

## DONG PHU RUBBER JOINT-STOCK COMPANY (DPR)

Pham Dang Manh Hong Lan  
Email: [lan.phamdangmanh@tls.vn](mailto:lan.phamdangmanh@tls.vn)

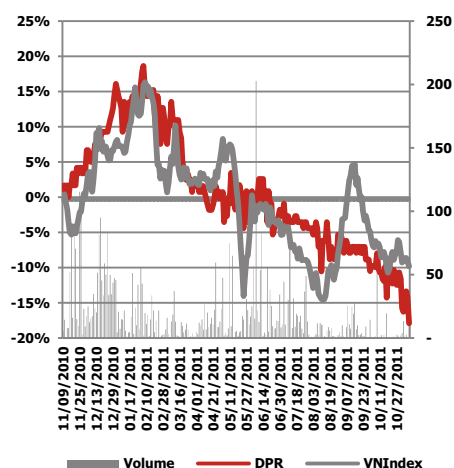
Ticker: **DPR**- Exchange: **HSX**  
Analyst's opinion: **BUY**  
Target Price: **VND 58,235**

### STOCK STATISTICS

Price as of 09/11/2011: VND 45,500  
Sector: Natural rubber  
Business Model: Planting rubber trees & producing natural rubber latex  
Listed since: Nov 30 2011  
Outstanding Shares: 43 mn  
Floating Shares: 19 mn  
Market Cap (VNDbn): 1,956.5  
52 Week High (VND): 69,500  
52 Week Low (VND): 45,500  
10 Day Average Volume: 111,810  
% Price Change 1 Month: -10.8%  
% Price Change 3 month: -11.7%  
% Price Change 6 month: -15.6%  
% Price Change 12 month: -17.9%  
% Foreign Ownership: 35.1%  
% Foreign Ownership Limit: 49%

Source: **TLS**

### DPR vs. VNIIndex



Source: **TLS**

### FINANCIAL RATIO (VND Billion)

	2009	2010	2011E
Assets	1,246	1,676	2,304
Equity	885	1,255	1,701
Net sales	648	1,028	1,541
EBIT	221	420	586
EAT	211	395	576
EPS (VND)	5,269	9,165	13,389
Cash dividend	2,000	3,000	3,000
P/E (x)	11.01	7.41	3.40
P/B (x)	2.62	2.33	1.17
Sales growth	-11%	59%	50%
EPS growth	-10%	74%	46%
Gross margin	36.01%	45.03%	42.56%
Net margin	32.51%	38.36%	37.35%
ROE	18.40%	27.00%	28.93%
ROA	26.87%	36.88%	38.95%

Source: **DPR & TLS**

We initiate coverage on Dong Phu Rubber JSC (DPR) with a **BUY** rating. Based on P/B method, target price in Dec 2012 would be about VND 58,235, implying 28% potential upside.

### OVERVIEW

Dong Phu Rubber JSC (DPR: HSX) has chartered capital of VND 430 billion, surplus equity of VND 147.27 billion and shareholder equity of VND 1,652.04 billion on September 30, 2011. The company business lines include (1) planting rubber trees and producing natural rubber latex; (2) lending industrial and residential areas; (3) producing natural rubber latex mattress and cushion. In 2010, the company reported net revenue of VND 1,028.42 billion and after-tax profit of VND 394.51 billion.

### INVESTMENT HIGHLIGHTS

**High natural rubber prices boost Sales growth.** High natural rubber prices are the main factor contributing to the growth of Sales, as production volume will be almost unchanged. By using the correlation between natural rubber prices and crude oil price, we expects that average price in USD of Vietnam SVR natural rubber will rise approximately 42% in 2011 and decrease by 2% in 2012 before increasing by 3.1% in 2013.

By analyzing demand and supply, we also believe that rubber prices will probably remain over US\$ 4,000 per ton. As there are a decrease in Supply and an increase in Demand, natural rubber price will keep increasing.

- **Decrease in supply** is coming from the increase in input prices, such as labor cost, fertilizers prices, etc.
- **Increase in demand** is coming from: 1. an increase in income per capita in BRIC countries, especially China; 2. an increase in automobile sales and production in China; 3. the worldwide trend of using radial tires; 4. an increase in synthetic rubber price; 5. the fact that tire industry is less dependent on automotive industry. .

**High profitability comes together with strong cash generation.** In spite of its low growth rate of revenue from 2004 to 2010, DPR had the highest growth rate of net profit, which came from high profit margin and products originated from rubber of outside smallholding accounted for a small proportion of the output. DPR had not only got a high profit margin but also achieved high ROA and ROE. Moreover, its business model results in high cash generation ability helping them to broaden business without using bank loans.

### VALUATION

BVPS is expected to be about VND 49,172 in 2012 and P/B target varies from 1 to 1.87. Thus, DPR's price target in Dec 2012 would be about **VND 49,172 – 92,029**. **Price target of our base case is VND 58,235** at the P/B target of 1.18, which is the minimum of DPR's trailing P/B since the beginning of year 2011. This price target implies 28% upside potential from the current price level. We recommend investors to **BUY**.

### MAIN RISKS

**Macroeconomic condition is in unstable.** Since there is a highly positive correlation between natural rubber price and oil price, global economic recession may cause a decrease in oil price and therefore this result in a decrease in rubber price. There are currently many concerns about global economy.

**Vietnam natural rubber latex has low brand name but may bear a high export tax rate.** Vietnamese products are often considered to have lower quality than that of Thai, Indonesian and Malaysian so the prices are 5-7% lower.

**Downward risk of price-driven revenues is increasing.** As revenues and selling prices followed a similar pattern, growth of price-driven revenues gets increasingly downward risk when natural rubber price increased much since January 2009.

**DPR's sales are highly dependent on China and Korea natural rubber demand.** The biggest export market of DPR is Korea not China. Korea accounts for 44,1% of DPR's export value. Although China accounts for only 14.5% of DPR's export value, DPR's management estimates that 30% of its sales volumes is exported to China.

**DPR has high production cost.** Since DPR's labor cost is a function of natural rubber price, it is higher than fixed labor cost of other companies.

**Risks from other business segment – industrial park, natural rubber latex mattress.** Because of poor performance of these business segments, these can be DPR's waste of capital.

## FINANCIAL SUMMARY

Earning Model	2010	2011E	2012F	2013F	Balance Sheet	2010	2011E	2012F	2013F
<b>Net sales</b>	<b>1,028</b>	<b>1,541</b>	<b>1,557</b>	<b>1,597</b>	<b>Current Assets</b>	<b>748</b>	<b>1,041</b>	<b>1,439</b>	<b>1,891</b>
Cost of goods sold	(565)	(885)	(931)	(942)	Cash and cash equivalents	508	695	1,083	1,530
<b>Gross profit</b>	<b>463</b>	<b>656</b>	<b>626</b>	<b>655</b>	Financial investment	40	40	40	40
<i>Gross profit margin</i>	45%	43%	40%	41%	Accounts receivable	79	118	119	122
Selling expenses	(12)	(18)	(19)	(19)	Inventory	99	155	163	165
General administration expenses	(74)	(77)	(78)	(80)	Prepaid expenses, other CA	22	33	33	34
Other operating income	65	36	54	54	<b>Long-term Assets</b>	<b>928</b>	<b>1,262</b>	<b>1,306</b>	<b>1,349</b>
Other operating expenses	(32)	(10)	(15)	(15)	Property and equipment				
Exchange Gain/Loss	13	-	-	-	• At cost	608	628	678	713
Others	-	-	-	-	• Less accumulated depreciation	(241)	(250)	(254)	(259)
<b>Operating profit</b>	<b>423</b>	<b>586</b>	<b>568</b>	<b>595</b>	• Net property and equipment	367	378	424	453
Financial investment income	1	-	-	-	Construction in progress	234	311	309	322
Financial investment expense	(4)	-	-	-	Long-term financial investments	327	573	573	573
<b>EBIT</b>	<b>420</b>	<b>586</b>	<b>568</b>	<b>595</b>	Other long - term assets	0	0	0	0
Interest income	23	55	70	97	<b>Total Assets</b>	<b>1,676</b>	<b>2,304</b>	<b>2,745</b>	<b>3,240</b>
Interest expense	(9)	(5)	(2)	(2)	<b>Current Liabilities</b>	<b>367</b>	<b>548</b>	<b>554</b>	<b>568</b>
<b>Share of Losses/Profit in associates</b>	<b>(0)</b>	-	-	-	Financial debts	5	5	5	5
<b>Earnings before tax</b>	<b>433</b>	<b>637</b>	<b>636</b>	<b>690</b>	Trade payables	3	5	5	5
Income tax	(39)	(61)	(66)	(75)	Other liabilities	359	538	543	557
<b>Profit after taxes</b>	<b>395</b>	<b>576</b>	<b>569</b>	<b>615</b>	<b>Long-term debt</b>	<b>54</b>	<b>54</b>	<b>49</b>	<b>44</b>
Minority interest	(0)	-	-	-	<b>Stockholders' equity</b>	<b>1,255</b>	<b>1,701</b>	<b>2,142</b>	<b>2,628</b>
<b>Net profit attributed to Equity Holders</b>	<b>394</b>	<b>576</b>	<b>569</b>	<b>615</b>	Common stock	430	430	430	430
Weighted average shares (m)	43,000	43,000	43,000	43,000	Investment, development funds	320	499	543	592
Year end shares (m)	43,000	43,000	43,000	43,000	Retained earnings	330	511	879	1,286
Earnings per share (VND)	9,165	13,389	13,240	14,304	Share capital surplus	147	147	147	147
Common stock dividend (VND)	3,000	3,000	3,000	3,000	Treasury Stock	-	-	-	-
<i>Payout ratio (common stock)</i>	<i>32.73%</i>	<i>22.41%</i>	<i>22.66%</i>	<i>20.97%</i>	Budget sources and other funds	-	86	115	146
					<b>Minority interest</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>
					<b>Total liabilities and equity</b>	<b>1,676</b>	<b>2,304</b>	<b>2,745</b>	<b>3,240</b>
<b>CashFlow Statements</b>	<b>2010</b>	<b>2011E</b>	<b>2012F</b>	<b>2013F</b>	<b>Growth and Margin (%)</b>	<b>2010</b>	<b>2011E</b>	<b>2012F</b>	<b>2013F</b>
Net profit	395	576	569	615	<b>Sales growth</b>	<b>59%</b>	<b>50%</b>	<b>1%</b>	<b>3%</b>
Adjustments for:	-	-	-	-	<b>EBITDA growth</b>	<b>78%</b>	<b>34%</b>	<b>-4%</b>	<b>5%</b>
Depreciation and amortisation	23	9	4	6	<b>EBIT growth</b>	<b>90%</b>	<b>40%</b>	<b>-3%</b>	<b>5%</b>
Change in inventories	(61)	(56)	(8)	(2)	<b>Net Income Growth</b>	<b>87%</b>	<b>46%</b>	<b>-1%</b>	<b>8%</b>
Change in trade receivables	(36)	(50)	(2)	(4)	<b>EPS growth</b>	<b>74%</b>	<b>46%</b>	<b>-1%</b>	<b>8%</b>
Change in trade payables	193	181	6	14	<b>Gross Margin</b>	<b>45%</b>	<b>43%</b>	<b>40%</b>	<b>41%</b>
Others	(54)	-	-	-	<b>EBITDA margin</b>	<b>43%</b>	<b>39%</b>	<b>37%</b>	<b>38%</b>
<b>Cash flow from operations</b>	<b>461</b>	<b>660</b>	<b>570</b>	<b>629</b>	<b>EBIT margin</b>	<b>41%</b>	<b>38%</b>	<b>36%</b>	<b>37%</b>
Change in tangible fixed assets	(58)	(96)	(48)	(48)					
Change in intangible fixed assets	(29)	-	-	-	<b>Ratios</b>	<b>2010</b>	<b>2011E</b>	<b>2012F</b>	<b>2013F</b>
Change in long term investments	(74)	(247)	-	-	<b>ROE</b>	<b>37%</b>	<b>39%</b>	<b>30%</b>	<b>26%</b>
Others	(11)	-	-	-	<b>ROA</b>	<b>27%</b>	<b>29%</b>	<b>23%</b>	<b>21%</b>
<b>Cashflow from investments</b>	<b>(172)</b>	<b>(343)</b>	<b>(48)</b>	<b>(48)</b>	<b>Inventory days</b>	<b>64</b>	<b>64</b>	<b>64</b>	<b>64</b>
Equity issued	211	-	-	-	<b>Receivable days</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>
Change in other funds	(19)	-	-	-	<b>Payable days</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Change in financial debts	(156)	-	-	-	<b>Net debt/equity</b>	<b>-36%</b>	<b>-37%</b>	<b>-48%</b>	<b>-56%</b>
Change in long term liabilities	23	-	(5)	(5)	<b>Interest cover - EBIT(x)</b>	<b>47.2</b>	<b>126.7</b>	<b>245.5</b>	<b>280.7</b>
Dividends to shareholders	(109)	(129)	(129)	(129)					
<b>Cash flow from financing</b>	<b>(51)</b>	<b>(129)</b>	<b>(134)</b>	<b>(134)</b>	<b>Valuation (Multiples)</b>	<b>2010</b>	<b>2011E</b>	<b>2012F</b>	<b>2013F</b>
<b>Net cash flow</b>	<b>237</b>	<b>188</b>	<b>388</b>	<b>447</b>	<b>PE</b>	7.41	3.40	3.44	3.18
Opening cash	279	508	695	1,083	<b>PB</b>	2.33	1.17	0.93	0.75
Effect of changes in exchange rate on cash	(8)	-	-	-	<b>Dividend Yield</b>	4.4%	4.4%	4.4%	4.4%
<b>Closing cash</b>	<b>508</b>	<b>695</b>	<b>1,083</b>	<b>1,530</b>					
<b>Projected Free Cash Flow</b>									
Profit after Taxes	395	576	569	615					
Add back depreciation	23	9	4	6					
(-) increase in CA, except cash	(97)	(106)	(10)	(6)					
(+) increase in CL	38	181	6	14					
(-) increase in PEaC	(7)	(20)	(50)	(35)					
<b>Free Cash Flow</b>	<b>351</b>	<b>640</b>	<b>520</b>	<b>594</b>					

Notes: CA = current assets; CL = current liabilities; PEaC = Property and Equipment at Cost

Source: DPR & TLS's forecast

## 9M 2011 RESULTS

Exhibit 1: 9M 2011 Results						
VND billion	3Q11	%Y/Y	%Q/Q	9M11	%Y/Y	Notes
<b>Net Sales</b>	<b>626.16</b>	<b>72.15%</b>	<b>194.16%</b>	<b>1,280.56</b>	<b>90.38%</b>	
• Rubber latex	<b>625.80</b>	<b>75.20%</b>	<b>194.60%</b>	<b>1,279.76</b>	<b>99.63%</b>	- Sales in Q3 2011 accounted for half Sales in 9M2011. - Growth in ASP and selling volume resulted in significant growth in sales.
– Volume	6,483.93	7.91%	216.60%	13,066	16.39%	- In comparison with 9M10, higher volume of 9M11 came from higher beginning inventory volume and yield. - Most sales volumes were of Q3 11.
– ASP	96.52	62.36%	-6.95%	97.95	71.52%	- There is significant increase in 9M11.
• Others	<b>0.36</b>	<b>-94.53%</b>	<b>-18.86%</b>	<b>0.80</b>	<b>-97.47%</b>	- In 2011, they are from Bac Dong Phu Industrial Park. In 2010, they were from liquidation of old rubber trees, which have been recorded in <b>Other operating income</b> since Q4 2010.
<b>COGS</b>	<b>401.02</b>	<b>88.48%</b>	<b>290.44%</b>	<b>778.80</b>	<b>96.49%</b>	
<b>Gross profit</b>	<b>225.14</b>	<b>49.14%</b>	<b>104.39%</b>	<b>501.76</b>	<b>81.61%</b>	<b>Higher gross profit margin came from:</b> - <b>Low COGS of year-beginning inventory volume, which was sold in Q1 2011.</b> - <b>Rubber price grew faster than costs except labor cost.</b>
Selling expenses	4.35	20.92%	125.98%	9.50	31.40%	
G&A expenses	15.72	-29.30%	59.39%	39.92	-15.46%	
Other operating income	40.75	472.62%	110.77%	67.77	518.61%	- In 9M2011, company liquidated 192 hectares of old rubber plant area. The revenue and profit were VND 50 billion and VND 29.68 billion, respectively.
Other operating expense	4.56	20.25%	30.17%	9.39	47.81%	
Exchange gain/loss	1.60	-48.34%	-88.55%	22.49	105.31%	- As VND depreciated in 9M2011, DPR with half revenue in foreign currencies got more gain.
Others	-			-	-100.00%	
<b>Operating profit /Loss</b>	<b>242.86</b>	<b>84.62%</b>	<b>89.47%</b>	<b>533.21</b>	<b>124.59%</b>	
Income from financial investment	-	-100.00%	-100.00%	1.30	122.12%	- Dividends from invested companies
Expense from financial investment	0.25	-92.42%	-82.10%	3.56	-4.01%	- Provision for decrease in market value of long term financial investment
<b>EBIT</b>	<b>242.61</b>	<b>88.44%</b>	<b>89.41%</b>	<b>530.94</b>	<b>126.62%</b>	
Interest income	8.21	99.95%	-53.03%	36.39	185.13%	- Higher money deposit in banks ( VND 508 billion at the beginning of 2011 and VND 861 billion at the end of Q3 2011) and higher bank deposit rate averaged at 16-17%
Interest expense	0.72	-16.05%	154.52%	2.93	-61.28%	- Lower short-term bank loans ( VND 5 billion at the beginning of 2011 and VND 0 at the end of Q3 2011)
Share of Profit/Loss in associates	-		-100.00%	(0.60)		
<b>EBT</b>	<b>250.10</b>	<b>89.48%</b>	<b>72.87%</b>	<b>563.80</b>	<b>135.42%</b>	
Corporate income tax	26.63	139.95%	41.76%	61.54	194.77%	
<b>Net profit</b>	<b>223.47</b>	<b>84.85%</b>	<b>77.51%</b>	<b>502.25</b>	<b>129.75%</b>	
<b>Margin</b>						
Gross margin	35.96%			39.18%		
EBIT margin	38.75%			41.46%		
Net profit margin	35.69%			39.22%		
<b>Expense as % of Sales</b>						
Selling expenses	0.69%			0.74%		
G&A expenses	2.51%			3.12%		

Source: DPR, TLS Research

## INVESTMENT HIGHLIGHTS

### High natural rubber prices boost Sales growth

We expect Net Sales to grow by 49.9% in 2011 and 1% in 2012. While the sales volume is stable or just decreases slightly, high rubber prices will be the main factor to increase revenue.

