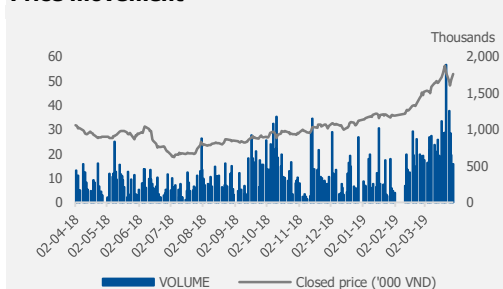


HOLD (Initiation)**Phuoc Hoa Rubber JSC (HSX: PHR)**

Report date	Jun. 03, 2019
Current price	VND 55,200
Target price	VND 53,500
Upside	-3%
Bloomberg	PHR VN
Market cap	VND 6,490bn USD 276.2mn
52 weeks movement	VND 56,200 – VND 17,700
Average daily value	VND 18.8bn USD 0.78mn
FOL	49%
Current FO	8.81%

Transforming into industrial park developer**Our takeaway**

- PHR is on the way to becoming an industrial zone developer and rubber manufacturer over the period 2020-2030. PHR owns more than 7,000ha eligible to transform to industrial park (IP). We expect PHR will be a top-notch industrial park developer and rubber planting enterprise in the long-term.
- Thanks to the divestment of NTC and land transfer to VSIP, we forecast earnings of PHR in 2019-2021 will be at least VND 1,000bn per annum (FY19: +54% yoy) and a dividend of at least 5,000 VND/share.

Price movement

Stock performance	1M	3M	12M
PHR (%)	0.2%	36%	118%
VNIndex (%)	-2.8%	1.3%	-10.9%

Source: Bloomberg

Major Shareholders

VGR	66%
Asian Value Fund	4.4%

What's new

Young rubber plantations in Binh Duong and Cambodia continue to boost rubber revenue in the next five years. Up to 2019, total exploitation land in Kampong Thon (Cambodia) is 6,844 ha (89% of total cultivation area) with average productivity of 0.95 ton/ha. We forecast rubber revenue from Kampong in FY19 and FY20 at VND 186bn (+55% yoy) and VND 246bn (+32% yoy) respectively. Including revenue from Binh Duong, total rubber revenue is VND 1,113bn in 2019 (+4.7% yoy) and VND 1,189bn in 2020 (+6.8% yoy).

Financial income increases by 122% yoy thanks to the divestment of joint venture and the transfer of rubber land. We forecast that in 2019 PHR would earn VND 357bn one-off profit (35% of total net profit) from divesting its stake in Nam Tan Uyen IP (HSX: NTC) and Song Con hydropower (OTC: GSCP). Regarding land transfer, PHR will contribute 691ha at half-price to VSIP 3 in 2019-2021 in exchange for 20% ownership. We forecast that PHR would receive a reimbursement of VND 829bn in total for this land transfer. We expect PHR to receive 10% of total reimbursement in 2019 (VND 82.9bn), equivalent to 530 VND/share.

Tan Binh industrial park to contribute 30% of PHR's total revenue from 2020, thanks to incoming expansions. Specifically, Tan Binh IP has been granted an additional 1,055ha in 2 phases. We forecast FY19 and FY20 revenue from Tan Binh IP of VND 507.6bn (+53.5% yoy) and VND 779bn (+56% yoy) respectively.

Valuation

We initiate the coverage of Phuoc Hoa Rubber with a **HOLD** recommendation and target price of **VND 53,500 (-3% upside)** by using DCF method for the core business and sum-of-the-parts method for the divestment from affiliates and subsidiaries. We believe that the current market price reflects the company's one-off income jump in 2019. FY19 forward P/E based on our target price is 7.2x and P/B is 2.1x while the company is currently trading at a P/E of 11.6x and P/B of 2.3x.

