01

THURSDAY

- **Tire sector becomes more attractive?**
- **May the decrease of PMI in September be a signal of GDP growth decline in Q4?**

Tire sector become more attractive?

Even having supporting news like positive growth rate of commercial vehicles and plunged prices in rubber input, investors still seems less excited in trading tires stocks for the last 2 months with DRC(-8%) and CSM (-13.3%). Cautiously, we will provide a detailed analysis about tires stocks in today advisory diary.

Drop in the cost of raw material has slightly influenced this year business earning result. Since the beginning of 2015, material that have large proportion in prime cost such as natural and synthetic rubber (50% of COGS) and black carbon (13%) have reduced significantly. However, gross profit margin of tire manufacturers (i.e. CSM) decreased compared with the same period last year. The reason could be (1) Plunged sale price to compete with Chinese products; for example, CSM cut 5% sale price in 1Q2015, (2) CSM Radial factory has begun to operate so it an additional depreciation for CSM and led to a downtrend in gross profit margin for 1H2015 (-7%)

Decree No 06 to control truckload has had a slight impact on domestic tire demand. Naturally, tightening truckload policy requires companies to purchase new commercial vehicles. Thus, tire demand in OEM segment has been expected to rise significantly, However, according to statistical result, international tire businesses have been the one who got the most advantages as imported commercial vehicle held 58% total sale volume (+116% y-o-y). Meanwhile CSM and DRC customers are mostly domestic companies.

“Tire sector becomes more attractive?”

Figure: Sale volume of commercial vehicles (Units)

	1H2014	1H2015	% change
Domestic cars	13,888	15,609	+12%
Imported cars	10,054	21,711	+116%

Source: VAMA, Vietnam Customs

Low demand for Radial tire. In the 1H2015, CSM and DRC only sold 40.000 and 85.000 tires respectively; insignificantly number compared with the actual capacity of CSM (350.000 tires/year) and DRC (300.000 tires/year). Moreover, quality standard certificates will not be the only obstacle for Vietnam to break through US market. Based on our research, Radial tires sale prices in US are lower 20% than Vietnam. Thus, penetration could only enhance brand image and aid to get into other markets. In terms of domestic market, sales will not also increase significantly because it takes time for transportation enterprises to accept the change from Bias to Radial

P/E 2015 (only considered income from core business) are trading at ~ 10-11x while upcoming outlook is still unclear. We believe that the current valuation is unattractive in

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short term and investors should wait for further update on sale volume of Radial tires. However, by having a high dividend yield, particularly DRC (8,7%) and CSM (12%) higher than current interest rate, investors could accumulate this stocks and await for the result of Radial project.

May the decrease of PMI in September be a signal of GDP growth decline in Q4?

Today, Nikkei has published PMI of Vietnamese manufacturing industry. According to Nikkei, expanding rate has narrowed for 25 months; decreased to **49.5** point from 51.3 point in August. Particularly, this is the first time 2 key components of PMI, the number of orders and output, has recorded a slight decrease in this year. Additionally, job creation grew slightly.

An investor raised a question for us: *"Will the decrease of PMI– an indicator of Vietnamese manufacturing business in September be a signal of GDP growth slump in Q4?"*

First of all, according to RongViet Research, the reasons for the decline of Vietnam PMI in September could be from (1) regarding exports, orders dropped for the fourth consecutive month demonstrating the deteriorating effect of global economy on Vietnam; (2) regarding domestic orders, we lean into the scenario that MPI decreasing trend could be affected by the seasonal characteristic due to the trough period of production (as mentioned in Advisory Diary early 07/2015); (3) constituent elements such as significant decrease in input and output price indices pulled the PMI down below 50 points. In the relation with other countries in region, Vietnam PMI maintained the acceptable level while PMI from other countries also declined such as 46.9 (Taiwan), 48.3 (Malaysia) and 47.4 (Indonesia).

