

Dong Phu Rubber (DPR)

Huge landbank & long-term growth momentum

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The prospect of DPR's rubber segment seems brighter thanks to recovering rubber prices

Expert Market Research forecasts the compound annual growth rate (CAGR) of global natural rubber demand to be 4.8% in the 2021–2026 period. Assuming a CAGR of 3%/year, we find the increasing mismatch between the supply and demand of natural rubber in the coming period. This will somewhat push rubber prices in general and natural rubber prices of Dong Phu Rubber (DPR) in particular.

One-off earnings from land compensation act as a mid-term growth driver

We expect DPR to hand over 150 ha in 2022 and 250 ha annually during 2023–2029 at VND1 billion/ha and earn VND1,740 billion between 2023 and 2029. It will drive DPR's NPAT growth as this unexpected income makes up 30–50% of NPAT per year.

The expansion of Nam Dong Phu and Bac Dong Phu IPs will be a long-term growth momentum

DPR plans to lease out the expansion project of Bac Dong Phu and Nam Dong Phu industrial parks (IPs) in 2023 and 2026, respectively. We expect the Ho Chi Minh City – Thu Dau Mot – Chon Thanh expressway will boost the rents of those two IPs, assuming USD65/m²/lease term for Bac Dong Phu and USD75/m²/lease term for Nam Dong Phu from the current levels of USD55–60/m²/lease term.

We recommend BUY for DPR stocks with a target price of VND112,700

Based on the SOTP (sum-of-the-parts) valuation method, we recommend BUY for DPR stocks with a target price of VND112,700/share, equivalent to a total return of 40.9% against the closing price on March 8, 2022. In particular, the rubber segment is worth VND2,225 billion, land compensation brings in VND818 billion, and industrial property is valued at VND1,440 billion.

Buy

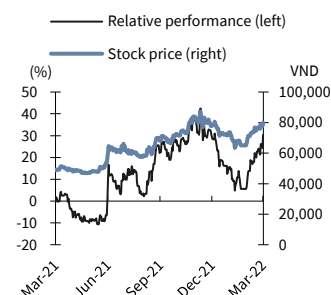
Target price	VND112,700
Upside/Downside	43.6%
Current price (Mar 8, 2022)	VND 80,000
Consensus target price	VND 101,950
Market cap (VNDbn)	3,440

Trading data	
Free float	39.2%
3M avg trading value (VNDbn)	18.21
Foreign ownership	0.0%
Major shareholder	Vietnam Rubber Group (GVR) (59.8%)

Share price performance				
(%)	1M	3M	6M	12M
	16.6	2.4	17.6	62.4
	18.8	1.0	6.5	28.1

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	1,138	1,215	1,260	1,361
EBIT (VNDbn)	209	315	295	316
NPATMI (VNDbn)	178	449	351	437
EPS (VND)	4,435	10,752	8,163	10,163
EPS growth (%)	-2.7	142.4	-24.0	25.0
P/E (x)	9.6	6.7	13.8	11.1
EV/EBITDA (x)	6.4	6.8	12.6	12.2
P/B (x)	0.7	1.1	1.7	1.6
ROE (%)	9.1	17.5	13.1	15.0
Dividend yield (%)	12.1	6.3	2.7	3.5



Source: Bloomberg, KB Securities Vietnam

Business performance

Business Overview

DPR is one of the listed companies operating in the field of planting, exploiting, processing, and trading rubber with huge plantations under the Vietnam Rubber Group (GVR) in the Southeast region. Its core businesses are latex exploitation and wood and natural latex mattress manufacturing. Also, the enterprise will liquidate old plantations to wood manufacturing firms and newly plant rubber trees. Besides, DPR, together with Binh Phuoc Rubber JSC and Nam Tan Uyen JSC, established Bac Dong Phu Industrial Park JSC in 2009, managing Bac Dong Phu and Nam Dong Phu IPs.

