

## Company Note

### Vietnam

#### **HOLD** (no change)

Consensus ratings\*: Buy 4 Hold 6 Sell 0

Current price: VND133,800

Target price:  VND133,000

Previous target: VND135,000

Up/downside: -0.6%

CIMB / Consensus: -10.8%

Reuters: VNM.HM

Bloomberg: VNM VN

Market cap: US\$8,576m

VND194,201,104m

Average daily turnover: US\$8.27m

VND187,247m

Current shares o/s: 1,451m

Free float: 55.3%

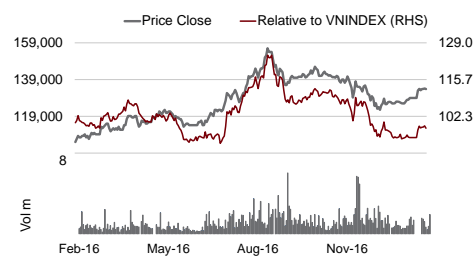
\*Source: Bloomberg

#### Key changes in this note

➤ FY17F EPS decreased by 2.09%.

➤ FY18F EPS decreased by 2.69%.

➤ FY19F EPS increased by 3.49%.



Source: Bloomberg

| Price performance | 1M  | 3M   | 12M  |
|-------------------|-----|------|------|
| Absolute (%)      | 6.1 | -5.1 | 29.5 |
| Relative (%)      | 2.8 | -8.9 | 0.3  |

| Major shareholders | % held |
|--------------------|--------|
| SCIC               | 39.3   |
| F&N                | 17.5   |

#### Analyst(s)



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## Vietnam Dairy Products JSC

### Revenue growth continued to recover in FY16

- Vinamilk (VNM)'s revenue grew 17% in FY16, while net profit rose 20% yoy, driven by a 19% domestic revenue growth.
- Gross margin expanded by 170bp and reached a record-high last year, owing to a 10% decline in Skim Milk Powder (SMP) input costs to about US\$2,000/ton.
- VNM's new accounting policy for selling expenses boosted its reported gross margin by nearly 560bp, in addition to the 170bp bump from lower SMP prices.
- The company aims for a 70% share of Vietnam's liquid milk market by 2020.
- We maintain our Hold rating on VNM, but trim our target price, which is still based on 22x FY17 P/E, a 10% discount to VNM's regional peers.

### Domestic demand, lower SMP prices drove earnings growth

In FY16, VNM's earnings growth was driven by a 19% increase in domestic revenue (81% of overall revenue), and a 170bp increase in gross margin and 80bp increase in EBITDA margin, owing to a 10% fall in SMP input costs (25% of overall COGS). Revenue growth was driven by volume growth; the company did not explicitly raise prices, although the company's continued introduction of premium products indirectly led to higher selling prices in FY16 (we estimate this equated to a ~3% ASP hike last year).

### VNM has crushed its competitors; share and revenue growth gains

Starting from 2011, intense competition from TH Milk and other local rivals helped depress VNM's revenue growth from 23% in FY12 to 17% in FY13, 13% in FY14, and 15% in FY15 (note that ASP increased 5% in both FY12 and FY13, but was flat over FY14-16). VNM's aggressive response to those competitors appears to be working, as evidenced by a recovery to 17% revenue growth in FY16, and continued market share gains; VNM's share of the powdered milk market increased by 5%pts in FY16 to 40%.

### Skim Milk Powder prices have surged

The price of imported SMP prices surged by about 60% since bottoming out in the middle of last year – or by about 30% from the average market price of SMP in 2016. In the past, VNM guided that the company would lock in the purchase price of a full year's worth of its SMP input needs each Nov. However, for FY17, the company has only bought five months' worth of SMP via forward purchase agreements - presumably because of the dramatic surge in SMP prices in the second half of last year.

### New accounting policy complicates gross margin analysis

In 2015, Vietnamese companies were required to implement the new Circular 200 accounting policy, which depressed the reported gross margins of firms that use promotional goods (i.e. "buy 1, get 1 free" promotions). In 2016, VNM essentially abandoned the use promotional goods in favour of a cash rebate scheme that lowered COGS and increased SG&A under C200, which boosted VNM's gross margins by 560bp last year, while making no impact whatsoever on the company's EBITDA margins.

