

TAY NINH RUBBER JSC (TRC)

Current Price VND29,400 **Target Price** VND37,400 **Dividend Yield** 5.1% **Recommendation** Add **Sector** BASIC MATERIALS

Outlook – Short term



Outlook – Long term



Valuation



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Price performance

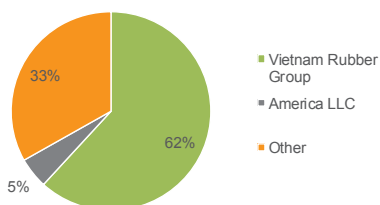


Source: VNDIRECT

Key statistics

52w high (VND)	34,000
52w low (VND)	20,764
Average daily turnover (3m)	119,371
Market cap (VND) billion	856.28
Outstanding shares (m)	28.4
Free float (%)	40
Beta	0.80

Ownership



Source: VNDIRECT

The shift of global NR market leads to a downward calibration in our ASP forecast. However, FY17 EAT may increase by 55% yoy thanks to the income from tree disposal. We also appreciate the favorable change in reserve policy which enhances investor's benefit and remains an attractive valuation.

FY17 ASP outlook – with recent NR price outlook, we cut TRC's FY17 ASP by 8% from previous forecast to VND37.1 mn/ton (+20% yoy). This revise also impacts on our ASP assumptions in the next following years and drag down estimated earnings throughout our forecast horizon.

Speed up the rubber tree disposal – From FY16 AGM, 360 ha of rubber field will be disposed in FY17, contributing ~VND50 bn (+29% vs. the previous forecast). However, this will decrease the earnings from tree disposal in FY18. In other word, there is only change in timing of earnings which may leave minor effect on our valuation.

Favorable reserve policy – From FY17 's guidance, we reduce the reserve for bonus & welfare fund from 25% to 20% of EAT throughout our forecast horizon. This will certainly save more available cash to enhance operating cash flow and trigger a healthier dividend policy.

Accelerating FY17 EPS – The FY17 incremental disposal income will offset the increasing ASP and leave FY17 EAT nearly unchanged to our previous forecast. However, the change in reverse policy give a higher by 15% in our forecasted FY17 EPS to VND2,971 (+53% yoy).

We revised our target to **VND37,400** downed by 2% from the previous and maintain **Add** recommendation with **12.6x FY17 PE**. The announced FY16 dividend was in line with our expectation at **VND1,500/share** and will be paid out within 2Q – 3Q17. The key risks for our call still stick to the future NR price performance and poor liquidity of this stock.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	363	350	446	468
Revenue growth	(27.5%)	(3.5%)	27.2%	5.0%
Gross margin	18.6%	17.5%	19.8%	20.2%
Operating EBITDA (bn)	55	55	89	98
Net profit (bn)	55	70	108	98
Net profit growth	(60.7%)	27.0%	55.4%	(9.7%)
EPS	1,881	2,390	3,714	3,354
BVPS	48,454	50,040	51,511	52,694
ROAE	3.8%	4.9%	7.3%	6.4%

Source: VNDIRECT

Key Financial performance (Consolidated)

VND bn	1Q2017	1Q2016	% Change
Tapped volume (ton)	1,711	1,374	25%
Sold volume (ton)	1,629	1,687	-3%
ASP (VND mn/ton)	49.2	26.0	90%
Sale revenue	86	53	63%
Gross profit	22	4	503%
Other profit	27	10	170%
EAT	35	9	306%

Source:TRC, VNDIRECT

1Q17 PERFORMANCE REVIEW

Enjoy rocketed 1Q17 ASP, but not for long – The 1Q17 ASP raise up to VND53 mn/ton (+69% yoy) as well the similar growth in sale revenue while there is an unchanged sale volume. As our revised outlook over NR in the lasted update for DPR, FY17 ASP is expected to reach a sustainable level at VND37 mn/ton (+20% yoy). Obviously, the 1Q17 growth is just a flash and we could be only confident on a 27% yoy growth in FY17 sale followed the recent plunge in NR price. As on schedule, volume from Cambodia will be absent until FY19, and we would only recognize immaterial changes in tapped volume in FY17 & 18. Therefore, NR price maintains its essential position in TRC's sale and profit performance while other peers have already started tapping part of their brand-new rubber field.

Increase buy-out volume – As FY17 tapped volume decrease, TRC cannot fully utilized their factories when tappable area keep cyclically reducing. Hence, increasing the buy-out volume may observe part of proceed overhead cost and may earn small 1 – 2% margin. By the action, the sale growth will ram up, but will squeeze the GM to 15% this year (-300 bps yoy).

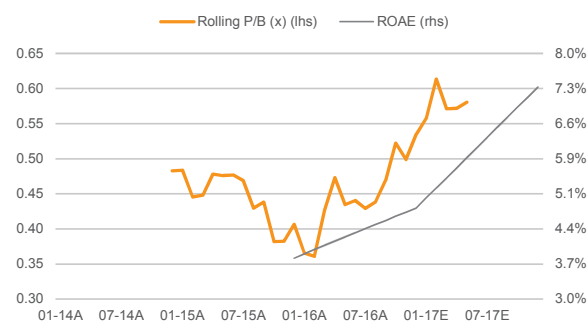
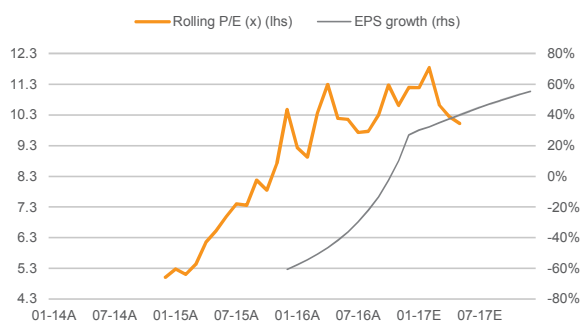
Great warm-up for the year – Despite of our up-coming concern over the NR price, TRC enjoyed the extremely highly 1Q17 NR spot price penciling a 6x-higher gross profit. The annual disposal was also started earlier than the last year and contributed to 75% of 1Q17 EAT. Overall, the company has already accomplished 32% of our expected FY17 EAT, and make us comfortable over the performance in remaining period when they still have ~50% unfinished work load in disposal and major rubber sale volume.

