

TIRE & TUBE

DOMESTIC MARKET CLOUDINESS PERSISTS



Hung Nguyen – hung.nb@vdsc.com.vn





Overview

Given the difficult development prospects for the domestic market due to increased competition from tires of Chinese origin, we predict that exports—primarily TBR and PCR tires—will continue to be the primary driver of revenue growth for Vietnamese tire makers in 2025, as they were in 2024.

While tire selling prices are anticipated to stay low to enhance competitiveness in the context of domestic market uncertainty and initial penetration into major export markets like the US, tire manufacturers' profit margins will remain low, as they did in 2024, due to high input material prices (natural rubber).

With only **DRC (NEUTRAL, TP: 27,900 VND/share)** on the watchlist, we believe that the maximization of the new plant's capacity (Phase-2 Radial plant) has been reflected in the current market price. Other large projects for PCR tire plants (1 mn tires/year) and TBR plants (4 mn tires/year) lack a solid basis for reflecting in the target price at this time.

Highlights

Chinese and Thai replacement truck and bus tires (TBR) continue to be massively imported into the Vietnamese domestic market due to their diverse models and a dumping strategy, eroding the profits of domestic businesses.

Exports to markets like the US, Brazil, and Egypt—where Chinese goods are not yet available or where anti-dumping charges are in place—keep the export market a "lifeline" for domestic companies.

DRC and CSM are also looking for additional growth opportunities by attempting to get more involved in the PCR automotive tire industry (30 million tires/year), but only in niche markets or during the testing phase, due to a lack of research resources, funding, and relationship with major South Korean and Chinese automakers (Bridgestones, Michelin, Kumho, Sailun, Cheng Shin, Kenda, Goodride, Hankook, Yokohama...).

Risks

Better-than-expected industrial production recovery, import and export.

Fluctuations in material prices such as natural rubber and petrochemical products (synthetic rubber, chemicals) beyond expectations.

The variable of collaborating with Vinfast to provide PCR tire products for cars beginning in 2025 has not been factored into the forecast or pricing.

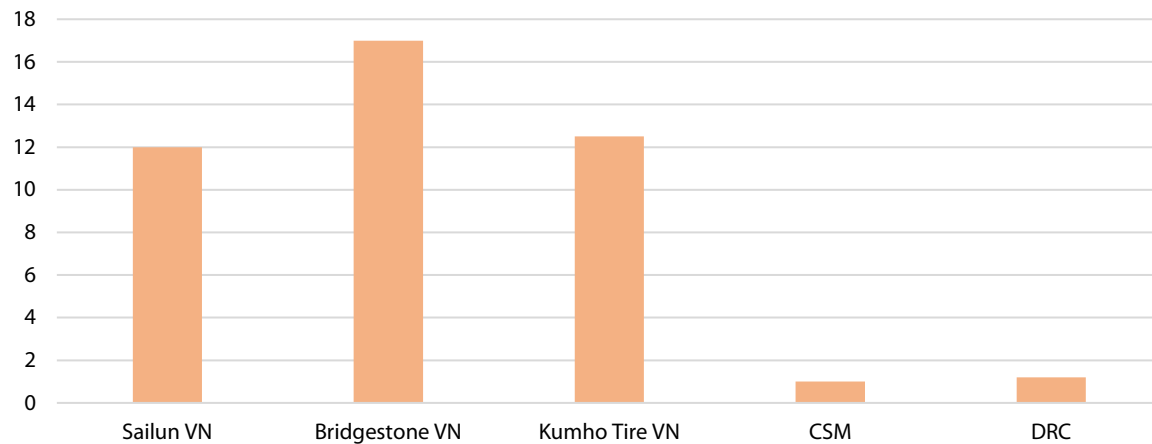
Currently, Vietnam's key tire manufacturers such as DRC, CSM, and SRC have production capacity mainly focused on replacement tires for trucks, motorcycles, bicycles, etc.

