



Southern Rubber Industry Joint Stock Company (CSM)

BRIGHT PROSPECT AFTER 2012

The picture of 2012 and 2013 could be brighter for CSM when applying significant manufacturing cost reduction in 2012 and phase 1 of its new all-steel radial tire factory comes into stream in 2013 with a revenue increase of 18.9 % p.a.

Aggressive expansion in producing all-steel radial tire will help CSM to diversify its current product lines and become the first domestic manufacturer of this technology-intensive kind of tires.

The stock is currently trading at 2012 P/E of 2.3x and 2011 P/B of 0.8x. CSM price has steadily outperformed the VN Index by 11% for the last three months but still lost 45.4% from its 52 week high of 20,900 VND.

Key Takeaways:

Stable growth starting 2013 onwards

Given the average growth rate of 8.3% p.a in the past, an increase of 18.9% p.a in revenues for the next five years seems to be an ambitious plan. However, we believe that this target can be achieved when all-steel radial tires factory comes into stream in 2013, boosting total capacity of radial production line by 70% to 850,000 tires. The project is expected to contribute to an annual revenue of USD 239mn (+200% increase from its 2010 level) from 2017 onwards.

Heavy expenditure to support future growth

In February 2012, CSM started building its all-steel radial tire project with a total capacity of 1million tires/year for domestic and exporting markets. This new tire differs from traditional diagonal bias-ply tire in their construction, which minimizes tread wear and improves flexibility of the sidewall for better handling. Currently, there is extremely high demand in this radial tire in both domestic and foreign markets.

This USD160mn project will be carried out in three phases with an added capacity of 350,000 tires (by 2014), 600,000 tires (by 2016) and 1 million tires/year (starting 2017 onwards). As of now, bias tires account for 65% market share in Vietnam leaving the rest of 35% for imported radial tires. Therefore, investing all-steel radial tire with a 20% discount price compared with imported ones will help CSM to capture approximately 15% of this market.

2012: +400% Net Profit Expectation

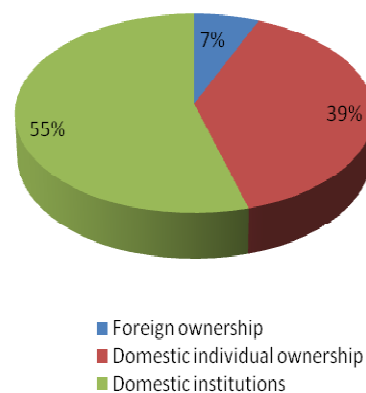
CSM targets to achieve net income of VND200bn (USD10mn) in FY2012 (+400% growth from its 2011 level of VND39bn) and apply Just-in-time production method to

CSM has outperformed VN Index by 11% and gained more liquidity since inception of 2012



Foreign investors now hold 6.5% stake of CSM

Ownership structure



Company's description

Casumina is the leading tire and tube manufacturer in Vietnam. CSM currently captures 35% market shares and holds strong brand name in domestic market. Furthermore, CSM also holds 30% stake in a joint venture with Japanese Yokohama and Mitsubishi partner to

improve inventory and carrying cost management. As CSM's profit is heavily dependent on natural rubber price, a 15% stake in Phuoc Hoa JSC, an exporter of natural rubber, will empower CSM to access natural rubber price at lower cost. The new production methodology and hedging price risk of rubber are expected to bring in positive prospect for CSM in 2012.

High outstanding short term loans will increase future financing costs

CSM's short-term loans by the end of 2011 reached more than USD35.7m. Most of the loans were used to finance the radial tire project, thus boosting future financing cost. Consequently, interest rate expense in 2012 will approximate USD 900,000. However, that 2012 net income is estimated to reach USD10mn helps boost ROE, ROA to 32.3% and 12.6%, respectively.

...Stock price reflects short-term risk

The stock is trading at 2012 P/E of 2.3X with a 45.4% price reduction during the past 12 months to VND11,300. Foreign ownership of 6.5% indicates that foreign investors are still somewhat skeptical about the company's prospect in view of the current high interest expense and volatility in rubber price. However, we expect they will increase their ownership when the radial factory comes into stream at the end of 2013.

...and future uncertainty

If CSM's future expansion projects are successful, there could be a huge increase in revenue from 2013 onwards by 18% p.a. However, the resolution of the current financing challenges and stability of rubber price would bring a positive surprise to our forecasts and we will continue to monitor progress over the coming months.

produce motorbike and light truck tires & tubes since 1997.

Market share and export

CSM holds over 35% market share for automobile and motorcycle tire. CSM's current market structure is 70% domestic and 30% exports. Its foreign markets include ASEAN countries (40%), Middle East, North America and EU. However, exporting into EU has slowed down recently and the company is currently focusing on the Middle East market.

Investment for sustainable growth

The USD 160mn radial tire project will be implemented in 7 years with 7 years payback period and will be financed by 30% owner's equity-70% bank loans. Accordingly, invested funds for each of 3 phases will be USD 91.3mn, USD 28.9mn and USD 39.8mn, respectively. It's worth noticing that as a member of Vietnam Chemical Group (Vinachem), CSM is able to ask for loans with 1-2% lower lending rate compared with the market average.

Initial run to property business

CSM is currently investing in a project at 09 Nguyen Khoai and 504 Nguyen Tat Thanh, District 4, Ho Chi Minh City.

<i>CSM's FINANCIALS (bn VND)</i>	2007	2008	2009	2010	2011	2012F	KEY STOCKS STATISTICS (As of 23/02/12)	
Revenue (VND bn)	1,949	2,149	2,496	2,700	2,924	3,158	Symbol/Exchange	CSM/HOSE
% Revenue Growth		10%	16%	8%	8%	8%	Market capitalisation	VND485.87bn
Net Income (VND bn)	80	9	290	140.9	39	199	Share price	VND11,400
% NI Growth		-89%	3140%	-52%	-72%	407%	Avg monthly turnover (VND)	4.49
Net profit margin	4%	0%	12%	5%	1%	6%	Foreign Ownership	6.5%
EPS (VND)	5,343	448	11,626	3,335	929	4,713	3-yr Avg ROE	33.0%
EPS change		-92%	2495%	-71%	-72%	407%	3-yr Avg ROA	13.3%
P/E	n.a	n.a	6.3	9.6	12.5	2.4		



COMPANY VISIT NOTE

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