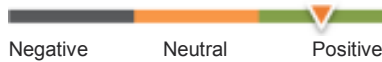


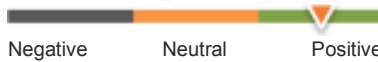
DONG PHU RUBBER JSC (DPR)

Market Price	Target Price	Dividend Yield	Rating	Sector
VND40,550	VND51,900	7.4%	ADD	BASIC MATERIALS

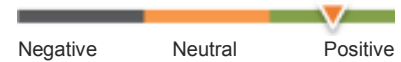
Outlook – Short term



Outlook – Long term



Valuation



7 November 2017

Tho Dien Hong

tho.dienhong@vndirect.com.vn

Key changes in the report

- Increase 2017 rubber ASP projection by 3%
- Increase 2018 disposal income projection by 45%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	47,250
52w low (VND)	34,000
3m Avg daily volume (shares)	35,965
3m Avg daily value (VNDmn)	1,719
Market cap (VNDbn)	1,623
Outstanding shares (m)	43
Free float (%)	30

Ownership

Vietnam Rubber Group	59.8%
Halley Asian Prosperity	7.9%
PYN Elite Fund	6.0%
Others	26.3%

Source: VNDIRECT

We raise our target price from VND45,100 to VND51,900 per share and re-rate DPR to ADD based on our belief that rubber prices will keep climbing and DPR's tapping output will increase over the next three years. In addition, FY2018 EAT should be well supported by increasing rubber wood disposal proceeds.

ASP will stay at high levels in 4Q 2017 and FY2018. 3Q 2017 rubber ASP was VND37mn/tonne, down by 15% QoQ but up 36% YoY. 4Q 2017 ASP is expected to average VND40.1mn/tonne (+24% YoY). FY2018 ASP may surge by 6-7% YoY as the global rubber supply deficit may slightly widen over the coming years. Compared to TRC, DPR's ASP tracked the rubber spot price more closely and there is still room for growth as DPR's ASP has increased less dramatically than TRC's ASP so far this year.

Surge in 2018 disposal earnings given spike in 9M 2017 rubber wood price. In 9M 2017, DPR cut 378-ha of rubber tree acreage, generating VND87.4bn of EBT (+48% YoY) through rubber wood sales. The sharp increase in rubber wood prices caused revenue earned per unit area of disposals to rise to VND227mn/ha (+32% YoY) in 9M 2017, and the average price for next year might be 10% higher than this year. DPR plans to chop down 511 ha worth of plantation area in FY2018 (+33% YoY) and we believe this could drive a 47% growth in FY2018 disposal earnings.

Tapping volume rise and disposals to drive FY2018 EAT growth - The FY2018 rubber volume growth is expected to be 15% YoY driven almost entirely by new plantations in Cambodia. Together with the aforementioned rubber disposal earnings, FY2018 revenue and EBIT will touch VND1,203bn (+14.6% YoY) and VND368bn (+21.0% YoY), respectively. EAT is estimated to grow 14.2% YoY to VND259bn, slower than EBIT because of higher minority interest expense in Cambodia.

We revise up our target price to VND51,900/share and re-rate to Add in view of the positive outlook for FY2018 earnings and our sanguine view on rubber prices over the next four years. DPR's share price has corrected by 5.6% over the last month and presents a good entry point. Also, DPR has an attractive cash dividend payout track record and the company plans to pay VND3,000/share for FY2017 performance, equivalent to a juicy dividend yield of 7.4%.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	855	853	1,050	1,203
Revenue growth	(7.4%)	(0.2%)	23.0%	14.6%
Gross margin	23.7%	25.2%	30.9%	33.9%
EBITDA margin	28.8%	28.4%	37.1%	38.6%
Net profit (bn)	145	153	227	259
Net profit growth	(32.3%)	6.2%	47.6%	14.2%
Recurring profit growth	(31.7%)	(10.7%)	61.4%	14.2%
Basic EPS	3,603	3,824	5,645	6,448
Adjusted EPS	2,740	2,448	3,952	4,514
BVPS	54,231	53,086	54,037	54,751
ROAE	6.6%	7.1%	10.5%	11.9%

Source: VNDIRECT

Stable rubber production volume and rising rubber prices contributed to impressive performance in 9M 2017

Sales and gross profit grew by 50% YoY and 59% YoY, respectively. Combined with the increasing disposal earnings, the firm's bottom line in 9M 2017 surged to VND188bn (+119% YoY).

