

Company Note

Vietnam

HOLD (no change)

Consensus ratings*: Buy 4 Hold 6 Sell 0

Current price: VND127,000

Target price:  VND135,000

Previous target: VND146,000

Up/downside: 6.3%

CIMB / Consensus: -10.3%

Reuters: VNM.HM

Bloomberg: VNM VN

Market cap: US\$8,167m

VND184,331,392m

Average daily turnover: US\$8.52m

VND192,575m

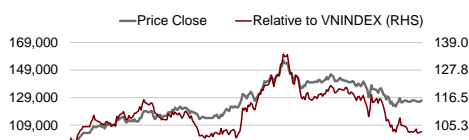
Current shares o/s: 1,450m

Free float: 55.3%

*Source: Bloomberg

Key changes in this note

- FY17F EPS decreased by 8.26%.
- FY18F EPS decreased by 9.95%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|------|
| Absolute (%) | 1.9 | -12.4 | 30.3 |
| Relative (%) | -1.7 | -12.4 | 0.7 |

| Major shareholders | % held |
|--------------------|--------|
| SCIC | 44.73 |
| F&N | 11.04 |

Analyst(s)



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Vietnam Dairy Products JSC

Earnings growth deceleration

- VNM pre-announced its FY16 results. The company has made an initial estimate that revenues rose ~15% in FY16, and net profits grew ~20% yoy.
- Advertising and promotion expenses grew 25% yoy, so net profits came in 9% below our forecast, but VNM's liquid milk market share increased by 3%pts to 55%.
- The company's gross margin narrowed from 42.3% in 9M16 to 41.7% in 4Q16.
- We lower our FY17-18 EPS forecasts by 8-10% and cut our target price by 7% but maintain our Hold rating. Our target price is based on 22x FY17 P/E.

Revenue growth deceleration

VNM's revenue growth decelerated from 20% yoy growth in 9M16 to 15% in FY16, due to tepid exports – which contributed 13% of FY16 revenue. VNM has not published its FY16 financial statements yet, but management indicated that the company's volatile export sales fell in 4Q16, after having grown 2% yoy in 9M16. That said, VNM's FY16 revenue growth was driven by volume growth, rather than price increases – because the company still aims to increase its market share.

Higher SMP prices started hurting VNM's gross margin

Vinamilk's gross margin slid from 42.3% in 9M16 to about 41.9% for FY16, and we expect a further 150bp decline to 39.7% in FY17, driven by a 10% increase in average skim milk powder (SMP) input prices, but mitigated by a 3% increase in proportion of total revenue derived from premium products (from ~5% in FY16 to ~8% in FY17). Note that the gross margins of VNM's premium products are typically 5-10%pts higher than those of its non-premium products'.

Higher selling expenses incurred in the quest for market share

VNM's selling expenses/revenue rose from 15.6% in FY15 to 16.3% in FY16 due to a 25% increase in advertising & promotion spending. VNM still aims to boost its share of Vietnam's milk market, despite a 3%pts increase in its liquid milk market share to 55% last year, and a 5%pt increase in its powdered milk market share to 40%. For that reason, management indicated that the firm will sustain its heady pace of A&P spending in FY17, so we expect the company's A&P/revenues ratio to remain unchanged.

VNM's new on-line store and home delivery service

VNM launched its new giacosuaviet.com.vn online store and home delivery services at the end of last year. VNM has over 200 of its own retail stores – from which it delivers the products customers order online. The company aims to expand its home delivery coverage area to 500 stores within the next two years, and is also cooperated with FPT to launch a few pilot stores that sell VNM's full product line (including ice cream) at existing FPT retail stores.

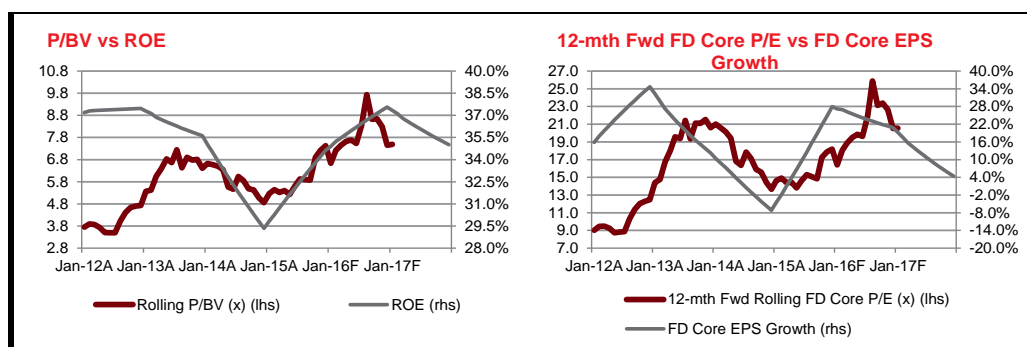
We cut our FY17-18 EPS forecasts by 8-10% on higher selling exp.

