

Recommendations

BUY

Da Nang Rubber Joint Stock Company (HSX: DRC)
Keep Rolling

Current price:	32,100	Date of writing of the report:	16/03/2022	SHAREHOLDER STRUCTURE	
Previous target price	-	Outstanding shares (Million)	119	Viet Nam Chemical Corporation	50.51%
Target price (1 year)	40,000	Capitalization (billion dong)	3,991		
Dividend yield	3.0%	Average liquidity of 6 months:	1,845,123		
Upside	25%	Foreign ownership	8%		

Retail Research Department:

Le Huu Ngoc
ngochl@bsc.com.vn

Technical analyst:
(For short-term investors)
Vu Viet Anh

anhvv@bsc.com.vn

Recommended price: 38,000 VND
Cut-loss price: 30,000 VND

CP and VN-Index price comparison table



Comparison table P/E and VN-Index



	2021	2022F	Peer	VN-Index
PE (x)	13.7	10.1	14.7	17.1
PB (x)	2.2	1.9	2.2	2.7
PS (x)	0.9	0.8	1.4	2.1
ROE (%)	16.8	19.9	12.0	16.0
ROA (%)	10.4	11.8	5.6	2.6
EV/ EBITDA (x)	9.2	9.0	8.0	16.1

	2019	2020	2021	2022F
Net revenue	3,858	3,647	4,380	5,012
Gross profit	571	599	747	877
Profit after tax	251	257	291	377
EPS	2,109	2,160	2,449	3,172
EPS Growth (%)	77.7	2.4	13.4	29.5
Net debt/ equity (%)	65.9	44.0	76.9	60.6

VALUATION

We recommend **BUY** for DRC shares with a target price of **VND 40,000** defined by the P/E valuation method with **the 2022 target P/E = 12.5x** to shine (1) Strong growth in profitability in 2022 comes from very large demand and attractive selling prices and (2) Long-term growth prospects with Radial 3 factory It will be fully operational from 2024.

FORECAST BUSINESS RESULTS

The BSC forecasts drc wood business results in 2022 as follows:

- **In 2022:** Net revenue and profit after tax- noncontrolling interests reached **VND 5,012 billion (+14.4% YoY)** and **VND 377 billion (+29.5% YoY)**, **EPS FW2022 = 3,172 VND/ SHARE**, respectively, corresponding to **P/E FW2022 = 10. 1x**.

Key assumptions for DRC business results include (1) Good growth in DRC product consumption: **Radial +18% YoY, Bias +5% YoY**, (2) Average selling price of products slightly increased **+3% YoY** and (3) Gross margin increased by **40 bps, reaching 17.5%**.

INVESTMENT OUTLOOK

- Output continued to grow strongly thanks to (1) good market demand, (2) taking advantage of competition and (3) improved adverse conditions.
- Gross margin continues the upward trend, reaching 17.5% (+40 bps vs 2021)

RISK

- The price of raw materials, especially rubber, rose more sharply than expected.

BUSINESS UPDATE

- In 2021, DRC recorded net revenue and profit after tax reaching **VND 4,380 billion (+20.1% YoY)** and **VND291 billion (+13.4% YoY)** respectively thanks to the growth of all types of products.

BUSINESS UPDATE

Business Results 2021

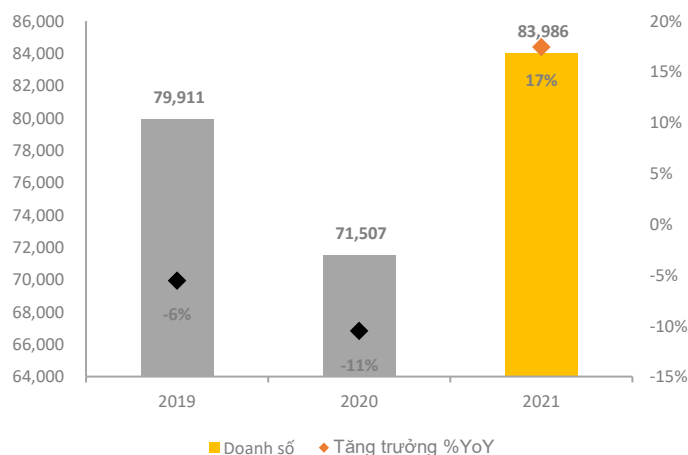
Table 1: Drc's 2021 business results (VND Billion)