Manufacturer	Product Portfolio	Tire Type
DRC	DRC specializes in heavy/light truck tires and special-purpose tires, focusing on the Central region and specific corporate clients (THACO).	Replacement
CSM	CSM has the most diverse product portfolio, including motorcycle, bus, light truck, and passenger car tires, mainly focusing on the Southern region.	Replacement
SRC	SRC has an advantage in bicycle and motorcycle tires and focuses on the Northern region.	Replacement
FDI Enterprises (Bridgestone, Kumho...)	FDI enterprises are manufacturers of radial tires for cars/trucks. Although they dominate the domestic market, these companies still export a large portion of their tires.	OEM/ Replacement

Source: RongViet Securities

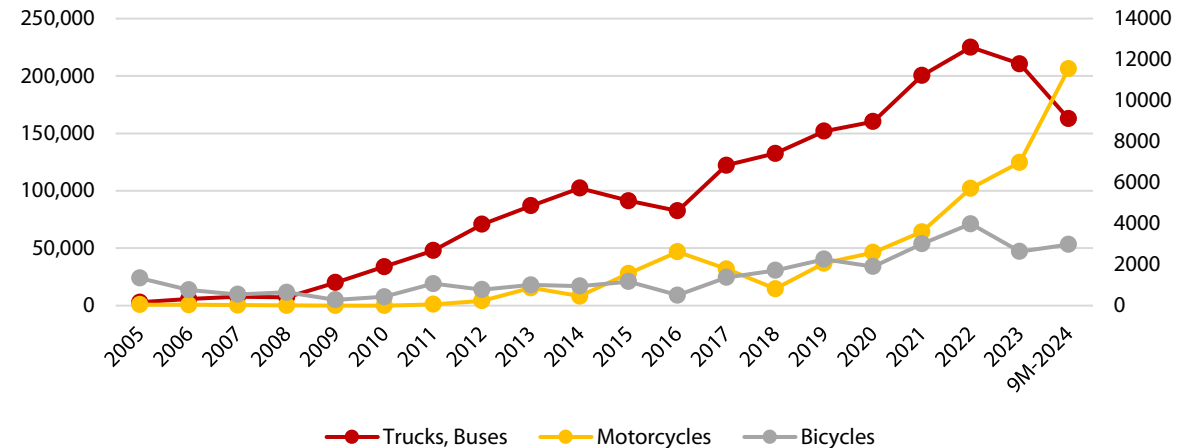
...but this area is being aggressively encroached upon by large corporations from China, which are both establishing factories with superior capacity in Vietnam and importing large quantities at low prices from their country.

Designed capacity of radial tire plants in Vietnam (mn tires/year)



Source: CSM, DRC, RongViet Securities

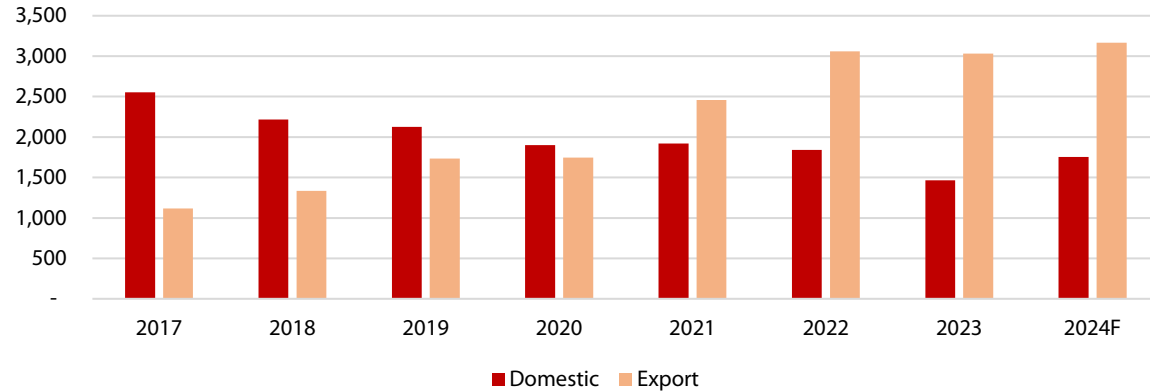
Value of Chinese tire imports into Vietnam (thous USD)



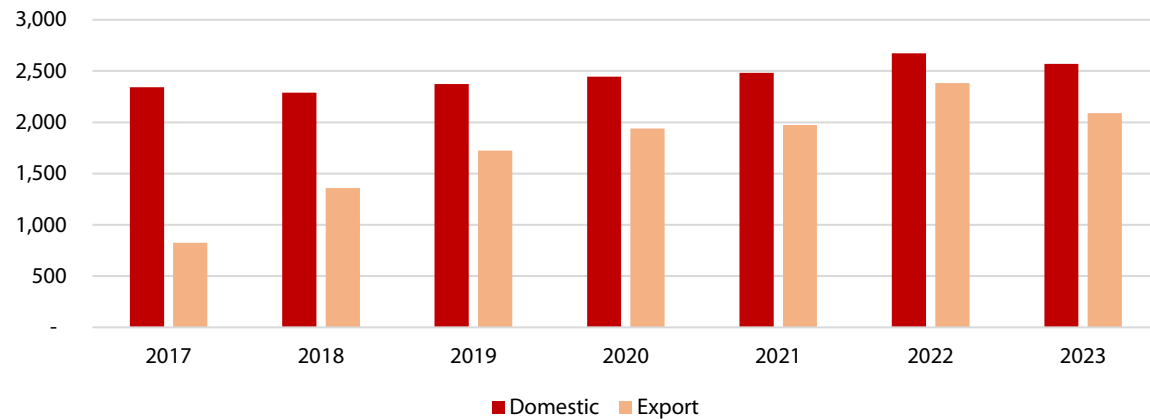
Source: Trademap, DRC, RongViet Securities estimates

