

OVERWEIGHT

Target Price	167,000	VND
Closing Price	148,000	VND
	21/09/2017	

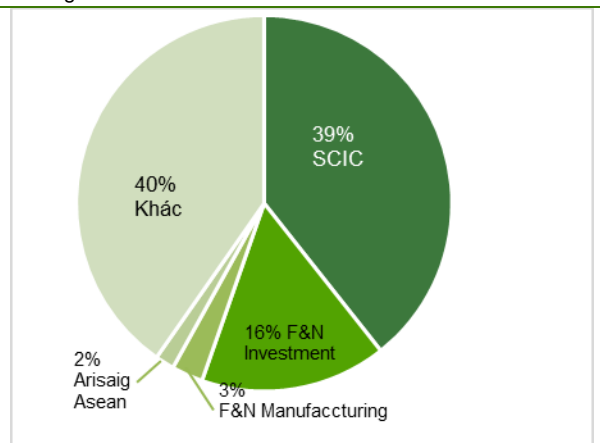
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Co. Profile

Ticker	VNM
Chartered capital (billion dong)	14,515
Outstanding shares (million)	1,451
Market cap (billion dong)	215,112
22 week range (dong)	121,500-158,200
3 month average volume	609,377
Beta	0.61
Foreign own	55.4%
First listing date	19/01/2006

Major shareholders

SCIC	39%
F&N Investment	16%
F&N Manufacturing	3%
Arisaig Asean Fund Limited	2%



Price movement

	3M	6M	12M
Absolute ('000 VND)	-2.7	21.1	8.1
(%)	-1.8%	16.6%	5.8%

Strong growth thanks to internal strength and market potential

6 months' business results and 2017 forecast

6 months' revenue is about 25,398 billion, up by 11.5% YoY, EAT is 4,973 billion, up by 17.8% YoY. For structure, in the first 6 months, domestic market saw stable growth of 17%, mainly coming from the higher selling volume. Domestic operation margin is also high (over 48%). However, export was tough because of the civil war in Iraq so export revenue dropped by 11.9%.

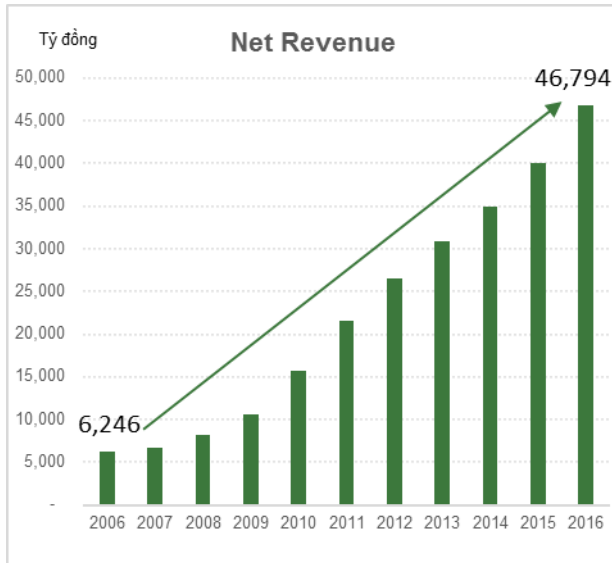
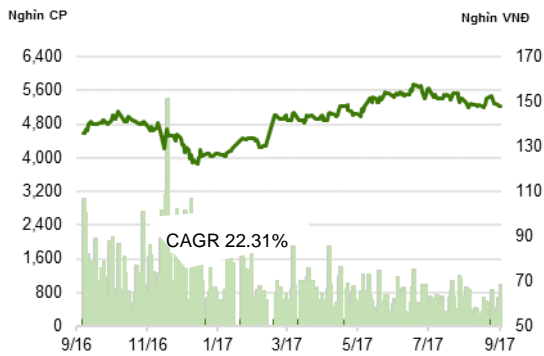
With the target of preserving market share and the prospect of milk section, we forecast that VNM 2017 revenue will be 52,410 billion, up by 12% YoY. Expected EAT is 11,664 billion, up by 25%. In which, revenue and profit still come mainly from domestic growth. Export section is expected to be better in the next few years since VNM improves the revenue in other markets rather than focusing in the Middle East.

