

THE SOUTHERN RUBBER INDUSTRY JSC (CSM)



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INTRODUCTION

Casumina is the leading manufacturer in the tyre industry in Vietnam with over 32 years of experience in the sector. The company has established and well managed a wide distribution network of 200 agents across the country. The company's product is current present in 98% of the garages nationwide. Casumina is the only local producer listed in the top tyre manufacturers in the world as ranked by Rubber & Plastic News magazine. Its ranking is 60/75.

COMPANY INFORMATION

Industry	Consumer
Stock exchange	HOSE
Ticker	CSM
Charter Capital (VND-B)	250
Highest 52 weeks	95,500
Lowest 52 weeks	50,000
Average 10 days vol	233,980

VALUATION METRICS

Price (16/09/2009)	95,000
Market Capitalization (VND-B)	2,375
Trailing EPS	4,200
Trailing P/E	22.3x
P/E (2009)	7.9x
P/B (2008)	3.9x

FINANCIAL PERFORMANCE 1H2009

Revenue (VND-B)	1,107
PAT (VND-B)	105
Gross margin (%)	24
Net margin (%)	9.4
EBIT margin (%)	13
D/E (%)	125

COMPANY HIGHLIGHTS

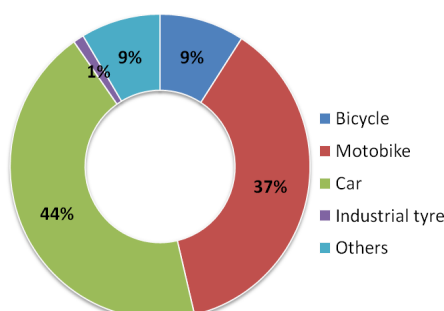
Casumina (CSM) has just announced its Q3 performance with revenue at VND 686B and earning before tax at VND 121B, adding up to 3Q revenue of VND 1,794B and PBT of VND 241B. This result is really positive since this is the third quarter in which revenue and profit increase consecutively. Although the full Financial Statement has yet to be released, we would like to provide investors with some insights into the growth story through our initial analysis.

Revenue keeps increasing even in the low season. Although Q3 is usually the low season of the year, sales keep climbing slightly at about 7% from VND 640B to VND 686B. Of course, there are a couple of reasons behind the number. First, it is likely that the recovery of the economy has stirred up consumer demand during the quarter which serves to gear up sales a bit higher than previous quarter. In addition, the fact that the factory in Binh Loi has operated again after being interrupted for a period of 3 months also makes good explanation.

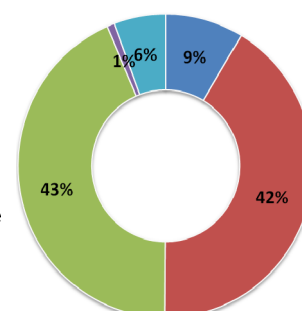
In addition to higher revenue, that profit surged 20 percent from VND 100B to VND 120B quarter over quarter should be accounted partially to financial income. With high amount of cash reserve, financial revenue should be a larger number than that of Q2. Meanwhile, financial expense, as we think, should drop by approximately VND 10B in Q3 compared to Q2 as the company stops making provision for its investment. The cost price that CSM invested in Phuoc Hoa Rubber (PHR) after provision is currently at a 25 percent discount compared to PHR's current price. Consequently, income from financial investment should add about VND 10B to the bottom line.

Compared to 2008 performance, gross profit margin in 1H2009 has increased drastically, doubling from 12 percent to 24 percent. This is mainly attributed to the significant drop of raw material price (rubber price) while selling price has just slid slightly at 5 percent. But the change in product mix also plays the role in boosting profit margin. Sale contribution of motorbike tyre and tube, which yields the highest margin among CSM's product portfolio, has soared from 37 percent in 2008 to 41.5 percent in 1H2009. As for Q3, we compared the profit before tax margin of the two periods where we have eliminated the effect of VND 10B provision in Q2, Q3 margin slightly improved to 17.6% from 17% in Q2.

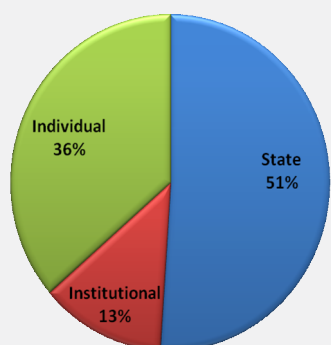
Revenue breakdown 2008



Revenue breakdown 1H2009



SHAREHOLDER STRUCTURE



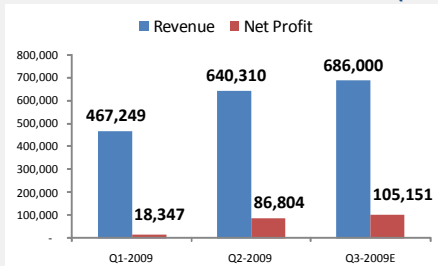
Source: Company report

Gross margin of different products

Margin breakdown	2008	1H2009
Bicycle	16%	27%
Motobike	16%	29%
Car	6%	19%
Others	8%	14%

