

We currently assume that GVR will also transfer an additional 2,000 ha of land to industrial park developers and another 40,000 ha for infrastructure development in the near future. Our forecast price for land compensation is close to the current price.

Table 14. GVR – Identified infrastructure transfer land and compensation costs

Land compensation forecast	Compensation price	Total area (Ha)	2021	2022	2023	2024	2025
VSIP 3	0.9 bil VND/ha & 20% total profit	1,000	1,000	0	0	0	1,000
Long Thanh Airport	0.6 Bil VND/ha	300	0	0	0	300	0

Source: KB Securities Vietnam

Table 15. GVR – Projected unidentified land for infrastructure projects and compensation costs

Projected revenue from land compensation	2021F	2022F	2023F	2024F	2025F	2026-2035F
Total area (Ha)						
Land transferred to other IPs developers	0	300	300	300	350	750
Land converted into infrastructure	500	1,000	1,500	2,000	2,000	33,000
Compensation price (VNDbn/ ha)						
Land transferred to other IPs developers	2.50	2.50	2.50	2.50	2.60	2.70
Land converted into infrastructure	0.5	0.5	0.5	0.5	0.6	0.6

Source: KB Securities Vietnam

Valuation of other business segments

For other businesses, we use book value valuation method to give a valuation of VND 5,565 billion for these segments.

Summary of valuations

Combining valuations of the three business segments, we come up with a total NAV valuation of VND138,627 billion and a reasonable target price of VND35,700 per share, corresponding to 5.9% upside potential. Assuming an average dividend yield of around 1.8%, we estimate GVR's total return will be 7.7% of the current prices.

Table 16. GVR – Valuation summery

	Method	Valuation
Rubber & woods (VNDbn)	DCF	46,255
Industrial parks (VNDbn)	RNAV	86,808
Others (VNDbn)	BV	5,565
Total NAV valuation (VNDbn)		138,627
Cash and cash equivalents (VNDbn)		5,528
Short term investments (VNDbn)		10,765
Enterprise value (VNDbn)		154,920
Debts (VNDbn)		12,107
Equity value (VNDbn)		142,812
	Target price (VND/share)	35,700
Potential price upside (%)		5.90%
Dividend yield (%)		1.80%
Total profit (%)		7.70%

Source: KB Securities Vietnam

There is still a lot of growth potential

Although we appreciate the growth potential of GVR in the coming years, especially in the industrial real estate segment with a very large land bank, we believe that this potential has been largely reflected in terms of price when the company's P/B forward valuation for 2021 is 2.63x, while the average in 2018 and 2019 is only 0.83x. Therefore, we recommend HOLDING GVR shares with a total upside of 7.7% compared to the closing price of VND33,700 on August 4, 2021.

Risks

Risks of rubber price changes

The strong performance in 1Q was thanks to high and stable rubber export prices in the first half of the year. However, the observation of the world prices of natural rubber showed rubber prices reversed sharply from the beginning of July (-17% MoM), which bodes ill for export prices in the following quarters. The reason for the decline in rubber prices since mid-June 2021 may be due to the market's concerns that the demand for tires would decrease as Chinese car production declines amid a lack of chips. In addition, the complicated pandemic developments in Asia, which adversely affects semiconductor manufacturing companies in the region and disrupts seaport cargo transportation, is also one of the reasons for rubber price downtrend. Although we forecast that rubber prices will no longer stay at a positive level like at the beginning of this year, we still have to mention the risk of a sharp reverse in rubber prices in the coming years. In case of material adverse price movements, the forecast for GVR earnings and stock valuation may be subject to downward revision. However, GVR still actively applies hedging tools such as forward sales contracts and long-term sales contracts with major partners at fixed prices. This can significantly reduce the impact of price volatility risks.

Risks of slow implementation

The development orientation of GVR in the period of 2021 - 2025 is to take the industrial parks as the main growth engine, with a plan to use 20,000 ha to develop industrial parks in the next 15 years. We believe that GVR will benefit from the increasing demand for industrial land in Vietnam. However, the legal process of approving the industrial park is still quite complicated, leading to a delay in the progress of industrial park implementation. Currently, the Government has approved the planning of GVR's industrial parks, including: Nam Dong Phu Industrial Park, Expanded North Dong Phu, Minh Hung III (Binh Phuoc), Expanded Rach Bap, Nam Tan Uyen expansion (Binh Duong) with a total area of 2100 ha. On the other hand, the planning plan for key industrial parks in the South has not been approved yet, pushing back the expected approval time to 2022 and reducing the prospect of revenue from the industrial real estate segment next year.

