

BUY [+17%]

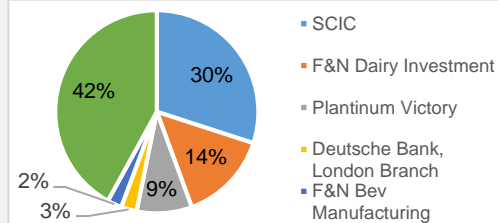
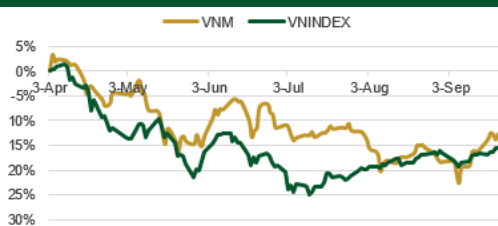
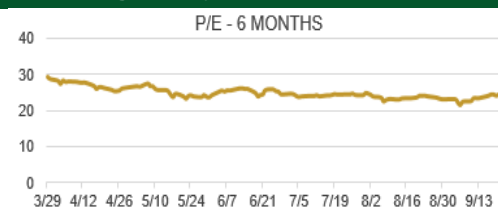
Updated time: 27/9/2018

Target price	160,172	VND
Current price (Sep 26)	136,500	VND

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Stock information

Outstanding share (million)	1,741.4
Free-float (million)	870.7
Market cap (billion dong)	239,970
3 month average volume	829,399
Foreign owning rate	59.79%
First listing date	19/01/2006

Major shareholder

Price movement comparing to the Index

Evaluating history

Hope on M&A and export market

Update 1H2018 business results: Ending 6 months 2018, Vinamilk business results slowed down as combined revenue only increased slightly by 2% YoY to 25,823 billion, while cost growth is higher so profit margin dropped from 49% to 46% so parent company EAT dropped by over 8% to 5,368 billion. This drop came partly from input material price which has been increasing strongly, besides, export market was tough with influence from strongly dropping sugar price after merging with VietSugar.

2018 forecaste: Vietnam milk industry growth speed is only 5-7% a yea, besides, Vinamilk is now the leading dairy enterprise with 58% market share, so in 2018, the company will still maintain current market share. Besides, in July, the company merged with Lao-Jargo in Laos targeting expanding Organic milk material area to meet the increasing Organic milk demand, lower the cost, and build the brand in Laos market. Therefore, expected revenue in 2018 for VNM might be 55,137 billion (+8%YoY) with profir margin still maintaining at 48% thanks to lower cost, so EAT will improve to 11,190 billion (+9%YoY).

Growing motivation: (1) Hope from M&A cases: with strong financial potential, VNM tends to focus on seeking developing opportunities by business cooperation or M&A. Previously in 2017, VNM has finished buying Thong Nhat Thanh Hoa Milk Cow Company and Vietnam Sugar JSC. Not stopping there, the company has also spent nearly 39 billion USD to buy Laos Lao-Jargo milk company, showing that M&A is still an important target of VNM. **(2) Expectation from export market:** M&A is expected to support VNM in expanding export market, and raise export volume and lower the influence from Middle East market since this region is still tough. **(3) Expecting that SCIC divestment will be a remarkable point from 2 shareholder groups F&N and JC&C:** SCIC might plan to divest in VNM. If SCIC divests all 36% capital in VNM, F&N and JC&C might be 2 groups with attention since both of them are desiring to raise the owning rate in VNM.

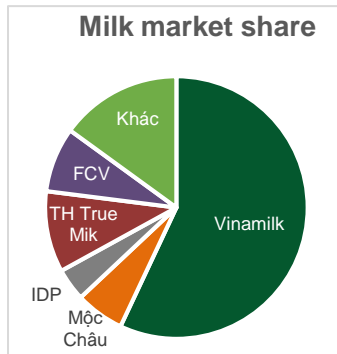
Evaluation and Recommendation:

Applying 2 methods DCF (60%) and P/E (40%), we estimate that the reasonable value for one Vinamilk share will be about **160,172 dong/share**, equivalent to P/E forward 2018 of 25.x. So we recommend **BUY** on this code.

