

The age of rubber returns

- Supply shortage and high demand were the main drivers for the uptrend of rubber prices in 9M24;
- We forecast rubber prices to remain at high levels thanks to (1) unfavorable weather conditions (2) widespread leaf fall disease (3) reduced rubber acreage (4) higher rubber consumption;
- We find that GVR, PHR and TRC are the most beneficiaries of high rubber prices.

High rubber prices support Vietnam’s rubber export turnover in 9M24

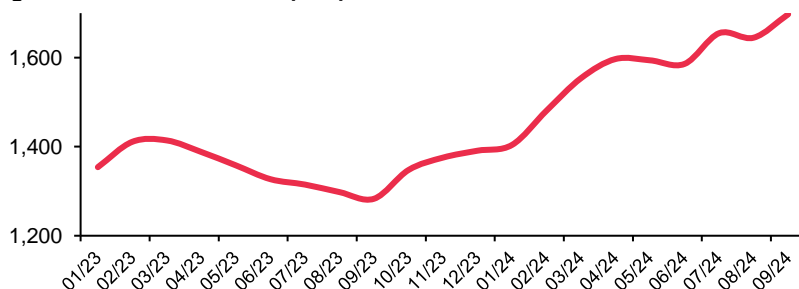
At the end of September 2024, the rubber prices of RSS3 and TSR20 increased by 83% and 55% yoy, respectively, due to extreme weather conditions. High rubber prices have supported Vietnam's rubber export prices, which reached 1,697 USD/ton (+30% yoy) in September and 1,588 USD/ton (+19% yoy) in 9M24. As a result, in 9M24, Vietnam's rubber exports saw a sharp increase of 12% yoy despite a 6%-yoy decrease in output. We forecast Vietnam's rubber export prices to remain high until the end of 2024 thanks to (1) supply shortage (2) higher demand as China has implemented policies to support the economy (3) reduced rubber acreage.

Supply shortage and high demand support rubber prices

In 2024, global rubber production is projected to grow at a slower rate of 0.4% due to (1) unfavorable weather conditions during the transition from El Nino to La Nina (2) widespread leaf fall disease affecting rubber output and quality (3) rubber growers in many countries such as Thailand, Indonesia and Malaysia are not ready to expand their planting areas again. Meanwhile, global rubber consumption is expected to increase more rapidly by 2.3%, reflecting the recovery of China’s rubber consumption as the country is implementing many policies to support its economy. Many countries with large rubber supplies are converting rubber land, which would support long-term rubber prices.

We find that GVR, PHR and TRC are the most beneficiaries of high rubber prices. For GVR, in 2024, we expect the rubber segment’s profit to grow by 40% yoy, helping net profit increase by 38% yoy. For PHR, in 2024, rubber price is expected to increase by 25% yoy, the rubber segment is expected to be profitable after the loss of 2023. TRC benefits the most as its business results mainly come from the rubber segment. Risks causing rubber prices to reverse: (1) global economic downturn (2) falling oil prices (3) rubber production is supplemented during the peak harvest season (4) leaf fall disease is under control.

Figure 1: Vietnam’s rubber export prices



(Source: Vietnam Customs, MBS Research)



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Increasing rubber prices support Vietnam's rubber export prices

Since the beginning of 2024, rubber prices have increased sharply due to extreme weather conditions, especially prolonged high temperature and dry weather caused by the El Niño phenomenon in the main production areas in Southeast Asia. These have led to insufficient rainfall, thereby limiting rubber production. Although the weather condition has improved recently, Typhoon Yagi in September has made rubber tapping difficult, delaying the expected increase in supply during the peak harvest season and causing rubber prices to jump to the highest level this year.

In 9M24, the increase in rubber prices supported Vietnam's rubber export prices. At the end of September 2024, RSS3 rubber price reached 418 JPY/kg +83% yoy and TSR20 rubber price reached 212 USD/kg +55% yoy. Vietnam's export rubber price reached 1,697 USD/ton +30% yoy in September and 1,588 USD/ton +19% yoy in 9M24. Thereby, Vietnam's rubber exports increased by 12% yoy despite a 6% yoy decrease in volume. We forecast Vietnam's rubber export prices to remain high until the end of 2024 thanks to (1) supply shortage (2) higher demand due to China implementing many policies to support its economy (3) reduced rubber acreage.

