

Rubber Sector – ICB1353
June 9th 2016

**COMPANY RESEARCH REPORT
TAY NINH RUBBER JSC – TRC**



STOCK PRICE MOVEMENT



INVESTMENT RECOMMENDATION

Recommendation	BUY
Target price	25,100
Market price (6/9/2016)	21,900
3M trend	Increase
6M trend	Increase
12M trend	Increase

TRANSACTION INFO

# shares (Mil)	29.1
Market Cap (VND Bil)	707.7
BVPS	47,041
Foreign ownership	6.37%
Current price (đ/cp)	21,500
Liquidity (Average 10 day)	62,591
Lowest 52 w	17,800
Highest 52w	25,875
+/- 7 days	+0.4%
+/- 1 m	+4.8%

Equity research analyst
Nguyen Bao Hoang Le
Email: lenbh@bsc.com.vn
Tel: +84 4 39352722 (108)

INVESTMENT HIGHLIGHTS

We recommend BUY for TRC with 1 year - target price of 25,100 VND per share, up 14.6% higher than the closed price as of June 9th 2016, using FCFF valuation method. At the current price, TRC is traded at P/E of 12.5x and P/B of 0.5x.

On Feb 7th 2016, rubber price hit the 6 year bottom, before a strong recover. This led to the expectation that the natural rubber sector had passed the bottom zone and started a recovery stage. Forecasts issued by major organizations are contradictory about rubber price trend in 2016, but all agree that rubber sector is approaching the cyclical trough. In case rubber price has passed the trough, TRC will have the strongest recovery thanks to good fundamentals and effective cost management. Prospects of TRC are based on:

- (1) Expectation in rubber price recovery.** Cyclical factors, along with the market regulation policies of major rubber producing countries and the increase of oil price, has raised the price of rubber since February, 2016. Besides, adverse weather caused by El – Nino and La - nina is forecasted to reduce both the domestic and international rubber supplies.
- (2) Good fundamental values:** young rubber plant with high productivity, and 65% of products are Latex and CV50, 60, whose prices are high and do not depend on the tyre production.
- (3) Tay Ninh – Siem Riep project operated in 2019** will expand the plant area by 85% and the production capacity by 65%. Also, since the profit from rubber tree liquidation is significantly lower than the sector average, TRC's business results totally depend on the rubber price.

Q1/2016 business results continued to decline with 52.2 billion VND of sales revenue (-38.7% yoy) and 10.7 billion VND of profit (-47.8% yoy). The profit of rubber production sharply fell by 63% to VND 3.7 billion. First quarter is the deciduous phase of rubber trees so TRC earnings mainly came from long-term contracts, which did not reflect the remarkable recovery of rubber price in Q1.

We estimate that the 2016 rubber sales revenue of TRC could reach VND 322 billion (-1.5% yoy). The estimated PAT is 70.6 billions (+23.3% yoy). With 20% PAT for welfare fund, 2016 EPS is estimated to be at 1,941 VND. The expected dividend is about 10% over the period of 2016-2019 and then increase to 20%.

Financial indicators	2011	2012	2013	2014	2015
Sales Revenue (billion vnd)	1,195	908	671	501	363
% vov		-24%	-26%	-25%	-28%
Total asset (billion vnd)	1,471	1,483	1,934	1,587	1,647
Equity (billion vnd)	1,127	1,315	1,404	1,447	1,411
Charter Capital (billion vnd)	300	300	300	300	300
Net profit (billion vnd)	513	311	207	115	38
After tax profit (billion vnd)	515	354	230	139	57
% vov		-31%	-35%	-39%	-59%
EPS (VND/cp)	13,264	9,121	5,920	3,592	1,495
ROE	45.7%	26.9%	16.4%	9.6%	4.1%
ROS	43.1%	39.0%	34.2%	27.9%	15.8%

OVERVIEW TRC

Company Name	Tay Ninh Rubber Joint Stock Company
Address	Hiep Thanh Ward, Go Dau District, Tay Ninh
Telephone	84.066) 3.853 606
Fax	(84.066) 3.853 608
Email	qtns@taniruco.comp
Charter Capital	300 Billion VND
Business Area	Plantation, caring, exploitation, raw rubber processing and product distribution. Industrial chemicals, fertilizers and rubber business. Rubber wood sawing, pallet and household appliances making.

History

April, 1945: Tay Ninh Rubber Joint stock Company, which was originally a French rubber plantation.

1981: The plantation was upgraded and named as Tay Ninh Rubber Company.

March, 04th, 1993: The Ministry of Agriculture and Food Industry decided to change the company name from Tay Ninh Rubber Complex Enterprises to Tay Ninh Rubber Company.

27th, May, 2004: the company was converted into one member limited liability company.

28th, December, 2006: the company operated as joint stock company with the initial charter capital of 300 billion VND.

24th, July, 2007: The company shares were listed and traded on HOSE.

2012: implemented the rubber plantation project in Campuchia Kingdom.

Until April, 2016: the charter capital is 300 billion VND.

List of major shareholders

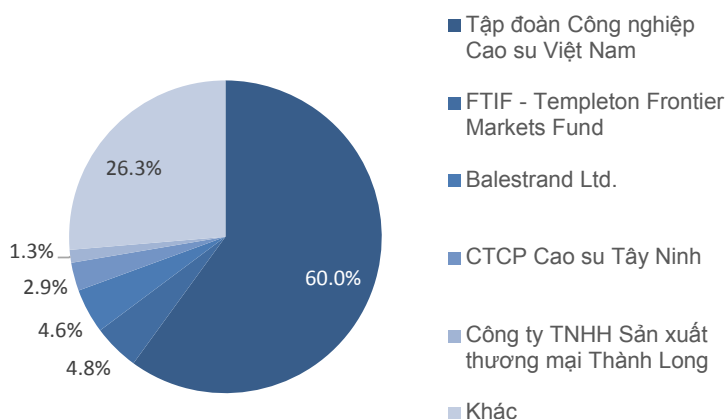
Shareholder name	Number of shares held
Vietnam Rubber Industry Group	18 million

Subsidiaries/ Associated Companies

Tay Ninh Siem – Riep Rubber Development Company	100%
Tay Ninh Wood Processing – Import & Export Joint Stock Company	49%
Lao Cai Dau Tieng Joint Stock Company	20%

TRC shareholder structure is quite concentrated with only one major shareholder, Vietnam Rubber Group, which occupies 60% of charter capital. This group also holds the controlling rate of share of other rubber companies including: PHR (67%); DPR (60%); và HRC (55%).

