



Da Nang Rubber (DRC)

Earnings Flash

Industry: Tire Manufacturing
Report Date: July 18, 2022

Current Price: VND28,100

Target Price*: VND32,900

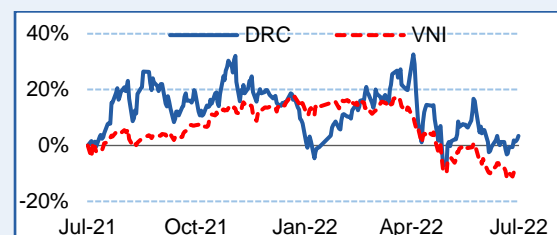
Upside to TP: 17.1%

Dividend Yield: 6.0%

TSR: 23.1%

Rating*: OUTPERFORM

	2021	H1/2022	2022
Rev Growth	20.1%	14.9%	17.9%
EPS Growth	9.2%	-11.9%	27.6%
GPM	17.1%	16.7%	16.4%
NPM	6.0%	6.2%	6.7%
EV/EBITDA	10.1x	N/A	7.7x
P/E	16.4x	N/A	10.6x



Market Cap:	USD145mn
Foreign Room:	USD57mn
ADTV30D:	USD0.5mn
State Ownership:	50.5%
Outstanding Shares:	118.8 mn
Fully Diluted Shares:	118.8 mn

	DRC	Peers	VNI
P/E (ttm)	12.5x	21.4x	12.8x
P/B (curr)	1.8x	1.5x	2.0x
Net D/E	22.3%	-3.0%	N/A
ROE	15.6%	3.7%	15.8%
ROA	8.9%	2.2%	2.6%

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 May 24, 2022

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Gross profit margin rebounds QoQ

- DRC announced Q2 2022 results with net revenue of VND1.1tn (USD49.8mn; -4.7% YoY) and NPAT-MI of VND84bn (USD3.7mn; -21% YoY).
- For 6M 2022, revenue and NPAT-MI was VND2.4tn (USD105.7mn; +14.9% YoY) and VND150bn (USD6.5mn; -11.9% YoY), respectively.
- We attribute the larger YoY decrease in NPAT-MI vs revenue in Q2 2022 to (1) a 1.0% GPM contraction due to rising input costs and (2) 1.3% YoY increase in SG&A.
- H1 2022 revenue and NPAT-MI completed 47.1% and 43.3% of our full-year forecasts, respectively. However, as H2 typically is a high season for DRC exports, we do not see major downside to our forecasts, pending a fuller review.

DRC's profitability increased QoQ despite rising input costs and weakened consumption in the US. DRC's gross profit margin in Q2 2022 increased QoQ to 17.8% (vs 15.6% in Q1 2022, 18.8% in Q2 2021 and a five-year quarterly high of 19.8% in Q4 2020). Management stated that the company raised its product selling prices by 5%-7% in April 2022 and shifted its focus to the Brazilian market as it has a higher average selling price compared to the US. We believe DRC's GPM in Q3 2022 will continue to be partially cushioned from this shift in sales focus.

DRC ramped up capacity in Q2 2022. In the quarter, DRC's construction in progress account increased VND6bn with a proportionate increase in outgoing cash flow for investment. We assume this capex financed DRC's investment efforts in 2022, including the application of high-pressure vulcanization equipment that will raise radial tire production capacity by 10% in 2022, in addition to Phase III of DRC's expansion project for its radial tire factory — reportedly with a total investment cost of VND916bn — that should enter production in 2023-2024.

Figure 1: DRC's Q2 2022 and H1 2022 results

VND bn	Q2 2021	Q2 2022	Q2 2022 vs Q2 2021	H1 2021	H1 2022	H1 2022 vs H1 2021	VCSC's Full- year 2022F	H1 2022 vs 2022F
Revenue	1,205	1,148	-4.7%	2,117	2,432	14.9%	5,163	47.1%
COGS ex depreciation	-952	-936	-1.7%	-1,673	-	19.5%	-4,244	47.1%
Depreciation	-26	-7	-74.2%	-52	-28	-47.0%	-71	38.7%
Gross profit	226	205	-9.5%	392	405	3.2%	848	47.8%
SG&A	-91	-101	11.6%	-171	-213	24.5%	-372	57.3%
Operating Profit	136	104	-23.7%	221	192	-13.2%	476	40.3%
Net financial income	-2	0	-99.3%	-9	-7	-21.9%	-50	13.3%
PBT	133	105	-21.2%	212	186	-12.2%	432	43.2%
NPAT-MI	106	84	-21.0%	170	150	-11.9%	345	43.3%
NPAT-MI adjusted for BWF	97	76	-21.0%	155	136	-11.9%	314	43.3%
GPM	18.8%	17.8%					16.4%	
OPM	11.3%	9.0%					9.2%	
NPM	8.8%	7.3%					6.7%	

Source: DRC, VCSC



VCSC Rating System

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

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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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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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