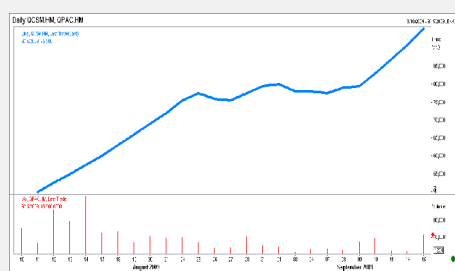
Source: Company report

REVENUE & PROFIT 3Q2009 (mil)



Source: Company report

SHAREPRICE PERFORMANCE



Source: Reuters

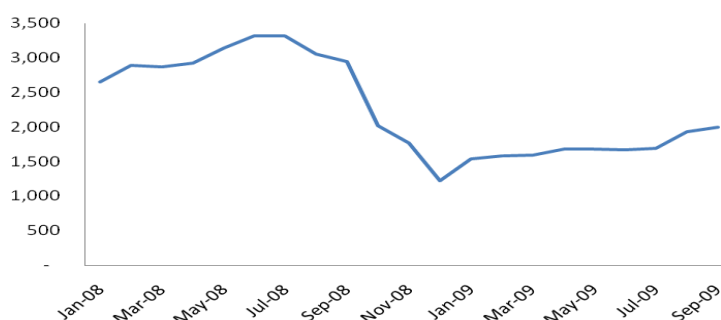
Recently, the US has imposed its punitive sanction on Chinese tyres by raising import tax to 35 percent. This event heralds good opportunities for Vietnamese tyres to be imported to the US in the future. As the market leader Casumina stand good chances to grasp the opportunity and if so their revenue are sure to increase in the future.

4th Quarter Outlook

We forecast Q4 sales to keep its steam as Q3, and we don't expect a substantial jump in profit in the final quarter compared with Q3.

Though price of rubber, which accounts for 58% raw material cost of CSM has escalated for more than 18 percent during the period July-Sep 2009, we do not think that will affect much the company's margin in Q4. This is due to in anticipation of material price increase, the company has stocked in a great amount of inventories which should be sufficient for production during the last quarter of the year. For the whole year, we expect the company to achieve VND 298B in net earning. If the company reverses its VND 22B investment provision at year end, profit may even be higher.

Natural rubber price 01/2008-09/2009



Source: Vietnam Rubber Association

Project pipeline

The steel radial tyre project in Binh Duong hopefully will kick off in early 2010 when the company finishes its preparation period. There is a small change in capital financing. Although CSM earlier expect to raise its capital from further issuance, the company now utilizes retained earning and bank loan as the main sources of finance. The project costs more than VND 880B and will be carried out in different phases.

Valuation

At the current price, CSM is trading at a premium to its peer Da Nang Rubber Co. (DRC) in terms of PE ratio. CSM is traded at nearly 8x its 2009 earning while DRC at 6.7x. This 20 percent premium could be attributed to the competitive advantage of CSM such as the brandname, the wide distribution network as well as dominant market share and growth prospect. From a more fundamental point of view, we value the share price of the company at VND 110,000 which we believe is a good price for long-term investment.

FINANCIAL STATEMENT SUMMARY AND PROJECTION

PROFIT AND LOSS (VND-M)	2006A	2007A	2008A	2009F
Revenue	1,240,781	1,948,973	2,148,871	2,473,000
COGS	1,068,054	1,665,924	1,899,661	1,847,236
Gross profit	172,727	283,050	249,209	625,764
Operating profit	82,340	115,800	128,087	366,099
Earning before tax	45,379	80,151	10,200	341,331
Earning after tax	45,379	80,151	8,969	298,665

BALANCE SHEET (VND-M)	2006A	2007A	2008A	2009F
Cash	99,514	110,693	93,164	202,275
Short-term investment	-	38,480	11,669	20,000
Account receivable	77,088	127,803	104,686	135,507
Inventories	312,653	429,419	491,055	481,507
Other current asset	4,181	17,861	23,942	24,730
Fixed asset	235,354	226,598	329,382	326,804
Long-term investment	8,912	13,791	63,459	41,459
Other long-term assets	0	9,859	13,399	14,838
TOTAL ASSET	737,702	974,503	1,130,755	1,216,474
Short-term borrowings	456,341	589,162	722,986	492,594
Long-term debt	103,026	127,683	155,756	155,601
Charter Capital	120,000	150,000	200,000	250,000
Owner equity	186,950	265,919	272,468	568,734
Minority interest	0	0	0	0
TOTAL LIABILITIES	746,317	982,185	1,151,209	1,216,474

KEY PERFORMANCE RATIOS	2006A	2007A	2008A	2009F
Revenue growth (%)	N/A	57.1	10.3	15.1
Gross margin (%)	13.9	14.5	11.6	25.2
Net margin (%)	3.7	4.1	0.4	12.0
ROA (%)	6.2	8.2	0.8	25.1
ROE (%)	24.3	30.1	3.3	49.5
EPS (VND)	3,782	5,343	448	11,850
EPS growth (%)	N/A	41.3	(91.6)	26.4

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