

Recommendation

BUY

Da Nang Rubber Joint Stock Company (HSX: DRC)

Back On the Track

| | | | | | |
|------------------------|---------------|------------------------------|------------|------------------------------|--------|
| Current price: | 26,200 | Date: | 18/05/2021 | SHAREHOLDER STRUCTURE | |
| Previous target price: | - | Outstanding Shares (Million) | 119 | Vinachem | 50.51% |
| New target price: | 32,800 | Market Cap (VND billion) | 3,243 | KWE AG | 4.70% |
| Dividend yield: | 5.8% | Avg. 6M Trading vol: | 1,844,683 | | |
| Upside | 25% | % Foreign float | 9.2% | | |

Retail Research Department:

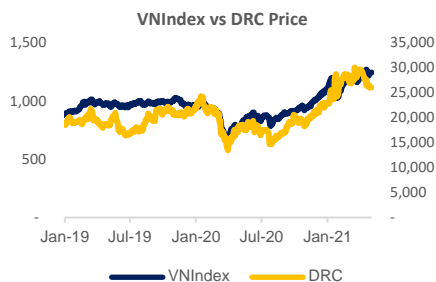
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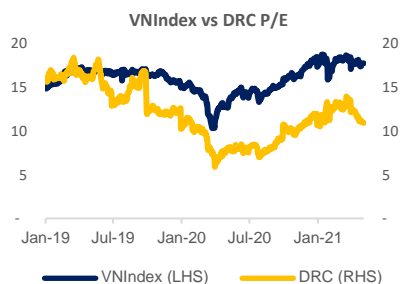
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Target price: N/A VND
Stop-loss price: 24,080 VND

Price comparison between DRC and VN index



P/E comparison between DRC and VN index



VALUATION

We recommend **BUY** DRC stock with a target price of **VND 32,800, +25%** compared to the price on May 18, 2021, based on P/E method.

FORECAST OF BUSINESS PERFORMANCE

We forecast that DRC's net revenue and NPAT in 2021 will reach **VND3,926 billion (+7.7% YoY)** and **VND371 billion (+44.6% YoY)** respectively, equivalent to 2021 fw P/E of 8.5x and 2021 EPS of VND9,197/share with our assumptions: (1) Radial tire and Bias tire sales volume reached **553,045 units (+9% YoY)** and **648,537 units (+3% YoY)**, (2) Average selling price of products increased slightly **+2% YoY** and (3) Gross profit margin is at **20%**.

INVESTMENT OUTLOOK

- High growth potential in the long term thanks to (1) Road transport continues to grow, contributing to the growth of truck and bus tire consumption and (2) Radialization trend increases tire consumption demand Radial instead of Bias tires.
- Benefit in the short term due to (1) the strong recovery of many markets and (2) Anti-dumping duties imposed on competitors.

TECHNICAL ANALYSIS

- Investors should reduce the proportion of stocks and monitor DRC's performance until DRC shows more positive signs, consider cutting losses if the support level 24 is penetrated.

RISKS

- COVID-19 continues to develop complicatedly, reducing the demand for tires and tubes.
- Increase in raw material and rubber prices reduces profit margin.

COMPANY UPDATE

- In Q1/2021, DRC recorded net sales and NPAT of **912 billion VND (+12.6% YoY)** and **64 billion VND (+70.1% YoY)** respectively thanks to the recovery of key markets and reduction of depreciation expense.

| | 2020 | 2021 | Peer | VN-Index |
|----------------|------|------|------|----------|
| PE (x) | 13.4 | 8.5 | 18.3 | 14.7 |
| PB (x) | 1.9 | 1.8 | 2.5 | 2.0 |
| PS (x) | 0.9 | 0.8 | 2.0 | 1.5 |
| ROE (%) | 15.4 | 18.2 | 13.7 | 13.3 |
| ROA (%) | 11.6 | 12.7 | 2.2 | 2.4 |
| EV/ EBITDA (x) | 5.5 | 5.3 | 17.3 | 14.0 |

| | 2018 | 2019 | 2020 | 2021F |
|------------------|--------|-------|-------|-------|
| Net Sales | 3,551 | 3,858 | 3,647 | 3,926 |
| Gross Profit | 431 | 571 | 599 | 749 |
| NPAT | 141 | 251 | 257 | 371 |
| EPS | 1,187 | 2,109 | 2,160 | 3,122 |
| EPS Growth | -15.1% | 77.7% | 2.4% | 44.6% |
| Net Debt/ Equity | 86% | 66% | 44% | 39% |