### Maintain Hold rating

VNM's FY16 results were in line with our expectations, so we only made minor adjustments to our EPS forecasts, which in turn resulted in a 1% drop in our VNM target price. That target price is still based on a 22x FY17 P/E valuation, a 10% discount to VNM's local peers. Downside risks include a further surge in SMP prices given that VNM has only hedged 5-months' worth of its FY17 SMP needs. Rerating catalysts include additional VNM share purchases by F&N, which recently raised its VNM stake by 1%pt.

| Financial Summary              | Dec-15A | Dec-16A | Dec-17F | Dec-18F | Dec-19F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (VNDb)                 | 40,080  | 46,794  | 53,817  | 62,140  | 71,989  |
| Operating EBITDA (VNDb)        | 9,869   | 11,714  | 12,120  | 13,426  | 15,671  |
| Net Profit (VNDb)              | 6,997   | 8,426   | 8,699   | 9,642   | 11,341  |
| Core EPS (VND)                 | 4,858   | 5,805   | 5,993   | 6,643   | 7,814   |
| Core EPS Growth                | 28.1%   | 19.5%   | 3.2%    | 10.8%   | 17.6%   |
| FD Core P/E (x)                | 27.54   | 22.96   | 22.33   | 20.14   | 17.12   |
| DPS (VND)                      | 4,168   | 4,644   | 4,794   | 5,315   | 6,251   |
| Dividend Yield                 | 3.11%   | 3.47%   | 3.58%   | 3.97%   | 4.67%   |
| EV/EBITDA (x)                  | 18.68   | 15.74   | 15.11   | 13.50   | 11.44   |
| P/FCFE (x)                     | 32.97   | 30.92   | 24.91   | 23.13   | 19.30   |
| Net Gearing                    | (39.1%) | (42.2%) | (45.6%) | (49.3%) | (52.2%) |
| P/BV (x)                       | 9.31    | 8.76    | 8.12    | 7.52    | 6.91    |
| ROE                            | 34.7%   | 39.3%   | 37.8%   | 38.8%   | 42.0%   |
| % Change In Core EPS Estimates |         |         | (2.09%) | (2.69%) | 3.49%   |
| CIMB/consensus EPS (x)         |         |         | 0.92    | 0.94    | 1.01    |

SOURCE: COMPANY DATA, CIMB FORECASTS

# Revenue growth continued to recover in FY16

## Revised FY17F forecasts ▶

We now expect VNM's revenue to grow by 15% in FY17F, and net profit to grow by 3% yoy (vs. our previous expectation for a 5% yoy earnings growth).

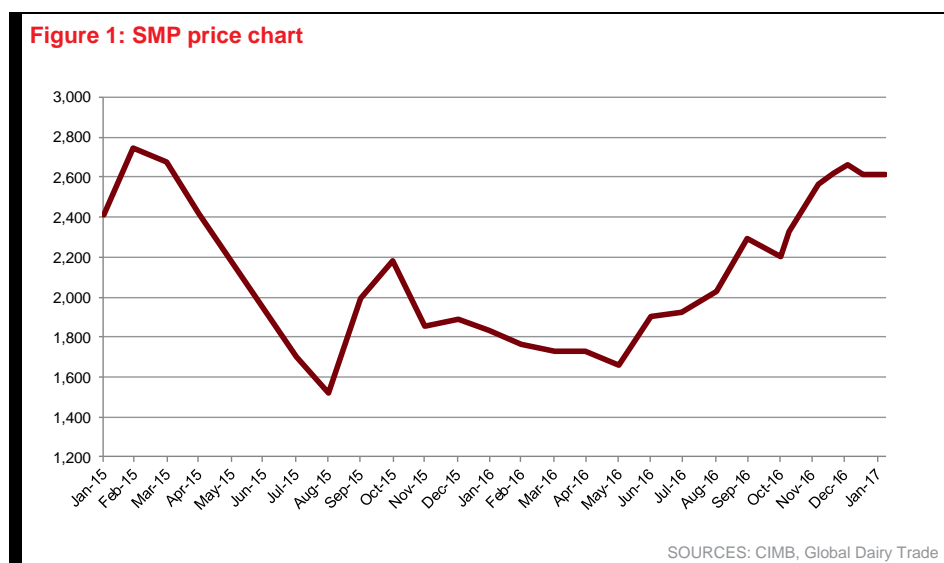
## VNM's FY17F revenue growth likely to repeat the pattern seen in FY16

Our expectation for a 15% FY17F revenue growth is based on the following assumptions: 18% yoy domestic revenue growth; 25% powdered milk revenue growth; 20% yogurt revenue growth; and 15% growth in liquid milk revenue. All of these growth rate forecasts are comparable to the individual growth rates the company achieved in FY16, but we expect VNM's volatile export sales (13% of overall revenue) to increase by 5% this year vs. 9% growth in FY16.