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Unit: VND million	FY17	FY18	FY19F	FY20F
Revenue	1,653,700	1,557,797	2,235,234	2,573,623
EBIT	182,005	152,861	248,173	297,521
Net profit	330,474	636,930	1,004,244	1,256,949
Net profit (basic)	325,496	631,952	999,266	1,251,971
EPS (VND)	2,439	4,701	7,411	9,276
EPS growth rate (%)	53.0%	3.8%	55.3%	25.3%
P/E (x)	6.8	11.6	7.2	5.6
EV/EBITDA (x)	5.1	19.6	17.6	15.1
DPS (VND)	2,000	3,000	6,000	6,000
Dividend yield (%)	8%	8.5%	11.2%	11.2%
P/B (x)	1.4	2.3	2.1	2.0
ROE (%)	13.5%	23.6%	34.9%	37.9%
Net debt/equity (%)	-22.9%	17.1%	15.2%	12.5%

Source: MBS Research

Earnings model & Valuation

We derive the intrinsic value of PHR's core earnings of 46,123 VND/share using DCF method. With the divestments of NTC and GSC Song Con, a one-off profit of VND 440bn is recorded in 2019, equivalent to 2,600 VND/share. Regarding land transfer, we forecast total net profit of VSIP 3 and NTC 3 to be VND 894.8bn, equivalent to 4,757 VND/share. We assume the same level of profit over the period 2019 - 2021 so that PHR's EBT maintains at least VND 1,200bn annually. Adding all contribution of divestment and core business, we value the target price of PHR to be **VND 53,500/share (-3% upside)**, equivalent with PE 2019F 7.2x.

Table 1: Contribution of divestment and land transfer

	Method	Ownership	Time period	Price	EBT FY19	Contribution per share
Divestment		Ownership		Price/share		
<i>Nam Tan Uyen Industrial Park</i>	On-band	32.85%	2Q19-3Q19	VND 75,000	VND 383.7bn	VND 2,265
<i>Geruco Con River Hydropower</i>	Off-band	15.2%	2019	VND 20,000	VND 56.8bn	VND 350
<i>Phuoc Hoa Dak Lak</i>	Off-band	100%	2019 - 2021	VND 10,000	-	-
Land Transfer		Area transferred		Price/ha		
<i>VSIP 3</i>	Transfer in 3 years	691 ha	2019 - 2021	VND 1.3bn	VND 89.83bn	VND 530
<i>Nam Tan Uyen 3</i>	Transfer in 3 years	350 ha	2019 - 2021	VND 2.3bn	VND 805bn	VND 4,227
Total equity value per share						VND 7,372

Table 2: Valuation of PHR

VND mn	2019F	2020F	2021F	2022F	2023F	Terminal
Sales	2,235,234	2,235,234	2,573,623	2,608,615	2,809,446	
EBIT	248,173	248,173	297,521	318,536	340,102	
(-) Tax	(247,321)	(247,321)	(309,557)	(318,784)	(169,141)	
(+) D&A	63,631	63,631	68,837	73,830	76,151	
(-) Net increase of WC	197,642	197,642	56,654	34,621	57,440	
(-) Capex	(242,918)	(242,918)	(260,329)	(249,623)	(116,058)	
FCF	203,887	225,289	107,619	118,525	300,856	5,321,285
Time to discount	0.65	1.65	2.65	3.65	4.65	
Discount factor	0.93	0.84	0.75	0.68	0.61	
NPV of FCF	2,576,830					
NPV of terminal value	2,177,044					
Enterprise value	4,753,874				WACC	10.5%
Net borrowing	(457,970)				Terminal growth	2%
Equity value	6,249,632				Risk-free rate	5.8%
# of share	135,500,000				Beta	0.63
Contribution per share of Divestment	VND 2,600				Equity risk premium	10.3%
Contribution per share of Land transfer	VND 4,778				Cost of equity	12.3%
DCF Valuation of Core-business	VND 46,123				Cost of debt	6.5%
Total value per share	VND 53,500					