Enterprise prospect

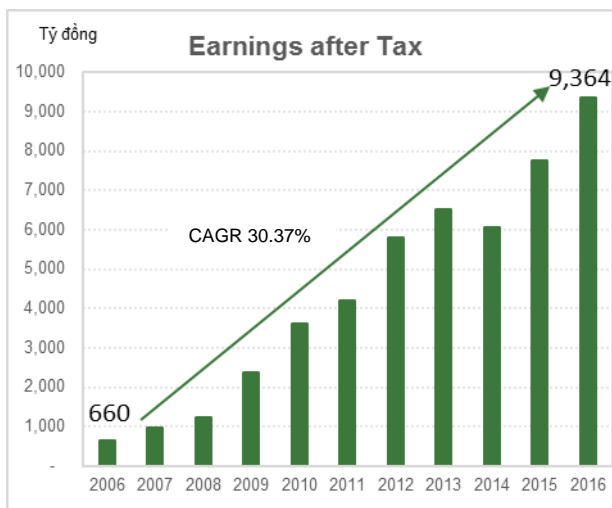
VNM is a good stock for long-term investment, after 40 years, it has become biggest milk company and second biggest private enterprise in Vietnam, and the growth is still awaiting. The enterprise has achieved many impressive achievements, being at the lead in many aspects: most valuable brand, strongest market cap, biggest distributing system, biggest milk enterprise, first and only enterprise with organic dairy farm, owning 2 biggest milk factories. Outstanding advantages of VNM:

➤ Leading position

In 2016, VNM held over 49% total revenue of Vietnam milk section. VNM products are familiar with Vietnam people from 40 years ago, starting with the product Ong Tho Condensed Milk which was popular all around the country. Until now, VNM has developed into the most valuable brand in Vietnam with over 250 products. While many Vietnam enterprises rise and sink, VNM is proving its strength through time and it is still developing. On the exchange, VNM has strongest market cap. VNM has stable revenue and profit growth throughout the quarters, showing the successes of the company in expanding the market share.



Source: VNM



Source: VNM

- Long-term vision – investing in material area development, lessening the dependant on import.

Vietnam milk section depends greatly on import materials, so milk import price increasing will see big influence on the section operation and profit. In order to come to a sustainable development, for many years, VNM has been trying to reach the target of being active in material source, hoping to raise domestic material ratio from current 30% to 40% in 2020. Currently, VNM high-tech cow farm has a total of 17,500 cows. Vinamilk will invest in another 2 high-tech milk cow farms in Thanh Hoa which will come into operation in 2017.

- Impressive productivity

VNM has been investing in expanding production, from material area to factory. Currently, VNM has 13 factories in Vietnam (including 2 super factories), 3 in America¹, New Zealand² and Campuchia³, owns a subsidiary company in Poland⁴ and 10 farms (including the only farm with Europe organic standard in Vietnam just been opened in March 2017). The most impressive is 2 super factories with total investment of about 4 trillion dong; these 2 two biggest factories in South East Asia. The factories have a closed system, 100% automatic system, with automatic robots and 2 biggest milk warning towers in Asia. Besides, Vietnam first organic cow farm also proved the long-term vision of VNM since the global trend is pointing toward organic products with health protection function. It is expected that organic milk revenue will contribute remarkably in near future after much information on dirty food and the overload in hospitals with patients related to food and drink.

- Diversifying products, meeting the demand of most consumers with a wide distributing system.

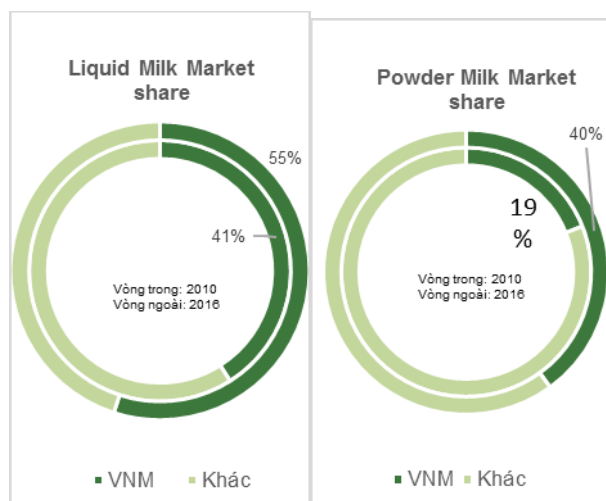
VNM now has 10 product groups with over 250 products, meeting the demand of many consumer groups. Along with being active in material area and expanding the production, VNM distributing network is also at the top with 220,000 retail spots, “Viet Dream” chain store system has 218 stores, all supermarkets and convenient stores have VNM products. With over 250 products and a wide distributing network, VNM is a familiar daily product for all Vietnamese, helping VNM creating advantage in developing the market share on all 3 main sections: liquid milk,