Figure 2: RSS3 increased by 83% yoy

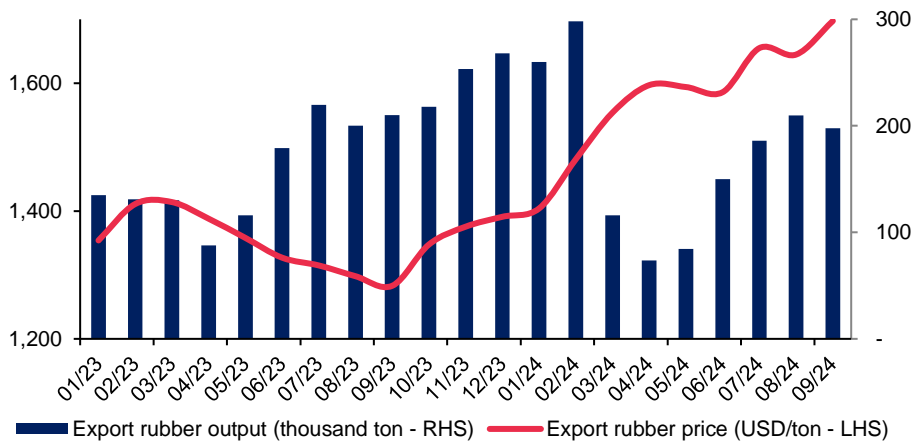


Figure 3: TSR20 increased by 55% yoy



(Source: Bloomberg, MBS Research)

Figure 4: Vietnam's rubber exports



(Source: Vietnam Customs, MBS Research)

Rubber prices remain upward momentum due to supply shortage and high demand

For supply, The Association of Natural Rubber Producing Countries (ANRPC) has continued to raise its forecast for a natural rubber supply shortage this year and warned that the situation could last until 2028. ANRPC has further lowered its forecast for natural rubber supply in 2024 from 14.54 million tons to 14.50 million tons due to the impact of (1) unfavorable weather conditions during the transition from El Nino to La Nina (2) widespread leaf fall disease affecting rubber production and quality (3) rubber growers in many countries such as Thailand, Indonesia and Malaysia are not ready to expand their planting areas again. As a result, in 2024, world rubber production is projected to increase slightly by 0.4% yoy and ANRPC's rubber production is forecasted to decrease by -0.6% yoy.

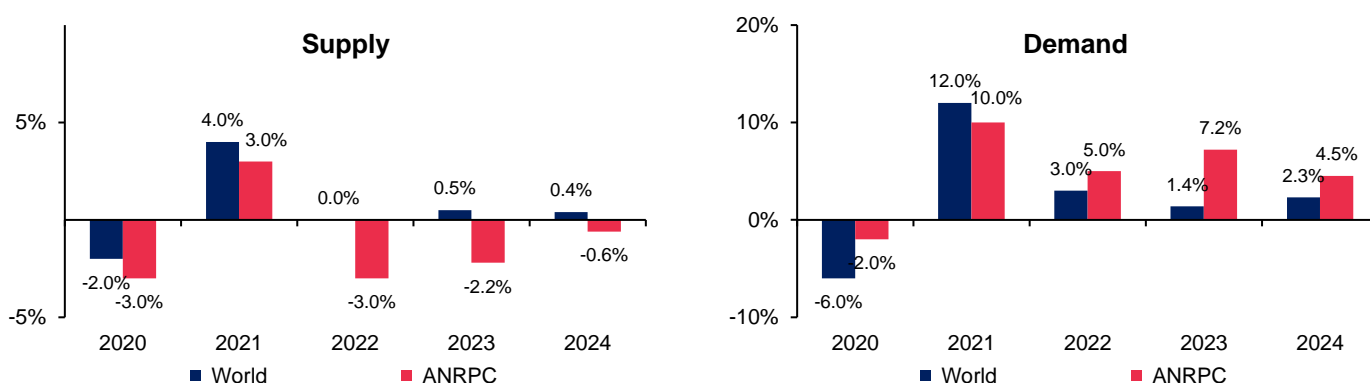
For demand, ANRPC also adjusted up its forecast for global rubber demand this year from 15.67 million tons to 15.75 million tons, expecting China's rubber consumption to gradually recover as the country is implementing many policies to support its economy (China's PBOC cutting the RRR by 0.5% and lowering the 7-day repo rate by 0.2% to 1.5%). ANRPC forecasts global rubber consumption to grow rapidly at 2.3% in 2024.

