KB Securities VIETNAM

KBSV RESEARCH

STOCK PITCH REPORT

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Shouthern Rubber (CSM)

Back to the race

Analyst Nguyem Sy Tien
tienns@kbsec.com.vn
(+84) 24-7303-5333

Buy

Target price	VND18,200
Support/Entry 1	VND13,700 – VND14,300
Upside 1	23.8%
Support/Entry 2	VND12,600 – VND13,100
Upside 2	37%

Note:

Investors need to combine the assessment of market trend, the attractiveness of investment catalysts and their risk appetite to manage the stock exposure in each price zone accordingly.

Since the determination of each support/entry level is based on different time frames, we do not provide a fixed stop loss. In general, stop loss levels should be set tighter for near supports/ entries (5-7%) and wider for far supports/entries (10-15%).

INVESTMENT CATALYSTS

Core business growth of the Southern Rubber Industry JSC (CSM) was driven by a 25% increase in radial factory capacity and competitive potential from export markets.

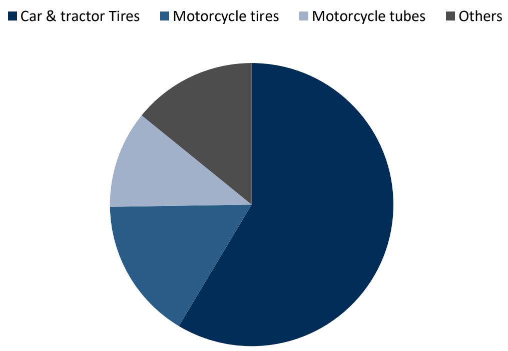
Profit margins should be optimized with stable input material prices and cost reductions.

Extra interests came from VAT refunds and production base relocation compensation.

Business operation

The main activity of the company is the production and trading of tires. Currently, CSM owns four factories manufacturing radial car tires (TBR & PCR), bias, motorcycle tires, bicycle tires, motorcycle tubes and the like. Of that, the radial tire segment contributes the most to CSM's gross profit. The current capacity of the PCR tire line is 1.2 million tires/year, and the TBR tire line is 350 thousand tires/year.

CSM – Revenue composition

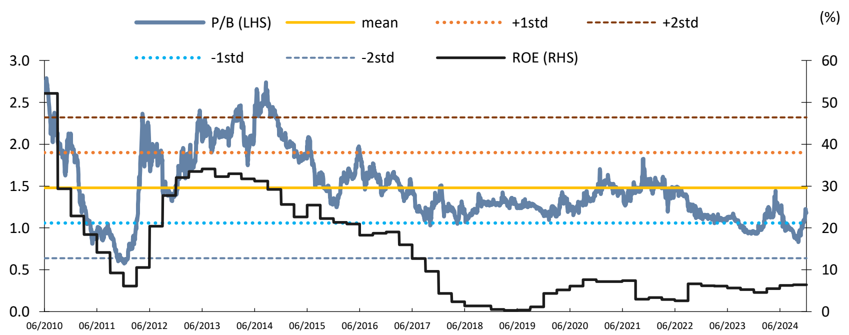


Source: The Southern Rubber Indusrty JSC, KB Securities Vietnam

Stock price relative comparison

With better earnings prospects in 2025, we believe the stock's valuation could approach the 14-year average P/B (at the time of listing), equivalent to 1.47x.

CSM – P/B and ROE (x, %)



Source: Bloomberg, KB Securities Vietnam

1. Rebounding core business

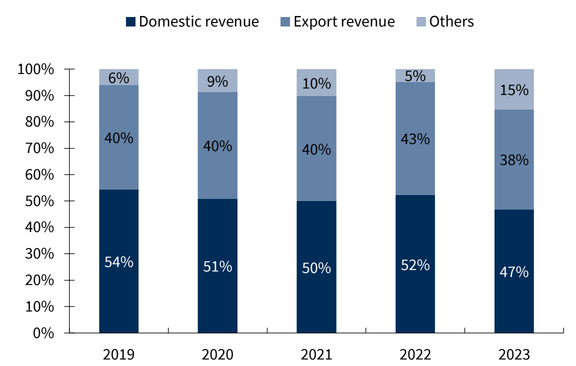
Consumption increased along with higher radial factory's capacity