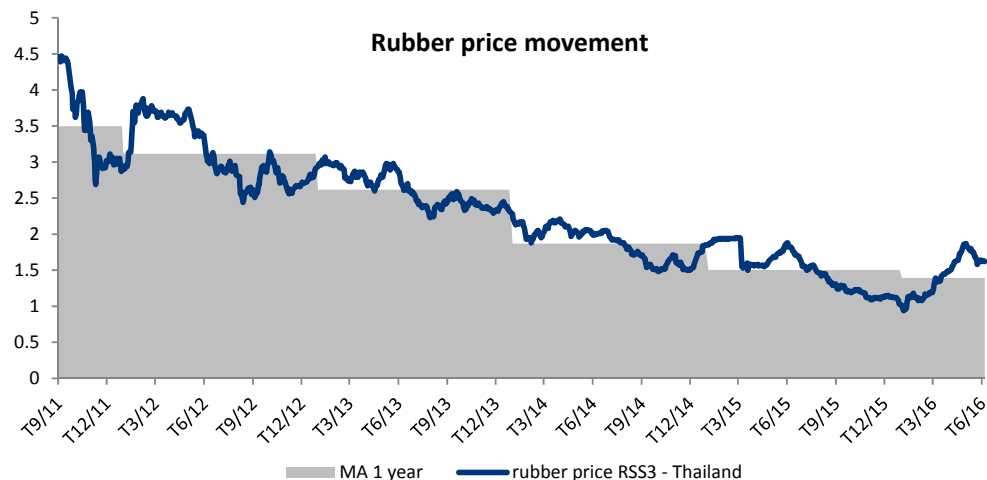
Board of Director and Board of Management of TRC holds 0.3% of the total shares of company.



NATURAL RUBBER SECTOR

The development of global rubber price

The rubber price has recovered since February, 2016: the RSS3 rubber price has increased to \$1.87/kg as of April, 29th, 2016, which is equivalent to the growth of 75% compared with the early time of the year. The average rubber in the first five months is \$1.39/kg, which is 7.4% lower compared with the same period last year. Since beginning of May, rubber price has declined and as of June 9th is at \$1.62/kg, 7.7% higher than average of 2015.

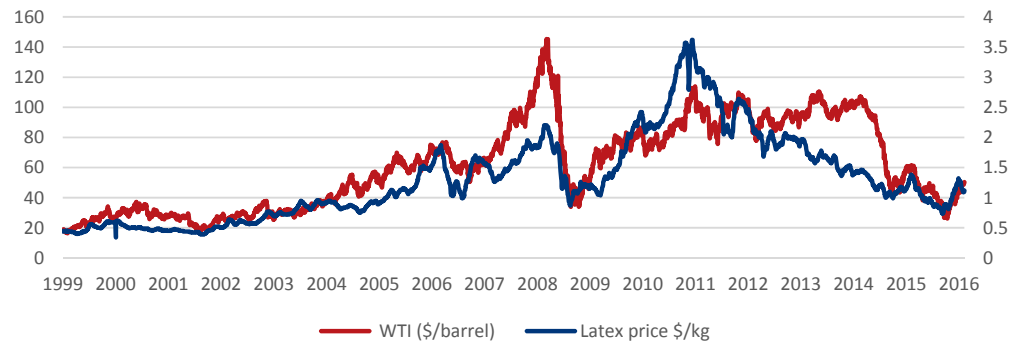


Source: Bloomberg

The good recovery of rubber price is the result of many factor, including (1) cyclicity: Q1 is the deciduous phase of rubber trees (2) price subsidy policy of major producing countries, and (3) the recovery of oil price.

- (1) **Cyclically, Q1 is the recovery stage of rubber price due to the stop of exploitation.** In previous years, rubber price normally peaked in the period of February – March, due to the deciduous stage reducing rubber supplies. Therefore, rubber price had good recoveries in the first several months with 31% (2012), 13.3% (2014) and 35.6% (2015). In previous years, when rubber harvesting restored, rubber price started falling sharply and hit bottom from September to November. The average gap between the peak and bottom areas averaged of 29% for the period of 2012 – 2015. Thus, the volatility of rubber price needs to be tracked more to compare with the price level in 2015. So far in 2016, rubber price recovered stronger and longer than the previous years with the increase of 75%, from February to May. And the decline has been smoother, which is a good sign for the average price for 2016.
- (2) **Subsidy policy:** On February, 4th, 2016, International Tripartite Rubber Council (ITRC) made the decision of cutting down the export of natural rubber by 615,000 tons for the 6 month period beginning on March 1st, 2016. The impact of reduction in export is significant as mentioned in our [rubber sector report](#) issued on March, 7th, 2016.
- (3) **The recovery of oil price:** Crude oil is the major input to produce synthetic rubber, a substitutes of natural rubber in many fields. Therefore, the recovery since the year beginning has raised the cost of producing synthetic rubber, which helped improve demand for natural rubber. In the period of 2013-2016, the correlation between rubber and oil price was 85%.

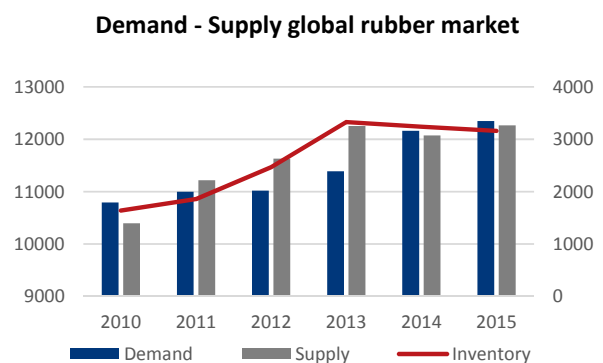
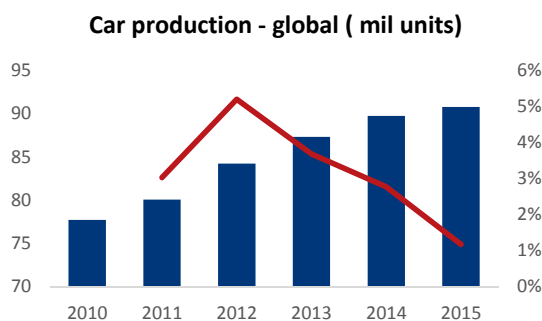
Rubber price depends on oil price



Sources: Bloomberg

Demand and Supply

Rubber demand depends on car production over the world, because 70% the demand of rubber is for producing tire. According to International organization of Motor Vehicle Manufacturers (OICA), since 2012, the growth of car manufactured has constantly decreased to 1.2% in 2015, which is the main the reason slowing down the growth of rubber demand in recent years.



Source: OICA, IRSG

2015 was the second consecutive year that the rubber demand slightly exceeded the supply, according to the statistics of International Rubber Study Group (IRSG). Whereby, the world inventories declined by 2.5% yoy to 3.2 tons of rubber. After the oversupply period from 2010 to 2013, rubber market is getting more balanced in 2014 and 2015 with slight decreases of inventories.

The prospect of global natural rubber sector

IRSG anticipates the growth of rubber demand in 2016-2024 will average at 3.1%, in which 2016 growth will fluctuate around 1.3% - 2.8%. The prospect of supply is forecasted at the sufficient level for demand.¹

Major organizations over the world have the contradictory forecasts about the movement of rubber price in 2016. Malaysian Rubber Board (MRB) suggests that the rubber price continues to recover due to the import and export restrictions applied from

¹ <http://www.rubberstudy.com/news-article.aspx?id=5092&b=default.aspx>

March to August, 2016. Besides, MRB expects the oil price continues to recover, which will raise demand for natural rubber. The rubber price in long-term contracts on TOCOM market, Japan, the price for the 5-10 month contract remains at about \$1.8/kg, which is 3% higher than the average price in 2015.