VNM did not explicitly raise prices last year, and we do not expect the company to directly increase ASP in FY17. However, we expect the proportion of VNM's revenues derived from premium products to continue rising, which will indirectly improve the company's selling prices. In FY16, premium products contributed 8% of VNM's revenues, which was up from 5% in FY15; we expect a comparable increase this year.

## Earnings held back by surging SMP prices

VNM's FY17 earnings will almost certainly be held back by surging imported Skim Milk Powder prices, which contribute 25% of COGS. As can be seen in the chart below, SMP prices surged by about 60% since bottoming in the middle of last year. VNM's management disclosed that the company has locked in the price of the imported SMP the company will require to produce its products until the end of May 2017, but Vinamilk has not revealed the price it paid for that SMP. We believe VNM paid about US\$2,500/ton for the SMP it purchased via forward contracts, which is about 25% above its FY16 input costs.



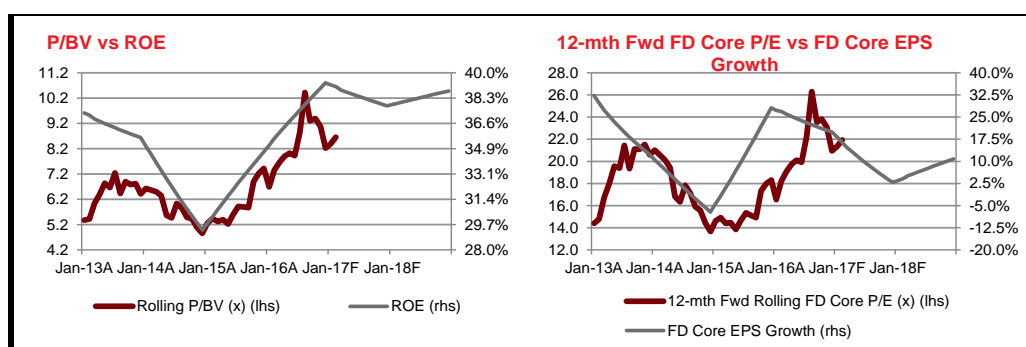
We are forecasting a 25% increase in SMP prices this year, which would lower VNM's gross margins and EBITDA margins by 210bp. Specifically, we expect

VNM's reported gross margins to decline from 47.7% to 45.6%, and for pro-forma gross margins - which were computed on a comparable basis as the company's FY15 margins - from 41.9% to 39.8% (recall from the title page of this report, that the company changed its accounting policy for commissions, promotion expenses, and selling expenses).

Finally, we expect VNM's reported SG&A/revenue ratio to nudge up from 25.3% in FY16 to 25.5% in FY17 (and for the pro-forma figure to increase from 19.6% to 19.8%). Last year, the company's actual, aggregate commissions, promotion expenses and selling expenses grew by 50% (to be clear, we mean that the actual amount of money VNM spent on commissions and promotion activities increased by 50% – irrespective of how those expenses were accounted for).

In FY17, we expect the amount of money the company spends on selling and promotion activities to increase more-or-less in line with revenues – after having significantly outpaced revenue growth last year. That said, in FY16 we had forecast a 30% increase in the company's promotion expenses, versus the 50% the company actually experienced. Vinamilk continues to spend heavily on marketing and advertising with the stated goal of increasing its share of the liquid milk market in Vietnam to ~70% within the next three years. In 2016, VNM's share of the liquid milk market increased from 52% to 55%, and its share of the powdered milk market increased from 35% to 40%.

