RONG VIET SECURITIES

DAIRY INDUSTRY: A Recovery in Domestic Demand

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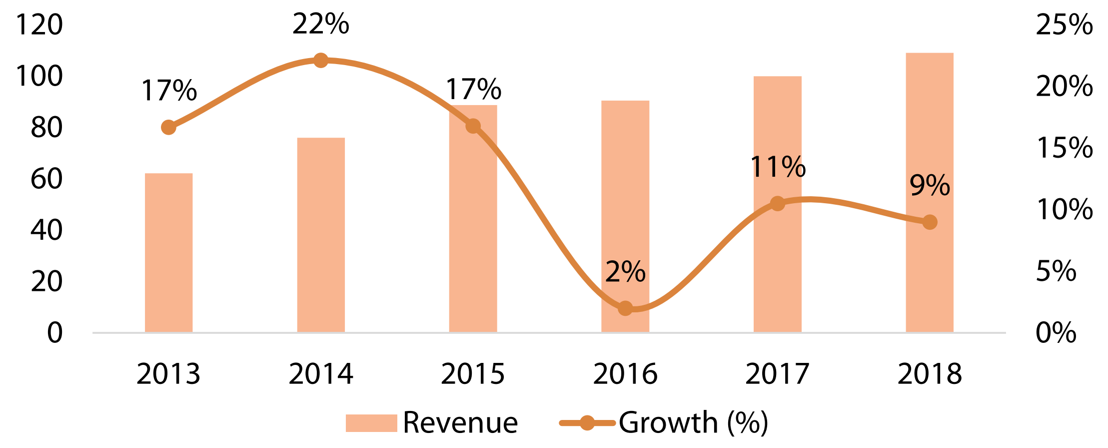
Long-term growth remains positive

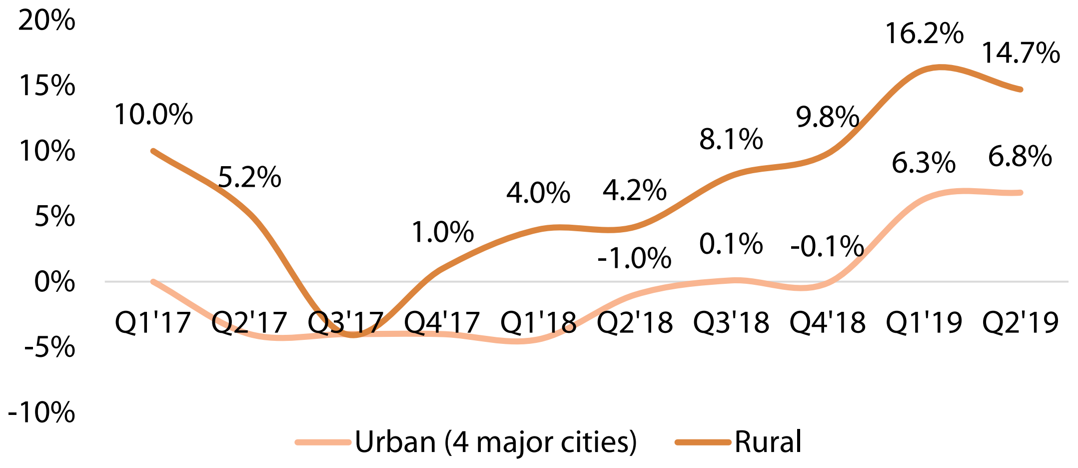
- After a period of slow down in the growth of domestic demand for dairy products (especially in urban areas), we believe that the first half of this year has seen positive changes.
- According to Kantar Worldpanel, in Q2 2019, dairy and its related products continue to be the leading FMCG sector with an impressive value growth of 14.7% and 6.8% in rural and urban areas (4 major cities), respectively. This shows that demand for dairy products has recovered.
- Favorable demographic factors such as large population with rapid growth rate, young population structure and a growing middle-class income will help to boost the demand for long-term dairy consumption.

