

STOCK PITCH REPORT

**Buy**

August 4, 2022

**Target price** **VND65,700**

Upside/Downside	34.6%
Current price (Jul 26, 2021)	48,800
Market cap (VNDbn)	6,666

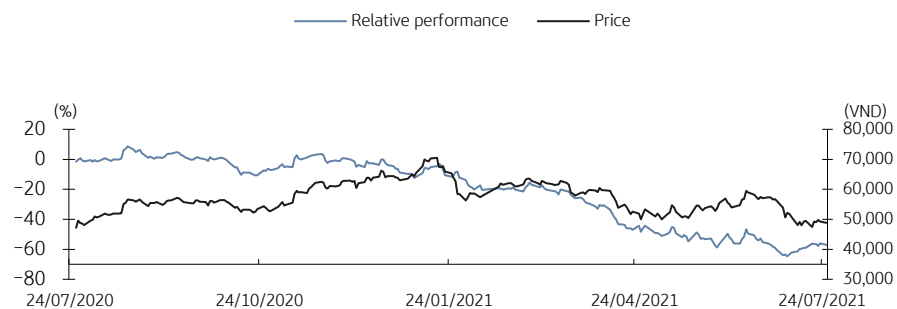
**Trading data**

Free float	33.4%
3M avg trading value (VNDbn/USD)	43.8/1.88
Foreign ownership left	11.5%
Major shareholder	Vietnam Rubber Group
	66.61%

**Forecast earnings & valuation**

FY-end	2019	2020	2021F	2022F
Net sales (VNDbn)	1,638	1,631	2,088	2,416
Sales growth (%)	5.20	-0.44	27.96	15.73
Gross profit (VNDbn)	353	388	326	466
Gross profit margin (%)	21.55	23.82	15.66	19.29
Net profit (VNDbn)	487	1,125	881	495
Profit growth (%)	-24.20	130.63	-21.68	-43.9
EPS (VND)	3,320	7,985	6,253	2,181
EPS growth (%)	-28.40%	140.48%	-21.68%	-43.9%
P/B (x)	2.7	2.1	1.9	1.9

**Fig 1. PHR – Share price performance (VND)**



Source: Bloomberg, KB Securities Vietnam

**Phuoc Hoa Rubber (PHR)**

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**INVESTMENT VIEWPOINT**

We recommend BUYING Phuoc Hoa Rubber (PHR) shares with a target price of VND65,700 apiece with the momentum gained from rubber plantations converted into industrial land, stable operation of the rubber segment & joint venture, and attractive cash dividend yield.

**INVESTMENT CATALYSTS**

**Breakthrough profits in 2H21 are expected from VSIP III along with stable operation in key business lines.** We are positive about PHR's 2H21 business results thanks to: (1) The compensation from the VSIP III Industrial Park project; (2) Positive sales of rubber segment; (3) High profit gained from joint venture.

**Industrial park projects will be the driving force for profit growth in the coming time.** We take a positive stance on PHR's industrial sector with the following variables: (1) Vietnam remains an attractive destination for FDI; (2) Prospect of industrial parks in Binh Duong is positive; and (3) PHR plans to convert a large landbank it manages in Binh Duong into industrial land.

**Dividend yield is expected to be attractive in 2021.** At the 2021 Annual General Meeting of Shareholders, PHR approved to pay dividends at the rate of 45% for 2020 and at least 40% for 2021, equivalent to a profit margin at 9.2% and 8% of current price respectively.

**RISKS**

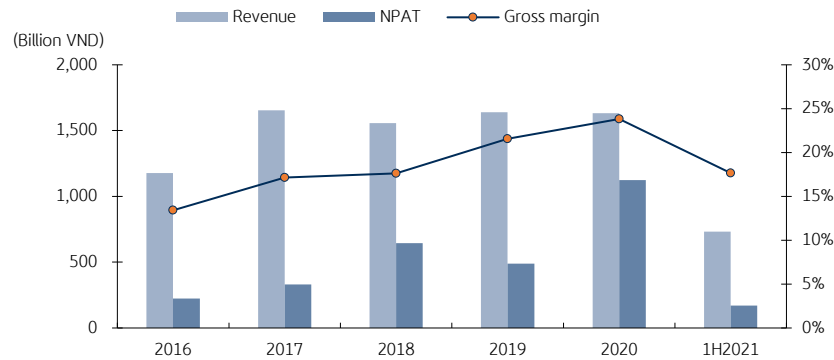
Pandemic risk affecting the leasing of related industrial park projects  
Legal risk regarding the approval of VSIP III project in 2021