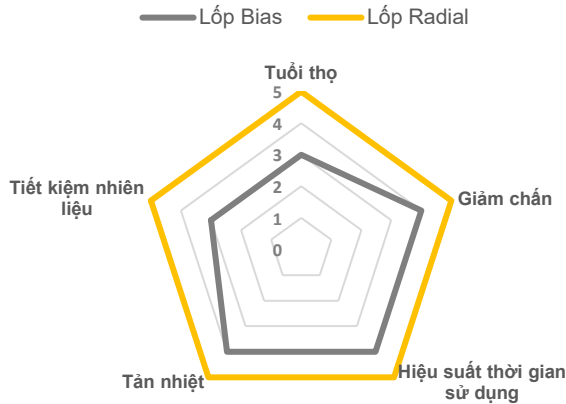
INVESTMENT THESIS

High growth potential in the long term

The demand for radial truck and bus tires in Vietnam will continue to increase thanks to (1) the trend of “Radialization” to gradually shift the consumption of Bias tires to Radial tires and (2) the development of road transport. tire consumption.

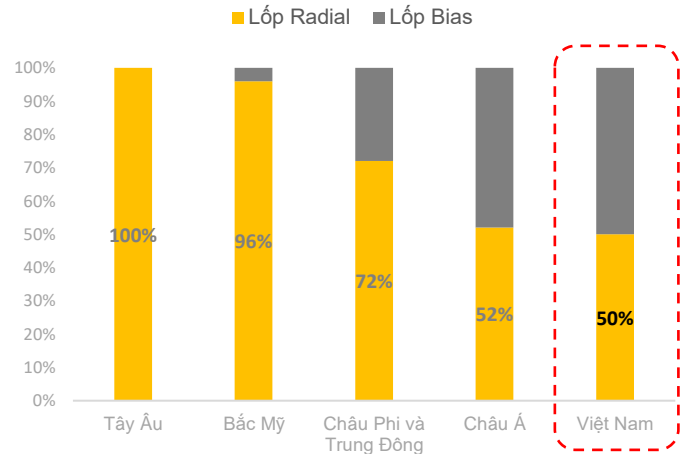
Possessing superiority in many aspects compared to Bias tires, Radial tires are now being used more and more widely around the world – forming the trend of “Radialization”. Realizing the benefits of Radial tires, Vietnam is also not out of the trend when continuously increasing the use rate of Radial tires - currently at 50% - which is much lower than many countries around the world.

Figure 1: Radial tires possess many advantages over Bias tires



Source: BSC Research summarize

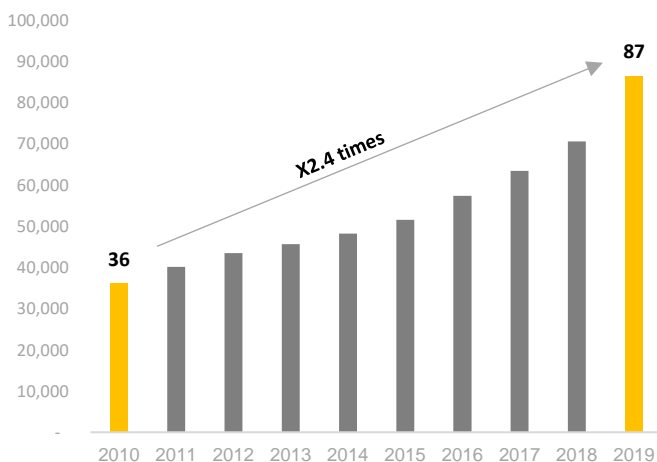
Hình 2: Radialization rate in Vietnam is still low compared to the world