## BY THE NUMBERS



### Profit & Loss

| (VNDb)                                    | Dec-15A       | Dec-16A       | Dec-17F       | Dec-18F       | Dec-19F       |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Total Net Revenues</b>                 | <b>40,080</b> | <b>46,794</b> | <b>53,817</b> | <b>62,140</b> | <b>71,989</b> |
| <b>Gross Profit</b>                       | <b>17,359</b> | <b>23,527</b> | <b>25,843</b> | <b>29,264</b> | <b>34,007</b> |
| <b>Operating EBITDA</b>                   | <b>9,869</b>  | <b>11,714</b> | <b>12,120</b> | <b>13,426</b> | <b>15,671</b> |
| Depreciation And Amortisation             | (1,097)       | (1,191)       | (1,315)       | (1,475)       | (1,575)       |
| <b>Operating EBIT</b>                     | <b>8,772</b>  | <b>10,524</b> | <b>10,806</b> | <b>11,952</b> | <b>14,096</b> |
| Financial Income/(Expense)                | 537           | 620           | 765           | 885           | 1,019         |
| Pretax Income/(Loss) from Assoc.          | 13            | 17            | 18            | 20            | 22            |
| Non-Operating Income/(Expense)            | 45            | 77            | 77            | 77            | 77            |
| <b>Profit Before Tax (pre-EI)</b>         | <b>9,367</b>  | <b>11,238</b> | <b>11,666</b> | <b>12,934</b> | <b>15,214</b> |
| Exceptional Items                         |               |               |               |               |               |
| <b>Pre-tax Profit</b>                     | <b>9,367</b>  | <b>11,238</b> | <b>11,666</b> | <b>12,934</b> | <b>15,214</b> |
| Taxation                                  | (1,598)       | (1,874)       | (1,983)       | (2,199)       | (2,586)       |
| Exceptional Income - post-tax             |               |               |               |               |               |
| <b>Profit After Tax</b>                   | <b>7,770</b>  | <b>9,364</b>  | <b>9,683</b>  | <b>10,735</b> | <b>12,627</b> |
| Minority Interests                        | (4)           | (14)          | (16)          | (19)          | (23)          |
| Preferred Dividends                       |               |               |               |               |               |
| FX Gain/(Loss) - post tax                 |               |               |               |               |               |
| Other Adjustments - post-tax              | (769)         | (925)         | (968)         | (1,074)       | (1,263)       |
| <b>Net Profit</b>                         | <b>6,997</b>  | <b>8,426</b>  | <b>8,699</b>  | <b>9,642</b>  | <b>11,341</b> |
| Recurring Net Profit                      | 6,997         | 8,426         | 8,699         | 9,642         | 11,341        |
| <b>Fully Diluted Recurring Net Profit</b> | <b>6,997</b>  | <b>8,426</b>  | <b>8,699</b>  | <b>9,642</b>  | <b>11,341</b> |

### Cash Flow

| (VNDb)                           | Dec-15A        | Dec-16A        | Dec-17F        | Dec-18F        | Dec-19F        |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>EBITDA</b>                    | <b>9,869</b>   | <b>11,714</b>  | <b>12,120</b>  | <b>13,426</b>  | <b>15,671</b>  |
| Cash Flow from Inv. & Assoc.     |                |                |                |                |                |
| Change In Working Capital        | 311            | (794)          | (764)          | (842)          | (939)          |
| (Incr)/Decr in Total Provisions  |                |                |                |                |                |
| Other Non-Cash (Income)/Expense  | 51             | (574)          | (50)           | (1,000)        | (900)          |
| Other Operating Cashflow         | (716)          | (874)          | (450)          | (500)          | (800)          |
| Net Interest (Paid)/Received     | 531            | 688            | 765            | 885            | 1,019          |
| Tax Paid                         | (1,806)        | (1,771)        | (1,980)        | (2,195)        | (2,582)        |
| <b>Cashflow From Operations</b>  | <b>8,242</b>   | <b>8,390</b>   | <b>9,642</b>   | <b>9,775</b>   | <b>11,468</b>  |
| Capex                            | (1,068)        | (1,142)        | (1,011)        | (856)          | (856)          |
| Disposals Of FAs/subsidiaries    | 44             | 50             | 50             | 50             | 50             |
| Acq. Of Subsidiaries/investments | (1,564)        | (1,450)        | (341)          | (13)           | (13)           |
| Other Investing Cashflow         |                | 596            | (523)          | (549)          | (576)          |
| <b>Cash Flow From Investing</b>  | <b>(2,588)</b> | <b>(1,946)</b> | <b>(1,825)</b> | <b>(1,368)</b> | <b>(1,395)</b> |
| Debt Raised/(repaid)             | 190            | (188)          | (20)           | (10)           | (10)           |
| Proceeds From Issue Of Shares    | 0              | 355            | 0              | 0              | 0              |
| Shares Repurchased               |                | (69)           |                |                |                |
| Dividends Paid                   | (6,002)        | (7,239)        | (6,959)        | (7,714)        | (9,073)        |
| Preferred Dividends              |                |                |                |                |                |
| Other Financing Cashflow         | (12)           |                | 200            | 600            | 400            |
| <b>Cash Flow From Financing</b>  | <b>(5,823)</b> | <b>(7,141)</b> | <b>(6,779)</b> | <b>(7,124)</b> | <b>(8,683)</b> |
| Total Cash Generated             | (169)          | (697)          | 1,039          | 1,283          | 1,390          |
| <b>Free Cashflow To Equity</b>   | <b>5,845</b>   | <b>6,256</b>   | <b>7,798</b>   | <b>8,397</b>   | <b>10,063</b>  |
| <b>Free Cashflow To Firm</b>     | <b>5,682</b>   | <b>6,478</b>   | <b>7,884</b>   | <b>8,473</b>   | <b>10,138</b>  |