### Stable volume

#### Exhibit 2: DPR's rubber area (unit: hectare) & volume (unit: ton) & yield (ton per 1 hectare)

Decrease in tapping area in 2010 and lower yield since 2011

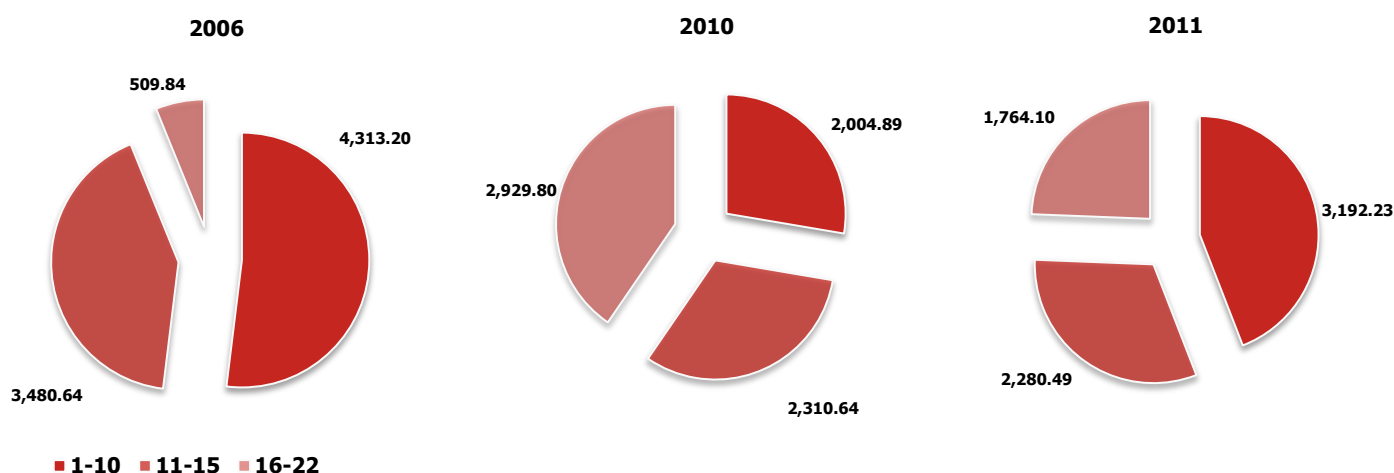
Year	Beginning of year		During the year		Tapped volume	Purchase from small holdings	Selling volume	Annual average yield
	Immature area	Tapped area	New-planted	Re-planted				
2005	284.01	8,303.68	481.44	68.39	15,979.27	3,240.15	18,884.66	1.92
2006	833.84	8,303.68	-	74.32	16,938.80	3,515.85	19,349.21	2.04
2007	908.16	7,962.32	345.24	131.55	17,700.00		20,804.00	2.22
2008	1,384.95	7,907.62	345.24	325.92	17,592.00		18,198.00	2.22
2009	2,111.00	<b>7,553.00</b>	79.52	343.48	17,030.00		19,593.00	2.25
2010	2,534.00	<b>7,245.33</b>	-	316.00	16,134.02	1,977.98	16,470.42	2.23
2011	2,325.00	7,236.82	-	192.00	14,525.00	2,500.00	17,025.00	<b>2.01</b>
2012	2,197.00	7,244.13	-	300.00	14,772.47	2,500.00	17,272.47	<b>2.04</b>
2013	2,422.68	7,182.53	-	300.00	14,709.88	2,500.00	17,209.88	<b>2.05</b>
2014	2,245.89	7,456.50	-	300.00	15,013.15	2,500.00	17,513.15	<b>2.01</b>
2015	1,874.73	7,703.58	-	300.00	15,272.32	2,500.00	17,772.32	<b>1.98</b>
2016	1,751.73	7,773.08	-	300.00	15,240.37	2,500.00	17,740.37	<b>1.96</b>

Source: DPR, TLS Research

More than half of DPR's rubber trees have low productivity because they were planted before 1990. Thus, 651.65 hectares of DPR's rubber area was liquidated and given back to authority of BinhPhuoc Province to set up industrial park in 2007. This caused a decrease in tapping area in 2010 and lower yield since 2011, leading to the lower production volume of rubber latex.

#### Exhibit 3: Age structure of tapping rubber plant area (Unit: hectare)

Decrease in area of rubber plant at the age of 11 – 15 having the highest annual average yield



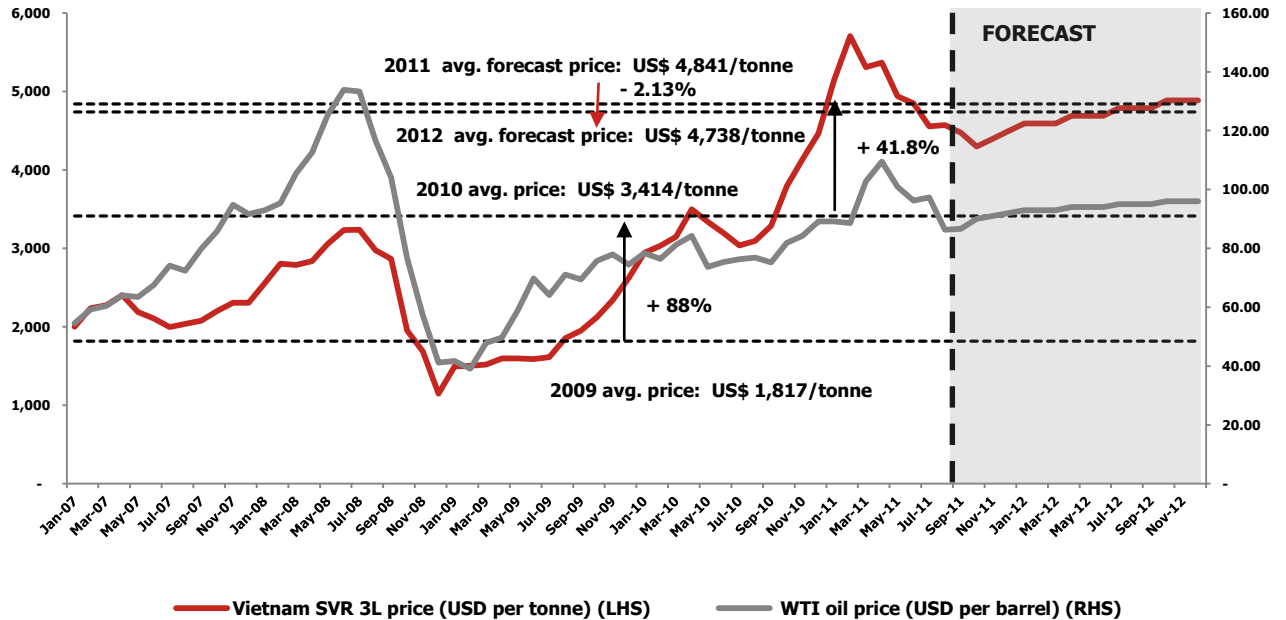
Source: DPR, TLS Research

The company will increase purchased volume from rubber smallholdings to compensate for lower tapped rubber volume and maintain a stable selling volume. We expect DPR will purchase annually 2,500 tons from smallholdings.

**Increase in rubber price**

**Exhibit 4: Vietnam natural rubber SVR 3L price (FOB) and WTI oil price**

We expect the natural rubber price will not break down the price of USD 4,000 /ton. Since natural rubber prices in the first half of 2011 were very high, the 2011 average forecasted price will be higher than 2012 target price. We expect that natural rubber price in 2013 will rise again to reach 2011 price level.



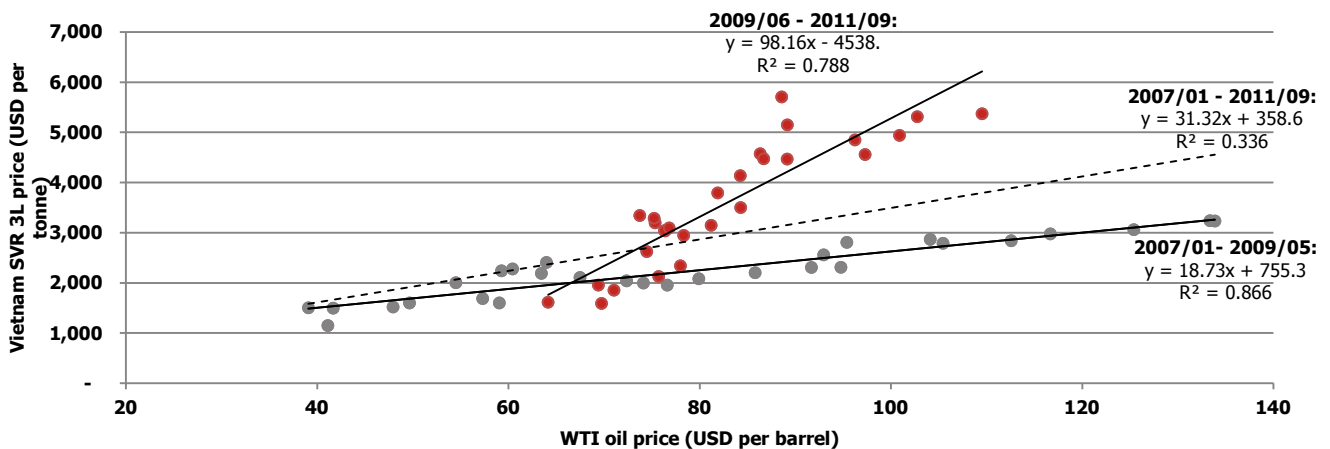
Source: VRA, EIA, TLS Research

Basing on our model, we expect that Vietnam SVR 3L price will be about USD 4,841 per ton on average and rise by 41.8% in 2011. In addition, 2012 target price is expected to be USD 4,738 per ton on average.

Our forecast models are based on the correlation between natural rubber prices and crude oil price.

**Exhibit 5: Correlation between Vietnam natural rubber SVR 3L price (FOB) and WTI oil price**

Since June 2009, there has been a higher price of rubber vs. oil price than before. We use the regression function suggesting the correlation from June 2009 to September 2011 to predict natural rubber price.



Source: VRA, EIA, TLS Research

There are two economic basics supporting the positive correlation between natural rubber price and oil price.

**Firstly**, they have the same main growth drivers, which are economic conditions. Economic growth or better economic prospect results in higher oil consumption and automobile sales and uses. Higher oil consumption leads to higher oil price while prosperity of automobile industry usually leads to higher natural rubber consumption and price through the increase in tires consumption. Therefore, there is the positive correlation between natural rubber price and oil price.

**Secondly**, high and rising oil prices lead to higher prices of artificial rubber and natural rubber in response. Synthetic rubber is produced by synthesizing petroleum and other minerals. It means synthetic rubber price is much sensitive to oil price. Moreover, although technical requirements might constraint the ease of substituting synthetic rubber for natural rubber, there is some extent of substitution ability between them. Therefore, the proportion of natural rubber in rubber consumption is likely to be affected by the price of its synthetic rubber substitutes, which is, in turn, strongly influenced by change in oil prices. The higher oil prices are, the more attractive natural rubber is and so the higher natural rubber price.

#### **Will natural rubber price be equal to or over US\$ 4,000 per ton in the next few years?**

We are not sure whether natural rubber will keep growing at significantly high-speed rate but we believe that the scenario of sustainable price over US\$ 4,000 per ton is certainly possible. Our forecast above is based on the fact that natural rubber price is determined by demand and supply **Supply side – decrease in supply but increase in volume supplied**

#### **Exhibit 6: Area planted during each year in ANRPC member countries (\*000 hectares)**

Liquidation of old rubber trees is increasing in recent years while the scale of new-planted rubber area each year is decreasing. (New: New planted rubber area, Re-: replanted rubber area)

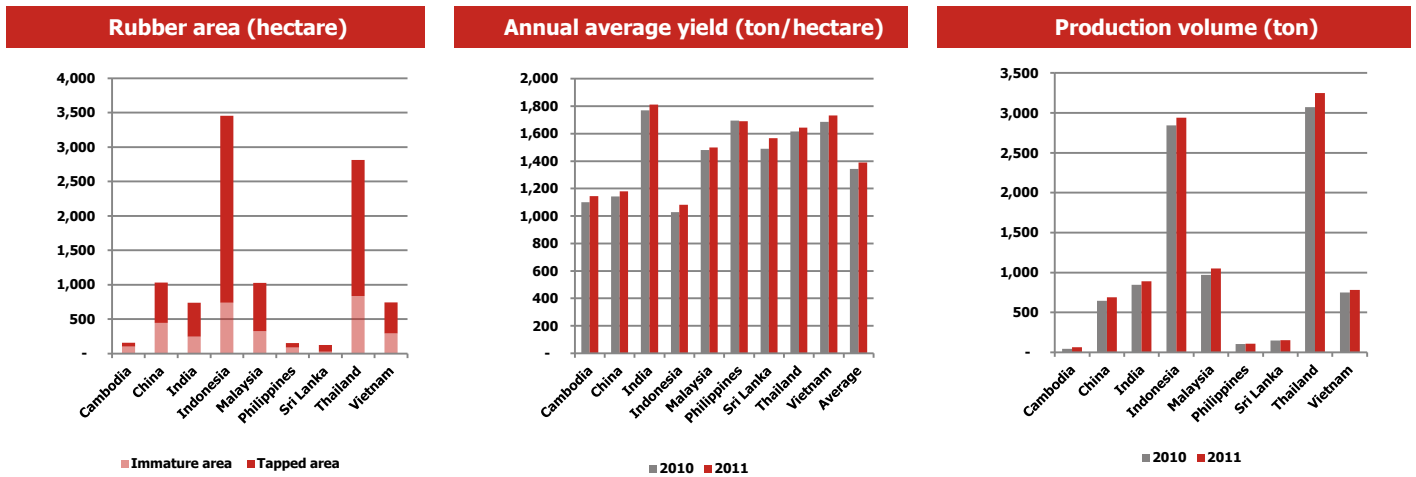
	Cambodia		China	India		Indonesia		Malaysia		Philippines		Sri Lanka		Thailand		Vietnam		Total
	New	Re-	New & Replanted	New	Re-	New	Re-	New	Re-	New	Re-	New	Re-	New	Re-	New	Re-	
03	N/A	1.5	36.3	7	7.4	0	5	0	19.1	0.2	N/A	0.5	1.1	32.9	52	12	2.7	<b>177.7</b>
04	N/A	3	40.3	12.5	7.1	0	5	0	19.4	1.2	N/A	0.5	2.1	58.1	56.4	13.3	4.3	<b>223.2</b>
05	N/A	3.7	44.2	16.8	7.5	17.1	5	0	20.6	1.6	N/A	1	2.5	122.6	50.4	29.6	4.7	<b>327.3</b>
06	N/A	3.1	58.2	21.5	8.4	67	44.9	0	20.2	16.3	0.3	1.9	4.4	109.6	40.3	40.5	4.6	<b>441.2</b>
07	N/A	2.6	65.1	22.8	8.5	67.3	50	0	23.1	22	0.4	2	5.2	161.4	35.2	35.1	7	<b>507.7</b>
08	N/A	4.7	49.1	30.2	10	10.5	40	6	20.7	15.7	0.2	2.6	6.1	221.2	31.9	77.2	8	<b>534.1</b>
09	67.3	5.5	48.5	25.5	11	10.5	55	0	20.4	7.9	0.6	3.1	3.6	50	39.1	51.4	9	<b>408.4</b>
10	12	2	51.5	25	9	10.5	57.3	5	25	3.8	0.7	1.7	1.8	25	40.1	40.8	10	<b>321.2</b>
11	14	1	50	25	10	10.5	60	5	25	15	0.7	1.7	1.8	25	40.1	30	11	<b>325.8</b>

Source: ANRPC

A large part of tapping rubber areas of ANRPC countries were planted in the 1980s and now they need to be liquidated. As liquidation is increasing and new tapped area has low yield, we expect that the production volume of ANRPC members will be decreasing slightly in next few years but be compensated by increasing production volume from others countries, such as Lao, African countries. Besides, we think that the increase of global total rubber area and total production volume in next few years will mostly come from volume from non- ANRPC member countries as the scale of new planted rubber area of ANRPC members each year is decreasing. In spite of that, ANRPC countries will be still the main supply of natural rubber.

**Exhibit 7: Production overview of ANRPC's member countries**

Higher yield and production volume in 2011



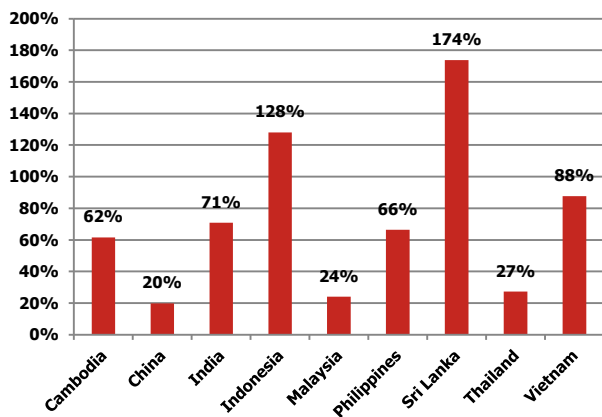
Source: ANRPC

According to ANRPC, the total production volume of ANRPC's member countries in 2011 can reach 9,918 thousand tons, 5.26% higher than 2010. Moreover, world total production volume can be 10,970 thousand tons in 2011 in accordance with IRSG.

From our perspective, the higher production volume since 2011 will not drive rubber price down to a much lower level. It is because of increasing input prices. To produce the output of natural rubber latex, farmers use various inputs, such as labor, fertilizers, land, seeds, etc. In addition, as a labor – extensive industry, wages contribute the largest part in cost structure. High inflation in ANRPC's member countries has raised minimum wage requirement and so labor cost. Fertilizers' prices are also in the uptrend.

**Exhibit 8: Inflation**

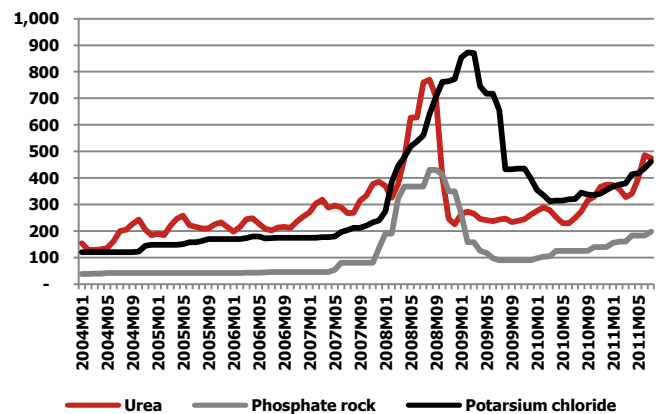
Accumulated percentage change in CPI from 2000 to 2009



Source: ANRPC

**Exhibit 9: Fertilizers' prices (US\$/ton)**

All fertilizers' prices are in the long-term uptrend



Source: WB

Although Malaysia farmers shift from planting rubber trees to palm trees, supply volumes from new producers such as Lao and African countries are substitutes for the decrease in Malaysian volumes. As there are not much change in yield, increasing input prices have shifted the supply curve to the left and caused a **decrease in supply**.

- **Demand side – increase in demand and volume demanded**

Natural rubber has two main uses: in the tire sector and non-tire sectors. Tire sector consumes about 79% of global natural rubber supplied and therefore it has large effect on natural rubber price.

#### Exhibit 10: Natural rubber major end uses

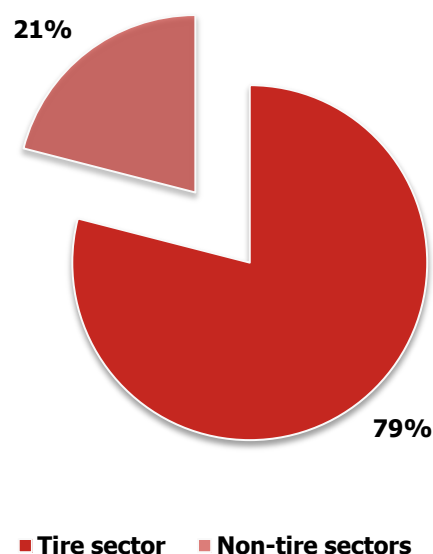
Natural rubber (NR) is the basic constituent of many products used in the transportation, industrial, consumer, hygienic and medical sectors.

<b>Transportation sector</b>	Tires and tire products, inner tubes, automotive belts
<b>Industrial sector</b>	Products for materials handling (e.g. conveyor and transmission belting; tires for lift trucks, castors, seismic materials)
	Other industrial goods (e.g. hoses, belts, plates, packing and sealing devices, industrial gloves, automotive mats)
<b>Consumer sector</b>	Rubber clothing (including gloves) and footwear
	Other consumer products ( e.g. threads, erasers, golf balls, inflatable articles, mats)
<b>Hygiene and medical sector</b>	Examination and surgical gloves
	Contraceptives (condoms, intrauterine devices)
	Other biomaterials (e.g. blood bags, syringes, implantable devices)

Source: UNCTAD

#### Exhibit 11: World natural rubber consumption breakdown

As being the largest natural rubber consumer, tire sector condition drives natural rubber price.