Vietnamese businesses are striving to export to markets "without Chinese factors" as a lifeline against domestic difficulties...

DRC Revenue by Market (VND bn)



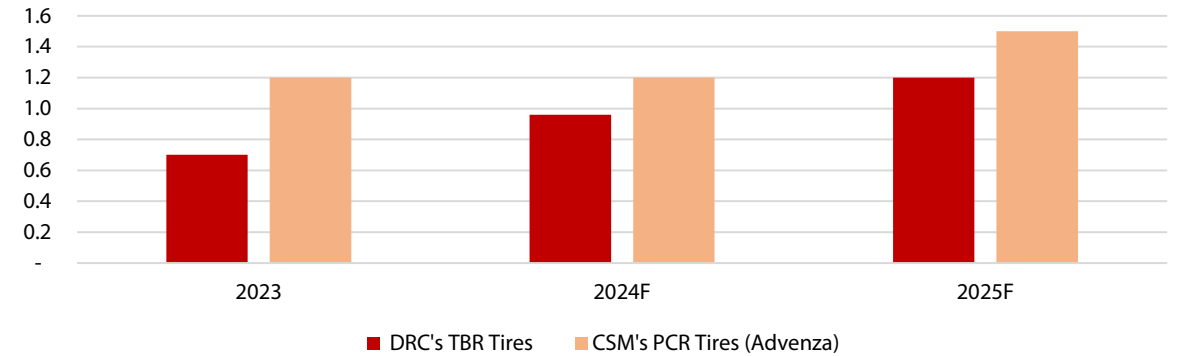
CSM Revenue by Market (VND bn)



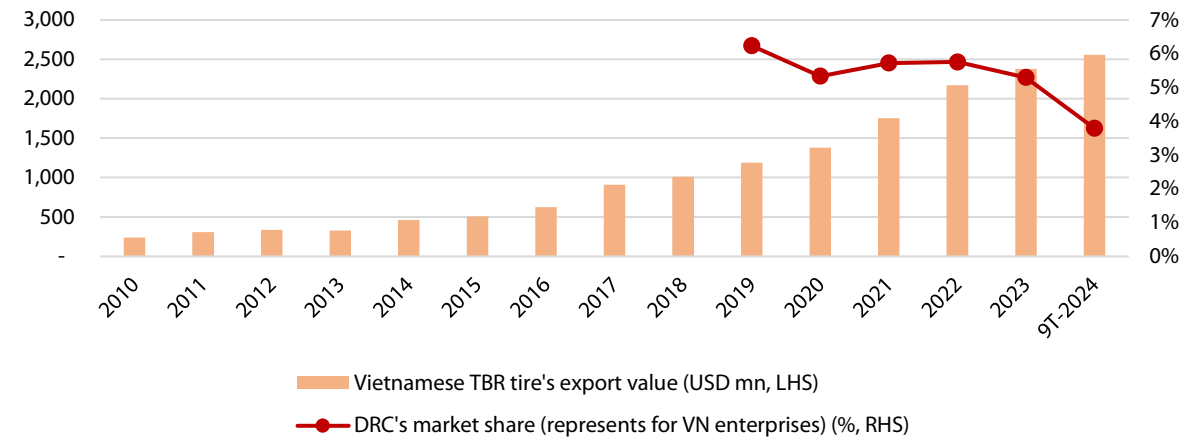
Source: CSM, DRC, RongViet Securities

..., they have progressively expanded the production capacity of their radial tire factories to satisfy consumer demands in international markets (such the US and Brazil)...

