

Industry: Industrial area

Vietnam Rubber Group - (HOSE: GVR) Potential from the land

Recommendation Neutral

Curent price (VND):	20,050
Previous target price (VND)	19,212
Target price (VND):	23,624
Dividend yield	0%
Upside	17%

Date:	08/12/2020	Shareholder structure	
Shares outstanding (Million)	4,000	Government	96.77%
Capitalization (bil VND)	67,000	Tran Ngoc Thuan	0.01%
Average 6 months volume trading:	5,455,769		
% foreign float	12.24%		

Industrial analyst:

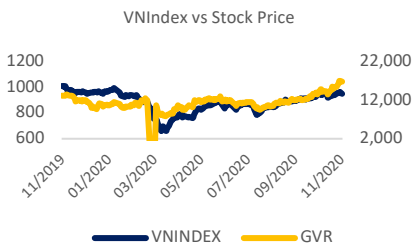
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Technical analyst:

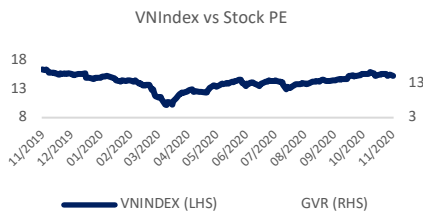
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Target price:	29,500
Stop-loss price:	18,500

Share price & VN index movement



GVR's P/E VN index movement



Valuation

- BSC maintains a **BUY recommendation for GVR stock with a target price of VND 23,624 (upside 18%)** based on a partial valuation method with profits mainly coming from (1) rubber, timber, (2) industrial parks. and (3) divestment. We adjust our target price compared to the [old report](#) due to the update of GVR's new projections and profit from divestment.

Forecast of business performance

- We forecast that, in 2020, GVR's revenue will reach VND 19,610 billion (-1% YoY), NPAT = VND 3,862 billion (+16% YoY), equivalent to EPS = VND 966/share. In 2021, BSC forecasts that GVR's revenue will reach VND 23,185 billion (+18% YoY), EAT = VND 3,683 billion (-4.6% YoY), equivalent to EPS = VND 921/share.

Investment thesis

- Converting rubber land into industrial zones and residential projects is the main strategy of GVR.** Projects include (1) 6,361 hectares of self-developed and upcoming industrial parks, (2) 5,000 hectares of land intended to self-develop industrial zones from 2025 onwards and (3) more than 23,000 hectares of converted land for investors. other or infrastructure projects.
- GVR will record compensation for transferring rubber land into Long Thanh airport in November 2020**, recording a profit of VND 1080 billion (21% of PBT)
- The recovery of rubber prices supported the rubber profit segment.** BSC expects 2021-2025: rubber output +5% yoy, selling price +10% yoy, rubber industrial products: output +5% yoy, selling price +10% yoy.
- Divestment of subsidiaries.** BSC estimates that GVR will book a profit from the divestment of SIP and GVR at about VND 979 billion (19% of PBT).

Investment risk

- Projects with delayed approval of legal procedures took longer to come into operation than we expected.

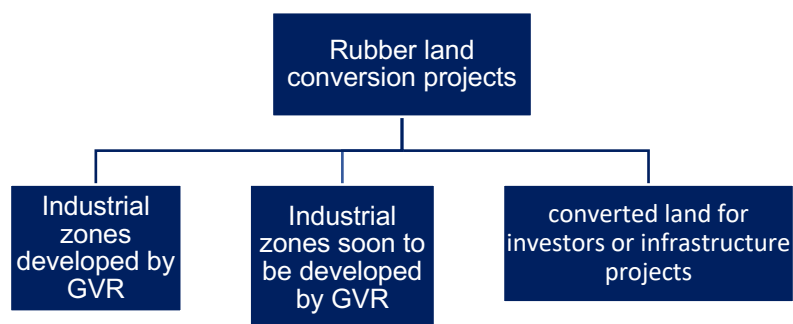
Financial results & business update

- **Accumulated 9M2020**, the revenue of 12,132 billion VND (-6.3% yoy), EAT reached 2,032 billion VND (-12% yoy), completing 51% of profit plan. yoy.

