

VINAMILK JSC (VNM VN)

Conservative view over opportunities in China market

Not Rated

Current price: VND 133,000

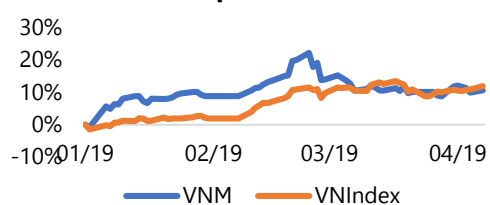
Target price: N/A

Upside: N/A

We attended VNM's annual general meeting on April 19. The company's future growth prospects appear unclear given weak demand in the dairy market and fierce competitions with foreign brands. Additionally, it should take a while to assess the efficiency of M&A deals. We also agree with management's conservative view on the Vietnam-China trade agreement on milk.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
111,500-158,750	USD 10.3bn	3.4%	40.6%	46%	USD 4.9mn

Price performance



Key Takeaways

- FY18 was a challenging year.
- FY19E targets: 7% sales growth and 5% PBT growth.
- VNM is seeking M&A opportunities

Risks

- M&A: post-deal execution.
- Pressure on market share.

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Company profile: VNM is Vietnam's dairy industry leader. Its main products include condensed milk (where its market share stands at 80%), liquid milk (50% market share), powdered milk (30%), and yogurt (73%). The company depends mostly on domestic consumption, with export markets (mainly Middle Eastern countries) contributing only 15% of revenues.

VNM's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	52,629	56,300	+7.0%
PBT	12,052	12,650	+5.0%
ROA	28.4%		
ROE	40.8%		
NPAT growth	-0.7%		
EPS growth	-0.01%		
P/E	18.0		
P/BV	8.0		

Source: VNM

FY18 was a tough year, with just 2.9% YoY top-line growth while net profit declined by 0.7% YoY. VNM attributed the 2018 weak sales result to 1) Changed consumer behavior – a shift away from animal milk to plant-based and other high-nutrition drinks including European organic products, and 2) A shift by some wholesale distributors towards other investment opportunities (such as real estate, stock, or gold), instead of milk trading. In addition, the adverse price environment for raw milk inputs also dented profits.

FY19E targets: 7% sales growth and 5% PBT growth. VNM plans to raise the proportion of high-value-added products in the urban market, while its rural market focus is to widen coverage Vinamilk products. VNM's conservative profit guidance is mainly attributable to concerns over the volatility of raw milk input prices.

Export opportunity to China? VNM holds a conservative view on its potential in the China market, cautioning that the China-Vietnam trade agreement on milk could widen the door for Chinese products' penetration into Vietnam – thus resulting in even fiercer domestic competition. Therefore, they think it is too early to say who will benefit from the agreement.

M&A plan: The authorities have allowed VNM to acquire 49% of GTN (including its 51% voting shares of Moc Chau Milk) as in line with antitrust rules. VNM also expresses readiness to engage in both vertical and horizontal M&A deals in ASEAN in upcoming years.

Dividend plan is a minimum pay-out ratio of 50% for 2019 (i.e., c. VND 3,000/share), vs approximately 70% in the last two years.

SCIC awaiting government guidelines. State Capital Investment Corporation (SCIC), which still owns a 36% stake of VNM, said that it is fully prepared to divest its stake in VNM but they must wait for specific government guidelines before divesting.

Our view: We don't cover VNM and have no investment view on the stock. Whether VNM's M&A deals will bear fruit remains unclear, but we fail to see a clear organic growth picture for the company given the weak growth and fierce competition of the domestic dairy market, as well as the high volatility of raw milk input prices.

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

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