We cut our FY17-18 EPS forecasts by 8-10%, and our target price by 7% to reflect the management's guidance for higher selling expenses going forward – which also encouraged us to maintain our Hold rating on VNM. Our target price is based on 22x FY17, P/E which is a 15% discount to VNM's regional peers. Potential catalysts include renewed enthusiasm for the name by local retail investors, following the increase in F&N's ownership stake from 11% to 16%. Downside risks include higher SMP prices.

| Financial Summary | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (VNDb) | 34,977 | 40,080 | 46,184 | 53,157 | 61,389 |
| Operating EBITDA (VNDb) | 7,850 | 9,869 | 11,934 | 12,294 | 13,711 |
| Net Profit (VNDb) | 5,461 | 6,989 | 8,462 | 8,862 | 9,885 |
| Core EPS (VND) | 3,792 | 4,853 | 5,845 | 6,121 | 6,827 |
| Core EPS Growth | (7.2%) | 28.0% | 20.5% | 4.7% | 11.5% |
| FD Core P/E (x) | 33.49 | 26.17 | 21.66 | 20.75 | 18.60 |
| DPS (VND) | 2,778 | 4,168 | 4,970 | 4,891 | 5,455 |
| Dividend Yield | 2.19% | 3.28% | 3.91% | 3.85% | 4.30% |
| EV/EBITDA (x) | 22.34 | 17.69 | 14.51 | 13.88 | 12.28 |
| P/FCFE (x) | 67.43 | 31.29 | 27.15 | 20.56 | 20.18 |
| Net Gearing | (37.2%) | (39.1%) | (43.6%) | (50.2%) | (54.3%) |
| P/BV (x) | 9.29 | 8.84 | 7.54 | 7.01 | 6.46 |
| ROE | 29.3% | 34.6% | 37.6% | 35.0% | 36.2% |
| % Change In Core EPS Estimates | | | | (8.26%) | (9.95%) |
| CIMB/consensus EPS (x) | | | 0.95 | 0.92 | 0.94 |

SOURCE: COMPANY DATA, CIMB FORECASTS

BY THE NUMBERS



Profit & Loss

| (VNDb) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|---|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 34,977 | 40,080 | 46,184 | 53,157 | 61,389 |
| Gross Profit | 13,341 | 17,359 | 20,597 | 22,300 | 25,243 |
| Operating EBITDA | 7,850 | 9,869 | 11,934 | 12,294 | 13,711 |
| Depreciation And Amortisation | (1,033) | (1,097) | (1,254) | (1,345) | (1,505) |
| Operating EBIT | 6,817 | 8,772 | 10,680 | 10,948 | 12,206 |
| Financial Income/(Expense) | 435 | 537 | (4) | 66 | 122 |
| Pretax Income/(Loss) from Assoc. | 60 | 13 | 25 | 28 | 30 |
| Non-Operating Income/(Expense) | 301 | 45 | 569 | 698 | 738 |
| Profit Before Tax (pre-EI) | 7,613 | 9,367 | 11,285 | 11,753 | 13,109 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 7,613 | 9,367 | 11,271 | 11,740 | 13,096 |
| Taxation | (1,545) | (1,598) | (1,916) | (1,996) | (2,226) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 6,068 | 7,770 | 9,355 | 9,744 | 10,869 |
| Minority Interests | (1) | (4) | (5) | (5) | (7) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | (607) | (777) | (889) | (877) | (978) |
| Net Profit | 5,461 | 6,989 | 8,462 | 8,862 | 9,885 |
| Recurring Net Profit | 5,461 | 6,989 | 8,473 | 8,873 | 9,896 |
| Fully Diluted Recurring Net Profit | 5,461 | 6,989 | 8,473 | 8,873 | 9,896 |