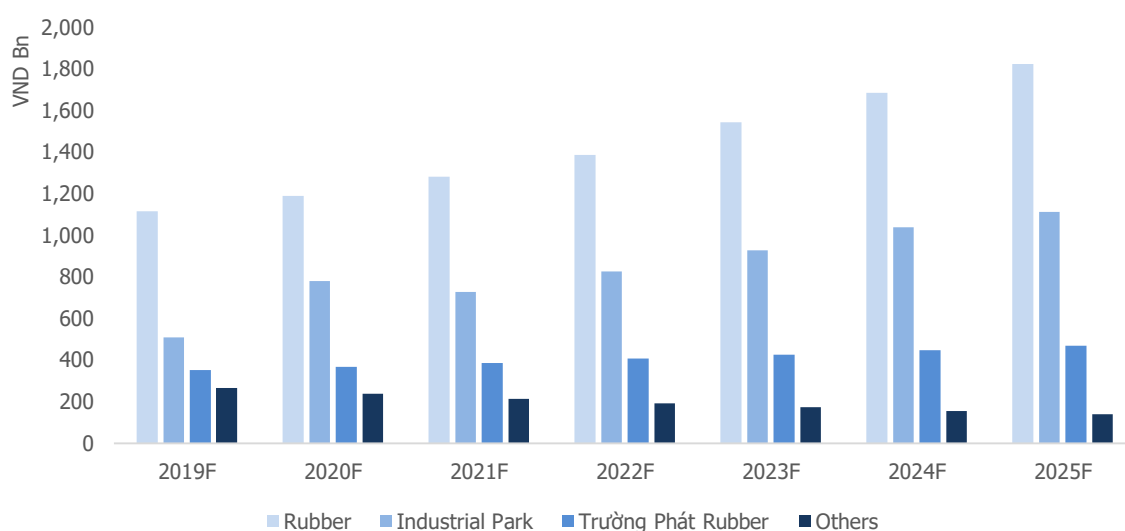
Investment highlights

Financial income increases by 122% yoy thanks to divestment of joint venture and transfer of rubber land

We forecast that PHR would earn VND 357bn one-off profit in 2019 (35% total net profit) from divesting its 32.85% stake in Nam Tan Uyen IP (HSX: NTC) and 15.2% in Song Con hydropower (OTC: GSCP) to eliminate cross-ownership with its parent company Vietnam Rubber Group (Upcom: GVR). Regarding NTC divestment, we think PHR will gain VND 300bn net profit, or 30% of total FY19F NPAT (2019F NPAT-MI: VND 999bn; +55.3% yoy). In addition, we forecast that PHR can divest 5.9 mn shares of GSC Song Con at a price of 20,000 VND/share, equivalent to VND 56.8bn in net profit.

In terms of land transfer, Binh Duong province has a plan to build the third Vietnam-Singapore Industrial Park (VSIP 3) under a joint-venture between Temasek, Becamex and PHR. The total transferred area of VSIP 3 is 691ha, to be taken from Phuoc Hoa Rubber in the period of 2019 -2021. Specifically, the land transferring price is set at only about half of the market price, VND 1.3 bn/ha, in exchange for 20% ownership in the joint venture. We forecast that PHR would receive a total of VND 829bn reimbursement from land transfer in the period 2019-2021. We expect PHR will receive 10% of total reimbursement in 2019 (VND 82.9bn), equivalent to 530 VND/share.

Figure 1: Revenue Stream of PHR (VND bn)



Source: MBS Research

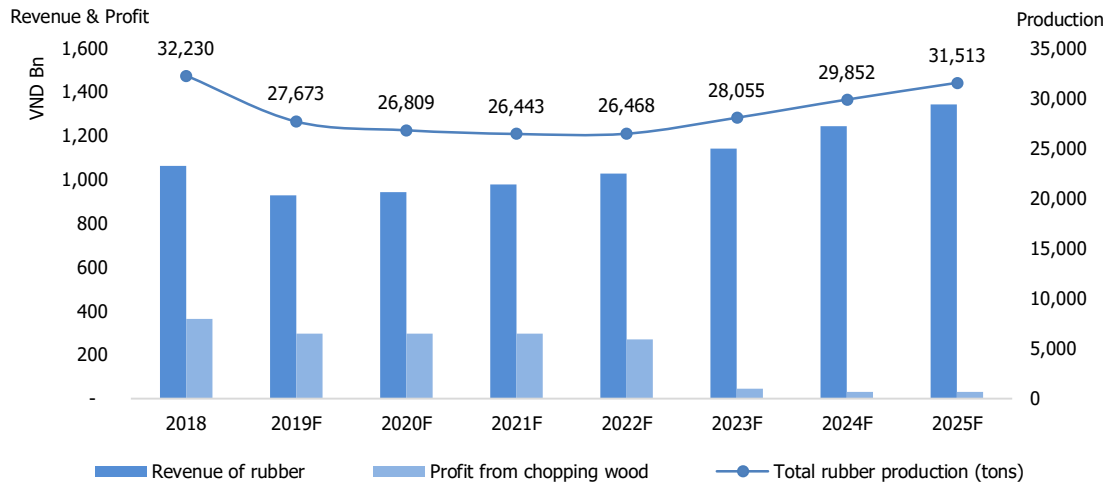
Young rubber plantations in Binh Duong and Cambodia continue to boost rubber revenue in the next five years

