Da Nang rubber JSC (DRC – HSX)

Expecting on replacement segment

Particulars (VND bn)	Q1-FY16	Q4-FY15	*+/- qoq*	Q1-FY15	*+/- yoy*
Net revenue	745.9	859.0	-13%	766.3	-3%
PAT	88.3	126.2	-30%	87.6	1%
EBIT	120.8	174.7	-31%	126.8	-5%
EBIT margin	16.2%	20.3%	-413bps	16.5%	-35bps

Sources: DRC, RongViet Research

Slow growth in Q1 profit. In Q1/2016, net revenue and PAT only reached VND 746 billion (-3% yoy) and VND 88 billion (+1% yoy) respectively. Additionally, gross profit margin also declined by ~2% yoy, although the material price slumped strongly compared with last year. The reasons are (1) the average selling price decreased by 12% in 2015 and additional 2% in Q1/2016, (2) depreciation expense increased by ~34% yoy due to an adjustment in depreciation method of Radial line since Q2/2015, which offset the increase in contributing from material price decrease. A notable factor was that the revenue decrease was much less than the selling price slump; meaning that selling volume got significant growth (~10%).

The radial outlook:

In Q1/2016, DRC sold 49,619 units, achieved 18.7% of 2016 plan (265,000 units), in which, export volume was 21,613 units. The spotlight should be emphasized that in Q2/2016, DRC exported the first container to US market, focusing on mid-range products, of which prices are only 20% of premium ones. In near future, US government may impost 35% anti-dumping tax on made-in-China tires (the current tax rate of 15%). Thus, DRC can improve price competitive advantage in US market. Additionally, in April 2016, DRC also achieved BIS certificate for exporting tire to India, became the unique Vietnamese supplier. Therefore, penetrating the Indian market in upcoming period will help consumption volume reach phase 1 capacity.

In 2015, the radial line depreciation expense was VND 203 billion (total depreciation expense of VND 246 billion). According to our 2016 assumption based on this depreciation method with stable selling price, average rubber price of USD 1600/ton and the consumption volume of 250,000 units, radial segment can slightly exceed breakeven point.

Recommendation and Valuation: In short-term, Radial plant prospect is not certain due to uncertain issues when phase 2 comes into operation and demand increase of radial tire consumption. However, DRC also maintains the stable growth thanks to Bias tire demand in replacement segment. We concern that material price could recover significantly and (especially natural rubber) reduce DRC gross margin. Therefore, it is difficult for DRC and other domestic tire manufactures to raise selling price, which results from competitive pressure of Chinese low-price products.

Currently, we maintain our recommendation of **"ACCUMULATE"** for this ticker with target price of VND **52,000** per share.

ACCUMULATE

CMP (VND)	48,000
Target Price (VND)	52,000
Investment Period	Intermediate

Stock Info

Sector	Automobiles & Parts
Market Cap (VND bn)	4,340
Current Shares O/S	91.4
Beta	0.68
Free float (%)	33
52 weeks High	54,900
52 weeks Low	39,600
Avg. Daily Volume (in 20 sessions)	320,984

	FY15	Current
EPS	4,540	4,652
EPS Growth	7%	8.5%
Diluted EPS	4.540	4.652
P/E	11.3	10.2
P/B	2.5	2.5
EV/EBITDA	6.1	6.4
Cash dividend (on par)	30%	30%
ROE	25.8%	25.8%

Price performance

Major Shareholders (%)

Vinachem	50,5
Deutsche Bank AG & Deutsche Asset Management (Asia) Ltd	3,7
Amersham Industries Limited	2,5
Foreign Investor Room (%)	17.7

Le Huu Trien

(084) 08- 6299 2006 – Ext 1313

trien.lh@vdsc.com.vn

Exhibit 1: 1QFY2016

Particulars (VND bn)	Q1-FY16	Q4-FY15	+/- (qoq)	Q1-FY15	+/- (yoy)	Q1-FY16	Q4-FY15
Net Revenues	745.9	859.0	-13.2%	766.3	-2.7%	745.9	859.0
Gross profits	153.3	216.0	-29.0%	172.1	-10.9%	153.3	216.0
SG&AC	32.5	39.2	-17.0%	30.4	7.2%	32.5	39.2
Operating Income	120.8	176.8	-31.7%	141.8	-14.8%	120.8	176.8
EBITDA	182.9	237.4	-23.0%	173.2	5.6%	182.9	237.4
EBIT	120.8	174.7	-30.8%	126.8	-4.7%	120.8	174.7
Financial expenses	18.9	19.7	-4.2%	31.7	-40.4%	18.9	19.7
- Interest Expenses	10.4	12.9	-19.3%	14.5	-28.2%	10.4	12.9
Dep. and amortization	62.0	62.7	-1.1%	46.4	33.7%	62.0	62.7
Non-recurring Items (*)							
Extraordinary Items (*)							
PBT	110.4	161.8	-31.7%	112.3	-1.7%	110.4	161.8
PAT	88.3	126.2	-30.0%	87.6	0.9%	88.3	126.2
(*) Adjusted PAT	88.3	126.2	-30.0%	87.6	0.9%	88.3	126.2

