


## Company Note

## I Vietnam

**HOLD** (previously ADD)

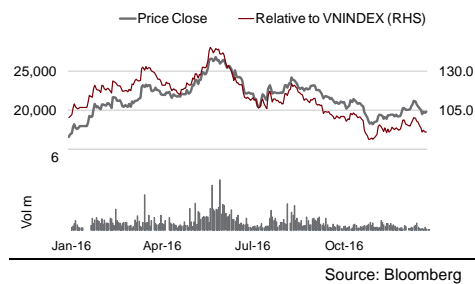
Consensus ratings\*: Buy 1 Hold 3 Sell 0

Current price: VND19,800  
 Target price:  VND20,100  
 Previous target: VND27,722  
 Up/downside: 1.5%  
 CIMB / Consensus: 0.0%

Reuters: CSM.HM  
 Bloomberg: CSM VN  
 Market cap: US\$90.93m  
 VND2,051,780m  
 Average daily turnover: US\$0.26m  
 VND5,773m  
 Current shares o/s: 103.6m  
 Free float: 49.0%  
 \*Source: Bloomberg

**Key changes in this note**

- FY17F EPS reduced by 49.1%
- Target price cut by 27%



Price performance	1M	3M	12M
Absolute (%)	2.1	-5	21.6
Relative (%)	-2	-7	-10.8

Major shareholders	% held
Vinachem	51.0
SSI Vision Fund	3.4
Templeton Frontier Markets Fund	3.3

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**Southern Rubber****Trying to enter the automobile tyre business, again**

- CSM's new semi-steel tyre plant is about to begin producing tyres for export to the US, but we are not clear how competitive these products will be in the US market.
- Rubber accounts for about half of CSM's COGS, and world rubber prices have rebounded 60% from their Sep 2016 bottom.
- We cut FY17 EPS forecast by 49% on disappointing results and a weak outlook for radial tyres. We reduce our TP and downgrade CSM from Add to Hold.

**Disappointing FY16 performance**

CSM's earnings fell by 10% in FY16, but we estimate that pro-forma earnings, stripping out windfall gains from the sale of two real estate projects (one booked in FY15, and one in FY16), fell by 20% last year. The primary reason for the decline in the company's earnings was an 8% cut in average selling prices that CSM was compelled to make in order to maintain market share; note that CSM competes in the value oriented segment of the truck and motorbike tyre markets (each accounts for about 1/2 of its revenues).

**CSM makes a second attempt to produce automobile radial tyres**

CSM is setting up a production line in one of its existing truck tyre factories that will begin producing radial tyres for automobiles later this year. The company first attempted to enter this business in 2012, but was unable to produce products of an acceptable quality at that time. According to management, the company has imported higher specification equipment from Europe for its next attempt to enter this market, and will begin producing automobile radial tyres in 1Q17.

**We expect CSM to export 100k automobile radial tyres in 2017F**

CSM signed a distribution agreement with "Tireco Inc", a leading US tyre distributor to sell its automobile tyres in the US. CSM's new automobile radial tyre production facility will have a 500,000/year capacity, and the company intends to sell all of its production in the US, but we only expect the company to sell about 100,000 tyres in 2017 because it will take time for US consumers to become accustomed to CSM's brand name and because the factory is likely to encounter some initial teething issues, in our view.

**Chinese dumping is depressing local prices, but enabled US sales**

Chinese tyre makers face stiff tariffs in the US, so they are dumping their products onto Asian markets, including Vietnam. However, those same tariffs on Chinese products made it possible for CSM to attempt exporting its products to the US market.

**Higher rubber prices are squeezing margins**

Rubber prices have rebounded by 60% from their most recent bottom in Sep 2016, further squeezing the company's margins. Rubber accounts for about half of CSM's COGS. In the past, CSM was able to pass on higher rubber prices to the buyers of its tyres but this time intensified competition from Chinese makers has made it very difficult for CSM to raise tyre prices.