	2020	2021	% YoY
Net sales	3,647	4,380	20.1%
I. Radial Tires	1,845	2,305	24.9%
Export	1,289	1,644	27.5%
Domestic	556	661	18.9%
II. Bias Tires	1,092	1,309	19.9%
Export	385	477	24.0%
Domestic	707	832	17.7%
Others	710	766	7.9%
Gross profit	599	747	24.7%
Cost of sales	(165)	(305)	84.1%
Enterprise cost management	(62)	(63)	2.4%
Operating profit/loss	372	379	1.9%
Financial revenue	18	37	106.2%
Financial expenses	(68)	(51)	-24.8%
Profit from joint ventures company	0	0	0.0%
Other gains/losses	(2)	(1)	-36.4%
Profit before tax	321	364	13.7%
Corporate tax	(64)	(73)	14.6%
Profit after tax	257	291	13.4%
Non-controlling interests	0	0	0.0%
Profit after tax- noncontrolling interests	257	291	13.4%

Source: BSC Research

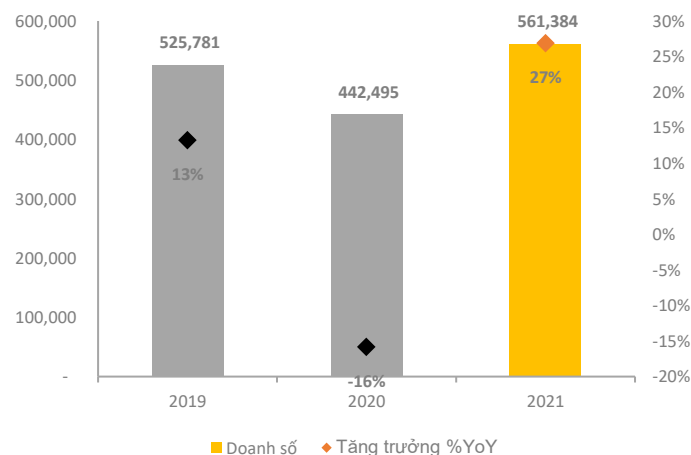
DRC net sales in 2021 reached 4,380 billion VND (+20.1% YoY) due to the growth in output and selling prices in all consumer markets. Specifically, radial and bias DRC tyre production reached 608,669 tires (+20% YoY) and 716,046 tires (+14% YoY) respectively thanks to (1) Demand for car tires in markets in key markets such as Vietnam, Brazil and the US all recovered well in 2021 due to a more actively controlled epidemic that improved production activities, Trade and transport and (2) the DRC take advantage of the fact that major competitors such as China and Thailand are all highly taxed in Brazilian markets [\(refer to the most recent report\).](#)"

Figure 1: Vietnam's commercial vehicle sales recover (Vehicles)



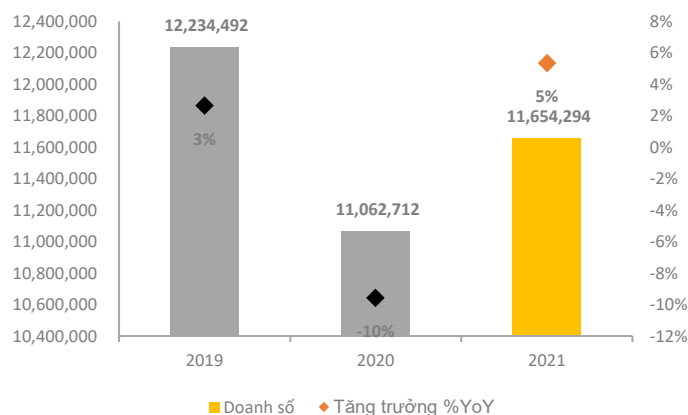
Source: VAMA, BSC Research

Figure 2: Brazilian commercial vehicle sales recover (Vehicles)



Source: ANFAVEA, BSC Research

Figure 3: U.S. commercial vehicle sales rebound (vehicles)



