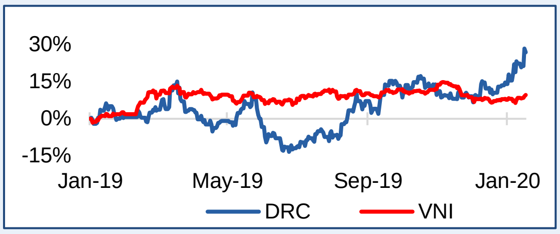
VIET CAPITAL SECURITIES

Da Nang Rubber (DRC) — Earnings Flash

Industry:	**Tire Manufacturing**		2018	2019	
Report Date:	**January 17, 2020**	Rev Growth	-3.2%	8.6%	
Current Price:	VND25,950	EPS Growth	-12.8%	77.6%	
Previous Target Price	VND24,400	GPM	12.1%	14.8%	
Upside to TP:	-6.0%	NPM	3.7%	6.5%	
Dividend Yield:	1.9%	EV/EBITDA	7.4x	6.0x	
TSR:	-4.0%	P/Op CF	13.6x	8.1x	
Rating:	M-PF	P/E	23.8x	13.4x	



			DRC	Peers*	VNI
Market Cap:	USD132.3 mn				
Foreign Room:	USD34.4 mn	P/E (ttm)	13.4x	14.1x	16.1x
ADTV30D:	USD510,734	P/B (curr)	1.9x	1.3x	2.3x
State Ownership:	50.5%	Net D/E	38.9%	10.7%	N/A
Outstanding Shares:	118.8 mn	ROE	15.8%	5.8%	14.7%
Fully Diluted Shares:	118.8 mn	ROA	9.0%	4.8%	2.4%

*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, a SOE that specializes in the chemical industry and holds a 50.5% stake in DRC. DRC offers a wide range of tires and tube products for trucks, cars, motorbikes and bicycles.

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Earnings above expectation on margin expansion

- DRC released Q4 2019 results in which revenue slid 3% to VND968bn/USD42mn and NPAT-MI jumped 131% to VND81bn/USD3.5mn. The divergence between the growth in revenue and NPAT-MI was mainly due to improvement in gross profit margin and decreasing interest expense that was derived from a lower debt burden.
- For 2019, revenue was VND3.9tn/USD166mn (+9% YoY, completing 96% of our full-year forecast) and NPAT-MI was VND250bn/USD11mn (+78% YoY, completing 124% of our full-year forecast).
- We mainly attribute the growth in DRC's revenue to an increase in radial tire sales volume. Bottom-line growth was further supported by a leap in profitablity that was primarily derived from price drops in DRC's key materials.
- We see upside risk to our forecast for 2020, pending a fuller review.

We attribute the growth in DRC's top line to higher sales volume in the radial segment, which was partially offset by negative growth of the bias segment due to a structural shift to radial tires. The growth in radial sales volume was mainly contributed by higher export volume to major markets, including the US, Brazil, Malaysia and India. We estimate that export revenue accounted for ~45% of DRC's 2019 total revenue.

Gross margin expansion was driven by price drops of key materials and economies of scale. In 2019, DRC's total material costs increased by 5.7% YoY while the company's top-line rose 8.6% YoY. We attribute the fall in material costs per unit to the decline of synthesis rubber and black carbon prices, which are two key materials for DRC. Gross margin was further supported by rigid depreciation cost that inched up 1% YoY in 2019.

Net margin was further supported by lower interest expense, which decreased 16% YoY in 2019 as the company has deleveraged with its net debt/equity ratio decreasing from 0.66x in the beginning of 2019 to 0.39x as of the end of 2019. DRC has reduced its debt since the completion of phase 2 of its radial tire factory in late 2018.

Figure 1: DRC's Q4 2019 and 2019 results

VND bn	Q4 2018	Q4 2019	Q4 2019 vs Q4 2018	2018	2019	2019 vs 2018	% of full-year VCSC's 2019F
Revenue	**999**	**968**	**-3.2%**	**3,551**	**3,858**	**8.6%**	**96.3%**
Gross Profit	113	170	50.2%	431	571	32.6%	110.1%
SG&A	-48	-53	11.7%	-167	-167	-12.2%	84.4%
Operating Profit	**66**	**117**	**78.2%**	**264**	**383**	**45.0%**	**113.1%**
PBT	44	101	127.1%	177	313	76.4%	123.6%
NPAT-MI	**35**	**81**	**131.1%**	**141**	**250**	**77.6%**	**123.6%**
NPAT-MI adjusted for Bonus and Welfare fund	**32**	**74**	**131.1%**	**130**	**230**	**77.6%**	**123.6%**
GPM	*11.3%*	*17.6%*		*12.1%*	*14.8%*		
OPM	*6.6%*	*12.1%*		*7.4%*	*9.9%*		
NPM	*3.5%*	*8.3%*		*4.0%*	*6.5%*		

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.

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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
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