Source: Market Records, BSC Research

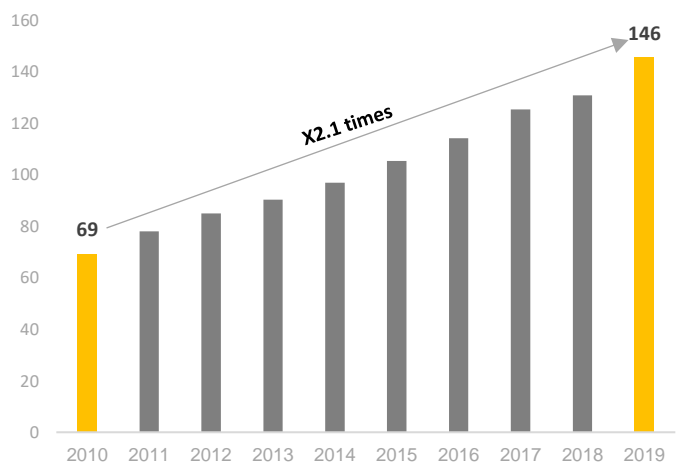
With the advantage of convenience, mobility and high adaptability to terrain conditions, road transport is relatively more popular than other modes such as air, sea, etc. This is proven through the transportation. Road transport has the **volume of goods/passengers continuously increasing over the years and accounts for the largest proportion in the volume of goods/passengers transported.**

Figure 3: The volume of goods in transit by road increased 2.4 times in 9 years (billion tons.km)



Source: MOIT, BSC Research

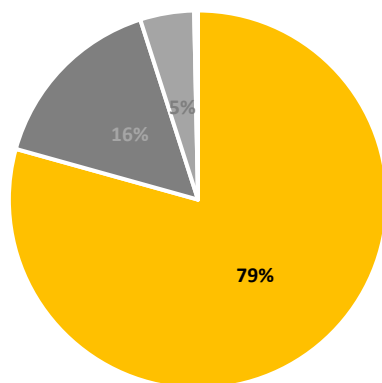
Figure 4: Number of passengers traveling by road increased 2.1 times in 9 years (billion people.km)



Source: MOIT, BSC Research

Figure 5: Road transport accounts for the highest proportion of freight volume

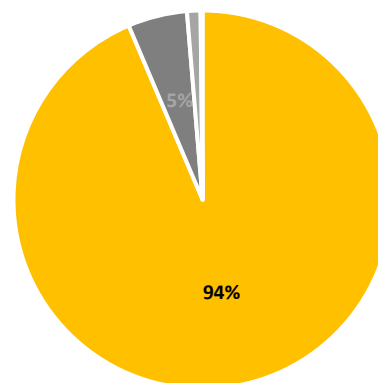
■ Đường bộ ■ Đường sông ■ Đường biển ■ Đường sắt ■ Đường hàng không



Source: MOIT, BSC Research

Figure 6: Road transport accounts for the highest proportion of passengers transported

■ Đường bộ ■ Đường sông ■ Đường hàng không ■ Đường sắt



Source: MOIT, BSC Research

With the current state of infrastructure and road transport system being focused on investment and synchronous development in Vietnam, BSC believes that **road transport will continue to develop - playing an important role in the logistics system and the superiority of Radial will be more evident**, thereby **boosting the demand for Radial truck & bus tires, creating great growth opportunities in the long term for DRC**.

Capacity expansion plan helps DRC ensure to take advantage of industry-wide growth

DRC has planned to invest in the Radial project phase 3 to double its capacity to **1,000,000 tires/year**. With an estimated investment capital of only **830 billion VND**, much lower than in the previous two periods thanks to the use of invested factories and equipment. The project is expected to be implemented from Q4/2021 and will be put into operation from 2024.

Table 1: Information about Radial DRC projects

| | Phase 1+2 | Phase 3 |
|--|-----------|---------|
| Capacity (tires/year) | 600,000 | 400,000 |
| Investment capital (billion VND) | 2,167 | 700 |
| Investment rate (billion VND/1,000 tires) | 3.61 | 1.75 |

Source: DRC, BSC Research

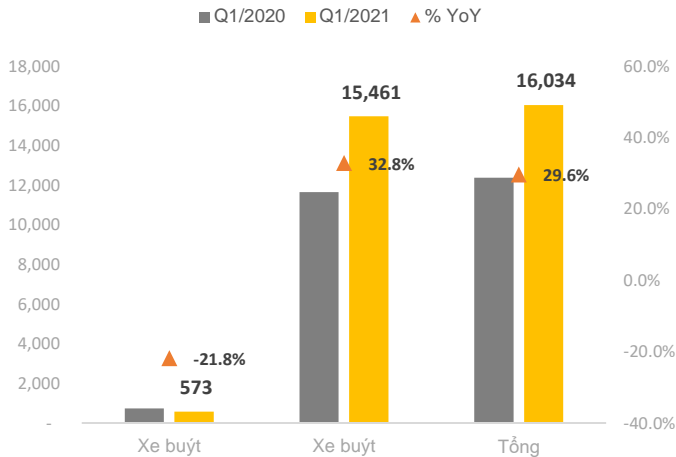
The truck and bus tire market is highly fragmented with a wide variety of tire products manufactured by FDI enterprises and imported from China. In which, some big brands can be mentioned such as: Bridgestone, Michelin, Maxxis, Hankook. With well-finished product quality and relatively competitive prices, DRC tires are often appreciated, in the TOP 5 brands of truck/bus tires trusted by transportation units. Therefore, BSC believes that **DRC's capacity expansion plan will operate effectively and exploit the overall growth potential of the industry**.

