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SUMMARY OF INVESTMENT HIGHLIGHTS

Investment Positives

- ❖ Ranks among the country's top 3 tyre producers with the biggest market share in the bike segment, a favorable location and a long lasting & well-known brand name.
- ❖ Impressive performance in 2009 and pretty good long-term growth potential: best quarter 3 result ever seen, outstanding full year figures
- ❖ Considerably lower 2009 P/E multiple valuation relative to peers with attractive listing price

Investment Concerns

- ❖ Business cyclical and vulnerability to input cost fluctuations & macroeconomic instability (interest rate, exchange rate).
- ❖ Lower efficiency relative to peers: lower profitability, significant financial leverage
- ❖ Small number of free floating shares may lead to liquidity shortage and a higher chance for price manipulation.

Conclusion - Multiples Valuation and Recommendation

Relative to CSM and DRC, SRC is not as good in terms of business scales, product mix, profitability and market position, thus we think SRC deserves a discount relative to CSM and DRC. At the close prices of 6th October 2009, CSM and DRC are trading at 2009 P/E of around 10x and 7x, using our 2009 net profit estimates. Assuming P/E level of 10x are reasonable for CSM and DRC at current market condition, then we think SRC should be trading at 2009 P/E of 7x-8.5x, translating to a target price range of 66,000-80,000 VND/share.

*Besides, the share was trading around 65,000-70,000 VND/share in the OTC market before the listing. Thus **we think at the initial reference price of just 42,000 VND/share, the stock will have strong upside momentum during several first trading sessions. Investors may consider buying this stock at price somewhere below our target price range, for example below 60,000 VND/share, depending on one's expected rate of return.***

Share Data

Reference Listing Price (VND)	42,000
First listing day	7 Oct 2009
No. of shares listed	10,800,000
Foreign Owner Ratio (%)	0%
State Ownership Ratio (%)	51%

Key Data

	2008A	2009E	2010E
Sales (VND mil.)	920,292	1,106,366	1,207,500
Net Profit (VND)	794	102,079	79,625
EPS (VND)	73	9,452	7,373
P/E (x)	575	4.3	5.7
Dividend (%)	2.50%	12%	15%

Source: SSI Estimates, SRC

Company's Development Milestones

1960: the Hanoi Sao Vang Rubber Factory was set up

April 1960: the factory produced its very first bicycle tyres and tubes with the Sao Vang brand

1992: The factory was renamed to Sao Vang Rubber Company

October 2004: the company got equitized with a chartered capital of just over 49 billion VND

July 2007: Chartered capital raised from 88 billion to 108 billion VND

23 Sep 2009: 10.8 million shares listed on the Hochiminh stock exchange with ticker SRC

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INVESTMENT HIGHLIGHTS

❖ Investment Positives

- **Ranks among the country's top 3 tyre producers with biggest market share in the bike segment, favorable location and a long lasting & well-known brand name.**

Saovang Rubber JSC (SRC) ranks third in terms of general production scale, and ranks first in the segment of bike tyres and tubes with over 40% market share. As traditional market segmentation among the sector's three major producers, SRC, located near the center of Hanoi, mainly serves the Northern market, which gives the company certain location advantage given the pace of economic development in the North plus the strategic role of the capital city. Last but not least, Saovang has been long recognized among the top tyre brands for the high quality and reasonable priced products, traditionally in the bike segment and increasingly in more value-added segments including motorbike and automobile segments. The brand name will assist the company in maintaining its leading position in its traditional segment and develop further in other product categories in line with its development strategy.

- **Impressive performance in 2009 and pretty good long-term growth potential**

The best quarter 3 ever seen & an outstanding performance for the full year: After a difficult year in 2008, operating environment gradually got better, especially since the second quarter this year. Ending the first half, the company already posted over 500 billion VND in net sales, and 35.5 billion VND in net profit - even much better than the full figure of the good year 2007. Ending the first 8 months, these figures rose to over 700 billion VND revenue and 77 billion VND pretax profits (or 67 after tax). Adding the September's result, SRC's performance in quarter 3 alone will likely be even much better than the sum of the first two quarters. Quarter 4's profit may be less spectacular on higher input costs yet the full year figure still looks outstanding. We roughly estimate the company will earn about 70 billion VND net profit in the second half, putting the full year figure at about 102 billion VND in 2009 and EPS for 2009 at nearly 9,500 VND/share in 2009.