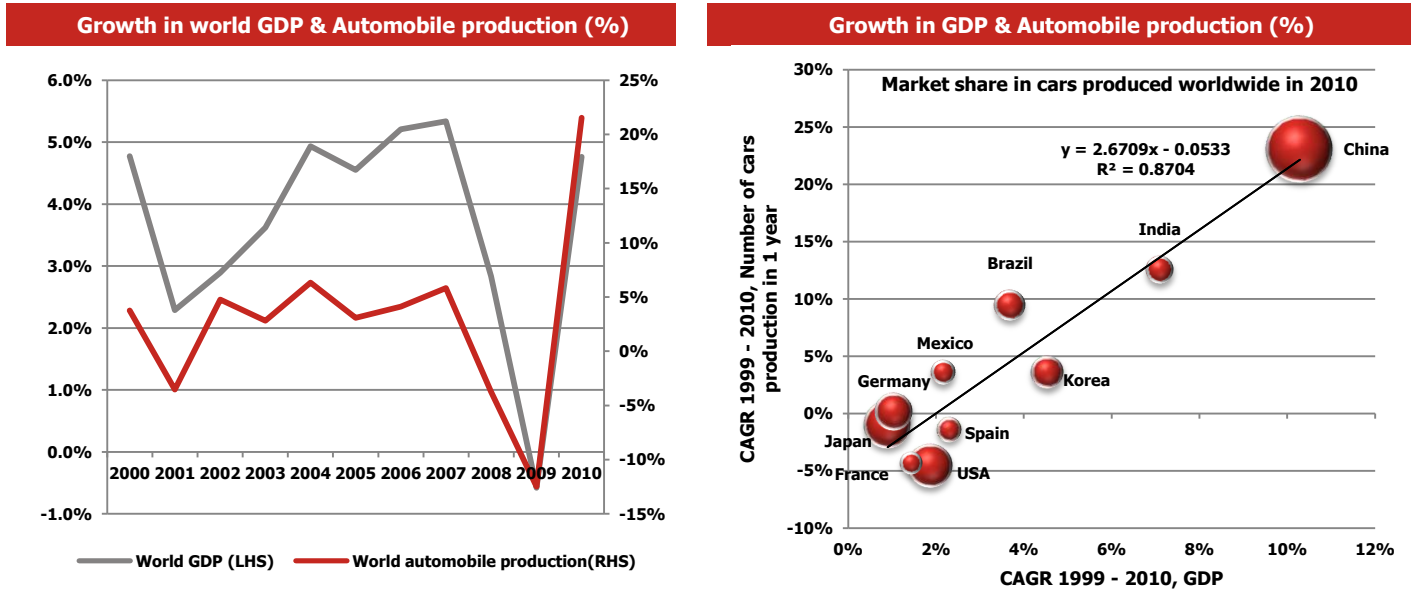
Source: IRSG

As to the explanation of the positive relationship between rubber price and oil price, the main growth driver of rubber price is economic condition. Natural rubber is an input to tires; tires are used in passenger cars and commercial vehicles for replacement and original equipment. Automotive industry is, in turn, driven by economic and demographic variables, such as GDP, level and growth in national income per capita and population size. In conclusion, these variables drive natural rubber demand and price up and down.



**Exhibit 12: Positive correlation between growth in GDP and automobile production**

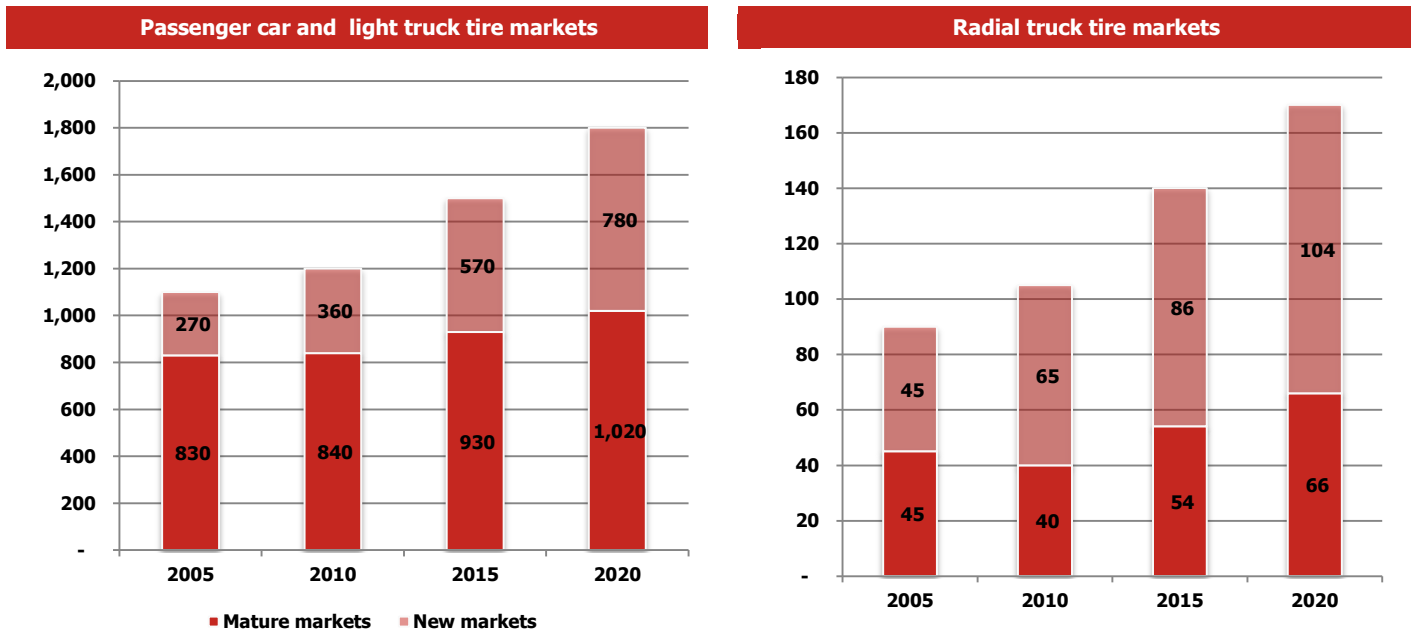
Economic growth, i.e. growth in GDP, is the most important determining factor in the prospect of auto industry. As having the highest CAGR of GDP, BRIC countries had the highest growth rate of car produced in 1 year. Growth in auto industry, in turn, leads to the prospect of tire industry.



Source: OICA, IMF, TLS Research

**Exhibit 13: Tire sector prospect (in millions of tires)**

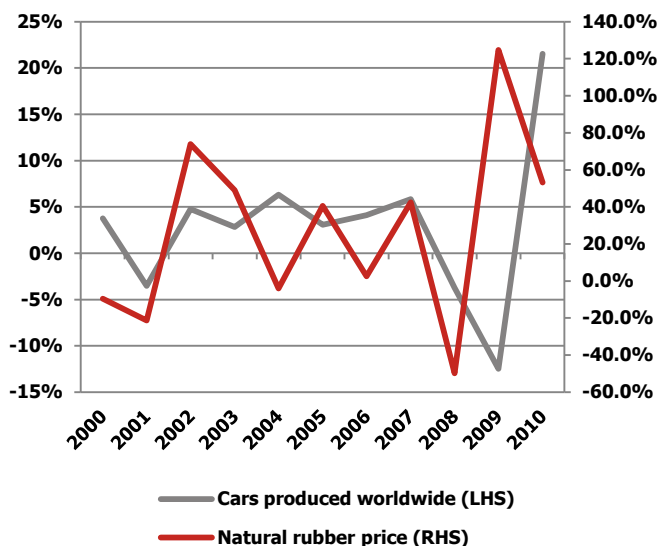
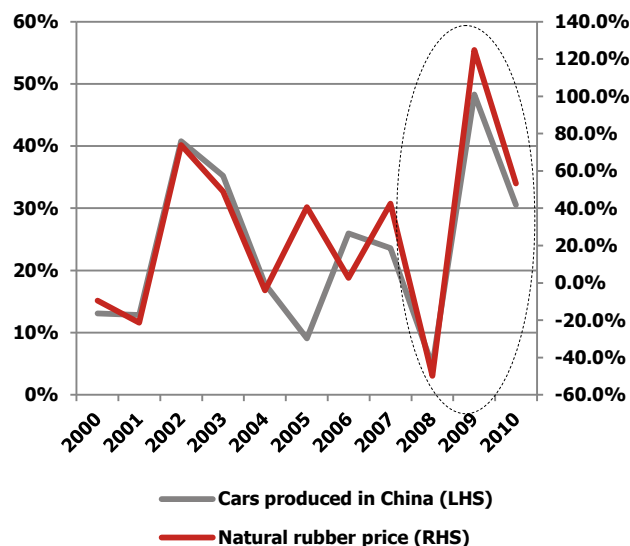
New markets are the main driver of growth of tires market. The CAGR of passenger car and light truck tires produced and sold around the world and in new markets from 2010 to 2020 can reach 4.14% and 8.04% respectively. In addition, the CAGR of radial truck tires produced and sold around the world and in new markets from 2010 to 2020 can reach 4.94% and 4.81% respectively.



Source: Michelin

**Exhibit 14: Positive correlation between growth in automobile production and natural rubber price**

There is often high positive correlation between state of auto industry and natural rubber price through tire sector. Since 2009, growth in auto industries of BRIC, especially China, contributing largest part to the prospect of world auto industry, has become the most important factor in determining natural rubber price.

**Growth in World automobile production and natural rubber price (%)****Growth in Chinese automobile production and natural rubber price (%)**

Source: OICA, IMF, TLS Research

**Exhibit 15: Growth in real GDP (%)**

There are optimistic about world economic growth, hence increase in natural rubber demand and price.

	IMF (Sept 2011)		Credit Suisse (May 2011)		JP Morgan (June 2011)		Nomura (June 2011)	
	2011	2012	2011	2012	2011	2012	2011	2012
China	9.5	9.0	8.8	8.9	9.3	9.1	9.4	9.2
India	7.8	7.5	7.5	7.5	7.9	8.7	7.9	8.3
USA	1.5	1.8	2.8	3.9	2.4	2.8	2.4	2.7
Japan	0.2	1.7	-0.4	2.4	-0.3	3.6	-0.6	3.5
World	4.0	4.0	4.3	4.8	3.1	3.6	4.2	4.6

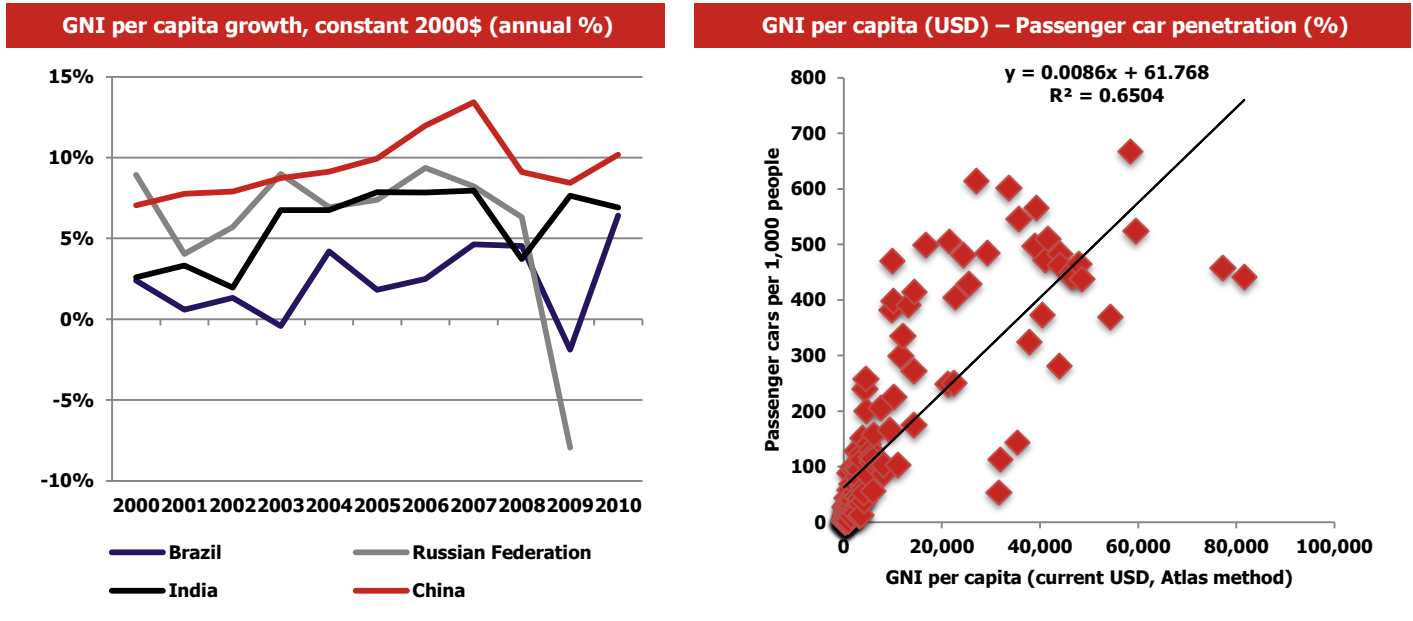
Source: IMF, Credit Suisse, JP Morgan, Nomura

In accordance with IRSG, world natural rubber volume demanded in 2011 can reach 11,150 thousand tons and so there is still demand shortage.

We stated in Supply side that there is a decrease in supply and it can cause increase in natural rubber price only if accompanied by the increase or unchanged in demand. In our thought, there is currently increase in demand and this is demand not supply that drives natural rubber price up and reach the highest ever level recently. Increase in demand of natural rubber comes from 1/ increase in income per capita of BRIC countries, especially China; 2/ increase in automobile sales and production in China; 3/ the worldwide trend of using radial tires; 4/ increase in synthetic rubber price; 5/ tire industry is less dependent on automotive industry.

**Exhibit 16: China is the most important factor in determining demand of natural rubber and trend of its price**

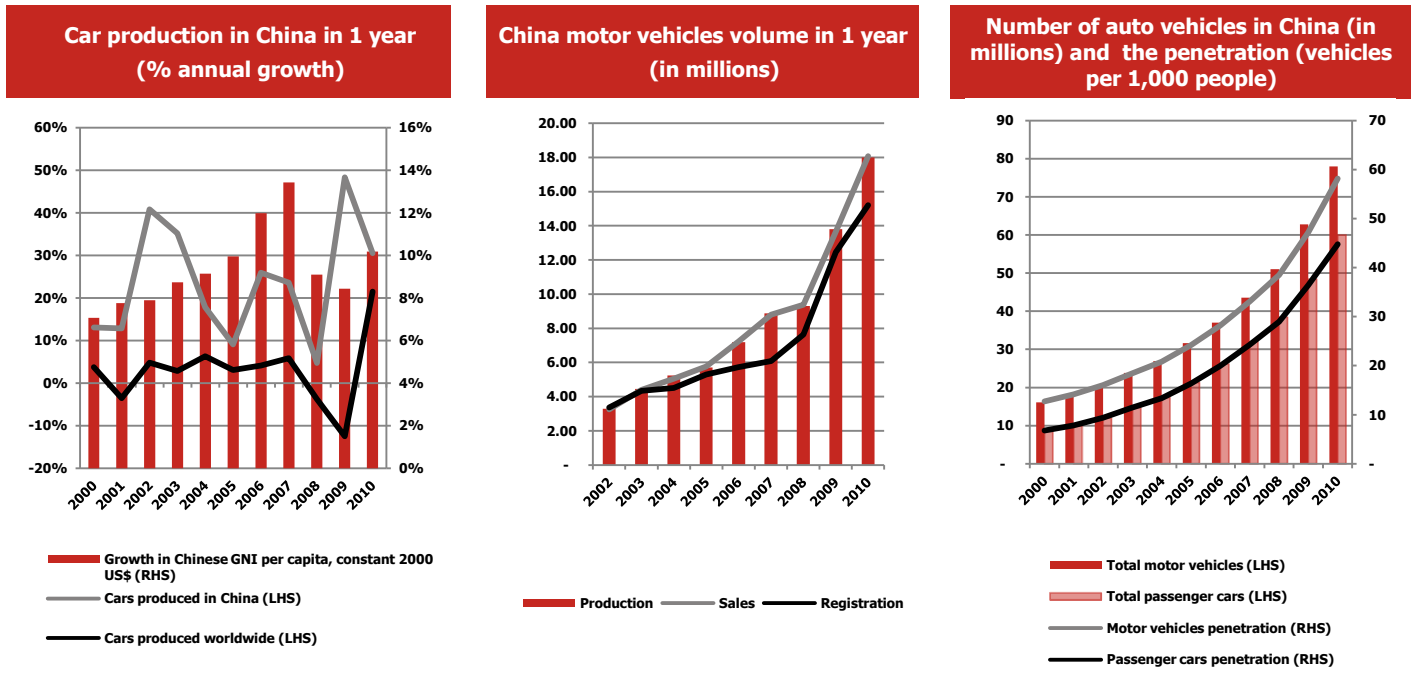
In 2007, GNI per capita of China was USD 2,410 (Source: WB). Meanwhile, there were 22.47 passenger cars per 1,000 Chinese; it was much lower than the expected level, i.e. 82.49 cars, implied by Chinese GNI per capita and the equation that correlates Car ownership (%) and GNI per capita at that time. And according to some sources, although GNI per capita of China in 2009 reached USD 3,650, there were only 36 passenger cars per 1,000 Chinese, much lower than 100 cars of Brazil and 439 cars of USA. It is expected that China will still keep world automobile industry growing basing on its world highest growth rate of GDP, low car ownership and the population of nearly 1.3 billion.



Source: OICA, IMF, TLS Research

**Exhibit 17: Chinese automotive industry overview**

There is a rapid growth but still low car penetration. Most growth in auto vehicles has come from the increase in passenger cars number. Basing on low passenger car penetration, we expect Chinese automotive industry still keep its historical growth rate.

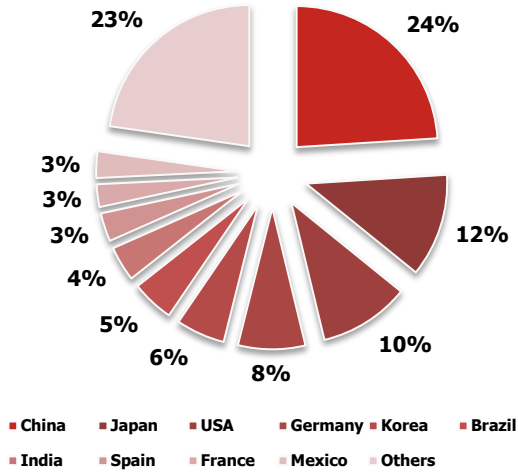


Source: OICA, IMF, National Bureau of Statistics of China, TLS Research

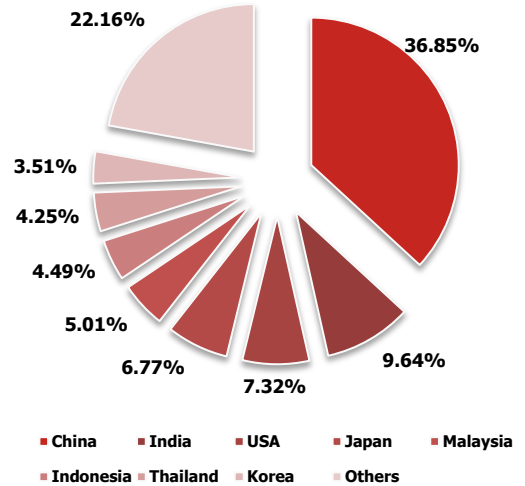
**Exhibit 18: China is the biggest auto vehicles producer, hence the biggest natural rubber consumer**

Since 2009, China has become the biggest auto vehicles producer in the world. In 2010, its car production volume accounted for about 24% of total worldwide car production volume and its sales volume made up 27% of auto sales worldwide. In addition, China has become the biggest natural rubber consumption through its rapid growth in automotive industry. In 2010, it accounted for 36.85% of world natural rubber consumption.

