


Company Note

I Vietnam

HOLD (previously ADD)

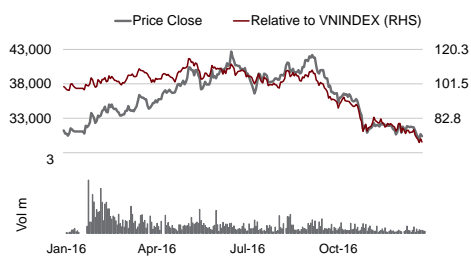
Consensus ratings*: Buy 2 Hold 4 Sell 0

Current price: VND30,400
 Target price:  VND30,442
 Previous target: VND44,093
 Up/downside: 0.1%
 CIMB / Consensus: -5.9%

Reuters: DRC.HM
 Bloomberg: DRC VN
 Market cap: US\$160.2m
 VND3,611,295m
 Average daily turnover: US\$0.23m
 VND5,217m
 Current shares o/s: 118.8m
 Free float: 49.5%
 *Source: Bloomberg

Key changes in this note

- FY17F EPS reduced by 27%.
- FY18F EPS reduced by 28%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.4	-17.4	-2.9
Relative (%)	-8.5	-19.4	-35.3

Major shareholders	% held
Vinachem	50.5
FTIF	3.7
Deutsche Bank Asset Management	3.7

Analyst(s)

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Da Nang Rubber**Rising input costs and competition squeeze margins**

- A steep rebound in rubber prices and intensified competition from Chinese tyre makers lifted DRC's input costs, and put pressure on its ASP last year.
- Rubber accounts for about half of DRC's COGS, and world rubber prices have rebounded 60% from their Sep 2016 bottom.
- The factors outlined above prompted us to lower our FY17-18 EPS estimates by 27-28%, cut our target price by 24%, and downgrade DRC from Add to Hold.

Intensified competition from Chinese makers

Chinese tyre makers face overcapacity at home, so they intensified their efforts to export their excess production into world markets over the last two years. The United States government responded to the resulting flood of Chinese products into the US market by hiking import tariffs, but this prompted those Chinese makers to focus on exporting tyres to the Asian market, including Vietnam. As a result, DRC actually reduced its ASP by about 5% in 2016, despite higher input costs.

Exports are under pressure

DRC launched a new radial tyre factory in 2014 with the intention of selling ½ the tyres made in that factory on the export market. However, competition from Chinese producers has been even more intense in export market than it has been in DRC's home market - where the Chinese have shown some restraint. As a result, DRC is currently selling about half of its production in regional export markets, where it is only realising selling prices that are about 20% below those on the products it sells in Vietnam.

Higher rubber prices are squeezing margins

Rubber prices have rebounded sharply from their most recent bottom in Sep 2016, further squeezing the company's margins. Rubber prices were up 60% over the last five months, encouraged by a general rebound in commodity prices, but rubber accounts for about half of DRC's COGS. In the past, DRC was able to pass on higher rubber prices to the buyers of its tyres but this time intensified competition from Chinese makers has made it very difficult for DRC to raise tyre prices.

Phase II of the radial tyre factory under construction

DRC began constructing the second phase of its radial tyre factory in the middle of last year (before the surge in rubber prices). At first glance, adding additional capacity at this time may not seem like a good idea, given all the challenges the company's new radial product line is facing. However, this incremental new production capacity will double DRC's radial tyre production capacity at a cost which is only 1/3 the cost of phase I of this factory. The resulting lower fixed costs per unit will lift DRC's margins, in our view.

Downgrade from Add to Hold

DRC's surging input costs and ASP pressure prompted us to slash our FY17-18 EPS estimates by 27-28%, cut our target price by 30%, and to downgrade the stock to a Hold. The stock has a high div. yield (~65% payout), if DRC can manage to sustain its dividend. The primary downside and upside risk for the company is higher (or lower) rubber prices. Our target price is based on 10x FY17F P/E, which is a 10% discount to DRC's 3-year ave. P/E valuation, given the difficult current conditions for the company.