In contrast, World Bank still concerns about the prospect of rubber price in 2016. According to the CMO report of World Bank on April, 19th, 2016, rubber price in 2016 is expected to average at \$1.35/kg, equivalent to a decrease of 23.4% yoy. This anticipation is based on the concerns about **(1)** the slowdown of the demand of natural rubber in China is forecasted to remain in long term; **(2)** the supply from major producing countries will be back to the high level when the weather condition is better; and **(3)** the supply controlling policy is going to be expired.

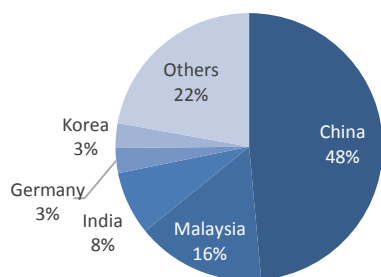
Domestic rubber companies is prudent in their 2016 business plans, with the modest sale price of 26 million VND/ton, decrease by 16% yoy.

BSC assesses the prospect of natural rubber sector still face lots of challenges, with inventories still higher than the figure in the period of 2011-2013. Long- term prospects heavily depend on the growth of large economies such as USA, China or Japan, which is now volatile and unpredictable. However, with the sector approaching the bottom of a cycle, rubber sector could bring investment opportunities if the rubber price successfully get into recovery phase, or at least not as bad as the World Bank forecast.

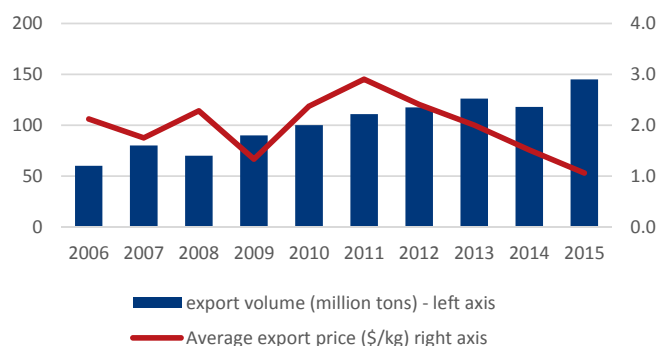
The rubber industry in Vietnam

Vietnam is the 4th largest exporter with market share of about 10%. Meanwhile, Thailand, Malaysia and Indonesia, members of ITRC, provide 70% of total worldwide rubber output. Therefore, Vietnam nearly has no impact on the worldwide rubber price.

Main rubber importers of Vietnam - 2015



Export rubber - Vietnam



Source: Bloomberg

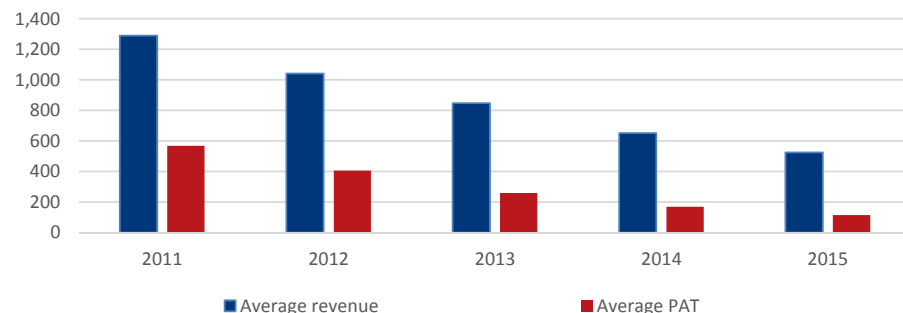
Vietnam's rubber quality is inferior and export activities depend on China. 80% of Vietnam rubber is raw and low quality. Currently, the Vietnam rubber sector depends mainly on China by exporting in small volumes. Rubber exported to China takes 48% of total rubber exported.

Decent growth of export quantity, but export price constantly fell. The CAGR of export quantity reached at 10.3% in the period of 2006-2015, with the rubber price constantly

fell from the peak of \$2.9/kg in 2011 to the \$1.06/kg in 2015. The slowdown of China economy, along with the excess supply made the rubber price fell sharply and hit the bottom of 6-year period Feb 2016.

Earnings of Vietnam rubber companies constantly declined in the period of 2011-2015, resulting from the sharp drop of rubber price. Profit margin decreased significantly from 39% to 13%. From our conversation with rubber companies, the lowest cost of capital in rubber sector is 24.5 million/ton, and this figure is only for companies with high productivity and good tree age structure.

Business results of rubber companies (VND Bil)



The industry statistics are the average of PHR, DPR, TRC, HRC, TNC

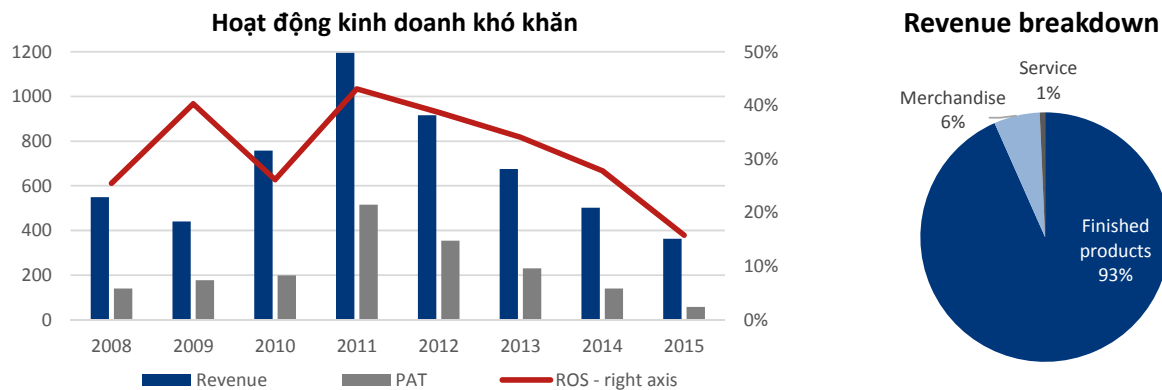
Rubber sector prospects mainly come from the expected recovery of rubber price

Because most of rubber companies are in the stable stage of production without any mutation of productivity or planting area, the sector's prospect comes mainly from the expected recovery of rubber price. Coping with the constant decrease of rubber price, companies cut costs to the minimum level, so most of the increase of rubber price will accrued into profit. The significant decline of both scheduled revenue and profit in 2016 plan reflects the difficulty of rubber sector. However, BSC suggests that companies are approaching the cycle bottom, thus, rubber sector is more suitable with fundamental and long-term investors. If the rubber price completely bottoms out and the price level of 2016 is higher than expectations, rubber stocks will create exciting investment opportunity in the coming period.

