9TH MAY 2008

Vietnam Dairy Products Joint Stock Company

VINAMILK • VNM

Target Price: VNĐ148,600 • US$9.28(+12.6%)

VINAMILK

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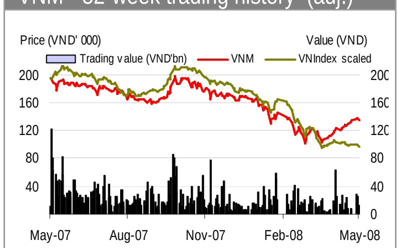
Ownership

Foreign	45.26%	79,329,768
Domestic	7.14%	12,514,683
State	47.60%	83,431,219
Outstanding shares		175,275,670

VNM • 52-week trading history (adj.)



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Benefiting From The Export Sales and Lower Cost **HOLD**

Company's Statistics

Exchange	Ho Chi Minh City Stock Exchange	**Last price**	VND 132,000 • US$ 8.25
Sector	Food and Beverage	**BPS**	VND 26,263 • US$ 1.64
Index weight	10.4%	**EPS**	VND 5,607• US$ 0.35
Market cap.	VND 23,486bn • US$ 1.5bn	**EPS trailing**	VND 5,417 • US$ 0.34
52-week range	VND 200,000 –VND102,000	**Hist DPS**	VND 1,900 • US$ 0.12
30-day average daily turnover	US$ 0.7mn	**Dividend yield**	1.42%
Beta	1.1	**Trailing PER**	24.7
ROCE	21.0%	**P/BV**	5.1

Company Updates

We are turning more positive on Vinamilk's (VNM) prospects upon our recent meeting with the management. The key highlights of our company visit are below:

- *Double digit growth in top and bottom lines.* Management forecasted revenue and PBT to grow by 23.3% and 18.3% to US$512.5mn and US$71.3mn respectively for FY08 compared with FY07. The topline is mainly boosted by a stronger export growth with powdered milk distributed to Iraq being the major contributor. Management guided that the Company has secured export contracts totaling US$75mn for 2008 compared to US$42mn in 2007. Management also expects profit margin to improve in FY08 due to lower input prices secured for the whole of 2008 and implementation of tighter cost control policies. Management has inputted financial revenue of US$9.4mn for FY08 in its earnings forecast which we believe is achievable given that the Company has realized about 80% or US$7.5mn in the first two month of 2008.

- *Securitization of input with lower average price.* Input price of whole milk powder has gradually declined towards the end of 2007 supported by continued depreciation of the US dollar, increased competitiveness of EU sourced raw milk products and higher production in New Zealand and the US. VNM took advantage of the price weakness at the end of 2007 to stock up whole milk powder for the whole of 2008 with an average input price considerably lower than the prevailing average global market price which exceeded US$4,000/ton.

- *Ice cream, soy drink and fruit juice products promise strong growth potential*. Although ice cream, soy drink and fruit juice products currently account for only around 2% of the Company's total revenue, management believes these products will be its earnings drivers going forward. According to industry experts, non carbonated drinks have enjoyed double digit annual growth rates in recent years. Fruit juice products are particularly favored by urban consumers given rising health awareness. Besides that, VNM's fruit juice products are increasingly popular in the domestic market and widely served on Vietnam Airlines and domestic hospitality chains such as hotels and restaurants. Management plans to introduce more new products such as health drinks to further strengthen its foothold in this potentially lucrative market.

- *Expected to list in Singapore in 2H08.* The Company is planning to list in Singapore in the second half of 2008. Nonetheless, management guided that the timing of the listing will largely depend on the recovery of the regional equity markets.

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Recent Quarterly Results Highlights

- *Earnings declined marginally on a y-o-y basis.....* VNM reported revenue and net earnings of US$115mn and $US19.3mn respectively for the 1QFY2008. On a y-o-y comparison, the Company registered 33.4% growth in revenue due to better product mix and active marketing strategy. Unlike previous years, VNM started its marketing campaign in the first quarter to boost its revenue and to mitigate the risk of slower sales volume impacted by the long holiday season. Nonetheless, net earnings dropped by 4.3% due to lower net financial income of US$2.6mn compared with US$9.3mn recorded in 1QFY07.
- *……but rose significantly on a q-o-q basis.* On a q-o-q basis, net earnings for 1QFY08 increased by 45.9% despite revenue decreasing marginally due to lower selling and management expenses with the tighter cost control and the absence of year-end bonuses. Furthermore, net financial income was higher at US$2.6mn compared with US$1.3mn registered in the 4QFY07.

