RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

AUTOMOTIVE INDUSTRY

LOT OF CHALLENGES IN 2H2021

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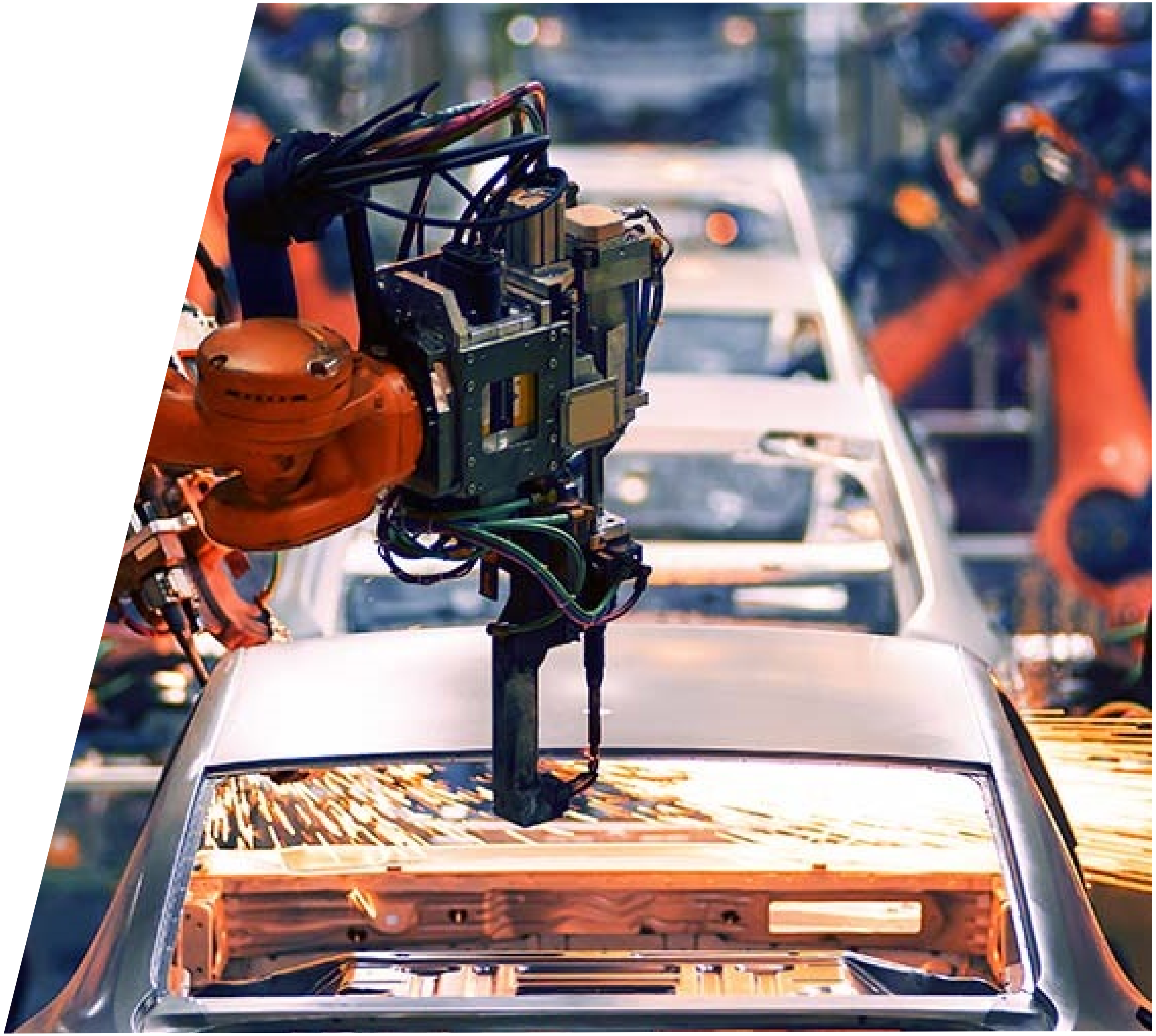
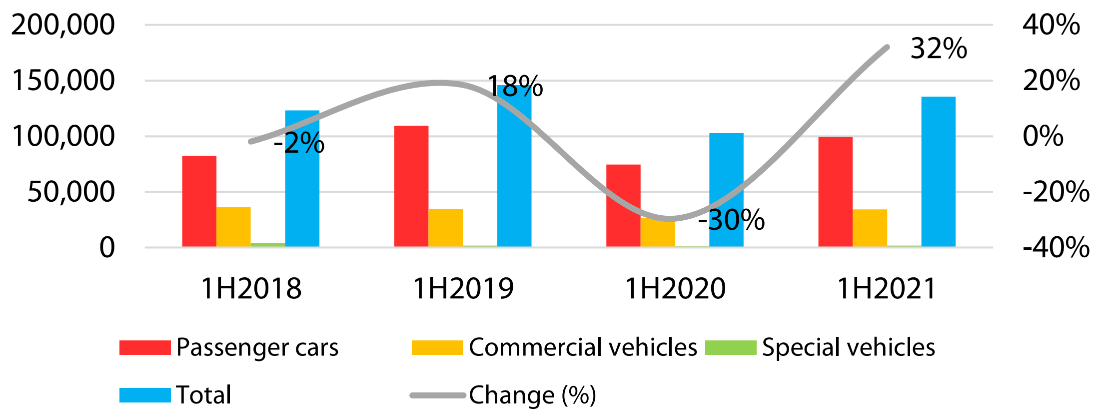
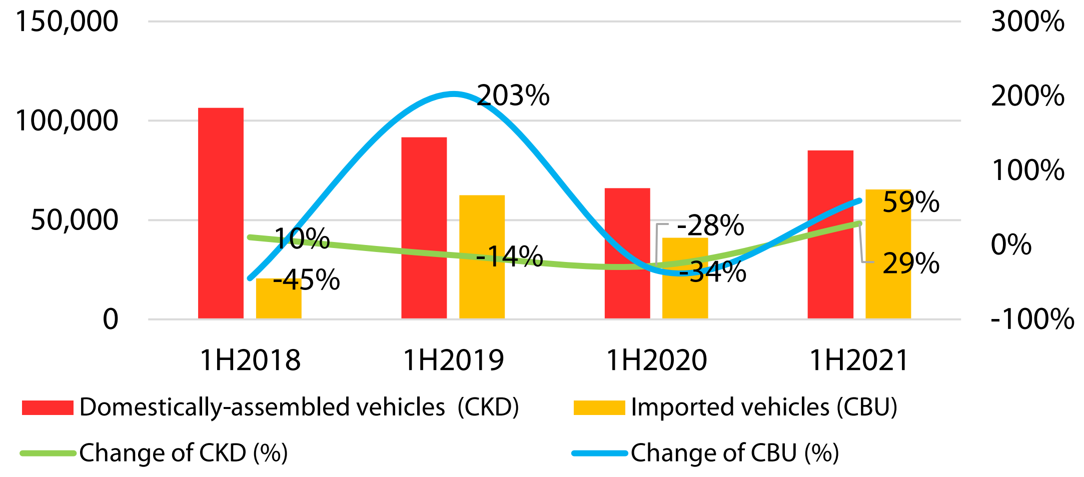