Financial indicators	2013A	2014A	2015A	2016A	2017A	2018F	2019F	2020F	2021F	2022F
Net revenue (billion VND)	30,949	35,072	40,080	46,794	51,041	55,137	60,290	66,746	73,982	82,352
Earnings after tax (bil VND)	6,534	6,069	7,773	9,350	10,296	11,192	12,169	13,802	15,236	16,989
EPS (VND)	7,835	6,064	6,471	6,451	7,093	6,427	6,987	7,921	8,747	9,753
EPS growth (%)		-23%	7%	0%	10%	-9%	9%	13%	10%	12%
Book value (VND)	25,975	23,285	20,777	18,608	23,083	20,487	21,663	23,448	25,227	27,473
P/E	17.2	15.7	19.6	19.6	24.0	24.9	-	-	-	-
P/B	5.2	4.1	6.1	6.8	7.4	7.8	-	-	-	-
Cash dividend (VND)	0%	33%	50%	50%	55%	50%	-	-	-	-

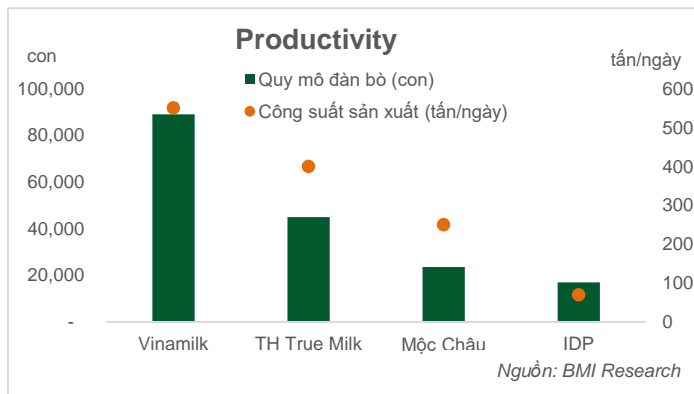
Vinamilk Overview

Being leading enterprise in dairy industry on both market share and production scale



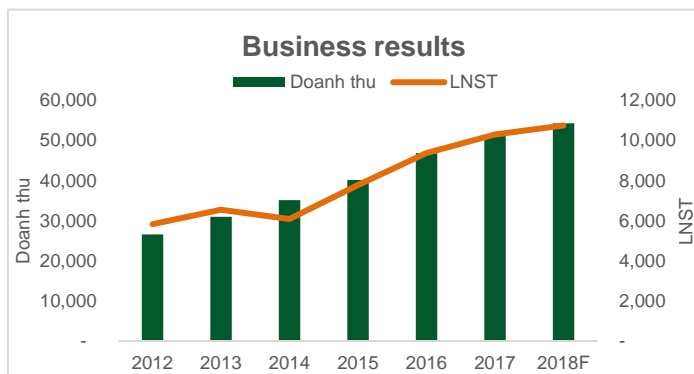
VNM is leading enterprise in dairy industry on both market share and production. In which, VNM market share is currently 58%, highest among peer enterprises. Besides, for production, VNM owns 9 farms with over 89,000 pieces of cow that produce over 500 million tons of milk a day. In which, in 2017, the

company built 2 high quality cow milk farm in Thanh Hoa and Tay Ninh with average production of about 280 million tons a day to meet the target of improving Organic milk section.



VNM also owns 13 factories, including 2 big scale factories and owns a modern technology, including Baby milk powder factory and Vietnam Milk Mega Factory) that produce 54,000 tons of milk powder a year and 400 million liter of milk a year. Not stopping there, VNM continues expanding Mega factory phase 2 with another 200 million liter a year and in 2019, there will be another 200 million liter a year added, bringing total productivity in Mega Factory to 800 million liter a year.

