

SANEST KHANH HOA BEVERAGE JSC (UPCOM:SKH)

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Bird's nest (Tổ yến/ yến sào/ edible bird's nests/ 燕窝) is created by edible-nest swiftlets using solidified saliva. Bird's nest is extremely expensive in Vietnam, as the market price is about VND50,000,000 to VND100,000,000 per Kg (~USD2,200 – USD4,500 per kilogram) for a normal type of bird's nest, while a rare red nest (the nest with the red color) is sold at more than USD10,000 per Kg. Bird's nest is usually considered as a traditional medicine that is good for a person's skin, lungs and overall health. Vietnamese usually buy bird's nest as a gift for family members and elders (i.e. parents or grandparents) or for someone who just recovered from sickness. People with higher incomes will eat bird's nest more frequently, typically on a weekly basis, as a supporting medicine to maintain good health.



Swiftlets and their nest in natural habitat – source: internet

Bird's nest has a long history. Vietnamese originally began collecting bird's nests as a gift to the King, since the Le Dynasty in the 15<sup>th</sup> century. Bird's nest was very expensive (legends said 1kg of bird nest was equal to 1 kg of gold) and it became a symbol of wealth and luxury. Currently, bird's nest is much cheaper and more accessible to the public thanks to new technology.

The bird's nest farming business is doing pretty well although there are some people against farming bird's nest. However, there are currently many misunderstandings about the business and therefore, I would like to clarify some common misunderstandings:

- **Taking a bird's nests means destroying their homes:** The farmers only take the nest twice a year after the egg has hatched and the young birds are able to fly. The birds will not need the nests until the next mating season. In some cases, farmers will take the young bird and raise them in an artificial environment until the birds are able to fly.
- **Farmer massively killed the birds:** (some pictures showed thousands of birds that died): Swiftlets' life cycle is about 3-4 years. Most of them will die when they are 4 (especially after some heavy storms, as we have several storms and typhoons every year). It's very normal and natural for a large amount of birds to die every year.
- **The bird is over farmed:** A long time ago, farmers harvested the nests around 3-4 times a year without thinking about over farming the bird. However, with new technology and skills, they currently only harvest twice a year and this does not affect the bird.
- **The red color from bird's nests comes from its blood:** In certain areas, the minerals of the mountain contains CaCO<sub>3</sub> (and some minor ingredients). All of these ingredients mix with swiftlets' saliva, which causes the color to be red.
- **Bird's nest could be faked easily:** Yes, this is true. It is better to buy from companies with a strong brand name, to avoid fake products.



Bird nest is usually served with lotus seeds

Fortunately, we have a very well-known brand name that Vietnamese trust. **Sanest Khanh Hoa** is not only the market leader, but also the pioneer in farming and raising swiftlets. During my short visit to Nha Trang last week (Nha Trang was super crowded with Russian and Chinese Tourists), I observed that the **SANEST** brand appeared almost everywhere in Nha Trang. The market cap for this company is small, but the growth potential is strong.

The companies developed their own technique of enhancing swiftlets' living environments. They are also the creators of an artificial environment that supports young/weak birds to fully grow up or recover. In this business, the healthier birds you have, the better nests you receive.

While bird's nests are a bit expensive for middle income and young people, SKH's products are affordable for most people in Vietnam. The packaging looks nice, similar to other "high class" products.



### Investment highlights:

1. We expect that the Non-Alcohol Beverage industry will continue its growth momentum with **CAGR of 14% - 15% in the next 5 years**. This will be driven by high demand of Vietnamese consumers, which is currently only 23 liters/person/year, about half of the world's average. Moreover, this growth trend is shifting towards healthy drinks as consumers are becoming more aware of their health as their incomes rise.
2. Demand for bird's nest is very high, especially for mid-end and high-end consumers. Many scientists have certified that bird's nest has great nutritional values for the human body. It has a high amount of Acid Amin such as: arginine, leucine, phenylalanine, and threonine, which the human body cannot synthesize. These acids are very important for the immune system. Vietnam is one of only 4 producers of bird's nest besides Malaysia, Indonesia, and Thailand. Bird's nest in Vietnam is considered the best thanks to its favorable geography and rich minerals in bird caves. Vietnam's products are popular among high-end consumers in China, Hong Kong, and Taiwan.
3. In Vietnam, the bird's nest market is quite small (**about US\$10 million**) but it has strong growth potential given that this is a niche market experiencing **double digit growth** and Sanest Khanh Hoa is the **key player** in this market.
4. Sanest Khanh Hoa (the parent company) is considered the national brand with more than 30 years of operation in bird's nest production. The company is based in Khanh Hoa, the province

that has the most bird's caves in Vietnam, and manages a total of **33 islands with 172 Bird Caves**. The company is certified as the **largest natural bird's nest company in Asia**. The company has more than 40 products that are distributed via a large distribution system with more than **1,000 distributors nationwide, and 30 distributors overseas**, and has registered exclusive brands in **42 nations**.

5. Sanest Khanh Hoa Beverage JSC (SKH) is a subsidiary and the company contributed to **77.6% of its total revenue** in 2016. Its main products are bird's nest beverages:



SKH currently has a factory with capacity of 80 million products/year (**running at 100% capacity**), built in a land of 50,000 sqm. SKH also has an **expansion plan** to build a factory in 2018, with a total land area of **48,178 sqm**.

6. The company's revenue and profit in 2016 reached **VND1,260bn (+32% yoy)** and **VND76.4bn (+25%)** respectively. Based on its expansion plan in 2018, we believe that SKH should be able to maintain revenue growth of 20%/year in the next 4 years.
7. SKH listed 7.97 million shares on Upcom on the 25<sup>th</sup> of October with the listing price of VND27,800/share. The government currently owns 51%, and will slowly divest in SKH through 2020, which is the deadline.

The downside of SKH is its low liquidity and small market cap. However, we would be able to look for blocks, and the company is also open to meet investors. Let us know if you are interested.



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