Business activities

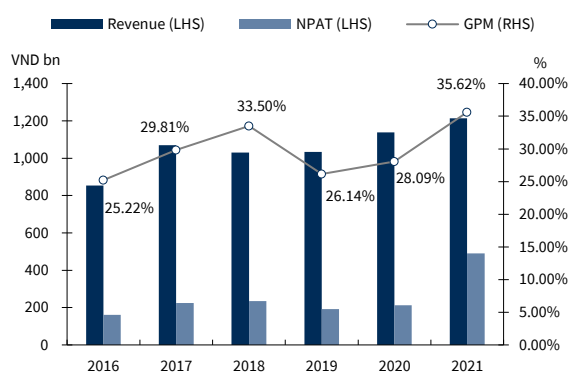
DPR's revenue comes from three main sources: (1) exploiting latex and manufacturing rubber-related products (65–70% of total revenue), (2) liquidating old rubber plantations, and (3) leasing two IPs. Rubber plantations that DPR are managing and cultivating include 9,300 ha in Binh Phuoc province, 6,500 ha in the Kratie farm (Cambodia), and 750 ha in Dak Nong. According to Binh Phuoc's development master plan for the 2021–2030 period, 4,000 ha of DPR's rubber land will be converted into industrial parks or hi-tech agricultural zones. In particular, DPR will hand over 2,000 ha to Binh Phuoc province and receive compensation, and develop industrial zones on the remaining 2000 ha.

Regarding two IPs, Nam Dong Phu has reached 100% occupancy rate on 52.1 ha of leasable land while Bac Dong Phu has only 5 ha left available for lease at the end of 2021 out of a total of 137.5 ha of leasable land.

In 2021, revenue increased slightly YoY but NPAT grew strongly YoY thanks to land compensation

By the end of FY21, despite a 11.5% drop in output, DPR's revenue still hit VND1,215 billion (+6.8 YoY) since the average price of rubber-related products rose by 20.3% YoY to VND42.69 million/ton, similar to the uptrend of global prices. Notably, DPR received land compensation (VND1 billion/ha) for the first 260 ha out of 317 ha planned from the People's Committee of Binh Phuoc province. Therefore, it helped NPAT in FY21 increase sharply to VND491 billion (+132% YoY).

Fig 1. DPR – Business results



Source: Dong Phu Rubber, KB Securities Vietnam

Fig 2. DPR – Revenue breakdown (VNDbn)



Source: Dong Phu Rubber, KB Securities Vietnam

Investment catalysts

The prospect for DPR's rubber segment seems brighter thanks to recovering rubber prices

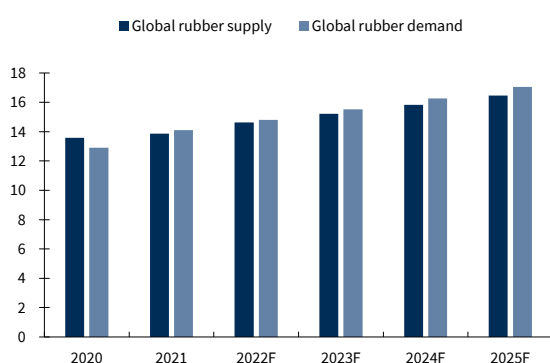
According to preliminary statistics from the Association of Natural Rubber Producing Countries (ANRPC), the world's natural rubber output in 2021 was about 13.86 million tons vs. the demand of 14.1 million tons. ANRPC forecasts that global consumption in 2022 will increase by 4–5% YoY due to the prolonged rainy season across Asian countries, the world's main supply. Expert Market Research anticipates the CAGR of global natural rubber demand to be 4.8% during 2021–2026. Assuming an average CAGR of 3%/year, we find the increasing mismatch between the supply and demand of natural rubber in the coming period. This will somewhat push rubber prices in general and natural rubber prices of DPR in particular.

On the other hand, a sharp rise in oil prices will generate a corresponding price fluctuation in other commodities. Synthetic rubber prices are proportional to oil prices since they are both derived from petroleum liquids. Furthermore, natural rubber and synthetic rubber are interchangeable to some extent. Therefore, the synthetic rubber price surge will push natural rubber prices.

We forecast DPR's natural rubber output will only increase slightly, though benefiting from the company handing over 2,000 ha of rubber plantations to Binh Duong province to develop industrial zones. KBSV estimates the parent company's rubber output will decrease by 400–700 tons/year between 2021 and 2030 due to land handover. However, the Kratie farm in Cambodia has already entered their peak latex harvesting season, which is expected to offset the decline in production.