TAY NINH RUBBER JSC – TRC

Tay Ninh Rubber Joint Stock Company (TRC) is originally a French rubber plantation established in 1945. With the charter capital of 300 billion VND, Tay Ninh Rubber Joint Stock Company is the number 3 company in terms of scale among listed rubber company and has the number 3 in terms of plating area in sector. When rubber price recovers, we suggest that TRC is one of the most noteworthy rubber companies thanks to good fundamental factors such as: **(1)** specialized products with high price, **(2)** highest productivity thanks to the young rubber trees, and **(3)** effective cost management. Besides, because the profit from rubber tree liquidation is significantly lower than other companies, the performance of TRC depends largely on the movement of rubber price, and TRC recovery is much stronger compared to others when the rubber price recovers.

The business performance declined in 2011 – Q1/2016



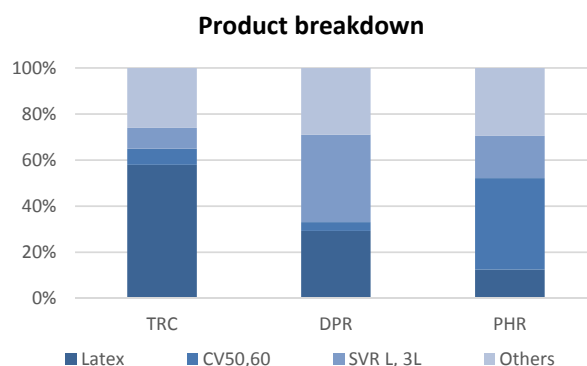
Nguồn: BCTC TRC, BSC tổng hợp

The business has faced huge challenges since in 2011, under the pressure of the decrease of rubber price. The CAGR of revenue is -25.8% over the period of 2011-2015, and the profit dropped more sharply by 42.3% per year. Profit margin fell remarkably from 43% in 2011 to 16% in 2015. This is the common situation of rubber sector in the context of rubber sector at 6-year bottom.

Business results continued to fall in Q1/2016 with the revenue of VND 52.2 billion (-38.7% yoy) and the after tax profit of VND 10.7 billion (-48.7%). In which, the operating profit decreased by 63% to 3.7 billion VND with the sales volume of 1,899.7 tons (-30%yoy) and the price fell sharply to VND 25.9 million/ton (-18.8% yoy). First quarter is the deciduous phase of rubber trees so TRC earnings mainly came from long-term contracts, which did not reflect the remarkable recovery of rubber price in Q1.

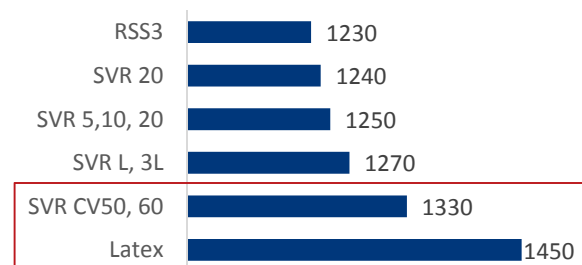
93% of revenue is from finished products. The remaining comes from the sales of medicine and fuel with 6% proportion

Specialized products and high productivity



Source: BCTN 2015 TRC, DPR, PHR

Price of products



Source: Price as of Dec 31st 2015 - VRG
(*) translated to dry rubber for Latex concentrate 60%

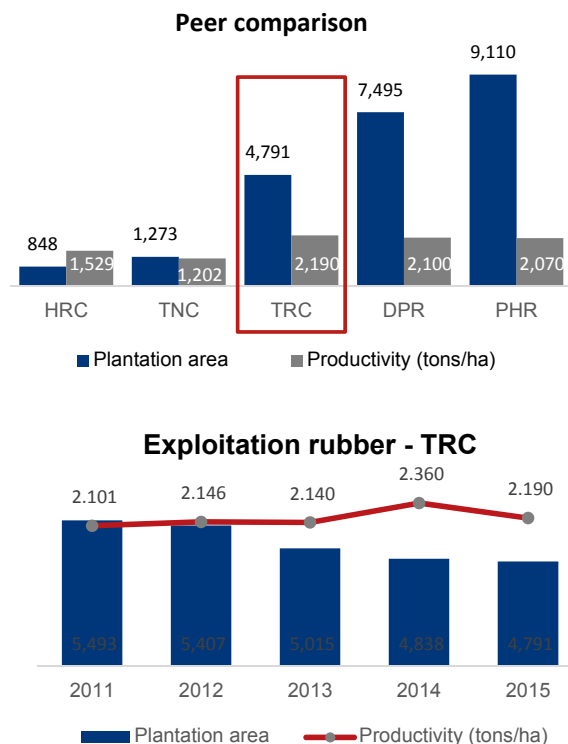
Good position due to the high contribution from premium product. Specifically, Latex and SVR CV50, 60 have the highest price among rubber products in Vietnam market. In 2015,

TRC has the largest portion of premium products with 58% for Latex and 7% for CV 50,60), whereas, the portions of premium products of DPR and PHR are only 32% and 52% respectively.

Latex input	Products	Usage
Latex - is taken directly from the rubber tree	Latex (centrifugated)	Medical gloves
	SVR L, 3L	cables, industrial gloves, colorful rubber
	SVR CV50; CV60	Rubber ring, tyre sides
Latex accessories: from the latex centrifugation	Skim	Equivalent to 70% of the value of SVR 3L
Complex latex	SVR 10	Tyre production
	SVR 20	

TRC' key product is Latex, accounting for 60-80% of TRC's total production. Latex is used for producing medical gloves. It has the high requirements of input because it is used in medical industry. It is worth noticing that within the centrifugation process, the latex processing technology simultaneously creates skim rubber, which has low value. Therefore, on average, the price of latex rubber and skim rubber is equivalent to the price of other premium rubber products such as CV50, 60, but the advantage of Latex is the stable output market, which does not depend on the tyre production of China. Thus, TRC has a good position in rubber market due to actively investing in technology since the early period of 1993-1994. Until now, the company has built a longstanding client system with 50% of its products being directly distributed to manufacturers.