	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	13.0	16.9	15.8	10.9	Total revenue	20,048	19,713	19,610	23,185
PB (x)	0.9	1.3	1.8	1.9	Gross profit	5,246	4,515	4,266	5,285
PS (x)	0.85	0.86	2.16	29	NPAT	3,936	3,334	4,000	3,752
ROE (%)	7.0%	8.0%	16.5%	13.3%	EPS	984	834	1,000	938
ROA (%)	4.0%	5.0%	6.5%	2.3%	EPS growth	41%	-15%	20%	-6%

Financial results & business update

Converting rubber land into industrial zones and other projects is the main direction of GVR. BSC expects that investment and development of public projects will promote the demand for faster conversion of rubber land. GVR owns a large land bank of about 407,800 hectares. GVR is also the enterprise with the largest rubber area in the industry, oriented to transfer rubber land into an industrial park. GVR's land fund, when converted into industrial parkland, has certain advantages compared to other industrial zones in saving time and compensation costs rather than compensating for residents.



The rubber land conversion projects include (1) 6,361 ha of self-developed GVR industrial parks, (2) 5,000 ha of land intended for self-development of industrial parks from 2025 onwards and (3) more than 23,000 ha converted to land for other investors or infrastructure projects (details on valuation). We expect GVR will step up the land transfer to the locality to promptly meet the rapidly growing industrial park demand.

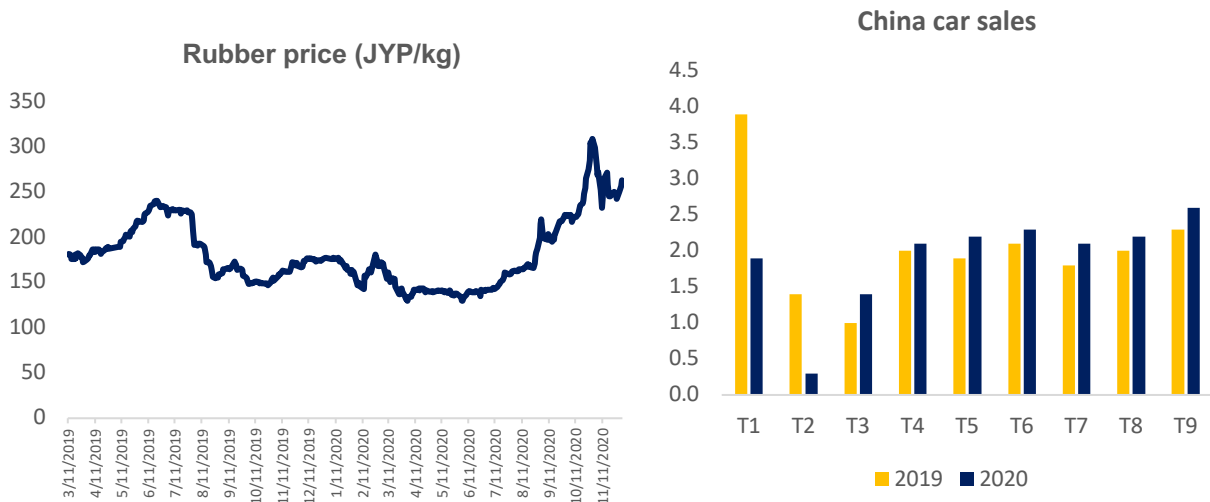
GVR's Table of Developing and Upcoming Industrial Parks

	Location	Deployment time	Ownership	Area
Nam Tan Uyen (NTC 3)	Binh Duong	2020	42,3%	346
Rach Bap open	Binh Duong	2020	92,7%	360
Tan Lap I	Binh Duong	2021-2025	34,0%	400
Tan Binh open	Binh Duong	2021-2025	59,6%	1.055
Hoi Nghia	Binh Duong	2021-2025	66,6%	560
Minh Hung III open	Binh Duong	2021-2025	55,4%	590
Bac Dong Phu open	Binh Phuoc	2021-2025	45,4%	400
Nam Dong Phu open	Binh Phuoc	2021-2025	45,4%	400
Dau Giay open	Dong Nai	2021-2025	71,8%	75
Long Khanh open	Dong Nai	2021-2025	75,7%	500
Nam Pleiku open	Pleiku	2021-2025	100,0%	200
Total area				4.886