Benefit in the short term

Major markets recovered strongly after the epidemic

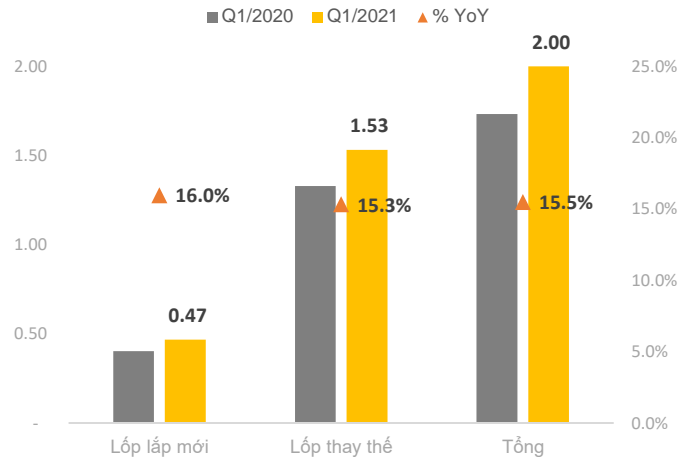
Production and business activities in Vietnam and Brazil, the US... are gradually stabilizing again, leading to growth in freight demand, thereby helping the truck and truck tire market to grow strongly. strong compared to the same period. BSC believes that **truck tire consumption will continue to grow strongly in 2021** thanks to (1) the epidemic is well controlled, the proportion of the population vaccinated with vaccines is increasing rapidly in many countries and (2) the demand for transportation. Goods rebounded strongly when trade activities and economies returned to normal.

Figure 7: VAMA's commercial vehicle sales increased sharply in Q1/2021 (Vehicles)



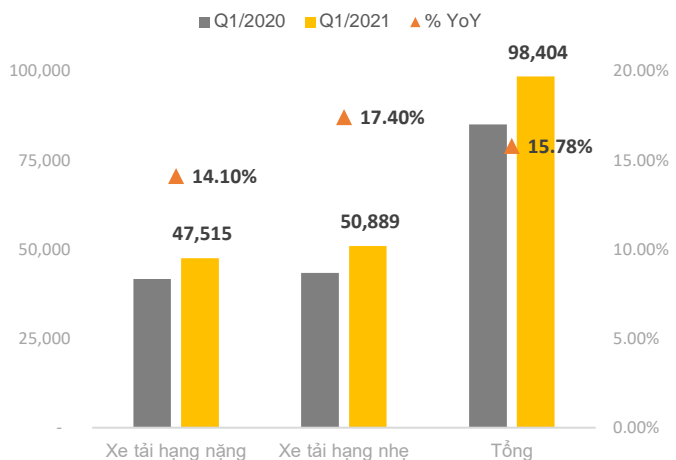
Source: ANIP, BSC Research

Hình 8: Sales of truck tires in Brazil increased sharply +15.5% YoY in 1Q2021 (Million units)



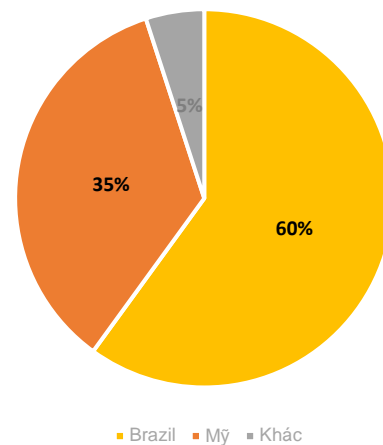
Source: ANIP, BSC Research

Figure 9: Commercial vehicle sales in the US recovered strongly +15.8% YoY in 1Q2021 (Vehicles)



Source: ATP, BSC Research

Figure 10: Brazil and the US account for more than 90% of DRC's export Radial sales

