

VEAM CORP (VEA) – VISIT NOTE

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Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	52,500
52w low (VND)	21,381
3m Avg daily volume (shares)	498,576
3m Avg daily value (VNDmn)	19,945
Market cap (VNDbn)	66,964
Outstanding shares (m)	1,329
Free float (%)	5.4
TTM P/E (x)	9.4
Current P/B (x)	2.7

Ownership

Ministry of Industry and Trade	88.5%
Hoa An JSC	6.0%
Others	5.5%

Source: VNDIRECT

VEAM (Vietnam Engine and Agriculture Manufacturing Corporation) is the largest agricultural machinery and equipment manufacturer in Vietnam. VEA also has interests in automobile and motorcycle assembly and retailing through its joint ventures with Honda Vietnam (30%), Toyota Vietnam (20%), Ford Vietnam (25% via its affiliates Disoco) and other brands which together contributed VND6,849bn in financial income for VEA in FY18. We recently met with VEA's management team and came away with the insights below.

VEA recorded outstanding FY18 results with consolidated EAT surging by 40.1% yoy to reach VND7,070bn, largely thanks to profit from JVs of VND6,849bn (+32.5% yoy). This profit from JVs was driven by booming sales of Honda Vietnam, with FY18 revenue of VND106tr (+23.7% yoy). Sales of Honda automobiles jumped 123% yoy to reach over 27.1 thousand units while Honda's motorcycle sales increased by 7% to 2.6m units, taking its motorcycle market share up to 76%.

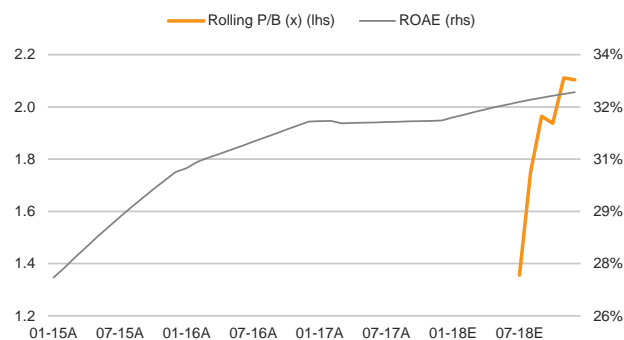
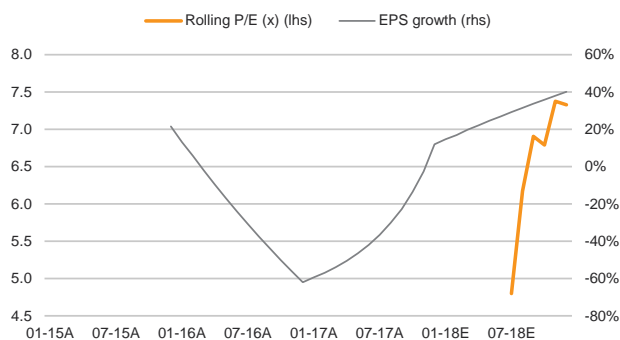
Possibility of a post-audit charge related to clearance of unsold inventory. VEA returned a block of 1,830 units (Hyundai trucks) worth VND1,762bn in Dec-18 to the dealer due to a high purchase price which made it difficult to sell these trucks. VEA is seeking audit opinions on how to record this transaction on its books. Management expects a write-down in value of this inventory post-audit (details not disclosed), leading to a possible charge on the audited P&L for FY18.

VEA expects automobile sales to be the future growth driver as the motorcycle market has matured. VEA's management expects automobile sales to grow 10% per annum in the next five years on the back of rising disposable income. On the other hand, the motorcycle retail market volume, currently at an all-time high with FY18 total sales of 3.38m units, might not see much growth since the market penetration rate of motorcycles is already high at 1 motorcycle per 2.6 persons. Motorcycle sales in upcoming years will mostly stem from replacements and upgrades; the resulting product mix improvements should boost margins.

Management expects 2019 to be a good year for VEA with parent company EAT expected to grow by 16.6% thanks to financial income of VND6,648bn (+15.3% yoy), including interest income of VND598bn (+68.2% yoy) on the back of a higher FY18 short-term investments balance of VND9,650bn versus just VND2,152bn in FY17. The core business (agricultural machinery and trucks) is expected to see improvements with the VEAM Motor factory projected to achieve break-even after making losses in previous years; VEAM Foundry (producing casting parts) is expected to record a FY19F profit of VND5bn while trading activities are expected to contribute VND12bn in profit, both of which are higher than FY18 levels.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18A
Net revenue (bn)	5,893	6,307	6,563	7,073
Revenue growth	15.9%	7.0%	4.1%	7.8%
Gross margin	10.6%	10.1%	9.4%	8.5%
EBITDA margin	78.3%	75.8%	83.2%	106.7%
Net profit (bn)	4,373	4,504	5,046	7,070
Net profit growth	31.3%	3.0%	12.0%	40.1%
Recurring profit growth	31.3%	3.0%	12.0%	40.1%
Basic EPS	8,922	3,390	3,797	5,321
Adjusted EPS	8,922	3,390	3,797	5,321
BVPS	30,697	9,894	13,852	18,538
ROAE	30.4%	32.0%	32.0%	32.9%

