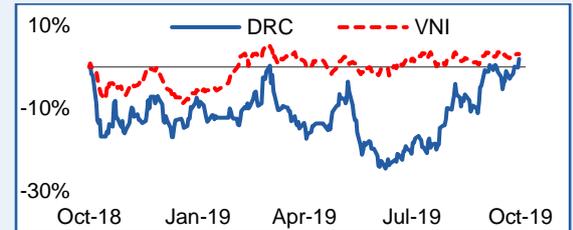


Industry:	Tire Manufacturing		2018	9M/19	2019F
Report Date:	October 15, 2019	Rev Growth	-3.2%	74%	10.0%
Current Price:	VND24,450	EPS Growth	-12.8%	60%	17.6%
Previous Target Price	VND23,200	GPM	12.1%	13.9%	12.0%
Upside to TP:	-5.1%	NPM	3.7%	5.9%	3.9%
Dividend Yield:	2.0%	EV/EBITDA	6.0x	NM	7.1x
TSR:	-3.1%	P/Op CF	10.3x	NM	8.2x
Rating:	M-PF	P/E	18.0x	NM	19.0x



Market Cap:	USD124.7mn		DRC	Peers*	VNI
Foreign Room:	USD29.5mn	P/E (ttm)	15.6x	16.7x	16.9x
ADTV30D:	USD400,000	P/B (curr)	0.0x	1.3x	2.5x
State Ownership:	50.5%	Net D/E	38.3%	10.7%	N/A
Outstanding Shares:	118.8 mn	ROE	13.0%	6.3%	14.8%
Fully Diluted Shares:	118.8 mn	ROA	6.9%	4.8%	2.5%

*includes foreign peers using adjusted market multiples

Company overview

Da Nang Rubber JSC (DRC) is one of the leading domestic tire producers in Vietnam. DRC is a subsidiary of Vietnam National Chemical Group / Vinachem (Vinachem holds 50.5% stake in DRC), a SOE that specializes in the chemical industry. DRC offers a wide range of tires and tube products for trucks, cars, motorbikes and bicycles.

Radial tire sales continue to drive strong growth

- DRC released strong Q3 2019 results with Q3 2019 revenue of VND971bn/USD42mn (+9% YoY) and NPAT-MI of VND82bn/USD4mn (+164% YoY). NPAT-MI growth was higher than revenue growth mainly because of a higher gross profit margin and lower interest expense that is derived from a decreasing debt burden.
- For 9M 2019, revenue was VND2.9tn/USD124mn (+13% YoY, completing 74% of our full-year forecast) and NPAT-MI was VND170bn/USD7mn (+60% YoY, completing 102% of our full-year forecast).
- While we mainly attribute the revenue growth to an increase in sales volume for DRC's radial tire segment, the bottom-line growth was further supported by a leap in profitability that was primarily derived from price drops in DRC's key materials.
- We see upside risk to our forecast, pending a fuller review, as these results are tracking ahead of our current forecast.

Radial tire segment continues to drive growth in DRC's top line. As phase 2 of DRC's radial tire factory came online in late 2018, the revenue of the radial tire segment has been the key growth engine for DRC's revenue. Per management, export revenue accounted for around 46% of total revenue in Q3 2019 while it was 42% in H1 2019. DRC's main export markets are the US and Brazil with an export volume of 10,000-12,000 units and 16,000-17,000 units per month in Q3 2019, respectively.

Gross margin expansion driven by export activity and price drop of key materials. Per management, DRC's export markets, especially the US, have helped the company to improve profitability. Furthermore, per management, in Q3 2019, synthetic rubber and black carbon prices fell by 6% and 20% YoY while the two materials accounted for 10% and 14% of DRC's total production cost, respectively.

Net margin further supported by lower interest expense, which decreased 32% YoY in Q3 2019. This reflects a decrease of 32% YoY in average outstanding debts as the company has been in a deleveraging process from its peak in 2018 when the DRC had to borrow to invest in its radial tire phase 2 factory.

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Figure 1: DRC's Q3 2019 and 9M 2019 results

VND bn	Q3 2018	Q3 2019	Q3 2019 vs Q3 2018	9M 2018	9M 2019	9M 2018 vs 9M 2019	% of full-year VCSC's 2019F
Revenue	890	971	9.0%	2,552	2,891	13.3%	74.0%
Gross Profit	109	162	49.2%	317	401	26.2%	85.4%
SG&A	-42	-45	8.3%	-118	-135	14.3%	84.4%
Operating Profit	67	117	74.6%	199	266	33.3%	92.3%
PBT	39	102	163.2%	133	212	59.4%	102.3%
NPAT-MI	31	82	164.2%	106	170	60.1%	102.3%
NPAT-MI adjusted for Bonus and Welfare fund	28	75	164.2%	98	156	60.1%	102.3%
GPM	12.2%	16.7%		12.4%	13.9%		
OPM	7.5%	12.1%		7.8%	9.2%		
NPM	3.5%	8.4%		4.2%	5.9%		

Source: DRC, VCSC

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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