Source: MarkLines, BSC Research

Table 2: Anti-dumping duties applicable in Brazil market

Origin	Business	Anti-dumping duty (USD/kg)
South Korea	Kumho, Hankook...	0.32 – 1.49
Japan	Sumitomo...	0.21 – 1.59
Russia	OAO ...	0.72 – 1.10
Thailand	Zhongce...	0.53 – 0.55
China	Shandong, Sailun...	1.05 – 2.59

Source: CAMEX, BSC Research

In addition, thanks to (1) the strong recovery demand in the markets and (2) the ability to transfer part of the increase in the cost of raw materials to customers, DRC has made **4 price increases in 2021**, in which: domestic selling price increased by **11%** and exports increased by **9%**, from there, the average selling price (ASP) of Radial and Bias tires reached **3,787,364 VND(+4.3% YoY)** and **1,829,008 VND(+5.5% YoY)** respectively.

DRC gross profit margin in 2021 increased by 70 bps, reaching 17.1%. Although during the year there have been many adverse factors causing a decrease in profit margins for DRC such as (1) Rubber price increased by an average of **27% YoY** and (2) Costs incurred due to Covid: performing 3 on-site, testing ... But thanks to (1) the ability to transfer a portion of the increased cost to customers helps the average sale of DRC products increase and (2) The depreciation cost decreases by VND 109 billion when the Radial GD1 factory has depreciated, the final gross profit margin continues to increase.

Sales cost +84.1% YoY, reaching 305 billion VND due to the global container shortage caused container freight rates to soar. In summary, DRC achieved high growth in revenue in 2021 thanks to an increase in both output and selling price, however, the growth has been partially reduced due to (1) The types of costs also increased according to: material costs, sales costs, costs incurred due to Covid and (2) Sales volume is not enough to meet orders because production capacity declines when implementing covid prevention, and container shortages lead to non-exportability. Since then, DRC's after-tax profit has only recorded a low growth rate of **13.4% YoY, reaching 291 billion VND.**

Table 3: DRC Data by Product Type

Product type	Net revenue (Billion VND)			Output (unit)			Average selling price (VND/unit)			Gross profit (BILLION VND)		
	2020	2021	% YoY	2020	2021	% YoY	2020	2021	% YoY	2020	2021	% YoY
Radial Car Tires	1,845	2,305	25%	508,197	608,669	20%	3,631,118	3,787,364	4%	205	371	81%
Bias Car Tires	1,092	1,310	20%	630,015	716,046	14%	1,733,012	1,829,008	6%	275	239	-13%
Light load car tires	548	690	26%	494,375	566,961	15%	1,107,754	1,217,692	10%	147	141	-4%
Heavy truck tires	489	548	12%	131,523	144,388	10%	3,714,637	3,792,834	2%	121	92	-24%
Special car tires	56	72	29%	4,117	4,697	14%	13,509,368	15,250,192	13%	7	6	-11%
Car tires covered	42	44	4%	42,160	42,502	1%	997,561	1,026,588	3%	10	10	-2%
Semi-steel tires	4	4	4%	2,764	2,872	4%	1,292,419	1,296,603	0%	1	0	-90%
Motorcycle tires	310	314	1%	6,565,649	6,333,616	-4%	47,142	49,550	5%	42	45	6%
Bicycle tires	202	237	18%	8,648,251	8,633,371	0%	23,306	27,493	18%	31	38	22%
Heavy truck tubes	65	67	2%	233,813	230,528	-1%	279,094	289,734	4%	15	18	15%
Light truck tubes	36	41	15%	334,146	350,365	5%	106,249	116,631	10%	5	8	46%
Special truck tubes	4	5	8%	6,718	7,424	11%	624,278	609,756	-2%	1	1	31%
Car bibs of all kinds	31	35	10%	404,207	444,730	10%	77,753	77,745	0%	3	4	11%
Other products	16	19	18%	-	-	-	-	-	-	10	14	35%

Source: DRC, BSC Research

Business Results 1M.2022

Revenue in January 2022 DRC reached 394 billion VND (+29% YoY) mainly thanks to the growth from Radial tire products with the output reaching 52,000 tires (+63% YoY),, due to the shortage of containers has improved significantly compared to January 2021.