Designed production capacity of radial tire factories (million units/year)



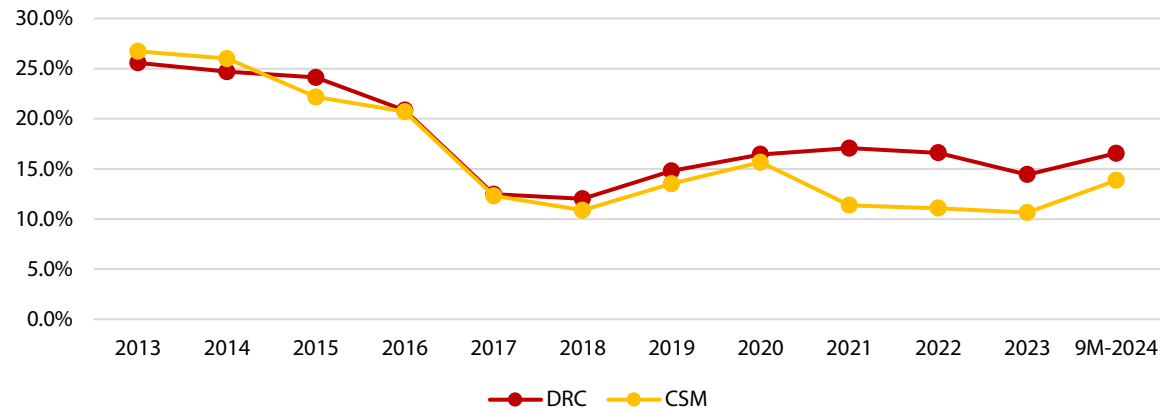
...however, most of these export orders are conducted through national cooperation programs (DRC) and target niche markets (CSM)



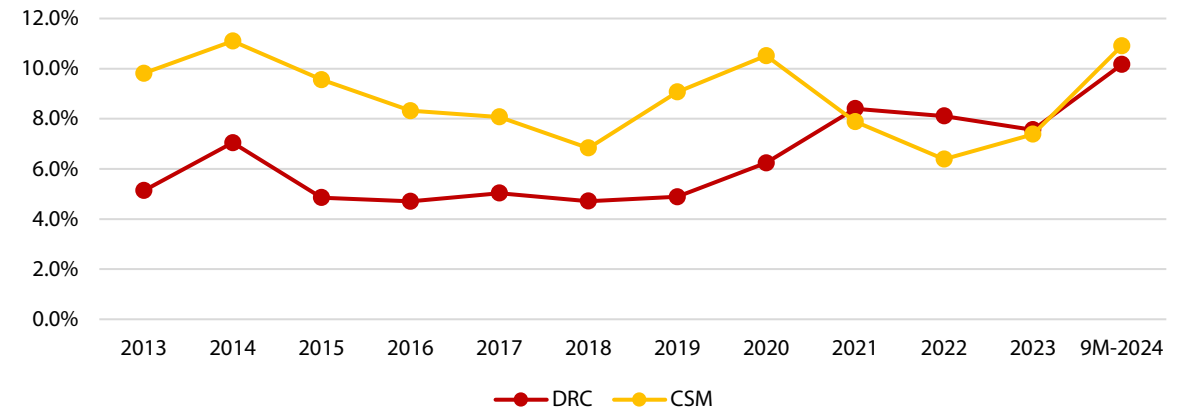
Source: Trademap, DRC, CSM, RongViet Securities

Facing severe local competition and efforts to access overseas markets, both DRC & CSM have gradually reduced/maintained low selling prices and increased the usage of discounts or other types of support (moving from FOB to CIF export) throughout the years. In addition, the uptrend of natural rubber price (accounts for 30–50% of its COGS) makes it challenging for ramping up their profit margins in 2025.

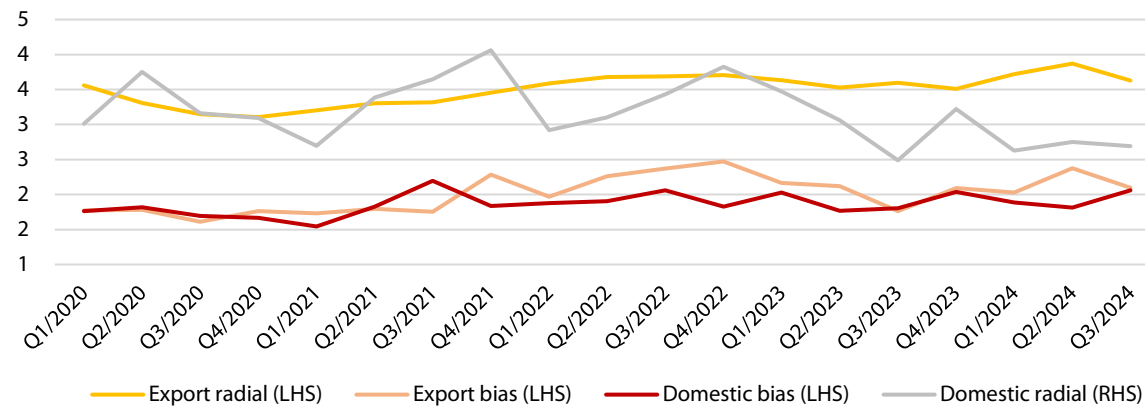
Gross Margin (%)