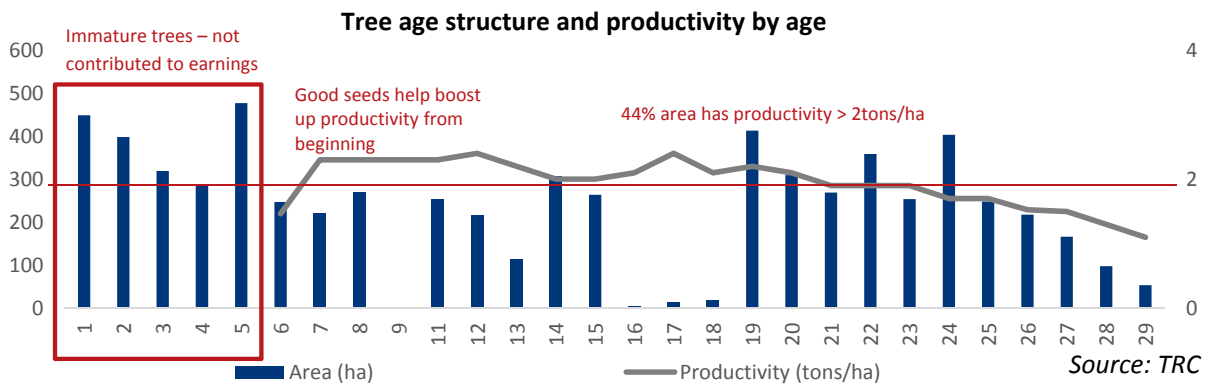
Industry-leading productivity



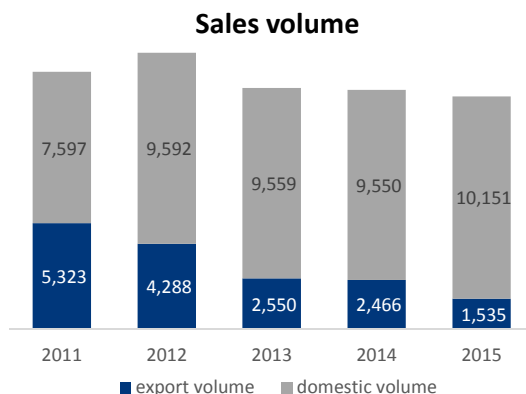
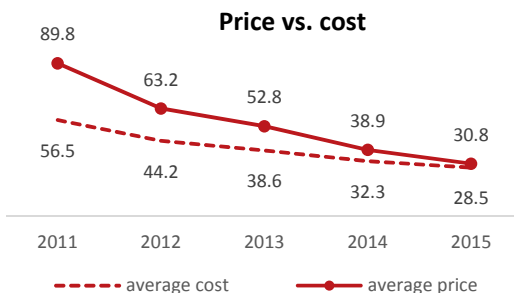
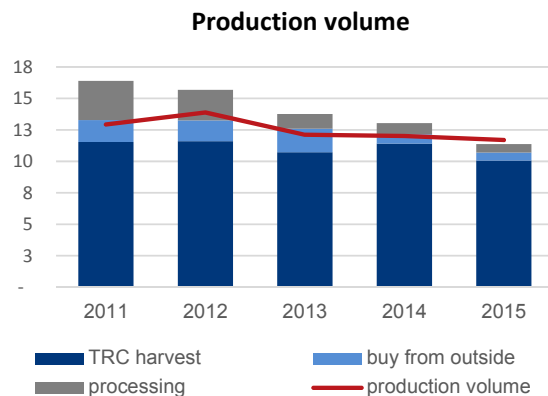
Rubber planting area slightly fell over years. The average rate of decrease is about 3% per year, which is the difference between the area of old trees cut down and the area of standard rubber garden, which takes an average of 5 years to create. Compared with other rubber companies, TRC has the third largest area, and the highest productivity due to optimum structure in tree ages.

High productivity is thanks to the optimum structure and good seeds. The company has the optimum age structure of rubber trees with 20% - 30% of immature trees and 44% of total area yielding more than 2 tons per hectare. Thus, TRC continually leads the rubber industry in terms of productivity. In 2015, the impact of bad weather, along with cost cutting policy such as raise the time of latex tapping from D3 to D4, or reduce fertilizers reduced the productivity down to 2.21 tons/hectare. However, this is a common problem of rubber companies, and TRC still has the highest productivity in 2015.

Source: BCTN TRC



Production and consumption decline – mainly in export



Source: TRC

TRC now has three rubber production lines with the total capacity of 15,000 tons. In which, there are a raw rubber production line with the capacity of 5,000 tons per year and two rubber centrifugation production lines with the total capacity of 10,000 tons per year. In the period of 2013 – 2015, the company ran 90% the capacity on average. By 2015, the quantity of produced rubber was even lower than the quantity of consumed rubber, which leads to the decrease of company's inventories.

Total production declined in the period of 2011-2015, which reflects the oversupply state of rubber industry resulting in the slowdown of export demand. The decrease of output mainly caused by the reduction in processing segment, which bought raw rubber from outside and process further. This segment does not contribute much to profit. Besides, the decrease of production helped reduce inventories in the context of the oversupply state.

Rubber price continued to decline to the average level of 30.8 million VND per ton in 2015, which is equivalent to 1/3 of the sale price in 2011.

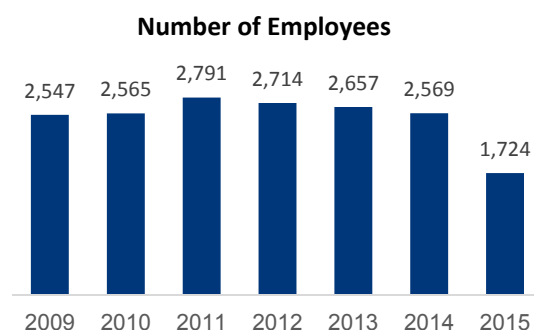
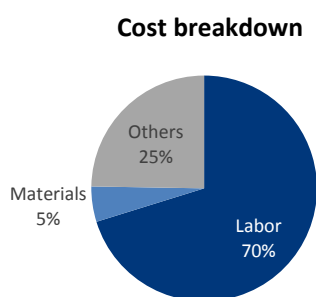
The decline in sales is mainly due to export activities. In 2015, total quantity of rubber sold by TRC reached 11,686 tons, down by 2.8% yoy, equivalent to only 94.6% of the 2015 plan. While domestic consumption was quite stable over the years, at about 9,500 – 10,000 tons, the export declined sharply by 37.8% yoy in 2015 to 1,535 tons of rubber. This resulted from the high competition, and the oversupply in the global rubber market. The decline in export also reduced gross profit margin of TRC, since margin of export activities are generally higher than of domestic activities.

TRC's distribution system includes agents, along with domestic and international longstanding customers. Due to high requirements of latex products, which are used mainly for industrial and medical gloves, the long history helped TRC establish long-term and reliable relationships with customers. 50% of TRC's products are sold directly to manufacturers, which is more stable. The major export market of TRC are Malaysia and Indonesia. However, due to the fall of rubber price, some international commercial partners of TRC stopped operating or restructured, which significantly reduced the export volume of the company. The company's major customers include the Vietnam Rubber Group; MERUFA.JSC, Nam Long Company Limited, and the Company Edgepoint Group.

The prospect of production is not much optimistic in 2016 due to unfavorable weather and cost-cutting measures, which will reduce the tapping time and exploitation productivity. According to TRC, by the end of April, 2016, the company has not started tapping due to unfavorable weather, which is one month later than normal. In 2016, TRC planned to have the productivity of 1.91 tons per hectare, which decreased by 13.5% yoy, and the planned processing yield slightly declined by 3% yoy to 11.017 tons. Based on rubber trees' age structure, the corresponding productivity, along with the impact of weather, BSC forecasts the exploitation productivity in 2016 will fall by 12% yoy to 1.95 tons per hectare, and the processing yield will be 11,202 tons (-2% yoy).