Quarterly Result (Us$mn)	Q1 2007	Q4 2007	**Q1 2008**	Change QoQ%	Change YoY%
Revenue	86.3	117.9	**115.0**	-2.4%	33.4%
Gross profit	24.4	31.3	**33.7**	7.5%	37.9%
Operating Profit	17.1	12.1	**19.2**	58.6%	12.4%
Profit before tax	20.2	12.7	**20.7**	62.2%	2.3%
Net profit	20.2	13.2	**19.3**	45.9%	-4.3%
Gross margin (%)	28.3%	26.6%	**29.3%**	10.2%	3.4%
Operating margin (%)	19.8%	10.3%	**16.7%**	62.5%	-15.7%
Pre-tax margin (%)	23.4%	10.8%	**18.0%**	66.3%	-23.3%
Net margin (%)	23.4%	11.2%	**16.8%**	49.5%	-28.3%

Valuation

- *Revise upwards our earning estimates for FY08!!* We believe that our initial FY08 earnings estimates for the Company were overly conservative after our meeting with the management. We have revised upwards our revenue and net earnings estimates for FY08 to US$515.8mn and US$65.0mn respectively. Our earnings target is lower than the management's forecast since we believe that the Company may not experience wide margin expansion even with tighter cost control policies and lower input prices given the high inflationary operating environment. Intensified competition will also limit the Company's capacity to charge higher selling prices to its consumers. Furthermore, the introduction of 14% corporate tax rate in FY08 will also adversely impact its bottom line.
- *Expected dilution from the new share issues from the Singapore listing.* When computing EPS, we have taken into account our assumption of the potential enlarged share capital arising from the new issuance of 8,763,784 shares on the upcoming Singapore listing expected to be completed in the second half of 2007. We have conservatively expected the weighted average number of shares to be 176,736,301. As such, we have estimated the Company's EPS for 2008 to be US$0.37, representing a marginal increase compared with the EPS of US$0.35 in 2007.
- *Hold for now….*We have fairly valued VNM at *VND148,600 (US$9.28***)** per share pegging on an expected PER of 26.5x which is comparable to its regional peers as illustrated below. Although we continue to like the Company in view of its hands on management, extensive distribution networks and strong brand name, we believe the intensified competition stemming from the continued sector liberalization may cap its earnings growth going forward. **HOLD** maintained. Potential downside risks to our earnings target for the Company include the intensified competition in the dairy market particularly with the commencement of Dutch Lady's factory in Northern Vietnam and the possible saturation of sweetened condensed milk segment which is a major revenue contributor for VNM.

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Regional Comparison

Name	Stock Exchange	Market Cap (US$ mn)	P/E 2007	P/E 2008	P/B	P/S
China Mengniu Dairy Co	Hongkong	4,427	32.7	26.7	6.1	1.4
Nestle India Limited	India	4,039	40.7	31.5	40.2	4.8
Nestle (Malaysia) Berhad	Malaysia	2,243	22.8	22.3	9.9	1.8
Meiji Dairies Corp	Japan	1,955	17.8	25.4	1.4	0.3
Bright Dairy & Food Co Ltd-A	China	1,387	45.6	54.2	4.1	1.2
Dutch Lady Milk Inds Bhd	Malaysia	254	17.3	17.3	6.4	1.3
Maeil Dairy Industry	S Korea	217	9.0	8.3	1.0	0.3
Avearge			**26.6**	**26.5**	**3.8**	**0.9**
Vietnam Dairy Production Co	Vietnam	1,478	24.2	23.9	5.4	3.5

Summary of Financials

Income Statement (US$ mn)	2006A	2007A	2008E
Net Revenue	**390.4**	**415.5**	**515.8**
COGS	292.4	302.2	372.9
Gross Profit	**98.0**	**113.3**	**142.9**
Financial revenue	4.6	16.1	9.9
Financial expense	3.1	1.6	3.2
SG&A	60.8	70.2	74.1
Operating Income	**38.8**	**57.6**	**75.6**
Net other income/(expense)	2.7	5.6	0.0
Pre-tax Income	**41.4**	**63.2**	**75.6**
Income Tax	0.2	(0.5)	10.6
Net Income	**41.2**	**63.7**	**65.0**

Balance Sheet (US$ mn)	2006A	2007A	2008E
CURRENT ASSETS			
Cash & Short-term Investments	9.8	7.4	11.7
Accounts Receivable	32.0	40.9	50.8
Inventory	60.4	104.4	128.8
Others	22.6	45.6	45.5
Total Current Assets	**124.8**	**198.3**	**236.8**
Fixed Assets, net	46.7	63.9	139.1
Others	53.6	76.9	38.8
Total Fixed Assets	**100.3**	**140.8**	**177.9**
TOTAL ASSETS	**225.0**	**339.1**	**414.7**
CURRENT LIABILITIES			
Short-term Debt	27.3	38.8	34.8
Trade & Other Creditors	18.7	18.9	23.0
Total Current Liabilities	**46.0**	**57.7**	**57.8**
Net Current Asset/ (Liabilities)	78.7	140.6	178.9
NON-CURRENT LIABILITIES			
Long-term borrowings	3.8	2.6	35.3
Others	4.1	6.7	5.4
Total Long-term Liabilities	**7.9**	**9.4**	**40.7**

Net Asset / (Liabilities)	171.1	272.0	316.2
TOTAL LIABILITIES	**53.9**	**67.1**	**98.5**
SHAREHOLDERS' EQUITY			
Paid-in capital	99.4	109.5	109.5
Retained Earnings	23.2	32.9	77.0
Other funds & reserves	48.6	127.3	127.3
Total Shareholders' Equity	**171.1**	**272.0**	**316.2**

Equity Rating Definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between –15% and +15% over 12-months, with low risk of sustained downside.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Disclaimer