We expect rubber segment will contribute 49% to total revenue in FY19 with a total of 33,832 rubber tons (+19% yoy). However, PHR agreed to transfer around 1500ha land to develop IP in 2018-2021. We notice that PHR still has Kampong Thon rubber plantation which was built from 2009. We estimate total exploitation lands in Kampong Thon will be 6,844ha in 2019 (89% total cultivation area in Cambodia) with average productivity of 0.95 ton/ha. Thus, rubber revenues from Kampong in FY19 and FY20 are forecast at VND 186bn (+55% yoy) and VND 246bn (+32% yoy), respectively. In 2021, Kampong garden can harvest from all 7,384ha and produce VND 304bn (+2-3% yoy) in revenue with average productivity of 1.2 tons/ha.

We forecast rubber revenue in Binh Duong field will go down to VND 927bn (-13% yoy) in FY19 due to transfer of around 450ha of rubber land to NTC and VSIP 3. In 2020, although PHR can exploit an additional of 608ha plantation in Binh Duong, we forecast revenue of Binh Duong field will increase just marginally to VND 943bn (+1.6% yoy) as these are young trees with low productivity.

In conclusion, regarding both Cambodia and Binh Duong fields, we believe revenue of rubber division in FY19 and FY20 will continue to increase to VND 1,113bn (+4.7% yoy) and VND 1,189bn (+6.8%yoy), respectively.

Figure 3: Rubber production, revenue, and profit from garden liquidation



Source: MBS Research, FS PHR 2016 - 2018

In 2019-2022, 21% of net profit coming from liquidation income

From 2019 to 2022, PHR will continue chopping 1,100 hectares of old-aged rubber trees per annum. We project PHR's timber income from liquidated rubber trees in 2019-2022 at VND 270 mn/ha, or VND 290bn per year (~21% total net profit). From 2023, old rubber tree area would be 271ha (~3% of cultivation area in 2023) and would not have a significant contribution to total net profit.

Figure 4: Cultivation structure of PHR rubber area in 2018 and 2023 (ha)

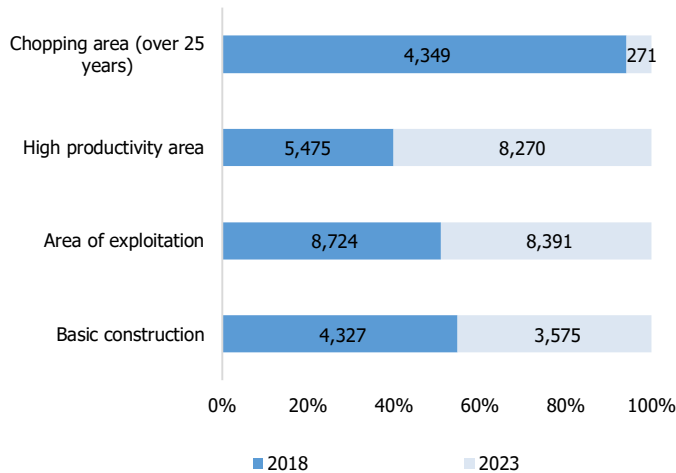
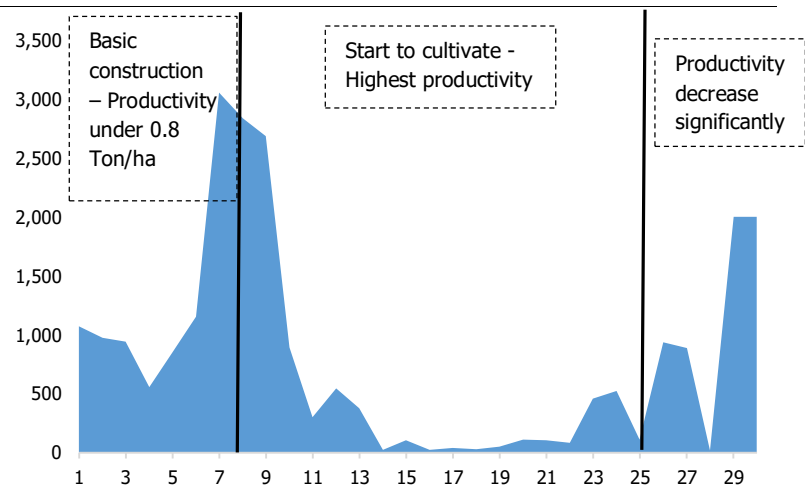