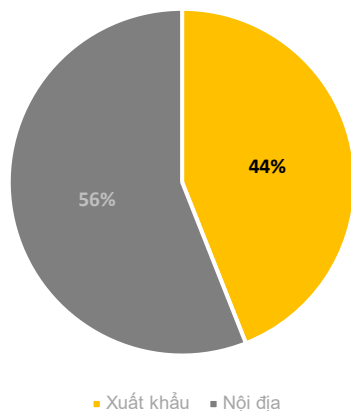


Source: DRC, BSC Research

Benefit from tax policy

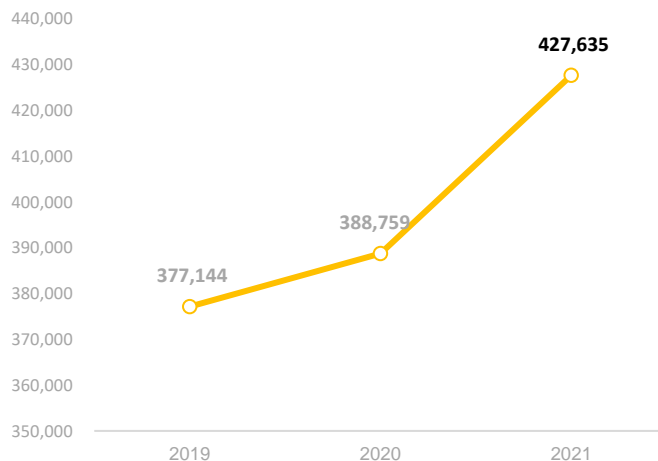
DRC benefits when competitors are subject to anti-dumping duties when exporting tires to the Brazilian market. The Brazilian government has extended for another 5 years the anti-dumping duty on Radial tires for buses and trucks from Korea, Japan, Russia, Thailand from March 2021 and recently China from May 5, 2021, while **DRC enjoys a 0% import tax rate** into this market..

Figure 11: Export accounts for nearly half of DRC's revenue



Source: DRC, BSC Research

Figure 12: Export of Radial DRC tires will increase sharply in 2021



Source: DRC, BSC Research

Table 2: Anti-dumping duty applied in the Brazilian market

| Origin | Enterprise | Anti-Dumping Tax (USD/kg) |
|-------------|---------------------|---------------------------|
| South Korea | Kumho, Hankook... | 0.32 – 1.49 |
| Japan | Sumitomo... | 0.21 – 1.59 |
| Russia | OAO... | 0.72 – 1.10 |
| Thailand | Zhongce... | 0.53 – 0.55 |
| China | Shandong, Sailun... | 1.05 – 2.59 |

Source: CAMEX, BSC Research

COMPANY UPDATE

Table 3: Q1/2021 bussiness results of DRC

| VND billion | Q1/2020 | Q1/2021 | %YoY | Comment |
|--------------------------|--------------|--------------|--------------|---|
| Net Sales | 803 | 912 | 13.6% | Revenue in Q1/2021 reached VND 912 billion (+13.6% YoY) thanks to the recovery from the domestic market and export markets such as Brazil, the US... |
| <i>Bicycle tires</i> | 47 | 52 | 12.0% | |
| <i>Motorcycle tires</i> | 74 | 78 | 6.4% | |
| <i>Bias tires</i> | 229 | 265 | 15.8% | Q1/2021 gross profit margin increased to 18.2% (+3.2% YoY) thanks to (1) increase in plant operating efficiency, (2) decrease in depreciation expense by VND 40 billion as the Radial Phase1 factory was sold out. Depreciation, however, decreased slightly because natural rubber price was high at VND 37.8 million/ton (+10.3% YoY) |
| <i>Radial tires</i> | 411 | 468 | 13.9% | |
| Gross Profit | 118 | 166 | 40.7% | |
| <i>Bicycle tires</i> | 6 | 8 | 31.0% | Financial expenses in Q1/2021: VND 10 billion (-54.1% YoY) thanks to DRC's sharp reduction in debt in 2020. (Debt as of March 31, 2021: VND 355 billion, as of March 31, 2020: VND 663 billion VND). |
| <i>Motorcycle tires</i> | 10 | 13 | 33.8% | |
| <i>Bias tires</i> | 49 | 50 | 2.1% | |
| <i>Radial tires</i> | 50 | 83 | 67.0% | |
| GPM | 14.7% | 18.2% | 3.5% | Selling expenses in Q1/2021: VND 67 billion (+84.5% YoY) due to a sharp increase in transportation costs amid a global shortage of empty containers and broken logistics chains. |
| Financial revenue | 1 | 4 | 189.9% | |
| Financial expenses | 23 | 10 | -54.1% | AGM 2021 update |
| <i>Interest expenses</i> | 9 | 3 | -66.7% | |
| Selling expenses | 36 | 67 | 84.5% | Dividend 2020: Pay 15% cash dividend. 5% in advance in 2020, the remaining 10% will be paid according to the appropriate schedule. |
| G&A | 14 | 14 | -3.0% | |
| Net Operating income | 47 | 80 | 70.2% | |
| Other income | 0 | 0 | 0% | Business plan in 2021: Net revenue of 3,852 billion VND (+6% YoY) and EBT: 300 billion VND (-6% YoY). |
| Profit before tax | 47 | 80 | 70.2% | |
| CIT expenses | 9 | 16 | 77.8% | |
| NPAT | 37 | 64 | 70.1% | Approving the investment policy of the project "Investment to expand Radial factory": Total estimated investment: 830 billion VND . Implementation period: Quarter IV of 2020 to Quarter II of 2024. |