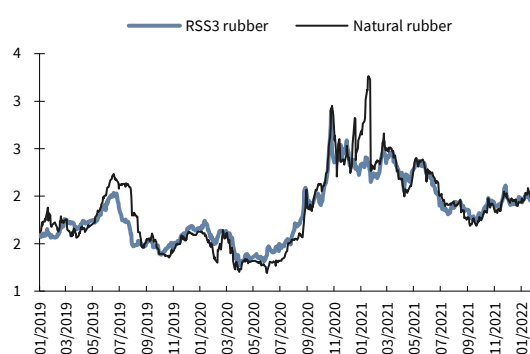
In conclusion, we calculate DPR's rubber sales will grow at a CAGR of 4.5% in 2022–2026, fueled by an average 2% increase in rubber prices and a CAGR of 2.5%/year in output during the period. Our assumptions are presented in Table 1 below.

Fig 3. Global – Natural rubber supply–demand (million tons)



Source: ANRPC, KB Securities Vietnam

Fig 4. Global – Rubber prices (USD/kg)



Source: Bloomberg, KB Securities Vietnam

Table 1. DPR – 2022F–2024F business results of the rubber segment

	2022F	2023F	2024F	Notes
Revenue from rubber segment (VND billion)	929.6	976.6	1026.0	
Average production (tons)	20,359	20,766	21,181	Output increased slightly because a part of the high-productivity area of the parent company was cleared for building IP
Average selling price (VND mn/ton)	45.7	47.0	48.4	Higher selling price thanks to benefits from the global rubber market
Gross profit margin	19.23%	18.44%	17.65%	Gross profit margin decreased slightly due to the conversion of part of the mining source into Kratie farm in Cambodia

Source: Dong Phu Rubber, KB Securities Vietnam

One-off earnings from land compensation act as a mid-term growth driver

DPR currently manages about 9,300 ha of rubber in Binh Phuoc province, with 5,700ha of rubber plantations and the rest being offices, warehouses, roads, and other ancillary works.

According to Binh Phuoc's development master plan for the 2021–2030 period, 4,000 ha of DPR's rubber land will be converted into industrial parks or hi-tech agricultural zones. In particular:

- DPR will transfer 2,000 ha to Binh Phuoc Provincial People's Committee to reallocate to other companies. DPR will receive compensation (VND1 billion/ha for) on the deal.
- DPR will use the remaining 2,000 ha to develop industrial parks and hi-tech agricultural zones.

Fig 5. Land compensation process of Binh Phuoc province

Source: KB Securities Vietnam

In 2021, Binh Phuoc Provincial People's Committee planned to recover 317 ha of the total 2,000 ha with a compensation cost of VND1 billion/ha but only successfully recovered 260 ha, completing 82% of the initial plan. We believe that the pandemic and resultant social distancing restrictions were behind the slow land delivery of DPR. The development of the pandemic remains unpredictable in 2022, which will affect the handover progress. We forecast DPR will transfer 150 ha in 2022 and 250 ha per year in the 2023–2029 period at VND1 billion/ha and collect VND1,740 billion between 2023 and 2029. This will considerably contribute to DPR's NPAT growth as this unexpected income accounts for 30–50% of NPAT per year.

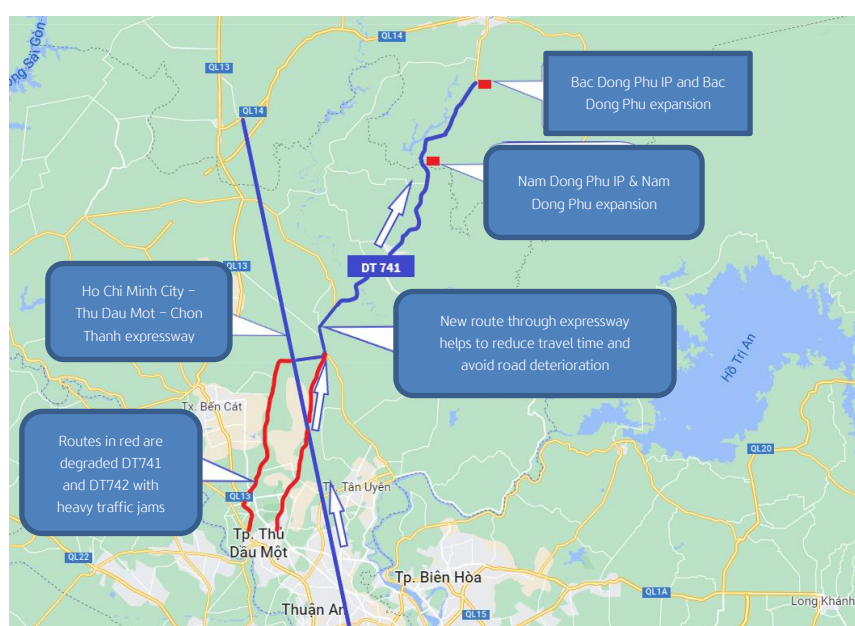
The expansion of Nam Dong Phu and Bac Dong Phu IPs will be a long-term growth momentum