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

| (VNDb)                               | Dec-15A       | Dec-16A       | Dec-17F       | Dec-18F       | Dec-19F       |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents           | 10,027        | 11,109        | 12,670        | 14,503        | 16,469        |
| Total Debtors                        | 2,685         | 2,867         | 3,624         | 4,080         | 4,620         |
| Inventories                          | 3,810         | 4,522         | 4,599         | 5,404         | 6,244         |
| Total Other Current Assets           | 209           | 176           | 176           | 176           | 176           |
| <b>Total Current Assets</b>          | <b>16,732</b> | <b>18,674</b> | <b>21,069</b> | <b>24,163</b> | <b>27,509</b> |
| Fixed Assets                         | 9,200         | 9,314         | 8,690         | 8,050         | 7,311         |
| Total Investments                    | 940           | 751           | 1,092         | 1,105         | 1,118         |
| Intangible Assets                    | 142           | 124           | 119           | 106           | 92            |
| Total Other Non-Current Assets       | 463           | 516           | 279           | 162           | 106           |
| <b>Total Non-current Assets</b>      | <b>10,746</b> | <b>10,705</b> | <b>10,179</b> | <b>9,423</b>  | <b>8,627</b>  |
| Short-term Debt                      | 1,454         | 1,333         | 1,333         | 1,333         | 1,333         |
| Current Portion of Long-Term Debt    | 22            |               | 20            | 10            | 10            |
| Total Creditors                      | 3,240         | 5,125         | 5,195         | 5,615         | 6,055         |
| Other Current Liabilities            | 1,289         | 0             | 0             | 0             | 0             |
| <b>Total Current Liabilities</b>     | <b>6,004</b>  | <b>6,458</b>  | <b>6,548</b>  | <b>6,958</b>  | <b>7,398</b>  |
| Total Long-term Debt                 | 368           | 327           | 307           | 297           | 287           |
| Hybrid Debt - Debt Component         |               |               |               |               |               |
| Total Other Non-Current Liabilities  | 182           | 188           | 188           | 188           | 188           |
| <b>Total Non-current Liabilities</b> | <b>550</b>    | <b>515</b>    | <b>495</b>    | <b>485</b>    | <b>475</b>    |
| Total Provisions                     | 0             | 0             | 0             | 0             | 0             |
| <b>Total Liabilities</b>             | <b>6,554</b>  | <b>6,973</b>  | <b>7,043</b>  | <b>7,443</b>  | <b>7,873</b>  |
| Shareholders' Equity                 | 20,693        | 22,168        | 23,909        | 25,838        | 28,106        |
| Minority Interests                   | 231           | 237           | 254           | 273           | 296           |
| <b>Total Equity</b>                  | <b>20,924</b> | <b>22,406</b> | <b>24,163</b> | <b>26,111</b> | <b>28,402</b> |