Source: GVR, BSC research

GVR will record compensation for the transfer of rubber land into Long Thanh airport in November 2020. Dong Nai province has approved the compensation plan for the area of about 1,800 hectares of rubber plantation land of GVR to implement the Long Thanh International Airport project with the unit price of VND 600 million /ha. It is expected that in November 2020, GVR will hand over land to the state and record about VND 1,080 billion (contributing 22% of PBT).

The recovery of rubber prices supported the rubber profit segment. Rubber prices recovered after a deep decline, the average rubber price in 11M2020 reached JPY 175/kg (+5% YTD), in November 2020 alone reached JPY 256/kg (+30% yoy). The reason for the recovery of world rubber prices is mainly due to the lack of supply in the rainy season in Thailand and the labor shortage in rubber-growing areas because of the COVID-19 epidemic prevention measures affecting the exploitation. latex. **BSC expects the demand for natural rubber will increase as Chinese automakers ramp up production after the pandemic.** According to the China Association of Automobile Manufacturers, car sales in China started to recover with Q3/2020 sales of 6.92 million units, up 5% compared to the second quarter and up 13% over the same period. period, showing a return to growth in the Chinese auto market (this is Vietnam's largest rubber export market, accounting for more than 60% of export turnover).

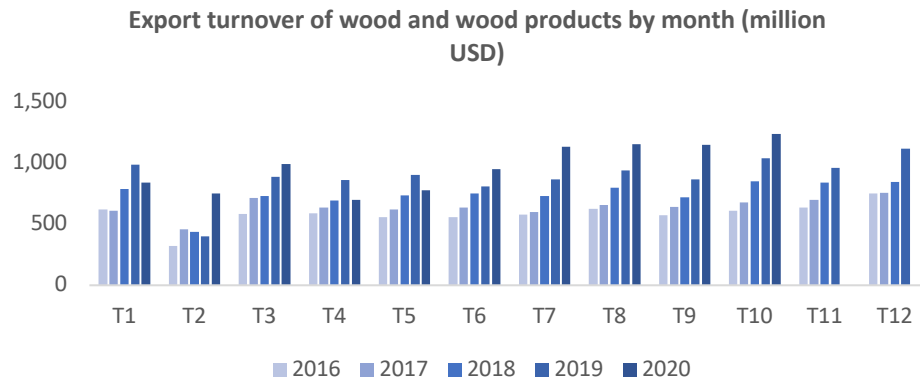


Source: BBG, BSC Research

Source: CAAM, BSC Research

The wood processing segment is expected to grow again after the Covid-19 pandemic, but it also becomes more competitive. BSC believes that exports of wood and wood products will recover, supporting domestic wood demand, but gross profit margin will decline at 21% (from 26% in 2019):

- (1) The export value of wood and wood products (W&WP) recorded 5 consecutive months of recovery after the pandemic.** W&WP export turnover in October 2020 reached 1.2 billion USD (+19% yoy), accumulated 10M2020 reached 9.64 billion USD (+13% yoy). We attribute this positive development to the fact that the Covid-19 epidemic has not occurred in the community, production activities have been restored quickly, and Vietnamese wood products are supported by FTA agreements. We expect Vietnam's export value of W&WP to record a CAGR of about 10% in the medium term (period 2021-2025). For GVR, the main market for rubberwood is domestic, we expect GVR to benefit indirectly from the increase in exports with a CAGR equivalent to about 10%/year.