Source: DRC, BSC Research

FORECAST OF BUSINESS PERFORMANCE

BSC forecasts that DRC's net revenue and NPATMI will reach **VND3,926 billion (+7.7% YoY)** and **VND371 billion (+44.6% YoY)** respectively, **2021 FW EPS = VND3,122/share**, corresponding to a **2021 FW P/E = 8.5**, based on the following assumptions::

- Tire consumption in Vietnam market and export markets continued to remain positive.
- Sales of all DRC products recovered, of which: Bias tires reached **648,537 units (+3% YoY)** and Radial tires reached **553,045 units (+9% YoY)**.
- Average selling price of DRC products increased slightly at **+2% YoY**.
- Gross profit margin reached **20%** because (1) **Depreciation expense decreased by 109 billion VND** thanks to the fully depreciated Radial Phase1 factory and (2) Raw material cost – rubber price increased.
- Selling expenses reached **VND 224 billion (+35% YoY)** because the shortage of empty containers continued in Q2/2021, but will continue to improve from Q3/2021.

Table 4: Forecast DRC's Business Results

| VND billion | 2019 | 2020 | 2021 |
|-----------------------------|--------------|--------------|--------------|
| Net Sales | 3,858 | 3,647 | 3,926 |
| <i>Bicycle tires</i> | 184 | 202 | 206 |
| <i>Motorcycle tires</i> | 346 | 310 | 316 |
| <i>Bias tires</i> | 1,203 | 1,092 | 1,178 |
| <i>Semi-steel tires</i> | 2 | 4 | 4 |
| <i>Radial tires</i> | 1,916 | 1,845 | 2,042 |
| <i>Export</i> | | 1,289 | 1,446 |
| <i>Domestic</i> | | 556 | 596 |
| <i>Car tubes</i> | 121 | 105 | 94 |
| <i>Car bibs</i> | 33 | 31 | 30 |
| <i>Car tires covered</i> | 37 | 42 | 40 |
| <i>Others</i> | 17 | 16 | 16 |
| COGS | (3,287) | (3,047) | (3,142) |
| Gross Profit | 571 | 599 | 784 |
| Financial revenue | 12 | 18 | 25 |
| Financial expenses | (82) | (68) | (54) |
| In which: interest expenses | (40) | (20) | (14) |
| Selling expenses | (127) | (165) | (224) |
| G&A | (61) | (62) | (67) |
| Profit before tax | 313 | 321 | 463 |
| NPATMI | 251 | 257 | 371 |
| EPS | 2,109 | 2,160 | 3,122 |

Source: BSC Research

VALUATION

We recommend **BUY** for **DRC stock** with fair value of **32,800 VND/share**. This price is equivalent to upside **25%** (according to the closing price on 18/05/2021 is 26,200 VND).