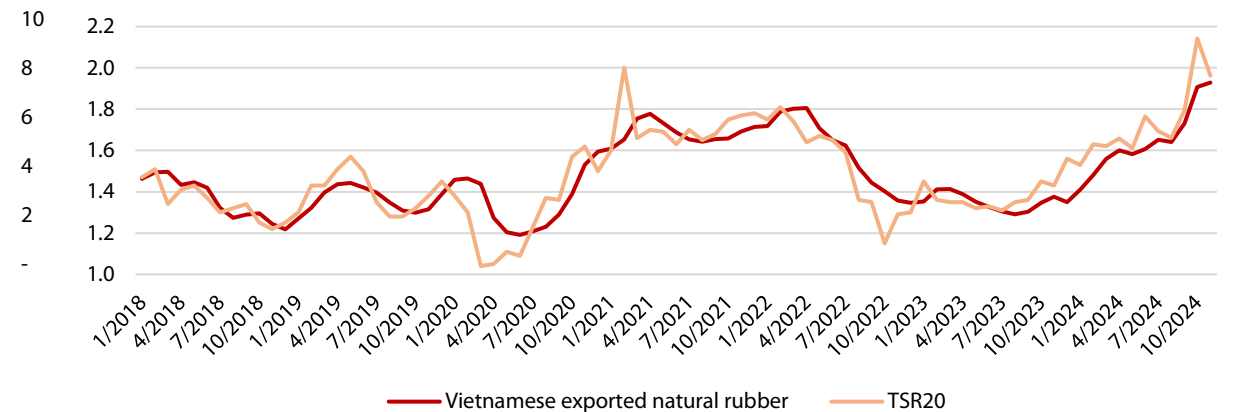
SG&A expenses/Net Revenue (%)



Selling price of DRC tires (VND bn/tire)

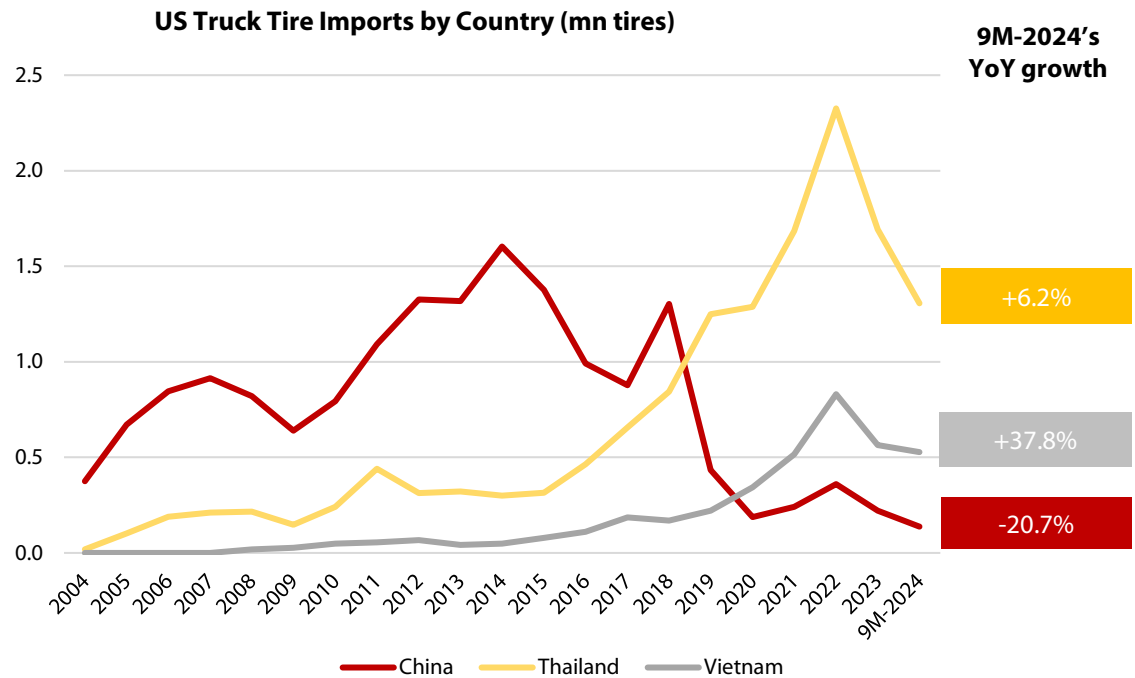


Trend of natural rubber prices (million VND/ton)