In order to remove legal obstacles in the industrial park approval process, the Decree 148/2020/ND-CP was issued to replace Decree 82, demonstrating positive changes related to land conversion regulations. The Decree 148 allows the decentralization of approval for the establishment of new industrial parks, adjustment and expansion to the Minister of Planning and Investment or to the provincial People's Committee. Meanwhile, the Decree 82/2018/ND-CP regulating the management of industrial zones and economic zones must be approved by the Prime Minister. However, there are still some minor challenges due to the different levels of acceptance of the new Decree by local governments.

Risks of competition between real estate developers

From the beginning of the year until now, the total area of newly approved industrial park projects has reached 6500 ha, significantly increased from 1700 ha in 2020. In addition to GVR, other industrial park developers also benefit from the new regulation, which may cause obstacles to industrial park competition and lead to lower rental prices. Some industrial park shares with high potential to compete with GVR are Kinh Bac City Development (KBC), Phuoc Hoa Rubber (PHR), IDICO Corp (IDC) and Viglacera (VGC) – which have large commercial landbank and ideal locations around Hanoi and Ho Chi Minh City. Excess scale and number of industrial parks, escalating rental prices but lack of services and infrastructure connectivity are also the challenges that create a disadvantage for Vietnam's industrial parks compared to the world. However, we believe that the impact of industrial park competition risk is quite low because the real estate segment of industrial parks still has a lot of room for development, especially when there are new flows of FDI and signed free trade agreements, and the construction of factories for production is accelerated.

Risks of COVID-19 impacts

With the prolonged COVID-19 nationwide and especially in Ho Chi Minh City, we are afraid that customers cannot go to the construction sites, hindering the process of direct land lease negotiations. Notably, industrial parks mainly attract investment from foreign investors, making the risk of disease even more serious. Therefore, the prospect of the industrial zone will be reduced because the pandemic limits potential opportunities.

Table 17. GVR – Risks and the level of risks

Risk	Severity
Market risk	
Rubber price decrease	High
Legal risk	
Complications leading to long IPs approvals	Average
Competitive risk	
Competition from other IPs developers	Low
Disease risk	
Risk from prolonged COVID-19	Low

Source: KB Securities Vietnam

GVR – 2021–2022F financials

Income statement

(Billion VND)	2019	2020	2021F	2022F
(Reporting standard)	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Revenue	19,804	21,116	27,439	28,846
Cost of goods sold	-16,517	-27,439	-20,653	-21,741
Gross profit	4,623	4,599	6,787	7,105
Financial income	732	2,968	1,765	2,015
Financial expenses	-792	-867	-659	-631
In which: interest expenses	-661	-726	-559	-531
Profit/(loss) from joint venture	414	319	326	332
Selling expenses	-429	-443	-596	-618
General & administration expenses	-1,629	-1,774	-2,301	-2,410
Profit/(loss) from operating	2,918	4,803	5,321	5,793
Other income	1,923	1,469	2,169	2,271
Other expense	-186	-361	-533	-558
Other income, net	1,737	1,108	1,636	1,713
Net profit/(loss) before tax	4,655	5,911	6,957	7,506
Corporate income tax	-822	-835	-1,227	-1,324
Net profit/(loss) after tax	3,833	5,076	5,730	6,182
Minority shareholder benefits	-583	-1,306	-861	-929
PAT for Shareholders of Parent Company	3,250	3,771	4,869	5,253

Profit ratios

(%)	2019	2020	2021F	2022F
Gross profit margin	23.3%	21.8%	24.7%	24.6%
EBITDA margin	36.7%	41.9%	34.8%	35.3%
EBIT margin	27.5%	32.1%	27.8%	28.2%
Profit before tax margin	23.5%	28.0%	25.4%	26.0%
Operating profit margin	13.0%	11.3%	14.2%	14.1%
Net profit margin	19.4%	24.0%	20.9%	21.4%