**Worldwide car production breakdown by country in 2010**



**World natural rubber consumption by country in 2010**



Source: OICA, IRSG, TLS Research

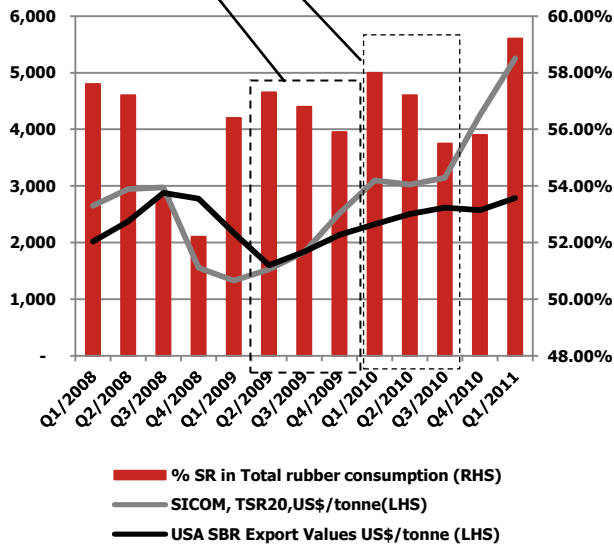
As world economist experts are still optimistic that China will keep the real GDP annual growth rate of nearly 9% in the next few years, we expect that it is still the main driver of the growth in natural rubber volume demanded and price.

We consider synthetic rubber as a substitution of natural rubber but as we had stated, technical requirements might constrain the ease of substituting synthetic rubber for natural rubber. There is no complete substitution and around 10% of substitution rate. Only if there is significant gap between natural rubber price and synthetic rubber price can there is a large shift from expensive rubber to cheap one. Recently, we have witnessed the decrease in synthetic rubber proportion in rubber consumption in the last three quarters in 2009 and the year 2010 coming with an increase in natural rubber price. One of the reasons is the worldwide trend toward radial tires, which uses much natural rubber tire. The increase in synthetic rubber price in those periods, which implied the decrease in price gap of two rubbers, is another reason.

Natural rubber has some advantages over synthetic rubber. It has **excellent dynamic** properties, with a low hysteresis loss, and **good low temperature** properties, it can be **bonded well to metal parts**, has **high resistance to tear** and abrasion and it is relatively easy to process. It also has excellent low temperature properties. Because all-steel radials require a higher level of green tack and green strength than conventional tires, natural rubber, which is superior to the other synthetic rubbers in these respects, is to be preferred. Typically, the carcass of a cross ply tire contains 65% natural rubber while case of steel belt skim of radial tire compound and bead filler, the necessity of a very high level of green tack and green strength means that these components usually contain 100% natural rubber. In addition, radial tires used mostly in commercial vehicles have the requirement of low heat generation and high cutting resistance and hence high natural rubber proportion in chemical composition. In accordance with some sources, the proportion of natural rubber over the total amount of rubber in a tire can reach 20% in case of cars, 50% in case of commercial vehicles (vans) and 80% in case of trucks.

**Exhibit 19: Synthetic rubber**

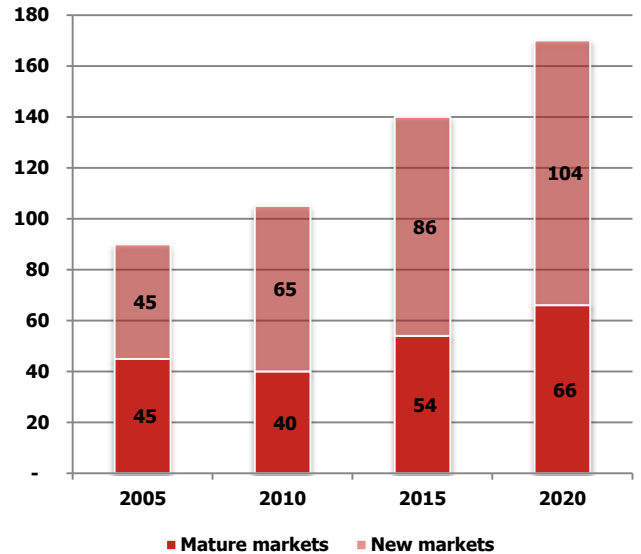
There is positive correlation between natural rubber price (SICOM TSR 20) and proportion of synthetic rubber in total rubber consumption. It implies that synthetic rubber is the substitution of natural rubber. However, there are still some cases of **negative correlation**.



Source: IRSG

**Exhibit 20: Radial truck tires market (in millions)**

The CAGR of radial truck tires volumes was 3.1% from 2005 to 2010 and it can reach 4.94% from 2010 to 2020. The proportion of radial tires in total tires volume increased from 7.56% in 2005 to 8.05% in 2010 and can increase to 8.63% in 2020.



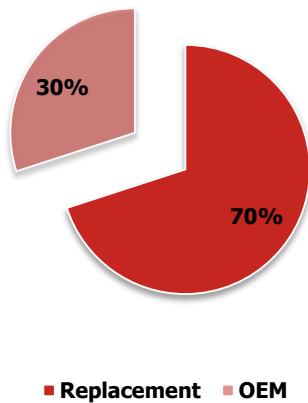
Source: Michelin

Current global recession led to a decrease in world auto sales and therefore affected tire industry in part. This is because tire industry is strongly driven by the market of tires for replacement which is accounted for 70% of tire sales for cars and light trucks and over 80% of the truck segment. This makes tire sector more flexible and less exposed to possible slowdowns in the auto sector and demand for original equipment.

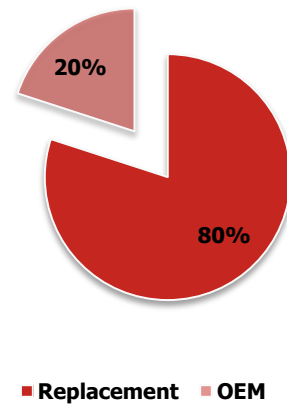
**Exhibit 21: Tire demand is less dependent on automotive industry**

From 2006 to 2009, world yearly car & LCVs sales decreased by 1% while world car & LCVs tire sales increased by 2.7%. In addition, while truck tire sales increased by 4%, world yearly truck sales decreased by 3.2%.

Car & Light commercial vehicles tire sales



Truck tire sales



Source: Pirelli

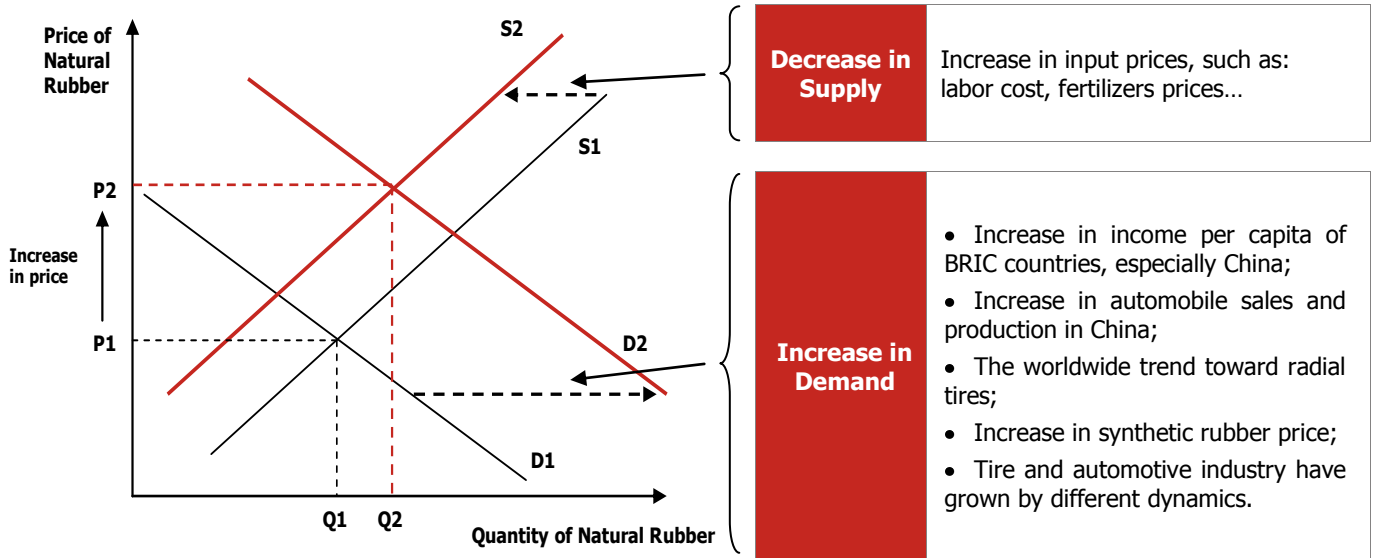
Even if world auto sales in one year equal zero, there will be more autos in use in comparison to previous year. The growth in autos in use comes from the auto sales in previous year. The growth in autos in use results in the increase in tire demand for replacement. It means yearly tire sales volumes often increase and so are volumes demanded of natural rubber.

Based on the findings above, we believe in an **increase in demand** – in other words those factors shift the demand curve to the right.

• Demand and supply interaction – increase in natural rubber price

**Exhibit 22: Sustainable increase in natural rubber price**

As there are a decrease in Supply and an increase in Demand, natural rubber price keeps increasing. We believe that the scenario of sustainable over US\$ 4,000 per ton is certainly possible.



Source: TLS Research

In principle of economics, any change, that reduces the quantity supplied at every price, shifts the supply curve to the left, called a decrease in supply. In addition, any change, that increases the quantity demanded at every price, shifts the demand curve to the right and is called an increase in demand. An increase in demand and a decrease in supply result in higher price. It is the case of current natural rubber market.

**Exhibit 23: Shortage of natural rubber quantity supplied**

Since June 2009, there has been a higher price of rubber vs. oil price than before. It has come from the shortage of natural rubber quantity supplied.

	2005	2006	2007	2008	2009	2010	2011
<b>Quantity Supplied</b>							
Thailand	2,937	3,137	3,056	3,090	3,164	3,072	3,247
Indonesia	2,271	2,637	2,755	2,751	2,440	2,843	2,938
Malaysia	1,126	1,284	1,200	1,072	857	970	1,050
India	772	853	811	881	820	845	890
Vietnam	482	555	606	660	724	750	780
China	541	538	588	548	643	647	690
Sri Lanka	104	109	118	129	137	148	153
Philippines	79	88	101	103	98	102	107
Cambodia	20	21	19	19	34	45	63
Others	550	454	636	875	785	792	1,052
<b>Total</b>	<b>8,882</b>	<b>9,676</b>	<b>9,890</b>	<b>10,128</b>	<b>9,702</b>	<b>10,214</b>	<b>10,970</b>
<b>Quantity Demanded</b>							
North America	1,316	1,148	1,157	1,179	790	911	993
South America	538	520	570	585	483	548	588
Europe	1,545	1,457	1,675	1,484	1,000	1,139	1,256
Africa	120	118	110	126	92	100	104
Asian/Oceania/Others	5,563	5,981	6,663	6,829	6,912	7,962	8,209
<b>Total</b>	<b>9,082</b>	<b>9,224</b>	<b>10,175</b>	<b>10,203</b>	<b>9,277</b>	<b>10,660</b>	<b>11,150</b>
<b>Surplus/Deficit</b>	<b>(200)</b>	<b>452</b>	<b>(285)</b>	<b>(75)</b>	<b>425</b>	<b>(446)</b>	<b>(180)</b>
World Stocks	1,585	2,037	1,565	1,490	1,915	1,469	1,289

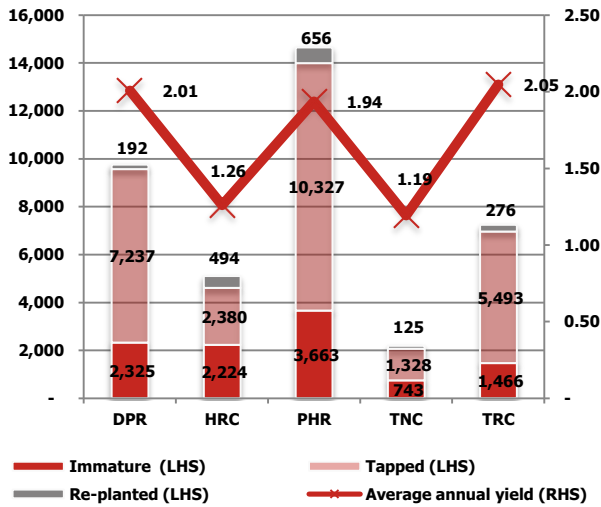
Source: ANRPC, IRSG, TLS Research

**High profitability comes together with strong cash generation**

There are five companies whose main business is producing natural rubber latex are listed in Ho Chi Minh Stock Exchange. All of them have decreasing production volumes but growth in revenues through increasing prices. From 2004 to 2010, the CAGR of DPR's revenues is the lowest. In spite of low growth rate of revenue, DPR had the highest growth rate of net profit, which came from high profit margin and low purchase volumes from outside smallholding in volumes structures of sales. DPR had not only got high profit margin but also achieved high ROA and ROE. Moreover, its business model results in high cash generation ability helping them to broaden business without using bank loans.

**Exhibit 24: Rubber area (hectare) and Average annual yield (Ton/ha)**

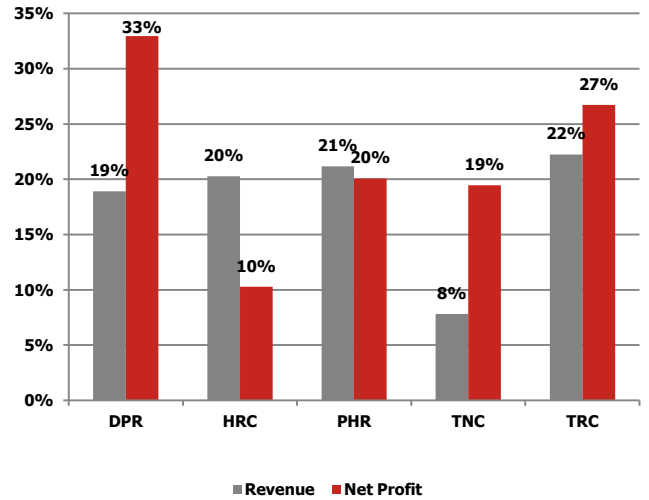
Among 5 companies, DPR's rubber area is only less than PHR's and its average annual yield in 2011 is only less than TRC's. It is one of companies of Vietnam Rubber Group (VRG) having the highest yield; its yield in 2010 is the highest in VRG.



Source: Companies datas, TLS Research estimates

**Exhibit 25: CAGR of revenues and net profit from 2004 to 2010**

In spite of low growth rate of revenue, DPR had the highest growth rate of net profit.



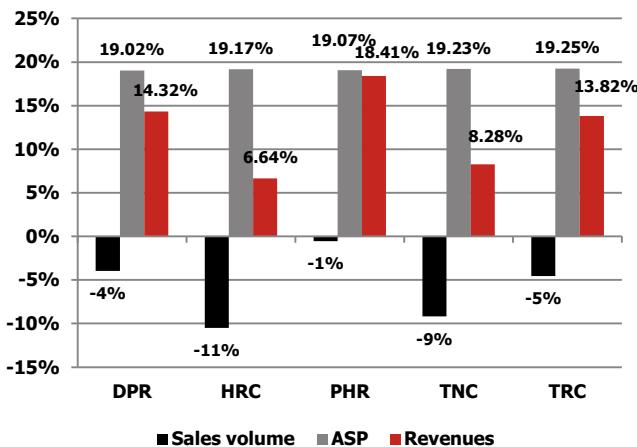
Source: Companies datas, TLS Research estimates

**Revenues – DPR had the lowest decrease in sales volume among listed natural rubber producers and its increase in revenues came mostly from increasing average selling price**

Since 2006, there was volatility in DPR's sales volumes but revenues and selling prices followed a similar pattern. Moreover, although there were increases in volume in some years, the main trend in volume was down. In comparison with listed peers, DPR had the lowest decrease in volume. Therefore, in spite of the lowest CAGR of ASP in 2006-2010, DPR's CAGR of revenues was only lower than PHR's (CAGR of DPR's revenues since 2004 to 2010 was the lowest). In 2011, we expect that both sales volume and average selling price of DPR will increase and hence the revenues.

**Exhibit 26: CAGR of revenues, sales volume and ASP from 2006 to 2010**

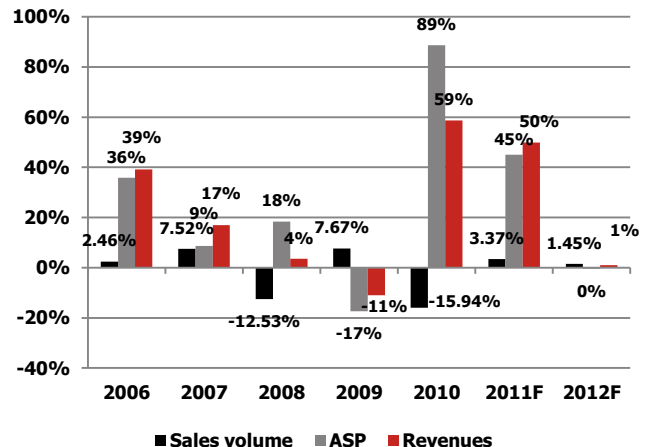
In spite of the lowest CAGR of ASP in 2006-2010, DPR's CAGR of revenues was only lower than PHR's.



Source: Companies datas, TLS Research estimates

**Exhibit 27: Annual change in Sales volume, ASP and Revenues of DPR**

Although there is volatility in sales volumes, revenues and selling prices followed a similar pattern.



Source: DPR, TLS Research estimates



Since we do not expect natural rubber price to keep its historical rapid growth rate in the next few years, we think DPR's revenues will not change much in the next few years.

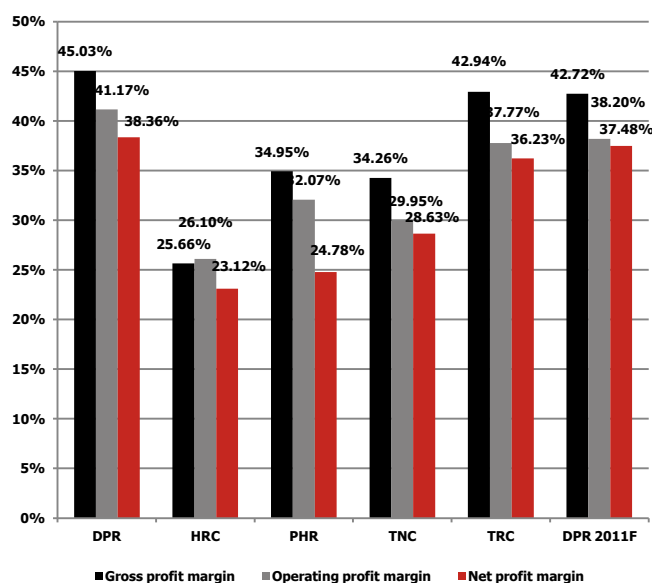
**Profit – Highest profit margin among listed companies producing natural rubber**

Among listed companies producing natural rubber, DPR's profit margin was the highest. We expect it will keep high profit margin in the next few years. The highest profit margin of DPR came from 1/ low proportion of sales volume, whose origin was natural rubber latex purchased from outside smallholdings, in total sales volume; 2/high cash deposited in bank; 3/ low provision for decrease in financial investment value; 4/ low land hiring tax paid to Government of BinhPhuoc Province; 5/ low corporate income tax.

We expect low profit margins in 2011 coming from higher proportion of sales volume, whose origin was natural rubber latex purchased from outside smallholdings, in total sales volume. Lower gross margin will result in low operating profit margin. Moreover, since DPR will not have exchange gain in our prudent forecast for 2011, it will have low operating profit margin. In fact, DPR has exchange gain when there are often fluctuation in exchange rates of Vietnam Dong and other foreign currencies in recent years.