Figure 1: VAMA sales by type (units)



Source: VAMA, Rong Viet Securities

Figure 2: VAMA sales by vehicle origin (units)



Source: VAMA, Rong Viet Securities

- In 1H2021, VAMA sales surged 32% YoY, reaching 135,606 units.

  i. Passenger car: sales increased by 33% YoY, reaching 99,410 units. The growth was mainly driven by (1) Car manufacturers (Mitsubishi, VinFast, Mercedes-Benz, MG and Honda) supported by clients' registration fees; (2) Lot of new and updated models were released.

  ii. Commercial vehicles and special-purpose vehicles: sales volume reached 34,362 units (+28% YoY) and 1,834 units (+46% YoY), respectively as the manufacturing and producing industries were gradually recovered in 5M2021.

- In terms of vehicle origin, the volume of domestically assembled and imported cars went up by 29% YoY (to 85,085 units) and 59% YoY (to 65,396 units). Cars imported from Thailand and Indonesia respectively increased by 126% YoY (reaching 40,485 units) and 41% YoY (reaching 23,072 units). Vietnamese companies increased imports as automakers in Thailand and Indonesia dropped their selling prices to liquidate inventories.

- The market is dominated by Thaco (27.9%) and Hyundai (18.3%). Toyota's Vios is no longer the most preferred option of buyers, causing its market share to drop from 2,1% to 15,8%. In contrast, VinFast Fadil and Mitsubishi X-pander have become more popular, so their market share went up to 8,6% and 8%, respectively.

Table 1: 2020's policies supporting the automotive industry

Decree No.	Valid date	Impacts
17/2020/ND-CP	Mar 22, 2020	Eliminating some regulations on type certificates, verification of each batch of imported cars. Helping to smoothen the importing activities.
41/2020/ND-CP	Apr 8, 2020	Extension of the deadline for tax and land rental payment. Supporting the cash flow.
70/2020/ND-CP	Jun 28, 2020 – Dec 31, 2020	A reduction of 50% in the registration fee for domestically manufactured and assembled cars. Lowering down the buying costs and stimulating demand.
57/2020/ND-CP	Jul 10, 2020	Applying 0% import tax to materials, supplies and components that have not yet been domestically produced. This is only applied to qualified assembly companies. Lowering the production costs by 2-5%.
109/2020/ND-CP	Sep 15, 2020	Extension of the deadline for paying excise tax on domestically manufactured or assembled cars. Supporting the cash flow.
52/2021/ND-CP	Apr 19, 2021	Extension of the deadline of value-added tax, corporate income tax, personal income tax and land rental payment in 2021.

Source: Rong Viet Securities

The Government has not yet issued new policies to support the automotive industry

After Decree 70/2020/ND-CP (about 50% reduction of registration fees) expired at the end of 2020, VAMA submitted a proposal to the Ministry of Finance on the extension of Decree 70/2020/ND-CP, exemption of excise tax on domestically produced components and priority given to lower engine, environment-friendly vehicles.

- The Ministry of Finance supposes that those policies in the past and the policies issued in 2020 (Decree No. 41, 57, 109) and Decree 52 in 2021 have partly supported the automotive industry during the pandemic. Therefore, there are no new policies released.

Currently, Government has reviewed:

- Price for calculating excise tax on cars with 9 seats or less, domestically produced → lower the excise tax, leading to an increase in demand for domestically produced cars.
- Preferential excise tax and registration fees for electric cars in 5 years → lowing down the costs. This will help electric vehicle developers such as Vinfast to grow.