We expect that 4Q 2017 EAT will mainly come from rubber latex production and the rubber wood earnings will be absent due to the fact that the full year disposal targets were already met over 9M 2017. 2017 EAT should increase by 47.6% YoY and 2017 EPS is estimated at VND3,952 (+61% YoY, on a recurring basis) enabling a cash dividend payment of 3,000/share for 2017.

Figure 1: Key Financial performance

VNDbn	3Q 2017	3Q 2016	%Δ	9M 2017	9M 2016	%Δ
Tapping volume (tonne)	6,265	5,398	16%	10,514	9,128	15%
ASP (VNDmn/tonne)	37.2	31.5	18%	41.5	30.5	36%
Sale revenue, including:	388	218	78%	788	524	50%
+ Natural rubber (parent)	246	153	61%	474	298	59%
+ Rubber disposal	11	3	248%	98	71	39%
Gross profit, including:	71	32	124%	270	118	128%
+ Natural rubber (parent)	62	35	77%	141	45	211%
+ Rubber disposal	10	3	252%	87	59	48%
EAT	58	28	112%	188	86	119%

Source: VNDIRECT, DPR

New plantations to drive surge in tapping volume in 2018

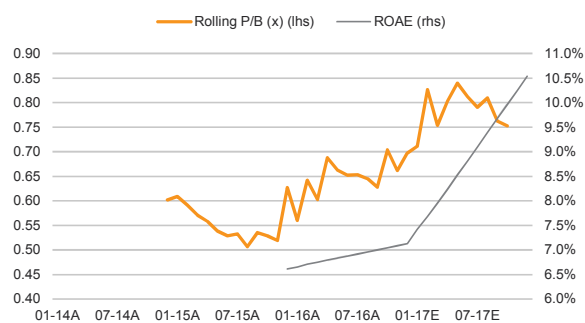
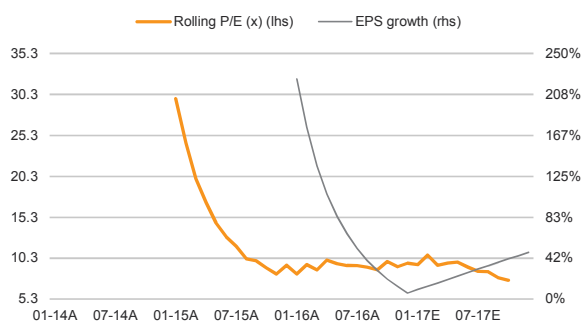
Rubber latex output reached 10,514 tonnes in 9M 2017, up by 15% YoY mainly thanks to the 1,800-ha newly-tapped plantation in Cambodia. We estimate that DPR will harvest 5,865 tonnes in 4Q 2017, bringing the total 2017 volume growth to 9% YoY. The production in the Cambodian plantation will be accelerated further next year to add another 1,400 ha to exploitation area, which may boost 2018 output by 8% YoY and grow by a 12% CAGR for the following three years.

Figure 2: Forecast revision

VNDbn	2017F			2018F			Note
	Old	New	%Δ	Old	New	%Δ	
ASP (VND mn/tonne)	39.0	40.0	3%	41.0	42.7	4%	We update the 9M17 high rubber selling price into our estimated FY17 ASP
Unit cost (VNDmn/tonne)	28.8	28.3	-2%	30.2	29.3	-3%	
Tapped volume (tonne)	14,983	16,379	9%	17,219	17,730	3%	
Disposal area (ha)	487	385	-21%	548	511	-7%	We update the FY17 & FY18 disposal area from the latest company plan
Disposal earnings	84	87	4%	88	128	45%	Rubber wood prices surged due to sudden supply shortage and demand growth in both local and China timber industry
Revenue	1,125	1,050	-7%	987	1,203	22%	The buy-out activity will be reduced as the actual internal volume increased, but it will have an impact on the bottom line as processing margins on externally sourced natural rubber are thin
Operating EBIT	198	247	25%	238	311	31%	
Net profit	192	227	18%	203	259	27%	