Source: General Department of Vietnam Customs, BSC Research

(2) **However, GVR's MDF is becoming more competitive** with imported products from Malaysia, Thailand and Indonesia, leading to a decrease in selling price and gross profit margin (from 26% in 2019 to 21). % in 9M2020). We expect GVR to maintain this gross profit margin thanks to its plan to maintain the MDF segment and expand to other products with better profit margins, reduce competition and take advantage of liquidated rubber wood. available.

Continue to restructure the whole group, divest in inefficient business segments. GVR plans to convert 20 one-member agricultural companies into joint-stock companies, attracting outside investment capital and reducing the Group's capital in these units. The Group continues to divest capital from other businesses, including those that are effective, to focus on investing in areas with high-profit margins such as the development of industrial parks associated with residential areas. With the restructuring roadmap, the value to be divested of GVR under the approved plan is VND 2,081 billion (Appendix table).

(1) Divestment of SIP. Currently, GVR owns 13.5% of shares in SIP, the company plans to divest SIP as follows: Phase 1, GVR will divest 9.34 million shares at the price of VND 97,500/share in 2020 and the period 2, GVR will divest the rest of 1.36 million shares in the next year. BSC estimates that GVR will book a profit from the divestment of SIP at around VND 900 billion (contributing 17.6% of PBT).

(2). Divestment of VRG. GVR approves divestment of VRG with the starting price of 20,800 VND/share, with 4 million shares owned, estimated profit from VRG divestment is about 83 billion VND (contributing % 1.6% EBT).

Updated business results. In 9M2020, revenue is 12,132 billion dong (-6.3% yoy), EAT is 2,032 billion dong (-12% yoy), completing 51% of the profit plan. Particularly in the third quarter of 2020, revenue reached +16% yoy, EAT equivalent to the same period in which:

- Growth in rubber revenue in the third quarter of 2020 at +27% yoy. The reason for the recovery of world rubber prices is mainly due to **(1)** a lack of supply caused by the rainy season in Thailand and low efficiency of latex exploitation due to the pressure of shortage, and **(2)** labor shortage due to the Covid-19 epidemic.
- The wood segment saw a slight increase in Q3 revenue +6% yoy, however, due to more competition with imported products from Malaysia, Thailand and Indonesia, the selling price decreased and gross profit margin decreased to 21% in 9M2020. (from 26% in 2019).
- The increase in profit mainly came from a strong increase in financial income to 1,372 billion (three times higher than the same period).

Business results forecast:

We forecast that in 2020 GVR's revenue will reach VND 19,610 billion (-1% YoY), EAT = VND 3,862 billion (+16% YoY), equivalent to EPS = VND 966/share. In 2021, BSC forecasts that GVR's revenue will reach VND 23,185 billion (+18% YoY), EAT of VND 3,3683 billion (-4.6% YoY), equivalent to EPS = VND 921/share:

Rubber segment: In 2020: Latex: rubber output -10% yoy, selling price +8% yoy, rubber industrial products +20% and selling price +10% yoy/year. In 2021-2025: CARG rubber output = 5%, selling price of rubber latex 10%yoy, rubber industry products: output +5% yoy, selling price +10% yoy thanks to tire production demand automobile and rubber glove products rose again.

Wood segment: In 2020 and with a wood output of all kinds -5%, selling price -15% yoy due to the impact of the Covid pandemic on the 2020 market and competition with imported products, in 2021-2025 it is expected that output CARG output wood of all kinds = 10%, CARG selling price = 10% yoy.

Industrial zone segment: The rental area is 400ha/year, in 2020 alone, the rental area is only about 200ha due to the impact of the Covid pandemic, the rental price grows at CARG 5%/year.

Financial income. BSC expects that in 2020, GVR will divest SIP and VRG, recording an estimated profit of 982 billion. As a result, financial income increased significantly to about VND 1,817 billion (+136%yoy) from (1) bank deposits and (2) divestment.