**Exhibit 28: Profit margin in 2010**

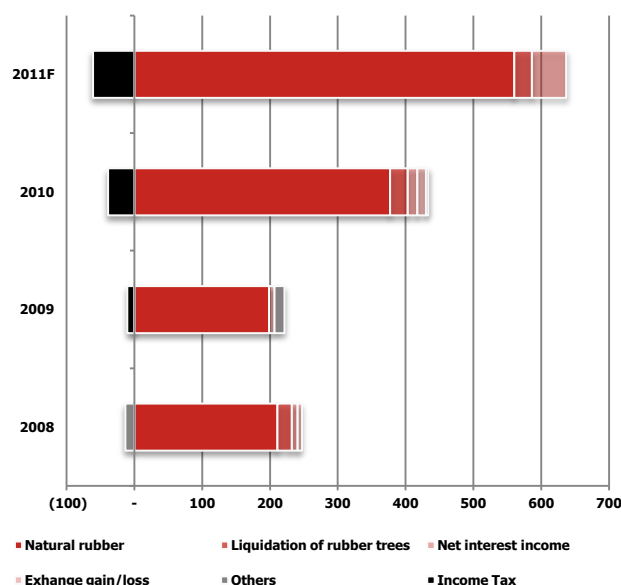
DPR had the highest profit margin among listed companies producing natural rubber.



Source: Companies datas, TLS Research estimates

**Exhibit 29: Profit before tax and income tax of DPR**

In the structure of profit before tax of DPR, profit before tax of its main business- natural rubber production, accounted for 88%. In 2011, we expect there will be rapid increase in net interest income.



Source: DPR, TLS Research estimates

Thanks to high cash generation, DPR has large increase in cash and bank deposit in recent years. It had approximately VND 324 billion in cash, bank deposit and lending in the end of 2009 and in the end of 2010, that was VND 574.51 billion, increasing by 77.32%. On September 30, 2011, the total cash, bank deposit and lending of DPR was VND 632.24 billion, increasing by 10%. Higher bank deposit together with high interest rate resulted in high interest income. High interest income contributed to high profit margin.

Moreover, since DPR invests in financial securities less than other companies do, it had lower provision for decrease in investment value, which contributed to high profit margin. In 2010, the provision of DPR, HRC, PHR, TNC and TRC were respectively VND 4 billion, VND 5.4 billion,

VND 6.15 billion, 0 and VND 0.013. In addition, DPR had low land hiring tax paid to Government of BinhPhuoc Province, which also contributed to high profit margin. DPR has to pay about VND 3-3.5bn annually, which equals VND 300,000 – 350,000 per hectare of land hiring tax to BinhPhuoc Province while TRC has to pay about VND 15 billion annually or VND 2 million per hectare or PHR has to pay about VND 8 billion annually or VND 500,000 per hectare.

Those factors above result in high profit margin of DPR but they are not the main reason. The main reasons are 1/ low proportion of sales volume, whose origin was natural rubber latex purchased from outside smallholdings, in total sales volume; and 2/ low corporate income tax.

### Exhibit 30: Low volume purchased from outside smallholdings in total sales volume results in high profit margin

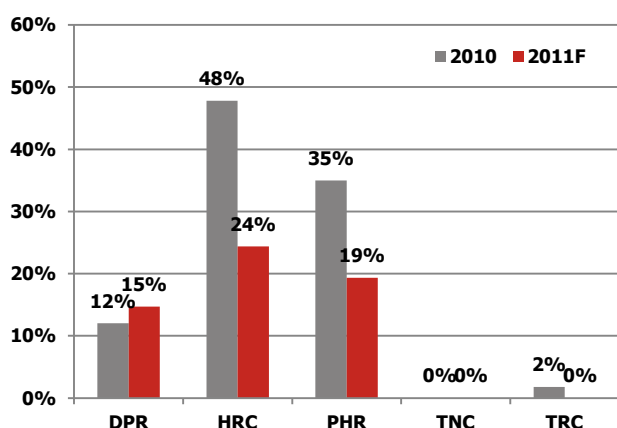
Gross profit margin of purchased volume of natural rubber producer is much lower than gross profit margin of tapping volume coming from its own natural rubber plant. Since DPR has low proportion of purchased volume in total sales volume, its gross margin of natural rubber business is high. DPR's management expects it will purchase 4,000 tons of latex from outside smallholdings but we only expect the quantity of 2,500 tons.

HRC with the highest proportion of purchased volume had the lowest gross profit margin.

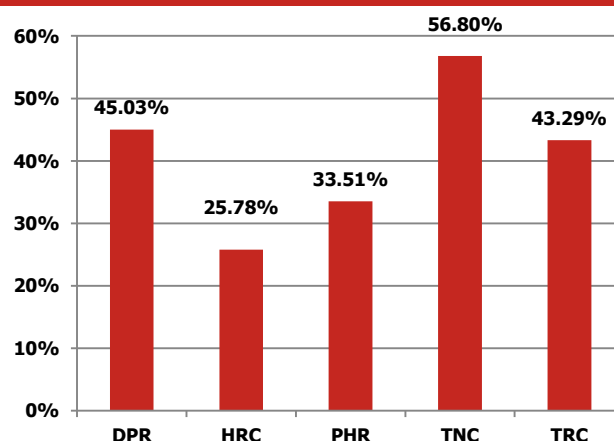
Although TRC had the lower proportion of purchased volume, its gross profit margin of natural rubber business was lower than DPR's. It was because of its higher cost. In accordance with TRC's 2011 business plan, purchase volume will be 3,000 tons. Because TRC had not purchased rubber latex from smallholdings before 2010 and bought a small quantity in 2010, our cautious forecast of purchased volume in 2011 of TRC is equal to 0.

Gross profit margin of natural rubber business of TNC was the highest but its consolidated gross profit margin was lower. It was because TNC had other businesses than natural rubber, whose gross profit margins were much lower.

**Volume purchased from outside smallholdings in total sales volume**

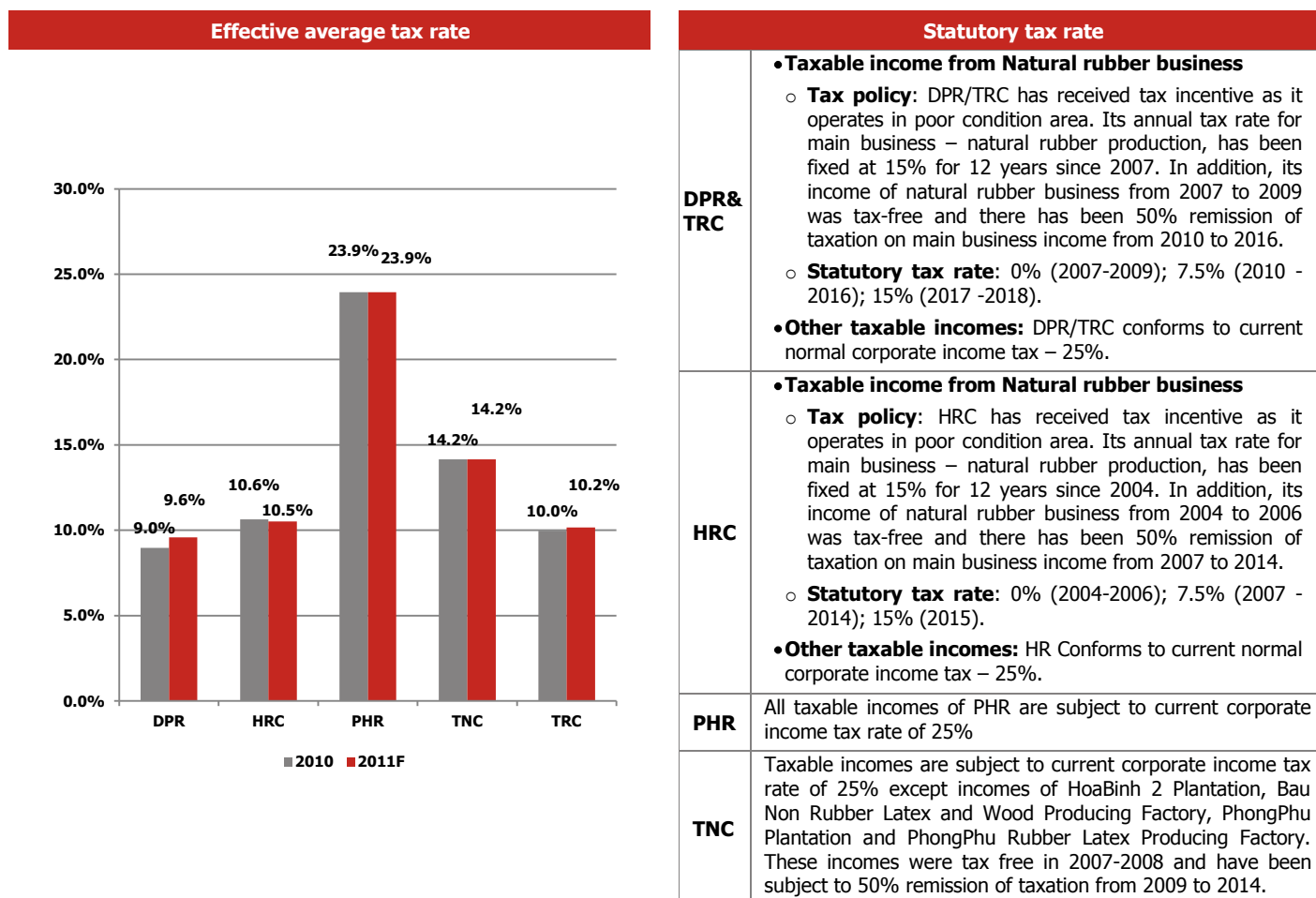


**Gross profit margin of natural rubber business in 2010**



Source: Companies datas, TLS Research estimates

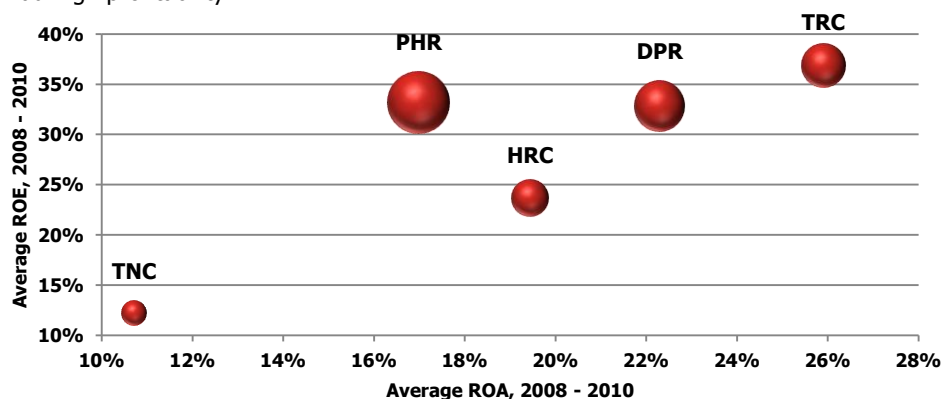
**Exhibit 31: Corporate income tax rate**  
DPR has the lowest effective average tax rate.



Source: Companies datas, TLS Research estimates

**Profitability – High ROA and ROE came mainly from high profit margin**

**Exhibit 32: ROA & ROE**  
DPR had high profitability.



Source: Companies datas, TLS Research estimates

**Exhibit 33: DuPont Analysis**

DPR's high ROA and ROE come mainly from high profit margin. It had the highest profit margin but low asset turnover and equity multiplier. We think there will be lower ROA and ROE since 2012

Ratios	DPR					HRC	PHR	TNC	TRC
	2008	2009	2010	2011F	2012F	2010	2010	2010	2010
<b>Profit margin (=Profit/Revenues)</b>	32.11%	32.51%	38.36%	37.35%	36.56%	23.12%	24.78%	28.63%	36.23%
<b>Asset turnover (=Revenues/Assets)</b>	0.67	0.57	0.70	0.77	0.62	0.88	0.97	0.63	0.82
<b>Equity Multiplier (=Assets/Equity)</b>	1.61	1.46	1.37	1.35	1.31	1.22	1.80	1.12	1.34
<b>ROA</b>	21.48%	18.40%	27.00%	28.93%	22.55%	20.28%	24.11%	17.98%	29.75%
<b>ROE</b>	34.62%	26.87%	36.88%	38.95%	29.63%	24.68%	43.35%	20.09%	39.98%

Source: Companies datas, TLS Research estimates

Based on DuPont analysis, DPR's high ROA and ROE were achieved with low asset turnover and low financial leverage, compensated by high profit margin. We expect an increase in the company's ROA and ROE in 2011, primarily on higher asset turnover and higher debt using. High asset turnover will come from high growth in natural rubber price, which leads to high growth in revenue. As we expect a decrease in natural rubber price in 2012 and high increase in assets from retained earnings, we forecast that ROA and ROE in 2012 will decrease.

**Exhibit 34: Balance sheet**

There has been rapid increase in cash and shareholders' equity accounted for most of total capital.

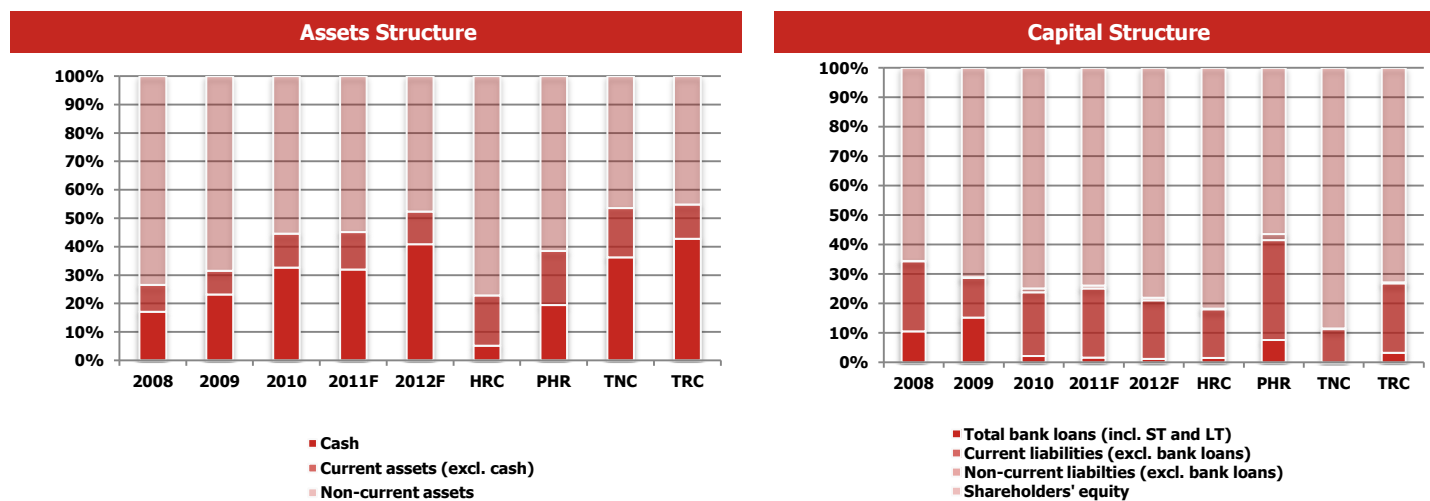
VND in billions, year-end December	DPR					HRC	PHR	TNC	TRC
	2008	2009	2010	2011F	2012F	2010	2010	2010	2010
Cash	179.11	289.63	548.13	735.73	1,123.41	26.05	449.05	111.66	451.66
Current assets (excl. cash)	98.10	102.89	199.45	305.59	315.23	88.96	438.49	53.70	126.51
Non-current assets	767.89	853.80	928.46	1,262.26	1,306.08	387.11	1,417.81	143.01	476.78
<b>Total assets</b>	<b>1,045.10</b>	<b>1,246.31</b>	<b>1,676.04</b>	<b>2,303.58</b>	<b>2,744.73</b>	<b>502.11</b>	<b>2,305.35</b>	<b>308.37</b>	<b>1,054.95</b>
Total bank loans (incl. ST and LT)	110.92	190.06	37.80	37.80	32.80	8.11	175.58	-	34.76
Current liabilities (excl. bank loans)	248.25	168.62	362.06	542.85	548.69	82.53	783.56	35.08	248.74
Non-current liabilities (excl. bank loans)	2.00	2.62	21.56	21.56	21.56	1.03	45.64	0.74	4.05
Shareholders' equity	683.94	885.01	1,254.62	1,701.37	2,141.68	410.44	1,300.58	272.56	767.40
<b>Total liabilities and equity</b>	<b>1,045.10</b>	<b>1,246.31</b>	<b>1,676.04</b>	<b>2,303.58</b>	<b>2,744.73</b>	<b>502.11</b>	<b>2,305.35</b>	<b>308.37</b>	<b>1,054.95</b>

Source: Companies datas, TLS Research estimates

All companies have strong balance sheets increase in the proportion of current assets over total assets. All non-current assets were financed by long-term liabilities and equity. Moreover, cash has dominated current assets and shareholders' equity has dominated capital structure. In addition, thanks to a rapid increase in both demand and price of natural rubber, its business model with quick payment of buyers gave companies good internal cash generation. As a result, there was no need for external financing.

**Exhibit 35: DPR's assets and capital structure**

DPR has had strong balance sheet but it did not take advantage of high profit margin well. Moreover, it has not been the use of debt financing but suppliers – labors, mainly funding DPR's liabilities.



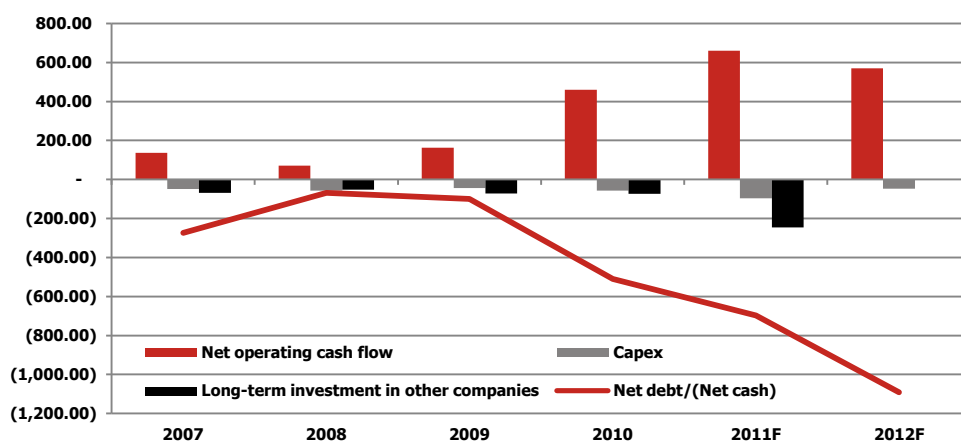
Source: Companies datas, TLS Research estimates

Low financial leverage gave the companies strong balance sheets and high liquidity ability but we think it is not a perfect choice for DPR when it has high profit margin. PHR's ROA was lower than DPR's but its ROE was higher since PHR has used more debt. In addition to using long-term bank loan to finance the expansion of rubber area, PHR has used short-term bank loan to purchase rubber latex from outside smallholdings and it was a good way to increase revenues and profit, hence higher ROE.

**Strong cash generation**

**Exhibit 36: DPR's net operating cash flow, capital expenditure, long-term investment and net debt**

DPR has strong cash generation.



Source: DPR, TLS Research estimates

Thanks to the strong internal cash generation, DPR has not used much external financing. It means that DPR has been quite capable of funding its capital expenditures and long-term

investment in other companies with its operating cash flow. We expect that it will keep staying in net cash and funding its spending needs with operating cash flow for next few years.

In DPR's plan, most of its cash outflow in the next ten years will be invested in the projects of planting 10,000 hectares of rubber trees in Snuol District, Kratié Province, Cambodia. DPR will invest about VND 1,200 billion in Dong Phu – Snuol Limited Liability Company, which DPR will hold 100% ownership, to operate the project. We do not have any information of deployment schedule of this project now so our forecast of DPR's expenditures and investment do not include this project. We think DPR with 2012 net cash of about VND 1,100 billion will be enough to fund this project.

## VALUATION

Our 2012 target price of DPR is based on forward P/B for 2012E. We use the P/B methodology because of its advantage over P/E methodology and DPR's suitability for P/B method.