Figure 5: Age structure of Phuoc Hoa rubber cultivation area in 2018 (ha)



Source: MBS Research, FS PHR 2016 - 2018

Phuoc Hoa will gradually transfer 1,041ha rubber land to VSIP and NTC in the period 2019-2021 to ensure VND 1,000bn EBT annual target. According to the AGM 2019, the parent company Vietnam Rubber Group (Upcom: GVR VN) required PHR to achieve at least VND 1,000bn EBT in the next three years. Currently, rubber price is fluctuating in the range 1,400-1,800 USD/ton with no signal of improvement. We do believe that at least 70% of EBT in the period 2020-2021 will come from liquidation of rubber wood and plant.

Table 02: The schedule forecast of transferring rubber plant to IP

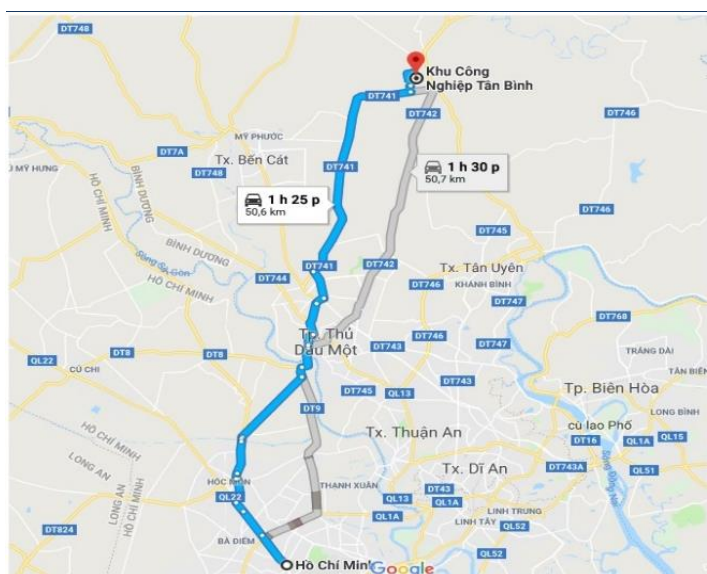
Year	Convertible area to IP	Total Area convert to IP	Converted area in year	Partner	Note
2018	8,724ha	1,056ha	15ha	Đất Quốc IP	- Transfer 15ha for Đất Quốc IP with price VND 2.5bn
2019F	7,072ha	1041ha	105ha	NTC & VSIP	- Transfer 35ha for NTC – price VND 2.5bn - Transfer 69ha for VSIP – price VND 1.3bn
2020F	6,580ha	936ha	468.5ha	NTC & VSIP	- Transfer 157.5ha for NTC – price VND 2.5bn - Transfer 311ha for VSIP – price VND 1.3bn
2021F	6,472ha	1,017.5ha	411ha	VSIP & Tan Binh 2 IP	- Develop Tan Binh 2 Industrial Park - 550ha - Transfer 157.5ha for NTC – price VND 2.5bn - Transfer 311ha for VSIP – price VND 1.3bn
2022F	6,592ha	856.5ha	350ha	Tan Binh 2 IP & U&I Group	- Develop Wood processing IP with U&I Group - 250ha - Transfer 250ha for Tan Binh IP - Transfer 100ha for Wood processing IP

Source: MBS Research

In particular, we forecast total rubber land conveyed to NTC and VSIP in 2019 to be modest at 105ha (10% of total planned area), equivalent to VND 170bn (13.6% total FY19 EBT). To guarantee the target earnings of VND 1,000bn this year, PHR will be likely to divest Geruco Song Con and stake in NTC with total divesting profit of VND 430bn. In 2020–2021, we forecast PHR will annually transfer 468.5ha to NTC and VSIP, equivalent to VND 766.5bn (49% total FY20&FY21 EBT).