Figure 5: Rubber supply-demand forecast through ANRPC's updates

Thousand tons	Supply	Demand	Supply - Demand
In 2023	14,300	15,217	-917
Estimated in 2024			
Update in March	14,508	15,826	-1,318
Update in April	14,542	15,670	-1,128
Update in May	14,542	15,670	-1,128
Update in June	14,502	15,748	-1,246

(Source: ANRPC)

Figure 6: Trends of global rubber outlook, 2020-2024 (% growth)

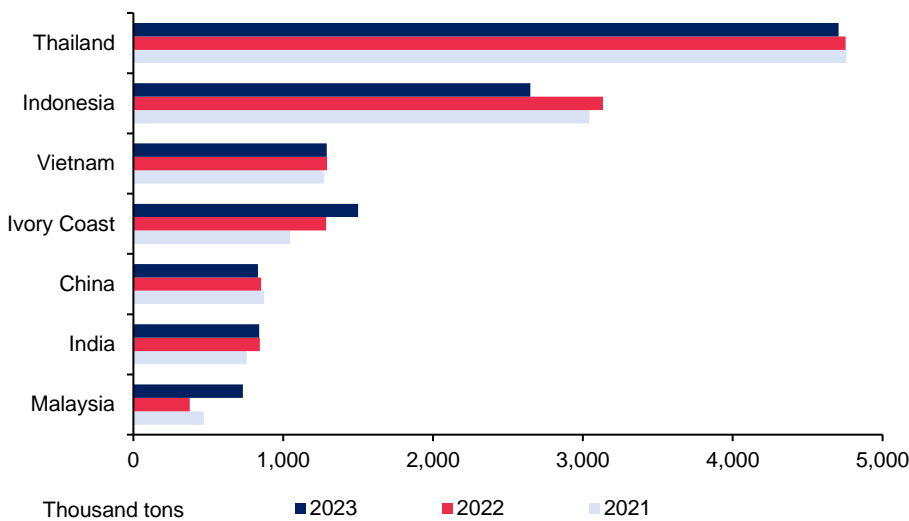


(Source: ANRPC)

Rubber land conversion supports rubber prices in long term

Many countries with large rubber supplies have policies to limit output; cooperate in managing supply between countries to balance the market. Thailand (accounting for 33% of world rubber output) has reduced the area of land for rubber cultivation in the next 20 years. Indonesia - ranked 2nd in rubber exports in the world - tends to convert rubber land to grow palm oil and other agricultural products with higher economic value. Vietnam converts rubber land to industrial land, typically GVR has been approved to convert more than 23,000 hectares of land, PHR plans to convert 10,869 hectares of land, DPR converts 1,621 hectares of land, as industrial land brings higher economic efficiency than rubber land. We believe that rubber land conversion would support long-term rubber prices.

Figure 7: Rubber output of the world's leading countries, in which countries with large output are tending to cut rubber acreage

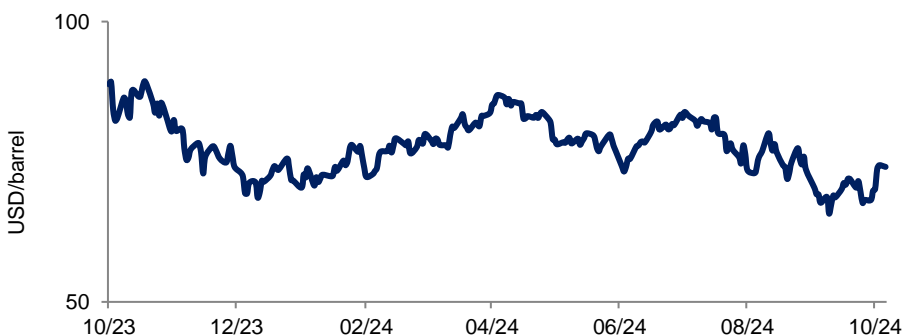


(Source: MBS Research)

Rising oil prices push up rubber prices






Oil prices have an indirect impact on natural rubber prices through synthetic rubber prices as oil is the raw material for synthetic rubber production. According to the US Energy Information Administration, oil prices are forecast to reach USD 83-84/barrel in 2024-25 due to the escalating conflicts in the Middle East. We expect oil prices to maintain upward momentum, supporting rubber prices in the coming time.