Financial Summary	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
Revenue (VNDb)	3,251	3,318	3,359	3,733	4,362
Operating EBITDA (VNDb)	704.4	885.9	785.6	760.0	895.1
Net Profit (VNDb)	352.0	414.9	395.0	361.6	434.7
Core EPS (VND)	2,963	3,493	2,558	3,044	3,659
Core EPS Growth	(6.2%)	17.9%	(26.8%)	19.0%	20.2%
FD Core P/E (x)	10.26	8.70	10.51	11.48	8.31
DPS (VND)	1,387	2,098	1,774	2,000	2,000
Dividend Yield	4.56%	6.90%	5.83%	6.58%	6.58%
EV/EBITDA (x)	6.63	4.98	7.06	6.37	5.59
P/FCFE (x)	18.52	8.92	15.90	12.00	13.11
Net Gearing	69.1%	47.7%	54.0%	72.0%	73.1%
P/BV (x)	2.35	2.16	2.97	2.12	1.90
ROE	24.2%	25.9%	24.3%	22.0%	24.1%
% Change In Core EPS Estimates				(27.1%)	(28.0%)
CIMB/consensus EPS (x)				0.99	

SOURCE: COMPANY DATA, CIMB FORECASTS

Rising input costs and competition squeeze margins

Revised forecasts ▶

Figure 1: Earnings revision

VNDbn	2017			% change	2018		
	Old	New			Old	New	% change
Revenue	3,928	3,733		-5%	4,590	4,362	-5%
Operating EBIT	763	567		-26%	903	675	-25%
Net profit	496	362		-27%	604	435	-28%
EPS (VND)	4,177	3,044		-27%	5,081	3,659	-28%

SOURCES: CIMB, COMPANY REPORTS

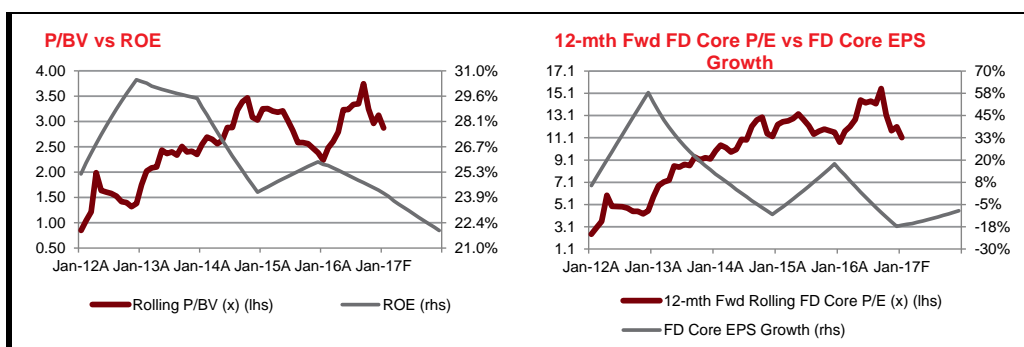
DRC vs peers group ▶

Figure 2: DRC vs local peer

	FY17F (CIMB forecast)				Operating margin (%)	Net profit margin (%)
	P/E (x)	P/B (x)	ROA (%)	ROE (%)		
DRC	11.5	2.1	12.9	22.0	20.3	10.0
CSM	8.6	1.5	8.8	18.1	15.6	7.3

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
Total Net Revenues	3,251	3,318	3,359	3,733	4,362
Gross Profit	934	1,046	944	941	1,106
Operating EBITDA	704	886	786	760	895
Depreciation And Amortisation	(130)	(247)	(245)	(193)	(220)
Operating EBIT	574	639	540	567	675
Financial Income/(Expense)	(80)	(49)	(36)	(44)	(58)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(42)	(57)	(11)	(71)	(74)
Profit Before Tax (pre-EI)	452	532	494	452	543
Exceptional Items					
Pre-tax Profit	452	532	494	452	543
Taxation	(100)	(117)	(99)	(90)	(109)
Exceptional Income - post-tax					
Profit After Tax	352	415	395	362	435
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	352	415	395	362	435
Recurring Net Profit	352	415	395	362	435
Fully Diluted Recurring Net Profit	352	415	395	362	435

Cash Flow

(VNDb)	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
EBITDA	704.4	885.9	785.6	760.0	895.1
Cash Flow from Inv. & Assoc.					
Change In Working Capital	298.6	(92.6)	(113.1)	(217.3)	(314.1)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(41.6)	(15.9)	(74.2)	(50.3)	(38.8)
Net Interest (Paid)/Received	(80.6)	(50.2)	(35.0)	(44.0)	(58.1)
Tax Paid	(102.4)	(110.6)	(98.9)	(90.4)	(108.7)
Cashflow From Operations	778.3	616.7	464.5	358.0	375.5
Capex	(296.5)	(115.9)	(76.3)	(495.2)	(300.0)
Disposals Of FAs/subsidiaries	3.2	0.4	0.8		
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(293.3)	(115.5)	(75.5)	(495.2)	(300.0)
Debt Raised/(repaid)	(290.0)	(96.3)	(127.8)	483.4	200.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(164.7)	(249.2)	(450.7)	(237.6)	(237.6)
Preferred Dividends					
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	(454.8)	(345.5)	(578.5)	245.9	(37.6)
Total Cash Generated	30.3	155.6	(189.4)	108.6	38.0
Free Cashflow To Equity	195.0	404.8	261.3	346.2	275.5
Free Cashflow To Firm	570.4	556.0	431.7	(83.9)	140.8