Figure 1: Total revenue in the period of 2013 – 2018 (VND tn)



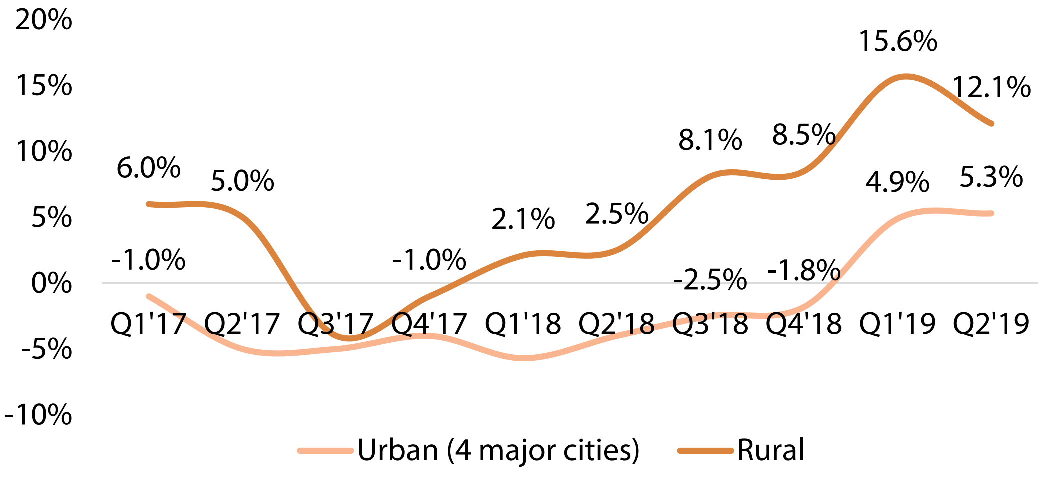
Source: GSO, RongViet Securities

Figure 2: Value growth of domestic dairy (%)



Source: Kantar Worldpanel, RongViet Securities

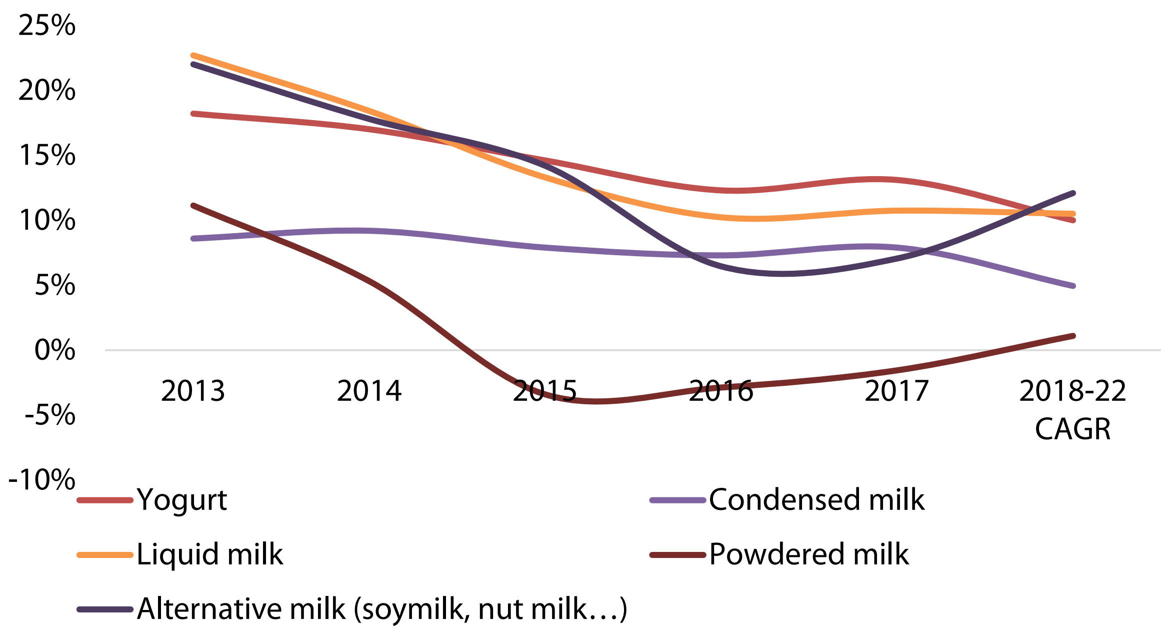
Figure 3: Volume growth of domestic dairy (%)



