

Company Update Report

CSM - The Southern Rubber Industry Joint Stock Company

14/03/2018

BSC

Recommendation: Tracking

Tam Chi Vuong (FA)

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Target price N/A

Current price 14,700

Upside

Anh Tuan Nguyen (TA)

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Target price 17,000

Cutloss 14,000

Market data

Outstanding shares (Mil) 103.63

Mkt cap (VND bil) 1,533.65

Highest of 52w 19,500

Avg. vol. of 10 days 159.38

Foreign Ownership 42.56%

Major shareholders

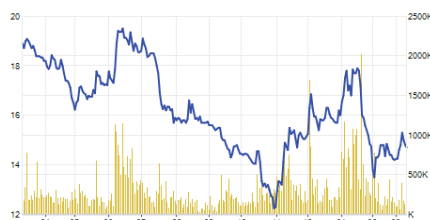
Vinachem 51.00%

Balestrand Limited 3.20%

Norges Banks 2.91%

Amersham Industries 2.78%

Chart (1yr)



Overview

CSM is focusing on radial, but highly competitive market and the increasing of raw material prices affected the company's profits in 2017

Other link

[\(link\)](#)

Hopeful light

Valuation

We recommend Tracking CSM shares. CSM shares were traded at 14,700/share, equivalent to P/E of 27.9x (higher than the regional average is 21.1x), P/B of 1.2x (lower than the regional average is 1.7x)

Earning forecast

In 2018, CSM plans to increase the production of the truck buses radial (TBR) by 25%, Passenger car radial (PCR) reach 1 million tires, revenue reach VND 3,800 billion (+ 8% yoy), EBT of over VND 100 billion (> + 81% yoy), equivalent to EPS of 2018 at VND 965, dividend rate around 3%.

Catalyst

- CSM would put the stage 2 of the Passenger car radial into operation, which expected to export to Tireco 1 million tires this year. (Demand of tires is 1.5 million annually)
- Radial tire demand grows sharply.
- Vinachem would divest capital from CSM to 36%.

Investment Risks

The fluctuation of input material prices.

Company update

Highly competitive market. Chinese products accounted for 50% of the market, being the biggest competitor.

Profit was negatively affected by raw material prices situation.

In 2017, the average price of rubber in the world increased 36% compared to 2016 which drop the CSM's profit sharply as 50% of tire's price from rubber.

Radial loss of VND 130 billion. In particular, PCR had a loss of VND 100 billion, TBR lost about VND 30 billion.

Selling price in 2018 will increase 3-5%. In 2017, CSM increased prices by 2-3%. In 2018, CSM have increased the price of motorbike tires to 5% at the beginning of the year and expected to increase 3% of car tires price in March.

Vinachem is planning to divest capital. Vinachem is owning 51% of CSM and will divest capital at CSM to 36%.

Technical Analysis

CSM is in the long downtrend since 2016 and continuously losing support levels. CSM are in the short uptrend, approaching the resistance at 15.1. CSM is expected to continue the short-term uptrend.

Update business results in 2017

In 2017, revenue and EAT of CSM was VND 3.517 billion respectively (+ 7% yoy) and VND 55 billion (- 78.9% yoy). The decline in revenue was due to fluctuation of material price in 2017 (Price of rubber increased average by 36% in 2017).

Highly competitive market. Currently, the biggest competition is coming from China (accounting for 50% of tire production in Vietnam). China has a long history of producing tires, and there are many ways to reduce the cost of products. At present, our country has no technical barriers to China. In addition, CSM has to compete with other FDI enterprises on tire export.