Cash Flow

| (VNDb) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 7,850 | 9,869 | 11,934 | 12,294 | 13,711 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (717) | 311 | (1,325) | 289 | (707) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | (7) | 51 | 22 | 37 | 29 |
| Other Operating Cashflow | (603) | (716) | (100) | (450) | (500) |
| Net Interest (Paid)/Received | 457 | 531 | (1) | 63 | 121 |
| Tax Paid | (1,522) | (1,806) | (1,914) | (1,993) | (2,223) |
| Cashflow From Operations | 5,457 | 8,242 | 8,617 | 10,239 | 10,431 |
| Capex | (859) | (1,068) | (1,328) | (856) | (856) |
| Disposals Of FAs/subsidiaries | 54 | 44 | 50 | 50 | 50 |
| Acq. Of Subsidiaries/Investments | (3,648) | (1,564) | (138) | (13) | (13) |
| Other Investing Cashflow | 451 | | (433) | (455) | (478) |
| Cash Flow From Investing | (4,002) | (2,588) | (1,849) | (1,274) | (1,297) |
| Debt Raised/(repaid) | 1,257 | 190 | (10) | (10) | (10) |
| Proceeds From Issue Of Shares | 70 | 0 | 2,489 | 0 | 0 |
| Shares Repurchased | (0) | | | | |
| Dividends Paid | (4,001) | (6,002) | (7,204) | (7,089) | (7,908) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | (12) | 80 | 200 | 600 |
| Cash Flow From Financing | (2,673) | (5,823) | (4,645) | (6,899) | (7,318) |
| Total Cash Generated | (1,218) | (169) | 2,123 | 2,066 | 1,817 |
| Free Cashflow To Equity | 2,713 | 5,845 | 6,758 | 8,955 | 9,124 |
| Free Cashflow To Firm | 1,490 | 5,682 | 6,841 | 9,037 | 9,207 |

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

| (VNDb) | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents | 8,996 | 10,027 | 12,583 | 15,104 | 17,398 |
| Total Debtors | 2,772 | 2,685 | 3,259 | 3,396 | 3,847 |
| Inventories | 3,620 | 3,810 | 4,195 | 5,072 | 5,942 |
| Total Other Current Assets | 135 | 209 | 209 | 209 | 209 |
| Total Current Assets | 15,522 | 16,732 | 20,246 | 23,781 | 27,396 |
| Fixed Assets | 9,038 | 9,200 | 9,169 | 8,690 | 8,050 |
| Total Investments | 700 | 940 | 1,078 | 1,092 | 1,105 |
| Intangible Assets | 161 | 142 | 133 | 119 | 106 |
| Total Other Non-Current Assets | 349 | 463 | 247 | 140 | 88 |
| Total Non-current Assets | 10,248 | 10,746 | 10,628 | 10,041 | 9,349 |
| Short-term Debt | 1,259 | 1,454 | 1,454 | 1,454 | 1,454 |
| Current Portion of Long-Term Debt | 21 | 22 | 10 | 10 | 10 |
| Total Creditors | 2,717 | 3,240 | 2,744 | 3,905 | 4,362 |
| Other Current Liabilities | 1,457 | 1,289 | 1,418 | 1,560 | 1,716 |
| Total Current Liabilities | 5,453 | 6,004 | 5,626 | 6,929 | 7,542 |
| Total Long-term Debt | 346 | 368 | 358 | 348 | 338 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 170 | 182 | 182 | 182 | 182 |
| Total Non-current Liabilities | 517 | 550 | 540 | 530 | 520 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 5,970 | 6,554 | 6,166 | 7,459 | 8,062 |
| Shareholders' Equity | 19,680 | 20,693 | 24,431 | 26,259 | 28,486 |
| Minority Interests | 120 | 231 | 236 | 241 | 248 |
| Total Equity | 19,800 | 20,924 | 24,667 | 26,500 | 28,734 |