Leading and stable business results



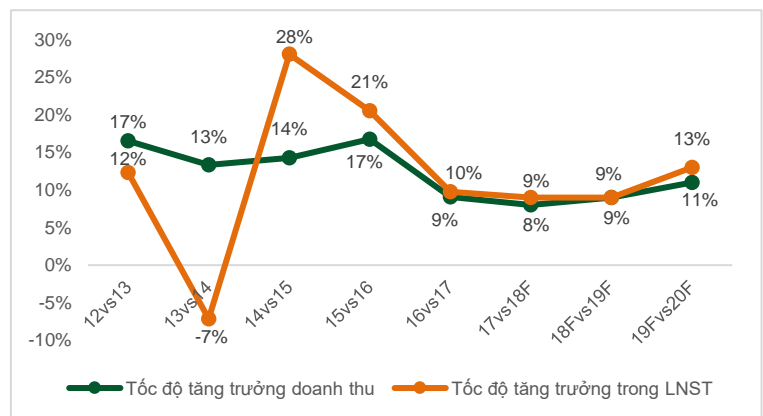
VNM is the listed company with second highest EAT on stock market (the value as of June 30th, 2018). In 2012-2017, average growth speed (CAGR) in revenue and EAT

in VNM is 14% and 12% a year respectively. Besides, the company profit margin has also been improving from 34% in 2012 to current 47-48%. This positivity came from VNM's market share improvement, accordingly, the company's target is to raise the market share by 1% a year and in 5 more years, it will reach over 60% market share.

Investment points of view

Domestic milk industry is now saturated, VNM still hopes to maintain a stable growth of 8%

Being a leading enterprise in Vietnam milk industry but Vinamilk is showing signs of slowing down in business results. Accordingly, revenue and EAT growth speed are both dropping.

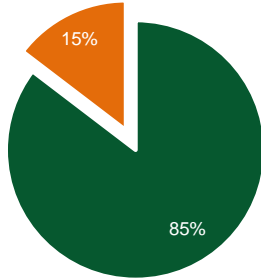


According to Nielsen's report on FMCG, milk industry is saturating, as it slowed down from Q1/2017 with both lower production and consumption. In Q2/2018, consumption growth is still negative 6.2% but consumption value increased slightly again by about 1% YoY, showing that milk industry potential is still good. Looking back at VNM – leading milk enterprise in Vietnam, the prospect on stable growth speed of 8% in 2018-2019 revenue is still reasonable.

While domestic market is saturating, new growing motivation for VNM comes from M&A cases: after finishing buying Thong Nhat Thanh Hoa Milk Cow, Vinamilk has acquired Vietnam Sugar JSC. Besides, in July 2018, VNM has also spent nearly 39 billion USD to buy 51% shares in Lao-Jargo to develop high tech milk cow and beef. This cooperation is expected to help VNM raising Organic milk production to meet the increasing consumption (Organic products in 2017 saw material shortage). At general meeting, VNM leader board still stated that M&A will still be the main target in near future and it expects to further expand the investment in ASEAN.

Expecting to expand export market: VNM is a leading enterprise on export market with export revenue in 6M2018 of over 3,615 billion, contributing 14% total revenue. In 2017, Vinamilk export revenue dropped remarkably since Middle East market was unstable. However, to limit the influence from this market, VNM has expanded other markets with subsidiary and affiliated companies like Driftwood (America), Angkor Milk (Cambodia), Vinamilk Europe Spotka Z organiczona (Poland). After merging with Lao-Jargo milk, it expects to bring Vinamilk brand to this new market. At the same time, in near future, M&A

Cơ cấu doanh thu theo thị trường



- Doanh thu nội địa
- Doanh thu xuất khẩu

will still be carried out which is expected to support VNM expanding potential export market and raising export revenue.

Preparing for SCIC's divestment and remarkable point from 2 shareholders F&N and JC&C: F&N and JC&C are 2 shareholders with highest owning rate in Vinamilk, only after SCIC (SCIC holds 36%; F&N 19% with 2 subsidiary companies F&N Dairy Investment and F&N Bev Manufacturing; JC&C holds 10.03% via Platinum Victory – on December 29th, 2017) and both shareholders intend to raise the owning rate in VNM if SCIC divests 36% capital in this company. Currently, SCIC is planning to divest from VNM and is waiting for the result.

Investment point of view

In 2018, VNM issued share for existed shareholders at the rate of 5:1, raising total outstanding share to over 1,741 million. Ending 2018, estimated total revenue is 55,137 billion (+8%YoY) and EAT is 11,190 billion (+9%YoY), so estimated EPS is 6,427 dong/share.

