

27 Jul 2023

Vietnam Rubber (GVR)

Earnings erosion is foreseen

2Q23 interest income was in the spotlight

- Vietnam Rubber Group released the 2Q23 on Jul 26, featuring a VND4,272.6bn revenue (-23.2 yoy, +3.3% qoq) and a VND717.3bn NPAT (-39.1% yoy, -5.1% qoq).
- The total revenue reduction arose from all-around growth decrease:
 - + its cored rubber cultivation revenue slid VND3,129.4bn, -15.4% yoy, +7.3% qoq in the backdrop of decreasing rubber price.
 - + wood processing business retreated sharply to VND544.3bn, -55.9% yoy, -2.2% qoq amid the shortage of order demand.
 - + The utility trading segment plunged steeply to VND128.9bn, -34.6% yoy, -12.7% qoq.
 - + The industrial park operation lost the growth momentum with VND138.2bn, -20.7% yoy
- The blended gross margin (GM) contracted by -3.7%p yoy, -1.6%p qoq to 22.7% owing to a 3.7%p yoy GM narrow of the rubber cultivation segment which was hit by the price drop of rubber and -16.5%p yoy GM contraction of wood processing. Hence, gross profit shrank by 34.1 yoy to VND969.1bn in 2Q23.
- Higher SGA to sale expense due to costlier transportation cost squeezed the operating profit to VND461.3bn, -51.1% yoy.
- The interest income gained the spotlight with VND268.5bn (+61.4% yoy, +38.5% qoq) thanks to huge cash balance pushing the financial income up by 19.2% yoy to total VND284.6bn in 2Q23.
- Net other income fared well to VND295.7bn, -6.5% yoy, -12% qoq.
- Healthy balance sheet sustained with a net cash of VND8.3tn, 10.9% of total asset as of end-2Q23.

Adjusting the guidance down is envisaged

- 1H23 revenue went down to VND8.4tn, -19.6% yoy while the NPAT dipped to VND1.4tn, -40.9% yoy. The company fulfilled 37.9% of full-year PBT guidance with VND1,841.1bn in 1H23.

	2018A	2019A	2020A	2021A	2022A
Sales (VND bn)	19,713.3	19,804.0	21,116.3	26,189.6	25,315.2
chg. (% YoY)	(1.7)	0.5	6.6	24.0	(3.3)
Operating profit (VND bn)	2,078.7	2,564.6	2,382.2	5,386.2	3,870.1
Net profit (VND bn)	2,595.6	3,250.2	3,770.7	4,158.2	3,818.9
EPS (VND)	647.0	813.0	943.0	1,040.0	955.0
chg. (% YoY)	(49.1)	25.7	16.0	10.3	(8.2)
EBITDA (VND bn)	3,747.3	4,378.8	4,448.7	7,689.7	6,446.8
PE (x)	33.3	26.6	22.9	20.8	22.5
EV/EBITDA (x)	25.3	20.8	20.9	11.7	13.9
PB (x)	1.9	1.9	1.8	1.8	1.8
ROE (%)	5.9	7.1	8.0	8.7	7.9
Dividend yield (%)	1.2	2.8	2.8	1.9	0.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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12M rating **Non-rated**

12M TP
Up/Downside

Stock Data

VNIndex (27 Jul, pt)	1,197
Stock price (27 Jul, VND)	21,700
Market cap (USD mn)	3,668
Shares outstanding (mn)	4,000
52-Week high/low (VND)	25,957/10,000
6M avg. daily turnover (USD mn)	2.04
Free float / Foreign ownership (%)	3.2/ 6
Major shareholders (%)	
SCIC	96.77
Incontec	0.62

Performance

	1M	6M	12M
Absolute (%)	10.7	28.8	(3.6)
Relative to VNIndex (%p)	5.1	20.8	(5.5)

Stock price trend



Source: Bloomberg

Research Dept

researchdept@kisvn.vn

- The revenue slump is seen widely across the industries: rubber cultivation (VND6,045bn revenue, -9.7% yoy); valued-added rubber products (VND186.6bn, -59.8% yoy); wood processing (VND1,100.8bn, -49.9% yoy),
- Blended gross margin inched down by 4.6%p yoy to 23.5% in 1H23.
- Associate income decelerated to -VND2.6bn in 1H23, vs VND122.6bn in 1H22.
- We stay skeptical about the company's capacity to beat its PBT guidance given no signal of demand revival in the rubber cultivation segment. The Chinese demand resumption could trigger hope of the rubber trading price but we do not think GVR could benefit the most since GVR mostly exports to other countries.
- GVR is trading at 11.2x TTM PE, and 13.7x 12MF PE, which is not cheap if compared with the 12MF PE of VNINDEX at 9-10x.