New revenue contributor from Tan Binh Industrial Park

In 2018, revenue and net profit from industrial park division only contributed 6.7% and 7.1%, respectively to the total results. We expect these figures could increase to 25-30% from 2020 onwards thanks to incoming expansions. Specifically, Tan Binh Industrial Park is granted an additional 1,055ha in 2 phases. Phase 1, which is a 500ha expansion, is expected to go into operation in 2020 and 555ha of phase 2 will be ready for lease from 2022. As a result, we forecast FY19 and FY20 revenue from Tan Binh IP at VND 507.6bn (+53.5% yoy) and VND779bn (+56% yoy), respectively.

Figure 4: Tan Binh Industrial park phase 2 location**Table 3: Rental price of industrial parks in Binh Duong**

Industrial Park	Leased fee (USD/m2)	Time in use (years)
Đồng An	90	36
Đại Đăng	75	50
<i>Sóng Thần 1 (from 1995)</i>	<i>52</i>	<i>50</i>
Nam Tân Uyên	84	50
<i>Tân Hiệp Đông A (from 2002)</i>	<i>56</i>	<i>50</i>
Tân Hiệp Đông B	62	50
VSIP	65	50
KCN Bình Dương	110	50
Tân Bình (First phrase)	65	50
Average	78	48

Source: MBS Research, Asian Land, Bình Dương Industrial Park Plan

PHR possesses enormous advantage to become a top-notch IP developer

PHR possesses more than 7,000ha/15,000ha total rubber plant which are convertible to industrial park. In Binh Duong, Dau Tieng Rubber (unlisted) and PHR are the two biggest rubber companies, owning 22,000ha and 15,000ha of rubber, respectively. Most of rubber plants of PHR are located in three eastern districts of Binh Duong: Phu Giao, north Ben Cat and Tan Uyen. We highly appreciate the potential of Phuoc Hoa's land bank for developing industrial parks thanks to its large size and convenient location for traffic. It's totally contrary with Dau Tieng Rubber when their rival is limited by environment policies.

Figure 6: Binh Duong Map & Location of PHR



Source: Binh Duong Maps, MBS Research

North Ben Cat and Tan Uyen, where are the locations of PHR rubber plant, of Binh Duong province will be the capital of industrial parks. Currently, IPs in Binh Duong concentrate in the South, which is running out of land bank. Thus, IP developers are targeting other places such as East Tan Uyen or North Ben Cat. Other places such as West or North Dau Tieng are restricted by nature conservation. To avoid polluting Dau Tieng Lake, Binh Duong province wants to develop new IPs in the East, which is closer to HCMC and Dong Nai province. Therefore, we believe East Tan Uyen will be the most suitable place for new IPs thanks to its advantages of logistics and location adjacent to Dong Nai province.

Phuoc Hoa has a plan to convert 2,000ha of Hoi Nghia rubber plant to IP until 2025. Hoi Nghia rubber plant lies in Tan Uyen district with total area of 2,600ha. Unlike Dau Tieng Rubber, PHR has no restriction regarding nature conservation and is able to convert at least 80% (2,000ha) of Hoi Nghia rubber plant to IP. Meanwhile, Dau Tieng Rubber must keep at least 8,000-10,000ha rubber plant surrounding Dau Tieng Lake for nature conservation.

