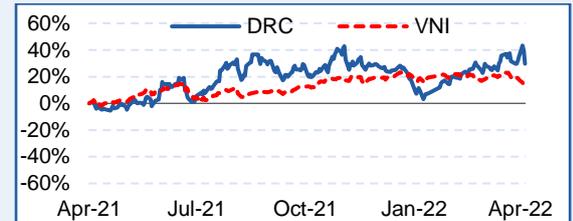


Industry:	Tire Manufacturing		2021	Q1/2022	2022
<b>Report Date:</b>	<b>April 20, 2022</b>	Rev Growth	20.1%	40.7%	20.1%
Current Price:	VND33,950	EPS Growth	9.2%	3.3%	13.3%
Target Price*:	VND35,800	GPM	17.1%	15.6%	17.1%
Upside to TP:	5.4%	NPM	6.0%	5.1%	6.6%
Dividend Yield:	4.4%	EV/EBITDA	10.1x	N/A	8.6x
TSR:	9.9%	P/E	16.4x	N/A	13.1x
Rating*:	OUTPERFORM				



			DRC	Peers	VNI
Market Cap:	USD175.3mn	P/E (ttm)	15.1x	21.3x	16.1x
Foreign Room:	USD74.1mn	P/B (curr)	2.2x	1.5x	2.4x
ADTV30D:	USD2.3mn	Net D/E	13.6%	-3.0%	N/A
State Ownership:	50.5%	ROE	16.5%	5.0%	15.4%
Outstanding Shares:	118.8 mn	ROA	9.7%	3.6%	2.5%
Fully Diluted Shares:	118.8 mn				

### Company overview

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

\* TP and rating last updated February 18, 2022

## Inventory pile-up cushions earnings from cost hikes

- DRC released Q1 2022 results with net revenue of VND1.3tn (USD55.8mn; +40.7% YoY) and NPAT-MI of VND66bn (USD2.9mn; +3.3% YoY).
- DRC's robust Q1 2022 revenue was mainly driven by strong growth in both radial tire sales (+41% YoY) and bias tire sales (+42% YoY). Meanwhile, DRC's Q1 2022 NPAT-MI only inched up YoY as gross margin was hurt amid rising input costs in the quarter.
- DRC's Q1 2022 revenue and NPAT-MI completed 24.1% and 16.9% of our full-year forecasts, respectively. Given that DRC's Q1 2022 revenue tracked closely with our full-year forecast, and as we expect DRC's gross margin will continue to be partially cushioned from rising input material costs going forward, we see no major downside risk to our forecasts, pending a fuller review.

**Continued strong demand from export markets and the recovery of the domestic market underpinned strong sales volume in Q1 2022.** DRC's radial tire export volume jumped 38% YoY, which we attribute to the company's focus on niche tire segments such as heavy truck radial tires that (1) avoid direct competition from large Chinese manufacturers who focus on products for passenger cars and light trucks and (2) are not subject to heavy tariffs in the company's main export markets (i.e., Brazil and the US). Meanwhile, Vietnam's "new normalcy" approach to handling COVID-19 paid off as economic activities in Q1 2022 warmed up; as such, DRC's bias tire sales volume in the domestic market surged 31% YoY.

**Rising input material costs weighed on gross margin.** DRC's gross margin in Q1 2022 slid to 15.6% (vs 16.6% in Q4 2021 and 18.2% in Q1 2021) amid increased input costs. However, we believe that DRC's practice of piling up input material inventory during relatively lower price periods partially cushioned the company's gross margin in Q1 2022 from further erosion. Specifically, the cost of synthetic rubber used for production in Q1 2022 slid 11% QoQ, while DRC's synthetic rubber purchase price surged 53% QoQ amid soaring oil prices due to the Russia – Ukraine war. We believe DRC's Q2 2022 GPM will continue to be partly buffered from further compression despite the high-cost material purchased in Q1 2022 given that management stated the company raised its product selling price by 5%-7% in April 2022.

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Figure 1: DRC's Q1 2022 results

VND bn	Q1 2021	Q1 2022	Q1 2022 vs Q1 2021	VCSC's full-year 2022F	% of VCSC's full-year 2022F
<b>Revenue</b>	<b>912</b>	<b>1,284</b>	<b>40.7%</b>	<b>5,327</b>	<b>24.1%</b>
COGS ex depreciation	-720	-1,063	47.5%	-4,370	24.3%
Depreciation	-26	-21	-19.8%	71	-29.3%
Gross Profit	166	200	20.6%	886	22.6%
SG&A	-80	-111	39.0%	-351	31.7%
<b>Operating Profit</b>	<b>86</b>	<b>89</b>	<b>3.4%</b>	<b>535</b>	<b>16.6%</b>
Net financial income	-6	-7	9.3%	-53	12.5%
PBT	80	82	2.8%	487	16.8%
<b>NPAT-MI</b>	<b>64</b>	<b>66</b>	<b>3.3%</b>	<b>390</b>	<b>16.9%</b>
<b>NPAT-MI adjusted for bonus and welfare fund</b>	<b>58</b>	<b>60</b>	<b>3.3%</b>	<b>355</b>	<b>16.9%</b>
GPM	18.2%	15.6%		16.6%	
GPM ex depreciation	21.0%	17.2%		19.3%	
OPM	9.4%	6.9%		10.0%	
NPM	7.0%	5.1%		7.3%	

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.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

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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