

Phuoc Hoa Rubber JSC., company posted strong FY2018 performance amid falling rubber prices:

2018 Business Performance Review. Despite a fall in rubber price, PHR continued to deliver a strong growth thank to rising wood price, increasing rubber-tree liquidation area and land transfer value. In FY2018, revenue and net profit achieved VND 1,721bn and VND 519bn, exceeding 9% and 45% target plan, respectively. The average natural rubber price remained low, at VND 32.9 million per ton in 2018, decreasing by 18% YoY.

- Rubber segment:** In 2018, total exploitation and consumption volumes were 13,110 tons (-10% YoY) and 31,614 tons (+7% YoY). Natural rubber prices has suffered in 2018 when US-China trade war has deteriorated Chinese auto car sales which tied with rubber demand. Meanwhile, rubber exploitation volume decreased rapidly due to shortage of labor when the local employees moved to surrounding industrial parks. PHR had to increase the trading volume in order to offset the decrease in exploitation volume as well as utilizing its production line capacity. Although rubber price has recovered since late-2018, long-term rubber price movement is forecasted be shadowed by the Chinese tire industry demand and global trade war.

Rubber-tree liquidation: PHR liquidated total 1,291 ha with an average price of VND 324mn/ha. This price has remained high in all year, contributing a significant portion to the company's total income. This segment benefits from the natural forest closure in Vietnam and China in 2016-2017 which has increased the demand of wood.

- Industrial segment:** The robust growth in economy and FDI flow supported PHR's industrial park segment. In 2018, Tan Binh IP JSC., (Binh Duong province) recorded VND 152bn (+196%YoY) in revenue and VND 64bn (+365% YoY) in profit-after-tax respectively with occupancy rate of 78.5%. Meanwhile, Nam Tan Uyen Industrial Park JSC., (NTC-UpCOM) also delivered the best performance in 2018, with VND 532bn (+264% YoY) in revenue and VND 470bn (+230% YoY) in net profit.

- Stable cash dividend from Nam Tan Uyen Industrial Park JSC., (NTC-UpCOM):** In 2018, PHR received cash dividend from NTC for 2017-2018 earnings with total 160% cash dividend, equivalent to VND 80bn.

2019 earnings outlook. Amid a low rubber price, PHR sets 2019 plan with around VND 1,600bn in revenue and VND 1,300bn in profit before tax. Land transfer and rubber wood liquidation play key growth driver. The company plans to liquidate ~ 1,000ha rubber wood and transfer ~ 650ha land for industrial parks development. As rubber price remains low, rubber segment is expected to contribute a marginal portion for the company's total income. In 2019, rubber exploitation and rubber consumption volume will amount 11,500 tons and 26,500 tons, respectively. We expect PHR's revenue and net profit will achieve VND 1,562bn (+0% YoY) and VND 1,287bn (+107% YoY) in 2019.

Valuation. We reiterate our **BUYING** rating for PHR with a 12-month target price of **VND 48,900** – a 22% potential upside before dividend yield, using a P/E and DDM methods. We expect 2019F dividend to be VND 4,000 as PHR will enjoy strong cash flow without significant capital expenditure. The estimated dividend yield is c.10%, delivering total stock return of 32%.

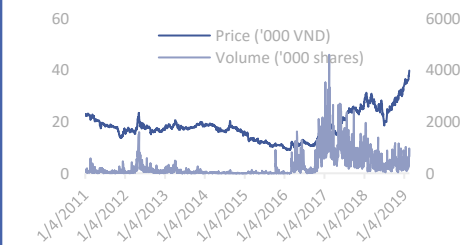
Key investment risks. (1) Trade war and a slowdown of Chinese tire industry, (2) Delay in booking non-core businesses' profit, and (3) Economy slowdown.