- Natural rubber price has been the main driver of DPR's EPS. As we witnessed the rapid increase in rubber price, we do not expect that it will keep its high historical growth rate. It means there seems to be a high probability of sideways move or even decrease in rubber price. Since there will be volatility in rubber price and variability in DPR's EPS, P/E methodology is not suitable. Investors can buy stock at low forward P/E in one year and see their stock, whose price will not change much, will be trading at high new forward P/E in the year after. Since BVPS has been more stable over time when compared with EPS, P/B methodology is suitable.
- DPR is suitable for P/B method.
  - Natural rubber producing is a capital-intensive industry.
  - DPR has not carried high debt level or sustained losses.
  - It does not have intangible assets.
  - There have not been any acquisitions and shares buying back of DPR up to now.

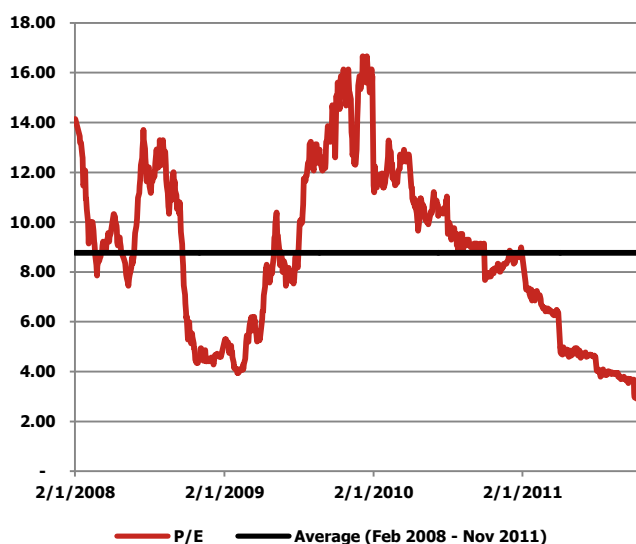
We use 2012E BVPS of VND 49,172 and a range of target P/B for 2012E of 1 to 1.87 to derive a range of DPR's 2012 price of **VND 49,172 – 92,029**. The P/B of 1.87 is the average of DPR's P/B since the beginning of 2011. Our price target represents 8% - 102% upside potential from the current share price of VND 45,500. Price target of our base case is **VND 58,235** at the target P/B of 1.18, which is the minimum of DPR's trailing P/B since the beginning of year 2011. This price target implies 28% upside potential from the current price level. We recommend investors to **BUY** this stock.

DPR, whose market price is VND 45,500, is trading at 3.4x 2011F P/E and 3.44x 2012F P/E. These forward P/E ratios are much lower than the historical average of 4 years from Feb 2008 up to now. Moreover, DPR is trading at 1.17x 2011F P/B and 0.93x 2012F P/B. These forward P/B ratios are much lower than the historical average of 4 years from Feb 2008 up to now. Since we expect natural rubber price will not go down far further from USD 4,000 and DPR still has high ROE and low financial leverage, those low P/E and P/B ratios imply a good chance to BUY.

**Exhibit 37: Trailing P/E from Feb, 2008 to Nov, 2011**

DPR's trailing P/E has currently reached its lowest level since Feb, 2008.

- **Current P/E:** 3.40
- **Average** (Feb, 2008 – Nov, 2011): 8.76
- **Highest** (Feb, 2008 – Nov, 2011): 16.66
- **Lowest** (Feb, 2008 – Nov, 2011): 2.89
- **Average** (Jan, 2011 – Nov, 2011): 5.31
- **Highest** (Jan, 2011 – Nov, 2011): 8.98
- **Lowest** (Jan, 2011 – Nov, 2011): 2.89

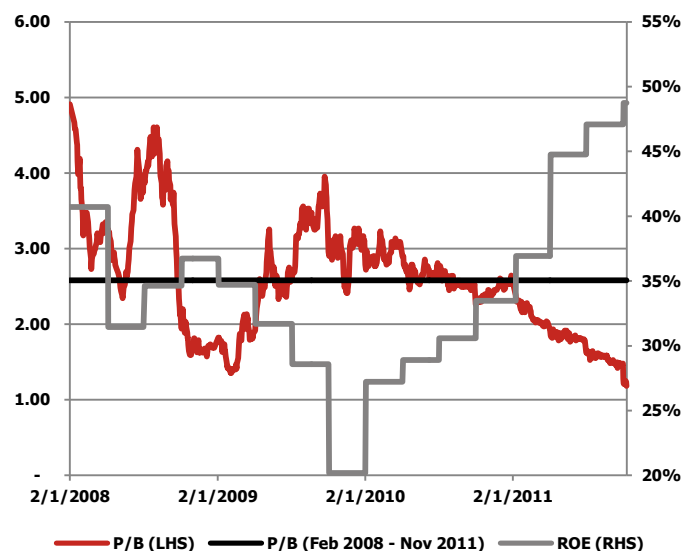


Source: DPR, TLS Research estimates

**Exhibit 38: Trailing P/B from Feb, 2008 to Nov, 2011**

DPR's P/B is now close to its lowest level since Feb 2008. There has been negative correlation between P/B and ROE thanks to the increase in cost of equity (COE).

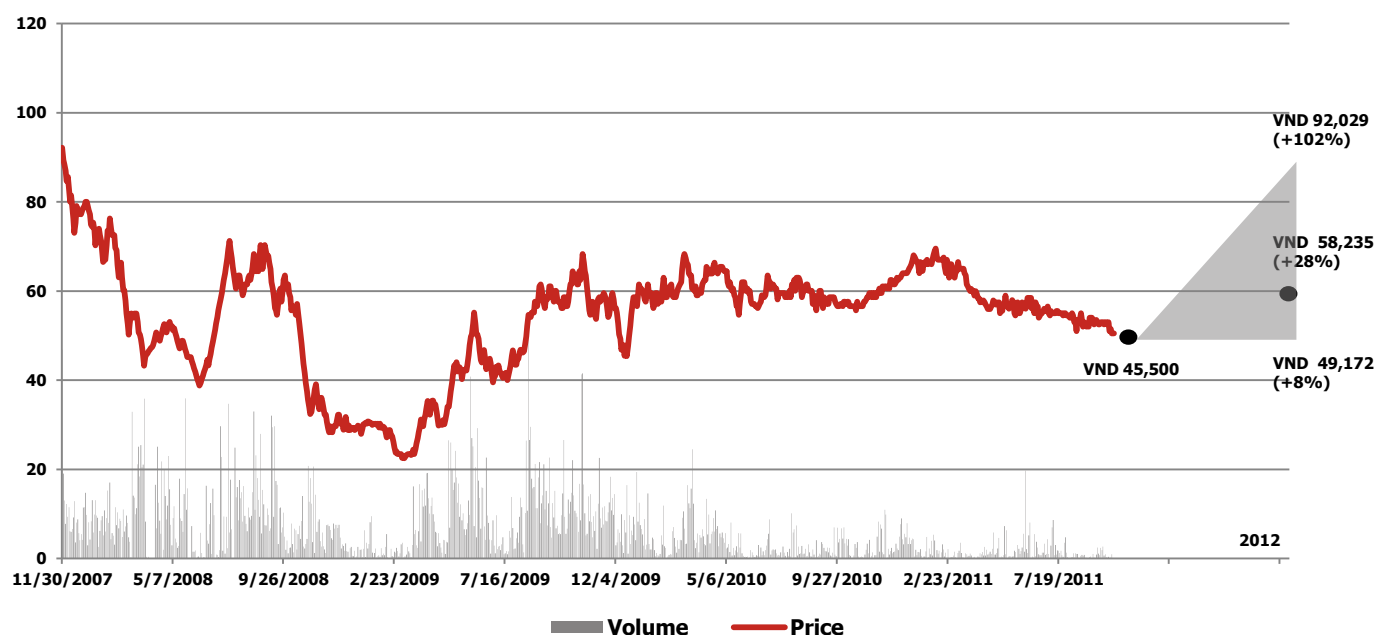
- **Current P/B:** 1.17
- **Average** (Feb, 2008 – Nov, 2011): 2.58
- **Highest** (Feb, 2008 – Nov, 2011): 4.91
- **Lowest** (Feb, 2008 – Nov, 2011): 1.18
- **Average** (Jan, 2011 – Nov, 2011): 1.87
- **Highest** (Jan, 2011 – Nov, 2011): 2.64
- **Lowest** (Jan, 2011 – Nov, 2011): 1.18



Source: DPR, TLS Research estimates

**Exhibit 39: Historical price performance and price target**

P/B x 2012F BVPS of VND 49,172



Source: TLS Research estimates

## Assumption

<b>Exhibit 40: Assumption</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>INCOME STATEMENT</b>				
<b>1. Revenues</b>				
<b>Producing natural rubber</b>				
Tapping volume (ton)	16,134.02	14,525.00	14,772.47	14,709.88
Purchase volume from outside smallholdings (ton)	1,977.98	2,500.00	2,500.00	2,500.00
Sales volume (ton)	16,470.42	17,025.00	17,272.47	17,209.88
• From:				
○ Tapping volume	14,492.42	14,525.00	14,772.47	14,709.88
○ Purchase volume from outside smallholdings	1,978.00	2,500.00	2,500.00	2,500.00
• Sales volume structure (ton):				
○ SVR L, SVR 3L		7,320.75	7,427.16	7,400.25
○ SVR CV 50, SVR CV 60		851.25	863.62	860.49
○ SVR 10, SVR 20		3,405.00	3,454.49	3,441.98
○ Latex concentration		5,448.00	5,527.19	5,507.16
ASP (USD/ton):				
○ SVR L, SVR 3L		4,847.46	4,743.83	4,891.14
○ SVR CV 50, SVR CV 60		4,967.20	4,855.90	5,006.30
○ SVR 10, SVR 20		4,580.41	4,461.53	4,598.77
○ Latex concentration		4,458.15	4,465.59	4,576.60
• Average (USD)		4,675.45	4,603.94	4,737.77
• Average (in VND 1 mn)	62.44	96.31	95.92	98.71
USD/VND		20,600.00	20,834.00	20,834.00
Revenues				
• in USD 1 mn		79.60	79.52	81.54
• in VND 1 bn	1,028.36	1,541.37	1,557.34	1,596.81
○ Tapping volume		1,315.03	1,331.94	1,364.85
○ Purchase volume from outside smallholdings		226.34	225.41	231.96
<b>Other Revenues</b>	<b>0.06</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Revenues</b>	<b>1,028.42</b>	<b>1,541.37</b>	<b>1,557.34</b>	<b>1,596.81</b>
<b>2. Total natural rubber production cost</b>				
Labor cost	380.04	552.31	559.41	573.24
Depreciation	30.89	32.93	32.93	32.93
Fertilizers cost	23.96	31.39	29.83	27.96
Land tax	3.50	3.50	3.50	3.50
Others	67.55	75.86	85.94	85.94
<b>3. Cost of goods sold</b>				
<b>Producing natural rubber</b>				
COGS	565.31	885.36	931.46	941.81
• Tapping volume		664.08	711.09	721.44
• Purchase volume from outside smallholdings		221.28	220.37	220.37
COGS/Revenues	54.97%	57.44%	59.81%	58.98%
• Tapping volume		50.50%	53.39%	52.86%
• Purchase volume from outside smallholdings		97.76%	97.76%	95.00%
<b>Other COGS</b>	<b>0.05</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other COGS/ Other Revenues	88.50%			
<b>Total COGS</b>	<b>565.36</b>	<b>885.36</b>	<b>931.46</b>	<b>941.81</b>



Total COGS/Total Revenues	54.97%	57.44%	59.81%	58.98%
<b>4. Selling Expenses</b>	<b>12.07</b>	<b>18.50</b>	<b>18.69</b>	<b>19.16</b>
<i>Selling Expenses/Total Revenues</i>	1.17%	1.20%	1.20%	1.20%
<b>5. General administration expenses</b>	<b>73.64</b>	<b>77.07</b>	<b>77.87</b>	<b>79.84</b>
<i>General administration expenses/Revenues</i>	7.16%	5.00%	5.00%	5.00%
<b>6. Liquidation of old rubber trees</b>				
Area (hectare)	316	192	300	300
Income	40.18	36.00	54.00	54.00
Expense	14.12	10.00	15.00	15.00

### BALANCE SHEET STATEMENT

<b>7. Working Capital</b>				
Inventory days	64	64	64	64
Trade receivables days	28	28	28	28
Other current assets(% sales)	2%	2%	2%	2%
Trade payables days	2	2	2	2
Other liabilities (% sales)	35%	35%	35%	35%
<b>8. Capex</b>	<b>57.65</b>	<b>96.41</b>	<b>48.00</b>	<b>48.00</b>
<b>9. Change in Long-term investment in other companies</b>	<b>74.07</b>	<b>246.65</b>	-	-
<b>10. Debt/Equity</b>	<b>0.34</b>	<b>0.35</b>	<b>0.28</b>	<b>0.23</b>
<b>11. Cash Dividend (VND per share)</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>

Source: TLS Research estimates

#### Other assumptions:

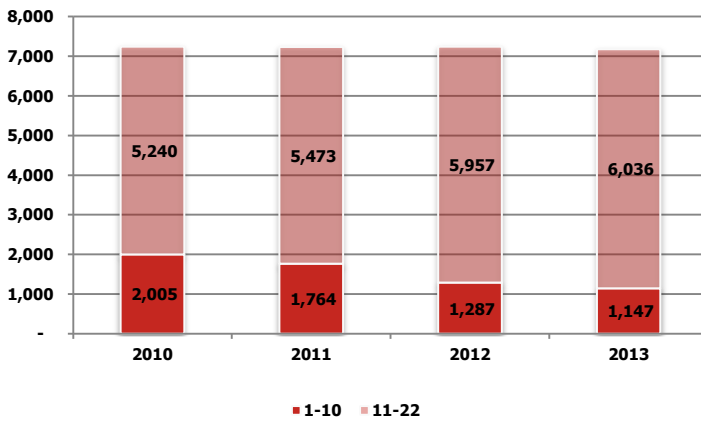
- Sales volume structure:
  - SVR L, SVR 3L: 43%
  - SVR CV 50, SVR CV 60: 5%
  - SVR 10, SVR 20: 20%
  - Latex concentration: 32%
- Labor cost equals revenues of tapping volumes multiplied by 42%.
- We forecast average selling prices by using our expectation USD/VND together with models correlated natural rubber price and oil price.
- We forecast urea price by using models correlated urea price and 1/ price of natural gas; 2/ coal price. We forecast phosphate rock and potassium chloride by using models correlated their prices and urea price.

#### Exhibit 41: Fertilizers price forecasts

	2010	2011	2012	2013
<b>Coal price (US\$/mt)</b>	98.97	125.00	110.00	100.00
<b>Natural gas price (US\$/mmbtu)</b>	8.2875	10.1500	10.0000	9.7500
<b>Urea price (US\$/mt)</b>				
• Urea - Coal model	288.59	433.48	383.40	350.02
• Urea - Natural gas model	288.59	334.72	330.31	322.96
• Average	288.59	384.10	356.86	336.49
• Chinese Urea price		404.10	376.86	356.49
• Urea price in Vietnam		<b>387.94</b>	<b>361.78</b>	<b>342.23</b>
<b>Phosphate rock price (US\$/mt)</b>	123.02	155.31	143.48	134.63
<b>Potassium chloride price (US\$/mt)</b>	331.865	344.46	319.64	301.08

Source: World Bank, TLS Research estimates

**Exhibit 42: DPR's rubber tree area (hectare) structure by age**



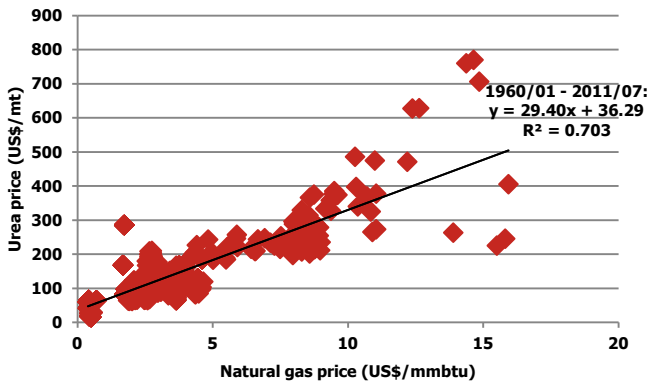
Source: DPR, TLS Research estimates

**Exhibit 43: Fertilizers consumption by age**

1-10 years old		kg/ha/year
Urea		174.00
Phosphate rock		450.00
Potassium chloride		133.33
11-22 years old		kg/ha/year
Urea		217.00
Phosphate rock		500.00
Potassium chloride		167.00

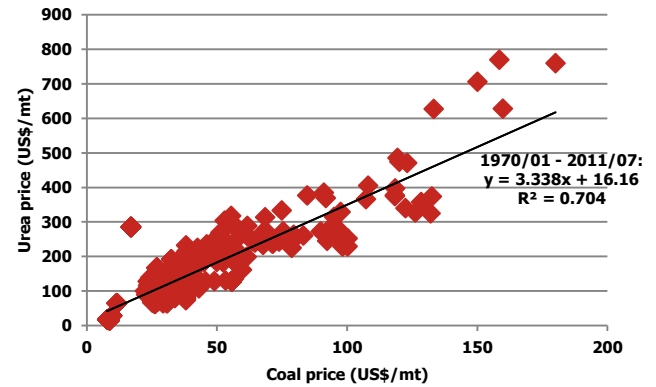
Source: Vietnam Rubber Group

**Exhibit 44: Urea price – Natural gas price**



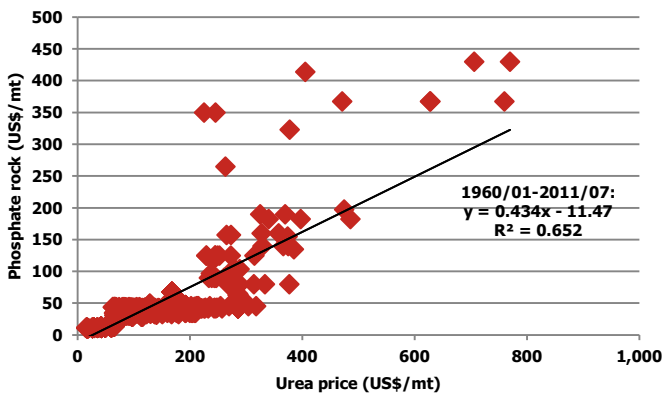
Source: World Bank, TLS Research estimates

**Exhibit 45: Urea price – Coal price**



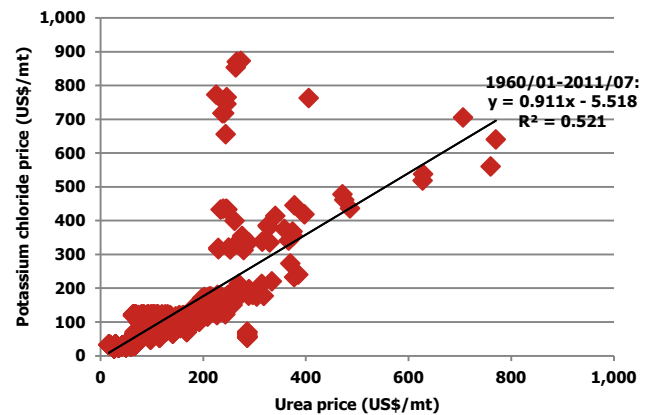
Source: World Bank, TLS Research estimates

**Exhibit 46: Phosphate rock price – Urea price**



Source: World Bank, TLS Research estimates

**Exhibit 47: Potassium chloride price – Urea price**



Source: World Bank, TLS Research estimates

## MAIN RISKS

### Unstable macro conditions

Since there is a highly positive correlation between natural rubber price and oil price, global economic recession, which causes decrease in oil price if happening, can result in a decrease in rubber price. There are currently concerns about global economy: Europe's worsening sovereign debt woes and the threat of a U.S. recession. Moreover, world economist worries about financial bubble, high inflation and debt problems in China.