Secondly, *GDP growth is the synthesis from many economic elements including agriculture, industry and service*. Regularly, Q4 GDP usually has the highest growth rate. Over the same period, production activities have been improved; therefore, we believe that the pessimistic sign from PMI could not negatively influence the GDP growth in the next quarter.

To reinforce my argument, we consider additionally the GSO survey of performance trend published recently. Notably, the result still be estimated positively. Particularly, 46.8% of surveyed businesses forecasted performances improve in Q4 compared with Q3, while 36.6% of them forecasted improvement in Q3 compared to Q2. Especially, FDI enterprises still expressed optimistic manufacturing business in last quarter (51.8% compared with 39.5% in Q3).

Figure: survey result of business trend in processing and manufacturing enterprises

Criteria	Forecasted Q3/2015 vs Q2/2015			Forecasted Q4/2015 vs Q3/2015		
	Higher	Stable	Lower	Higher	Stable	Lower
All processing and manufacturing enterprises	36.6	43.5	19.9	46.8	38.8	14.4
+ SOEs	39.4	38.7	21.9	43.7	38.4	17.9
+ Non-SOEs	35.0	43.1	22.0	45.0	39.2	15.8
+ FDI enterprises	39.5	46.0	14.4	51.8	37.9	10.2

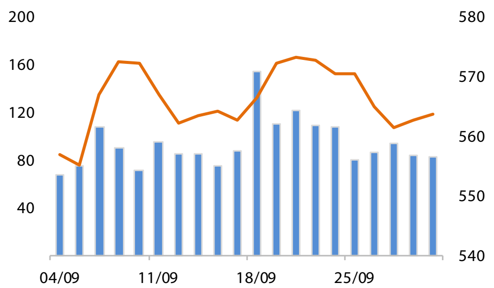
Source: GSO, RongViet Research

Figure: Comparison between PMI survey of Nikkei and GSP business trend survey in processing and manufacturing enterprises

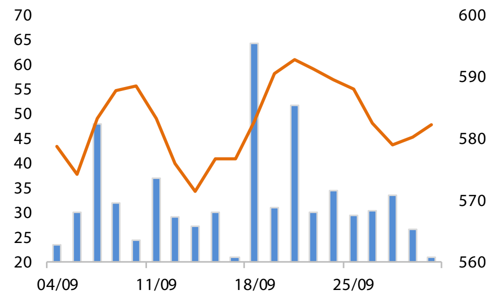
	PMI	GSO survey
Execution time	Monthly	Quaterly
Sample	400 managers of manufacturing business	4.028 enterpries of 63 provinces and cities
Surveyed factors	- Volume - New domestic and exporting orders - Delivery time - Inventory - Job - Input and output price	- Overview trend of business activities - Number of orders and export orders - Trend in inventory of finished product and raw material - Production expense, averga selling price per unit - Movement in labor scale

