

Equity Update | March 16, 2018

We attended PHR's 2018 Annual General Meeting with the following key points:

2017 strong performance. In 2017, PHR delivered a strong growth thanks to a surge in natural rubber (NR) price and rubber-tree liquidation. Revenue and net profit increased by 40% and 44% YoY, reaching at VND 1,654bn and VND 325bn, respectively. Gross profit margin remained high at 17.2%, up from 13.4% in 2016.

- **Rubber segment:** In 2017, exploitation and consumption volumes were 14,620 tons and 29,511 tons, respectively, decreasing slightly compared with 2016. However, thanks to a 31% increase in natural rubber price, rubber segment recorded a VND 1,192bn (+26% YoY) in revenue. In Cambodia, the newly-planted trees also contributed more 1,573 tons to total exploitation volume, with an average yield of 0.79 tons/ha.
- **Rubber-tree liquidation:** PHR liquidated total 1,040 ha with an average price of VND 300mn/ha. This price was two times higher than 2016 one.
- **Industrial segment:** Tan Binh IP JSC., (Binh Duong province) recorded a VND 49bn in revenue and VND 14.2bn in PBT with occupancy rate of 64%. The company plans to pay 5% cash dividend.
- **2017 dividend payment and capital raising:** PHR plans to pay 23% cash dividend and raise chartered capital through issuing new share to current shareholder with a 3:2 ratio stock in April or May, 2018. The company also plans to sell a 2.8 million treasury share before 2017 dividend payment through put-through transaction.

2018 target plan. In 2018, PHR sets a conservative plan. Particularly, revenue and net profit will achieve VND 1,931bn (+16.7% YoY) and VND 330bn (+1.5% YoY).

- **Rubber segment:** 2018 exploitation and consumption volumes will be at 13,000 tons and 28,000 tons. Rubber price will be at VND 37.01mn/tons. As the result, rubber segment's revenue will record a VND 1,036bn. The consumption volume from Cambodia will achieve at 4,800 tons.
- **Rubber-tree liquidation:** The company plans to liquidate 1,000 ha with an average price of VND 300mn/ha.
- **Industrial segment.** (1) **Tan Binh IP JSC., (Binh Duong province)** plans to expand further 1,000 ha in 2018. This project will bring more profitable for PHR due to rising FDI inflows to Binh Duong province in 2017-2018. (2) PHR will transfer 300 ha to **Nam Tan Uyen IP JSC., (NTC – Upcom)** in 2018 for the purpose of the expansion of NTU3 project. (3) The company expects to transfer 300 ha for **VSIP III (Vietnam Singapore Industrial Park 3)** in 2018 (total 691 ha). The company is waiting for the approval from Vietnam Rubber group. The non-recurring profits do not include in 2018's PHR target profit.
- **2018 dividend payment:** PHR plans to pay 20% cash dividend.

Valuation. We reiterate our **BUYING** rating for PHR with a 12-month target price of **VND 55,600** – a 13% potential upside before dividend yield, using a P/E method. We expect 2018F dividend to be VND 4,000, higher than planned cash dividend payment of VND 2,000 as PHR will enjoy strong cash flow without significant capital expenditure. The estimated dividend yield is c.8.13%, delivering total stock return of 21%.

Key investment risks. (1) A downside risk in natural rubber price, (2) Delay in booking non-core businesses' profit, and (3) Economy slowdown.

BUY– 21% Potential Upside

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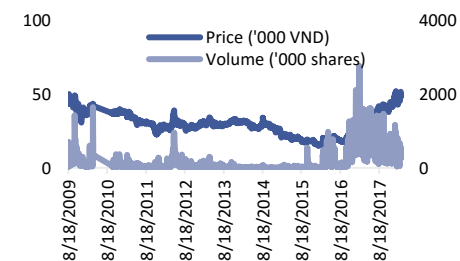
Target price
12-month price target: **VND 55,600**
Expected 12-month dividend: **VND 4,000**