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Target price12-month price target: **VND 48,900**Expected 12-month dividend: **VND 4,000****Trading Data and Key Metrics**

Ticker	PHR
Sector	Natural Rubber
Listed since	August, 2009
Price as of Feb 20 th , 2019	39,900
52-week range (VND'000)	25.5 /39.9
Shares outstanding (mn)	135.5
Free Float (mn)	33.9
15-day average volume	350,112
2018 P/BV (x)	2.1
2018 P/E (x)	10.9
Dividend yield (%)	6
Debt to Equity (x)	0.3

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)	2016A	2017A	2018A	2019F
Net sales	1,178	1,654	1,558	1,562
Cost of sales	1,018	1,370	1,302	1,310
Gross profit	161	284	256	253
Selling expenses	18	21	25	23
General administration expenses	61	81	79	78
EBITDA	127	233	224	178
Depreciation & Amortization	46	51	71	26
EBIT	81	182	153	151
Net interest income/(expenses)	56	24	124	110
Net investment income	24	26	70	76
Others (recurring)	101	179	413	1,293
Pretax Profit	262	412	760	1,629
Income tax	33	81	123	326
Tax rate (%)	23%	21%	16%	20%
Minorities	3	5	15	16
Net Income	225	325	622	1,287
EPS (basic, reported)	2,219	3,203	3,670	7,599
Weighted shares outstanding (mn)	81.3	81.3	137.6	137.6
Common dividends declared	18%	23%	20%	25%
DPS (VND)	1,800	2,300	2,000	2,500
Dividend Payout ratio (%)	90%	56%	63%	26%

Growth and Margin (%)				
Sales Growth (%)	(4.0)	40.4	(5.8)	0.3
EBITDA Growth (%)	2.8	83.3	(4.0)	(20.5)
EBIT Growth (%)	2.5	125.6	(16.0)	(1.1)
Net Income Growth (%)	6.5	44.3	91.0	107.0
EPS Growth (%)	6.5	44.3	91.0	107.0
Gross Margin (%)	13.6	17.2	16.4	16.2
EBITDA Margin (%)	10.8	14.1	14.4	11.4
EBIT Margin (%)	6.8	11.0	9.8	9.7
Net Income Margin (%)	19.1	19.7	39.9	82.4

Cash flow Statements (VNDbn)	2016A	2017A	2018A	2019F
Pretax profit	260	412	760	1,629
<i>Adjustments for:</i>	(114)	(178)	(540)	(225)
Depreciation and amortization	(9)	(15)	(14)	26
Change in inventories	(29)	(81)	(37)	52
Change in trade receivables	(53)	(58)	(79)	125
Change in trade payables	(17)	168	33	(97)
Other operating cash flow	2	(5)	(29)	(3)
Cash flow from operations	265	115	392	1,192
Net Capital expenditure	(139)	(313)	(303)	(312)
Change in Financial investment	(368)	(17)	(451)	76
Divestures	5	6	7	-
Other investments, net	5	6	7	-
Cash flow from investing	(467)	108	(2)	(236)
Equity issued	-	-	639	-
Net borrowings	221	(134)	(197)	(0)
Dividends to shareholders	(141)	(142)	(709)	(295)
Cash flow from financing	80	(276)	(268)	(295)
Net cash flow	415	293	241	368
Opening cash	(122)	(53)	122	660
Closing cash	296	245	368	1,028

Balance Sheet (VNDbn)	2016A	2017A	2018A	2019F
Cash and equivalents	293	241	362	1,028
Financial investment	532	298	344	318
Accounts receivable	160	218	297	172
Inventory	177	258	295	243
Prepaid expenses, other CA	31	36	64	67
Total current assets	1,194	1,051	1,363	1,828
Net Property and equipment	2,204	2,347	2,421	2,374
Net intangibles	0	0	0	0
Total investment	249	501	905	981
Other long - term assets	161	346	347	347
Total Assets	3,808	4,245	5,036	5,531
Account Payables	288	467	527	431
Short-term debt	603	463	127	127
Total Current Liabilities	1,016	1,063	798	701
Long-term debt	232	239	377	377
Other long-term liabilities	317	582	1,235	1,296
Total long-term liabilities	549	821	1,612	1,674
Stockholders' equity	2,236	2,349	2,605	3,085
Common Equity	813	813	1,376	1,376
Treasury shares	(97)	(97)	0	0
Capital surplus				
Retained earnings	377	290	304	526
Budget sources and other funds	1,029	1,232	795	1,052
Minority interest	59	63	71	71
Total liabilities and equity	2,236	2,349	2,605	3,085

