


Company Note

Vietnam

HOLD (previously REDUCE)

Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price: VND28,550
 Target price:  VND27,600
 Previous target: VND14,063
 Up/downside: -3.3%
 CIMB / Consensus: na

Reuters: PHR.HM
 Bloomberg: PHR.VN
 Market cap: US\$99.31m
 VND2,240,891m
 Average daily turnover: US\$0.73m
 VND16,547m
 Current shares o/s: 78.49m
 Free float: 25.0%
 *Source: Bloomberg

Key changes in this note

- FY17F Operating EBIT increased by 5x
- FY17F EPS increased by 156%.
- FY17F Net profit increased by 156%.



Price performance	1M	3M	12M
Absolute (%)	12.8	39.3	87.8
Relative (%)	7.8	36.2	59.2

Major shareholders	% held
Vietnam Rubber Group	69.0
Asia Value Investment Limited	5.0
Halley Asian Prosperity	3.0

Analyst(s)



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Phuoc Hoa Rubber

Flood in Thailand pushes rubber prices higher

- A protracted flood in Thailand is likely depress that country's rubber supply by 10% this year, in our view, which equates to about 4-5% of global rubber supply.
- Rubber prices have risen up 60% over the last five months.
- We raise our DCF-based target price and upgrade our PHR rating to Hold, given the sharp increase in rubber prices.

A protracted flood in Thailand depresses rubber supply

We believe a protracted flood in Thailand is likely to depress the country's rubber supply by 10% this year, as a wide range of trees cannot be accessed to be tapped. This equates to ~4-5% of global rubber supply, but we think there is a possibility that some fraction of Thailand's entire rubber plantation area (~20% of global supply) could be permanently damaged. If that were to happen, we believe rubber prices could rise more than 50%, on top of the 60% that prices have increased in the last five months.

Soaring revenues in FY17F

We expect PHR's average selling price to rise 40% in FY17F, driven by the surge in world rubber price. That said, we only expect a 20% increase in PHR's revenues because the amount of the liquid latex that the company sources from contract farmers, which it then processes and sells to end users, fluctuates from year-to-year. Last year, PHR sourced about 40% of its liquid latex from contract farmers but it intends to curtail this business in FY17F because it is currently unprofitable.

Earnings also set to rise, albeit by less than PHR's local peers'

PHR tends to sell a high proportion of its processed latex to local rubber traders that ultimately sell these raw materials to Chinese tyre makers and other users. This business entails PHR offering buyers a fixed selling price for some proportion of its output – so the company will not fully benefit from increasing rubber prices. We expect PHR's earnings to rise 69% this year, but the earnings growth of its local peers, many of whom sell directly to European and Japanese buyers, is likely to surpass PHR's.

Higher production volumes in FY17F

PHR planted 5,600 ha of rubber trees in a new plantation project in Cambodia in 2011, and those trees are reaching maturity, so we expect PHR's tapping area to increase by 28% in 2017F, to 11,500ha. This should drive a 22% increase in production volume, in our view. Note that in 2016, production volume fell 10% because the company cut 1,100ha of trees that had passed their productive life.

FY16 results impacted by certain specific factors

PHR's reported earnings fell 29% in FY16, because ASP fell 10%, and because the windfall gains the company earned in FY15 from felling rubber trees were not repeated last year. Also, PHR committed to some fairly large orders, but its latex production volume fell 10% short of its target, so it purchased latex from contract farmers that it then processed, which depressed its margins.

Raise target price and upgrade to Hold recommendation

Given the dramatic rubber price recovery in Oct-Dec 2016, we raised our DCF-based target price (15% CoE) by 95%, and raised our FY17 EPS forecasts by 156%. Our target price equates to a 10.5 FY17F P/E ratio valuation, which is a 29% discount to PHR's local peers. PHR produces a commodity which is sold at world prices, and it's workers' compensation (70% COGS) is also linked to rubber prices, so the upside and downside risks to PHR's enterprise value are entirely contingent on world rubber prices.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (VNDb)	1,227	1,178	1,507	1,617	1,787
Operating EBITDA (VNDb)	123.6	131.2	252.5	303.4	419.1
Net Profit (VNDb)	173.2	217.1	207.3	343.4	344.0
Core EPS (VND)	2,207	2,767	2,642	4,375	4,383
Core EPS Growth	(36.9%)	25.4%	(4.5%)	65.6%	0.2%
FD Core P/E (x)	12.94	10.32	10.81	6.53	6.51
DPS (VND)	2,042	2,767	1,981	3,281	3,287
Dividend Yield	7.2%	9.7%	6.9%	11.5%	11.5%
EV/EBITDA (x)	16.99	15.73	7.60	6.10	4.41
P/FCFE (x)	273.7	97.1	5.8	6.6	8.8
Net Gearing	0.58%	0.43%	(5.93%)	(8.74%)	(8.72%)
P/BV (x)	1.05	1.00	0.98	0.94	0.91
ROE	7.9%	9.9%	9.1%	14.7%	14.2%
% Change In Core EPS Estimates			156%		
CIMB/consensus EPS (x)			1.23	1.95	