### Key Ratios

|                           | Dec-15A | Dec-16A | Dec-17F | Dec-18F | Dec-19F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth            | 14.6%   | 16.8%   | 15.0%   | 15.5%   | 15.8%   |
| Operating EBITDA Growth   | 25.7%   | 18.7%   | 3.5%    | 10.8%   | 16.7%   |
| Operating EBITDA Margin   | 24.6%   | 25.0%   | 22.5%   | 21.6%   | 21.8%   |
| Net Cash Per Share (VND)  | 5,682   | 6,510   | 7,586   | 8,862   | 10,224  |
| BVPS (VND)                | 14,368  | 15,273  | 16,473  | 17,801  | 19,364  |
| Gross Interest Cover      | 280.5   | 102.7   | 161.8   | 181.1   | 215.6   |
| Effective Tax Rate        | 17.1%   | 16.7%   | 17.0%   | 17.0%   | 17.0%   |
| Net Dividend Payout Ratio | 85.8%   | 80.0%   | 80.0%   | 80.0%   | 80.0%   |
| Accounts Receivables Days | 19.08   | 17.18   | 17.43   | 18.66   | 18.63   |
| Inventory Days            | 59.68   | 65.53   | 59.50   | 55.53   | 55.97   |
| Accounts Payables Days    | 32.87   | 37.40   | 34.21   | 32.39   | 32.65   |
| ROIC (%)                  | 74%     | 88%     | 87%     | 97%     | 114%    |
| ROCE (%)                  | 42.2%   | 48.0%   | 46.7%   | 48.2%   | 52.5%   |
| Return On Average Assets  | 24.3%   | 27.5%   | 26.2%   | 27.1%   | 29.7%   |

### Key Drivers

|  | Dec-15A | Dec-16A | Dec-17F | Dec-18F | Dec-19F |
|--|---------|---------|---------|---------|---------|
| ASP (% chg, main prod./serv.)              | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Unit sales grth (% , main prod./serv.)     | 10.5%   | 15.0%   | 15.0%   | 10.0%   | 10.0%   |
| Util. rate (% , main prod./serv.)          | 45.0%   | 65.0%   | 70.0%   | 72.0%   | 74.0%   |
| ASP (% chg, 2ndary prod./serv.)            | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Unit sales grth (% , 2ndary prod./serv.)   | 6.0%    | 12.0%   | 20.0%   | 15.0%   | 15.0%   |
| Util. rate (% , 2ndary prod./serv.)        | 46.0%   | 55.0%   | 58.0%   | 59.0%   | 60.0%   |
| ASP (% chg, tertiary prod./serv.)          | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Unit sales grth (% , tertiary prod./serv.) | 8.0%    | 15.0%   | 20.0%   | 10.0%   | 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 (%)              | 78.2%   | 10.0%   | 5.0%    | 5.0%    | 5.0%    |
| Export Sales/total Sales (%)               | 13.1%   | 12.4%   | 11.3%   | 10.3%   | 9.3%    |

SOURCE: CIMB RESEARCH, COMPANY DATA

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|                     |           |           |         |             |                  |
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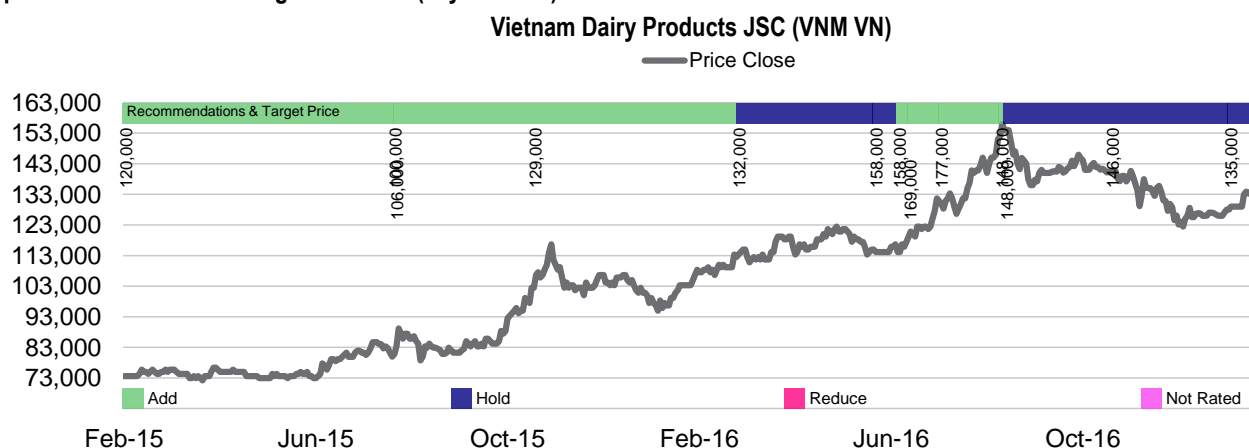
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|--|-------------------------|--------------------------------|
| 1626 companies under coverage for quarter ended on 31 December 2016                                |                         |                                |
|  | Rating Distribution (%) | 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.

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- 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.*

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