FORECAST RESIVION**FORECAST FIGURE**

VND bn	2017F			2018F			Note
	Old	New	%Δ	Old	New	%Δ	
ASP (VND mn/ton)	40.4	37.1	-8%	42.4	39.0	-8%	Revised FY17 growth from 30% down to 20% yoy
Tapped Volume (ton)	8,693	8,830	2%	8,848	8,812	0%	
Buyout volume (ton)	869	3,170	265%	885	3,188	260%	Company start utilising their leftover capacity to process buy-out rubber latex
Disposal area (ha)	248	360	45%	403	217	-46%	We revised to the released FY17 disposal plan
Revenue	386	446	15%	413	468	13%	
Gross profit	95	88	-7%	107	94	-12%	
Operating EBIT	61	59	-4%	72	65	-9%	
Net other income	39	50	29%	67	31	-53%	Increased disposal area for FY17 take over part of the FY18
EAT	103	108	5%	134	98	-27%	
Bonus welfare fund	26	22	-16%	33	20	-42%	We adjusted the reserve portion over EAT from 25% down to 20%
Adjusted EPS (VND)	2,644	2,971	12%	3,449	2,683	-22%	

SOURCE: VNDIRECT

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Revenue	350.4	445.7	468.0
Cost of sales	(289.0)	(357.4)	(373.6)
Gen & admin expenses	(24.1)	(26.4)	(26.4)
Selling expenses	(2.9)	(3.2)	(3.2)
Operating profit	34.4	58.7	64.8
Operating EBITDA	55.3	88.9	97.9
Depreciation and amortisation	(20.9)	(30.3)	(33.1)
Operating EBIT	34.4	58.7	64.8
Interest income	4.6	13.9	14.9
Financial expense	(0.8)	(1.6)	(1.6)
Net other income	38.1	50.2	31.0
Income from associates & JVs	3.0	3.0	3.0
Pre-tax profit	79.3	124.1	112.1
Taxation	(9.7)	(15.9)	(14.4)
Minority interests	0.0	0.0	0.0
Net profit	69.6	108.2	97.7
Adj. net profit to ordinary	69.6	108.2	97.7
Ordinary dividends	(43.7)	(43.7)	(43.7)
Retained earnings	25.9	64.5	54.0

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	79.3	124.1	112.1
Depreciation & amortisation	20.9	30.3	33.1
Other non cash gains/(losses)	(0.8)	(0.1)	0.0
Other non operating gains/(losses)	(44.4)	(13.9)	(14.9)
Tax paid	(7.9)	(16.0)	(14.4)
Other operating cash flow	(11.4)	(21.6)	(19.5)
Change in working capital	53.6	(7.2)	1.2
Cash flow from operations	89.3	95.6	97.5
Capex	(110.3)	(65.0)	(96.4)
Proceeds from assets sales	74.9	0.0	0.0
Others	(0.2)	13.9	14.9
Other non-current assets changes	0.0	0.0	0.0
Cash flow from investing activities	(35.5)	(51.1)	(81.5)
New share issuance	0.0	0.0	0.0
Shares buyback	0.0	0.0	0.0
Net borrowings	33.4	17.8	15.2
Other financing cash flow	0.0	0.0	0.0
Dividends paid	(43.7)	(43.7)	(43.7)
Cash flow from financing activities	(10.3)	(25.9)	(28.5)
Cash and equivalents at beginning of period	92.7	136.2	154.8
Total cash generated	43.5	18.6	(12.4)
Cash and equivalents at the end of period	136.2	154.8	142.4

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	136	155	142
Short term investments	0	0	0
Accounts receivables	179	197	199
Inventories	49	50	52
Other current assets	28	28	28
Total current assets	393	430	421
Fixed assets	1,183	1,218	1,281
Total investments	175	175	175
Other long-term assets	3	2	2
Total assets	1,753	1,825	1,880
Short-term debt	33	33	33
Accounts payable	9	11	12
Other current liabilities	113	122	126
Total current liabilities	155	166	171
Total long-term debt	141	158	174
Other liabilities	0	0	0
Shareholders' equity	1,457	1,500	1,535
Minority interests	0	0	0
Total liabilities & equity	1,753	1,825	1,880

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	19.9%	24.3%	20.9%
Asset turnover	0	0	0
ROAA	4.1%	6.0%	5.3%
Avg assets/avg equity	1	1	1
ROAE	4.9%	7.3%	6.4%
Efficiency			
Days account receivable	3	10	10
Days inventory	62	51	51
Days creditor	11	11	11
Fixed asset turnover	0	0	0
ROIC	4.3%	6.4%	5.6%
Liquidity			
Current ratio	3	3	2
Quick ratio	2	2	2
Cash ratio	1	1	1
Cash cycle	53	50	50
Growth rate (yoy)			
Revenue growth	(3.5%)	27.2%	5.0%
Operating profit growth	27.0%	70.4%	10.4%
Net profit growth	27.0%	55.4%	(9.7%)
EPS growth	27.0%	55.4%	(9.7%)
Share value			
EPS (VND)	2,390	3,714	3,354
BVPS (VND)	50,040	51,511	52,694
DPS (VND)	1,500	1,500	1,500

Source: VNDIRECT

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