Changing consumer habits through premiumization strategies

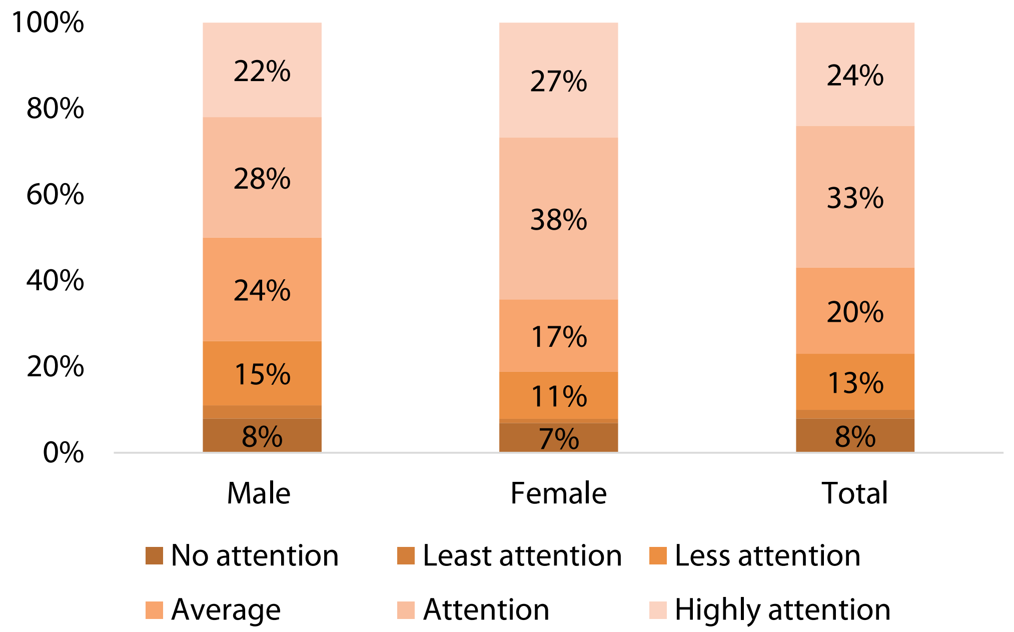
- Consumers become more concerned about their health, switch to high-nutrient, healthy products with more stringent quality standards. Therefore, the demand for high-quality liquid milk (organic milk, A2 milk, etc), yogurts and alternative products from plants (soymilk, nut milk, etc) is increasing.
- This is an advantage for companies able to capture consumption trend changes. Pioneering companies such as VNM, TH True Milk will benefit over other competitors as they already had a production system adapted to international standards and launch new products rapidly according to market demand.
- Besides, alternative milk products are forecasted to lead the dairy growth in the period of 2018-2022, according to Euromonitor. This will benefit QNS, a leading player in soymilk sector. As the soymilk consumption per capita in Vietnam is still low, still having a huge market for the company to exploit.

Figure 4: Alternative milk is expected to lead growth in the coming years



Source: Euromonitor, RongViet Securities

Figure 5: A scale of consumer interest in organic milk (%)



Source: Q&Me, RongViet Securities

DAIRY INDUSTRY - REVIEW

Industry comparables

Ticker	Marlet Cap (VND bn)	P/E	Sales Growth (%)	Gross Margin	Operating Profit Margin	Net Income Growth (%)	Net Profit Margin	EV/EBITDA	Return on Assets	Return on Equity
VNM	208,969	23	3	47	21	-1	19	16	28	38
QNS	10,320	8	5	29	17	21	15	5	17	25
GTN	2,575	572	-20	16	0	-80	0	14	0	0

Source: Bloomberg, RongViet Securities

VNM – A bright prospect for high-quality products

INVESTMENT RATIONALES

- **Strong domestic growth helps to gain more market shares.**
  - In 1H 2019, its market shares rose by 0.9% over the same period last year and by 0.4% since the beginning of this year thanks to positive growth of domestic revenue and the increasing contribution of its POS from 250,000 to 270,000.
- **Transferring to high-end products adapts the customer needs.**
  - The consumption trend is shifting to high-grade liquid milk, yogurt and alternative milk.
  - The launch of 17 new product lines in Q2, including organic powder milks, yogurts and soymilk with various flavors will boost the dairy consumption demand for the rest 6 months of this year.
- **Continue to rise the number of cow milks that are more self-sufficiency.**
  - It can control the quality of raw milk inputs, and improve the quality of output milk to meet the strict demand of the market.
  - Reducing the dependence on the price and volatility of milk powder materials.