Rather good long-term growth potential: Profit may decline in 2010 after the extraordinary 2009 result then decent growth may resume in years afterward given the sector's growth potential. According to the company's guidance, sales volume of bike tyres and tubes are expected to be stable while that of motorbike tyres and tubes is projected to grow by 15% each per year and automobile tyres and tubes will expectedly growth by 13-14% and 11-20% in coming years. Such growth targets look reasonable given the current economic development phase of Vietnam.

- **Lower multiple valuation relative to peers with attractive listing price**

At the initial listing price of 42,000 VND/share, our net profit estimate puts 2009 P/E of SRC at just over 4x, which looks very attractive relative to listed peers such as CSM (10x) and DRC (7x). Besides, the share was trading around 65,000-70,000 VND/share in the OTC market just before the listing.

❖ Investment Concerns

- **Business cyclical and vulnerability to input cost fluctuations & macroeconomic instability (interest rate, exchange rate).**

The tyre business exhibits a high level of cyclical in the past few years. More specifically, when the economy enjoyed good growth in 2007, SRC also posted strong revenue and profit growth. Then in 2008, especially during the second half, in the context of broad economic downturn, SRC suffered from demand slowdown coupled with hikes in raw material costs, surging financial expenses as a result of a significant level of interest-bearing debts and forex losses. Thus while revenue managed to edge up by 3% on higher pricing in 2008, sales volume of most product lines actually fell 15-20%, and the expense hikes burden compressed profit margin, leaving only less than 1 billion VND as profit out of over 900 billion VND revenue. Yet after the gloomy 2008, the company is actually doing extremely well year to date. Also, with the gradual economic recovery which is still in very early phase and the sector's long-term growth potential, business performance of the company will expectedly become more stable as of next year.

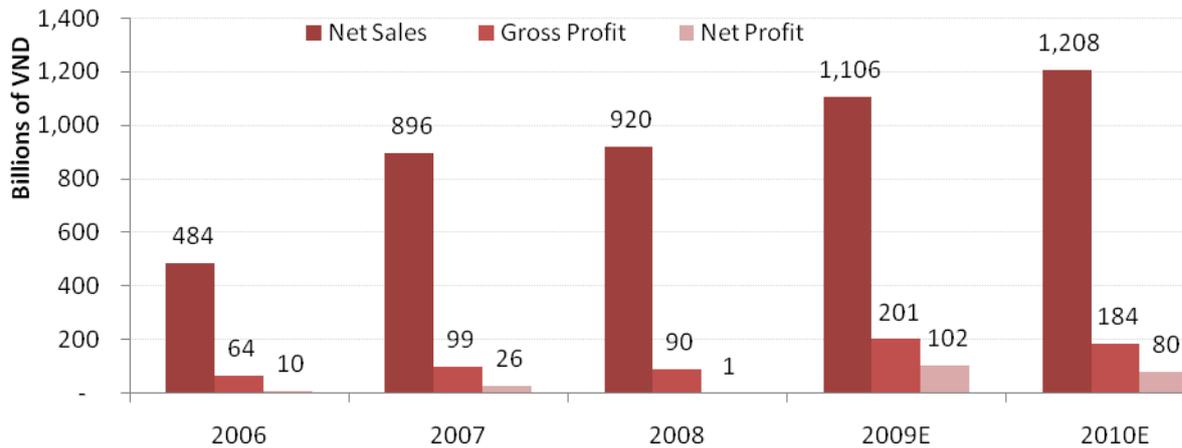
- **Lower efficiency relative to peers**

Among the top three producers in the tyre sector, SRC underperforms Casumina (CSM) and Danang Rubber JSC (DRC) in terms of business scale and profitability, partly due to the company's core competence on the less value-added segment of this business and less expertise in other more premium product categories. Profit margin, ROA, ROE of SRC are considerably lower while their use of financial leverage is somewhat more significant than that of CSM, and especially DRC, reflecting a less efficient asset and capital utilization. For more details, see our peers analysis in part III.