LOT OF CHALLENGES IN 2H2021

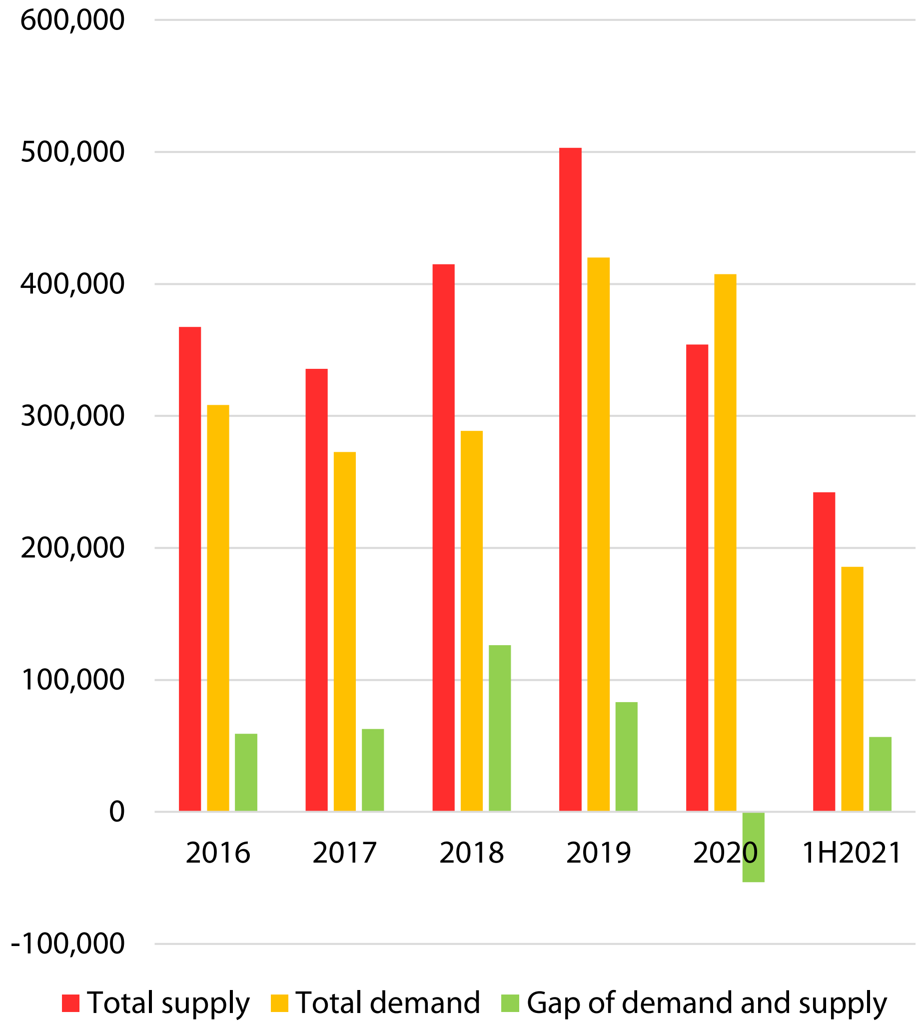
- Selling price may decrease to stimulate demand and liquidate inventory. The Covid-19 resurgence caused people to reduce their spending on non-essential products such as cars. Weaker demand in May and June caused the inventories to increase from 18,034 units (end of 1Q2021) to 56,668 units (end of 2Q2021).
- Production costs remain high due to (1) the shortage of semiconductor chips as chip manufacturers converted production lines toward chips used for electronic devices (having higher demand); (2) Higher steel price and shipping costs.
- Sales will be impacted as Covid-19 is freezing economic activities.

2H2021 outlook is not positive

- Car manufacturers may decline because they may have to lower selling prices to stimulate demand while COGS may remain high. Also, sales volume may be affected negatively by Covid.
- Distributing companies may not reach the high commission rate as the sale volume may be low due to the effect of Covid. Covid again badly affects the business activities and people income.
- Sales of components and spare parts manufacturing companies may decrease due t declined consumption.

In the case of luxury car manufacturers, the consumption behavior of potential customers will be less affected because the value of the car is quite small to their total assets. In addition, luxury car manufacturers produce smaller volumes compared to low/middle-class car manufacturers. Therefore, luxury car manufacturers are less affected by the shortage of semiconductor chips and even there are some companies that have stockpiled chips in advance, such as Daimler (Mercedes-Benz car manufacturer).

Figure 3: Supply and Demand (units)