In 2023, CSM invested in a project to increase the production capacity of the radial tire line PCR from 1.2 million tires/year to 1.5 million tires/year, equal to a 25% increase in design capacity. The project is expected to start trial operation from the end of 4Q24 and reach maximum capacity from 2025. PCR tires are specialized tires for cars, SUVs or light trucks used for personal transportation purposes, so the market demand for PCR tires is always high. Currently, it is estimated that the rate of radial tire usage in Vietnam and Southeast Asia in general is only about 60%, while in Europe and America it is over 80%. With the increasing trend of radialization and CSM having built the Advenza PCR tire brand in the local market, raking second only to Bridgestone and Michelin, we believe that CSM's new PCR tire supply will continue to be well absorbed when the PCR line reaches maximum capacity every year. In addition, the expansion of electric cars' market share in Vietnam can also boost the demand for PCR tires.

The potential from the export markets is big

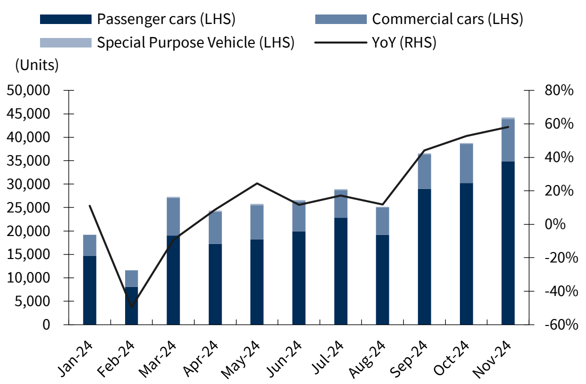
CSM can further raise its sales output in export markets. Recently, the US Department of Commerce (DOC) on October 10, 2024 announced the final decision to impose anti-dumping duties on Thai truck and bus tires (radial - TBR) with 48.39% for Bridgestone and 12.33% for the remaining manufacturers. Thus, CSM may increase orders and reach maximum capacity of the TBR tire line after its major competitor from Thailand was taxed.

Fig 1. CSM – Revenue from domestic & export markets (%)



Source: The Southern Rubber Indusrty JSC, KB Securities Vietnam

Fig 2. Vietnam – Car sales (unit)



Source: Vietnam Automobile Manufacturers Association

2. Improving profit margins

GPM should improve to 14-16% from 2025

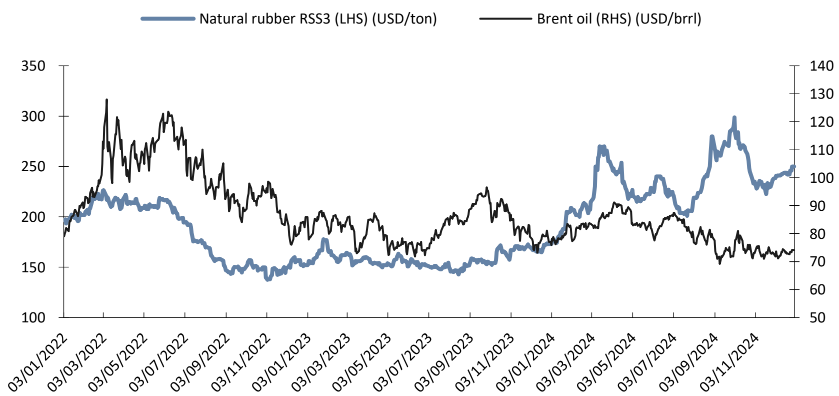
In 2025, we expect GPM of CSM to reach a higher level than the average of previous years thanks to (1) a sharp decrease in depreciation costs, mainly from the Radial Binh Duong factory inaugurated in 2014 and (2) more stable input material costs compared to 2024. Input materials, mainly natural rubber and synthetic rubber, account for 65% of COGS. Natural rubber prices experienced a surge in 2024 due to floods and heavy rains disrupting supply from Thailand. However, KBSV believes that the issue will improve when the probability of La Nina phase decreases in 2025. In addition, crude oil prices are expected to remain stable in 2025 as demand may remain sluggish in China. If input costs can be well controlled, and depreciation costs reduce sharply, CSM's GPM could be on par with its major competitor in the industry, Da Nang Rubber (DRC), reaching 14-16% in 2025.