- **Small number of floating shares may lead to liquidity shortage and a higher risk of price manipulation**

The number of outstanding shares of SRC is only 10.8 million, 51% of which (5.508 million) owned by Vinachem and about 2.43% (262,570 shares) of which owned by management and BOD subject to trading prohibition within the first 6 months and half of this still restricted for trading in the following 6 months, about just over 5 million shares of SRC are actually free floating, which is a small number. Hence there is risk of liquidity shortage and price manipulation for risk stock.

FINANCIAL PERFORMANCE & GROWTH PROSPECTS ANALYSIS



Source: SSI Estimates (2009E), SRC

- ❖ **Past-year performance: high level of profit volatility as economic conditions turned:** The past four years have witnessed quite a high level of volatility in SRC's bottom line, which is also true in cases of other big tyre producers as the tyre business exhibits significant cyclical. More specifically, when the economy enjoyed good growth in 2007, SRC also posted strong revenue and profit growth. Then in 2008, especially during the second half, in the context of broad economic downturn, SRC suffered from hikes in raw material costs, interest payments and demand slowdown. While sales volume of most product lines fell 15-20%, revenue managed to edge up by 3% on higher pricing in 2008, yet the expense hikes burden compressed profit margin, leaving only less than 1 billion VND as profit out of over 900 billion VND revenue. Yet after the gloomy 2008, the company is actually doing extremely well year to date.
- ❖ **Impressive business results in 2009:**
 - **The best quarter 3 ever seen:** Moving into 2009, operating environment gradually got better as macroeconomic conditions (interest rate, exchange rate) stabilized, raw material costs plunged and the output market turned brighter than expected, especially since the second quarter. Ending the first half, the company already posted over 500 billion VND in net sales, and 35.5 billion VND in net profit - even much better than the full figure of the good year 2007. Ending the first 8 months, these figures rose to over 700 billion VND revenue and 77 billion VND pretax profit (or 67 after tax). It seems the company is going to post the best quarterly performance ever in this quarter 3. Adding the September's result, SRC's performance in quarter 3 alone will likely be even much better than the sum of the first two quarters.
 - **Quarter 4's profit may be less spectacular on higher input costs yet the full year figure still looks outstanding:** Quarter 4 is normally a high season for general consumption, including tyre products. Thus we expect sales in the last quarter to remain good, at least equal to Quarter 3's level. However, almost every production input including natural and synthetic rubber, steel cords, fabric, etc. have seen their prices on a steady uptrend year to date. This means the high net margin expected for quarter 3 will likely squeeze considerably in the last quarter. We roughly estimate the company will earn about 70 billion VND net profit in the second half, putting the full year figure at about 105 billion VND in 2009, much higher than the company's revised net profit target of 70 billion VND. Our estimate puts EPS for 2009 at nearly 9,700 VND/share in 2009, assuming the No.of outstanding share staying the same until the year end.
- ❖ **Long-term growth potential:** Profit may decline in 2010 after the extraordinary 2009 result then decent growth may resume in years afterward given the sector's good growth potential.

As input material prices have gone up to new higher levels, we expect to see profit margin to decline in 2010 from 2009's average level. Here we are using the company's guidance shown in its listing prospectus to come up with estimates of 2010's

financial results: about 1,200 billion VND for revenue and 80 billion VND for net profit, which already shows a fall from our estimate of 105 billion VND net profits for 2009.

Also according to the company's guidance, sales volume of bike tyres and tubes are expected to be stable in the next two years, of motorbike tyres and tubes are projected to grow by 15% each per year while that of automobile tyres and tubes will expectedly growth by 13-14% and 11-20% in the next two years. Given the current economic development phase of Vietnam, the bicycle market seems to be already in its saturation phase while the motorbike and especially automobile markets still have much room for growth. According to BMI forecasts, automobile production in Vietnam will grow by 15-25% during 2010-2012 while the Institute for Industry Policy and Strategy (IPS) under the Ministry of Industry and Trade said that by 2010 Vietnam would see 25M motorbikes in circulation and the figures will increase to 31M by 2015 and 35M by 2020. This means sales volume growth targets of SRC look rather reasonable.