RISKS TO OUR CALLS

- Significant increase in skim milk & whole milk powders.
- The demand for dairy products continue to decelerate.
- Its main export market, the Middle East, suffers political instability.

ACCUMULATE +12%

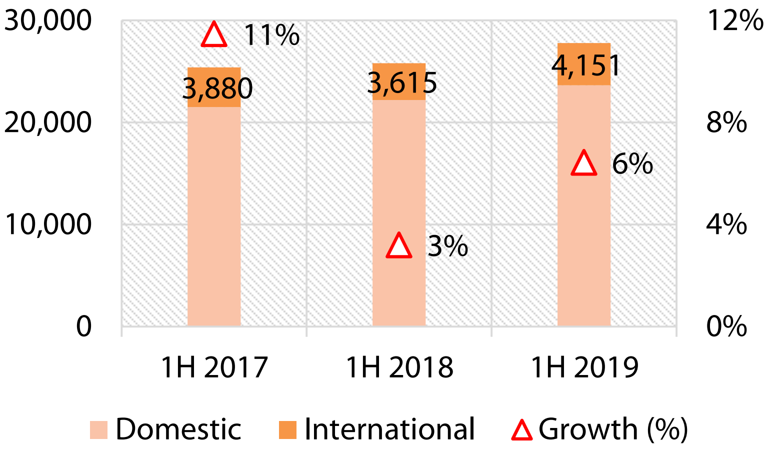
CMP (VND)	**124,100**
Target price (VND)	**134,000**
Cash dividend in 12 months	*5,000*

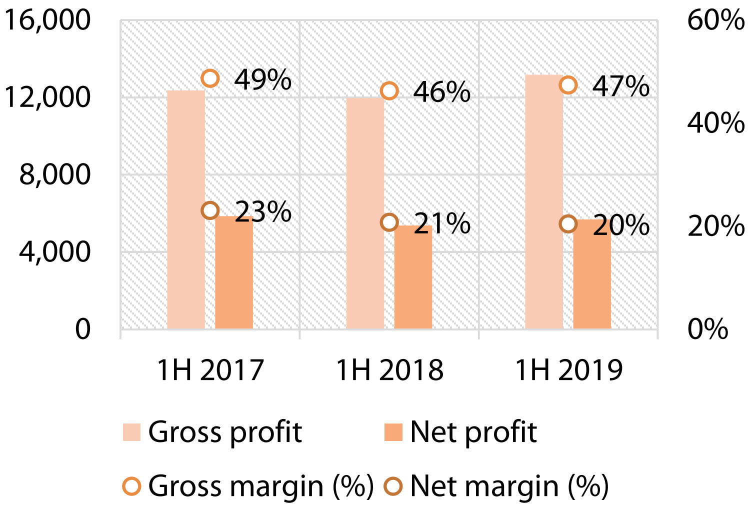
STOCK INFO	
Sector	Food & Beverage
Market Cap ($ mn)	9,275
Current Shares O/S (mn shares)	1,741
3M Avg. Volume (K)	1,166
3M Avg. Trading Value (VND Bn)	145
Foreign Ownership (%)	58.9
State Ownership (%)	36.0

FORECAST	2017A	2018A	2019F	2020F
Revenue	**51,041**	**52,562**	**56,823**	**60,832**
Growth (%)	9.1	3.0	8.1	7.1
NPATMI	**10,296**	**10,227**	**10,787**	**11,752**
Growth (%)	10.1	-0.7	5.5	8.9
ROA (%)	32.2	28.4	28.0	28.5
ROE (%)	44.5	40.8	40.3	41.0
EPS (VND)	6,355	5,295	5,574	6,073
Book Value (VND)	16,105	14,802	15,376	16,449
Cash dividend (VND)	5,000	4,500	5,000	5,000
P/E (x)	32.8	22.7	24.2	22.2
P/B (x)	12.7	8.0	8.8	8.2

VNM – Recovery in both Domestic & Foreign Markets

Figure 1: 1H's revenue (LHS) and profit (RHS) results (VND bn)





Source: VNM, Rong Viet Securities

Figure 2: Some new products launched in 1H 2019

Source: VNM, Rong Viet Securities

1H – Positive business result

- Net revenue and NPAT-MI grew by 7% YoY and 9% YoY, respectively.
  - Domestic sales grew by 6% YoY.
  - Export revenue was up by 15% YoY.
  - ASP raised by 2% YoY at the beginning of Q2.
- Gross margin improved by 109 bps, to 47.4% thanks to the price increase and improvement of Vietsugar and cow farm's operational efficiency.