Export consumption prospect is projected to increase in 2016. On April, 28th, 2016, the amount in long-term contracts of TRC increased dramatically over the same period, and this is a good signal for export activities in this year. However, due to the difficulty in production, the output of TRC is expected to decline by 6% to 10,610 tons. BSC forecasts the output at 11,027 tons including 1,688 tons exported (+10% yoy) and 9,339 tons for domestic consumption (-8%yoy).

Effective cost management help maintain profitability



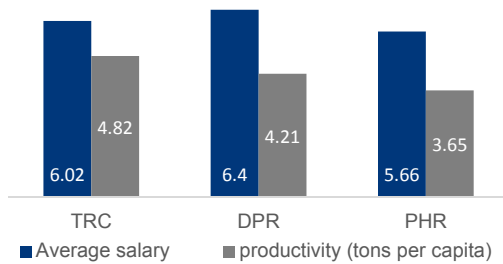
Souce: Annual report TRC

Abolishing the rubber price based salary mechanism: labour cost accounts for 70% of the total cost, so any changes in labour cost would greatly impact TRC's profit. Previously, the rubber price based salary mechanism helped TRC to share a part of risk from rubber price to employees. However, in the past two years, the company has to abolish this mechanism because of the sharp fall in rubber price, which adversely affect on workers's life condition.

The number of workers fell sharply in 2015 under the influence of the new retirement mechanism. The pension mechanism changed from Jan 1st 2016, in

which the prescribed reduction rate for early retirement increases from 1% to 2% per year. Therefore, many workers, who are on the brink of retirement, decide to retire early in order to be entitled to more favorable pension plan. Besides, Binh Duong industrial zones also attracted many workers from rubber plantations. These factors made 1,797 employees quit their job in 2015, corresponding to 13% of the total number of workers. Furthermore, TRC incurred VND 17.8 billion cost of the retirement allowance in 2015 and this cost is projected to be back to normal in 2016.

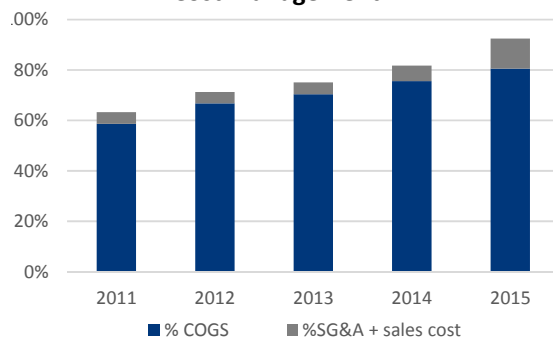
Labor Productivity



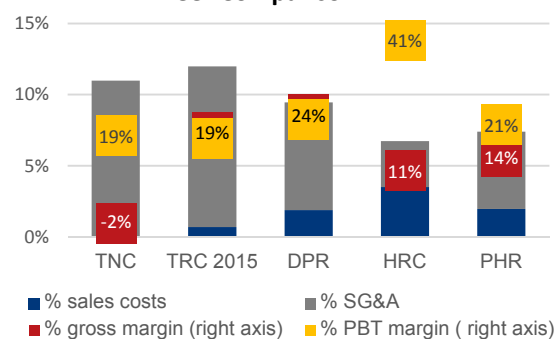
TRC has the highest laboring efficiency among rubber industry leading companies, at the average of 4.82 of rubber per worker. This figure is calculated based on the average of the number of workers in 2015 and in order to neutralize the effect of the surge of workers leaving in 2016. The average salary of workers in TRC is about 6.02 million per month, which is at the average level.

Nguồn: TRC

Cost management



Peer Comparison



Source: Financial Statements of TRC, DPR, TNC, PHR, HRC

Administration expenses increased by 54.3% in 2015 because of (1) Depreciation cost rose by 3x to 4.5 billion VND and (2) the allowance for leaving job rocketed up by 10x to 17.8 billion VND as mentioned above. Excluding unusual expenses from retirement allowance, the administration expenses fell by 12.7%, showing the cost-cutting effort of TRC's leaders.

Along with DPR, TRC will have improvement in their earnings in case of higher rubber price, because (1) the rubber productivity of these two companies is at the highest level of rubber industry, reflected in high gross profit margin and (2) with the young structure of rubber trees, revenue recognized for liquidating garden is not much in comparison with others such as HRC, PHR, so the business performance of TRC and DPR totally depends on the rubber price. In terms of pre-tax profit margin, TRC is inferior to DPR due to DPR's export portion is significantly higher than TRC (28% and 15% respectively). Investors can learn more about DPR [in Dong Phu Rubber. JSC Analysis Report by BSC](#), and [BSC business visiting report](#).

Tax preference until 2019: Among the leading companies, Tay Ninh JSC enjoys best tax preference with the corporate income tax of 12.5% for cultivation and 15% for other activities until 2019. After these tax incentives are applied, corporate income tax in 2016 decreased by 50%. In 2015, corporate tax expense equals to 12.5% pre-tax profit, lower than DPR (18%) and PHR (17.7%).

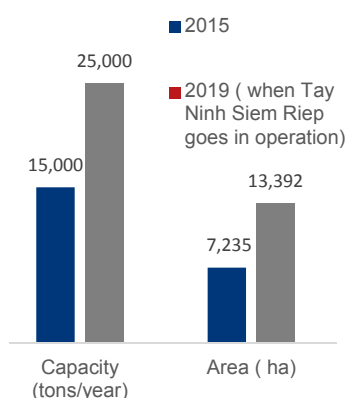
Investment projects

TRC recorded VND 1.1 Bil financial revenue (-55.1%) since the company has withdraw a large amount of cash to invest in Fixed Capital, which lower the interest earned from deposits

Tay Ninh Rubber Company invests in three subsidiaries and associated companies with total investment of VND 835.5 billion, equivalent to 51% of company's total asset. Until now, there is only Tay Ninh Processing & Import – Export JSC running, and in 2015, this company brought the profit of 1.79 billion VND for TRC, which equals to the profit margin of 7.3%. The two remaining activities are still in the building process, and will be significant significant growth for TRC in the long term.

Associates/subsidiaries	%	Objectives	Total Cap	Cap contributed	Loans	% contributed	Operation time
Tay Ninh Siem Riep	100%	6,157 ha area, production line of 10,000 tons/year	1,361	731.7	139.2	48.2%	2019
Processing – Import export Tay Ninh Wood	49%		24.5			100%	Q4/2009
Dau Tieng Lao Cai	20%	2,000 ha , planted 1,423 ha	60.83			57%	N/A

Growth potential



Nguồn: BCTN TRC, BSC tổng hợp

Tay Ninh Siem Riep project has the greatest value with the total required investment of VND 1,361 billion VND. Until 31/12/2015, TRC invested VND 870.8 billion, equivalent to 64% of total investment needed. The project is expected to raise 70% of total capital from equity and 30% from bank loan granted by ShB Phnom Penh, which is an USD loan with the interest rate of about 4%. The projected product of rubber production factory is RSS, SVR 10 or SVR 20. RSS has a higher gross profit margin than the existing products of TRC, and this is expected to raise TRC's gross profit margin from 2019.