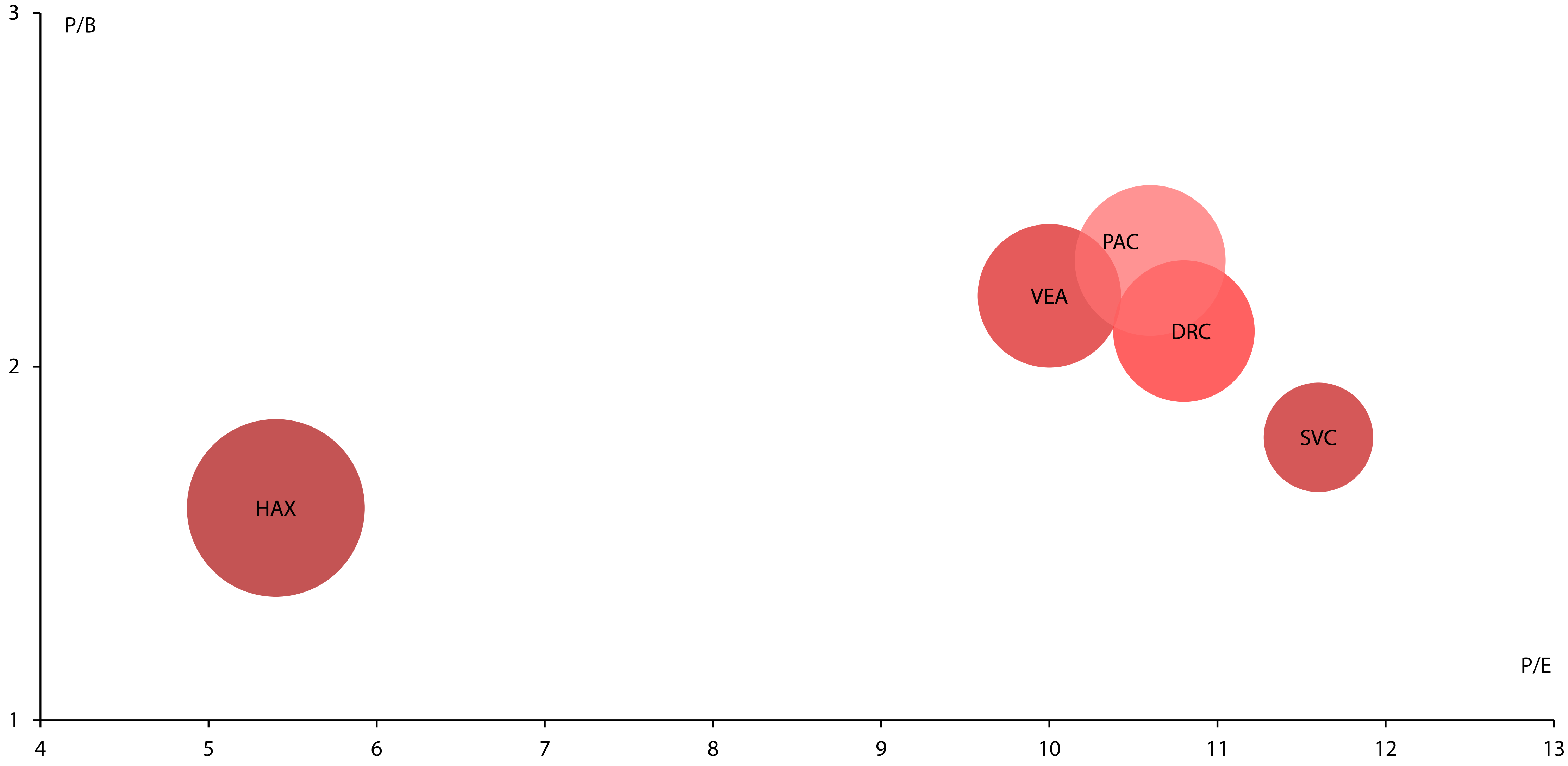


Source: MoIT, General Department of Customs, Rong Viet Securities

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
DRC	159.6	32,400	18.2	28.5	13.4	11	37.6	8.2	13.8	20.1	3.2	10.8	2.1
PAC	79.6	30,100	3.1	8.7	9.6	6.9	16.9	5.6	7	22.8	2.5	10.6	2.3
HAX	41.1	20,700	28.7	212	3.8	3.2	450.4	2.8	13.7	31.7	0.0	5.4	1.6
VEA	2,491.7	N/A	-1.3	N/A	5.2	-2.7	5.6	165.8	22.4	24.9	24	10	2.2
SVC	102.5	N/A	3.5	N/A	0.0	0.0	114	0.0	0.0	0.0	1.4	11.6	1.8

Source: Bloomberg, RongViet Securities. Share price as of 2 Aug 2021.

PE, PB AND ROE (TTM)

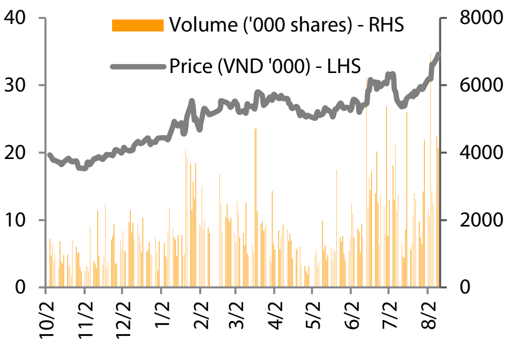


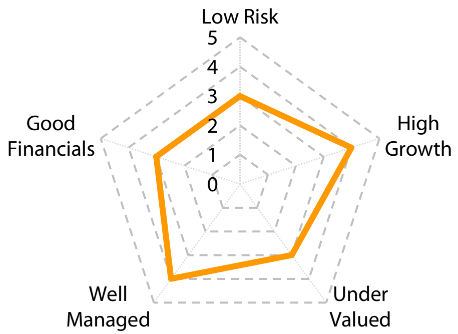
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 2 Aug 2021.

GROWTH DRIVER: EXPANSION OF THE RADIAL PLANT

HSX: DRC

<ACCUMULATE: 10%> **<MP: 30,900>** **<TP: 32,400>**





STOCK INFO

Sector	Consumer Goods
Market Cap ($ mn)	159.6
Current Shares O/S (mn shares)	118.8
3M Avg. Volume (K)	2,093
3M Avg. Trading Value (VND Bn)	60.4
Remaining foreign room (%)	42.1
52-week range (‘000 VND)	15.1-31.7

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue	3,647	4,413	4,780
NPATMI	257	321	354
ROA (%)	10.6	11.9	12.1
ROE (%)	15.2	18.3	19.4
EPS (VND)	1,944	2,434	2,683
Book Value (VND)	14,206	14,815	15,372
Cash dividend (VND)	1,000	1,500	1,800
P/E (x) (*)	10	12.7	11.5
P/B (x) (*)	1.5	2.1	2

INVESTMENT RATIONALES

The efficiency of the radial tires segment will improve by increasing the production scale

- Currently, the US market is one of the company's largest markets with an estimated proportion of over 30% of radial tire sales. According to Transparency Market Research, the development of the e-commerce industry in the US will boost the demand for truck tires, which is expected to grow by ~6%/year in the 2020-2030 period. In the 2021-2025 period, it is expected that the export volume of radial tires to the US will increase by 60,000 tires/year, helping the total sales volume to grow by 12%/year, reaching 960,000 tires in 2025. The increase in production scale to meet the orders from the US will increase the GPM from 15.8% (in 2021) to 17.6% (2025). Accordingly, revenue and gross profit of the segment will increase by 13%/year and 16%/year.

