

Recommendation TRACKING

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Target price	29,939
Current price	28,750
Upside	4.1%

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Target price	31,800
Cut loss	27,000

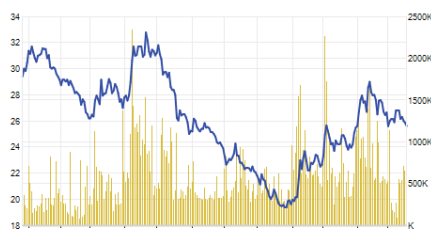
Market Data

Outstanding share	118.79
Mkt Cap	3,071
Highest of 52w	32,874
Avg Vol 10 days (share)	218,018

Major shareholder

Vinachem	51%
PXP Vietnam	4%
FTIF	4%
Deutsche Bank	3%

Market movements



Overview

Currently, DRC is focusing on manufacturing and selling radial tires and expected to put the second phase into operation in 2018.

Other report

[\(link\)](#)

The return of tires

Valuation

We recommend Tracking DRC stock with target price of 29,939 VND/share (upside 6.9% from the March 16, 2018 closing price) based on 3 valuation methods FCFE, FCFF and PE.

Earning forecast

Based on BSC's forecast, motorcycle and bicycle tire output are expected to grow 2% and 5% yoy respectively. Automotive tire production is forecasted to increase by 9% yoy, in which the Bias tire production would decline slightly, the Radial tire would reach 480,000 tires in 2018. Natural rubber prices are expected to remain unchanged. Therefore, the company would record revenue and EAT of DRC will reach VND 4,309 billion (+ 17.4% yoy) and VND 212 billion (+ 31.1% yoy) respectively, equivalent to EPS of 2018 at VND 1,675/share.

Catalyst

- DRC would put the stage 2 of Radial factory into operation with the investment equal half of stage 1, increasing the total capacity to double.
- Rubber price is forecasted to decrease 5% - 8%
- Vinachem would divest from DRC to 36% in 2018

Investment risks

- The fluctuation of input material price affects the profit of DRC.
- High competition for automotive tires.

Investment Highlights

- **Business results in 2017 plummeted.** In 2017, DRC's revenue was VND 3,668.8 billion (+ 9.2% yoy), EAT down to VND 161.7 billion (-59% yoy). Sales of Bias tires fell 5.04%, while that of radial tires increased to 34.2% which helped improving gross margin of radial tires.
- **Price of bicycles, motorcycles and cars increased by 5% in the first quarter of 2018.** This contributes to improving margins on DRC's products.
- **The rubber price is forecasted to decrease 5-8% in 2018** which would help DRC recover their business results.
- **DRC would put the stage 2 of Radial factory into operation with the investment equal half of stage 1, raising the total capacity of radial tires to 600,000 tires/year.** DRC is expected to put the second phase into operation in 3Q2018 and is planning to produce 480,000 tires this year.
- **Vinachem is planning divestment in the DRC to 36% in 2018.**

Business result in 2017 fell sharply. For the whole year, DRC's revenue was VND 3,668.8 billion (+9.2% yoy), EAT down to VND 161.7 billion (-59% yoy). Profit fell sharply compared to 2016 mainly due to increasing of rubber prices and DRC had to import large quantities of rubber at the peak in 1Q2017. In 2017, the average price of natural rubber increased by 32%, price of synthetic rubber increased by 58%. Although DRC increased their prices, it is not enough to offset rising prices of raw materials. Price of motorcycle tires increased by an average of 7%, price of radial tires increased by an average of 10% while bias tires dropped by an average of 4% in 2017.

Sales of bias tires fell by 5.04%, while radial tires increased by 34.2%. In particular, the decline in bias tires output mainly due to the output of heavy truck tires (-19.3% yoy). Sales of radial tires increased to more than 330,000 tires which helps improving gross margin of radial tires. (Radial tire gross margin improved from -9% in 2016 to -2% in 2017).

The selling price of products motorbikes and cars tires increased by 5% in 1Q2018. DRC increased 5% of motorbike tires price from January 2018 and 5% of automotive tires since February 2018. This contributes to improving margins on DRC's products. As forecasted by BSC, profit margins for DRC's products will increase from 2% to 3% in 2018.