Source: RongViet Research

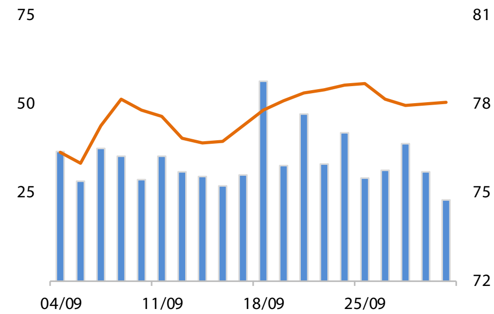
VNINDEX 0.16% **563.54**



VN30 0.35% **582.33**

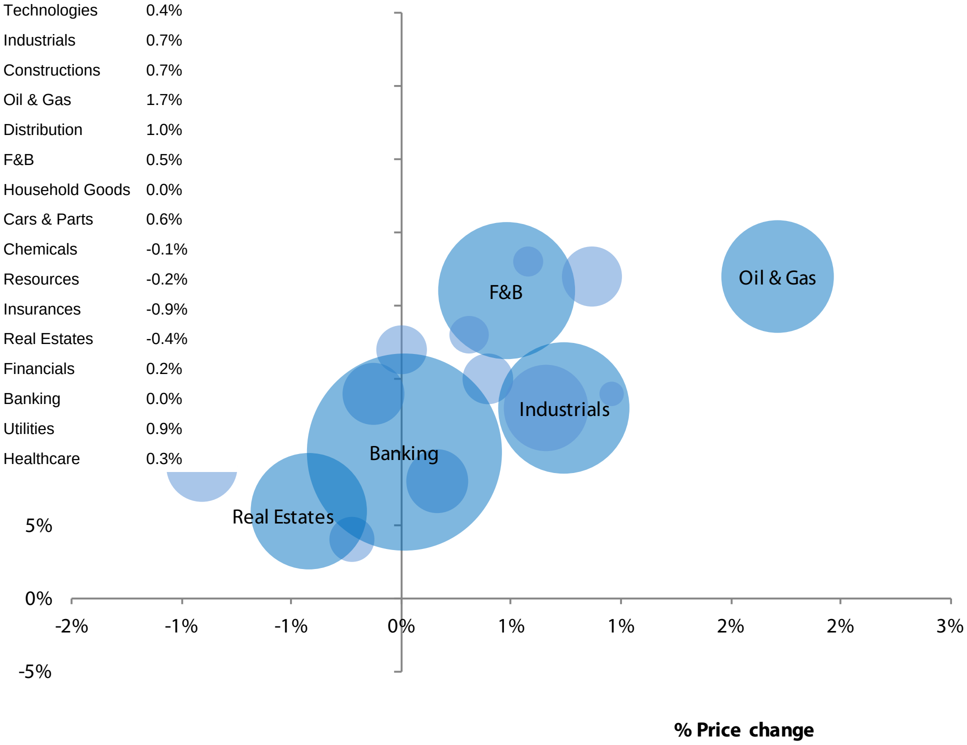


HNXINDEX 0.06% **78.02**

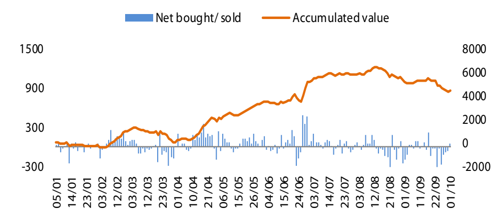


Industry Movement

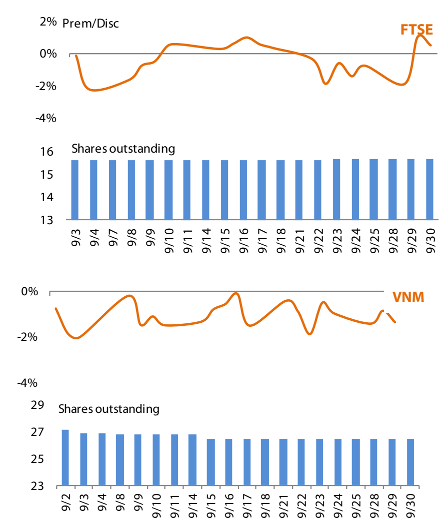
Industry	% change
Technologies	0.4%
Industrials	0.7%
Constructions	0.7%
Oil & Gas	1.7%
Distribution	1.0%
F&B	0.5%
Household Goods	0.0%
Cars & Parts	0.6%
Chemicals	-0.1%
Resources	-0.2%
Insurances	-0.9%
Real Estates	-0.4%
Financials	0.2%
Banking	0.0%
Utilities	0.9%
Healthcare	0.3%