Business activities	2019	2020	2021	2022	2023
Revenue	19,713	19,610	23,185	26,476	30,482
Rubber	12,757	12,398	14,321	16,541	19,106
Wood	3,681	3,282	3,974	4,804	5,813
Industrial area	1,011	1,093	1,745	1,839	1,932
Others	1,262	1,410	1,500	1,391	1,434
Gross profit	4,515	4,266	5,285	5,896	6,426
Gross profit margin	23%	22%	23%	22%	21%
Selling & administrative expenses	(2,436)	(2,423)	(2,838)	(3,246)	(3,753)
Operating profit	2,389	3,235	2,946	2,901	2,840
Financial income	791	1,871	964	699	611
Financial expense	(790)	(790)	(775)	(759)	(755)
Other income	1,862	1,691	1,751	1,720	1,736
Profit before tax	4,252	4,926	4,697	4,621	4,576
Profit after tax	3,334	3,862	3,683	3,623	3,588

Valuation.

BSC maintains a BUY recommendation for GVR stock with a target price of VND 23,624 (upside 18%) based on a partial valuation method with profits mainly coming from (1) rubber, wood, (2) industrial parks and (3) divestment of subsidiaries. We believe that GVR is a business benefiting from the increasing demand for industrial land, the current valuation of GVR is attractive with great potential from the land bank owned by the enterprise. We adjust the target price compared to the [old report](#) due to the update of GVR's new projections and the divestment of SIP, VRG. As follows:

Method	Value of GVR (Billion VND)

Rubber & Wood	DCF	22,605
Industrial Park	RNAV	66,887
Divestment (SIP, VRG)	MV	1,200
Others	BV	2,081
Total NAV		90,692
Cash & cash equivalent		15,552
Debt		(11,747)
Net asset value		94,497
Number of shares outstanding (million)		4,000
Fair value (vnd/ share)		23,624
Closing price (08/12/2020)		20,030
Upside		18%

(* Other: these are non-core businesses (Hydropower, construction, tourism, ...), GVR has plans to divest (Detailed Appendix Table)

Rubber and timber segment: We use discounted cash flow method because cash flow from this segment is quite stable and predictable, with a discount rate of 10%.

FCFF	2020	2021	2022	2023	2024
NPAT	3,862	3,683	3,623	3,588	2,749
Interest * (1-t)	504	494	484	482	492
Discount	1,110	1,138	1,169	1,232	1,420
- change of networking capital	(274)	(1,529)	(1,475)	(1,797)	(2,264)
- change of fixed asset	1,170	1,359	1,633	1,908	1,976
FCFF	6,372	5,145	5,434	5,413	4,373
Current value FCFF	6,372	4,677	4,491	4,070	2,995
Cummulative value FCFF	22,605				

Industrial zone segment: We use RNAV method to value industrial land. The land fund GVR needs to hand over to the local will follow the method of converting rubber plantation land into industrial zones developed by GVR itself or handed over to outside companies (depending largely on the Government's planning decision), in which:

Valuation table of the Industrial Park Segment

	Value	GVR's ownership	Value of GVR (Billion VND)
Industrial Park self-developed by GVR	62,334	63%	39,270
Converted land for investors and infrastructure projects	32,491	85%	27,617
Total value			66,887

(*): Average ownership percentage

GVR industrial zones developed: The average annual total area of GVR industrial zones for rent is about 350-450ha, the rental price of industrial parks in Binh Duong and Dong Nai provinces is quite high at 90-

100 USD/m²/time lease term, further areas such as Tay Ninh, Binh Phuoc, Ba Ria Vung Tau... have lower prices (40-80USD/m²/lease term). Therefore, we assume, (1) the average rental price is about 70 USD/m²/lease term, CAGR = 5% yoy (reflecting areas far from the center), (2) the leased area is 400ha /year (in 2020 alone, the rental area is only about 200ha due to the impact of the Covid pandemic).