Rubber prices are forecasted to fall by 5% - 8%. From the beginning of 2018 up to now, the average rubber price has increased 6.7% compared to 4Q2017 because IRTC has cut exports of 350,000 tons of rubber and the output of rubber reduced during the deciduous. However, in the long term, rubber price is expected to decrease due to the surplus of global supply. According to Bloomberg and EIU, rubber prices will fall from 5-8% in 2018 which helps DRC recover their business results.



Radial factory's activities will raise the total capacity of radial tires to 600,000 tires/year. DRC is expected to put the second stage into operation in 3Q2018. In 2018, DRC plans to sell 480,000 radial tires. With investment capital equal to 1/2 of the first stage, the depreciation cost per radial tire product is expected to decrease. This will contribute to improving the profit margins of Radial tires and business performance.

Vinachem is planning to divest at DRC to 36% in 2018. Vietnam National Chemical Group (Vinachem) owns 50.51% of DRC. Under the government-approved scheme, Vinachem will divest capital at DRC to 36%. This has received the attention of many domestic and foreign enterprises.

DRC - Danang Rubber Joint Stock Company
Financial Analysis
16/3/2018

BSC

Unit: VND billions	2014	2015	2016	2017	2018F
Net Sales	3,251	3,318	3,361	3,669	4,309
Gross profit	804	799	701	464	604
Financial Income	10	11	16	8	9
Financial Expense	(143)	(124)	(83)	(119)	(110)
Interest expense	(85)	(55)	(43)	(87)	(77)
Selling expense	(161)	(77)	(85)	(118)	(145)
G&A expense	(68)	(84)	(73)	(73)	(87)
Operating profit	442	526	476	207	272
Other income	11	7	18	1	1
Net profit before tax	452	532	494	208	273
Net profit after tax	353	415	395	162	212
Minority Interest	-	-	-	-	-
Parents	353	415	395	162	212
EPS	4,246	4,173	3,061	1,361	1,675

Current Asset	1,111	1,304	1,247	1,083	1,272
Cash and CE	85	240	51	67	43
Account receivables	296	278	419	412	433
Inventories	716	785	771	596	790
Other current asset	15	0	6	8	6
Non-current Asset	2,026	1,839	1,568	1,704	1,757
LT receivables	-	0	0	0	0
Fixed assets	1,993	1,760	1,488	1,650	1,737
Tangible fixed FA	1,921	1,759	1,483	1,285	1,721
Finance lease FA	-	-	-	-	-
Intangible FA	1	1	6	15	16
LT incomplete assets	-	59	16	350	-
Other LT asset	29	16	59	50	16
Total asset	3,137	3,143	2,815	2,787	3,029
Total Liabilities	1,602	1,470	1,233	1,289	1,480
Current liabilities	793	877	842	880	841
ST borrowings	337	446	513	525	476
LT liabilities	808	593	392	409	640
LT borrowings	808	593	392	409	640
Owner's Equity	1,536	1,673	1,582	1,498	1,549
Paid-in cap	831	914	1,188	1,188	1,188
Retained earning	495	461	225	113	131
Total equity and liabil	3,137	3,143	2,815	2,787	3,029

% yoy Rev	16%	2%	1%	9%	17%
Gross profit margin	24.7%	24.1%	20.9%	12.6%	14.0%
Ir exp/Sale	2.6%	1.6%	1.3%	1.1%	1.8%
Selling Exp/Sale	5.0%	2.3%	2.5%	3.2%	3.4%
GA Exp/Sale	2.1%	2.5%	2.2%	2.0%	2.0%
Net profit margin	10.8%	12.5%	11.8%	4.4%	4.9%

In 2017, net revenue + 9.2% yoy, total sales of automotive tires reached 1.22 million tires (+ 3.7% yoy), radial tires sales were 333.5 thousand tires (+ 34.2% yoy, achieved 111.2% of capacity).

Natural rubber price increased by 34% - 35%, synthetic rubber price increased by 60%, which drop DRC's profit sharply as 50% of tires manufacturing cost is from rubber.

Due to the high competition, DRC had to change the discount for agents, led to higher selling expenses. Selling expense/Revenue increased from 2.53% in 2016 to 3.22%.

Interest expense increased as DRC borrowed VND 400 billion more in 10 years to finance the second phase of the Radial project.

Accounts receivable increased sharply by 50% in 2016, 2017 compared to 2015 due to loosening credit policy to improve competitiveness. Inventory decreased 22.7% mainly due to the reduction of material price compared to the beginning of the year. The prices of rubber input dropped to VND 35mil/ton (down 19% yoy). In addition, finished goods inventory also decreased due to lower production costs.