By DCF and P/E methods (60% and 40% weight), we estimate that VNM reasonable value is about **160,172 dong/share**, equivalent to P/E forward 2018 of 25.x, so we recommend **BUY** for this code

DCF method

Indicator (bil dong)	2018F	2019F	2020F	2021F	2022F
Operation profit	11,190	12,167	13,795	15,232	16,984
Loan interest after tax	56	65	62	69	69
Depreciation	1,519	1,438	1,493	1,775	1,552
Basic construction investment	2,285	1,548	1,105	985	977
Operating capital change	467	456	611	915	987
FCFF	10,012	11,665	13,634	15,177	16,641
PV CF (WACC 8.5%)	10,012	10,757	11,595	11,902	12,035
Final value (3%g)	215,573				
Enterprise value	271,873				
Debt	2,210				
Cash and short-term investment	13,159				
Market-cap	282,822				
Outstanding share (million)	1,741				
Reasonable price	162,407				

P/E method

Big milk companies in the world	P/E
Nestle	29.95
Dean Foods Co.	17.54
Saputo Inc	20.47
A2 Milk Co.	33.57
China Mengniu Dairy Co.	25.91
Meiji Holding	18.91
Almarai Co.	24.57
Average	24.4

Source: Bloomberg

EPS	6,427
Average P/E	24.4
Reasonable price	156,820

Company profile

Vinamilk was originally Southern Milk and Coffee, established in 1976 under Food Industry General Department. In November 2003, it officially transformed to a joint stock company and changed the name to Vietnam Milk JSC, listed on HOSE from January 2006.

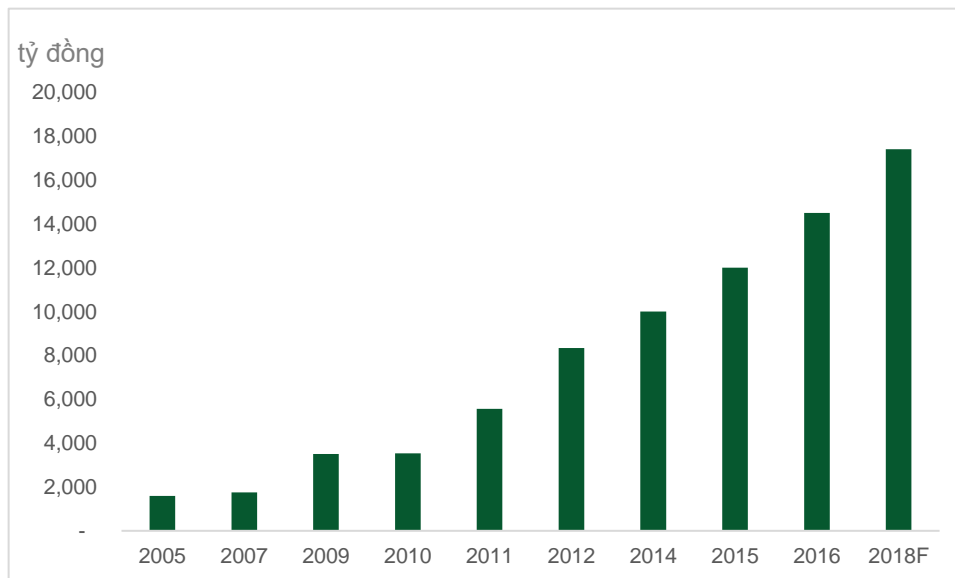
VNM is Vietnam biggest milk enterprise with nearly 50% total revenue in milk industry with over 250 products and a distributing network all over the country.

Not just being biggest milk enterprise, VNM also leads on many aspects: biggest market-cap, most valuable brand, biggest distributing system, first and only enterprise with organic milk farm, owning two biggest factories.

Planning to build and expand production scale, approaching the strategy of merging and acquisition to improve the position, expanding productivity and seeking export market, Vinamilk expects to keep and raise current market share, and confirm its position on foreign markets.



