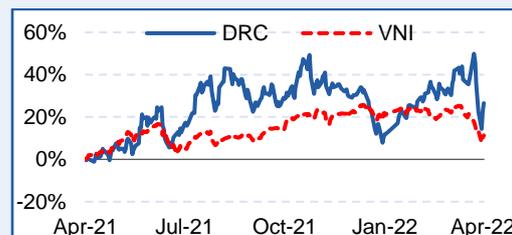


Industry:	Tire Manufacturing		2021	2022F	2023F	2024F
Report Date:	April 27, 2022	Rev y/y	20.1%	21.6%	12.7%	5.9%
Current Price:	VND31,650	EPS y/y	9.2%	44.0%	-5.3%	7.0%
Target Price*:	VND35,800	GPM	17.1%	16.6%	15.5%	15.3%
Upside to TP:	13.1%	NPM	6.0%	6.7%	5.6%	5.6%
Dividend Yield:	5.4%	EV/EBITDA	9.6x	7.6x	6.5x	6.3x
TSR:	18.5%	P/E	15.3x	10.6x	11.2x	10.5x
Rating*:	OUTPERFORM					



			DRC	Peers	VNI
Market Cap:	USD164mn	P/E (ttm)	14.1x	19.7x	15.2x
Foreign Room:	USD69mn	P/B (curr)	2.0x	1.4x	2.4x
ADTV30D:	USD2.6mn	Net D/E	13.6%	-3%	N/A
State Ownership:	50.5%	ROE	16.5%	5%	15.7%
Outstanding Shares:	118.8 mn	ROA	9.7%	4%	2.6%
Fully Diluted Shares:	118.8 mn				

* TP and rating last updated February 18, 2022

Company Overview

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

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Redesigning strategies to avoid direct competition

- We attended DRC's 2022 annual general meeting (AGM) in Da Nang on April 27.
- Shareholders approved changes to the company's charter and internal regulations in order to comply with new amendments to the law on public investment.
- Management guides for 2022 net revenue of VND4.4tn (USD193mn; +1% YoY) — 17% below our forecast — and 2022 PBT of VND320bn (USD14mn; -12% YoY) — 34% below our forecast. We believe that DRC's 2022 targets are conservative as this guidance was finalized in Q4 2021 when the negative impact of COVID-19 on business activities in Vietnam was still a factor. In addition, DRC has consistently exceeded its target over the past three years.
- Shareholders approved a final FY2021 cash dividend of VND1,700/share (yield of 5.4% based on DRC's closing price on April 27). DRC paid the first interim cash dividend for FY2021 of VND500/share in 2021. For 2022, DRC's AGM authorized the BOD to decide the dividend payment based on the company's performance in the year.
- Management stated that DRC would commence construction on radial tire factory phase 3 on June 10.

DRC flexibly switched its focus between its export markets to maintain strong export momentum. DRC has two main export markets — Brazil and the US — which accounted for 60% and 35% the company's 2021 export revenue, respectively. In the US, DRC's competitive advantages have been fading as Chinese manufacturers have shifted their production to Southeast Asian countries to avoid the antidumping and countervailing duties that the US imposed on their products. In addition, increased logistics costs have made DRC's products less competitive. Specifically, the logistics costs of one DRC's shipments to the US amounts to USD16,000-17,000, while the logistics costs of Chinese manufacturers in Thailand are USD2,000 lower, per management. Therefore, DRC is mainly focusing on the Brazilian market as it still enjoys (1) a duty advantage over its competitors and (2) a higher average selling price for its products compared to in the US. DRC's export volume in Brazil jumped 35% YoY in 2021, per management.

DRC expects to launch the D-star tires to capture the "radialization" process in the domestic market. D-star tires are DRC's truck and bus radial tires (TBR) for long-haul vehicles. In the domestic market, the TBR market for short-haul vehicles is currently dominated by Chinese players that boast superior production capacity compared to DRC. Meanwhile, Michelin and Bridgestone are the main providers of TBRs for long-haul vehicles in the Vietnamese market, but they have to import their products into Vietnam to sell. DRC expect its D-star tires to sell at a 30% lower price with quality close to the levels of Michelin and Bridgestone.

DRC can ramp up its radial tire production capacity by 10% in 2022. Management shared that although the current radial tire factory reached its maximum capacity in 2021 (i.e., 600,000 units p.a.) and radial tire factory phase 3 has yet to commence operation, DRC can boost its radial tire volume by 10% in 2022 thanks to the application of high-pressure vulcanization equipment (vs the current low-pressure equipment), which will shorten the vulcanization process time by 10%. As such, DRC expects to produce 660,000 radial tires in 2022.

Radial tire factory phase 3 to bring a significant increase to DRC's annual capacity in 2023-2024. The AGM approved the development of a new phase of DRC's radial tire factory with a total investment cost of VND916bn (USD40mn). We believe that DRC overestimated its total investment cost because management stated that (1) the capex already reflected DRC's expectation of the current increase of construction material prices, (2) Da Nang authorities can support 50%-100% of the interest expenses for the expansion project in 2023-2024, and (3) DRC can leverage its technical expertise to import equipment from different countries. Management expects DRC's annual radial tire capacity to reach 900,000/1,000,000 units p.a. in 2023/2024, respectively.

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
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