Source: DRC, CSM, Bloomberg, RongViet Securities

Following news that Thai TBR tires (Top 1 in the US) will be subject to anti-dumping duties by the US, distributors there are gradually shifting imports to other major importers, including Vietnam (Top 3) with a production growth of +37.8% YoY in 9M-2024. This trend is expected to be stronger in 2025 as the official conclusion has been announced by the US Department of Commerce in October 2024.



Source: Trademap, RongViet Securities

Schedule of Anti-Dumping Duty Imposition on Thai TBR Tires by the US	
Event	Date
Petition Filed	10/17/2023
Commerce Initiation Date	11/06/2023
ITC Preliminary Determination	12/01/2023
Commerce Preliminary Determination	05/14/2024
Commerce Final Determination	10/09/2024
ITC Final Determination	11/25/2024
Issuance of Order	12/02/2024

Contrary to the preliminary determination of May 14th, 2024; on May 10, 2024, the United States Department of Commerce (US DOC) issued a final determination on the anti-dumping (AD) duty investigation on truck and bus tires from Thailand. The conclusion showed a dumping margin of 12.33% (compared to 0% previously) for Prinx Chengshan Tyre & all other companies and 48.39% (compared to 2.35% previously) for Bridgestone Corporation. This is significantly higher than the alleged dumping margin of 0.00-2.35% announced in May 2024. Accordingly, the ITC (International Trade Commission) will issue its final determination on November 25th, 2024, and it will take effect on December 2nd, 2024.

Source: US ITC, DOC, RongViet Securities

Ticker	Market Cap. (USD mm)	3M.daily turnover AVG. (USD mn)	Current P/E (x)	Current P/B (x)	Trailling 12 M ROE (%)	Target price	Market price as of 12/19/24	Expected return	2023A		2024E		2025F		Revenue Growth		NPAT Growth	
									EPS	BVPS	EPS	BVPS	EPS	BVPS	2024E	2025F	2024E	2025F
DRC	135	16,734	12.91	1.80	14.3%	27,900	29,000	-3.8%	2,074	15,585	2,121	16,964	2,400	17,880	9.5%	14.3%	2.4%	13.1%
CSM	59	10,920	17.53	1.11	6.4%	N.R	14,450	N.A	384	12,779	N.A	N.A	N.A	N.A	N.R	N.R	N.R	N.R
SRC	28	37	5.26	1.31	27.9%	N.R	25,500	N.A	1,048	15,798	N.A	N.A	N.A	N.A	N.R	N.R	N.R	N.R

Source: Bloomberg, RongViet Securities. Data as of December 19th, 2024.

