

# PRIVATIZATION OF VINAMILK – A PROFITABLE SOE

by MEcon. HUỖNH TẤN CƯỜNG

The Government has launched privatization for years in order to promote capacity of state-owned enterprises (SOEs) in the process of international integration, at the same time to ease their burden to the national budget. Nevertheless, this move has not yet hit those SOEs which are producing profits and making great contributions to the state budget.

Therefore, the news that Vinamilk (a famous SOE producing milk products) is going public and the privatization will be completed at the end of 2003 spark off rumors and questions to be answered:

(1) Why is Vinamilk privatized while it is currently the large contributor to state budget? Is there any dubiousness in privatization of such a corporation?

(2) While the stock market shows signs of decline, should investors buy Vinamilk stocks?

To answer these questions, we take a look at these facts:

## 1. An overview of Vinamilk

Vinamilk is a company ruled by the Ministry of Light Industry, established in 1976 by the consolidation of 6 food processing factories after the fall of the former Saigon regime (1975) including Thống Nhất Milk Factory, Trường Thọ Milk Factory, Dielac Powder Milk Factory, Biên Hoà Coffee Factory, Lubico Confectionery Factory and Sa Đéc Nutritive Factory.

In its 20 years of operation in the milk processing sector, Vinamilk currently

Table 1: VINAMILK growth rate

Indicator	Unit	1990	2000	2001	2002	Notes
Total output value	VND bil.	129	2,216			Annual growth rate of 256%/year
Total sales	VND bil.	137	2,783	3,660	4,352	
Contribution to state budget	VND bil.	18.5	326			
Total output (equivalent to fresh milk)	1,000 tonnes	-	320			
Export	US\$ mil.	-	83	143	153.6	US\$26.8 million in 1998 US\$52.2 million in 1999

Source: VDC, March 2002

Table 2: Vietnam's milk consumption

Indicator	Unit	1996	1997	1998	1999	2005	2010
Condensed milk	1,000 cans	160,700	187,350	205,400	226,740	445,000	1,000,000
Powder milk	1,000 cans	37,400	43,000	49,560	59,740	120,000	250,000
Yogurt	1,000 liters	5,210	7,800	8,500	11,705	30,000	65,000
Fresh milk	1,000 liters	15,800	23,600	34,570	42,800	115,000	200,000

Source: Foremost Company 2000



manufactures 90 kinds of products and holds some 60% of local market shares. Its growth rate has been an impressive event in the national economy.

The above table indicates within 12 years Vinamilk's sales soared from VND137 billion in 1990 to VND4,352 billion in 2002, up 3,076% or 256% per

year. The export value of Vinamilk has also surged at a speed of geometric progression.

The Vinamilk sales now rank sixth in the list



of Vietnamese top manufacturing companies including electricity, coal, textile, garment, chemicals and tobacco.

## 2. Production capacity (compared to ASEAN countries)

According to the survey conducted in 1990, the Vietnam's milk consumption reached 0.47 kg/person/year. This figure rose to 3.7 kg/person/year in 1995, 6 kg/person/year in 1999 and 6.5 kg/person/year in 2000 (12.8 times as compared to 1995) with total output of 460,000 tonnes.

Given the milk consumption, the local supply of fresh milk meets only 10% of total needs for production, the rest will be offset by imports of powder milk and butter.

In the meantime, some ASEAN countries' capacity are shown in the following table:

**Table 3: Selected countries' milk processing**

Nation	Unit	1993	1994	1995	1996
Malaysia	Tonne	3,329	3,273	3,270	3,692
Indonesia	Tonne	38,998	42,783	43,424	43,601
Thailand	Tonne	45,600	63,543	64,800	69,600
Myanmar	Tonne	239,231	242,302	246,440	253,051

Source: FAO

Thailand is a country attaining the highest growth rate as indicated in the following table4:

**Table 4: Thailand's milk production**

Indicator	Unit	1984	1998	1999	2000
Fresh milk	Tonne	46,000	563,000	669,960	785,880
Instant milk	Tonne	62,400	961,829	1,108,887	1,213,423

Source: FAO

## 3. Importation

- In 2000, total imported milk reached 50,000 tonnes (equivalent to powder milk) or 400,000-450,000 tonnes (equivalent to fresh milk).

- In 2001, Vietnam spent US\$200 million on

importing powder milk for production.

- According to statistics of the National Customs Office, from January 1, 2003 to April 30, 2003, the milk import value registered US\$51.5 million (the actual receipt is expected to reach US\$80 million due to smuggling or unofficial border trade)

In the meanwhile, the solution of increasing homemade fresh milk by raising more milk cow seems impossible because the price of food for Vietnamese cow is currently equal to 71% of the price of one kilogram of milk while this cost is about 50% in neighboring countries. As such, the Vietnamese milk sector may repeat the bitter failure of the current sugar industry when the increase in supply of local material makes product prices soar and thus reduces competitiveness.