Table of assumptions for forecasting industrial zones developed by GVR itself

Industrial Park	Total area	Commercial area (ha)	2020	2021	2022	2023	2024	2025	2026-2035
Identified, self-developed industrial zones for lease	6,361	3,817 (*)	20 0	450	400	400	400	400	1,567
Unspecified, self-developed industrial zones for lease	5,500	3,300 (*)	-	-	-	-	-	500	2,800
Average selling price (USD/m ² /month)			70	74	78	82	86	90	95
% yoy				5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

(*): Assume that the commercial area accounts for 60% of the total area similar to the old industrial zone

Source: BSC Research

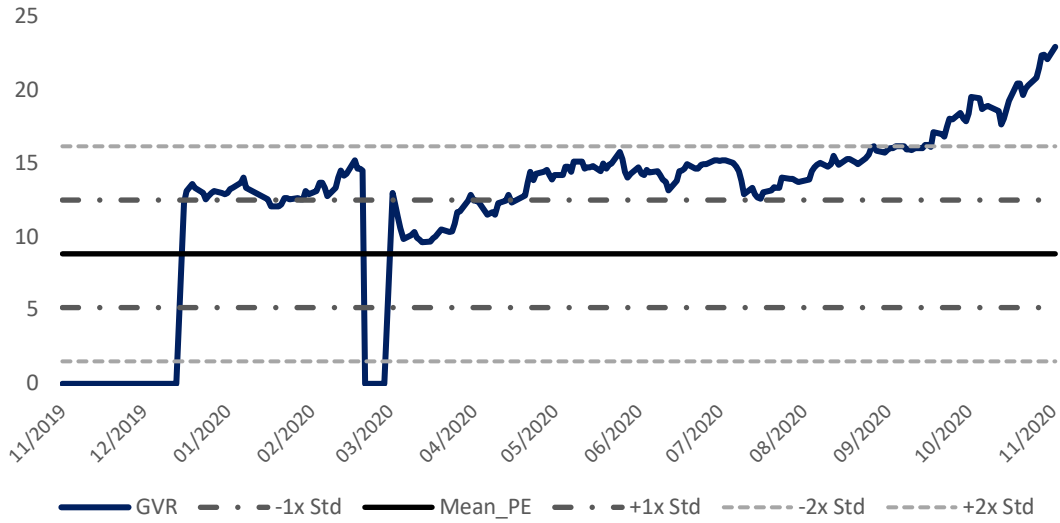
Projects transferred to other investors: Enterprises are expected to transfer: **(1) in 2020:** 1,800 hectares, phase 1 of Long Thanh, Nam Tan Uyen 3 airport projects (346 hectares), **(2) phase period 2021-2025:** VSIP Industrial Park (691 ha), and Tan Lap I of PHR with and **(3) period 2026 onwards:** 3,400 ha to develop into residential areas (Bien Hoa City, Long Khanh City and districts Long Thanh, Thong Nhat, Cam My, Trang Bom, Dinh Quan), BSC is assumed to deploy from 2026 onwards with a discount of 50%. In addition, GVR plans to hand over an additional 1,000-2,000 ha annually to return land to localities, we assume a compensation price of around VND 400 million/ha (annual price growth rate 5%/yoy) (lower than VND 600 million/ha to reflect areas further away from the main land bank center in Dong Nai, Binh Duong,..).

Assumption table of transferred rubber land fund for other investors and infrastructure projects