## BUSINESS PERFORMANCE

**In 2Q21, revenue increased 64.2% YoY while NPAT decreased 76.3% YoY due to compensation unreceived**

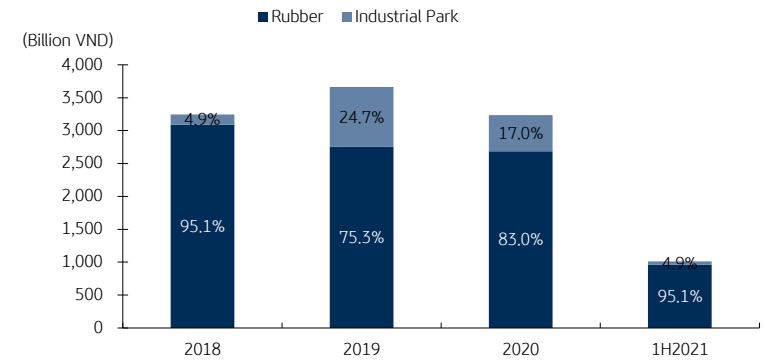
In 2Q21, PHR recorded a revenue of VND451 billion (+64.2% YoY) driven by revenue from rubber segment (+148.5% YoY), while industrial zone segment brought in only VND17 billion in revenue (-83.4% YoY), causing gross profit margin to fall 14.1% YoY. Along with that, unreceived land compensation from VSIP III was the main reason behind the decline of 76.3% YoY to VND81 billion in 2Q21 NPAT. In the first six months of the year, PHR recorded NPAT of VND170 billion (-69.4% YoY) on revenue of VND731 billion (+47.6% YoY).

Fig 2. PHR – Business performance (VNDbn, %)



Source: Phuoc Hoa Rubber

Fig 3. PHR – Revenue structure across business segments (VNDbn)



Source: Phuoc Hoa Rubber

## INVESTMENT CATALYSTS

Two main business segments of PHR include: (1) Rubber tree planting, rubber latex exploiting and processing; and (2) Industrial zone development. PHR is restructuring its business lines and focusing more on industrial park development making use of its large landbank.

### 1. Breakthrough profits in 2H21 are expected from VSIP III along with stable operation in key business lines

**Compensation from VSIP III will greatly contribute to profit in the short term.** The shareholders at the Annual General Meeting disclosed PHR would receive VND691 billion in compensation from VSIP III, equivalent to 79.9% of the parent company's profit before tax. In addition, the operation of VSIP III will contribute 40% to the profit of PHR, of which 20% is from land lease and 20% is from PHR's holding stake in VSIP III (VSIP III was submitted to the Prime Minister for operation approval).

**Sales of rubber segment are relatively positive.** In the first six months of the year, Vietnam's rubber exports hit historic peak at USD1,203 billion (+88.6% YoY), meanwhile, world rubber prices remained high over the same period last year with futures contracts in Japan averaging USD2.21/kg in 2Q21 (+71.6% YoY). The reason behind these was the rising demand in two major markets China and the US to accelerate economic recovery amid supply shortage as major provider have been struggling against the pandemic. In the first half of 2021, PHR's rubber sales reached VND698 billion (+83.8% YoY), helping gross profit margin increase mildly from 14.7% to 15.3%. KBSV expects that the positive results of rubber segment will continue and contribute stable profits to PHR in the coming time.

**PHR recorded high profit from Nam Tan Uyen JSC.** The associate company Nam Tan Uyen JSC (NTC) made a big contribution to PHR's profit and cash flow. At the AGM, NTC set profit and revenue targets of VND226.8 billion (-22% YoY) and VND472.1 billion (-1% YoY) respectively. However, 2Q21 profit reached VND163.5 billion, fulfilling 72.1 % of the whole year plan. KBSV expects NTC's NPAT in 2021 to be at least equal to that of 2020, reaching VND290 billion, thereby contributing about VND95 billion to PHR's profit, assuming a breakthrough profit from the expansion of Nam Tan Uyen Industrial Park.

## 2. Industrial park projects will be the driving force for profit growth in the coming time

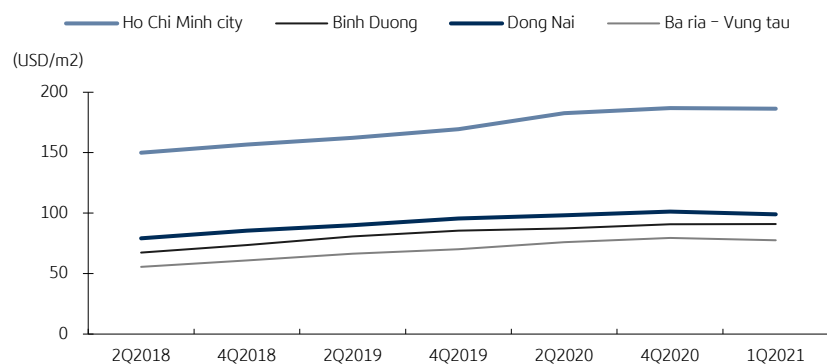
The conversion of rubber land into industrial land plays a pivotal role in the long-term growth of PHR. We expect PHR's industrial park segment to continue to be positive based on the following factors:

**Vietnam remains an attractive destination for FDI.** Despite the complicated developments of the pandemic, FDI inflows into Vietnam still rose dramatically, driven by: (1) Lower labor costs compared to regional counterparts; (2) Favorable geographical location; (3) Preferential policies from effective free trade agreements (FTAs); and (4) Shifting of large enterprises from China into Vietnam due to ongoing US-China trade tensions. A survey by JESTRO at the end of 2020 indicated that Vietnam came second after Thailand to which manufacturing enterprises want to move production bases from China.