Investment situation of Radial plant phase 3

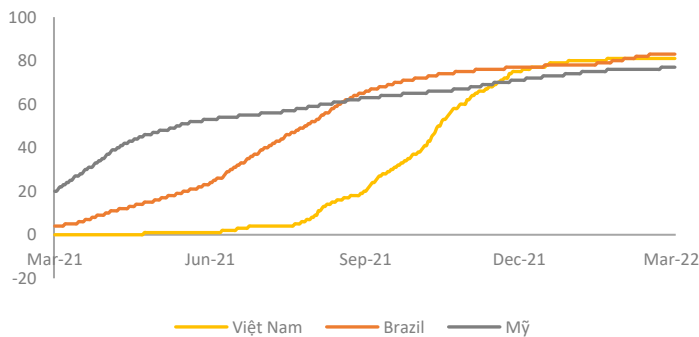
Because the situation of the epidemic in the country is complicated in 2H. In 2021, the initial plan for the implementation of project investment in Q4/2021 has been postponed. The project was approved by Vinachem, a major shareholder of DRC in December 2021, expected to be started in Q2/2022 and put into operation from 2024. **According to BSC, the postponement of project investment will not affect DRC growth in 2022** as drc currently only operates at **101%** of design capacity, while the feasible capacity level can be up to ~120%.

OUTLOOK FOR 2022

Output continued to grow strongly thanks to (1) good market demand, (2) taking advantage of competition and (3) improved adverse conditions.

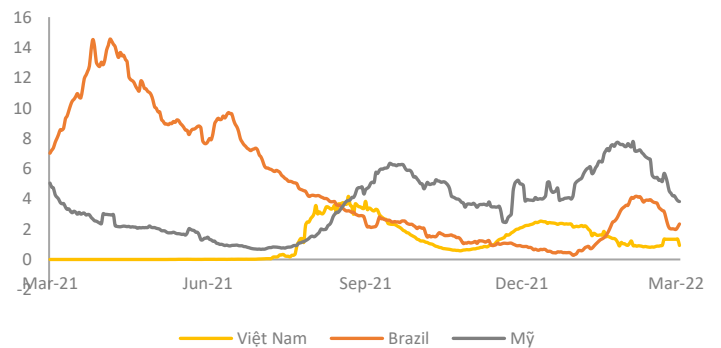
The drc's main consumer markets including Vietnam, Brazil and the U.S. have all had high vaccination rates, according to research showing that the effect of the virus on infected people is significantly reduced, leading to relatively mild symptoms of infection and mortality rates have also shown a downward trend. Therefore, countries have moved to implement a mode of living with the epidemic, helping to promote normal production, trade and freight activities again, from which the **demand for tire products for the needs of road transport will continue to increase.**

Figure 4: The percentage of the population receiving at least one dose of the vaccine increased sharply (%)



Source: Our World in Data, BSC Research

Figure 5: Covid mortality rate tends to decrease (%)



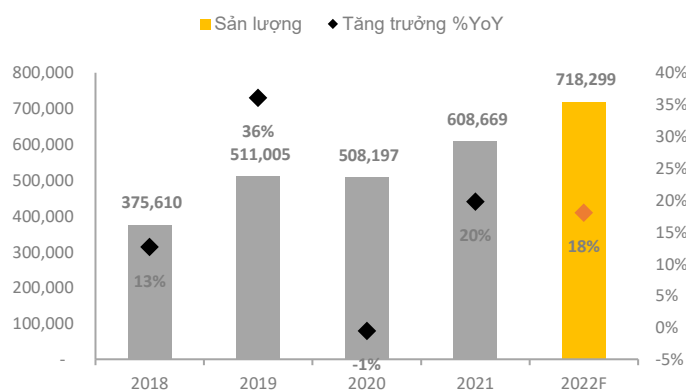
Source: Our World in Data, BSC Research

The DRC continues to benefit from tax policy. As mentioned in [the previous report](#), DRC's competitors from China, Thailand... will be subject to anti-dumping duties on Radial tires when exporting to Brazil (DRC's largest export market) for a period of 5 years 2021-2026. Therefore, BSC believes that **DRC will continue to take advantage of price competition, thereby increasing radial exports.**

Adverse conditions in 2021 improved positively. Container shortages have improved since the end of 2021 and are expected to continue to be positive thanks to the number of new container ships estimated to account for about 3.4% of the global container tonnage expected to be delivered in 2022, thereby reducing the risk of container shortages causing non-export status for DRC as in 2021. In addition, thanks to the loosened anti-epidemic measures, production activities have been removed many limitations, helping drc to be able to make the most of the technology.