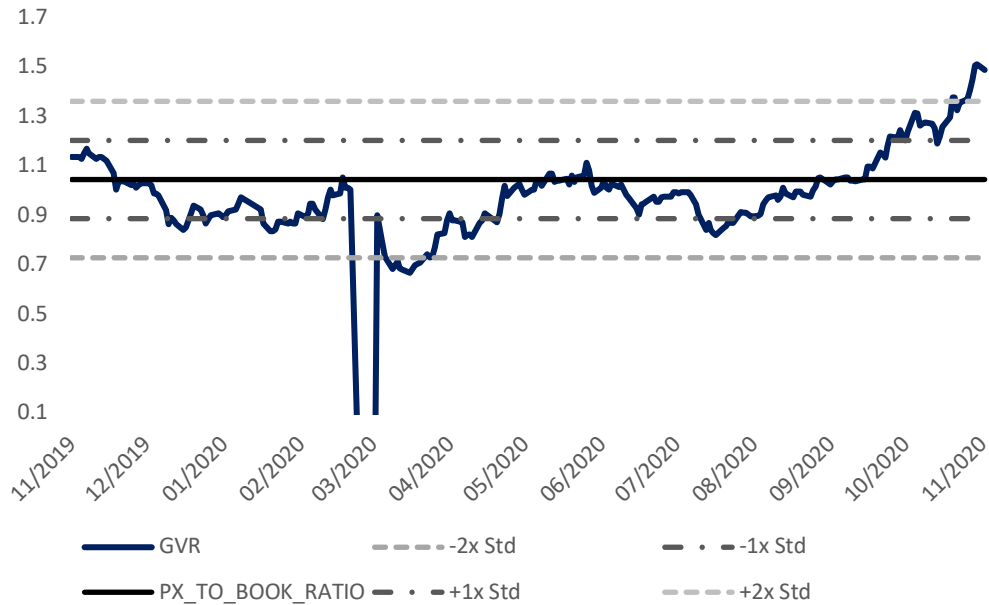
	Price	Total area (ha)	2020	2021	2022	2023	2024	2025	2026-2035
Nam tan Uyen 3	2.5 bil/ha	346	346.0						
VSIP	2.5 bil/ha	691		345.5	345.5				
Lai Hưng Industrial Park	2.5 bil/ha	600				300.0	300.0		
Long Thành airport project	0.6 bil/ha	2,100	1,800					300	
Other projects (Dong Nai, Tay Ninh, Binh Phuoc, Binh Duong)	0.4 bil/ha*	16,000	1,000	1,000	1,000	1,000	1,000	1,000	10,000
Residential project	0.09 - 4.38 mil/m ²	3,400							3,400

Source: GVR, BSC Research

STOCK PE



STOCK PB



APPENDIX

IS (billion VND)	2018	2019	2020F	2021F
Net revenue	20,048	19,713	19,610	23,185
Cost of Good Sold	(14,801)	(15,199)	(15,344)	(17,900)
Gross profit	5,246	4,515	4,266	5,285
Selling expenses	(418)	(466)	(463)	(520)
Administrative expenses	(1,526)	(1,970)	(1,960)	(2,318)
Operating profit	3,302	2,079	1,843	2,447
Financial income	571	791	1,871	964
Financial expense	(706)	(790)	(790)	(775)
Interest expense	(580)	(603)	(630)	(618)
Profit/ Loss from affiliates	313	309	311	310
Other gains/ losses	1,228	1,862	1,691	1,751
Profit before tax	4,708	4,252	4,926	4,697
Tax payment	(772)	(918)	(1,064)	(1,014)
Profit after tax	3,936	3,334	3,862	3,683
Minority interest	458	738	579	552
NPAT – Minority interest	3,478	2,596	3,283	3,131
EBITDA	4,570	2,939	2,606	3,237
EPS	984	834	966	921

BS (billion VND)	2018	2019	2020F	2021F
Cash & cash equivalent	5,160	7,115	6,131	4,849
Short-term investment	5,475	6,560	9,422	9,991
Account receivables	3,575	2,900	3,551	4,193
inventory	3,286	3,507	3,395	3,960
Other current assets	934	989	789	933
Current asset	18,429	21,070	18,524	20,494
Tangible asset	25,304	27,580	25,982	26,555
Depreciation	1,268	860	763	790
Long-term asset in progress	25,425	21,745	26,799	25,652
Long-term investment	3,610	3,431	3,679	3,927
Other non-current assets	2,412	2,487	2,449	2,468
Non-current asset	58,944	57,447	61,090	61,104
Total asset	77,373	78,517	79,615	81,599
Account payable	28,031	27,920	28,677	29,429
Short-term debt	3,368	2,787	3,498	4,081
Other short-term debt	6,969	6,942	6,998	8,106
Current liabilities	10,337	9,729	10,496	12,187
Long-term debt	10,032	9,076	9,029	8,126
Other long-term debt	7,661	9,116	9,152	9,116
Non-current liabilities	17,693	18,192	18,181	17,242
Liabilities	28,031	27,920	28,677	29,429
Paid-in capital	40,000	40,000	40,000	40,000
Capital surplus	130	130	130	130
Retained earnings	4	5	4	5
Other equity	4,584	6,686	6,206	8,284
Minority interest	4,624	3,776	4,624	3,776
Owner's equity	49,342	50,597	50,964	52,195
Total resources	77,373	78,517	79,641	81,624
Number of shares outstanding (million)	4,000	4,000	4,000	4,000