Cash flow statement

(Billion VND)	2019	2020	2021F	2022F
Profit before tax	4,655	5,911	6,957	7,506
Depreciation and amortization	1,814	2,067	1,935	2,055
Profit/(loss) from investing activities	-1,467	-2,457	236	236
Interest expenses	661	726	559	531
Gain/(loss) before working capital changes	5,773	6,202	9,687	10,328
(Increase)/decrease in accounts receivable	748	-29	-863	-110
(Increase)/decrease in inventory	-231	1,480	-2,236	-221
Increase/(decrease) accounts payable	1,571	397	502	70
Trading securities, interest expense	-709	-620	-559	-531
Other adjustments	-3,401	-8,282	404	1,370
Net cash flow from operating activities	3,751	-852	6,935	10,904
Payment for fixed assets, constructions and	-865	-859	-1,199	-1,258
Receipts from disposal of fixed assets and otl	402	254	452	460
Loans, purchases of other entities' debt instr	-562	-892	0	0
Receipts from loan repayments, sale of other	-11	-6	0	0
Payments for investment in other entities	-25	-17	-83	-56
Collections on investment in other entities	41	38	60	45
Dividends, interest and profit received	733	653	693	673
Net cash flow from investing activities	-303	-850	-54	-125
Receipts from equity issue and owner's capit	0	0	0	0
Payment for share repurchases	0	0	0	0
Proceeds from borrowings	7,509	7,635	7,864	8,100
Principal repayments	-8,888	-7,390	-9,464	-8,700
Repayment of financial leases	0	0	0	0
Dividends paid	-113	-119	-2,400	-2,400
Interest received	0	0	0	0
Cash flow from financing activities	-1,492	126	-3,005	-2,975
Net cash flow for the period	1,957	-1,577	3,876	7,804
Cash and cash equivalents beginning of peric	5,160	7,115	5,538	9,414
Cash and cash equivalents end of period	7,115	5,538	9,414	17,218

Balance sheet

(Billion VND)	2019	2020	2021F	2022
(Reporting standard)	VN GAAP	VN GAAP	VN GAAP	VN GAA
Total assets	78,517	80,278	84,762	90,89
Short-term assets	21,070	22,167	29,151	37,28
Cash and cash equivalents	7,115	5,528	9,414	17,21
Short-term investment	6,560	10,765	10,765	10,76
Receivables	2,900	2,949	3,812	3,92
Inventory, net	3,507	2,079	4,315	4,53
Long-term assets	57,447	58,111	55,611	53,61
Long-term receivables	741	736	736	73
Fixed assets	29,044	32,039	29,538	27,53
long-term assets in progress	21,745	18,002	18,002	18,00
Long-term investment	3,431	3,163	3,163	3,16
Goodwill				
Liabilities	27,920	28,848	30,002	32,35
Short-term debt	9,729	11,015	10,517	10,58
Payables	943	854	1,356	1,42
Short-term unrealized revenue	244	320	346	37
Short-term loans	3,368	2,787	3,772	2,77
Long-term liabilities	18,192	17,832	19,484	21,76
Long-term payables	0	0	0	
Long-term prepayment by buyers	149	85	0	
Unrealized revenue	8,524	8,675	10,926	13,80
Long-term loans	9,076	8,335	7,735	7,13
Equity	50,597	51,431	54,760	58,54
Contributed capital	40,000	40,000	40,000	40,00
Capital surplus	130	128	128	12
Undistributed profit after tax	4,232	4,575	7,905	11,68
State budget and other funds	2,921	3,452	3,452	3,45
Non-controlling interests	3,776	3,843	3,843	3,84

Main ratios

(x,%,VND)	2019	2020	2021F	2022
Valuation ratios				
P/E	13.1	31.8	27.5	25.
Diluted P/E	13.1	31.8	27.5	25.
P/B	0.91	2.52	2.63	2.4
P/S	2.1	5.7	4.9	4.
P/Tangible Book	0.9	2.5	2.6	2.
P/Cash Flow	21.7	-76.0	34.6	17.
EV/EBITDA	5.6	13.1	13.0	11.
EV/EBIT	7.5	17.1	16.3	14.
Efficiency ratios				
ROE	7.7%	10.0%	10.8%	10.9
ROA	4.9%	6.4%	6.9%	7.0
ROIC	7.3%	9.8%	11.2%	12.3
Financial structure				
Cash payout ratio	140.6%	147.9%	191.9%	264.3
Quick payout ratio	170.4%	174.7%	228.1%	301.4
Current payout ratio	216.6%	201.2%	277.2%	352.2
Long-term loan/equity	17.9%	16.2%	14.1%	12.2
Long-term loan/Total assets	11.6%	10.4%	9.1%	7.8
Short-term loan/equity	5.5%	7.3%	5.1%	4.7
Short-term loan/Total assets	3.5%	4.7%	3.3%	3.0
Short-term liabilities/Equity	19.2%	21.4%	19.2%	18.1
Current liabilities/Total assets	12.4%	13.7%	12.4%	11.6
Total debt/equity	55.2%	56.1%	54.8%	55.3
Total liabilities/Total assets	35.6%	35.9%	35.4%	35.6
Activity ratios				
Receivable turnover ratio	6.8	7.2	7.2	7.
Inventory turnover ratio	4.9	9.8	6.5	4.
Payable turnover ratio	20.6	18.4	24.1	20.

Source: Fiinpro

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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