As of Dec 31st 2015, the project has completed the planting phase. Rubber tree and the production line is expected to operate in 2019. Accordingly, total rubber area of TRC will increase by 85% and capacity up 65%. Interest expense, FX gains/losses, and depreciation expense will be reported in 2019

ROI of TRC in 2015 is 4.2%, approximately equal to the current ROE of the company.

	2014	2015	%	Notes
CTCP Cao su Việt - Lào	77.5	77.5	10%	-) Finished phase 1 – capacity 6,000 tons/year -) expected total capacity of 20,000 tấn / năm
CTCP TMDV và Du lịch cao su	9.2	9.2	2.15%	
CTCP Phát triển KCN Cao su VN	19.7	19.7	7.61%	

CT TNHH Đầu Tư Hạ Tầng VRG	28.6	-		
CTCP An Thịnh - Việt Lào	1.0	1.0		

Source: TRC

In 2016, TRC claimed to keep divesting from investments outside the sector, such as investments in Vietnam Rubber Industrial Zone and Urban Development JSC., while investing more in the construction of Tay Ninh Siem Riep project.

Business prospects

From 2016 to 2018: Since TRC's projects have not operated yet so the company's earnings mainly depends on the movements of global rubber price and the ability to save the cost.

Rubber price is expected to recover in short term: we believe that the average rubber price in 2016 will still lower than in 2015, but it will be significantly higher than the TRC's projected price of 26 million and the forecasted decrease of 10% by World Bank. BSC assumes that the average rubber price will decrease by just 5% to 29.3 million per ton.

We forecast the rubber export of TRC will increase by 10% after five consecutive years of decline, while the domestic consumption fell by 8% in 2016. The rise in the portion of export volume, which has high price and profit margin, is the advantage of TRC in 2016.

Exploitation output declined by 1.5% due to unfavorable weather: the impact of El-nino and La-nina in 2016 is expected to continue to reduce the productivity of the company to 2 tons per hectare, which is 10% lower than in 2015. The productivity is expected to recover from 2017. The decline in exploiting output made TRC depend more on rubber purchasing, which has the significantly higher cost, and this will affect the gross profit margin of the company.

TRC production cost is forecasted to rise by 3.7% in 2016, mainly due to the change in the labor insurance regulation, and this is projected to make labor cost increase by 4%.

CORPORATE FINANCE

	2012	2013	2014	2015	Industry average - 2015
Asset					
% current assets	64.7%	58.8%	33.0%	22.7%	12.6%
% Long term assets	35.3%	41.2%	67.0%	77.3%	87.4%
Capital					
% ST Liabilities	22.4%	11.0%	27.3%	6.3%	9.8%
% LT Liabilities	0.3%	0.1%	3.0%	8.4%	9.2%
% Equity	76.6%	88.7%	72.6%	91.2%	79.3%
Profitability					
Gross margin	32.7%	29.2%	24.2%	19.5%	13.1%
PBT Margin	43.7%	39.6%	32.8%	18.0%	24.3%
ROA	24.0%	13.5%	7.9%	3.5%	5.9%
ROE	29.0%	16.9%	9.8%	4.0%	4.5%
Liquidity					
Current ratio	5.88	2.15	5.23	3.81	3.81
Quick ratio	5.42	1.98	4.35	3.05	3.33
Leverage (Debt/Equity)	0.13	0.38	0.10	0.17	0.28
Operation					
Days of Inventory	60.3	65.7	88.0	101.5	80.0

Days of receivable	20.1	22.6	4.7	5.5	15.0
Days of Payable	1.1	2.2	4.6	7.7	6.7
Dividend	35%	35%	15%	32.5%	28.5%

Asset structure shifts towards long-term assets: TRC's investment projects have large value and require long-term investment. Therefore, the proportion of long-term assets of TRC increased from 35.3% to 77.3%. However, due to the characteristic of rubber industry that rubber tree need 5-7 years to be able to be exploited, long-term investment is essential to the growth of the company in the future. Compared to the sector average, the proportion of long-term assets of TRC is lower than the sector average of 87.4%. Because the largest projects as Tay Ninh Siem Riep and Dau Tieng Lao Cai project are not yet finished, the proportion of long-term investments is expected to increase to 2019, when the projects complete.

Equity decreased gradually and was replaced by loans. 30% of total investments in large projects are from loans, so the proportion of loans increased significantly in recent years. In contrast, equity declined as the company maintained a high level of dividend while earnings declined. In 2015, the company paid the dividend of VND 3,200 per share in cash while the 2015 EPS was just 1,967 VND per share. Accordingly, the undistributed profit fell sharply from 143.5 billion to 63.7 billion VND.

The profitability was lower than the sector average. ROE and ROA of the company declined from 29% in 2012 to 4% in 2015 because (1) earnings decreased and (2) large projects of TRS has not run and contributed to company's profit.

The debt structure and liquidity were safe: Debt ratio of TRC increased significantly in recent years, but it was still at a safe level in comparison with the figure of rubber sector. Liquidity ratio was at 3x-4x showing a healthy financial structure without settlement risk in the future.

Operational ability was well maintained. The receivable days index is significantly lower than sector average, while the payable days index was extended in 2015 showing an improvement in TRC's ability to occupy capital. The inventories on hand increased sharply due to the decline of revenue. On 31/12/2015, the company has VND 74.2 billion in inventories, which is equivalent to 5% of total assets.

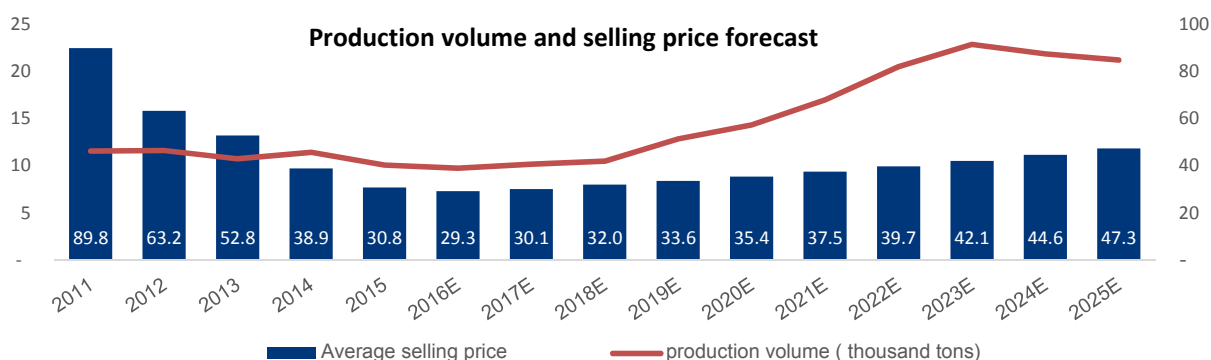
Financial capability should be further examined. TRC has high dividend policy in the period of 2013-2015 despite the difficult business situation, which reduced retained earnings.