PEERS ANALYSIS & MULTIPLE VALUATION

Vietnam's tyre sector has a rather high level of concentration with the three biggest players: Casumina (CSM), Danang rubber JSC (DRC) and Saovang rubber JSC (SRC) together holding the major market share in almost all segments: about over 80% of total bike & motorbike tyres and tubes, and about 70% of total automobile tyres. All three of them are subsidiaries of the state-owned Vietnam's National Chemical Corporation (Vinachem, holding just over 50% stake in these subsidiaries). Traditionally, the 3 producers are based in three distinct parts of the country: CSM in the South, DRC in the Central and CSM in the North and not surprisingly, these are also the core markets of each player.

❖ Business scale & market position

Generally speaking, CSM is the sector's biggest producer with about 35% of market share, then comes DRC and SRC. More specifically, while they all seem to produce similar product categories, each has their competitive advantage in certain product lines: CSM- leader in the motorbike and light truck segment; DRC- No.1 producer of heavy truck and OTR tyres; and SRC-top supplier of bike tyres and tubes. SRC is also the sole local supplier capable of producing tyres for jet airplanes, yet the volume is still modest. It is noteworthy that while the counting unit looks the same, each company's product category is different in terms of variety, size and special use, therefore may greatly differ regarding unit cost and price.

Product Category in 2008 (unit of product)		SRC	DRC	CSM
Bikes	Tyres	4,710,970	4,338,115	4,000,000
	Tubes	4,630,381	2,207,290	n/a
Motorbikes	Tyres	1,005,101	671,672	5,000,000
	Tubes	4,740,577	878,650	20,000,000
Automobiles	Tyres	337,342	589,107	1,000,000
	Tubes	293,466	447,013	500,000
Jet Airplanes	Tyres	1,156	-	-
	Tubes	1,156	-	-

Source: SRC's prospectus, DRC's 2008 annual report, CSM

❖ Profitability and Financial Leverage

2008	Gross Margin	Operating Margin	Pretax margin	Net margin	ROA	ROE	Debt/Equity
CSM	11.6%	5.96%	0.47%	0.42%	0.8%	3.3%	2.75
DRC	12.2%	8.00%	4.01%	4.01%	8.4%	24.0%	0.49
SVR	9.8%	5.04%	0.12%	0.09%	0.1%	0.6%	2.60

1H09	Gross Margin	Operating Margin	Pretax margin	Net margin	ROA	ROE	Debt/Equity
CSM	23.7%	13.40%	10.85%	9.49%	10.5%	27.9%	1.25
DRC	27.8%	23.09%	20.14%	20.14%	29.2%	48.7%	0.19
SVR	16.1%	11.19%	8.05%	7.06%	7.1%	20.2%	1.36

Source: Companies' financial statements

Among the three company, DRC always seems to have the best profitability and employs the least interest-bearing debts at the same time. CSM ranks second and SRC comes last in terms of these ratios. In our opinion, their distinctive product mix and cost management are behind the profitability differentials. Normally speaking, automobile tyres generates the highest profit margin, next comes the motorbike tyres and tubes and bike tyres and tubes typically earn the least. Specifically, DRC has over 70% of its revenue from the automobile tyre (mostly heavy ones) segment. CSM has over 40% of revenue from the automobile

and also above 40% of revenue from the motorbike segment. SRC actually has over 50% of its revenue from the automobile segment, yet this is not really a strong area for SRC and this business line so far contributes a very small part into the company's total gross profit. The bike-segment is still the biggest profit earner for SRC (bike tyres and tubes contribute 40-45% into total gross profit, then comes the motorbike tubes segment with 30-35% contribution), which explains the overall lower profitability relative to CSM and DRC.

In 2008, all these companies suffered because of difficult operating environment. Yet there was some distinction between themselves. While gross margin did not differ much between the three companies, relatively higher operating expenses (selling and admin) led to CSM and SRC's underperformance in terms of operating margin. And to make things worse for the two heavier debtors, interest rate hikes burdened them with surged financial expenses, weighing further on their bottom line. As a result, only DRC managed to report significant profit for the year.

The first half of 2009 saw a great improvement in profitability of all these companies, thanks to factors already mentioned above in the "Financial performance & growth prospects analysis" part. As a result, profitability and leverage ratios of SRC have moved to much better and safer region. Yet the relative performance ranks in terms of both profit margin and leverage remains the same among the three companies.