Capital raising progress (billion)



Source: VNM and PHS summarization

Finance statement (billion dong)

Business results	2014A	2015A	2016A	2017A	2018F	1H/2018
Net revenue	35,072	40,080	46,794	51,041	55,137	25,823
Cost of goods sell	(23,680)	(23,818)	(24,459)	(26,807)	(28,781)	(13,868)
Gross profit	11,392	16,262	22,336	24,234	26,355	11,955
Selling expense	(3,684)	(6,258)	(10,759)	(11,537)	(12,570)	(5,495)
Management expense	(795)	(1,233)	(1,053)	(1,268)	(1,305)	(516)
Operational profit	7,464	9,271	11,160	12,226	13,300	5,945
Financial profit	492	486	620	729	759	332
Loan interest profit	(40)	(31)	(47)	(29)	(70)	(26)
Earnings before tax	7,613	9,367	11,238	12,229	13,347	6,337
Earning after tax	6,068	7,770	9,364	10,278	11,190	5,361
Parent company's EAT	6,069	7,773	9,350	10,296	11,192	5,368
Balance sheet	2014A	2015A	2016A	2017A	2018F	1H/2018
Current asset	15,458	16,732	18,674	20,307	23,118	20,819
Cash and equivalent	1,528	1,359	655	963	2,195	1,343
Short-term finance investment	7,469	8,668	10,454	10,562	10,964	9,211
Short-term receivables	2,777	2,685	2,867	4,592	5,361	5,149
Inventory	3,555	3,810	4,522	4,021	4,365	4,886
Other current asset	129	209	176	170	233	229
Non-current asset	10,312	10,746	10,705	14,360	15,410	15,365
Long-term receivables	22	21	22	54	30	114
Fixed asset	8,086	8,214	8,321	10,609	11,174	11,095
Invested real estate	148	142	137	95	93	93
In progress construction	890	844	993	1,929	2,258	2,425
Long-term finance investment	671	940	614	556	848	572
Other non-current asset	334	443	494	643	587	618
Good will	161	142	124	475	419	447
Total asset	25,770	27,478	29,379	34,667	38,527	36,184
Payables	5,970	6,554	6,973	10,794	11,326	9,647
Short-term debt	5,453	6,004	6,458	10,196	10,638	8,863
Long-term debt	517	550	515	599	688	785
Equity capital	19,800	20,924	22,406	23,873	27,201	26,536
Chartered capital	10,006	12,007	14,515	14,515	17,414	14,515
Minority benefit	-	-	-	-	-	-
Total resource	25,770	27,478	29,379	34,667	38,527	36,184

Cash flow	2014A	2015A	2016A	2017A	2018F	1H/2018
Operational net cash flow	5,328	7,659	8,390	9,602	11,470	3,261
Investment net cash flow	(3,873)	(2,127)	(1,946)	(1,771)	(2,285)	(13)
Financial net cash flow	(2,673)	(5,704)	(7,141)	(7,535)	(7,952)	(2,865)
Net cash flow during the period	(1,218)	(172)	(697)	295	1,232	382
Cash and equivalent at the beginning	2,746	1,528	1,359	655	963	963
Cash and equivalent at the end	1,528	1,359	655	963	2,195	1,343
Financial indicators (%)	2014A	2015A	2016A	2017A	2018F	1H/2018
Growth						
Revenue	13%	14%	17%	9%	8%	2%
Earnings after tax	-7%	28%	20%	10%	9%	-8%
Total asset	13%	7%	7%	18%	11%	13%
Total equity	13%	6%	7%	7%	14%	7%
Profitability						
Gross margin	32%	41%	48%	47%	48%	46%
EBIT margin	21%	23%	24%	24%	24%	23%
EBITDA margin	24%	26%	26%	28%	27%	25%
Net margin	17%	19%	20%	20%	20%	21%
ROA	25%	29%	33%	32%	31%	15%
ROE	32%	38%	43%	44%	44%	20%
Efficiency						
Receivables days	12.7	14.7	16.9	13.7	11.1	5.0
Inventory days	10.4	10.9	11.2	11.9	13.1	5.3
Payables days	18.1	19.6	19.7	15.6	12.9	6.8
Liquidity						
Current ratio	2.59	2.55	2.68	1.88	2.04	2.16
Quick rator	2.18	2.15	2.19	1.60	1.76	1.80
Financial structure						
Total debt/Total asset	23%	24%	24%	31%	29%	27%
Total debt/Equity	30%	31%	31%	45%	42%	36%
Short-term debt/Equity	28%	29%	29%	43%	39%	33%
Long-term debt/Equity	3%	3%	2%	3%	3%	3%

Source: PHS

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Hold = Expected to in line with the local market by +10%~ -10%

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Not Rated = 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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