SOURCE: COMPANY DATA, CIMB FORECASTS

Flood in Thailand pushes rubber prices higher

► Revised forecasts

Figure 1: Earnings revision

VNDbn	Old	2017F		% change
			New	
Revenue	1,363		1,507	11%
Gross profit	186		284	53%
Operating EBIT	41		252	516%
Net profit	81		207	156%
EPS (VND)	1,031		2,642	156%

SOURCES: CIMB, COMPANY REPORTS

► Equity valuation

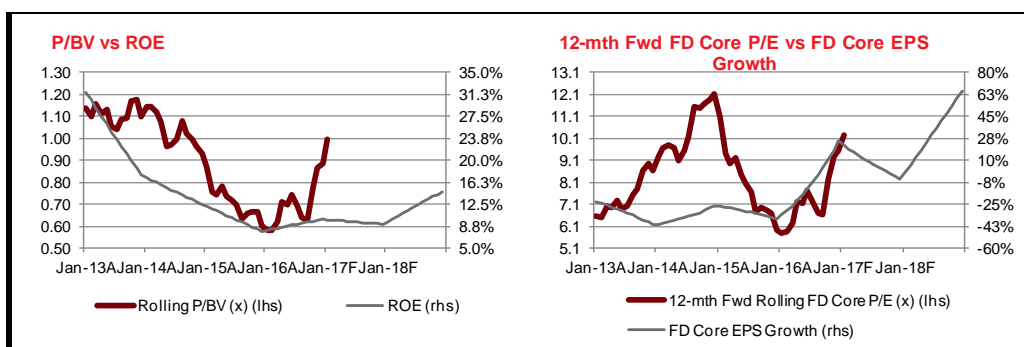
Figure 2: FCFE Valuation

VNDbn	2017F	2018F	2019F	2020F
CFO	272	114	171	281
Less: FCInvestment	48	(120)	11	45
Add: net borrowings	(161)	26	21	36
Free cash flow	63	260	181	273
Terminal value	2,867			
PV of total cash flow (Equity value)	2,166			
Outstanding shares	78,490,047			
Target price (VND)	27,600			

Assumption	Value
Risk premium	12.0%
Risk free	6.6%
Tax rate	17.7%
Beta	0.70
Cost of equity	15.0%
Cost of debt	6.8%
Debt/total asset	27.6%
WACC	12.4%
Terminal growth rate	5.0%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	1,227	1,178	1,507	1,617	1,787
Gross Profit	214	209	347	402	522
Operating EBITDA	124	131	252	303	419
Depreciation And Amortisation	(45)	(49)	(63)	(71)	(79)
Operating EBIT	79	82	189	232	340
Financial Income/(Expense)	38	48	39	44	49
Pretax Income/(Loss) from Assoc.	40	26	22	22	22
Non-Operating Income/(Expense)	105	96	71	232	121
Profit Before Tax (pre-EI)	261	253	321	529	532
Exceptional Items					
Pre-tax Profit	261	253	321	529	532
Taxation	(46)	(33)	(57)	(94)	(94)
Exceptional Income - post-tax					
Profit After Tax	215	220	264	435	437
Minority Interests	(3)	(2)	(5)	(6)	(7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(38)		(52)	(86)	(86)
Net Profit	173	217	207	343	344
Recurring Net Profit	173	217	207	343	344
Fully Diluted Recurring Net Profit	173	217	207	343	344

Cash Flow

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	123.6	131.2	252.5	303.4	419.1
Cash Flow from Invt. & Assoc.					
Change In Working Capital	155.9	58.1	120.5	1.4	(19.6)
(Incr)/Decr in Total Provisions	11.0	(2.8)	3.0	(0.4)	(0.5)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(30.1)	(207.2)	(10.3)	(65.1)	(100.5)
Net Interest (Paid)/Received	(35.2)	(30.9)	(36.8)	(31.6)	(33.1)
Tax Paid	(55.2)	(37.7)	(57.0)	(93.9)	(94.3)
Cashflow From Operations	169.9	(89.2)	271.8	113.8	171.1
Capex	(144.5)	(169.7)	(130.4)	(124.9)	(145.7)
Disposals Of FAs/subsidiaries	179.0	160.3	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0		0.0	0.0	0.0
Other Investing Cashflow	(45.1)	(99.1)	404.9	322.0	207.3
Cash Flow From Investing	(10.6)	(108.6)	274.5	197.1	61.6
Debt Raised/(repaid)	(151.1)	220.9	(161.1)	26.4	20.9
Proceeds From Issue Of Shares	13.6	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(160.3)	(144.8)	(155.5)	(257.5)	(258.0)
Preferred Dividends					
Other Financing Cashflow	0.0	(0.0)	0.0	0.0	0.0
Cash Flow From Financing	(297.8)	76.0	(316.7)	(231.1)	(237.1)
Total Cash Generated	(138.5)	(121.8)	229.7	79.8	(4.5)
Free Cashflow To Equity	8.2	23.1	385.2	337.3	253.5
Free Cashflow To Firm	194.4	(166.9)	583.1	342.5	265.8