Source: VNDIRECT

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Net revenue	853	1,050	1,203
Cost of sales	(638)	(725)	(795)
Gen & admin expenses	(66)	(63)	(82)
Selling expenses	(15)	(14)	(14)
Operating profit	135	247	311
Operating EBITDA	185	331	404
Depreciation and amortisation	(50)	(84)	(93)
Operating EBIT	135	247	311
Interest income	52	55	56
Financial expense	(6)	(14)	(15)
Net other income	9	14	16
Income from associates & JVs	0	0	0
Pre-tax profit	189	303	368
Taxation	(28)	(50)	(61)
Minority interests	(8)	(26)	(48)
Net profit	153	227	259
Adj. net profit to ordinary	98	159	181
Ordinary dividends	(201)	(120)	(152)
Retained earnings	(47)	106	106

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	622	664	599
Short term investments	339	313	358
Accounts receivables	57	60	65
Inventories	113	128	141
Other current assets	39	39	39
Total current assets	1,170	1,204	1,201
Fixed assets	1,980	2,008	2,069
Total investments	127	127	127
Other long-term assets	170	179	182
Total assets	3,448	3,518	3,580
Short-term debt	61	86	94
Accounts payable	5	6	6
Other current liabilities	199	209	213
Total current liabilities	265	301	313
Total long-term debt	211	182	154
Other liabilities	318	318	318
Share capital	577	577	577
Retained earnings reserve	578	594	597
Shareholders' equity	2,130	2,168	2,197
Minority interests	524	550	598
Total liabilities & equity	3,448	3,518	3,580

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	189	303	368
Depreciation & amortisation	50	84	93
Tax paid	(35)	(50)	(61)
Other adjustments	(49)	(211)	(262)
Change in working capital	124	(14)	(22)
Cash flow from operations	279	112	116
Capex	(131)	(115)	(148)
Proceeds from assets sales	0	87	128
Others	9	82	11
Other non-current assets changes	0	1	0
Cash flow from investing activities	(122)	55	(9)
New share issuance	17	0	0
Shares buyback	0	0	0
Net borrowings	(119)	(4)	(19)
Other financing cash flow	1	0	0
Dividends paid	(184)	(120)	(152)
Cash flow from financing activities	(284)	(125)	(172)
Cash and equivalents at beginning of period	749	622	664
Total cash generated	(127)	42	(66)
Cash and equivalents at the end of period	622	664	599

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	18.0%	21.6%	21.5%
Asset turnover	0.25	0.30	0.34
ROAA	4.5%	6.5%	7.3%
Avg assets/avg equity	1.59	1.62	1.63
ROAE	7.1%	10.5%	11.9%
Efficiency			
Days account receivable	8.61	8.65	8.68
Days inventory	65.0	64.6	64.6
Days creditor	2.81	2.80	2.80
Fixed asset turnover	0.44	0.53	0.59
ROIC	5.2%	7.6%	8.5%
Liquidity			
Current ratio	4.41	4.00	3.84
Quick ratio	3.99	3.58	3.39
Cash ratio	3.63	3.25	3.06
Cash cycle	70.8	70.4	70.5
Growth rate (yoy)			
Revenue growth	(0.2%)	23.0%	14.6%
Operating profit growth	11.1%	83.6%	25.8%
Net profit growth	6.2%	47.6%	14.2%
EPS growth	6.2%	47.6%	14.2%
Share value			
Basic EPS (VND)	3,824	5,645	6,448
BVPS (VND)	53,086	54,037	54,751

Source: VNDIRECT

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Phuong Nguyen Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Tho Dien Hong – Analyst

Email: tho.dienhong@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>