❖ Multiples Valuation

Valuation	Current Price	No. of shares	Trailing P/E	Current BVPS	Current P/B	2009E EPS	2009 P/E
CSM	117,000	25,000,000	28.1	15,083	7.8	12,119	9.7
DRC	157,000	15,384,600	13.1	23,353	6.7	22,566	7.0
SVR	42,000	10,800,000	15.3	16,265	2.6	9,452	4.4

Source: Companies' financial statements, SSI Estimates

Relative to CSM and DRC, SRC is somewhat not as good in terms of business scales, product mix, profitability and market position, thus we think the stock deserves a discount relative to CSM and DRC. At the close prices of 6th October 2009, CSM and DRC are trading at 2009 P/E of around 10x and 7x, using our 2009 net profit estimates. Assuming P/E level of 10x are reasonable for CSM and DRC at current market condition, we think SRC should be trading at 2009 P/E of 7x-8.5x, translating to a target price range of 66,000-80,000 VND/share.

Besides, the share was trading around 65,000-70,000 VND/share in the OTC market just before the listing. Thus we think at the initial reference price of just 42,000 VND/share, the stock will have strong up momentum during several first trading sessions. Investors may consider buying this stock at price somewhat below our target range, for example below 60,000 VND/share, depending on expected return of each investor.

COMPANY'S BACKGROUND INFORMATION

❖ Basic Information

▪ Development Milestones

1960: the Hanoi Sao Vang Rubber Factory was set up on the merger of an automobile tyres patching workshop and the Sao Vang Rubber Factory.

April 1960: the factory produced its very first bicycle tyres and tubes with the Sao Vang brand which gradually became more popular

1992: The factory was renamed to Sao Vang Rubber Company

October 2004: the company got equitized with a chartered capital of just over 49 billion VND

Oct 2006: Chartered capital raised to 80 billion VND

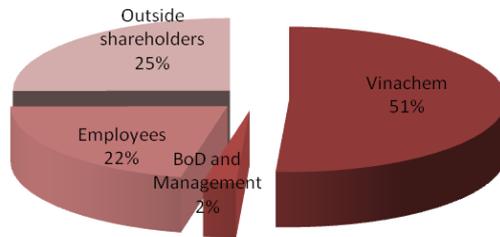
Feb 2007: Chartered capital raised to 88 billion VND

July 2007: Chartered capital raised to 108 billion VND

23 Sep 2009: 10.8 million shares listed on the Hochiminh stock exchange with ticker SRC

7 October 2009: first trading day on Hose, starting price = 42.000 VND/share

- Shareholders' Structure & Free Float



The number of outstanding shares of SRC is only 10.8 million, 51% of which (5.508 million) is owned by Vinachem and about 2.43% (262,570 shares) of which owned by management and BOD subject to trading prohibition within the first 6 months and half of this still restricted for trading in the following 6 months, about just over 5 million shares of SRC are actually free floating, which is a rather small number.

Source: SRC

- Products and Markets

Starting as a bicycle tyres and tubes producer, the company has now expanded its production base into a much wider range of rubber products, including tyres and tubes for motorbikes, automobile, and even tyres for jet airplane; conveyor belts and rubber technical parts. Up to now, the company has maintained its position of the country's No.1 bicycle tyres and tubes producer with over 40% market share and also the only local producer of jet airplane. Generally speaking, SRC is the country's third biggest tyre producer after Casumnia and Danang Rubber JSC, the other two subsidiaries of Vinachem. If the South and the Central of Vietnam are biggest markets of Casumnia and DRC, respectively, the North is also unsurprisingly the core market for SRC contributing 70-75% of total sales, with a focus on Hanoi, Haiphong and Thaibinh. Exports currently account for a small part (less than 5%).

Distribution channel

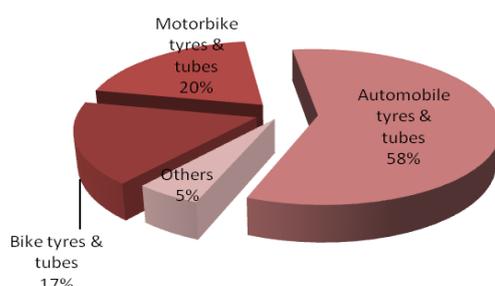
- Direct distribution: to big enterprises using SRC's products as inputs in their operation.
- Indirect distribution: through a system of distributors. SRC currently deals with 130 tier-1 distributors located throughout the country. Under this, there are thousands of tier-2 and 3 distributors not in direct transactions with the company.