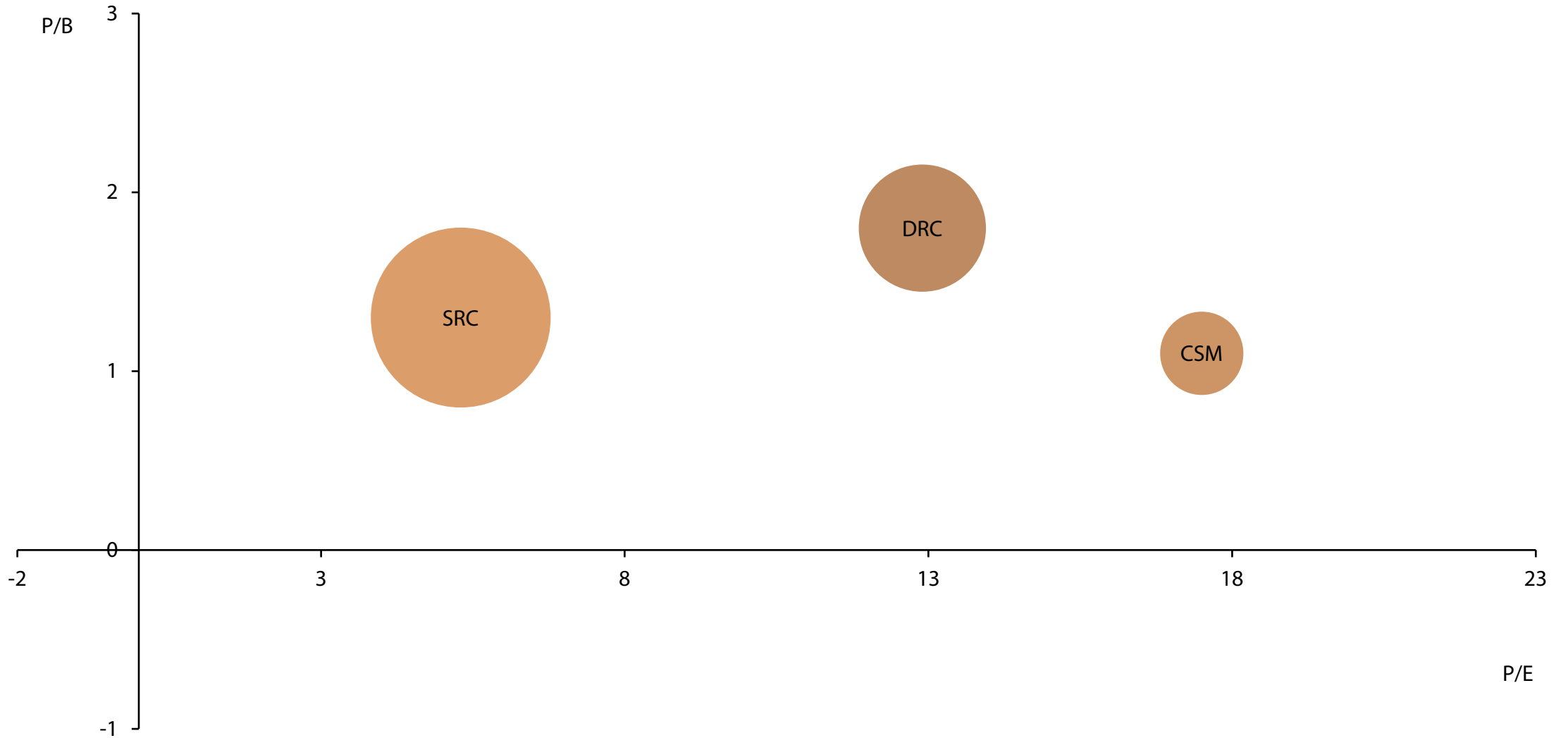
* For stocks in the recommended portfolio: ROE, ROA, P/B, and P/E forward are calculated based on the 2025 profit forecast.

For stocks we are monitoring: results are updated based on the data of the last four quarters.

N.R: Not Rated

N.A: Not Forecasted or No Data

NPAT: Net profit after tax for parent company



Source: FiinGroup, RongViet Securities. Bubble size corresponds to ROE. Stock price as of December, 19th 2024.

NEUTRAL

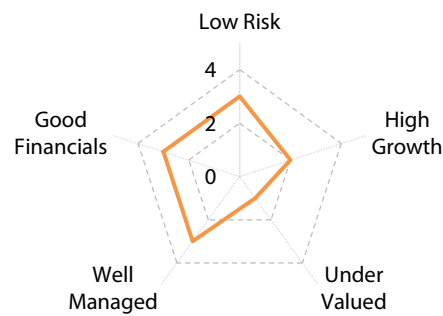
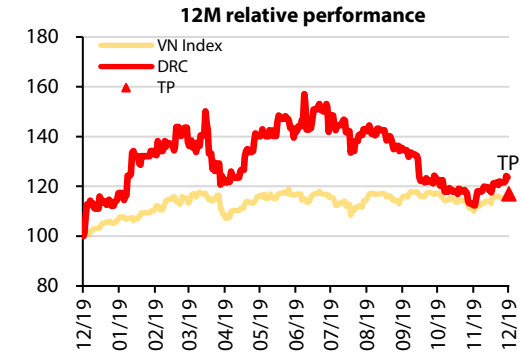
MP: 29,450

TP: 27,900

STOCK INFO

FINANCIALS

2023A 2024F 2025F



Sector	Automobiles & Parts
Market Cap (\$ mn)	135
Current Shares O/S (mn shares)	119
3M Avg. Volume (K)	571
3M Avg. Trading Value (VND Bn)	17
Remaining foreign room (%)	39.8
52-week range ('000 VND)	23.8 - 38.2

Revenue (VND bn)	4,495	4,922	5,628
NPATMI (VND bn)	246	252	285
ROA (%)	7,3	6,2	6,4
ROE (%)	13,3	12,5	13,4
EPS (VND)	2.074	2.121	2.400
Book Value (VND)	15.582	16.964	17.880
Cash dividend (VND)	2.300	1.200	1.500
P/E (x)	13.9	13.7	12.1
P/B (x)	1.7	1.7	1.6

INVESTMENT HIGHLIGHTS

Export of replacement radial truck tires (TBR radial) is a growth driver

- The domestic market (mainly bias transport tires) is expected to grow better in 2024 due to the recovery of freight transport production in the year of production - investment - import and export recovery, however, it is still at a low level (+4.8% YoY) due to the wave of imports/production of cheap Chinese tires in Vietnam.
- The export of radial transport tires remains the main growth driver (21.2% YoY) thanks to gaining market share of TBR tires from Thailand in the US market and the phase-2 TBR tire plant operating at maximum capacity of 1 mn tires/year in the first whole year.