Radial loss of VND 130 billion. In particular, PCR had a loss of VND 100 billion, TBR lost about VND 30 billion. On truck buses radial, CSM is currently consuming about 8000 tires/month, exporting about 3,000 - 5,000 tires/month with export prices lower than domestic prices of about 10% -15%. It is expected that in 2018, the consumption of tire will reach about 8,500 - 9,000 tires/month. CSM expected to increase its current capacity (currently 30%). In 2017, CSM used a part of TBR factory to produce PCR. Currently, PCR's capacity is 600,000 tires and CSM is proposing to raise capacity to 700,000 tires this year. (1 compartment equipped with enough machines can produce 1.2 - 1.5 million tires/year). Major export partners for TBR is Tireco. In 2017, Tireco imported 200,000 tires from CSM and is expected to import about 1,000,000 tires in 2018. However, the selling price for Tireco was not as high as domestic, besides CSM had to pay more fees (technology transfer fee for 5 years, license fee, ...). Therefore, the CSM is oriented to the domestic market with PCR products. Domestic prices are 20% higher than export prices, and CSM has partners such as Truong Hai, TNT, Dong Bang,...

Selling price is expected to increase by 3%- 5% in 2018. In 2017, the selling price of CSM products increased by 2% - 3% on average from 3Q2017. In 2018, the company raised the selling price of motorcycle tire by 5% at the beginning of the year and is expected to raise the selling price of car tire by 3% in March.

Business plan 2018. In 2018, CSM expects to reach VND 3,800 billion sales (+ 8% yoy), reaching more than VND 100 billion EBT (>+ 81% yoy), with 3% dividend in 2018.

Vinachem is planning to divest from CSM to 36%. Vinachem is submitting to the Ministry of Industry and Trade to reduce the ownership from 51% of CSM to 36%. According to the company, reducing the rate to 36% is not attractive to investors when Vinachem still holds the veto.

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Financial Analysis

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Unit: billions	2013	2014	2015	2016	2017
Net sales	3,134	3,178	3,636	3,287	3,517
Gross profit	837	826	806	680	433
Financial income	45	16	12	14	17
Financial exps	(102)	(75)	(118)	(87)	(110)
interest exps	(41)	(56)	(67)	(60)	(95)
Sell exps	(97)	(133)	(152)	(150)	(148)
G&A exps	(210)	(219)	(196)	(123)	(132)
Operating profit	473	415	353	334	60
Net other income	8	11	19	(3)	9
EBT	481	426	371	331	69
Net income	360	331	290	261	55
Minority interests	-	-	-	-	-
Parents	360	331	290	261	55
EPS	5,351	4,918	3,597	2,341	530

Current asset	1,466	1,608	1,542	1,666	2,234
Cash and CE	35	40	124	31	33
Accounts receivable	399	458	539	630	803
Inventories	895	1,074	876	982	1,328
Other current assets	125	18	3	23	69
Non-current asset	1,455	1,822	1,603	1,709	1,785
LT receivables	-	-	3	2	7
Fixed assets (fa)	1,440	1,795	1,492	1,507	1,617
Tangible fa	147	1,478	1,383	1,389	1,440
Finance lease fa	14	12	9	20	81
Intangible fa	158	238	100	98	96
LT incomplete assets	-	-	88	173	120
Other LT assets	1	10	11	20	35
Total asset	2,921	3,431	3,145	3,375	4,019
Total liabilities	1,702	2,066	1,797	2,042	2,784
Current liabilities	844	1,118	965	1,296	2,141
ST borrowings	444	619	602	886	1,622
Non-current liabilities	858	948	832	745	643
LT borrowings	814	881	765	730	631
Owner's equity	1,218	1,365	1,348	1,334	1,236
Paid-in cap	673	673	740	1,036	1,036
Retained earnings	419	476	309	193	69
Total resources	2,921	3,431	3,145	3,375	4,019

% yoy Revenue		1%	14%	-10%	7%
Gross margin	26.7%	26.0%	22.2%	20.7%	12.3%
Ir.exps / sale	1.3%	1.8%	1.8%	1.8%	2.7%
Sell exps / sale	3.1%	4.2%	4.2%	4.6%	4.2%
Admin exps / sale	6.7%	6.9%	5.4%	3.7%	3.7%
Net profit margin	11.5%	10.4%	8.0%	7.9%	1.6%

Revenue increased 7% yoy due to volume growth and selling price of the product tires. In 2017, the average selling price of CSM's products increased by 2% -3%. The average sales of tires increased by 5-10%, in particular PCR reached 200,000 tires (mainly export to Tireco).