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18A
Net revenue	6,307	6,563	7,073
Cost of sales	(5,669)	(5,943)	(6,469)
Gen & admin expenses	(530)	(595)	(471)
Selling expenses	(315)	(282)	(169)
Operating profit	(207)	(258)	(36)
Operating EBITDA	35	47	298
Depreciation and amortisation	(242)	(304)	(334)
Operating EBIT	(207)	(258)	(36)
Interest income	435	254	417
Financial expense	(318)	(42)	(80)
Net other income	26	(3)	42
Income from associates & JVs	4,576	5,170	6,849
Pre-tax profit	4,512	5,122	7,192
Tax expense	(20)	(36)	(62)
Minority interest	12	(40)	(59)
Net profit	4,504	5,046	7,070
Adj. net profit to ordinary	4,504	5,046	7,070
Ordinary dividends	(2,115)	(3,716)	(513)
Retained earnings	2,389	1,330	6,558

Balance sheet

(VNDbn)	12-16A	12-17A	12-18A
Cash and equivalents	3,799	2,488	342
Short term investments	304	2,152	9,650
Accounts receivables	1,688	2,610	4,014
Inventories	2,372	3,503	2,302
Other current assets	111	234	98
Total current assets	8,274	10,987	16,406
Fixed assets	2,606	2,634	2,466
Total investments	9,044	9,265	6,969
Other long-term assets	453	475	571
Total assets	20,376	23,361	26,411
Short-term debt	428	285	380
Accounts payable	450	2,155	447
Other current liabilities	5,944	2,122	589
Total current liabilities	6,822	4,563	1,415
Total long-term debt	198	175	120
Other liabilities	46	48	47
Share capital	13,288	13,288	13,288
Retained earnings reserve	(250)	4,993	11,364
Shareholders' equity	13,147	18,406	24,633
Minority interest	163	169	196
Total liabilities & equity	20,376	23,361	26,411

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18A
Pretax profit	4,512	5,122	7,192
Depreciation & amortisation	242	304	334
Tax paid	(33)	(50)	(30)
Other adjustments	(4,744)	(1,538)	(10,450)
Change in working capital	5,006	(4,380)	(963)
Cash flow from operations	4,983	(541)	(3,917)
Capex	(453)	(462)	(154)
Proceeds from assets sales	5	138	2
Others	114	(12)	1
Other non-current assets changes	17	3,461	2,396
Cash flow from investing activities	(317)	3,125	2,245
New share issuance	0	0	0
Shares buyback	(0)	0	0
Net borrowings	(81)	(178)	39
Other financing cash flow	0	0	0
Dividends paid	(2,115)	(3,716)	(513)
Cash flow from financing activities	(2,197)	(3,894)	(474)
Cash and equivalents at beginning of period	1,330	3,799	2,488
Total cash generated	2,469	(1,311)	(2,146)
Cash and equivalents at the end of period	3,799	2,488	342

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	71,4%	76,9%	100,0%
Asset turnover	0,34	0,30	0,28
ROAA	24,1%	23,1%	28,4%
Avg assets/avg equity	1,33	1,39	1,16
ROAE	32,0%	32,0%	32,9%
Efficiency			
Days account receivable	92,0	119,1	81,0
Days inventory	153,1	215,1	129,9
Days creditor	29,0	132,4	25,2
Fixed asset turnover	2,49	2,51	2,77
ROIC	32,3%	26,5%	27,9%
Liquidity			
Current ratio	1,21	2,41	11,59
Quick ratio	0,87	1,64	9,96
Cash ratio	0,60	1,02	7,06
Cash cycle	216	202	186
Growth rate (yoy)			
Revenue growth	7,0%	4,1%	7,8%
Operating profit growth	NA	NA	NA
Net profit growth	3,0%	12,0%	40,1%
EPS growth	(62,0%)	12,0%	40,1%
Share value			
Basic EPS (VND)	3.390	3.797	5.321
BVPS (VND)	9.894	13.852	18.538

Source: VNDIRECT

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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