EARNING FORECASTS

In 2016: We estimate that revenue from rubber production of TRC could reach 322.7 billion VND (-4.48% yoy) with the average sale price of 29.3 million per ton (-5% yoy), remarkably higher than the forecasted price of 26 million of company and the sales decreased by 5.6%. The after – tax profit is estimated to be at 70.6 billion VND (+23.3% yoy), which is 2x of the expected profit. The sharp increase in profit is due to (1) the rubber price is higher than forecast while production cost is expected to be maintained as planned, and (2) during this year, the company has no retirement allowance as in 2015, and this will raise profit by about 17 billion. Excluding this unusual amount, the after – tax profit is at 65 billion, equivalent to the figure in 2015, but 59% higher than expectation.

In the period of 2017 – 2025: expected revenue will grow as the global demand and supply of rubber become more balance. We expect 2017-2025 CAGR of 14.5%. Especially, the revenue is expected to sharply increase in the period of 2019-2025. However, from 2019, the company will have to record depreciation from Cambodia project, and record interest expense for bank loan from Phnom Penh. Thus, the profit will increase by the average of 8.9%, lower than the growth of revenue.

Cautious forecast for the long-term price of rubber: Due to the long term prospect depends on the movement of rubber price over the period of 2019-2025, when TRC starts exploiting rubber plant in Cambodia. We use conservative assumptions for the rubber price from 2019 to 2025 with the discount of 10% for the forecast of World Bank about the price of rubber from 2017 to 2025, issued on 19/4/2016.



Source: BSC forecast

VALUATION AND INVESTMENT RECOMMENDATION

Assumption for Re	
Beta	0.5
MRP ²	7.4%
Rf	7%
Re	11.37%

Investment view: We recommend **BUY** for TRC with the one year target price of 25,100 VND per share, up 14.6% compared with the closing price on June, 9th, 2016, using FCFE valuation method. We estimate the growth in two phases:

Chúng tôi ước tính tăng trưởng 2 giai đoạn:

Phase 1: the rubber price recovers and the company completes the rubber planting and new rubber factory projects in Cambodia. Accordingly, the cash flow FCFE is projected at 80.4 billion in 2016 as the company still has to invest much in construction stage of the project. The cash flow will reach at 213.7 billion in 2025 when the operation of project is stable.

Phase 2: (after 2025) the free cash flow will stably increase. The long-term growth rate is estimated to be at 3%.

Our forecasts are based on the following assumptions:

Required cost of equity	10.4%
Cost of debt	8%
WACC	9.75%
G (after 2021)	2.00%
Price	25,107

² http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

Sensitivity analysis

		Premium/Discount from WB price forecast					
25,107		-20%	-15%	-10%	0%	10%	20%
Re	8.0%	39,567	42,226	44,883	50,191	55,492	60,787
	9.0%	30,596	32,779	34,960	39,315	43,661	47,998
	10.4%	21,676	23,392	25,107	28,527	31,938	35,340
	11.0%	18,473	20,024	21,572	24,661	27,740	30,811
	12.0%	14,232	15,565	16,896	19,549	22,193	24,829

APPENDIX

Income Statement

Income Statement	2015(A)	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Total Revenue	362.95	339.73	363.82	416.12	484.64	576.76	683.61	786.56	884.00	961.78	1,042.23
% yoy		-6.40%	7.09%	14.37%	16.47%	19.01%	18.52%	15.06%	12.39%	8.80%	8.36%
COGS	(292.25)	(269.40)	(287.35)	(321.68)	(402.79)	(486.80)	(610.52)	(675.14)	(740.45)	(805.60)	(859.92)
Gross Profit	70.70	70.34	76.47	94.43	81.84	89.96	73.08	111.42	143.55	156.19	182.31
Financial Income	10.78	8.24	5.37	8.24	11.11	13.98	16.85	19.72	22.59	25.46	28.32
Interest expense	(0.08)	(0.08)	(0.08)	(0.08)	(32.67)	(26.13)	(20.91)	(16.72)	(13.38)	(10.70)	(8.56)
Selling costs	(2.52)	(2.60)	(2.78)	(3.18)	(3.70)	(4.41)	(5.22)	(6.01)	(6.75)	(7.35)	(7.96)
SG&A	(40.96)	(17.84)	(19.12)	(21.88)	(26.52)	(31.59)	(37.47)	(44.70)	(50.25)	(54.69)	(59.27)
Operating profit	38.00	55.77	57.57	75.24	60.36	65.57	44.87	78.06	106.76	117.24	141.03
PBT	65.45	83.12	84.93	102.59	87.71	92.93	72.22	105.41	134.11	144.59	168.38
PAT (for majority interest)	57.29	70.66	72.19	87.20	70.17	74.34	57.78	84.33	107.29	115.67	134.71
ROE	4.06%	4.87%	4.83%	5.61%	4.48%	4.70%	3.65%	5.25%	6.48%	6.75%	7.53%
EPS (VND/Cp)-25% Welfare fund	1,475	1,941	1,983	2,395	1,927	2,042	1,587	2,316	2,947	3,177	3,700

Balance Sheet

Balance sheet	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
ST Asset (tỷ đ)	373	310	410	378	1,671	1,638	1,613	1,581	1,582	1,599	1,639
LT Assets	1,274	1,447	1,464	1,630	432	412	389	411	434	457	482
LT Receivables	2	2	2	2	2	3	3	4	4	5	5
Fixed Assets	263	260	121	119	121	125	132	141	153	165	178
Assets under construction	836	1,009	1,161	1,324	120	92	58	65	73	80	87
LT Investments	147	172	183	197	171	175	179	183	187	191	195
Other Assets	1.157	1.157	1.157	1.157	1.157	1.157	1.157	1.157	1.157	1.157	1.157
Total Assets	1119	1120	1121	1122	1123	1124	1125	1126	1127	1128	1129
ST Liabilities	98	99	105	114	129	143	160	176	192	209	224
LT Liabilities	139	206	273	341	408	327	261	209	167	134	107
Equity	1,411	1,452	1,495	1,553	1,565	1,581	1,581	1,607	1,656	1,714	1,790
BVPS	48,438	49,864	51,343	53,337	53,746	54,299	54,283	55,178	56,862	58,834	61,459

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: *Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.*

Valuation Methodology: *The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).*

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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Sales & Advisory

Duong Le

Tel: 0439352722 (155)

Email: duonglh@bsc.com.vn

Head of Research

Long Tran

Tel: 0439352722 (118)

Email: longtt@bsc.com.vn

CONTACT INFORMATION

BSC Head Office

10th, 11th Floor – BIDV Tower
35 Hang Voi – Hoan Kiem – Hanoi

Tel: 84 4 39352722

Fax: 84 4 22200669

Website: www.bsc.com.vn

BSC Ho Chi Minh Branch

9th Floor – 146 Nguyen Cong Tru Str
District 1, Ho Chi Minh City

Tel: 84 8 3 8218885

Fax: 84 8 3 8218510

Website: www.facebook.com/BIDVSecurities

BIDV Securities Company (BSC)

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