¹VNM owns 100% of the factory in Driftwood, California, America

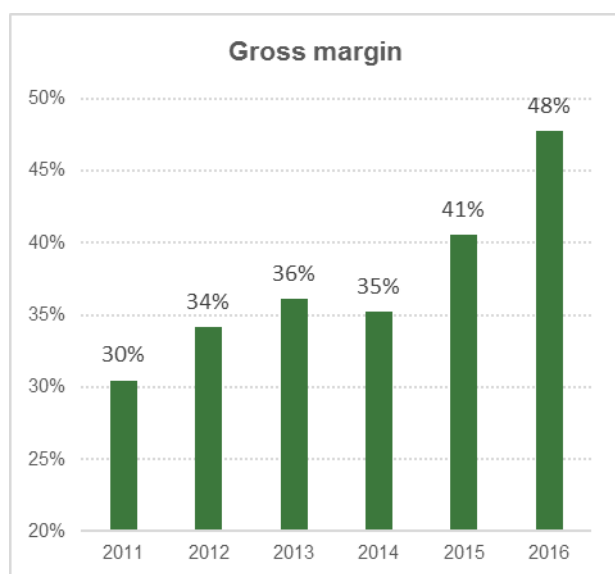
²VNM owns 22.8% of the factory Miraka, New Zealand

³VNM owns 100% of the factory Angkormilk in Phnompenh, Cambodia. This is the first and only milk factory in Canbodia.

⁴Vinamilk Europe, Poland.



Source: VNM



powder milk, and yogurt. With the fierce competition from foreign competitors, it is an outstanding achievement that proves VNM potential in the market share war. Besides, the product diversifying strategy is also applied to utilize the existed technology and distributing network, moving toward for becoming a strong food group in Vietnam. For international market, with factories and subsidiary companies invested abroad, until now, VNM has exported to 43 countries.

Effective business – profit margin has been improving non-stop. VNM is one of the most effective enterprises on the market, and the efficiency is also improving in recent 3 years: gross margin increased strongly from 35% in 2015 to 48% in 2016; ROE increased from 31% in 2014 to 42% in 2016. Core business brought a big amount of cash which gradually increased from over 5.3 trillion dong in 2014 to over 8.3 trillion in 2016 (+58%). Only a few enterprises that could keep such a growth like VNM. In the last 10 years, VNM revenue has increased by nearly 7.5 times with a double growth speed of 22.31% every year. VNM profit is even more impressive with EAT growth of over 14 times and double growth speed of 30.37%.

➤ **Market potential**

Other than its own advantages, VNM growth is highly evaluated thanks to Vietnam milk market potential in the next few years. Milk supply is still below demand, currently, fresh milk only meets nearly a half of the market demand⁵. Fresh milk is expected to increase strongly since Vietnam average milk consumption is only over 17 liter/person/year, much lower than regional countries: Thailand (35 liter/person/year), Singapore (45 liter/person/year). According to Farming Department, as of 2020, Vietnam milk consumption will be 28 liter/person/year.

Risks

➤ **Input material price**

A lot of VNM production materials are imported (currently about 330%), so world milk price sees quite strong influence on the enterprise operation and profit.

➤ **Rumor risks**

Food and beverage section sees strong pressure from food safety rumors. With bad information on product quality, especially when it is related to baby and kid foods, consumers might see over reaction before the information is officially confirmed.

⁵Report from Nielsen Vietnam – Retail quality evaluation for Liquid milk section from January 2015 to July 2017

➤ Disease and safety risks for cows

Milk safety quality depends massively on the cow status. When disease takes place, without timely measures, it might see influence on supply source, fresh milk quality and price of the enterprise.

Evaluation

We expect VNM target price at about 167,000 dong/share, basing on 2 methods: P/E (50% weight, 2016 expected P/E of 18.7x and 2017 expected EPS) and FCFF (50% weight). Comparing to the current market price of 148,000 dong/share, we recommend Overweight ranking for this code in middle and long-term.