Foreign Investors Trading

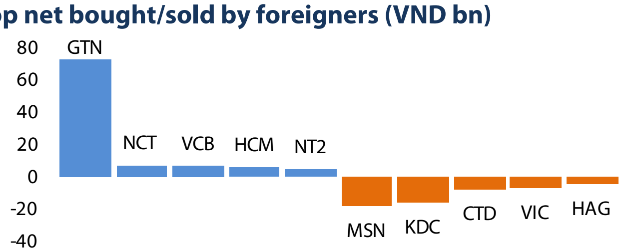


ETF



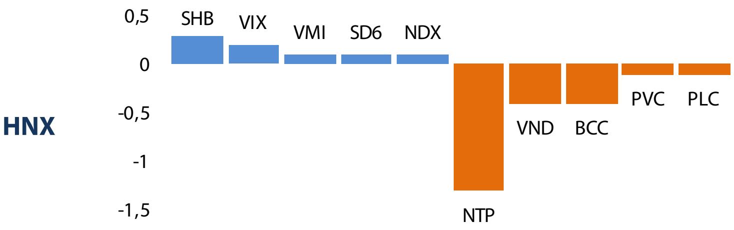
Top net bought/sold by foreigners (VND bn)

HSX



Top Active

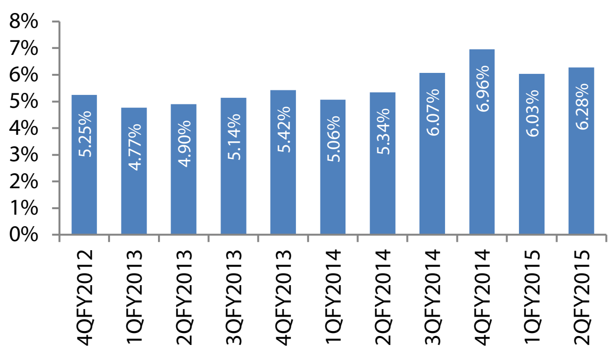
Ticker	Price	Volume	% price change
HHS	16.5	4.58	3.1%
FLC	6.4	3.13	-1.5%
LDG	14.0	2.97	-2.8%
SSI	23.5	2.36	0.0%
SBT	13.7	2.14	0.0%



Ticker	Price	Volume	% price change
KLF	4.2	1.70	0.0%
PVX	2.9	1.16	0.0%
SCR	7.7	1.08	0.0%
TIG	9.3	0.99	-2.1%
API	11.6	0.98	0.0%