Interest expense rose sharply (+ 58.3% yoy) due to the increasing of debt to finance stage 2 of TBR factory. In addition, short-term debt of business had a sharp increase made interest expenses soaring.

In 2017, the short-term receivables increased to VND 803 billion (+ 20% yoy), mainly from Camso Vietnam Ltd. (50% of short-term receivables increased). Camso was a big buyer of semi-finished products from CSM. In 2018, sales from Camso is expected to reach about VND 500 - 600 billion (+ 20% yoy).

Inventories increased VND 346 billion (+ 35.2% yoy), mainly due to the rising of raw material VND 239.1 billion (70% increase in inventories). CSM's policy is to import the materials for 2-3 months before use for production. Inventories increased due to previously imported materials to prepare for the production of radial tires for next year.

Short-term debt rose sharply (+ 65.2% yoy), which are mainly short-term loans for production and due to large capital occupation.

Long-term loans decreased (13.6% yoy), due to the company paid some long-term debt repayment.

Gross profit margin plummeted to 12.3% (-40.6% yoy), causing the EAT to drop 79% yoy. The main reason is the sharp increase in raw material prices. Average prices of rubber increased by 30%, chemical prices increased by 10-20% and coal prices increased by 50%.

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FINANCIAL RATIO

	2013	2014	2015	2016	2017
1. Liquidity ratio					
Current ratio	1.74	1.44	1.60	1.29	1.04
Quick ratio	0.53	0.46	0.69	0.51	0.39
2. Capital structure ratio					
Ca/TA	0.50	0.47	0.49	0.49	0.56
NCA/TA	0.50	0.53	0.51	0.51	0.44
Liabilities/TA	0.58	0.60	0.57	0.60	0.69
Liabilities/TE	1.40	1.51	1.33	1.53	2.25
CL/TA	0.29	0.33	0.31	0.38	0.53
NCL/TA	0.29	0.28	0.26	0.22	0.16
3. Operating efficiency ratio					
Inventory turnover	2.7	2.4	2.9	2.8	2.7
Receivable turnover	9.5	8.5	8.1	6.4	5.7
Payable turnover	16.3	14.9	20.3	19.1	14.0
Days of inventory	137.6	153	126	130	137
Days of receivables	38.2	43	45	57	64
Days of payables	22.4	24	18	19	26
CCC	153.4	171	153	168	174
4. Profitability ratio					
Net income/NSale	11.5%	10.4%	8.0%	7.9%	1.6%
ROE	29.6%	24.3%	21.5%	19.6%	4.4%
ROA	12.3%	9.6%	9.2%	7.7%	1.4%
Oper profit/NSale	15.1%	13.0%	9.7%	10.2%	1.7%
5. Dupont analysis					
TA/TE	2.40	2.51	2.33	2.53	3.25
NSale/TA	1.07	0.93	1.16	0.97	0.88
EBIT/NSale	0.17	0.15	0.12	0.12	0.05
EBT/EBIT	0.92	0.88	0.85	0.85	0.42
Net income/EBT	0.75	0.78	0.78	0.79	0.80
6. Valuation multiples					
PE	2.8	3.0	4.1	6.3	27.9
PB	0.8	0.7	0.8	1.1	1.2
EPS	5,351	4,918	3,597	2,341	530
BVPS	18,107	20,279	18,215	12,872	11,924
7. Growth (%yoy)					
TA		17%	-8%	7%	19%
Liabilities		21%	-13%	14%	36%
Sale		1%	14%	-10%	7%
GP		-1%	-2%	-16%	-36%
NI		-8%	-12%	-10%	-79%
EPS		-8%	-27%	-35%	-77%

Financial liquidity fell sharply in 2016 and 2017 when the company implemented the project of PCR.