- Revenue & Profit Breakdown

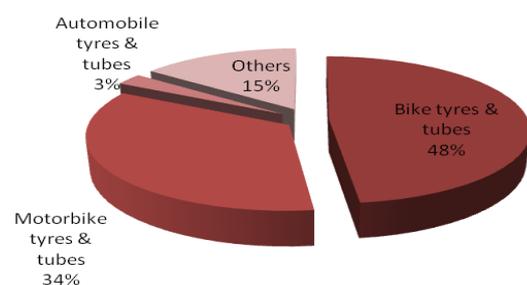
As a rough revenue breakdown, all tyre products contribute about 75% of SRC's total revenue whereas tube products account for around 20% and conveyor belts and rubber technical parts make the balance. More specifically, biggest revenue earners of SRC include: automobile tyres (over 50%), bike tyres (11-12%) and motorbike tubes (11%) while the three largest gross profit makers are somewhat different with motorbike tubes ranking the first (over 30%), then comes bike tyres (25-35%) and bike tubes (10-15%). Automobile tyres, being the biggest revenue earner, only contributes a small share to total gross profit (just over 1% in 2008).

In its development strategy, the company is aiming at increasing the revenue portion from automobile tyres to nearly 60% and equal revenue portions for bike and motorbike product categories to align with the shift in consumers' usage.

2008 Revenue Breakdown



2008 Gross Profit Breakdown



Source: SRC's listing prospectus

- **Management Team**

SRC's BOD and management team consists of highly experienced and solid background figures who have been with the company for a long time and proved committed to the company's development.

Board of Directors		Professional skills	Work Experience
Chairman	Mr. Nguyen Gia Tuong	BA in Automatics, BA in Economics & in Chemistry	Year start at SRC: 1983 6/2007-now: SRC's BOD chairman & Vice General Director of Vinachem
Member	Mr. Le Cong An	BA in Engineering, MBA	Year start at SRC: 1982 6/2007-now: CEO & BOD member
Member	Mr. Pham Quang Rong	BA in Engineering	Year start at SRC: 1994 6/2007-now: SRC's vice general director, BOD member
Member	Mrs. Dao Thi Hoa	BA of Finance & Accounting, BA of Political Economy	Year start at SRC: 1984 4/2006- now: Chief accountant & BOD member
Member	Mrs. Nguyen Thi Hop	BA of Economics	Year start at SRC: 1984 Now: BOD member & Trade Union chairwoman
Board of Management			
General Director	Mr. Le Cong An	as above	as above
Vice General Director	Mr. Pham Quang Rong	as above	as above
Vice General Director	Mr. Le Van Cuong		
Vice General Director	Mr. Nguyen Quang Hao		

- **Ongoing & Expansion Projects**

In the coming time, SRC plans to spend about 150 billion VND on upgrading and expanding current production lines. Project details are as follows

- **Expansion project:** increase automobile tyre and tube production capacity from the current level of 500,000 sets per year to 800,000 sets per year.

Investment Outlay: 120 billion VND

Capital Structure: 30% Equity and 70% Debt

- **Relocation & Expansion project:** Relocate all existing motorbike tyre and tube production lines from current factory to the site in Thai Binh. Expand the current capacity of 1.2 million motorbike tyres/year and 7 million motorbike tubes/year to 2.5 million and 10 million, respectively.

Investment Outlay: 30 billion VND

Capital Structure: 30% Equity and 70% Debt

In longer term, the company will relocate all current factories in Hanoi to outside of the city. Though the sites in Xuan Hoa and Thai Binh are large enough for the relocation of all existing production, SRC plans to move just part of them to these areas and will look for some places closer to Hanoi for the other units for the sake of transportation convenience. With the current over 6 ha piece of land headquarter in Nguyen Trai, Hanoi (which is on a 50 year lease term starting 2006), the company plans to ask for local authority's approval on developing it for commercial purposes. This site is actually in a very good location and may well generate big value for the company in case the plan gets approved. All these activities may occur within the next 2 or 3 years.

- **Capital contribution** (SRC: 20 billion VND) with India's Phillips Carbon and other Vietnamese partners to establish a joint venture producing black carbon. Projected time of operation: 2011

DISCLAIMER

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