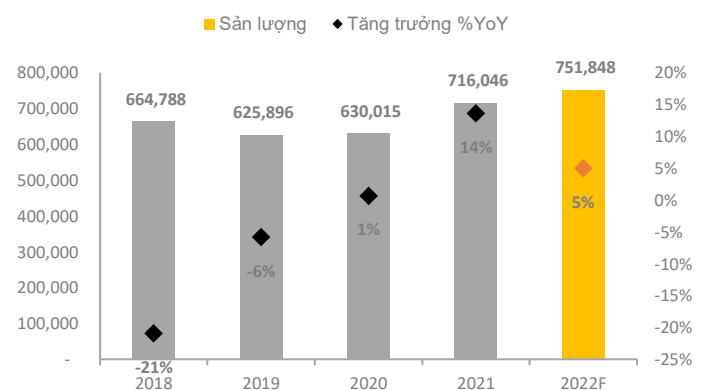
Therefore, BSC expects DRC's consumption to continue to grow well in 2022; Radial and Bias tires reached 718,299 units (+18% YoY) and 751,848 units (+5% YoY) respectively.

Figure 6: Radial DRC tire consumption increased sharply (units)



Source: BSC Research

Figure 7: Bias DRC tire consumption (units)

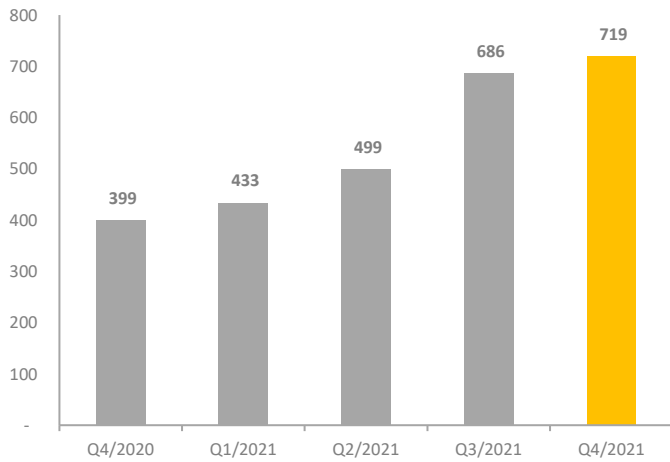


Source: BSC Research

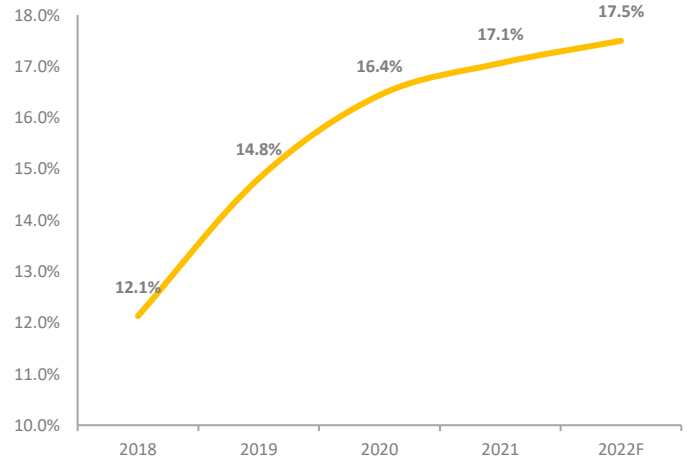
Gross margin continues the upward trend, reaching 17.5% (+40 bps vs 2021)

BSC considers that DRC will continue to increase gross profit margin thanks to (1) the increased selling price in 2H.2021 will be in full effect in 2022, (2) DRC is expected to increase the selling price in March 2022 due to strong demand, (3) One-time costs related to Covid in 2021 are expected to no longer be incurred and (4) Controlled material costs are expected to be incurred. Positive: Rubber prices have increased by 15% YTD, at one time up to 25%, however DRC has stored a large amount of inventory in Q4 2021 to prevent risks to price.