Income from bias tires is maintained thanks to the opportunity to export to the US market

- New orders from the US for heavy truck bias tires used in agriculture and special-purpose bias tires (OTR) help improve the demand for bias tires after a period of production decline from 2017 to 2020. The demand from the US is expected to help the output of bias tires grow slightly in the coming years despite the gradually decreasing demand for bias tires in other markets due to the trend of radialization.

The risk of anti-dumping duty applied by the US is relatively low

- Unlike the tires used for passenger cars and light trucks, there are not many companies producing heavy truck tires in the US and the profit from heavy truck tires is not as high as the profit from passenger car and light truck tires. Therefore, the possibility of the US imposing a tax on Vietnam's heavy truck tires is relatively low.

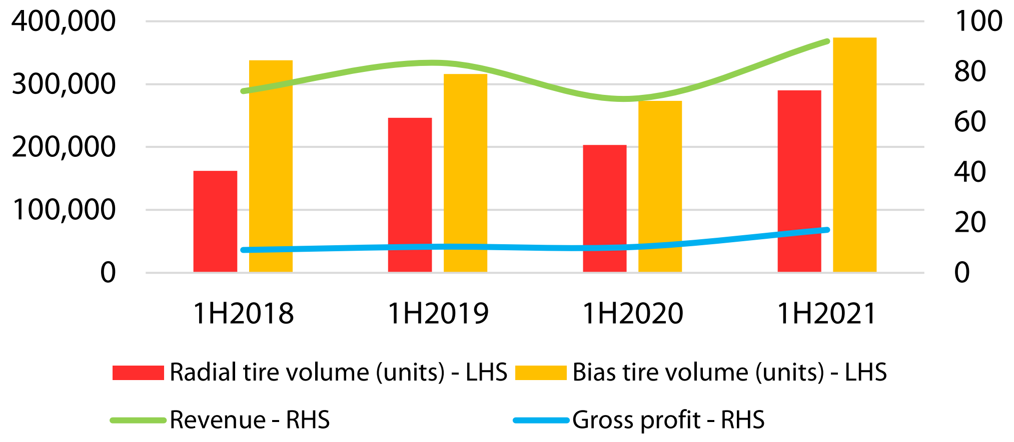
RISKS TO OUR CALL

- Competition from Chinese companies may be fiercer than expected or if DRC is subjected to anti-dumping duties by the US, causing DRC to reduce selling prices to compete, reducing profits.

Revenue increased by 33% yoy, to USD 92 mn and PAT increased by 111% yoy, to USD 7.4 mn. The growth drivers were (1) the recovery of US demand, (2) the decrease in depreciation expenses offsetting the increase in raw material costs and (3) good expenses management.

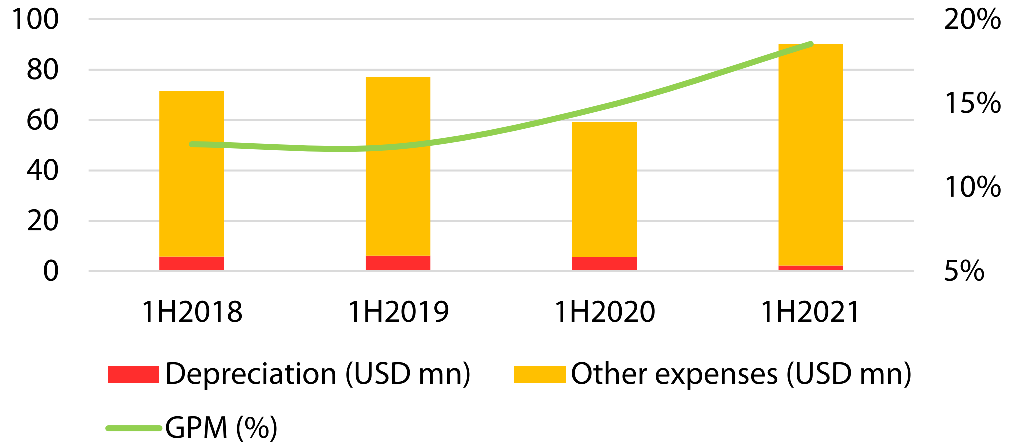
- **Demand for tires increased, especially in the US.** Accordingly, exported radial tire volume increased by 49% yoy, to 220,000 tires, helping radial tire revenue reach USD 46.9 mn (+39% yoy). DRC first exported bias tires to the US market in 1H2021, partly helping bias tire volume to reach 374,000 tires (+37% yoy). Bias tire revenue reached USD 28 mn (+32% yoy).
- **GPM increased from 14.8% to 18.5%.** The price of raw materials such as natural rubber, synthetic rubber and black coal increased, but it was offset by the reduction of depreciation expenses (by USD 3.5 mn) as the machinery and equipment of radial plant - phase 1 was fully depreciated.
- Interest expenses decreased by 42% yoy, to USD 1 mn as the long-term debt plummeted from USD 6 mn to USD 0.04 mn. G&A expenses increased slightly by 1.5% yoy, to USD 1.3 mn. In contrast, selling expenses increased by 88% yoy, to USD 6.2 mn due to increased advertising costs.

