

**Not Rated**

**TP upside/(downside) N/A**

**Close 19 Feb 2020**

**Price VND 106,400**  
**12M Target N/A**

**4Q19 conference call takeaways**

Vinamilk held a conference call on Feb 19 to discuss the 2019 results and present a general outlook for 2020. This note presents the key highlights of the call; click [here](#) for a rehash of the preliminary results announced on Feb 1.

**Key takeaways**

**Management didn't disclose formal guidance for 2020** but broadly expects 6–7% domestic volume growth (roughly in line with 2019) driven primarily by fresh milk and yoghurt as well as the National School Milk Program. Direct exports should again see double digit growth in 2020. Gross margin (+46bps YoY in 2019) should at least remain stable given flat or lower input (i.e., powdered milk) prices this year. Annual capex should be US\$120m in 2020 and 2021, largely for the new production facilities in Laos.

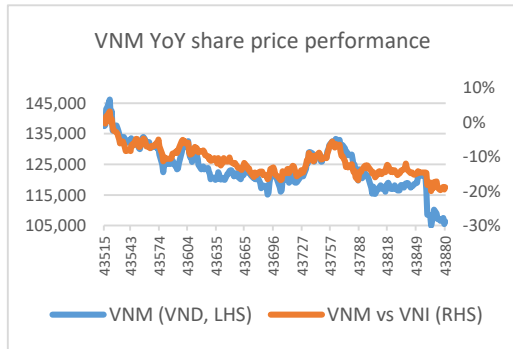
**Coronavirus & China:** VNM has not seen any noticeable impact on its domestic business so far, possibly because its products are generally consumed at home (or in school) rather than in social settings. China accounted for less than 1% of direct exports (i.e., less than 0.09% of consolidated sales) in 2019. However, issuance of new licenses in China is likely to be delayed beyond the originally-expected 1Q20. The outbreak there has also resulted in decreased milk powder prices, which could be a short-term positive for VNM's gross margin.

**Premiumization** was a key topic of discussion. Growth in domestic dairy product unit sales hit 7.5% in 2019, but premium products (7% of domestic sales) grew in the double digits, with premium yoghurt (we didn't get the growth figure) and organic fresh milk (+70% YoY in 2019) as the key drivers. VNM is also offering more ready-to-drink formula milk products. Given demographic and behavioral realities, especially in the cities, structural growth in adult-targetted products is likely to exceed that of infant formula.

**Update on Laos farm:** The 51%-owned 4,000 ha facility is currently under construction/land clearance. VNM expects to begin transferring cows there in 2Q20. The area is suitable for organic milk production, and Phase 1 of the project will eventually include 4K organic cows of a total 8K milkers. VNM expects to implement Phases 2–3 over the subsequent five years.

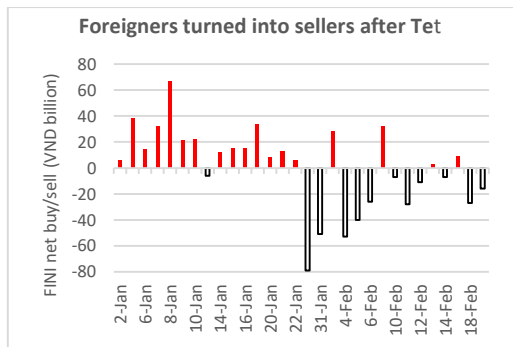
**Our view:** VNM's 6ppt YTD underperformance vs. the VNI since Tet and foreign net selling of US\$12m of the stock in the same period are interesting. Investors may have been factoring in rapid growth in China but we have always harbored [doubts about the China growth angle](#) for VNM. Again, the PRC accounted for 0.09% of last year's sales... Domestically, we think the fundamentals for dairy should be relatively immune to virus effects vs other consumer segments (e.g., beer) given the nature of dairy product consumption.

**Valuation:** 19.6x 2019 P/E vs a 5-year average of 24.5x P/E. According to Bloomberg consensus, VNM is on a 18.2x 2020E P/E with a 4.6% dividend yield.



<b>Market cap</b>	<b>US\$ 8.0 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$ 4.9m</b>
<b>Outstanding shares</b>	<b>1,741mn</b>
<b>Free float</b>	<b>46%</b>
<b>FINI ownership</b>	<b>59%</b>
<b>Major shareholders</b>	<b>54%</b>
<b>FOL room</b>	<b>NMF*</b>
<b>Net debt / equity</b>	<b>Net Cash</b>
<b>2020E dividend yield</b>	<b>4.6%</b>

\*Note: VNM does not have an FOL limit.



Source: Bloomberg, FiinPro, Company data

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