Figure 8: DRC stockpiling inventory and cheap raw materials in Q4/2021 **Figure 9: DRC gross profit margin continues in uptrend (%)**
(Billion VND)



Source: BSC Research



Source: BSC Research

FORECAST BUSINESS RESULTS

BSC forecasts DRC'S business results in 2022: net revenue and profit after tax- non-controlling interests reach **5,012 billion vnd (+14.4% YoY) and 377 billion vnd(+29.5% YoY)**, EPS FW2022 = VND 3,172/CP, respectively, corresponding to P/E FW2022 = 10. 1x, based on the assumption:

- **The consumption of DRC products has grown well** thanks to good market demand, adverse factors and DRC taking advantage of effective competition, in which: **Radial tire production reached 718,299 units (+18% YoY) and Bias tires reached 751,848 units (+5% YoY).**

- **The average selling price of DRC products increased slightly at +3% YoY.**

- **Gross profit margin reached 17.5%** because (1) The average selling price increased, (2) Covid costs were no longer incurred and (3) Material costs were well controlled.

- **The cost of sales reached VND 301 billion (-1% YoY)** as the container shortage is expected to improve in 2022.

Table 4: Forecast DRC's business results (VND Billion)

	2019	2020	2021	2022F
Net sales	3,858	3,647	4,380	5,012
<i>Bicycle tires</i>	184	202	237	242
<i>Motorcycle tires</i>	346	310	314	330
<i>Bias Tires</i>	1,203	1,092	1,310	1,416
<i>Semi-steel tires</i>	2	4	4	4
<i>Radial Car Tires</i>	1,916	1,845	2,305	2,808
<i>Export</i>		1,289	1,644	2,052
<i>Domestic</i>		556	661	756
<i>Car tubes</i>	121	105	112	113
<i>Car bibs of all kinds</i>	33	31	35	36
<i>Car tires covered</i>	37	42	44	45
<i>Others</i>	17	16	19	19
Cost of goods sold	(3,287)	(3,047)	(3,632)	(4,315)
Gross profit	571	599	747	877
Financial revenue	12	18	37	28
Financial expenses	(82)	(68)	(51)	(60)
In which: interest expenses	(40)	(20)	(9)	(20)
Selling expenses	(127)	(165)	(305)	(301)
Administrations expenses	(61)	(62)	(63)	(73)
Profit before tax	313	321	364	472
Profit after tax- noncontrolling interests	251	257	291	377
EPS	2,109	2,160	2,449	3,172

Source: BSC Research

PRICING AND RECOMMENDATIONS

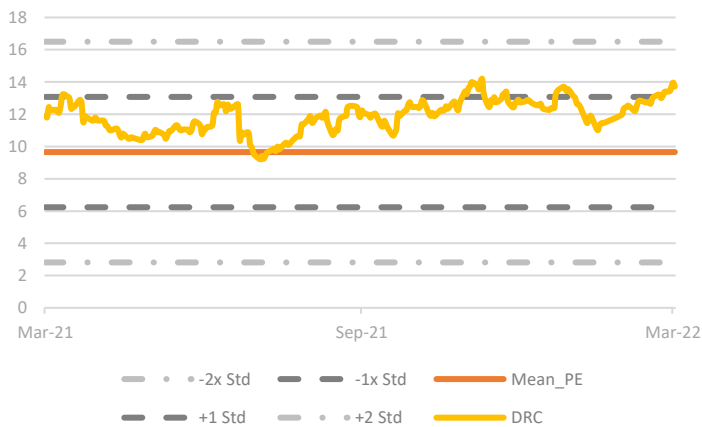
We recommend **BUY** for DRC shares with a target price of **40,000 VND/share**. This price is equivalent to **25% upside** (according to the reference price on March 16, 2022 is VND 32,100)

Pricing method:

We use the **P/E pricing method** with the **2022 P/E = 12.5x** – higher than the **previous 5-year average P/E = 12.0x** and lower than the **current sliding P/E = 13.1x**; BSC considers this to be a reasonable P/E to reflect (1) The strong growth in profitability in 2022 comes from huge demand and attractive selling prices and (2) The long-term growth outlook with the Radial 3 plant will be fully operational from 2024.