2H - Expecting to maintain the growth momentum

- The launching of 17 new product lines are expected to boost its domestic revenue in 2H.
- Continue to rise its self-sufficiency of milk materials by building up new farm in Quang Ngai province, raising up the number of cows in Hau River farm to 4,000 – 8,000 cows.

QNS – An Attractive Valuation

INVESTMENT RATIONALES

- **Expanding the pie of soymilk segment.**
  - Increasing the proportion of branded soymilk products on the market. Branded soymilk currently only accounts for 45% of total domestic supply vs. 70% in Thailand.
  - Developing new nutritional products from soybeans such as soybean oil, margarine, etc.
  - Launching four new products in Q2 & Q3, including low sugar and high-protein products to meet the health conscience from customers.
- **Sugar's gross margin can be improved thanks to the increase of domestic selling price.**
  - From this May, sugar prices already recovered. Now is around VND 12,000/kg from a low level of around VND 10,400/kg in the first 4 months.
  - However, its sugar output volume is estimated to have a significant decrease of around 70% in 2H. This will affect negatively to the contribution of this segment into business performance.
  - Its sugar's depreciation, meanwhile, is mainly allocated in the first 2 quarters. That could compensate partially for the sharp decline of sugar volume in 2H.
- **An attractive valuation**
  - 8x forward P/E is quite attractive for a leading soymilk firm.

RISKS TO OUR CALLS

- Soymilk demand continue to slow down.
- Sugar prices fall to the lower level.
- Increase in soybean material prices.

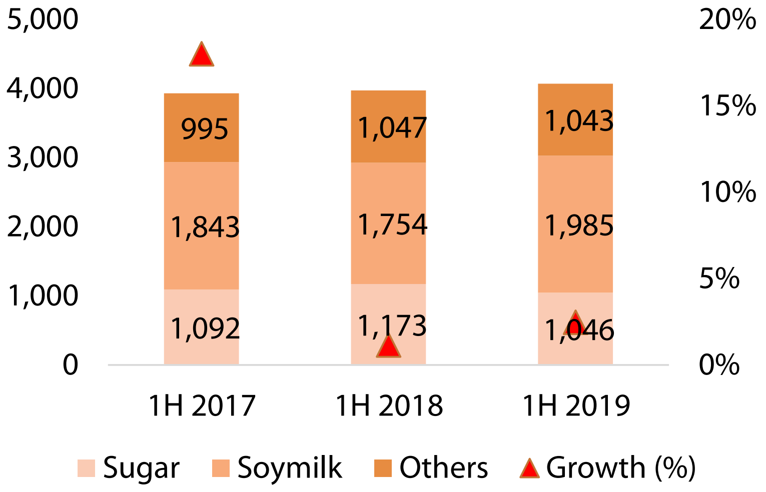
BUY +40%

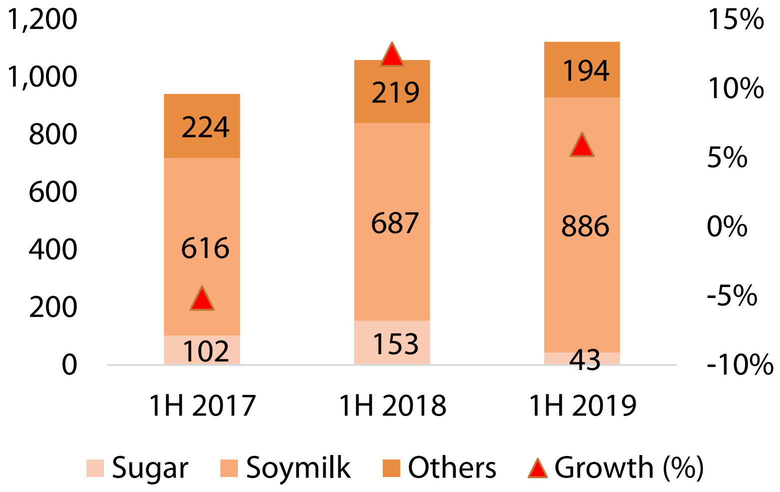
CMP (VND)	**30,100**
Target price (VND)	**40,500**
Cash dividend in 12 months	*1,500*