Sources: DRC, RongViet Research

Exhibit 2: 4QFY2015 performance analysis

Particulars	Q1-FY16	Q4-FY15	+/- (qoq)	Q1-FY15	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	20.6%	25.1%	-459bps	22.5%	-191bps
EBITDA Margin	24.5%	27.6%	-312bps	22.6%	192bps
EBIT Margin	16.2%	20.3%	-413bps	16.5%	-35bps
Net Margin	11.8%	14.7%	-285bps	11.4%	41bps
Adjusted Net Margin	11.8%	14.7%	-285bps	11.4%	41bps
Turnover *(x)					
-Inventories	3.1	3.2	-0.2	3.4	-0.3
-Receivables	9.5	11.5	-1.9	9.4	0.2
-Payables	7.6	7.9	-0.3	5.9	1.7
Leverage (%)					
Total Debt/ Equity	0.8	0.9	-0.1	1.0	-0.2

Sources: DRC (*) Annualized turnover

Brief updates

The ability to expand market share in the north due to SRC relocation. The factory at 231 Nguyen Trai street, Ha Noi will relocate to expand production capacity. The construction will delay SRC's manufacture activities; thus, DRC and CSM are planning to penetrate into the north market.

Increase in dividend. In 2016, DRC are paying dividend with 30% in cash and 30% in bonus share. The dividend in bonus share is higher than usual rate.

Change in Chairman of BOD. In December 2015, Mr. Phan Van Tien was elected to replace Mr. Nguyen Van Thieu as Chairman of BOD

Rubber price movement (USD/ton)

Source: Bloomberg

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	3,251.4	3,317.7	3,906.5	4,360.5
COGS	2,447.6	2,518.3	2,969.2	3,345.8
Gross profit	**803.7**	**799.4**	**937.3**	**1,014.7**
Selling Expense	161.4	75.8	97.7	106.8
G&A Expense	68.1	84.8	113.3	128.6
Finance Income	10.0	10.3	10.8	9.8
Finance Expense	142.8	123.8	124.4	137.8
Other profits	10.6	6.6	7.3	5.1
PBT	**452.1**	**532.0**	**620.0**	**656.4**
Prov. of Tax	99.4	117.1	124.0	131.3
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**352.7**	**414.9**	**496.0**	**525.1**
EBIT	**536.8**	**586.8**	**669.8**	**713.8**
EBITDA	622.8	797.1	904.8	1,038.0

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	16.0	2.0	17.7	7.0
Operating Income	0.4	11.2	13.7	7.3
EBITDA	34.7	28.0	13.5	14.7
PAT	-6.0	17.6	19.6	5.9
Total Assets	-1.6	0.2	23.2	2.1
Equity	11.3	8.9	24.4	10.9
Internal growth rate	12.8	8.8	7.4	6.1
Profitability				
Gross profit/Revenue	24.7	24.1	24.0	23.3
Operating profit/ Revenue	17.7	19.3	18.6	17.9
EBITDA/ Revenue	19.2	24.0	23.2	23.8
Net margin	10.8	12.5	12.7	12.0
ROAA	11.2	13.2	14.1	13.4
ROAE	23.9	23.9	23.9	23.9
Efficiency				
Receivable Turnover	10.3	11.6	11.0	9.6
Inventory Turnover	3.0	3.4	3.5	3.6
Payable Turnover	5.8	5.7	6.6	6.7
Liquidity				
Current	1.4	1.5	1.8	1.8
Quick	0.5	0.6	0.8	0.8
Solvency				
Total Debt/Equity	104.3	87.9	85.9	71.2
Current Debt/Equity	21.9	26.6	18.8	19.8
Long-term Debt/ Equity	52.6	35.4	44.4	28.7

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	85	240	235	289
Receivables	296	278	430	480
Inventories	716	785	891	970
Other current assets	15	0	0	0
Total Current Asset	**1,111**	**1,303**	**1,555**	**1,739**
Fixed Assets	1,921	1,759	1,517	2,088
Construction in Progress	70	59	770	89
Long-term Investment	5	5	5	8
Other long-term assets	29	16	21	23
Long-term Asset	**2,026**	**1,839**	**2,315**	**2,212**
Total Asset	**3,137**	**3,143**	**3,871**	**3,951**
Payables	170	125	138	152
Current Debt	337	446	391	458
Long-term Debt	808	593	924	663
Other long-term liabilities	0	0	0	0
Total Liability	**1,602**	**1,470**	**1,789**	**1,643**
Owner's Equity	**1,536**	**1,673**	**2,057**	**2,277**
Capital	831	914	1,188	1,307
Retained Earnings	495	461	526	564
Funds & Reverses	207	295	340	402
Others	**0**	**0**	**25**	**32**
Total Equity	**1,536**	**1,673**	**2,082**	**2,308**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**3,137**	**3,143**	**3,871**	**3,951**

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (dong)	4,246	4,540	4,248*	3,617
P/E (x)	8.5	11.3	11.2	
BV (dong)	18,487	18,306	17,314	17,424
P/B (x)	1.7	2.6	2.7	
DPS (dong/cp)	2,000	3,000	3,000	3,000
Dividend yield (%)	3.5	6.8	6.3	

**Diluted EPS*

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	59,400	55%	32,690
P/E	39,300	20%	7,865
EV/EBITDA	46,000	25%	11,511
Target price (dong/share)			**52,065**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
13/11/2015	52,000	Accumulate	Intermediate

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4-5, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.
The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.
The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.