As global economic recession happened in 2008, natural rubber price fell down to USD 1,147 per ton in December 2008. Not long after that, the price increased quickly since there was an increase in demand from China and intention of Thailand, Indonesia and Malaysia to cut down natural rubber quantity supplied to stabilize price. They expects floor price of USD 4,000 per ton. If market price falls below USD 4,000, they will cut the output in effort to shore up price.

Global recession definitely have bad impacts on natural rubber price. If they happen, we expect that there will be an output cut from Thailand, Indonesia and Malaysia, whose natural rubber outputs accounts for 66.5% of world supply, and natural rubber price will be stable at USD 4,000 per ton, 15.58% lower than our average forecast price for 2012.

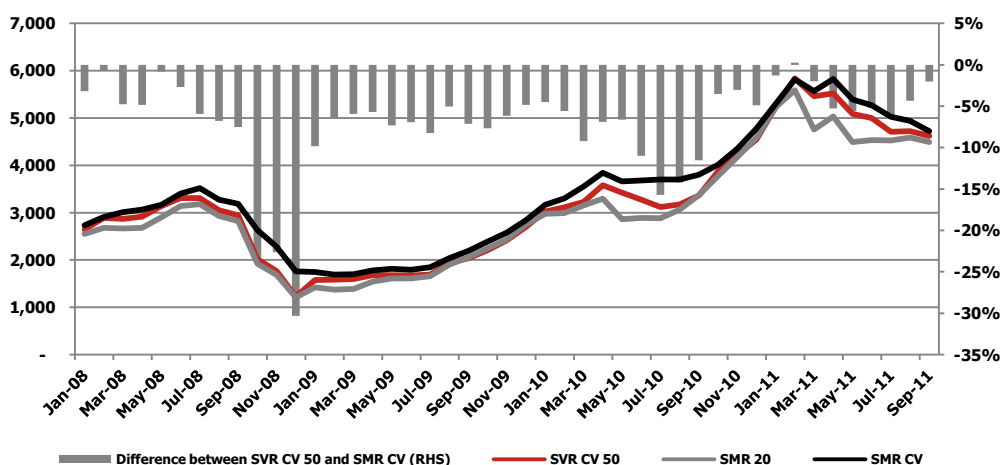
The floor price of USD 4,000 per ton is expected to have the support of 1/ the less dependence on automotive industry of global tire demand; 2/high demand of China having low car penetration and structural transition in economic growth model from export-driven to domestic consumption – driven.

### Vietnam natural rubber latex has low branding

Vietnamese products are often considered having lower quality than Thai, Indonesian and Malaysian so the prices are 5-7% lower. In fact, natural rubber products of Vietnam Rubber Group members have high quality but low quality of products from smallholdings leads to low branding of Vietnam natural rubber in general.

### Exhibit 48: Vietnam and Malaysia natural rubber price

SVR CV 50 is the Vietnamese natural rubber having the highest price but its price is often lower than Malaysia SMR CV. SVR CV 50 and SMR CV have the same quality standard.



Source: Vietnam Rubber Association, Malaysian Rubber Board

When there is high demand of natural rubber, there is no concern about competition and quality of natural rubber. If world natural rubber quantity demanded becomes lower, there will be requirement of higher quality resulting in lower demand of Vietnam natural rubber products.

**Higher export tax rate**

Vietnam Ministry of Finance recently increased export tax rate of natural rubber products. The tax rate is suggested to increase from 3% to 5%. It may discourage Vietnam natural rubber products.

**Increasingly downward risk of price-driven revenues**

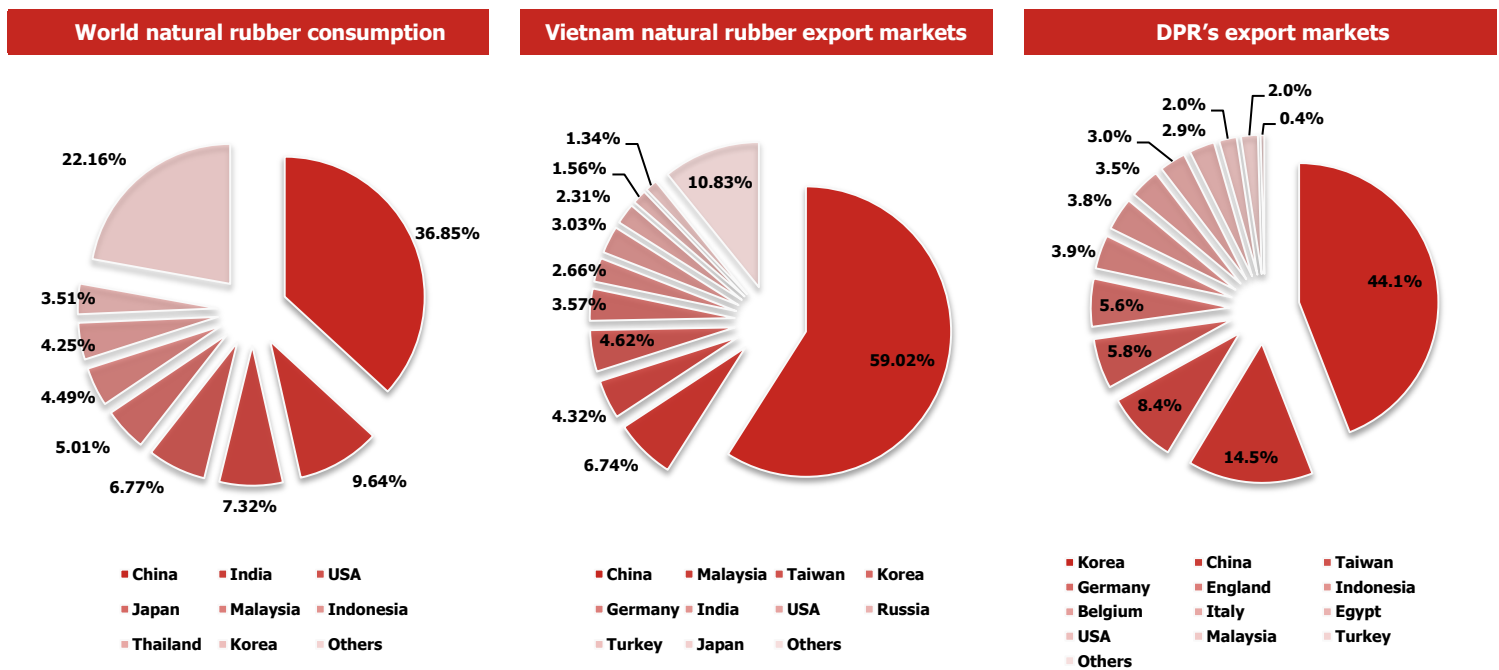
Although there is volatility in sales volumes, revenues and selling prices followed a similar pattern (Exhibit 27). Growth of price-driven revenues gets increasingly downward risk when natural rubber price increased much since January 2009. Natural rubber price, which increased from USD 1,227/ton to USD 5,835/ton, can also turn back to USD 1,227/ton. There is now higher chance of sideway and decrease in price than increase in price. As there has been change in supply – demand dynamic, we do not think price will decrease too much and we expect that it will keep being higher than USD 4,000 per ton.

When there is a decrease in price, DPR needs to increase sales volumes to offset and keep revenues growing. DPR’s sales volume is now limited to production volumes from its rubber trees in BinhPhuoc Province. Three DPR’s largest rubber trees area expansion projects are in Kratié province of Cambodia; Daknong province and in Snuol District, Kratié Province, Cambodia. Project of planting and growing 6,000 hectares rubber trees are in Kratié through Dong Phu- Kratié Natural Rubber Joint-stock Company and has the best prospect with tapping period from 2014 but DPR has only 40% of interests in this company. And while project in Daknong province through Dong Phu – Daknong Natural Rubber JSC, which DPR has 90% of interest, has difficulties in getting and clearing land for planting, project in Snuol District has not started yet. Moreover, DPR has only 10% of interest in other projects. As we do not expect large increase in volume in the next 4 years, we certainly concern about price – driven revenues.

**High dependence on China and Korea natural rubber demand**

**Exhibit 49: DPR’s export markets**

Top 8 countries accounted for 77.84% of world consumption. In which, China accounted for 36.85%. Chinese accounting for nearly 60% of Vietnam natural rubber volume exported is certainly the biggest Vietnam natural rubber consumer. DPR is also dependent on China market but its major export market is Korea, which accounts for nearly 44% of its natural rubber export value.

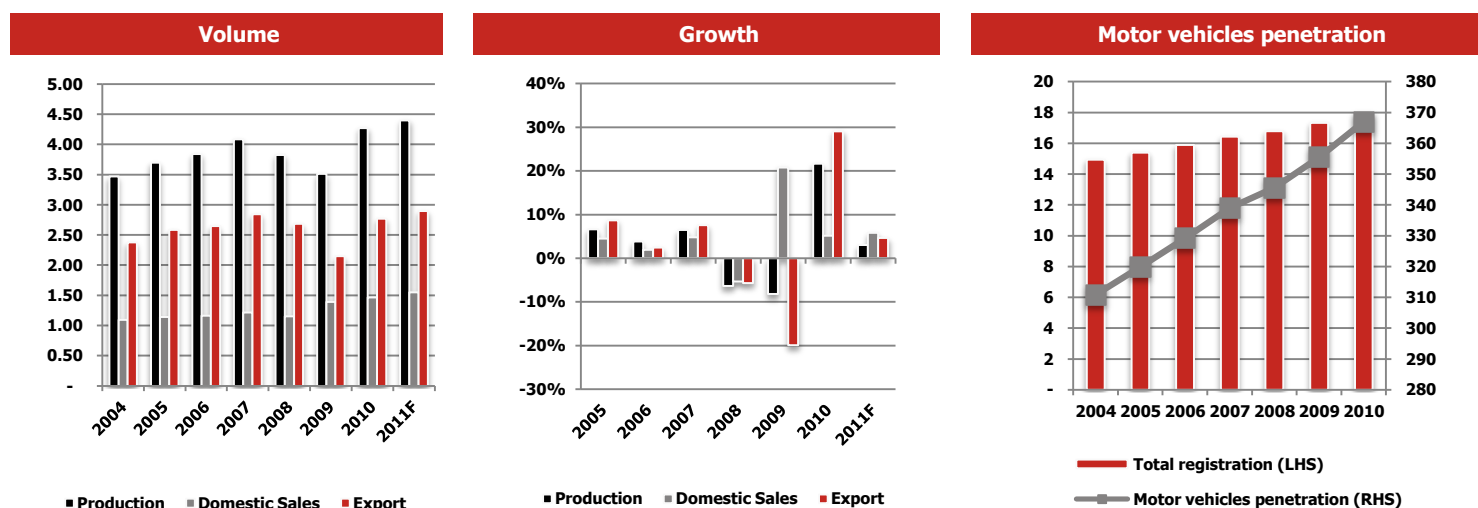


Source: Vietnam Customs, Ministry of Agriculture and Rural Development of Vietnam, IRSG

The biggest export market of DPR is Korea not China. Although China accounted for only 14.5% of DPR's export value, DPR's management estimated that 30% of its sales volumes were exported to China. In addition to 14.5% of sales volume exported directly to China by DPR, other 15.5% is exported to China through DPR's domestic customers – trading companies. Because DPR largely depends on these two markets, it is exposed to risks when there are recession or economic slowdown at China or Korea.

### Exhibit 50: Korean automobile industry

Korea has high motor vehicles penetration with nearly 367 vehicles per 1,000 people.



Source: Korea Automobile Manufacturers Association

Korea has high motor vehicles penetration with nearly 367 vehicles per 1,000 people. Its vehicles in use do not change much year by year and over 65% of production volumes are exported. It is not like China, whose nearly 97% of production volumes have been domestic sales and only 3% of production volumes is exported.

Since Chinese automotive industry is domestic-driven with very low motor vehicles penetration, it has not depended much on world economy. Korean automotive industry is different from China, it is export-driven so it depends on global economy. Moreover, because not many Korean motor vehicles are exported to China, its production has decreased much when there is global economic recession and there is not any stimulus to domestic consumption. Slowdown in automobile industry will decrease natural rubber demand. However, as Korean tire demand in which domestic demand for replacement accounts for nearly 70% is less dependent on automobile industry, a decrease in natural rubber demand will not be serious.

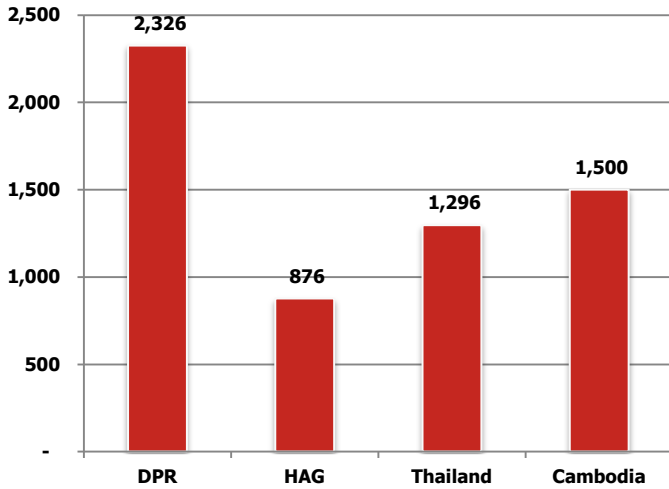
#### High production cost

As of policy of Vietnam Rubber Group (VRG), 42% of revenues from producing natural rubber come into labor cost. Since DPR is a member of VRG, it must comply with this policy. This policy has no effect on companies outside VRG.

Since DPR's labor cost is a function of natural rubber price, it is higher than fixed labor cost of other companies. High production cost places DPR in risk when natural rubber price decreases. Moreover, rapid increase in world fertilizers coming from high global demand for foods also increases DPR's production cost and decreases its margin.

**Exhibit 51: Production cost**

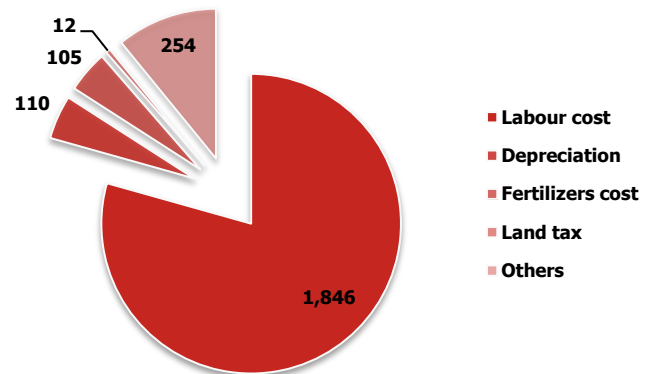
DPR's production cost is the highest and is a function of natural rubber price while production cost of others is not.



Source: DPR, HAG, TLS Research estimates

**Exhibit 52: 2011 DPR's production cost at ASP of USD 4,675 per ton**

Labor cost accounts for nearly 80% of production cost.



Source: TLS Research estimates

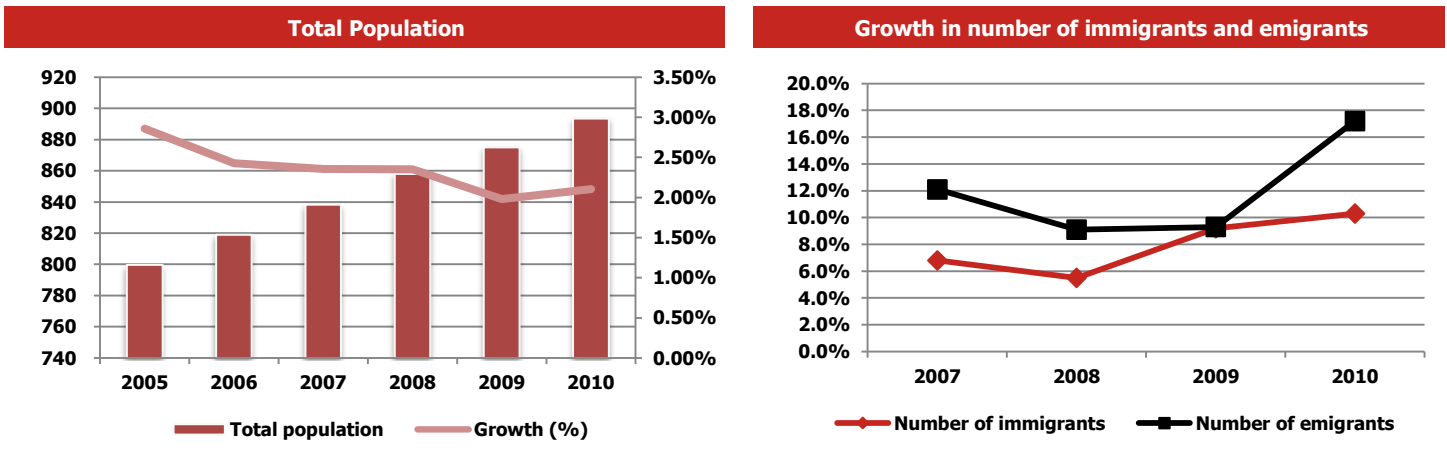
**Risks from other business segment – industrial park, natural rubber latex mattress**

DPR currently owns 51% of interests in Bac Dong Phu Industrial Park Corporation and 51% of interests in Dong Phu Technical Rubber JSC (Dorufoam). While Bac Dong Phu Industrial Park Corporation lends industrial park, warehouses and sells residential land, Dong Phu Technical Rubber JSC produces natural rubber latex mattress and cushion.

BinhPhuoc Province currently has eight industrial parks having the total area of 5,244 hectares. Bac Dong Phu Industrial Park has the total area of 200 hectares. DPR invests VND 51 bn in Bac Dong Phu Industrial Park Corporation, which is equal to 51% of interests. The business performance of Bac Dong Phu Industrial Park Corporation has not been good with only 20 hectares leased by 5 companies. This industrial park has some main disadvantages such as 1/ being far from Ho Chi Minh City, airport, sea port and having low infrastructure; 2/ lack of labors, especially technicians, professionals. Because of these disadvantages, a slowdown in Vietnam economic activities and oversupply of industrial parks in BinhPhuoc Province, it is difficult for DPR to lend industrial park and so it is a waste of its capital.

**Exhibit 53: Population of BinhPhuoc Province**

BinhPhuoc Province has the low growth rate of total population. Its annual growth rate has been nearly 2% while Binh Duong Province's has been nearly 7%. Moreover, there is a tendency of emigration, which can result in a decrease in labor supply. It is a bad signal for industrial parks.



Source: General Statistic Office of Vietnam

Main risk of producing natural rubber latex mattress and cushion is its low branding. Low branding mean DPR has to compete by using lower price while price of natural rubber latex concentration is in a high level. This business can be a waste of DPR's capital.

**BUSINESS MODEL**

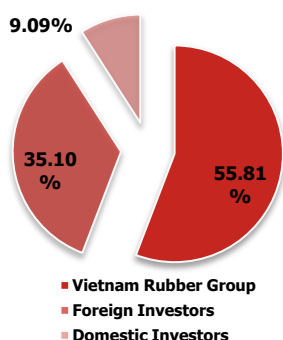
**Company profile**

Dong Phu Rubber JSC is one of Vietnam Rubber Group members. It was PhuRieng rubber plant of French before it was founded as Dong Phu Rubber Company in May 21, 1981. On December 28, 2006, it was officially changed into a Joint-stock company with the initial chartered capital of VND 400 bn. Since November 30 2007, it was listed on Ho Chi Minh Stock Exchange (HSX). The initial price was VND 99,000 per share.

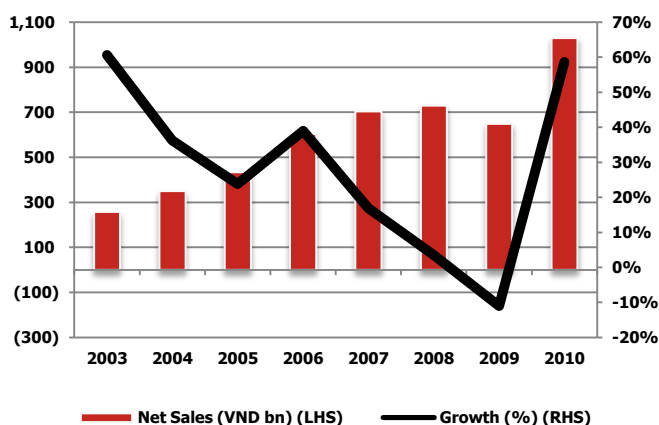
The company business lines include (1) planting rubber trees and producing natural rubber latex; (2) lending industrial and residential areas; (3) producing natural rubber latex mattress and cushion. Its core business is planting rubber trees and producing natural rubber latex.