Financials and Valuation Summary

Income Statement (VND mn)				Financial Ratio			
	FY18	FY19F	FY20F		FY18	FY19F	FY20F
Total revenue	1,557,797	2,235,234	2,573,623	Valuation			
COGS	1,301,906	1,833,828	2,099,672	EPS	4,701	7,411	9,276
Gross profit	255,892	401,406	473,951	Book Value	12,999	15,216	15,904
SG&A	103,030	153,233	176,430	P/E	11.64	7.2	5.60
Operating profit	152,861	248,173	297,521	P/B	2.26	2.12	2.01
Interested expense	(28,150)	(26,393)	(19,891)	P/S	114.97	164.96	189.94
Financial income	145,914	64,097	64,097	Dividend Yield	8.5%	11.2%	11.2%
Financial expense	(36,595)	(34,312)	(25,859)	Profitability Ratio			
Gain/Loss from affiliates	70,122	77,135	84,848	Gross Margin	16.4%	18.0%	18.4%
NPAT	636,930	1,004,244	1,256,949	EBITDA Margin	13.6%	1-3%	14.2%
NPAT-MI	631,952	999,266	1,251,971	NPAT-MI Margin	9.8%	11.1%	11.6%
				ROE	23.6%	34.9%	37.9%
				ROA	12.4%	18.4%	20.9%
				Growth Rate			
				Revenue	-5.8%	43.5%	15.1%
				EBT	84.5%	64.7%	25.2%
				NPAT-MI Margin	94.2%	55.3%	25.3%
				EPS	3.8%	55.3%	25.3%
				Total Asset	18.4%	6.5%	10.8%
				Equity	11.0%	7.0%	15.3%
				Liquidity			
				Current Ratio	1.71x	2.31x	2.13x
				Quick Ratio	0.89x	1.63x	1.43x
				Debt/Asset	9.5%	8.5%	7.2%
				Debt/Equity	18.0%	16.0%	13.2%
				Interest coverage	23.82x	25.40x	3.68x
				Efficiency			
				Account Receivable Ratio	5.8%	5.8%	5.8%
				Time to collect	21 days	21 days	21 days
				Inventory Ratio	15.4%	16.2%	17.0%
				Time in Inventory	56 days	59 days	62 days
				Account Payable Ratio	3.8%	4.2%	4.6%
				Time to Pay	14 days	15 days	17 days
Balance Sheet				Cash Flow			
	FY18	FY19F	FY20F		FY18	FY19F	FY20F
Total current Asset	1,362,519	2,140,239	2,253,145	CFO	1,270,636	1,260,538	1,377,462
I. Cash & cash equivalent	362,430	1,112,760	1,051,675	CFI	(685,618)	326,115	(602,223)
II. Short-term Investment	342,892	400,941	461,639	CFF	(410,958)	(836,324)	(836,324)
III. Short-term receivable	236,668	163,912	187,304	Net change in Cash	174,060	750,330	-61,085
IV. Inventory	294,555	297,036	355,927	Beginning Cash & CE	532,630	764,739	1,575,766
V. Other current assets	125,974	165,591	196,601	Ending Cash & CE	706,690	1,515,068	1,514,682
Total non-current Asset	3,723,990	3,276,195	3,748,882				
I. Long-term receivable	502,590	51,580	218,547				
II. Fixed asset	2,348,917	2,528,204	2,719,695				
1. Tangible fixed asset	2,114,025	2,275,384	2,447,726				
2. Intangible fixed asset	234,892	252,820	271,970				
III. Investment Real Estate	-	-	-				
IV. Capital Expenditure	203,839	242,918	260,329				
V. Financial Investment	130,766	130,766	130,766				
VI. Other Long-term Investment	537,879	322,727	419,546				
Total Asset	5,086,509	5,416,434	6,002,027				
Liabilities	2,409,641	2,553,300	2,699,923				
I. Current liabilities	797,741	926,851	1,058,652				
1. Current account payable	693,812	822,922	954,724				
2. Short-term borrowings	103,929	103,929	103,929				
II. Non-current liabilities	1,611,900	1,626,449	1,641,270				
1. Non-current account payable	1,234,471	,271,505	1,309,650				
2. Other account payable	377,429	354,944	331,620				
Equity	2,676,868	2,863,134	3,302,105				
1. Chartered Capital	1,354,992	1,354,992	1,354,992				
2. Additional in Capital	21,238	21,238	21,238				
3. Retained Earning	1,098,555	1,284,820	1,723,792				
4. Non-controlling interest	-	-	-				
5. Other Capital	202,083.13	202,083.13	202,083.13				
Total Equity	5,086,509	5,416,434	6,002,027				

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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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