

BSC RESEARCH

Equity analyst

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We believe that CSM has not yet been an attractive investment opportunity.

Business results may decline due to high competition, slow Radial consumption, and continuous reduction in the output prices against a rise in the rubber price. On 28th, Oct, 2016, CSM was traded at VND 21,150 per share, equivalent to a P/ E FW of 10,59x and P/B of 1,62x.

2016 earnings forecast. We forecast that the net revenue and profit before taxes will reach at VND 3,093 billion and VND 282 billion (-9% yoy, excluding the income from real estate in 2015), respectively. CSM's net income is expected at VND 225 billion, equivalent to EPS 2016 of VND 1,998/ share (calculated on the number of outstanding shares of 104 million).

9M2016 business results. CSM's net revenue was VND 2,279 billion (-18% yoy), net income was VND 180 billion (-15% yoy). Excluding income from real estate in 2Q2015, the net revenue decreased by 4%, and profit after tax grew by 9% yoy. CSM's profit after tax increased because of the sharp drop in the foreign exchange losses from VND 37 billion in 9M2015 to VND 0.7 billion in 9M2016, 11% fall in corporate management costs and the reduction in corporate income tax rate from 22 % to 20% in 2016.

Slow tire consumption due to fierce competition. Motorcycle tires consumption has been relatively stable. Tire consumption of V20-24 bias and half steel tires decreased in by 15% and 24% yoy, respectively. Output of tires which rims was less than 20 (traditional product lines of CSM) remained constant, at around 462 thousand units in 9M2016, in which, bias tires for light trucks increased by 20% yoy. Radial tires was consumed slowly, reaching about 68 thousand units in 9M2016. We believe that CSM has not gained any profit on Radial segment.

Profit margin can be reduced by decreasing in the output price while the input rubber prices tend to rise. Due to fierce competition, the output prices continued to fall by 8% ytd in 9M2016, on average, then drop by 5% in Oct, 2016. As we mentioned in the [4Q2016 Sector Outlook](#), the 9M2016 average price of rubber increased by 14.7% compared to 2015. Consequently, CSM's gross profit margin fell from 23% in 9M2015 to 22% in 9M2016. In our opinion, 4Q2016 profit margins may continue to decrease because the 3Q2016 average price of rubber was higher than the first 2 quarters and 3Q2015.

Business plan. As we mentioned in [CSM update](#), CSM is stepping up the completion of half steel Radial project, increasing the capacity by 500 thousand tires/year, and using the plant area of Radial manufacture. Partners from USA had signed the underwriting contracts to ensure to buy all products. The first contract will be delivery in November, 2016. CSM expects to export

250,000 tires in 2017. Therefore, estimated revenues will be around VND 300-400 billion, gross margin will be about 12-15%, and profit before taxes margin will be 3-5%, equivalent to VND 9-20 billion. Half steel plant is built on Radial factory (spends about VND 400 billion), which reduces depreciation costs and improve profit margin of Radial. CSM target its profit before tax of VND 330 billion in 2016 (however, may be gains VND 300 billion) and VND 340 billion in 2017.

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy

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