DPR currently has rubber trees plant with total area of nearly 9,562 hectares in which there are 7,236.82 hectares of tapping area. Its annual average yield in 2011 can be 2.01 tons per hectare.

**Shareholders structure**

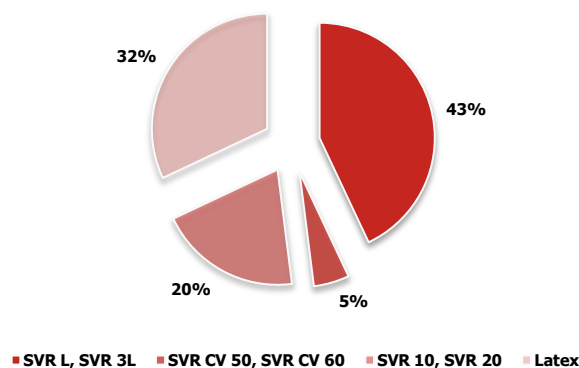


**Exhibit 54: Net Sales**



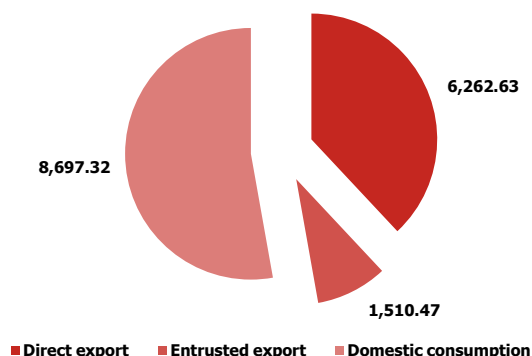
Source: DPR, TLS Research estimates

**Exhibit 55: Sales volume structure**



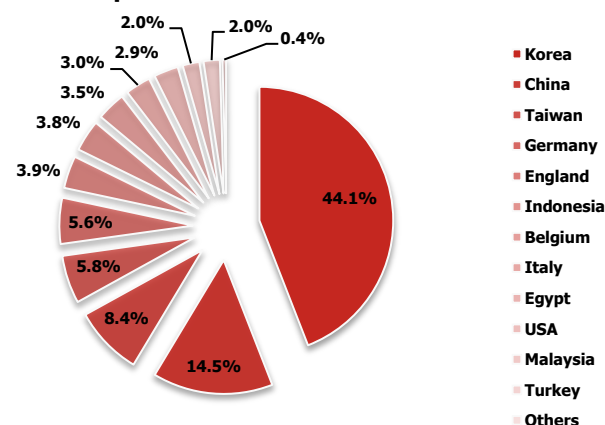
Source: DPR

**Exhibit 56: Market Structure (ton)**



Source: DPR, TLS Research estimates

**Exhibit 57: Export markets**



Source: Vietnam Customs



## Exhibit 58: DPR's long-term investment portfolio

Company	Capital	DPR's investment	% DPR	Investment in 2010	Total value	Investment in 2011	Total value	Notes
<b>Dong Phu – Kratié Natural Rubber JSC (Cambodia)</b>	500	200	40%	52.91	128	97.25	225.25	<ul style="list-style-type: none"> <li>Its natural rubber trees plant has area of 6,000 ha in total area of 8,000 ha in use. The company planted 70 ha in 2008, 1,100 ha in 2009, 2,130 ha in 2010. It will plant 2,500 ha in 2011 and 200 ha in 2012.</li> <li>Shareholders structure is DPR (40%), VRG (30%), and Vietnam Cement Industry Corporation (30%).</li> <li>Total investment value will be VND 1,000 bn with 50% from loan at Vietnam Development Bank in 10 years. The loan has favorable interest rate and grace period of 4 years.</li> </ul>
<b>Dong Phu–DakNong Natural Rubber JSC</b>	120	108	90%	13.41	79.75	20	99.75	<ul style="list-style-type: none"> <li>Shareholders structure is DPR (90%), DPR's labor (10%).</li> <li>It is difficult for company to get enough land area. It expects to collect total area of 1,400 ha in which there are 904-hectare area for planting rubber trees. The company planted 40 ha area of rubber trees from 2007 to 2010.</li> <li>The company plans to make joint venture with nearby companies to expend the area for planting rubber trees.</li> </ul>
<b>Dong Phu – Snuol LLC</b>	1,200	1,200	100%	-	-	130	130	<ul style="list-style-type: none"> <li>The project expects to receive land and investment approval from authority in 2011.</li> </ul>
<b>Sa Thay Natural Rubber JSC (Kontum Province)</b>	200	20	10%	10.8	18	9.4	27.4	<ul style="list-style-type: none"> <li>It totally has 10,000 ha area of natural rubber trees.</li> </ul>
<b>DauTieng – Lao Cai Natural Rubber JSC</b>	100	10	10%	-	-	10	10	<ul style="list-style-type: none"> <li>Shareholders structure is DauTieng Rubber JSC (70%), DPR (10%), TRC (15%), others (5%).</li> <li>It expects to have 10,000 ha area of natural rubber trees. The company is choosing rubber variety.</li> <li>It is going to plant 1,000 ha area of rubber trees in 2011 and will finish planting 10,000 ha in 4 years.</li> </ul>
<b>Dong Phu Technical Rubber JSC (Dorufoam)</b>	110	55.99	51%	16.6	52.6	0	52.6	<ul style="list-style-type: none"> <li>The company expects to consume 4,000 tonnes rubber latex concentration per year when it deploys total capacity.</li> <li>It is currently build brand for its products. It plans to change brand from Dorufarm to Dong Phu.</li> <li>It is going to buy 100-200 tonnes latex concentration in 2011 at market price from DPR.</li> </ul>
<b>Bac Dong Phu Industrial Park Corporation</b>	100	51	51%	9.21	20.4	10.2	30.6	<ul style="list-style-type: none"> <li>This industrial park is in total area of 1,100 ha, which was taken back by BinhPhuoc Province in exchange for Tan Hung rubber plant with total area of 1,300 ha.</li> <li>Shareholders structure is DPR (51%), Nam Tan Uyen Industrial Park JSC (40%), others (9%).</li> <li>Total area of industrial park is 186 ha in which 60% of area is for lending. The lending price of USD 17-19/m<sup>2</sup>/50 years is cheaper than USD 30 of other companies.</li> <li>It has lent 6 ha since 2010. It is going to lend 15 ha to a company producing shoes. It expects to lend 80% of total area in next 3-5 years.</li> <li>By using capital contribution contract, it sold 40% of area of residential ground to labors, which equals 37 ha.</li> </ul>
<b>Rubber Trading and Tourism Services JSC</b>	426	23	5%	6.3	21.3	15	36.3	<ul style="list-style-type: none"> <li>Shareholders structure is DPR (5%), TRC (4%), others (91%).</li> <li>Its business lines are 1/ trading natural rubber latex and other agricultural – forestry – aquatic – seafood products; 2/ building hotels and resorts; 3/ supplying international and domestic tourism services.</li> <li>Its two big projects under construction are 1/ VRG hotel and commercial center in MongCai, QuangNinh Province and 2/ Green tourism resort in Sapa Town.</li> </ul>
<b>Thuan An Wood Processing JSC</b>				-	7.14			<ul style="list-style-type: none"> <li>502,941 shares</li> </ul>
<b>VietLong Growth Investment Fund</b>					30.45			<ul style="list-style-type: none"> <li>3,000,000 shares</li> </ul>
<b>Ho Nai Industrial Park JSC</b>					0.9476			<ul style="list-style-type: none"> <li>9,200 shares</li> </ul>
<b>Vietnam Rubber Industrial Zone and Urban Development JSC</b>	269	43.493	16%	-	43.493	-	43.493	<ul style="list-style-type: none"> <li>Shareholders structure is PHR (29.04%), DPR (16%), TRC (10%).</li> <li>Its business lines are investing in traffic road projects that are financed by BOT form.</li> </ul>
<b>PhuRieng Rubber Sport JSC</b>					1.5			
<b>Cooperation</b>					39.83			

Source: DPR

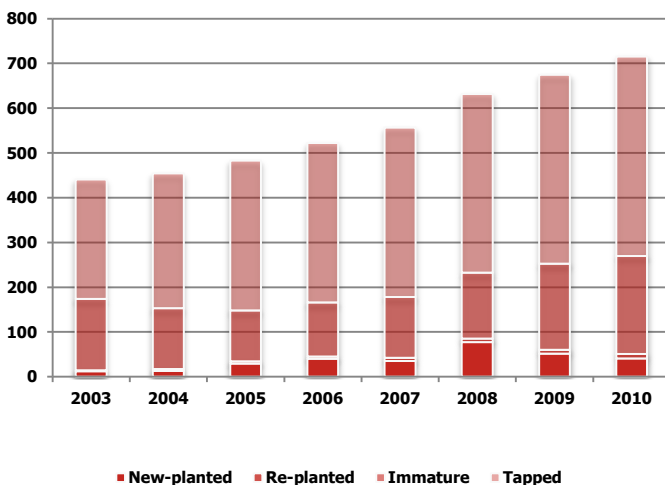
Vietnam natural rubber sector

At the end of 2010, the total rubber trees area in Vietnam was about 715,000 hectares in which there was 445,000 hectares area of tapping trees. The total tapped volume of natural rubber latex was about 750,000 tons implying an annual average yield of 1,685 kg per hectare of tapping area.

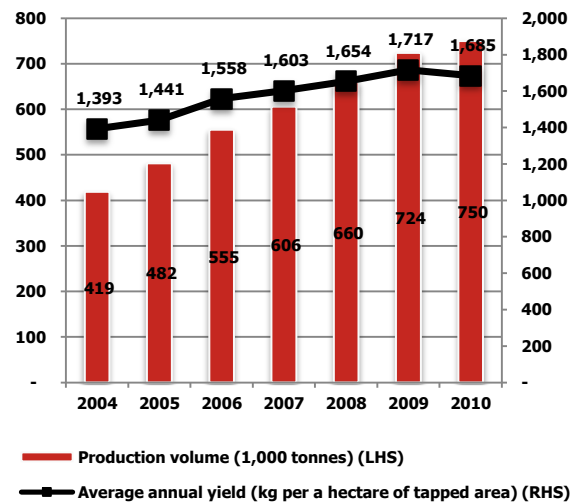
Exhibit 59: Vietnam natural rubber sector

In 6 years from 2004 to 2010, tapped area increased by 48% while production volume increased by 79%. It implied an increasing level of average annual yield. However, we also see a decrease in 2010 coming from lower portion of the highest productive area and higher portion of the lowest productive new-tapped area.

Vietnam rubber area (1,000 hectares)



Production and Annual average yield

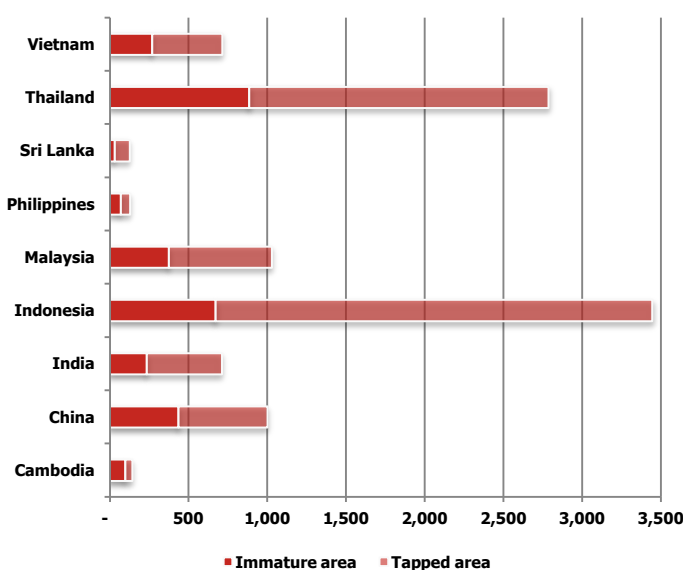


Source: ANRPC

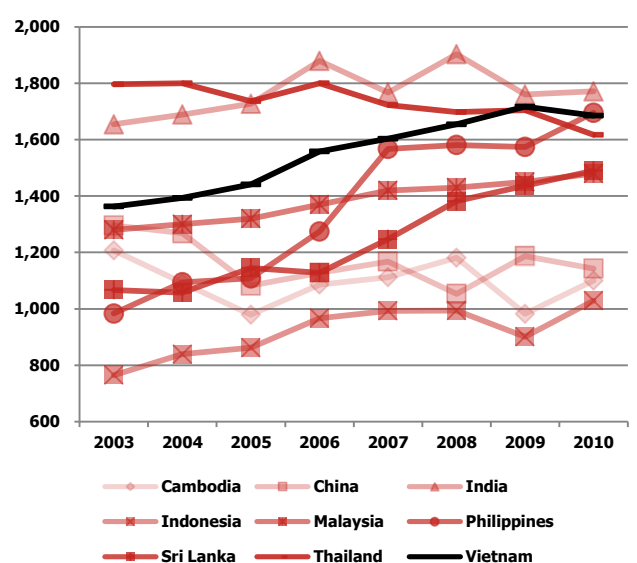
Exhibit 60: Rubber area & Annual average yield of ANRPC members

Vietnamese rubber area is the 6<sup>th</sup> in 9 countries and average annual yield is often in top three.

Rubber area in 2010 (1,000 hectares)



Average annual yield (kg per a hectare of tapped area)

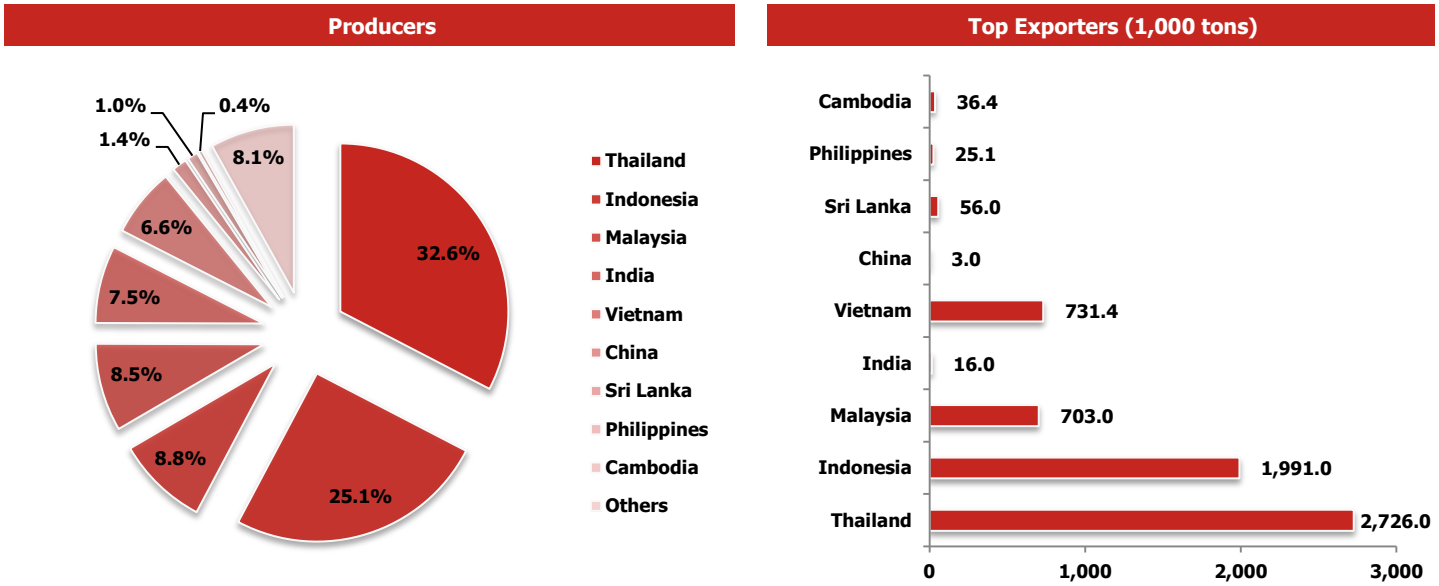


Source: ANRPC

Thanks to favorable weather condition, Vietnam becomes the fifth natural rubber producer but the third exporter.

**Exhibit 61: World natural rubber producers and exporters**

Vietnam is the fifth natural rubber producer but the third exporter.

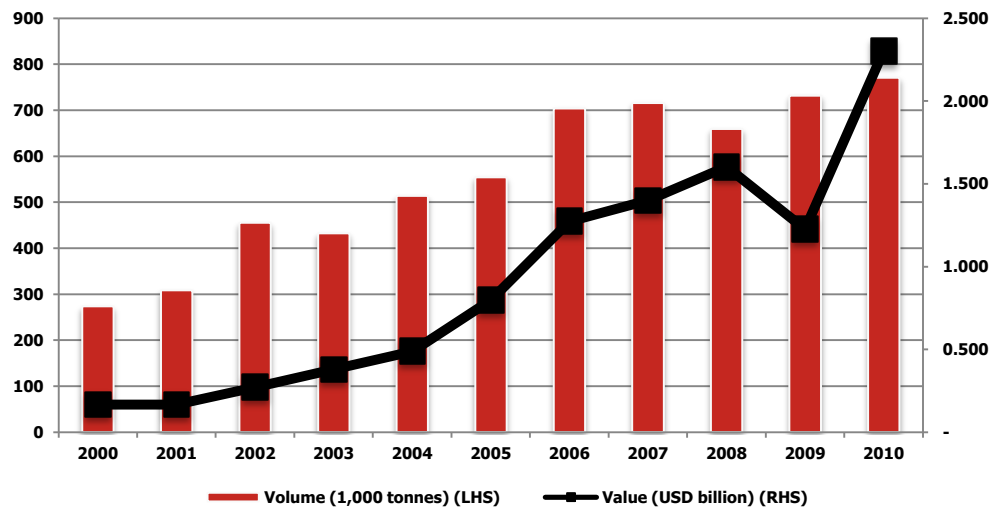


Source: ANRPC, IRSG

Vietnam exported nearly 770,000 tons of natural rubber latex or USD 2.3 billion natural rubber latex in 2010. Therefore, Vietnam natural rubber export increased by 2.82 times in quantity and 13.85 times in value within 10 years from 2000 to 2010. The CAGR of natural rubber latex volume and value exported were respectively 10.91% and 30.06%. The main and largest natural rubber export market of Vietnam is China, having a rapid increase in natural rubber latex demanded from high economic growth rates.

**Exhibit 62: Volume and value of Vietnam natural rubber export**

The CAGR of volume and value from 2000 to 2010 were 10.91% and 30.06% respectively.



Source: Vietnam Rubber Association, ANRPC

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This product covers the latest developments on the target firm. Details on the firm can be obtained by contacting our analyst(s) or the sales persons named above. We thank clients for comments and feedbacks on our product. TLS publishes this product, but all errors if any are the authors'.

Analyst's opinion: BUY – expected to gain more than 15% compared to the price on report issue date; SELL – expected to drop more than 15% compared to the price on report issue date; HOLD – expected to change between -15% to 15% compared to the price on report issue date.

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## OFFICES

**Headquarter:** Level 5, 6, 7, Thang Long Tower, 98 NguyNhuKon Tum, ThanhXuan District, Hanoi. Phone: +84 4 37262600.

**HCMC Office:** Level 2, Petro Vietnam Tower, 1-5 Le Duan, District 1, Ho Chi Minh City. Phone: +84 8 39106411.

**Research Office:** Level 7, Thang Long Tower, 98 NguyNhuKon Tum, ThanhXuan District, Hanoi. Phone: +84 4 44568668. E: [research@tls.vn](mailto:research@tls.vn)

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