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	602	825	814	915	943
Total Debtors	107	160	117	125	138
Inventories	148	227	156	164	171
Total Other Current Assets	33	31	33	33	33
Total Current Assets	890	1,243	1,119	1,237	1,286
Fixed Assets	2,121	2,209	2,284	2,338	2,404
Total Investments	212	247	247	247	247
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	74	154	78	83	92
Total Non-current Assets	2,408	2,611	2,609	2,668	2,744
Short-term Debt	360	603	434	457	477
Current Portion of Long-Term Debt					
Total Creditors	26	43	27	28	29
Other Current Liabilities	390	357	351	407	416
Total Current Liabilities	776	1,004	812	892	923
Total Long-term Debt	254	232	240	244	245
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	74	317	318	318	318
Total Non-current Liabilities	329	549	558	562	563
Total Provisions	0	0	0	0	0
Total Liabilities	1,105	1,553	1,370	1,454	1,485
Shareholders' Equity	2,135	2,242	2,294	2,380	2,466
Minority Interests	58	59	65	71	78
Total Equity	2,193	2,302	2,359	2,451	2,544

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(23.5%)	(4.0%)	27.9%	7.2%	10.5%
Operating EBITDA Growth	(19.6%)	6.2%	92.4%	20.2%	38.1%
Operating EBITDA Margin	10.1%	11.1%	16.8%	18.8%	23.5%
Net Cash Per Share (VND)	(162)	(127)	1,781	2,730	2,827
BVPS (VND)	27,199	28,566	29,227	30,320	31,416
Gross Interest Cover	2.27	2.45	5.07	7.20	10.07
Effective Tax Rate	17.7%	13.2%	17.7%	17.7%	17.7%
Net Dividend Payout Ratio	92.5%	100.0%	75.0%	75.0%	75.0%
Accounts Receivables Days	32.00	41.52	33.50	27.26	26.87
Inventory Days	65.48	70.83	60.19	48.04	48.35
Accounts Payables Days	9.28	13.11	11.00	8.25	8.31
ROIC (%)	4.0%	4.0%	8.0%	10.1%	14.7%
ROCE (%)	5.2%	5.5%	8.6%	10.0%	13.2%
Return On Average Assets	4.12%	4.79%	4.58%	8.02%	7.63%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Planted Estates (ha)	21,491	22,344	22,644	22,644	22,644
Mature Estates (ha)	8,253	8,983	11,496	12,390	14,194
FFB Yield (tonnes/ha)	2.2	2.0	1.8	1.8	1.8
FFB Output Growth (%)	-4.1%	15.0%	8.1%	17.2%	8.6%
CPO Price (US\$/tonne)	1,399	1,337	1,871	1,964	2,161

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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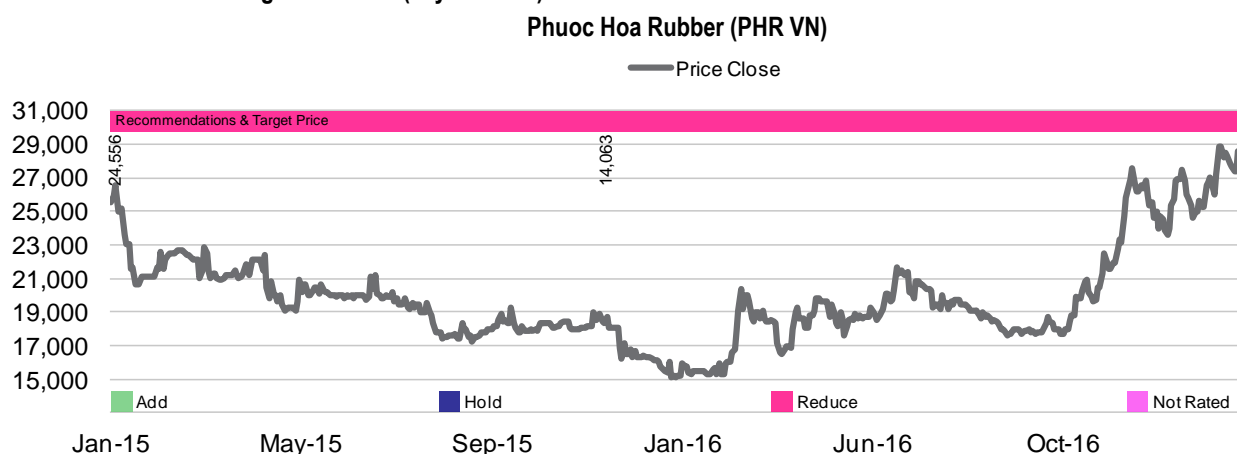
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	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, **CENTEL** – 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, **TPIPP** – 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.

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- 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.