

# VIETNAM DAIRY PRODUCTS JSC (VNM - HOSE)

**Recommendation: BUY**

## KEY INDICATORS

Current Price (VND)	166,300
Target Price (VND)	195,000
Upside Potential (%)	17.3
YTD Return (%)	(10.9)
1-Year Return (%)	6.4
Outperform/(Underperform) (%)	6.4
Market Cap (VND billion)	241,301.3
Outstanding Shares (million)	1,451.0
Dividend Yield (%)	3.6
P/E Trailing (x)	24
P/B (x)	10.3
P/E VN-Index (x)	17.6

Source: VNM, KBSV

## ► BUSINESS PERFORMANCE IN Q1.2018

**In Q1.2018, revenue of the company reached to 12.121 billion(+1% YoY).** If excluded revenue from cow farms and sugar, the result may decreased 2% compared to a high Q1-2017 base due to a weak consumption of dairy product in the North as a result of a long cold season. Also, we believe that this low pace in domestic dairy revenue growth was affected by the fact that high base in Q1.2017 was partly driven by sales in Q4.2016 to be transferred.

**Net profit declined to VND 2,683 bn, by 8% YoY,** of which downward trend was partly owe to a reduction in export sales mainly to Iraq (which make up over 70% export market of VNM), whose internal situation still remains instable.

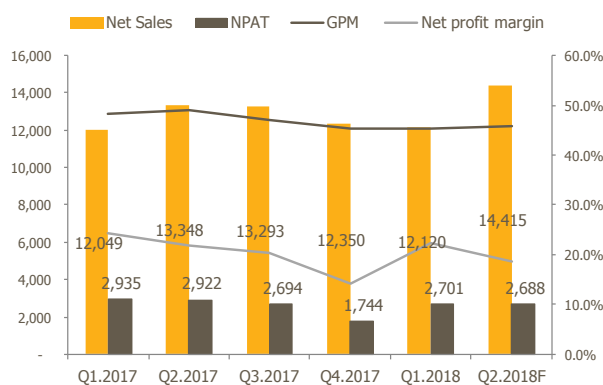
**The first quarter of 2018 witnessed a downtrend in the GPM, 45.3% compared to that of 48.2% in same period in 2017.** This resulted from the contribution from the high-margin market dwindled (like Iraq) and the hit from sugar business while domestic's GPM remain stable. Accordingly, in Q1 2018, Vietsugar incurred a net loss of VND50bn (USD2.2mn) due to subdued domestic sugar prices that also lead to the depression of GPM.

## ► EARNING FORECAST Q2.2018

**Net sales in Q2.2018 is projected to meet VND 14,415bn, up 8% YoY while NPAT slid by 8% to VND 2,688bn,** following Q1's situation as we assume that:

- As peak demand often falls in Q2 and Q3 and there was also no irregular revenue in last year's second quarter, we expect a bounce back in Q2's revenue growth compared to a low base of 0.6% YoY in Q1.2018 but still at single digit. .
- Domestic and export market barely see significant improvement sign vs the first quarter so we could not expect an impressive growth rate.
- We believe that rising selling expense would hit VNM's bottom line as we are shared that VNM has spending quite much on advertising campaigns to promote their new products.

## Earning results Q1.2017 - Q2.2018 (VND)

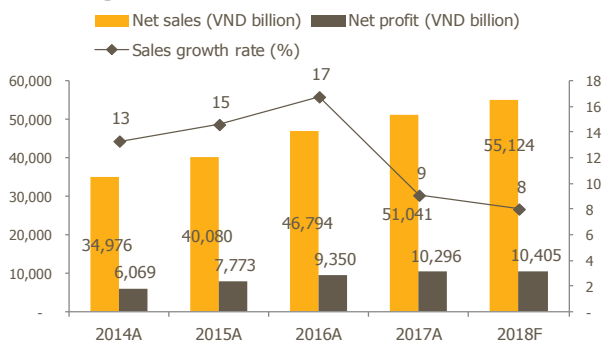


Source: VNM, KBSV forecast

## Analyst

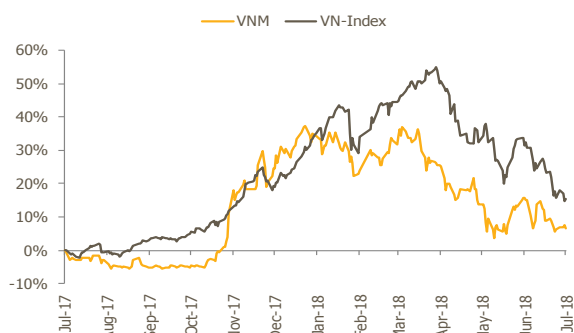
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## Earning results 2014 - 2018



Source: VNM, KBSV forecast

## Stock's 1-year performance



Source: Fiin Pro, KBSV summarized

Cumulatively, in 1H.2018 net revenue and NPAT are expected to reach VND 26,536bn (+4.5% YoY) and VND 5,384bn (-8% YoY), respectively given a weak demand growth rate, instability of Iraq market and rising advertising expense.

### ► 2018 OUTLOOK

**We project VNM will continue to see positive results in top line** for FY2018 with net sales at VND 55,124bn, up 8% YoY, though revising down by 3% from our previous projection while net profit stay flat at VND 10,405bn compared to last year for following assumptions:

- Revenue continues to grow parallel to the overall dairy market of around 7-9% per annum, which is thanks to a young population structure with lower average milk consumption compared to area and VNM's launch of new products. VNM's sales growth is expected to be not in excess of overall industry given their dominant place in most product segments.
- Gross profit margin could decline slightly in 2018 due to a hike in selling expense and higher input price and transportation expense. In addition, downward sugar prices may leave loss in sugar segment, lightly affecting NPAT.

### ► RECOMMENDATION

VNM is trading at a P/E trailing of 24x, slightly higher than peers with total market capitalization of VND 241,301bn, roughly equivalent to USD 10.5bn. We recommend **BUY for VNM at target price of VND 195,000/share, equivalent to P/E forward 27.2x**. We highly evaluate its strong competitive advantages, its aim to expand market despite dominant position as well as promising M&A movement. We also notice the SCIC plan to reduce its stake in VNM as a catalyst for increasing stock price in short term.

FINANCIAL SUMMARY	2014A	2015A	2016A	2017A	2018F
Net sales (VND billion)	34,976	40,080	46,794	51,041	55,124
Sales growth rate (%)	13	15	17	9	8
Net profit (VND billion)	6,069	7,773	9,350	10,296	10,405
Net profit growth rate (%)	(7.1)	28.1	20.3	10.1	1.06
Net profit margin (%)	17.4	19.4	20.0	20.2	18.9
Owner's equity (VND billion)	19,680.0	20,923.9	22,405.9	23,873.0	27,100.0
Total assets (VND billion)	25,770.1	27,478.1	29,378.6	34,667.3	35,112.3
ROE (%)	20.3	16.7	15.6	18.3	17.4
ROA (%)	4.4	4.4	4.4	5.2	5.0
EPS (VND)	6,069	6,478	6,444	7,096	7,171
BVPS (VND)	19,668	17,243	15,273	16,105	18,617
Cash Dividend (VND)	4,000	6,000	6,000	5,500	5,000

Source: VNM, KBSV forecast

**RATING**

BUY - Expected return for 1-year is 15% or greater

HOLD - Expected return for 1-year is between -15% and 15%

SELL - Expected return for 1-year is below or equal to -15%

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