In the second quarter of 2020, DPR was approved to expand Bac Dong Phu (currently 189.1 ha) and Nam Dong Phu (69.4 ha). The expansion project of Bac Dong Phu covers 317 ha, while that of Nam Dong Phu spans 480 ha. The business is still waiting for approval from Binh Phuoc Provincial People's Committee, expected in the first half of 2022.

Once approved, DPR will be able to lease out the Bac Dong Phu expansion project in 2023 and the Nam Dong Phu IP expansion project in 2026. Bac Dong Phu Industrial Park JSC, a subsidiary of DPR (51% ownership), is expected to manage these projects.

In terms of the province's policy orientation, we can see that Binh Phuoc is transforming with the orientation to become an emerging industrial hub with 35 industrial zones and industrial clusters by 2030 next to Binh Duong. DPR's Nam Dong Phu and Bac Dong Phu have favorable locations, next to Binh Duong and especially the Ho Chi Minh City – Thu Dau Mot – Chon Thanh expressway. This project, when completed, will help ease the traffic flow on two degraded roads DT741 and DT746, a factor that hinders the investment in these two industrial zones. We expect that with this bottleneck unlocked, the rents for Bac Dong Phu and Nam Dong Phu expansion projects will be higher, assuming USD65/m²/lease term for Bac Dong Phu and USD75/m²/lease term for Nam Dong Phu against the current levels of USD55–60/m²/lease term. Other assumptions regarding these two IPs are presented in the table below.

Fig 6. The new expressway Ho Chi Minh City – Thu Dau Mot – Chon Thanh connecting to Binh Phuoc will begin operations, unblocking a long-standing obstacle for investors to invest in industrial zones



Source: KB Securities Vietnam

Table 2. DPR – The expansion project of Bac Dong Phu and Nam Dong Phu IPs

Project	Estimated total investment (VNDbn)	Scale (ha)	Estimated leasable area (ha)	Expected rent (USD/m ²)	Filling time
Bac Dong Phu expansion	1,374	317	235	65	2023–2038
Nam Dong Phu expansion	2,082	480	360.2	75	2026–2041

Source: Dong Phu Rubber, KB Securities Vietnam

Short-term catalysts drive DPR stock price

At its FY21 Annual General Meeting (AGM), DPR was approved to increase its ownership at its subsidiary, Dong Phu – Dak Nong Rubber JSC (DPD), from 88.4% to 100% through a stock swap. Accordingly, the company has submitted the required documents to the State and will issue 443,025 shares (equivalent to 1.03% of the outstanding shares). After the stock swap, there will be a 1:1 bonus share issue, which we expect will support the DPR stock's liquidity and lift its market price.

On the other hand, DPR has always maintained an attractive cash dividend payout ratio, ranging from 20% to 60%. In 2021, the company targeted to pay dividends at VND3,000/share and paid VND1,500/share by the end of 2021. The next tranche will be in the first half of 2022 after DPR has implemented the stock swap. We believe that DPR will pay dividends in 2022 at a ratio equivalent to that of 2021 or VND3000/share as the company needs more capital for the IP expansion projects. From 2023 through 2026, DPR will likely raise the dividend yield to 40–60% thanks to the launch of these two expansion projects, promising to bring stable cash flow for DPR.