Discounted Cash flow	2017	2018	2019	2020	2021
Operation profit	13,260	16,142	20,927	23,502	26,370
Discount	1,082	1,234	1,398	1,564	1,866
Tax	2222	2853	3886	4587	5404
Basic construction investment	1174	1257	1282	1295	1295
Flowing capital change	354	308	302	372	277
Free cash flow	10,592	12,958	16,856	18,812	21,261
Current value	9,600	10,646	12,552	12,697	13,007

Cost			
Beta	0.61	Total current value (billion VND)	58,502
Risk compensation	8.72%	Final value (3%g) (billion dong)	198,983
Non-risk interest rate	5.12%	Total cash flow (billion dong)	257,486
Equity expense	10.4%	Cash and current investment (billion dong)	11,109
Debt expense	11%	Short and long-term debt (billion dong)	1,660
Debt/capital	6.86%	Minority benefit (billion dong)	0
Equity	93.1%	Equity source (billion dong)	266,935
Enterprise income tax	20%	Number of shares (million)	1,451
WACC	10.3%	Price (dong)	184,926

Company Profile

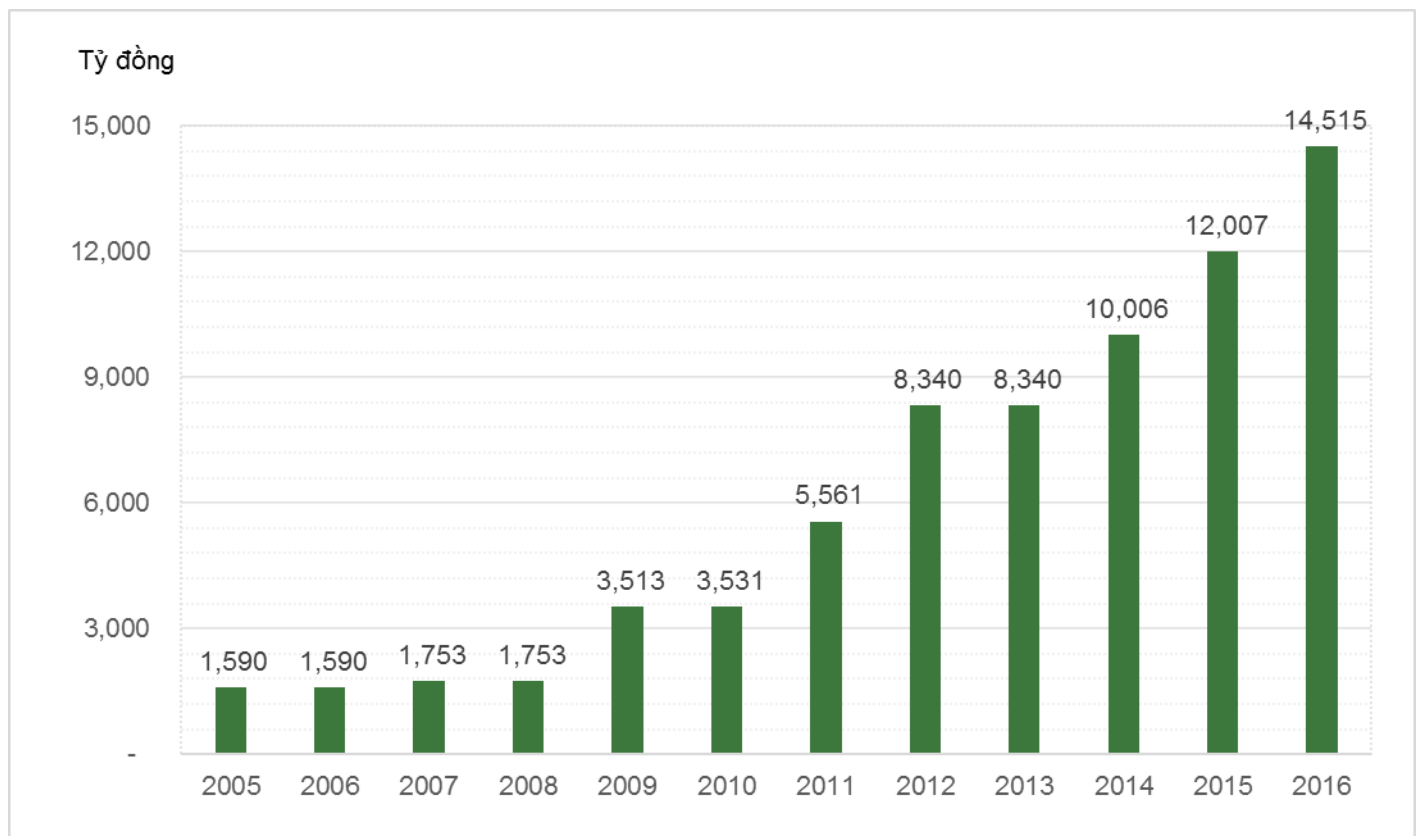
Vinamilk’s precursor is Southern Milk and Coffee Company, established in 1976, directly under Food Industrial General Department. In November 2003, it officially transformed into JSC and changed the name into Vietnam Milk JSC, listed on HOSE from January 2006.