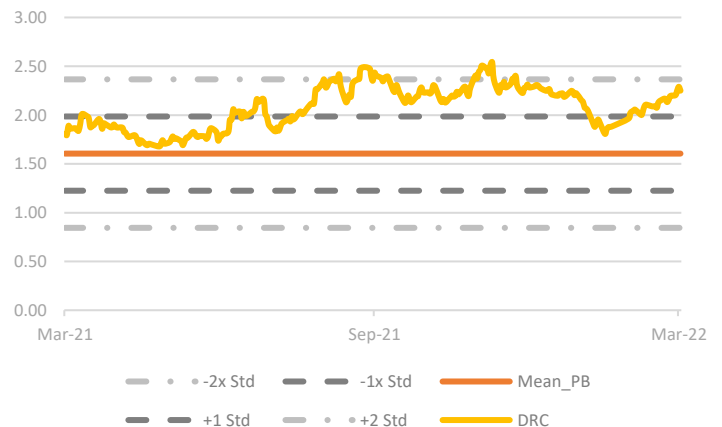
P/E method	Value
EPSFW2022	3,172 VND/CP
Target P/E	12.5x
Fair value	40,000 VND/CP

Figure 16: P/E DRC



Source: BSC Research

Figure 17: P/B DRC



Source: BSC Research

APPENDIX

Business results (Billion VND)					Cash flow (Billion VND)				
	2019	2020	2021	2022F		2019	2020	2021	2022F
Net revenue	3,858	3,647	4,380	5,012	(Loss)/Profit after tax	251	257	291	377
Cost of goods sold	(3,287)	(3,047)	(3,632)	(4,135)	Depreciation and Amortization	273	209	102	77
Gross profit	571	599	747	877	Working capital changes	92	(107)	(502)	146
Selling expenses	(127)	(165)	(305)	(301)	Net cash flow from operating activities	405	808	(109)	600
Administration expenses	(61)	(62)	(63)	(73)	Purchase and construction of fixed assets	(15)	(9)	(9)	(215)
Operating profit/loss	383	372	379	504	Other investment	0	(234)	(480)	(1)
Financial revenue	12	18	37	28	Net cash flow from investing activities	(13)	(155)	(172)	(216)
Financial expenses	(82)	(68)	(51)	(60)	Dividend paid	(130)	(147)	(118)	(119)
Interest expenses	(40)	(20)	(9)	(20)	Net borrowing fund	(266)	(363)	300	(154)
Profit from joint venture/associations	0	0	0	0	Other charges	0	0	0	0
Other profit/loss	1	(2)	(1)	0	Net cash flow from Financing activities	(397)	(511)	182	(273)
Profit before tax	313	321	364	472	Beginning of the year cash flow	50	45	189	90
Corporate income tax	(63)	(64)	(73)	(95)	Cash flow in the year	(5)	(141)	99	111
Profit after tax	251	257	291	377	Ending of the year cash flow	45	189	90	200
Noncontrolling interests	0	0	0	0					
Profit after tax- Non-controlling interests	251	257	291	377					
EPS	2,109	2,160	2,449	3,172					
Balance sheet (Billion VND)					Index (%)				
	2019	2020	2021	2022F		2019	2020	2021	2022F
Cash and cash equivalents	46	189	90	200	Liquidity				
Short-term investment	0	150	320	320	Current ratio	1.5	1.8	1.6	1.9
Current account receivables	142	131	208	201	Quick ratio	0.2	0.7	0.5	0.8
Inventory	1,153	788	1,432	1,264	Capital structure				
Other current assets	36	54	67	77	Debt/Total assets	39.7%	30.6%	43.5%	37.7%
Short-term assets	1,377	1,311	2,117	2,062	Debt/ Equity	65%	44%	76.6%	60.6%
Tangible assets	3,213	3,225	3,238	3,453	Efficiency				
Accumulated depreciation	(1,957)	(2,166)	(2,269)	(2,344)	Days Sales of Inventory	111	116	112	119
Long-term assets in progress	0	0	0	0	Days Sales Outstanding	21	13	13	14
Long-term investments	3	4	4	5	Days Payable Outstanding	26	27	32	34
Other long-term assets	72	57	48	1,155	CCC	106	103	93	99
Long-term assets	1,331	1,119	1,022	1,160	Profit rate				
Total assets	2,708	2,430	3,139	3,222	Gross margin	14.8%	16.4%	17.1%	17.5%
Short-term loans	532	306	572	268	Profit before tax margin	8.1%	8.8%	8.3%	9.4%
Other current liabilities	395	436	791	796	ROE	15.9%	15.5%	16.8%	19.9%
Total current liabilities	927	742	1,363	1,064	ROA	9.0%	10.0%	10.4%	11.8%
Long-term debt	149	1	2	152	Valuation				
Other long-term debt	0	0	0	0	PE	17.5	17.3	13.7	10.1
Total long-term liabilities	149	1	2	152	PB	2.5	2.4	2.2	1.9
Total liabilities	1,076	743	1,365	1,216	Growth				
Share capital	1,188	1,188	1,188	1,188	Net revenue growth	8.6%	-5.5%	20.1%	14.4%
Share premium	0	0	0	0	EBIT growth	45.1%	-2.8%	1.9%	32.8%
Undistributed earnings	201	206	242	423	LNNT growth	76.5%	2.4%	13.7%	29.5%
Other capital	243	293	345	396	EPS Growth	77.7%	2.4%	13.4%	29.5%
Non-controlling interests	0	0	0	0					
Total Owner's equity	1,632	1,688	1,774	2,006					
Total Liabilities and owners' equity	2,708	2,430	3,139	3,222					
Number of outstanding shares (Million CP)	119	119	119	119					