Figure 1: Results (USD mn, RHS)



Source: DRC, Rong Viet Securities

Figure 2: Depreciation and gross profit margin



Source: DRC, Rong Viet Securities

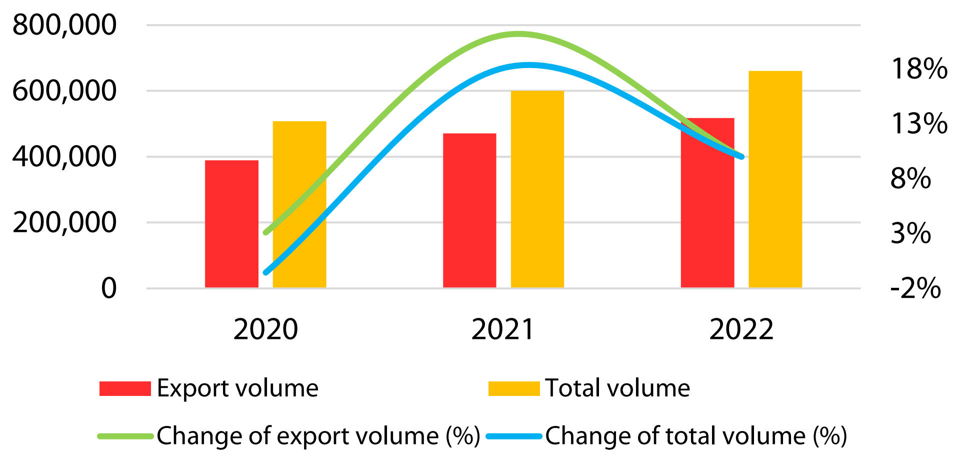
2H2021: the challenges of high shipping costs and Covid-19 pandemic

- Shipping costs are still high, so some export partners may reduce their orders. Covid-19 interrupted the company's production and goods transport. Also, materials price are expected to remain high as global manufacturing activities continue to recover.
- Due to the strong growth in 1H2021, for the entire year, radial tire volume will increase by 18% yoy (to 600,000 tires), of which export and domestic volumes will increase by 21% yoy and 8% yoy, respectively. Bias tire volume will increase by 15% yoy, to 724,000 tires. Revenue and PAT will reach USD 191.9 mn (+21% yoy) and USD 14 mn (+25% yoy).

2022 results will keep growing due to increased production scale and lower transportation costs

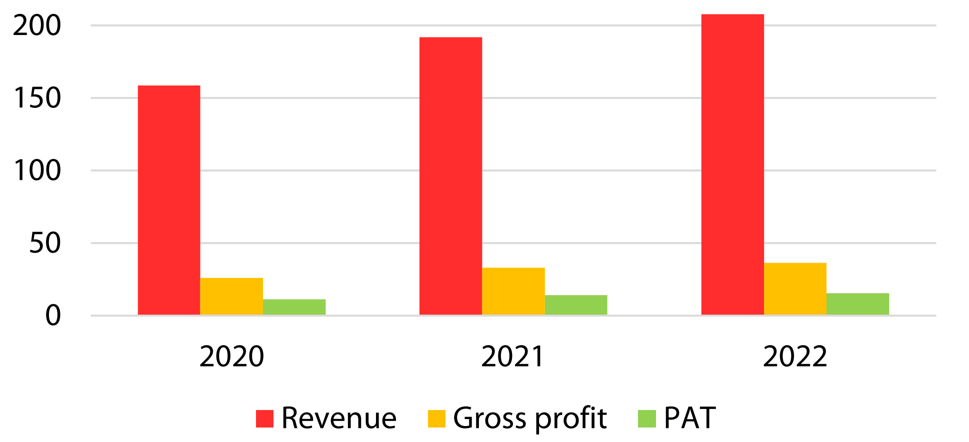
- DRC will increase the capacity of the radial plant from the end of 2021. The capacity is expected to reach 700,000 tires/year (+100,000 tires) by the end of 2022.
- Shipping charges may decrease gradually from the end of 2021 helping exports. Export volume to the US market will increase by 5,000 tires/month. Also, domestic demand will grow thanks to increased public investment once the vaccination rate in Vietnam rises.
- Radial tire volume will increase by 10% (to 660,000 tires), in which, export and domestic volume will both increase by 10% yoy. Similarly, bias tire volume will increase by 4.8% yoy (to 759,000 tires). Accordingly, revenue and PAT will reach USD 207.8 mn (+8.3% yoy) and USD 15.4 mn (+10% yoy).

Figure 3: Volume of radial tires 2020-2022 (tires)



Source: Rong Viet Securities

Figure 4: Forecasted results for 2020-2022 (USD mn)

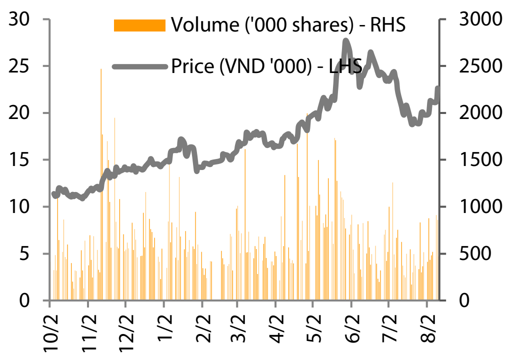


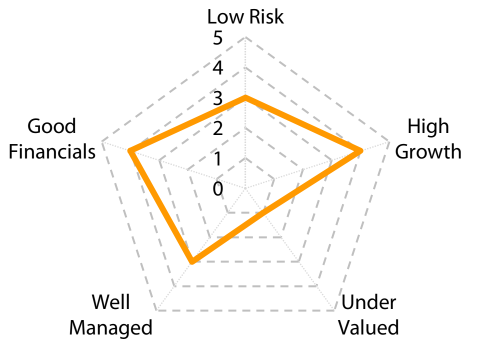
Source: Rong Viet securities

POSITIVE LONG-TERM GROWTH

HSX: HAX

<ACCUMULATE: 12%> **<MP: 19,800>** **<TP: 20,700>**





STOCK INFO

Sector	Consumer Goods
Market Cap ($ mn)	41.1
Current Shares O/S (mn shares)	47.8
3M Avg. Volume (K)	639.9
3M Avg. Trading Value (VND Bn)	16.1
Remaining foreign room (%)	31.3
52-week range ('000 VND)	11.5-32.9