## 4. Capacity of export

The export markets for Vietnamese milk products are mainly the U.S., France, Germany, Russia,

and foreign goods will flood this country.

protectionism before ASEAN items of the same

**Table 5: Export of Vietnamese milk products (US\$mil.)**

Indicator	1998	1999	2000	2001	2002
1. Total export value	26.8	52.2	83	143	153.6
2. To Iraq	20	50	70	137	150
Growth rate	74.6%	95.8%	84.3%	95.8%	97.6%

Source: Vinamilk

## 5. The process of AFTA integration for milk product

According to CEPT regulations, milk products belong to the Temporary Exclusion List (TEL) and must be put in the tax-cut list (Inclusion List - I L) since 2003. Therefore, the import tax rate on milk products must be lowered to 20% in 2003 and 0-5% by 2006 and at the same time total quantitative measures must be removed by 2006.

As such, Vietnamese milk products will step by step lose advantages from

kind since 2003.

## 6. The process of Vinamilk privatization

The process of Vinamilk privatization can be summarized as follows:

- The stage of evaluating business market value has been completed, in the following step, the privatization scheme will be submitted to the Government and the corporation will go public at the end of 2003.

- The privatization will be conducted in all Vinamilk's subsidiaries including Factories of Trường Thọ, Thống Nhất,





Dielac, Nghệ An, Bình Định, Cần Thơ...

- The total equity capital is about VND1,500 billion.

- Vinamilk is ruled by the Ministry of Industry, according to state current regulations, the Government will hold 51% stake when privatization. However, this proportion will be determined in the end by the Government when approving the scheme.

- The list of preferential shareholders includes: Vinamilk workers, farmers selling materials to Vinamilk, potential customers, and investors.

- Selling a kind of stock when its prices show of stagnation after continuous rises.

#### 8. Conclusion:

From these above facts, we can draw some conclusions about Vinamilk to answer the questions arising first:

- The stock prices always change in accordance with the sine chart law, therefore to choose when to buy or sell must be flexible.

- The local milk product will encounter harsh competition even in the home market against their coun-

most, a rival of Vinamilk in the local market.

- Vinamilk is now an enterprise making large profits and contributions to the state budget, the Government and the ruling Ministry of Industry could not easily approve its privatization if there was no special cause.

- The year 2003 is the best time for Vinamilk privatization when it is not greatly affected by the AFTA integration and its stock price is also attractive to investors.

- The Vietnam milk sector's development really has no solid founda-

As such, are Vinamilk stocks worth our investment?

- Vinamilk stocks are still attractive within five years at least because this brand name is holding a firm position on the local market and the impacts of AFTA integration are not enough strong to diminish immediately the corporation's potentials.

- The investment in Vinamilk stocks is rather reasonable but not at any cost. In my opinion, the acceptable price is some VND15,000-20,000 per share.

- To buy Vinamilk stock



#### 7. The rule of current investment in the Vietnam stock market

Over the past four years, the stock prices in the stock market have seen continuous changes.

Recent surveys show that the stock prices always respect the sine-chart law. The price change following the sine chart law is also recognized by Vietnamese stock investors and they use it as an indicator for their investment.

As a result, stock trading will be in accordance with the law:

- Buying a kind of stock when its price shows sign of standstill after continuous falls;

terparts from ASEAN countries because the protectionism is step by step reduced following the CEPT agreement.

- The export markets of Vietnamese milk products may be contracted because the United Nations Organization has lifted embargo against Iraq, which had bought 97%-98% of Vietnamese milk exports formerly, and Vietnamese businesses cannot compete with international corporations in bids of supply.

- The Vinamilk growth will certainly face slowdown and not maintain a rate of 256% per year as at present. This decline has appeared since 2002 due to reduction of import tax and the progress of Fore-

tion because 90% of its materials must be imported and the local production only meets 10%.

- The milk sector enjoys no advantage from joining AFTA because its imported materials do not come from ASEAN countries.

- The Vietnamese milk sector must import materials for production while other ASEAN countries will export directly their goods to Vietnam.

- Vinamilk is now a famous brand name in Vietnam and setting a firm foothold in the local market, so when integrating, its potentials still help it sustain the competition within five years at least.

profitably, investors should find sellers as farmers who are supplying materials to Vinamilk and enjoying preferences when Vinamilk issues its stocks.

- Investors should be ready to sell Vinamilk stocks when they show signs of stagnation.

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