**Lower target price, CSM downgraded from Add to Hold**

We cut our FY17 EPS forecast by 49% due to higher rubber prices, competition from Chinese producers, and our concerns that CSM's new factory will take longer than expected to break-even. We also lowered our target price by 27% and downgraded CSM from Add to Hold. Our TP is based on FCFE DCF (15% CoE), which equates to a 8.5 FY17F P/E, a 15% discount to the current valuation of DRC (CSM's closest local peer). Downside and upside risks include higher (and lower) rubber prices.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (VNDb)	3,636	3,287	3,635	4,170	4,659
Operating EBITDA (VNDb)	642.1	582.3	568.8	621.3	648.8
Net Profit (VNDb)	266.7	240.7	244.4	281.3	300.2
Core EPS (VND)	3,836	2,787	2,358	2,714	2,897
Core EPS Growth	(22.0%)	(27.3%)	(15.4%)	15.1%	6.7%
FD Core P/E (x)	5.25	7.31	8.40	7.29	6.83
DPS (VND)	3,500	2,000	2,000	2,000	2,500
Dividend Yield	17.7%	10.1%	10.1%	10.1%	12.6%
EV/EBITDA (x)	4.06	5.65	5.55	4.93	4.53
P/FCFE (x)	3.80	8.48	4.82	6.60	6.09
Net Gearing	92%	119%	81%	71%	58%
P/BV (x)	1.09	1.54	1.50	1.42	1.33
ROE	19.7%	17.9%	18.1%	19.9%	20.1%
% Change In Core EPS Estimates			(49.1%)		
CIMB/consensus EPS (x)			1.01		

SOURCE: COMPANY DATA, CIMB FORECASTS

# Trying to enter the automobile tyre business, again

## Revised forecasts ▶

**Figure 1: Earnings revision**

VNDbn	2017F		% change
	Old	New	
Revenue	4,033	3,635	-10%
Operating EBIT	488	371	-24%
Net profit	343	244	-29%
EPS (VND)	4,629	2,358	-49%

SOURCES: CIMB, COMPANY REPORTS

## Equity valuation ▶

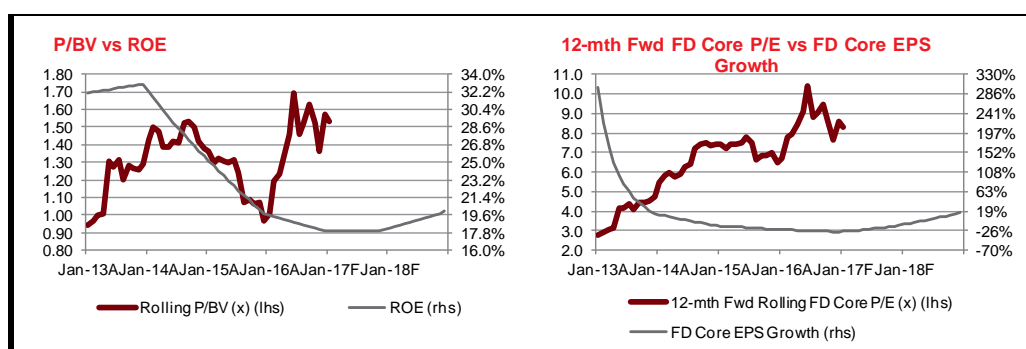
**Figure 2: FCFE Valuation**

VNDbn	2017F	2018F	2019F	2020F	2021F
CFO	658	275	310	326	325
Less: FCInvestment	75	69	62	55	47
Add: net borrowings	(253)	15	5	5	10
Free cash flow	329	220	252	276	288
Terminal value	2,303				
PV of total cash flow (Equity value)	2,082				
Outstanding shares	103,625,262				
Target price (VND)	20,100				

Assumption	Value
Risk premium	10.0%
Risk free	6.6%
Tax rate	21.2%
Beta	0.82
Cost of equity	14.8%
Cost of debt	5.1%
Debt/total asset	54.5%
WACC	9.5%
Terminal growth rate	2.0%

SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Total Net Revenues</b>	<b>3,636</b>	<b>3,287</b>	<b>3,635</b>	<b>4,170</b>	<b>4,659</b>
<b>Gross Profit</b>	<b>990</b>	<b>858</b>	<b>899</b>	<b>956</b>	<b>1,008</b>
<b>Operating EBITDA</b>	<b>642</b>	<b>582</b>	<b>569</b>	<b>621</b>	<b>649</b>
Depreciation And Amortisation	(183)	(178)	(198)	(202)	(207)
<b>Operating EBIT</b>	<b>459</b>	<b>405</b>	<b>371</b>	<b>419</b>	<b>442</b>
Financial Income/(Expense)	(55)	(46)	(41)	(40)	(38)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	(32)	(27)	12	13	15
<b>Profit Before Tax (pre-EI)</b>	<b>371</b>	<b>332</b>	<b>341</b>	<b>392</b>	<b>419</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>371</b>	<b>332</b>	<b>341</b>	<b>392</b>	<b>419</b>
Taxation	(82)	(70)	(75)	(87)	(93)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>290</b>	<b>262</b>	<b>266</b>	<b>306</b>	<b>326</b>
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(23)	(21)	(21)	(24)	(26)
<b>Net Profit</b>	<b>267</b>	<b>241</b>	<b>244</b>	<b>281</b>	<b>300</b>
Recurring Net Profit	267	241	244	281	300
<b>Fully Diluted Recurring Net Profit</b>	<b>267</b>	<b>241</b>	<b>244</b>	<b>281</b>	<b>300</b>

### Cash Flow

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>EBITDA</b>	<b>642.1</b>	<b>582.3</b>	<b>568.8</b>	<b>621.3</b>	<b>648.8</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	19.7	(170.8)	221.1	(192.5)	(175.8)
(Incr)/Decr in Total Provisions	0.2	(4.2)	(4.0)	(2.1)	(1.9)
Other Non-Cash (Income)/Expense	(69.4)				
Other Operating Cashflow	14.0	(69.4)	3.7	(8.2)	(11.1)
Net Interest (Paid)/Received	(58.8)	(53.0)	(56.8)	(57.4)	(57.6)
Tax Paid	(75.2)	(80.2)	(75.3)	(86.7)	(92.5)
<b>Cashflow From Operations</b>	<b>472.7</b>	<b>204.7</b>	<b>657.6</b>	<b>274.5</b>	<b>309.8</b>
Capex	(143.3)	(276.0)	(75.4)	(69.0)	(62.1)
Disposals Of FAs/subsidiaries	135.8	19.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	30.9	13.8	96.7	91.0	84.5
<b>Cash Flow From Investing</b>	<b>23.4</b>	<b>(243.2)</b>	<b>21.3</b>	<b>22.0</b>	<b>22.4</b>
Debt Raised/(repaid)	(127.8)	246.0	(253.3)	14.6	4.8
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(278.5)	(251.7)	(207.3)	(207.3)	(207.3)
Preferred Dividends					
Other Financing Cashflow	(6.3)	(7.6)	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(412.7)</b>	<b>(13.3)</b>	<b>(460.5)</b>	<b>(192.6)</b>	<b>(202.5)</b>
Total Cash Generated	83.4	(51.8)	218.3	103.8	129.8
<b>Free Cashflow To Equity</b>	<b>368.3</b>	<b>207.5</b>	<b>425.6</b>	<b>311.1</b>	<b>337.0</b>
<b>Free Cashflow To Firm</b>	<b>554.9</b>	<b>14.5</b>	<b>735.6</b>	<b>353.9</b>	<b>389.9</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	124	31	249	353	483
Total Debtors	539	630	531	610	681
Inventories	876	982	841	979	1,105
Total Other Current Assets	3	23	10	10	12
<b>Total Current Assets</b>	<b>1,542</b>	<b>1,666</b>	<b>1,631</b>	<b>1,952</b>	<b>2,281</b>
Fixed Assets	1,480	1,581	1,381	1,177	967
Total Investments	10	7	10	12	13
Intangible Assets	100	98	101	105	109
Total Other Non-Current Assets	14	23	13	15	17
<b>Total Non-current Assets</b>	<b>1,603</b>	<b>1,708</b>	<b>1,506</b>	<b>1,309</b>	<b>1,106</b>
Short-term Debt	602	886	698	812	917
Current Portion of Long-Term Debt					
Total Creditors	116	167	149	174	196
Other Current Liabilities	248	243	240	244	246
<b>Total Current Liabilities</b>	<b>965</b>	<b>1,295</b>	<b>1,087</b>	<b>1,230</b>	<b>1,360</b>
Total Long-term Debt	765	730	665	565	465
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	67	15	14	17	19
<b>Total Non-current Liabilities</b>	<b>832</b>	<b>745</b>	<b>679</b>	<b>581</b>	<b>484</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>1,797</b>	<b>2,040</b>	<b>1,766</b>	<b>1,812</b>	<b>1,843</b>
Shareholders' Equity	1,348	1,334	1,372	1,449	1,543
Minority Interests	0	0	0	0	0
<b>Total Equity</b>	<b>1,348</b>	<b>1,334</b>	<b>1,372</b>	<b>1,449</b>	<b>1,543</b>

### Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	14.4%	(9.6%)	10.6%	14.7%	11.7%
Operating EBITDA Growth	4.87%	(9.32%)	(2.32%)	9.23%	4.43%
Operating EBITDA Margin	17.7%	17.7%	15.6%	14.9%	13.9%
Net Cash Per Share (VND)	(16,784)	(15,292)	(10,741)	(9,880)	(8,673)
BVPS (VND)	18,215	12,874	13,235	13,981	14,894
Gross Interest Cover	6.83	6.74	6.53	7.30	7.67
Effective Tax Rate	22.0%	21.1%	22.1%	22.1%	22.1%
Net Dividend Payout Ratio	97.1%	86.1%	84.8%	73.7%	86.3%
Accounts Receivables Days	50.04	65.09	58.28	49.93	50.56
Inventory Days	134.4	140.0	121.6	103.3	104.2
Accounts Payables Days	17.84	21.30	21.07	18.34	18.49
ROIC (%)	16.0%	15.3%	12.7%	16.8%	17.8%
ROCE (%)	16.9%	14.8%	13.6%	15.7%	16.1%
Return On Average Assets	9.8%	8.8%	8.8%	10.0%	10.2%

### Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	-10.0%	1.4%	12.3%	11.5%	9.0%
Unit sales grth (% , main prod./serv.)	N/A	-2.7%	2.6%	2.9%	2.5%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	5.0%	0.0%	4.7%	7.7%	5.5%
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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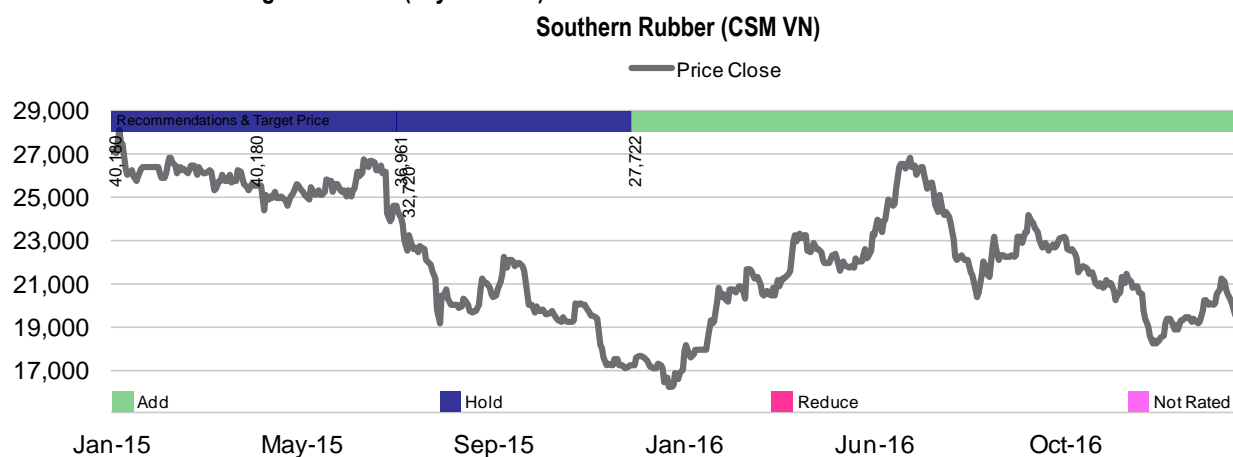
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

**AAV** – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies certified by CAC

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*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.*

#### **Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### **Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.