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue	5,570	5,663	6,129
NPATMI	125	131	164
ROA (%)	10.1	11.5	12.2
ROE (%)	23.5	19.9	23.4
EPS (VND)	3,325	2,683	3,366
Book Value (VND)	14,453	13,801	14,668
Cash dividend (VND)	1,500	0	2,500
P/E (x) (*)	5.0	7.4	5.9
P/B (x) (*)	1.2	1.4	1.3

INVESTMENT RATIONALES

Selling price is maintained at a high level, helping to improve gross profit margin

- The pressure to liquidate inventories is low and the demand is relatively stable, so the company does not have to reduce its selling price to stimulate demand. It is expected that the selling price will remain at a high level in 2021-1H2024 due to the low pressure of liquidation of old models. The price will only decrease at 2H2024 when Mercedes-Benz distributors need to liquidate the old models before importing new ones because every five years Mercedes-Benz will improve.

The affluent class and Mercedes-Benz's position in Vietnam ensure sales growth

- Good economic growth prospects (NCIF forecasts growth of >6%/year in the period 2021-2025) will increase the number of rich people in Vietnam. Wealth-X forecasts that the number of Vietnamese with total assets of USD 1-30 million will rise by 10.1% in 2018-2023 (the fourth highest in the world), leading to higher demand for luxury cars. Although Covid-19 temporarily slows down economic growth, in general, Vietnam's economic outlook and the growth rate of the affluent class in the future are still positive.
- Additionally, Mercedes-Benz owns brand popularity, diversified product portfolio and competitive price, so Mercedes-Benz accounted for 66% of the luxury car market in Vietnam in 2020. Accordingly, we forecast a sales growth of 8.1%/year in 2021-2025, higher than the growth of 3.7%/year of the industry.

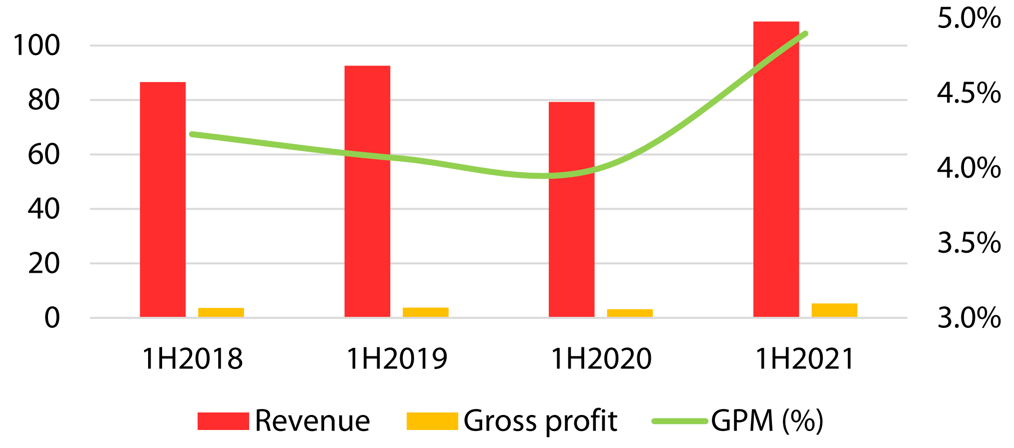
RISKS TO OUR CALL

- Other luxury car manufacturers reduce selling prices to compete, decelerating the sales growth of MBV and HAX.
- The prolonged Covid-19 pandemic caused the company's car sales to be lower than forecast.

The recovery of the car distribution segment helped improve the 1H2021 results

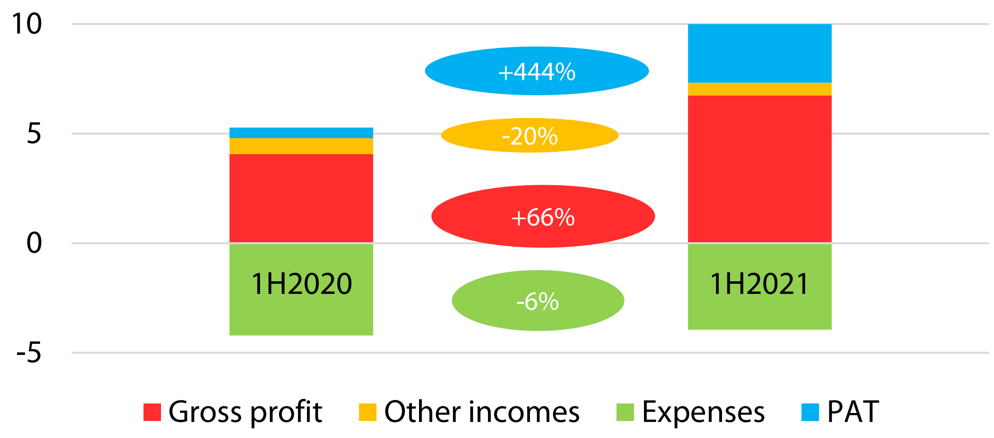
- Revenue increased by 34% yoy, to USD 116.8 mn and PAT surged by 444% yoy, to USD 2.7 mn thanks to the car distribution segment as its sales volume and GPM improved.
- Compared to 1H2020, 1H2021 car distribution was less interrupted by the pandemic. In the meantime, although Decree 70 (about 50% reduction of registration fees) has expired at the end of 2020, MBV has actively supported registration costs to customers. Thereby, Haxaco's car sales volume increased. Revenue from car distribution reached USD 108.8 mn, up by 37% yoy.
- Limited supply due to lack of semiconductor chips helped maintain high selling prices. As a result, GPM improved from 4% to 4.9%. Gross profit of car distribution segment reached USD 5.3 mn, up by 68% yoy.
- Besides, the repairing and spare parts sales segment reached USD 7.8 mn (-0.2% yoy). Because the service quality was improved, so GPM reached 17.7% (+555bps) and gross profit was USD 1.4 mn (+45% yoy).
- Retaining profits in 2020 helped reduce debt pressure. Short-term debt fell by 44% yoy, helping reduce the interest rate by 70% yoy, to USD 0.3 mn. Selling expenses were USD 2.5 mn (+27% yoy) and G&A expenses remained around USD 1.1 mn (+1.4% yoy).