Key Ratios

| | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 13.0% | 14.6% | 15.2% | 15.1% | 15.5% |
| Operating EBITDA Growth | (3.0%) | 25.7% | 20.9% | 3.0% | 11.5% |
| Operating EBITDA Margin | 22.4% | 24.6% | 25.8% | 23.1% | 22.3% |
| Net Cash Per Share (VND) | 5,117 | 5,682 | 7,424 | 9,170 | 10,759 |
| BVPS (VND) | 13,665 | 14,368 | 16,854 | 18,115 | 19,651 |
| Gross Interest Cover | 172.2 | 280.5 | 145.9 | 150.8 | 169.1 |
| Effective Tax Rate | 20.3% | 17.1% | 17.0% | 17.0% | 17.0% |
| Net Dividend Payout Ratio | 73.3% | 85.9% | 85.0% | 79.9% | 79.9% |
| Accounts Receivables Days | 20.26 | 19.08 | 19.73 | 19.53 | 18.66 |
| Inventory Days | 57.68 | 59.68 | 57.25 | 54.81 | 55.61 |
| Accounts Payables Days | 32.62 | 32.87 | 28.19 | 27.84 | 32.44 |
| ROIC (%) | 63% | 74% | 89% | 84% | 100% |
| ROCE (%) | 37.4% | 42.2% | 46.0% | 43.1% | 44.7% |
| Return On Average Assets | 20.7% | 24.2% | 29.1% | 27.2% | 27.7% |

Key Drivers

| | Dec-14A | Dec-15A | Dec-16F | Dec-17F | Dec-18F |
|---|---------|---------|---------|---------|---------|
| ASP (% chg, main prod./serv.) | 7.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unit sales grth (% , main prod./serv.) | 9.0% | 10.5% | 15.0% | 15.0% | 10.0% |
| Util. rate (% , main prod./serv.) | 40.0% | 45.0% | 50.0% | 55.0% | 57.0% |
| ASP (% chg, 2ndary prod./serv.) | -2.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unit sales grth (% ,2ndary prod/serv) | 0.0% | 6.0% | 12.0% | 20.0% | 15.0% |
| Util. rate (% , 2ndary prod/serv) | 43.0% | 46.0% | 49.0% | 52.0% | 53.0% |
| ASP (% chg, tertiary prod/serv) | 7.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unit sales grth (% ,tertiary prod/serv) | 7.0% | 8.0% | 15.0% | 20.0% | 10.0% |
| Util. rate (% , tertiary prod/serv) | 75.0% | 75.0% | 75.0% | 75.0% | 75.0% |
| Unit raw mat ASP (%chg,main) | N/A | N/A | N/A | N/A | N/A |
| Total Export Sales Growth (%) | -33.0% | 78.2% | 5.0% | 5.0% | 5.0% |
| Export Sales/total Sales (%) | 8.5% | 13.1% | 12.0% | 10.9% | 9.9% |

SOURCE: CIMB RESEARCH, COMPANY DATA

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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. CIMBS 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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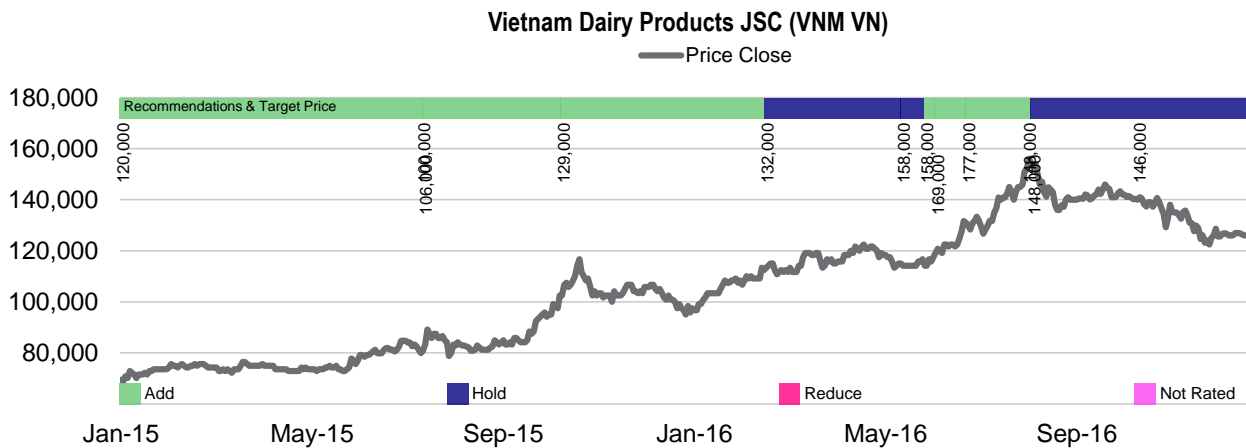
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| Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016 | | |
|--|-------------------------|--------------------------------|
| 1626 companies under coverage for quarter ended on 31 December 2016 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 58.4% | 5.4% |
| Hold | 29.6% | 1.4% |
| Reduce | 11.6% | 0.4% |

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai

Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework
Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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.