

VEAM CORP (VEA VN)
Company Visit: VEA – Optimistic on FY19

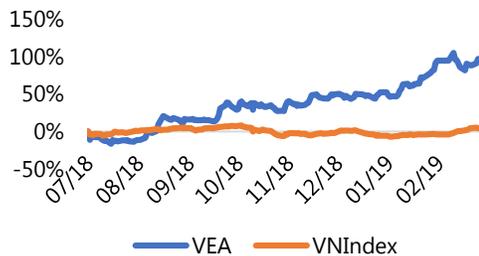
Not Rated

Current price: VND 49,300

Target price: N/A
Upside: N/A

We attended VEA's 4Q18 analyst meeting in Hanoi yesterday. Positive takeaways include the company's optimistic view on 2019 and strong cash dividend plan. On the downside, the government is unlikely to divest this year, and the company expressed no plan to list on the HSX any time soon.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
19,400-54,800	USD2.83bn	10.1%*	43.5%	5.5%	USD0.9mn

Price performance

Key themes

- Audited FY18 PBT could be c. 8-9% lower than the unaudited preliminary numbers.
- Positive guidance on FY2019.
- Plan to maintain high cash dividend payout.
- Divestment not likely to happen soon.

Risks

- Automobile demand is subject to economic conditions.
- Core brand partners – Honda, Toyota, and Ford – could lose market shares to rivals.

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Company profile: VEA is Vietnam's largest manufacturer of agricultural machinery. It also manufactures trucks, auto parts, and motorcycle parts. However, most of these core businesses are loss making. Most of VEA's current income come from its joint ventures with Honda, Toyota, and Ford. The Ministry of Industry and Trade owns a controlling c. 88.5% stake in the company.

VEA's parent company FY18 results and FY19 guidance

VND Bn	FY2018	FY2019 guidance	YoY growth
Total revenue	2,927	N/A	
Net income	5,511	6,429	+15.8%
<i>Of which: dividends paid by associates</i>	5,407	6,648	+23.0%

Source: VEA, Bloomberg

***Note:** The 2019E dividend yield of 10% is based on management's DPS guidance of VND 5,000 per share.

Audited FY18 PBT could be lower than unaudited preliminary numbers. Management said that audited PBT could be c.8-9% lower than the preliminary results. Specifically, additional required provisions for inventories are likely to reduce audited PBT by 2.7%-3.6%, and another VND 270 bn (4.9% of unaudited PBT) due to a delayed dividend from its Ford Vietnam JV.

Optimistic FY2019 guidance. Management guided for +16% YoY growth in net income in 2019, mainly from a 23% YoY jump in associate income. VEA's expressed a positive view on the market in 2019, supported by (1) no signs of slowing demand and (2) Decree 116, which hindered car imports from ASEAN markets, has mostly been addressed and should pose less of a hindrance from 2019.

For its core business, the company said it will invest more in its motorbike and auto parts segments (which make up about 20% of core business sales and actually are profitable) while divesting inefficient subsidiaries and JVs to improve consolidated profitability.

VEA plans to maintain high cash dividend payout. The company said it will seek approval to raise its 2018 cash dividend from VND 2,800 per share last year to VND 3,500-3,800/share at its AGM in May. For FY19, the company guided for DPS of VND 5,000 per share, equivalent to a c. 10% yield at its current market price.

Divestment not likely to occur any time soon. VEA said that the government's divestment plan is not yet clear. The government will eventually hold only 36% of VEAM's total shares but a divestment will not happen soon due to issues related to VEA's agreements with its JVs (specifically, Honda and Toyota). The company also said that it is unlikely to list on the Hanoi Stock Exchange in 2019.

Our view: We don't cover VEA and have no investment view on the stock. However, management's high projected dividend yield of 10% and positive view on the automobile market make the stock worthy of consideration.

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Ratings	Expected return within the next 12 months
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD-Outperform: In our view, the stock’s fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

HOLD-Underperform: In our view, the stock’s fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

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