Other costs are also expected to be cut

In 2025, the company must finish the relocation of two factories belonging to Dong Nai Enterprise out of Bien Hoa 1 Industrial Park due to planning issues. Of the two relocation options discussed by the Management at the AGM, the company will prioritize the most cost-saving option, which is to move the production line to the Radial Binh Duong Enterprise with a total investment of VND200 billion. The above plan may not only help to triple the new capacity but also save on internal finished product transportation costs because CSM previously had five factories in five different locations (the company estimates this cost could be up to VND100 billion/year).

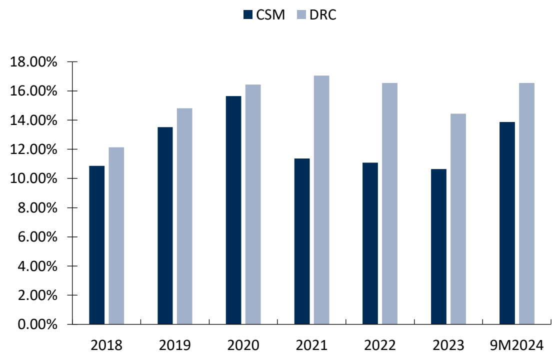
In addition, we forecast that the USD/VND exchange rate will fluctuate less in 2025, thereby limiting the risk of exchange losses for businesses with a large export proportion like CSM. Ocean freight rates should cool down in 2025 when there is more supply of new ships, helping CSM reduce export costs.

Fig 3. Global – RSS3 rubber & Brent oil prices (USD/ton, USD/barrel)



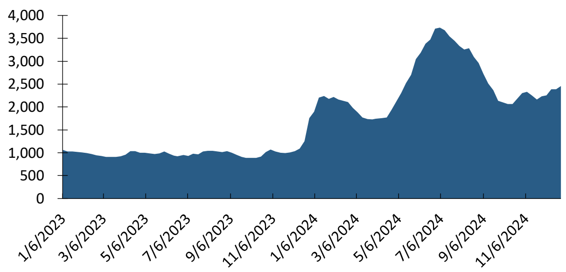
Source: Bloomberg

Fig 4. CSM, DRC – GPM (%)



Source: Company reports, KB Securities Vietnam

Fig 5. Shanghai Port – Containerized freight index



Source: Bloomberg

3. Extra profit from VAT refund and factory relocation compensation

By the time of 3Q24 results announcement, CSM had a deductible input VAT balance of more than VND400 billion. At the same time, the relocation of the factory out of Bien Hoa 1 Industrial Park may also receive compensation costs from Dong Nai province. Although there is currently no further information on the settlement plan from the Ho Chi Minh City Tax Department and Dong Nai province, KBSV believes that CSM may record an extra profit and stock price increase. In addition, the above profit can help improve the business's operating liquidity and reduce short-term debt balance, thereby reducing interest expenses.

RISKS

Higher raw material costs and freight rates

CSM may be exposed to higher-than-expected input costs for natural and synthetic rubber. In addition, geopolitical instability may continue to be tense, putting pressure on international shipping routes.

Exchange rate risks

The USD/VND exchange rate may fluctuate more than expected, causing CSM to face risks of both the export and import of raw materials.

Lower sales volume

According to the management, from 2Q24, stable revenue and profit from processing semi-finished products for partner Camso will no longer be recorded. However, we assess that the impact will only be short-term since the company can find other partners from the export or domestic markets.

KB SECURITIES VIETNAM RESEARCH

Research Division
research@kbsec.com.vn

Nguyen Xuan Binh – Head of research
binhnx@kbsec.com.vn

Financials

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Consumer

Nguyen Duc Quan – Analyst
quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst
anhnhd@kbsec.com.vn

Real Estate

Pham Hoang Bao Nga – Manager
ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst
trangnt6@kbsec.com.vn

Industrials & Materials

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of macro & strategy
anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Energy, Utilities & IT

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst
anhnv3@kbsec.com.vn

Support Team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:
Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

Hanoi Branch:
Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 - Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:
Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 - Fax: (+84) 28 3914 1969

Saigon Branch:
Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

CONTACT INFORMATION
Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market