**Binh Duong Industrial Park project will be the driving force for profit growth in the coming time.** PHR's projects to convert rubber land into industrial one are all in Binh Duong Province with a favorable location adjacent to the economic center of Ho Chi Minh City as well as Tan Son Nhat International Airport and Cat Lai Port. Moreover, Binh Duong is home to a large number of manufacturers and suppliers with abundant labor force. As a result, Binh Duong is one of the five provinces attracting FDI inflows the most during the 2016–2020 period. Notably, Binh Duong's registered FDI ranked fourth in the first half of 2021, only after Ho Chi Minh City, Long An and Can Tho. Besides, rising demand outweighed supply, causing leasing prices to rise steadily over the years, averaging USD90/m<sup>2</sup>. KBSV expects this upward trend to continue with an increase of 3–5% per annum in the years to come.

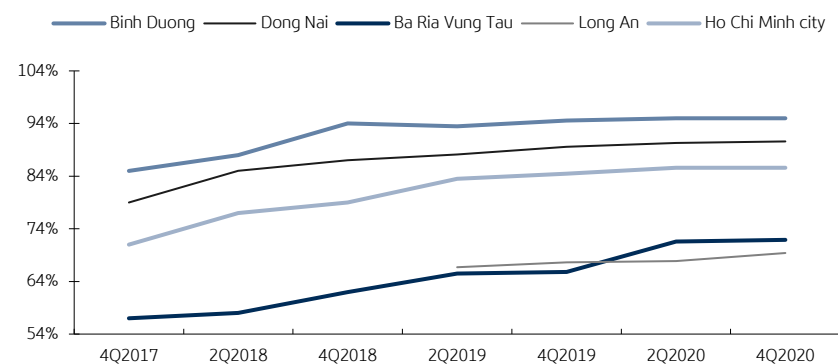
**PHR plans to convert a large landbank it owns in Binh Duong into industrial land in the long run.** PHR currently plans to convert about 4,000 ha of rubber land into industrial land, of which 200 ha is for Tan Lap Industrial Park Phase 1 that should be put into operation in 2022, and Tan Binh Industrial Park Phase 2 expanded in 2024. We hope the industrial park segment with high gross profit margin outperforming the rubber segment's will be the main growth driver for PHR in the coming time.

**Fig 4. PHR – Leasing prices of industrial parks in the South (USD/m<sup>2</sup>)**



Source: JLL

**Fig 5. PHR – Occupancy rate of industrial parks in the South (%)**



Source: JLL

**Table 6. PHR – Industrial Park projects**

Industrial parks	Investor	PHR's ownership	Area(ha)	Leasable land (ha)	Status	Occupancy rate	Launch
NTU1	NTC	33%	332	229	Operating	100%	2004
NTU2	NTC	33%	289	201	Operating	100%	2010
Tan Binh	Tan Binh Industrial Park JSC	85%	353	245	Operating	100%	2012
Nam Tan Uyen expanded Phase 2	NTC	33%	346	259	Waiting for the procedure to be completed	0%	2021F
VSIP III	Vietnam Singapore Industrial Park (VSIP Bac Ninh Co., Ltd)	20%	1,000	700	Submitted to the Government	0%	2021F
Tan Lap Phase 1	Vietnam Future Town Corporation	51%	200	150	Waiting for provincial legal approval	0%	2022F
Tan Binh expanded Phase 2	CTCP KCN Tân Bình	85%	1,055	791	In plan	0%	2023F
Hoi Nghia	PHR	100%	715	536	In plan	0%	2024F
Tan Binh expanded Phase 3	Tan Binh Industrial Park JSC	85%	400	300	In plan	0%	2026-2030F
Tan Lap expanded Phase 1	Vietnam Future Town Corporation	51%	287	215	In plan	0%	2026-2030F
Binh My	PHR	100%	1,000	750	In plan	0%	2026-2030F
Tan Thanh	PHR	100%	312	234	In plan	0%	2026-2030F

Source: Phuoc Hoa Rubber, KB Securities Vietnam

### 3. Dividend yield is expected to be attractive

**It is expected that PHR will pay high dividend yield in 2021.** PHR have paid dividends during the past time thanks to stable cash flow from rubber trading and industrial land conversion. In 2020, PHR spent a total of VND418 billion to pay cash dividends at the rate of 6.2% of closing price on July 23, 2021. At the 2021 AGM, PHR approved the plan to pay dividends at the rate of 45% for 2020 and at least 40% for 2021, equivalent to a profit margin of 9.2% and 8.0% of current price respectively. With positive net cash flow increasing over the years from production activities along with prospects of current sectors, we believe PHR will continue to maintain or raise the dividend yield in the coming years.