STOCK INFO	
Sector	Food & Beverage
Market Cap ($ mn)	461
Current Shares O/S (mn shares)	357
3M Avg. Volume (K)	282
3M Avg. Trading Value (VND Bn)	9
Foreign Ownership (%)	13.7
State Ownership (%)	-

FORECAST	2017A	2018A	2019F	2020F
Revenue	**7,633**	**8,031**	**7,818**	**9,176**
Growth (%)	9.5	5.2	-2.6	17.4
NPATMI	**1,027**	**1,240**	**1,162**	**1,289**
Growth (%)	-27.2	20.8	-6.3	10.9
ROA (%)	14.7	15.5	15.3	14.6
ROE (%)	22.9	23.2	18.2	17.3
EPS (VND)	3,407	4,155	3,779	4,192
Book Value (VND)	21,829	21,733	21,154	24,704
Cash dividend (VND)	1,500	1,500	1,500	1,500
P/E (x)	9.1	8.3	8.0	7.2
P/B (x)	2.4	2.3	1.4	1.2

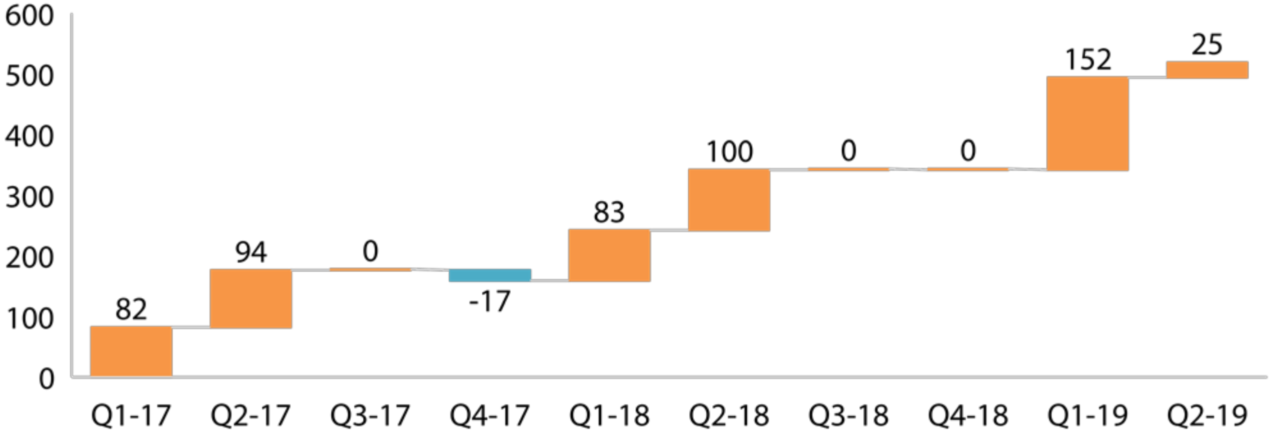
Figure 1: 1H's revenue (LHS) and gross profit (RHS) by segment (VND bn)





Source: QNS, Rong Viet Securities

Figure 2: Sugar segment's depreciation is mainly allocated in the first 2 quarters (VND bn)



Source: QNS, Rong Viet Securities

1H – Lower profitability due to sugar segment

- Net revenue grew by 2% YoY and NPAT-MI fell by 7% YoY, respectively.
  - Soymilk segment contributed 49% of revenue and 79% of gross profit.
  - Whereas, sugar segment accounted for 26% of revenue and 4% of gross profit.
- Gross margin rose 91bps to 27.6% from 26.7% in 1H 2018.
- No extraordinary income vs. VND 26 bn in the same period last year. If excluding that transaction, its NPAT-MI was down by 3% YoY.

2H – Growth prospect for soymilk, but declining output volume of sugar segment significantly

- Soymilk segment is estimated to maintain its positive performance thanks to new product launch in Q2, Q3 and the recovery of dairy sector.
- Sugar prices have shown signs of recovery, we expect that it could compensate partially for the sharp decline of sugar output volume.

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