Figure 8: Brent oil price



(Source: Bloomberg)

GVR, PHR and TRC are the most beneficiaries of high rubber prices

Ticker	Level of benefit	Comments
TRC	 High	<ul style="list-style-type: none"> We find that the company is the most beneficiary from high rubber prices because the rubber segment contributes nearly 100% of the company's profit. In 1H24, revenue increased by 35% yoy and net profit increased more than 3.5 times compared to the same period in 2023. The company is expanding an additional 4,000 hectares of rubber land in Cambodia. This will be the main driver for the company's growth.
GVR	 High	<ul style="list-style-type: none"> Leading enterprise in the latex processing sector, benefiting from high rubber prices as the rubber segment contributes 70% of gross profit. We forecast the rubber segment's revenue and pre-tax profit to increase by 9% and 40% yoy, respectively, and gross margin to increase by 7 pts to 29%. As a result, net profit is expected to grow by 38% yoy in 2024. In addition, GVR has been approved to convert more than 23,500 hectares of rubber land to industrial land, which could bring GVR extraordinary profits in the near future.
PHR	 Average	<ul style="list-style-type: none"> PHR's rubber output is over 30,000 tons annually. The rubber segment is estimated to contribute about 50% of gross profit. We forecast, for rubber segment in 2024, the average rubber price to reach VND44 million/ton, up 25% yoy, thanks to which revenue would increase 30% yoy and net profit would return positive after the loss of 2023.
DRI	 Low	<ul style="list-style-type: none"> In 1H24, the company's rubber price increased by 13% yoy, but its rubber output decreased by more than 27% yoy due to the raw material source and processing factory located in Laos, which are significantly affected by the country's economy not recovering, high inflation, and the rapid depreciation of the Laos Lak against other currencies. We find that the increase in rubber prices does not have much impact on the company's business results when it is subject to many macroeconomic risks of the host country.
DPR	 Low	<ul style="list-style-type: none"> The company produces rubber but its main profit comes from wood, interest on deposits and land compensation. The rubber segment's profit only accounts for about 25% of the profit, so the increase in rubber prices does not have much impact on the business results of the company.

(Source: MBS Research)

Risks cause rubber prices to turn around

- ✓ Risk of global economic recession causes rubber consumption to decrease;
- ✓ Risk of falling oil prices lead rubber prices to decrease;
- ✓ Rubber supply increases as the peak harvest season occurs in October and November;
- ✓ Leaf fall disease is under control.

Figure 9: Peer comparison

Company name	Tic ker	Market price (VND)	Market Cap (VNDbn)	Targer price	Recomm end	P/E		P/B		ROE (%)		ROA (%)	
						TTM	2024	TTM	2024	TTM	2024	TTM	2024
Vietnam Rubber Group	GVR	34,800	139,200	34,300	HOLD	50.2	38.6	2.7	2.7	5.5	7.1	3.6	4.5
Phuoc Hoa Rubber	PHR	57,900	7,845	60,900	HOLD	19.1	19.2	2.1	2.2	11.2	11.6	6.8	6.7
Dong Phu Rubber	DPR	42,350	3,680	N/A	N/A	14.9	N/A	1.5	N/A	10.3	N/A	5.7	N/A
Tay Ninh Rubber	TRC	39,300	1,179	N/A	N/A	12.7	N/A	0.7	N/A	5.4	N/A	4.5	N/A
Dak Lak Rubber	DRI	12,000	878	N/A	N/A	12.1	N/A	1.8	N/A	14.4	N/A	12.0	N/A
Average						21.8	N/A	1.8	N/A	9.4	N/A	6.5	N/A

(Source: Fiinpro, MBS Research)

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MBS RECOMMENDATION FRAMEWORK

Stock Ratings

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

ADD	The stock's total return is expected to reach 15% or higher over the next 12 months
HOLD	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months
REDUCE	The stock's total return is expected to fall below negative 10% over the next 12 months

Sector Ratings

POSITIVE	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
NEUTRAL	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
NEGATIVE	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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