MACRO WATCH

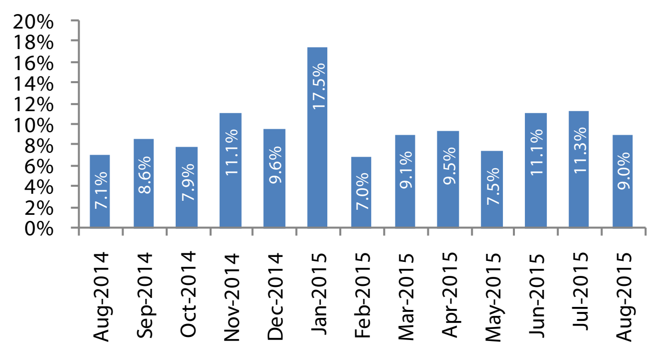
Graph 1: GDP Growth



Sources: GSO. Rongviet Securities database

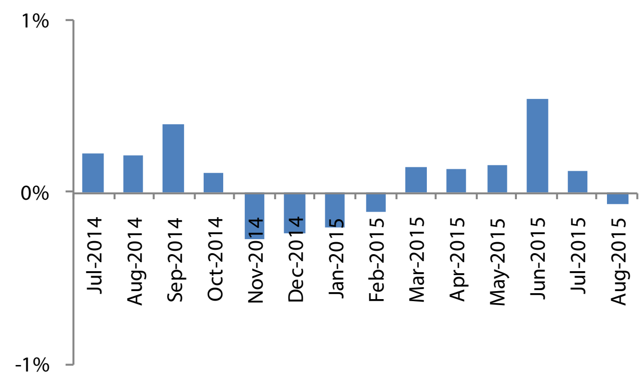
(*) Comparision price in 1994

Graph 2: IIP



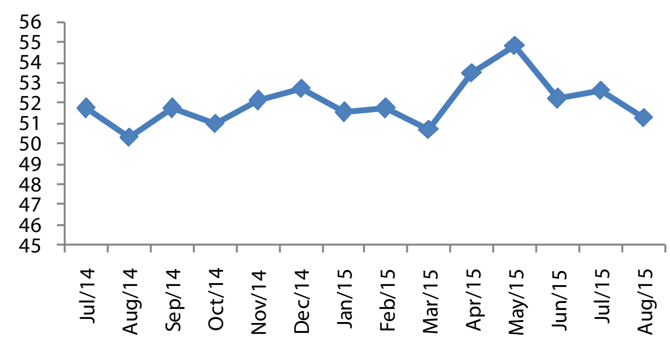
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



Sources: GSO. Rongviet Securities database

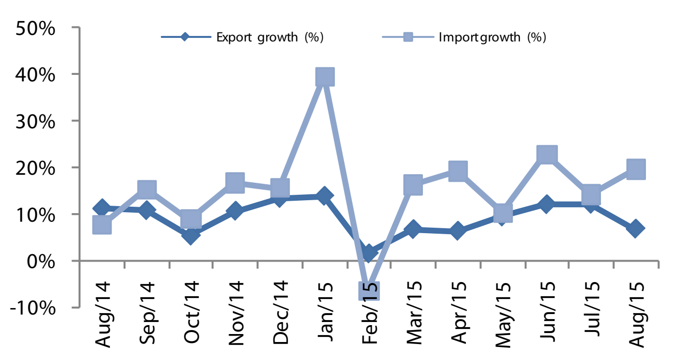
Graph 4: HSBC - PMI



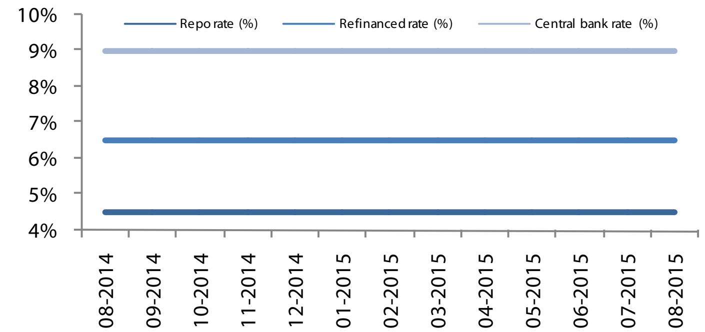
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth

Graph 6: Interest



Sources: GSO. Rongviet Securities database



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
PXS - Invest to strengthen construction capacity	Sept, 4th 2015	Accumulate - Intermediate	17,000
SHP - Positive over long-term	Sept, 3rd 2015	Accumulate - Intermediate	20,800
PET - Tracking the progress of Thanh Da land plot transfer	Aug, 20th 2015	Stable	N/a
VNC - Embrace the new wave of international commerce	Aug, 14th 2015	Neutral – Long term	28,900
MAC – Bigger Propellers, further waters	Aug, 7th 2015	Buy – Long term	17,600

Please find more information at http://www.vdsc.com.vn/en/companyReport.rv?categoryId=302

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	22/09/2015	0% - 0.75%	0% - 2.5%	11,900	11,880	0.17%
VEOF	22/09/2015	0% - 0.75%	0% - 2.5%	10,156	9,884	2.75%
VF1	25/09/2015	0.2% - 1%	0.5%-1.5%	22,966	22,939	0.12%
VF4	24/09/2015	0.2% - 1%	0%-1.5%	10,255	10,231	0.23%
VFA	25/09/2015	0.2% - 1%	0%-1.5%	7,217	7,040	2.52%
VFB	25/09/2015	0.3% - 0.6%	0%-1%	12,361	12,329	0.26%
ENF	18/09/2015	0% - 3%	0%	11,326	11,348	-0.19%
MBVF	17/09/2015	1%	0%-1%	10,391	10,408	-0.16%
MBBF	16/09/2015	0%-0.5%	0%-1%	12,336	12,331	0.04%

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