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
Total Cash And Equivalents	85	240	51	159	197
Total Debtors	296	278	419	566	761
Inventories	716	785	771	857	1,001
Total Other Current Assets	15	0	2	2	2
Total Current Assets	1,111	1,303	1,243	1,584	1,962
Fixed Assets	1,993	1,819	1,504	1,807	1,887
Total Investments	5	5	4	4	4
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	29	16	59	59	59
Total Non-current Assets	2,026	1,839	1,568	1,870	1,951
Short-term Debt	337	446	513	746	846
Current Portion of Long-Term Debt					
Total Creditors	164	123	137	152	177
Other Current Liabilities	293	309	188	209	244
Total Current Liabilities	793	877	838	1,106	1,267
Total Long-term Debt	808	593	392	643	743
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	808	593	392	643	743
Total Provisions	0	0	0	0	0
Total Liabilities	1,602	1,470	1,229	1,749	2,010
Shareholders' Equity	1,535	1,673	1,582	1,706	1,903
Minority Interests					
Total Equity	1,535	1,673	1,582	1,706	1,903

Key Ratios

	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
Revenue Growth	16.0%	2.0%	1.2%	11.1%	16.8%
Operating EBITDA Growth	7.8%	25.8%	(11.3%)	(3.3%)	17.8%
Operating EBITDA Margin	21.7%	26.7%	23.4%	20.4%	20.5%
Net Cash Per Share (VND)	(8,926)	(6,720)	(5,531)	(10,346)	(11,710)
BVPS (VND)	12,922	14,082	10,244	14,361	16,020
Gross Interest Cover	6.79	11.67	12.67	10.64	10.34
Effective Tax Rate	22.2%	22.0%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	46.8%	60.1%	69.3%	65.7%	54.7%
Accounts Receivables Days	35.32	31.57	37.98	48.15	55.52
Inventory Days	127.3	120.6	117.9	106.4	104.2
Accounts Payables Days	24.50	23.00	19.65	18.86	18.47
ROIC (%)	21.0%	24.7%	21.9%	23.3%	23.0%
ROCE (%)	21.2%	23.9%	21.1%	20.7%	20.7%
Return On Average Assets	13.7%	14.8%	14.5%	12.9%	13.4%

Key Drivers

	Dec-14A	Dec-15A	Dec-16A	Dec-17F	Dec-18F
ASP (% chg, main prod./serv.)	-3.0%	0.0%	-5.0%	2.0%	2.0%
Unit sales grth (% , main prod./serv.)	15.5%	-2.0%	10.3%	3.6%	0.0%
Util. rate (% , main prod./serv.)	82.6%	80.9%	89.3%	72.4%	0.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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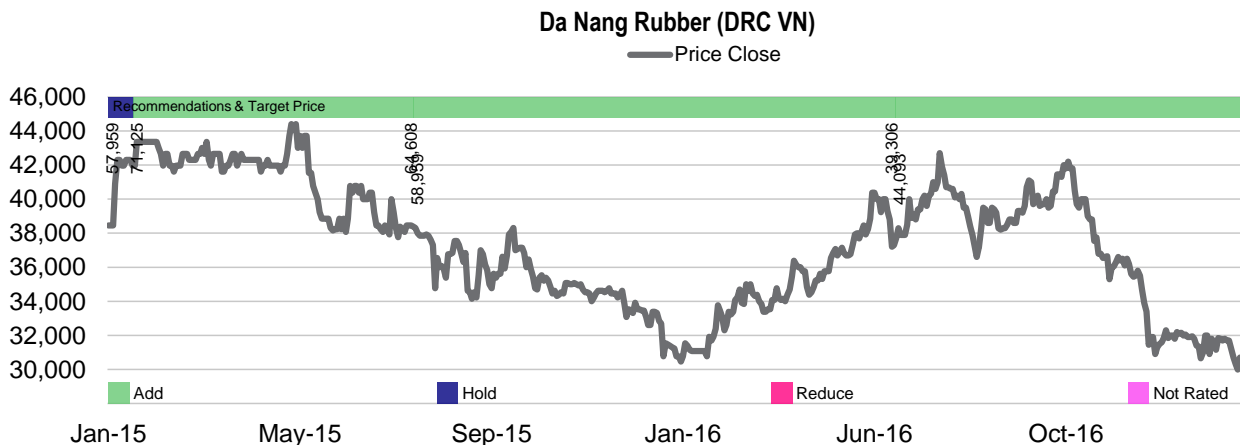
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016

1626 companies under coverage for quarter ended on 31 December 2016

	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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.