CF (billion VND)	2018	2019	2020F	2021F
Profit after tax	3,936	3,862	3,810	3,776
Depreciation	1,268	860	763	790
Change on networking capital	(2,174)	351	(274)	(1,529)
Other adjustments	-	-	-	-
CF from operating activities	3,030	5,073	4,299	3,037
Fixed asset investment	(269)	(280)	(292)	(304)
Other investment	(1,883)	(1,346)	(1,346)	(1,346)
CF from investing activities	(2,152)	(1,626)	(1,638)	(1,650)
Dividend paid	(415)	(113)	(2,000)	(2,349)
Cash from net borrowing	(22)	(1,379)	664	(320)
Other revenue	1,531	-	(2,309)	-
CF from financing activities	1,094	(1,492)	(3,645)	(2,669)
Cash & cash equivalent, beginning of the year	5,161	5,160	7,115	6,131
CF during the year	(1)	1,955	(984)	(1,282)
Cash & cash equivalent, end of the year	5,160	7,115	6,131	4,849

Ratios (%)	2018	2019	2020F	2021F
liquidity				
Current ratio	1.78	2.17	2.22	1.80
Quick ratio	1.03	1.41	1.48	1.05
Solvency				
Dev/ Total asset	13%	12%	12%	15%
Debt/ Equity	57%	55%	56%	56%
Efficiency ratio				
Days of inventory	85.1	83.1	83.1	75.3
Days of receivables	32.2	29.2	29.2	30.1
Days of payable	23.0	25.4	25.9	24.7
CCC	94.3	86.9	86.4	80.7
Profitability ratio				
Gross profit margin	26%	23%	22%	23%
EBIT margin	20%	17%	20%	16%
ROE	8%	7%	8%	7%
ROA	5%	4%	5%	5%
Valuation				
PE	21.0	13.0	17.5	17.7
PB	1.7	0.9	1.3	1.3
Growth				
Net revenue growth	29.0%	-1.7%	-0.5%	18.2%
EBIT growth	81.3%	-37.0%	-11.4%	32.8%
Profit before tax growth	43.9%	-9.7%	15.9%	-1.4%
EPS growth	40.7%	-15.3%	15.8%	-1.3%

Source: BSC Research.

Listo of companies GVR plans to divest

Company's name	Authorized capital (billion VND)	Ownership (%)	Value belongs to GVR (tbillion VND)
VRG Dak Nong Joint Stock Company	298	70.3	209
VRG-Bao Loc Joint Stock Company	260	71.03	185
VRG Phu ten Joint Stock Company	420	81.77	343
Rubber Trading, Service and Tourism Joint Stock Company	427	52.51	224
GERUCO Song Con Hydropower Joint Stock Company	600	51.51	309
Rubber Construction – Real estate Joint Stock Company	0	30.3	0
Rubber Construction Investment Joint Stock Company	0	28	0
Vung Tau internation tourism Joint Stock Company	52	5.88	3
Irrigation Construction Corporation 4 - JSC	135	20.1	27
EVN international Joint Stock Company	2,400	11.78	283
Vinaconex Energy Development and Construction Investment Joint Stock Company	547	11.4	62
Viet Laos Electricity Joint Stock Company	5,300	3.5	186
FICO Tay Ninh Cement Joint Stock Company	750	18.13	136
National Highway 13 BOT Joint Stock Company An Loc Hoa Lu	162	14	23
Vietnam Securities Investment Fund	1,600	5.63	90
Total	13,933		2,081

Disclosure

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