Capital structure: CSM kept short-term assets and long-term assets fairly, but short-term assets tend to increase sharply in 2017 due to higher inventories and receivables. In addition, short term debt is tending to increase pressure to repay debt and interest.

Operational capacity decreased: Days of inventory increased mainly due to CSM imported inventories to prepare production. Days of receivables increased as the increase in receivables higher than revenue. However, days of payable increased from 19 to 26 days, which help CCC did not have much volatility as in 2016.

Profitability has fallen sharply due to the rising of raw material prices. Although the average price of products has increased by 2% -3%, radial tires are mainly exported (export prices are lower than domestic prices from 10% -20%), material prices in 2017 increased sharply (as analyzed above) makes all of the profitability indicators fall sharply.

The valuation indicators of CSM are quite high. The Tire sector stocks are trading at P / E = 21.1x (lower than CSM), P / B = 1.72x (higher than CSM).

TECHNICAL ANALYSIS_Short-term Uptrend

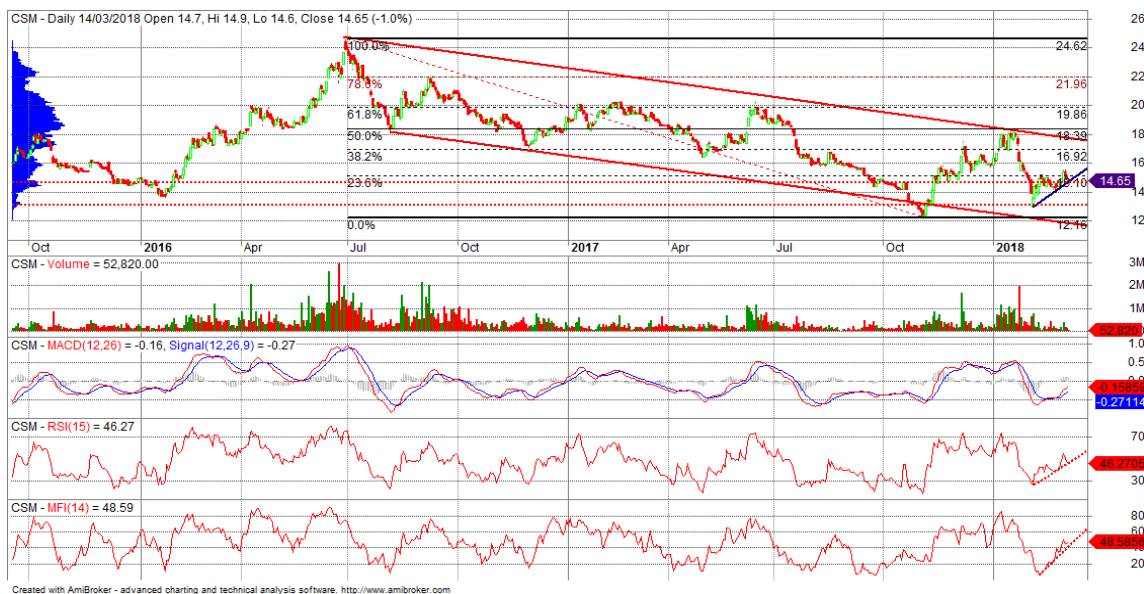
Technical highlights

- The MACD indicator is rising and diverging above the signal line, in combination with the uptrend of the RSI and MFI, consolidating the short term uptrend.
- Liquidity: The average liquidity of 10 sessions was about VND 2.3 billion. Liquidity of stocks tends to decrease.

Comment: CSM is in the midst of long-term downtrend from 2016 and losing support levels. Current stock price is in the short-term uptrend, approaching resistance at 15.1 and will continue to increase in the short term.

Recommendation: Investors can take advantage of this short-term uptrend, increase the exposure of CSM in the range of 14.6 - 14.8. Target price 17. Cut loss: loss of support 14.

Technical chart



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