Ratios				
ROE (%)	9.7%	13.7%	23.8%	41.7%
ROA (%)	2.9%	6.0%	4.1%	3.1%
ROIC (%)	16.1%	24.5%	12.3%	4.9%
Inventory days	58.4	58.0	77.5	74.9
Receivable days	41.4	41.8	60.4	54.8
Payable days	105.5	100.6	139.4	133.5
Asset Turnover (x)	0.3	0.4	0.3	0.3
Debt/equity (%)	44.2%	44.1%	29.8%	77%

Valuation (Multiples)				
EV / EBITDA (x)	16.2	15.8	19.4	N/a
P/E (x)	11.4	13.5	9.1	5.3
Dividend Yield (%)	7%	5%	6%	10%
P/B (x)	0.9	1.5	1.7	1.8

Notes: CA = current assets; CL = current liabilities
Source: TVS model and forecast

Our model arrives fair value of VND 48,900 per share, 22% potential upside before dividend yield.

2019 OUTLOOK and VALUATION

In 2019, we expect that PHR will sell around 26,500 tons of rubber, of which 15,000 tons are outsourced, with an average yield of 1.9 tons/ha. Regarding Cambodia's subsidiary, the company expects to exploit 6,000 tons with an average yield of 0.9 tons per hectare. The average rubber price is projected to increase slightly by 5%, around VND 34.6mn/ton. The upside catalyst for rubber price remains as the effect of trade war is fading out. We believe, however, sliding Chinese car sales becomes a risky factor for global rubber price in 2019.

Due to old tree profile, the company is expected to liquidate 1,000 ha of rubber land in 2019 for replanting and transferring with an average price of VND 300-350 mn/ha. The rubber wood will catch up the increase in Vietnam furniture industry because of natural forest closure.

As rising land demand for industrial park development, PHR plans to transfer land to Tan Binh Industrial Park (phase II with 1,055 ha), Nam Tan Uyen industrial Park (NTU3 with 350 ha) and VSIP III (with 691 ha). The land compensation price is currently at VND 1.5-2 bn/ha and continues to rise. In 2019, PHR expects to book VND 525bn land transferring value from NTU3 and VND 518bn from VSIP III (50% of total value, the remaining will be booked in 2020). The strong income stream from non con-core business will help PHR keep its strong performance in 2019-2020.

In recent 3 years, PHR also receive a significant cash dividend from NTC (32.85% of share, NTC-UpCOM), at 50-100% per year. In coming years, thanks to a strong business performance and huge cash flow, NTC expects to be able pay 50% cash dividend per year. So PHR could receive an ample income stream in coming years. Furthermore, NTC could be considered as an unhidden asset of PHR. PHR and VRG have agreed to divest PHR-owned NTC. With the investment cost ranges around VND 56-59bn, PHR could gain around VND 400-460 bn. This divestment is expected to occur in 2019-2020 after VRG's approval.

In 2019, we project that PHR's revenue and profit after tax will reach VND 1,562bn (+0% YoY) and VND 1,287bn (+107% YoY), respectively. This translates into an EPS of VND 7,600. 2019 P/E forward will be 5.3x, lower than the average P/E of 8x in rubber sector. In addition, with a strong cash flow from rubber wood liquidation and land transfer without large capex, we expect the company could pay 40% cash dividend in 2019-2020, implying c.10% of dividend yield.

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)
February 20,2019	Update	BUY	39,900	48,900
January 3, 2018	Update	BUY	49,200	55,600
September 29, 2017	Initiation	BUY	41,000	51,800

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