Source: BSC Research

TECHNICAL PERSPECTIVE

DRC – Da Nang Rubber Joint Stock Company

Technical highlights:

Current trend: Accumulation.

MACD trend indicator: MACD is cutting below the signal line.

RSI indicator: is in the neutral zone around the 50 threshold.

Comment: DRC is trading in the accumulation zone of 32-33 after a series of gains since the end of January 2022. The price is already above the MA20, MA50, the MA20 line has cut above the MA50 and there are signs of cutting to the MA100, however the MA50 is still below the MA100. Liquidity is still maintaining at a fairly good level as KLGD hovers around the average of the last 20 sessions. The RSI technical indicator is relatively positive when the RSI is trending up but is still in the neutral zone around the 50 level, the MACD indicator is cutting below the signal line. The nearest resistance zone ranges from 33-34.

Recommendation: BSC recommends that medium-term investors can open positions with the stock at 32.35, close the profit at 38.0, cut the stock loss at the price of 30.0.



Credit: BSC, Ptk iTrade

Disclosure

This report, of The Vietnam Investment and Development Bank Securities Joint Stock Company (BSC), provides only general information and analysis about the enterprise. This report is not formulated to be provided at the request of any individual organization or individual or decisions on the sale or holding of securities. Investors should only use the information, analysis and comments of the Report as a reference before making their own investment decisions. All information, judgments and forecasts and views in this report are based on reliable data sources. However, Vietnam Investment and Development Bank Securities Joint Stock Company (BSC) does not guarantee that these sources of information are completely accurate and do not assume any responsibility for the accuracy of the information referred to in this report, nor is it liable for damages to the use of all or part of the contents of this report. All views and statements mentioned in this report are based on the most careful, fair and reasonable consideration in the present. However, these views and perceptions can change without warning. This report is copyrighted and is the property of Vietnam Investment and Development Bank Securities Joint Stock Company (BSC). All acts of copying, modifying, printing without the consent of the BSC are against the law. Any contents of this document may not be (i) copied or reproduced in any form or method or (ii) provided without the approval of BIDV Securities Joint Stock Company.

BSC Head Office

8th & 9th Floor ThaiHoldings Tower
210 Tran Quang Khai, Hoan Kiem, Hanoi
Tel:+84439352722
Fax:+84422200669

BSC Ho Chi Minh Branch

9th Floor Building 146 Nguyen Cong Truc
District 1, Ho Chi Minh City
Tel:+84838218885
Fax:+84838218510

<https://www.bsc.com.vn>
<https://www.facebook.com/BIDVSecurities>

Bloomberg: RESP BSCV <GO>