Figure 1: Car distribution segment (USD mn)



Source: HAX, Rong Viet Securities

Figure 2: HAX's results (USD mn)



Source: HAX, Rong Viet Securities

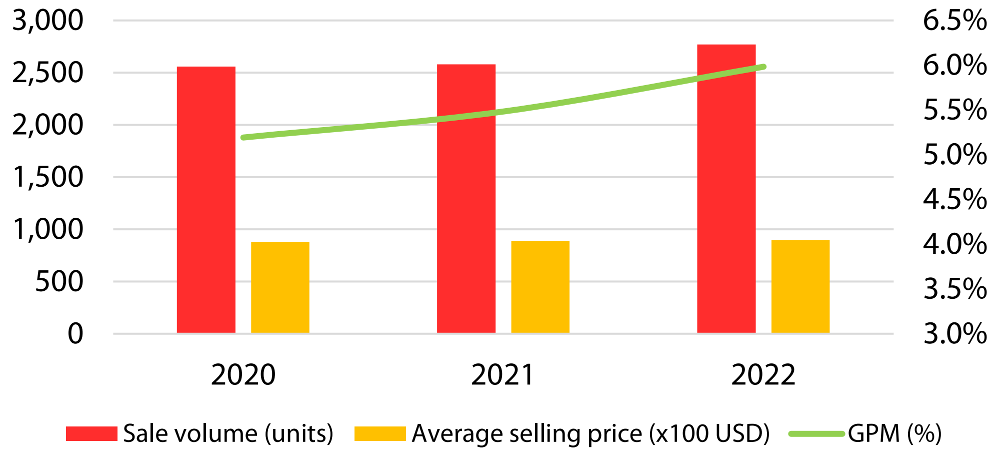
2H2021 - Covid disrupts the company's business activities

- The outbreak of Covid-19 will impact negatively on car sales in 3Q, before recovering in 4Q (expecting that the Government will lift the social distancing order). Therefore, despite the strong growth in 1H2021, it is expected that car sales in 2021 will only reach 2,580 units (+0.8% yoy). The low pressure of liquidating inventory help maintain the selling price around USD 88.8 mn/unit (+0.8% yoy), hence GPM will increase by 29bps, reaching 5.5%. The gross profit of the car distribution segment will reach USD 12.6 mn (+7.3% yoy).
- Revenue and PAT will be USD 246.2 mn (+1.7% yoy) and USD 5.7 mn (+4.9% yoy, thanks to a 24% yoy decrease in interest expense to USD 1.3 mn), respectively.

2022: Covid-19 and the semiconductor chip supply will support results

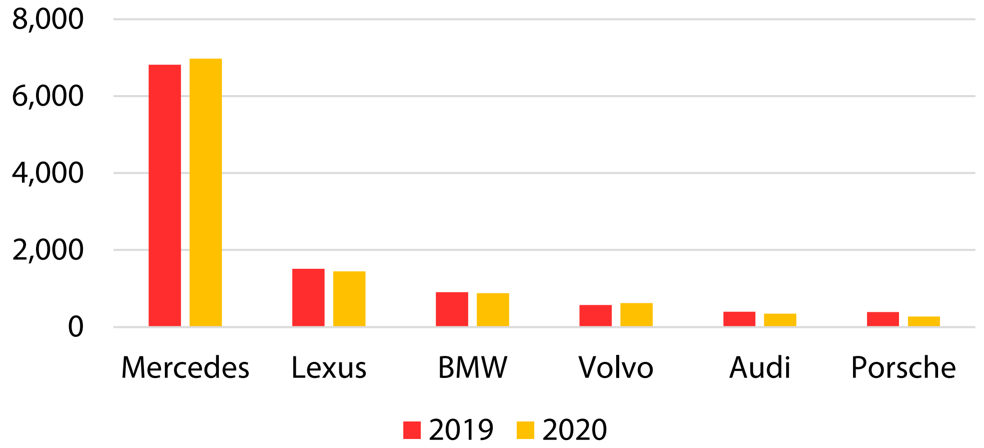
- We expect that Covid-19 will be under control and the increased capacity of semiconductor companies will help the auto industry and HAX no longer be interrupted. Along with the rise of the affluent class and the popularity of Mercedes-Benz in Vietnam (accounts for 66% of luxury car sales), we forecast that car sales in 2022 will increase by 7.4% yoy, to 2,770 units. Improved sales help the company to reach a higher GPM which will be around 6%.
- Revenue and PAT will reach USD 266.4 mn (+8.2% yoy) and USD 7.1 mn (+25% yoy), respectively.

Figure 3: Car distribution sector



Source: HAX, Rong Viet Securities

Figure 4: Sale volume by luxury car brands (units)



Source: Rong Viet securities

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