Fig 7. DPR – Cash dividend payment (VNDbn)



Source: Dong Phu Rubber, KB Securities Vietnam

Forecast & Valuation

In 2022, we forecast DPR to achieve revenue of VND1,260 billion (+3.7% YoY) and NPAT of VND377 billion (-23.2% YoY)

In 2022, KBSV forecasts DPR to reach VND377 billion (-23.2% YoY) in NPAT and VND1,260 billion (+3.7% YoY) in revenue, based on the following assumptions:

- Rubber output should increase slightly by 1% YoY to 20,359 tons due to the land handover to Binh Phuoc province. The average selling price of rubber-related products may rise by 7% to VND45.66 million/ton thanks to high global prices.
- The liquidated area of rubber plantations is 593 ha, equivalent to DPR's 2021 plan, and the average liquidation price is up by 3% to VND244.58 million/ha.
- Wood product production reaches 17,850 m³ with an average price of VND6.54 million/m³.
- DPR will lease out the last 5 ha at Bac Dong Phu at USD60/m²/lease term.
- DPR will receive compensation for 150 ha in 2022 (-42.3% YoY) against 260 ha in 2021 at VND1 billion/ha due to complicated developments of COVID-19.

We recommend BUY for DPR stocks with a target price of VND112,700

Based on the SOTP valuation method, we recommend BUY for DPR stocks with a target price of VND112,700/share, 40.9% higher than the closing price on March 8, 2022. In particular, the rubber segment is worth VND2,225 billion, land compensation brings in VND818 billion, and industrial property is valued at VND1,440 billion.

Table 5. DPR – Target price according to valuation methods (VND/share)

Valuation	Method	Ownership rate	Project NPV	DPR value
- Rubber, wood producing & liquidating rubber trees	DCF	100.00%	2,225	2,225
- Land compensation	DCF	100.00%	818	818
- Bac Dong Phu IP	DCF	51.00%	39	20
- Bac Dong Phu expansion IP	DCF	51.00%	1,157	590
- Nam Dong Phu expansion IP	DCF	51.00%	1,627	830
EV				4,483
(+) Cash and cash equivalents				493
(+) Short-term investment				740
(-) Net debt				302
(-) Minorities interest				570
NAV				4,844
Number of outstanding shares (million shares)				43.00
Fair value				112,700
Current price (February 23, 2022)				80,000
Upside				40.9%

Source: KB Securities Vietnam

Risks

Industrial parks expansion plan not being approved as expected	DPR is seeking approval from Binh Phuoc Provincial People's Committee for expanding Bac Dong Phu and Nam Dong Phu IPs. The downside risk may occur when DPR does not receive the investment decision as expected due to delayed procedure.
Slow going in construction of expressways	The two IPs are the long-term fulcrum of DPR. Bac Dong Phu and Nam Dong Phu expansion projects are located in convenient locations and may enjoy higher rents thanks to the Ho Chi Minh – Thu Dau Mot – Chon Thanh expressway, in our view. However, this project may not be completed by 2025 as expected, leading to lower rents for these two IPs.
Industrial parks not being handed over as planned	We assume that DPR will hand over 250 ha per year during the 2023–2030 period to Binh Phuoc province. The risk is that the handover will be slower than forecast.
Higher-than-expected compensation	We assume the land compensation is VND1 billion/ha for the 2022–2029 period. Along with more FDI inflows poured into Binh Phuoc province, which leads to higher demand for industrial land, the compensation will be higher than expected. This, therefore, will be an upside risk to our valuation model.
Higher-than-expected rubber prices	Global commodities prices rose sharply following the pandemic crisis in 2020. For rubber alone, supply chain disruption and post-Covid growing demand are positive factors supporting rubber prices. Currently, the rubber segment accounts for 50–60% of our revenue forecast for DPR. Therefore, a higher-than-expected increase in rubber prices will boost DPR's stock price.
Higher-than-expected cash dividend payout	We believe DPR will pay a dividend of VND3000/share for 2022 and gradually increase to VND6,000/share by 2026. However, as the rents for two IPs may go up, DPR could pay a higher dividend payout, which will be upside potential for DPR stock price.

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Investment ratings & definitions

Investment Ratings for Stocks

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

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

Investment Ratings for Sectors

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

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

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