Trading Data and Key Metrics

Ticker	PHR
Sector	Natural Rubber
Listed since	August, 2009
Price as of March 15 th , 2018	49,200
52-week range (VND'000)	23.6/52,000
Shares outstanding (mn)	81.3
Free Float (mn)	22.54
15-day average volume	312,496
2017 P/BV (x)	1.7
2017 P/E (x)	15.4
Dividend yield (%)	5
Debt to Equity (x)	0.4

Source: Bloomberg, TVS Research

Price Performance Chart



Source: Bloomberg, TVS Research

Company Description

Phuoc Hoa Rubber Jsc (PHR – HSX) is the top nationally planting and exploiting natural rubber which belongs to Vietnam Rubber Group. The company was established in 1982, in which, its main business is involved in exploiting rubber products and developing industrial parks. The company currently owns 15,277 ha rubber land, in which, 8,600 planted land and three factories with a total capacity of 27,000 tons/year. The main export markets are Japan, China, Taiwan, European countries and the US. Besides, PHR's key competitiveness lies in its large land bank. The company also has advantageous location in Southeast provinces of Vietnam which helps plant rubber trees as well as develop IP in Binh Duong province.

SUMMARY FINANCIALS

Earning Model (VNDbn)	2015A	2016A	2017A	2018F
Net sales	1,227	1,178	1,654	1,768
Cost of sales	1,058	1,018	1,370	1,461
Gross profit	169	161	284	307
Selling expenses	24	18	21	23
General administration expenses	67	61	81	87
Other operating income/(expenses)	73	77	179	588
EBITDA	124	127	233	221
Depreciation & Amortization	45	46	51	23
EBIT	79	81	182	197
Net interest income/(expenses)	38	56	24	14
Net investment income	40	24	26	29
Others (recurring)	105	101	179	588
Pretax Profit	261	262	412	828
Income tax	46	33	81	166
Tax rate (%)	19%	23%	21%	20%
Minorities	3	3	5	5
Net Income	212	225	325	657
EPS (basic, reported)	2,083	2,219	3,203	6,468
Weighted shares outstanding (mn)	81.3	81.3	81.3	81.3
Common dividends declared	20%	18%	23%	40%
DPS (VND)	2,000	1,800	2,300	4,000
Dividend Payout ratio (%)	96%	81%	72%	62%

Growth and Margin (%)				
Sales Growth (%)	-23.5	-4.0	40.4	6.9
EBITDA Growth (%)	-19.6	2.8	83.3	-5.3
EBIT Growth (%)	-48.8	-0.6	132.7	108.5
Net Income Growth (%)	-19.8	3.9	47.9	102.0
EPS Growth (%)	-19.8	3.9	47.9	102.0
Gross Margin (%)	13.8	13.4	17.2	17.4
EBITDA Margin (%)	10.1	10.8	14.1	12.5
EBIT Margin (%)	6.4	6.6	11.0	11.2
Net Income Margin (%)	17.5	18.9	20.0	37.2

Cash flow Statements (VNDbn)	2015A	2016A	2017A	2018F
Pretax profit	261	260	412	828
<i>Adjustments for:</i>	61	(114)	(178)	(125)
Depreciation and amortization	(9)	(9)	(15)	23
Change in inventories	(67)	29	81	(24)
Change in trade receivables	(29)	51	63	(24)
Change in trade payables	84	(17)	168	(44)
Other operating cash flow				
Cash flow from operations	244	265	549	787
Net Capital expenditure	44	(139)	(313)	(329)
Change in Financial investment	253	(368)	(17)	29
Divestures	4	5	6	0
Other investments, net	(313)	35	432	-
Cash flow from investing	(11)	(467)	108	(301)
Equity issued	-	-	-	-
Net borrowings	(134)	221	(134)	(64)
Dividends to shareholders	(164)	(141)	(142)	(68)
Cash flow from financing	(298)	80	(276)	(132)
Net cash flow	(64)	(122)	(53)	133
Opening cash	465	415	293	245
Closing cash	403	296	371	507