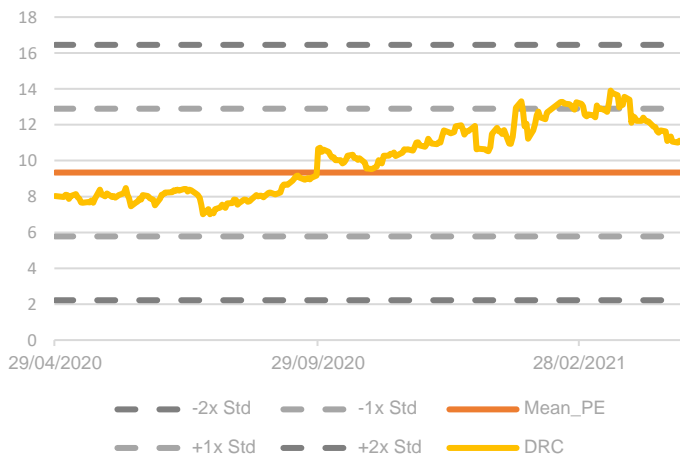
Valuation method

Chúng tôi sử dụng phương pháp định giá P/E, với mức **P/E mục tiêu 2021 = 10.5x** – thấp hơn mức **trung bình 3 năm là 13.3x** để xác định giá trị hợp lý của DRC. BSC cho rằng 10.5x là mức P/E phù hợp phản ánh kỳ vọng về sự hồi phục mạnh mẽ của DRC trong ngắn hạn và chưa tính đến dự án nâng công suất Radial GĐ3 của DRC vì mới chỉ trong giai đoạn lên kế hoạch

We use the P/E valuation method, with a **target P/E of 2021 = 10.5x** – lower than the 3-year average of 13.3x to determine the fair value of DRC. BSC believes that 10.5x is a suitable P/E level that reflects the expectation of a strong recovery of DRC in the short term and does not take into account DRC's project to increase the capacity of Radial Phase 3 because it is only in the planning stage.

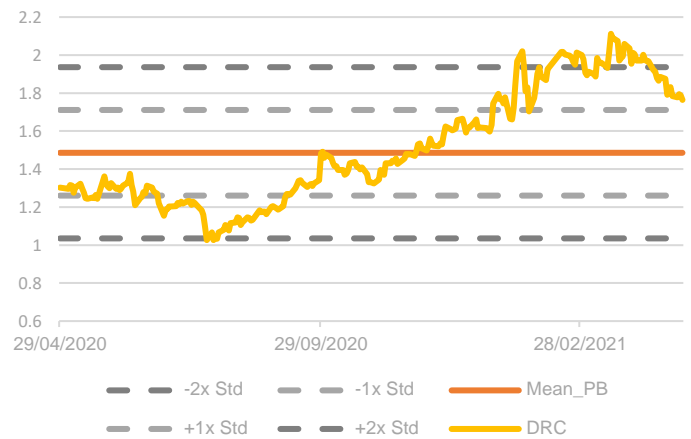
| P/E valuation method | Value |
|----------------------|-------------------------|
| EPSFW2021 | 3,122 VND/share |
| Target P/E 2021 | 10.5x |
| Fair value | 32,800 VND/share |