Table 1. Earnings summary

(VND bn, %, % p)

	2021				2022P				2023		2Q23		Consensus (BB)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q23	2Q23	QoQ	YoY	
Net sales	4,849.7	5,693.9	6,151.0	9,495.0	4,893.5	5,561.8	5,847.2	9,012.7	4,135.3	4,272.6	3.3	(23.2)	N.A
Rubber cultivation	2,719.0	3,225.4	4,345.9	7,442.3	2,995.4	3,699.0	3,846.7	6,710.2	2,915.7	3,129.4	7.3	(15.4)	
Value-added rubber products	800.9	886.2	537.3	123.3	475.5	(11.5)	363.4	644.9	92.9	93.7	0.9	(914.8)	
Wood processing	882.4	1,085.0	631.7	995.5	964.4	1,234.9	898.1	898.7	556.5	544.3	(2.2)	(55.9)	
Industrial park operation	141.5	121.4	294.4	209.4	138.0	174.3	264.0	240.3	139.7	138.2	(1.1)	(20.7)	
Industrial park service	37.5	42.0	20.8	-0.5	19.4	28.7	30.1	19.4	5.9	13.1	122.0	(54.4)	
Utility trading	129.8	102.2	121.9	205.7	134.0	197.0	169.0	227.0	147.6	128.9	(12.7)	(34.6)	
Other	138.6	231.7	199.0	519.3	166.8	239.4	275.9	272.2	277.0	225.0	(18.8)	(6.0)	
Gross profit	1,396.2	1,647.2	2,089.3	2,442.6	1,470.2	1,470.9	1,580.5	1,688.0	1,005.9	969.1	(3.7)	(34.1)	N.A
Gross margin	28.8	28.9	34.0	25.7	30.0	26.4	27.0	18.7	24.3	22.7	(1.6)	(3.7)	
SG&A	403.9	679.4	537.6	568.2	458.7	528.5	577.1	775.2	471.2	507.8	7.8	(3.9)	
Operating profit	992.3	967.8	1,551.7	1,874.4	1,011.5	942.4	1,003.4	912.8	534.7	461.3	(13.7)	(51.1)	
Associate's income	114.8	85.6	30.2	54.9	52.8	69.8	47.5	128.6	(11.1)	8.5	(176.6)	(87.8)	
Financial income	186.5	186.3	175.5	282.6	178.2	238.7	231.8	267.5	231.1	284.6	23.2	19.2	
Interest income	156.1	171.9	156.3	185.2	139.7	166.4	166.7	190.5	193.8	268.5	38.5	61.4	
Financial expense	46.9	251.5	176.0	244.7	145.3	169.1	153.5	231.0	142.9	156.9	9.8	(7.2)	
Interest expense	147.1	138.0	147.1	150.0	145.3	114.2	125.8	135.2	121.1	121.5	0.3	6.4	
Net other income	57.4	276.3	88.7	7.1	402.0	316.1	51.5	581.5	336.1	295.7	(12.0)	(6.5)	
EBT	1,304.0	1,264.5	1,670.0	1,974.4	1,499.3	1,397.8	1,180.7	1,659.5	947.9	893.2	(5.8)	(36.1)	
Net profit	1,216.2	1,066.0	1,533.5	1,524.3	1,315.6	1,177.6	993.9	1,310.9	755.7	717.3	(5.1)	(39.1)	
NP of controlling interest	817.9	759.9	1,240.5	1,339.9	1,055.1	1,017.1	835.1	911.6	549.8	554.3	0.8	(45.5)	N.A
EBITDA	1,539.5	1,515.8	2,179.9	2,416.9	1,636.6	1,511.5	1,617.0	1,511.0	1,102.7	1,029.3	(6.7)	(31.9)	
EBITDA margin	31.7	26.6	35.4	25.5	33.4	27.2	27.7	16.8	26.7	24.1	(2.6)	(3.1)	
OP margin	20.5	17.0	25.2	19.7	20.7	16.9	17.2	39.5	40.5	41.5	1.0	24.6	

Source: Company data, KIS

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