Long-term assets increased sharply to VND 350 billion in 2017 due to the company bought a part of machine which is expected to be put into operation in the second phase in 3Q2018.

In 2017, DRC borrowed about VND 400 billion to finance the second phase of the Radial project for a period of 10 years

DRC's gross profit margin in 2017 was lower sharply, mainly due to the increasing in rubber prices in 2017 compared to 2016 (as analyzed above). Selling price growth didn't enough to offset the increasing price of material price.

FINANCIAL RATIO

	2014	2015	2016	2017	2018F
1. Liquidity ratio					
Curent ratio	1.40	1.49	1.48	1.23	1.51
Qick ratio	0.48	0.59	0.56	0.55	0.57
2. Capital structure ratio					
Ca/TA	0.35	0.41	0.44	0.39	0.42
NCA/TA	0.65	0.59	0.56	0.61	0.58
Liabilities/TA	0.51	0.47	0.44	0.46	0.49
Liabilities/TE	1.04	0.88	0.78	0.86	0.96
CL/TA	0.25	0.28	0.30	0.32	0.28
NCL/TA	0.26	0.19	0.14	0.15	0.21
3. Operating efficiency ratio					
Inventory turnover	3.03	3.36	3.42	4.69	5.35
Receivable turnover	10.33	11.56	9.64	8.82	10.19
Payable turnover	14.48	17.99	20.08	17.50	17.61
Days of inventory	118.9	107	105	77	67
Days of receivables	34.8	31	37	41	35
Days of payables	24.9	20	18	21	20
CCC	128.9	118	125	97	82
4. Profitability ratio					
Net income/Nsale (%)	10.8%	12.5%	11.8%	4.4%	4.9%
ROE	24.2%	25.9%	24.3%	10.5%	13.9%
ROA	11.2%	13.2%	13.3%	5.8%	7.3%
Oper profit/Nsale	13.6%	15.8%	14.2%	5.7%	6.3%
5. Dupont analysis					
TA/TE	2.17	1.96	1.83	1.82	1.96
Nsale/TA	1.03	1.06	1.13	1.31	1.42
EBIT/Nsale	0.17	0.18	0.16	0.08	0.08
EBT/EBIT	0.84	0.91	0.92	0.70	0.78
Net income/EBT	0.78	0.78	0.80	0.78	0.78
6. Valuation multiples					
PE	6.3	6.4	8.8	19.7	14.2
EV/EBITDA	4.7	3.7	5.1	7.8	7.2
EPS	4,246	4,173	3,061	1,361	1,675
BVPS	18,487	18,307	13,318	12,611	13,036
7. Growth (%yoy)					
TA	-2%	0%	-10%	-1%	9%
Liabilities	-11%	-8%	-16%	5%	19%
Sale	16%	2%	1%	9%	17%
Gross profit	12%	-1%	-12%	-34%	30%
NI	-6%	18%	-5%	-59%	31%
EPS	-6%	-2%	-27%	-56%	23%

Liquidity ratio tend to decrease

Asset structure:

Remain at 40% of current assets, 60% long-term assets over the years.
Debt tends to increase, mainly due to borrowing to invest in Radial project phase 2.
Financial leverage is rising, creating additional pressure for debt and interest repayment on the business.

Activity ratio is improving. The days of inventory fell sharply. The days of receivables and the days of payables increased slightly.

Profitability was strongly influenced by material prices. Rubber prices increased by 30% - 40% on average compared to 2018 which reduced the profit margin of enterprises strongly.

EPS 2017 fell sharply compared to 2016 as profit dropped sharply (-59% yoy).

DRC - Danang Rubber Joint Stock Company

Technical Analysis _ Breaking the downtrend

16/3/2018

BSC

Technical highlights:

- Current Trend: Medium uptrend
- The MACD is rising up and diverging above the signal line, with the overbought area of the RSI and MFI, confirming the uptrend.
- Liquidity: The average liquidity of 10 sessions was about VND 17 billion/session, not lower than the market.

Comment: Today's session, DRC stock break out of the long downtrend and approaching the resistance at 29.7. Technical indicators show the momentum of the stock continues to rise. The next resistance is 29.7 and continue gaining momentum in the coming time.

Recommendation: Purchase price: 28,000 - 28,800. Target price: 31.800. Cutloss: Loss of support threshold of 27,000.

Technical Chart



16/3/2018**Disclaimer**

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