Figure 10: P/E DRC



Source: BSC Research

Figure 11: P/B DRC



Source: BSC Research

APPENDIX

| IS (VND billion) | 2018 | 2019 | 2020 | 2021F |
|--|--------------|--------------|--------------|--------------|
| Net revenue | 3,551 | 3,858 | 3,647 | 3,926 |
| COGS | (3,120) | (3,287) | (3,047) | (3,142) |
| Gross profit | 431 | 571 | 599 | 784 |
| Selling expenses | (113) | (127) | (165) | (224) |
| G&A | (54) | (61) | (62) | (67) |
| Operating income | 264 | 383 | 372 | 493 |
| Financial income | 12 | 12 | 18 | 25 |
| Financial expenses | (98) | (82) | (68) | (54) |
| Interest expenses | (49) | (40) | (20) | (14) |
| Gain/loss from affiliates | 0 | 0 | 0 | 0 |
| Other gain/loss | 0 | 1 | (2) | (2) |
| Profit before tax | 177 | 313 | 321 | 463 |
| Corporate tax payment | (37) | (63) | (64) | (92) |
| Profit after tax | 141 | 251 | 257 | 371 |
| Minority interest | 0 | 0 | 0 | 0 |
| NPATMI | 141 | 251 | 257 | 371 |
| EBITDA | 536 | 657 | 582 | 594 |
| EPS | 1,187 | 2,109 | 2,160 | 3,122 |
| BS (VND billion) | 2018 | 2019 | 2020 | 2021 |
| Cash & cash equivalent | 51 | 46 | 189 | 314 |
| Short term investment | 0 | 0 | 150 | 150 |
| Account receivables | 315 | 142 | 131 | 92 |
| Inventory | 846 | 1,153 | 788 | 1,123 |
| Other current assets | 34 | 36 | 54 | 58 |
| Total current assets | 1,246 | 1,377 | 1,311 | 1,737 |
| Tangible assets | 3,195 | 3,213 | 3,225 | 3,237 |
| Depreciation | (1,684) | (1,957) | (2,166) | (2,267) |
| Long term incomplete assets | 0 | 0 | 0 | 0 |
| Long term investment | 4 | 3 | 4 | 4 |
| Other non-current assets | 66 | 67 | 51 | 51 |
| Total non-current assets | 1,587 | 1,331 | 1,119 | 1,031 |
| Total Assets | 2,833 | 2,708 | 2,430 | 2,768 |
| Account payables | 1,307 | 1,076 | 743 | 844 |
| Short-term debt | 707 | 532 | 306 | 374 |
| Other short-term debt | 356 | 395 | 436 | 545 |
| Current liabilities | 1,062 | 927 | 742 | 918 |
| Long-term debt | 245 | 149 | 1 | 0 |
| Other long-term debt | 0 | 0 | 0 | 0 |
| Non-current liabilities | 245 | 149 | 1 | 0 |
| Total Liabilities | 1,307 | 1,076 | 743 | 918 |
| Paid-in capital | 1,188 | 1,188 | 1,188 | 1,188 |
| Capital surplus | 0 | 0 | 0 | 0 |
| Retained earnings | 115 | 201 | 206 | 317 |
| Other equity | 222 | 243 | 293 | 345 |
| Minority interest | 0 | 0 | 0 | 0 |
| Shareholder's equity | 1,525 | 1,632 | 1,688 | 1,850 |
| Total Resources | 2,833 | 2,708 | 2,430 | 2,768 |
| Number of shares outstanding (million) | 119 | 119 | 119 | 119 |

| CF (VND billion) | 2018 | 2019 | 2020 | 2021F |
|-------------------------------------|--------------|--------------|--------------|-------------|
| Profit after tax | 141 | 251 | 257 | 371 |
| Depreciation | 270 | 273 | 209 | 101 |
| Change in NWC | 133 | 92 | (107) | (300) |
| CF from operating activities | 226. | 405 | 808 | 205 |
| Fixed assets investment | (148) | (15) | (9) | (12) |
| Other investment | 0 | 0 | (234) | 0 |
| CF from investing activities | (131) | (13) | (155) | (12) |
| Dividend paid | (130) | (130) | (147) | (185) |
| Cash from net borrowing | 19 | (266) | (363) | 67 |
| Other revenue | 0 | 0 | 0 | 0 |
| CF from financing activities | (110) | (397) | (511) | (68) |
| Beginning cash balance | 67 | 50 | 45 | 189 |
| Cash in year | (16) | (5) | (141) | 125 |
| Ending cash balance | 51 | 45 | 189 | 314 |
| Ratios (%) | 2018 | 2019 | 2020 | 2021F |
| Liquidity ratios | | | | |
| Current ratio | 1.2 | 1.5 | 1.8 | 2.1 |
| Quick ratio | 0.4 | 0.2 | 0.7 | 0.7 |
| Solvency ratios | | | | |
| Debt/ Total assets | 46% | 60% | 61% | 55% |
| Debt/ Equity | 86% | 147% | 156% | 139% |
| Efficiency ratios | | | | |
| Days of inventories | 84 | 111 | 116 | 111 |
| Days of receivables | 35 | 21 | 13 | 10 |
| Days of payables | 26 | 26 | 27 | 27 |
| CCC | 94 | 106 | 103 | 94 |
| Profitability ratios | | | | |
| Gross profit margin | 12.1% | 14.8% | 16.4% | 20.0% |
| PBT margin | 5.0% | 8.1% | 8.8% | 11.8% |
| ROE | 9.2% | 15.4% | 15.2% | 20.1% |
| ROA | 5.0% | 9.3% | 10.6% | 13.4% |
| Valuation | | | | |
| PE | 24.1 | 13.6 | 13.4 | 8.5 |
| PB | 2.0 | 1.9 | 1.8 | 1.8 |
| Growth | | | | |
| Net revenue growth | -3.2% | 8.6% | -5.5% | 7.7% |
| EBIT growth | -3.3% | 45.1% | -2.8% | 32.7% |
| PBT growth | -14.6% | 76.5% | 2.4% | 44.6% |
| EPS growth | -15.1% | 77.7% | 2.4% | 44.6% |

Source: BSC Research

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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