## RISKS

**Legal risk.** The compensation related to VSIP III should be paid in the second half of 2021. However, recent scandals involving the leaders of Binh Duong Province may impact the licensing process to convert rubber land into industrial land of VSIP III and Tan Lap Industrial Park in the near future, thereby directly affecting profits in 2021–2022.

**Pandemic risk.** The development of COVID-19 has become more complicated in the Southern region, including Binh Duong. Although PHR was not directly affected since it received lease payments from businesses right after signing contracts, the new customer source of industrial park projects VSIP III or Nam Tan Uyen will be affected against the backdrop of unpredictable pandemic, which might hit PHR's profit. However, Binh Duong has boosted vaccination in industrial zones, so KBSV believes the impact of the pandemic is only in the short term.

## VALUATION

### FORECAST 2021 BUSINESS RESULTS

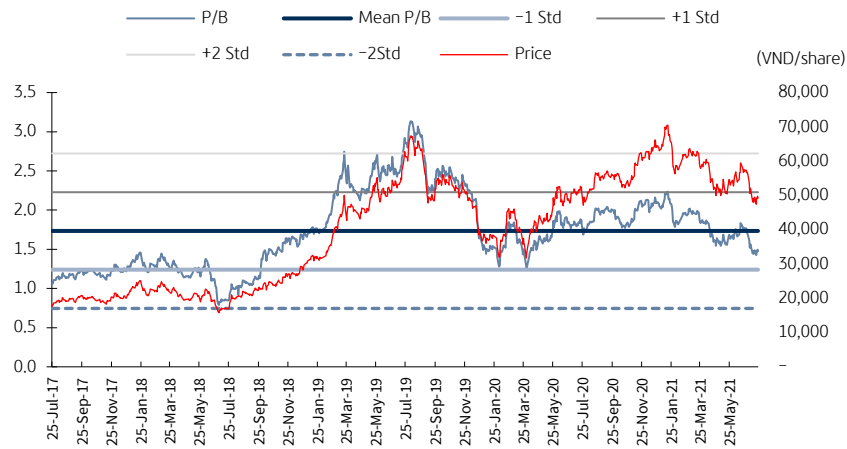
On the assumption that PHR will receive compensation from VSIP III in 2H21, we forecast PHR's NPAT at VND881 billion (-21.7% YoY) due to the insignificant profit from existing industrial park projects and revenue at VND2,088 billion (+28% YoY) mainly thanks to the great contribution of rubber segment.

### VALUATION

Based on two methods of valuation discounted cash flow (DCF) and historical P/B vs. forward P/B multiples with the ratio of 50:50, business prospects and possible risks, we recommend BUYING PHR shares with a target price of VND65,700 apiece, 34.6% higher than the closing price on July 26, 2021. PHR stocks are currently traded at a P/B forward 2021 of 1.48x, with great potential from large landbank in Binh Duong that currently faces short-term difficulties in project approval. We expect a fair P/B for PHR at the end of 2021 at 1.73x, equivalent to the average P/B forward of PHR in the last four years.



**Fig 7. PHR – P/B forward (x)**



Source: KB Securities Vietnam

**Table 9. PHR – Share price according to DCF (VND/share)**

Model assumptions	Value
Re	10.8%
Risk-free rate	2.9%
Market risk premium	8.2%
Beta	0.96
Long-term growth	0%
Duration	6 years

Source: KB Securities Vietnam

**Table 8. PHR – 2021F–2022F business performance**

	2019	2020	2021F	2022F
Net sale	1,639	1,632	2,088	2,416
Cost of goods sold	1,286	1,243	1,761	1,950
Gross profit	353	389	327	466
Selling expenses	28	29	37	43
Management costs	90	84	106	123
Financial expenses	48	54	26	21.5
Profit before tax	607	1,382	1,083	608
<b>NPAT</b>	<b>450</b>	<b>1,082</b>	<b>847</b>	<b>476</b>

Source: KB Securities Vietnam

**Fig 10. PHR – Target price according to PCF & P/B valuation methods (VND)**

Valuation method	Estimated price (VND)	Weight	Weighted price (VND)
FCF	73,615	50%	36,807
P/B	57,740	50%	28,870
<b>Target price</b>			<b>65,700</b>

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

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**Investment ratings & definitions**

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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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