Balance Sheet (VNDbn)	2015A	2016A	2017A	2018F
Cash and equivalents	401	293	241	378
Financial investment	201	532	298	298
Accounts receivable	107	160	218	195
Inventory	148	177	258	234
Prepaid expenses, other CA	33	31	36	37
Total current assets	890	1,194	1,051	1,141
Net Property and equipment	2,047	2,204	2,347	2,304
Net intangibles	0	0	0	0
Total investment	212	249	501	529
Other long - term assets	77	161	346	363
Total Assets	3,226	3,808	4,246	4,338
Account Payables	301	288	467	424
Short-term debt	360	603	463	359
Total Current Liabilities	779	1,016	1,063	915
Long-term debt	254	232	239	199
Other long-term liabilities	74	317	582	612
Total long-term liabilities	329	549	821	811
Stockholders' equity	2,135	2,236	2,349	2,549
Common Equity	815	813	813	813
Treasury shares	(97)	(97)	(97)	(97)
Capital surplus				
Retained earnings	314	377	290	360
Budget sources and other funds	982	1,029	1,232	1,363
Minority interest	58	59	63	63
Total liabilities and equity	3,226	3,808	4,245	4,338

Ratios				
ROE (%)	9.8%	9.7%	13.7%	25.8%
ROA (%)	6.4%	6.2%	8.1%	15.3%
ROIC (%)	6.4%	16.1%	24.5%	6.7%
Inventory days	62.7	58.4	58.0	61.4
Receivable days	32.0	41.4	41.8	42.6
Payable days	89.3	105.5	100.6	111.3
Asset Turnover (x)	0.4	0.3	0.4	0.4
Debt/equity (x)	35.5%	44.2%	44.1%	68%

Valuation (Multiples)				
EV / EBITDA (x)	10.5	16.2	15.8	N/a
P/E (x)	7.6	11.4	13.5	7.6
Dividend Yield (%)	13%	7%	5%	8.1%
P/B (x)	0.6	0.9	1.7	1.6

Notes: CA = current assets; CL = current liabilities

Source: TVS model and forecast

Our model arrives fair value of VND 55,600 per share, 13% potential upside before dividend yield.

OUTLOOK and VALUATION

In 2018, we expect that PHR sell around 29,500 tons, of which 15,000 tons is outsourced, with an average yield of 1.9 tons/ha. Cambodia's exploitation volume will be at 4,560 tons with a yield of 0.9 tons/ha. The average rubber price is expected to be VND 38.4mn/ton, down 5% YoY. PHR will continue to liquidate 1,000 ha in 2018 with an average price of VND 330mn/ha. This bring a steady income for the company of VND 330bn in 2018. The company expects to liquidating around 1,000 ha/year in 2018-2020 due to old-tree profile and since 2021, the company will liquidate 650-750 ha/year.

The company are going to transfer land for the expansion purpose of Nam Tan Uyen Industrial Park and VSIP III in 2018-2019 period. The company, however, could delay to book this land transferring's profit. We expect that PHR will book **50%** of land transferring value from NTC with a worthy of VND 150bn in 2018 (total 300 ha and a price of VND1 bn/ha) and the remaining in 2019. Due to VSIP III, the company is waiting for the Vietnam Rubber Group's approval. We expect approval will be final in early 1H2018.

In terms of NTC's divestment, Vietnam Rubber Group announced this deal will occur in 2018-2019. According to NTC's stock price, we expect that PHR's profit from this divestment will be around VND 350-370bn.

In 2018, we project that PHR's revenue and profit after tax will reach VND 1,768bn (+6.9% YoY) and VND 657bn (+102% YoY), respectively. This translates into an EPS of VND 6,468. 2018 P/E forward will be 7.6x, lower than the average P/E of 8.6x in domestic natural rubber sector. In addition, with strong cash flow, we expect the company could rise its cash dividend payment to 35-40% in 2018 instead of 20% as per management's guide.

ANALYST CERTIFICATION

I, **My Tran**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

RATING and VIEWS

Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

RATING HISTORY and TARGET PRICE

Issued Date	Research	Recommendation	Market Price (VND)	01-year target price (VND)
January 3, 2018	Update	BUY	49,200	55,600
September 29, 2017	Initiation	BUY	41,000	51,800

DISCLAIMER

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