Strong competition from both domestic and foreign markets, along with negative trends in the price of rubber inputs, make it challenging to increase profit margin.

- DRC has to gradually reduce/maintain low selling prices and increase the use of discounts or other support methods (switching from FOB to CIF export). Coupled with high natural rubber prices (accounting for 30-50% of COGS depending on the tire type), the profit margin outlook for DRC is difficult to expand in 2025.
- The cooling down of freight rates (compared to the peak of Q2-Q3/2024) keeps DRC's net margin flat YoY in 2025 (5.1%).

The stock price has reflected the good export outlook

- DRC is trading at a 2025 forward PE of 11.6x, equal to the average of 2017-23 (period of strong growth and profit of TBR Radial tires) (11.3x).

RISKS TO RECOMMENDATION

- DRC's US market penetration progress is stronger than expected (1.2% market share), thanks to strengthened US-Vietnam cooperation, benefiting significantly from the official anti-dumping duties imposed on Thai TBR tires from 2025.
- Successful PCR tire test program in Brazil (positive profit margin recorded) serves as a springboard to accelerate the progress of the PCR tire plant (4 million tires/year).
- The variable of collaborating with Vinfast to provide PCR tire products for cars beginning in 2025 has not been factored into the forecast or pricing.

Key financial ratios

Y/E Dec	FY2021	FY2022	FY2023	FY2024F	FY2025F	FY2026F
Net revenue (VND bn)	4,380	4,900	4,492	4,922	5,628	6,244
TBR Bias Tires	1,310	1,153	843	857	866	875
TBR Radial Tires	2,305	2,948	2,855	3,098	3,757	4,373
Others (PCR Tires, Motorcycles Tires...)	765	799	794	966	1,005	996
Sales volume (units)						
Domestic Tires	584,274	513,602	359,877	391,568	407,231	423,520
Export Tires	740,441	795,969	830,872	854,646	1,031,597	1,185,739
YoY Growth (%)						
Net revenue	20.1%	11.9%	-8.2%	9.5%	14.4%	10.9%
NPAT MI	13.7%	6.3%	-20.1%	2.3%	13.2%	27.0%
Profitability (%)						
Gross margin	17.1%	16.6%	14.4%	16.4%	16.2%	16.4%
Net margin	6.6%	6.3%	5.5%	5.1%	5.1%	5.8%
ROE	16.3%	16.1%	13.3%	12.5%	13.4%	15.4%
Finance Structure (%)						
Debt/Equity	32.3%	36.0%	31.9%	39.6%	40.6%	25.6%

WACC	Exit EV/EBITDA						
	5.0x	6.0x	7.0x	8.0x	9.0x	10.0x	11.0x
9.0%	21,109	24,917	28,724	32,532	36,340	40,147	43,955
10.0%	20,172	23,837	27,503	31,168	34,834	38,499	42,165
11.0%	19,276	22,806	26,336	29,865	33,395	36,925	40,455
12.0%	18,419	21,819	25,219	28,620	32,020	35,420	38,820
13.0%	17,598	20,875	24,152	27,428	30,705	33,981	37,258
14.0%	16,813	19,971	23,130	26,288	29,447	32,605	35,764
15.0%	16,060	19,106	22,152	25,197	28,243	31,288	34,334

Source: RongViet Securities

Short-term valuation of DRC using the P/E comparison method

EPS (VND)	P/E					
		9.3	10.3	11.3	12.3	13.3
2024	2,121	19,724	21,845	23,966	26,086	28,207
2025	2,400	22,324	24,724	27,124	29,525	31,925

Source: RongViet Securities

Combining the DCF method in the long term and the P/E method in the short term with a 50:50 weighting, the target share price for the next year of DRC is determined at **VND 27,900/share.**



VIET DRAGON SECURITIES CORPORATION



Floor 1 to Floor 8, Viet Dragon Tower, 141 Nguyen Du Street., Dist.1, HCMC, Vietnam



www.vdsc.com.vn

