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Vinamilk (VNM)

Positive growth despite the pandemic

Flat 1Q earnings but GTNFoods acquisition allows positive 7% sales growth

— 1Q earnings only down 1% to VND2,777 billion due to: 1) resilient sales growth despite school closures and suspension of international/domestic flights; and 2) pick up in promotion costs due to the coronavirus. Topline growth reached VND14,153 billion or up 7% YoY vs 4Q's 9% largely due to the inclusion of GTNFoods into the consolidation (VNM now owns a 75% stake and sales grew by 2% YoY to VND633 billion). That said, parent-only sales growth was still resilient at 1% positive growth for the quarter. On a consolidated basis, domestic revenue was 85% of the total – growing by 8% YoY vs 4Q's 8% – and remained relatively stable despite the closure of schools and cancellation of domestic and international flights. Direct exports grew by 8% to VND1,081 billion albeit witnessing a sharp slowdown from 4Q's 26% YoY growth due to coronavirus outbreaks in key markets in the Middle East. Overall core profitability was stable – with the gross profit margin flat at 47% compared to the same period last year – but SG&A rose by 15% YoY after spending an additional VND229 billion or 12% YoY increase in costs for promotion and sales support and VND18 billion or 14% YoY increase in labor costs.

Exports of sweetened condensed milk should improve as China overcomes COVID-19

— Management expects exports of sweetened condensed milk to China should continually improve for the remainder of the year as the country relaxes the lockdown protocols that slowed the company's exports in 1Q. VNM completed production facilities on April 16th for “*Ong Tho*” exports after being granted an official transaction code and export license to China at the end of February. Management views China exports as an important growth opportunity given that the country more than doubled the import of sweetened condensed milk between 2016 and 2019.

Management sticks to 10% full-year sales growth target and announces stock buyback

— Management reiterated its 10% consolidated sales growth target (VND62,000 billion) and pretax profit margin at no less than 20% (VND12,400 billion or slightly down from 2019) for 2020E. Moreover, VNM will utilize its investment & development fund to buy 17.5 million treasury shares (1% of outstanding) via the stock market or put-through transactions.

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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