VNM is the biggest milk enterprise in Vietnam, accounting nearly 50% total milk section revenue with over 250 products and a nation wide distributing network. Not only being biggest milk enterprise, VNM also leads on many aspects: biggest market cap, most valuable brand, biggest distributing network, first and only enterprise owning organic milk farm, owning 2 biggest super milk factories.

VNM sets revenue target at 3 billion USD in 2017, becoming one of 50 biggest milk factories in the world.



Capital Raising progress (billion dong)



Source: VNM

Financial Ratios (billion dong)

Income statement	2014	2015	2016	2017E
Net revenue	34,977	40,080	46,794	52,410
COGS	22,668	23,818	24,459	26,729
Gross profit	12,308	16,262	22,336	25,681
Selling expense	4,696	6,258	10,759	11,268
Management expense	795	1,233	1,053	1,153
Operational profit	6,817	8,772	10,524	13,260
Finance profit	492	486	620	533
Loan interest expense	40	31	46	49
Earnings before tax	7,553	9,367	11,238	13,886
Earnings after tax	6,008	7,770	9,364	11,664
Parent company EAT	6,009	7,773	9,350	11,664
Balance sheet	2014	2015	2016	2017E
Current Assets	15,522	16,732	18,674	20,348
Cash and Cash Equivalents	1,528	1,359	655	1,566
Short term Financial Investment	7,468	8,668	10,454	10,454
Short term Account Receivables	2,772	2,685	2,867	3,211
Inventory	3,620	3,810	4,522	4,941
Other Current Assets	135	209	176	176
Non-current Assets	10,248	10,746	10,705	11,929
Long term Account Receivables	7	21	22	22
Fixed assets	8,890	8,214	8,321	9,495
Real estate investments	148	142	137	137
Capital Construction in Process	804	844	993	1,043
Long term Financial Investments	700	940	614	614
Other long term assets	342	443	494	494
Good Will	161	142	124	124
Total Assets	25,770	27,478	29,379	32,277
Liabilities	5,970	6,554	6,973	7,391
Short term Liabilities	5,453	6,004	6,457	6,974
Long term Liabilities	517	550	515	515
Owners equity	19,680	20,924	22,406	24,885
Common stocks	10,006	12,007	14,515	14,515
Minority Interest	-	231	237	237
Total capital	25,770	27,478	29,379	32,277

Cash flow	2014	2015	2016	2017E
Net operating	5,328	7,659	8,390	10,068
Net Investing	-3,873	-2,127	-1,946	-1,615
Net Financing	-2,673	-5,704	-7,141	-7,542
Net during the period	-1,218	-172	-697	910
Cash at beginning	2,746	1,528	1,359	655
Cash at end of year	1,528	1,359	655	1,566
Valuation				
EPS (VND)	6,008	6,477	6,442	8,036
BVPS (VND)	19,140	17,086	15,158	16,867
P/E	11.19	11.88	18.70	18.70
P/B	3.51	4.50	7.95	7.95
Financial ratios	2014	2015	2016	2017E
Capital Structure				
Current assets/ Total assets	60%	61%	64%	63%
Non-Current assets/Total assets	40%	39%	36%	37%
Debt/Equity	30%	31%	31%	30%
Debt/Total assets	23%	24%	24%	23%
Interest coverage ratio	191.8	300.5	242.7	284.4
Liquidity				
Current ratio	2.8	2.8	2.9	2.9
Quick ratio	2.2	2.2	2.2	2.2
Efficiency				
Inventory Days	58.3	58.4	67.5	67.5
Receivables Days	28.9	24.5	22.4	22.4
Payables Days	30.6	33.6	38.2	40.9
Current assets turnover	2.3	2.4	2.5	2.6
Fixed assets turnover	3.9	4.9	5.6	5.5
Total assets turnover	1.4	1.5	1.6	1.6
Profitability				
Gross margin	35%	41%	48%	49%
Operating margin	19%	22%	22%	25%
Net profit margin	17%	19%	20%	22%
ROE	31%	37%	42%	47%
ROA	23%	28%	32%	36%

Source: VNM and PHS estimation

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Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%

Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends).

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