



VNM Update- BUY

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Company Update

Recommendation

BUY

HSX: VNM

Consumer staples

Target price (VND) **85,147**

Current price (VND) **68,100**

Expected share price return 25.0%

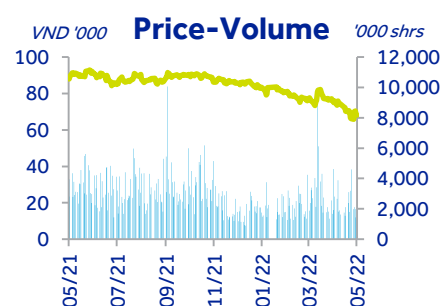
Expected dividend yield 5.7%

Expected total return **30.7%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-19.9	-9.2	-14.4	-17.4
Relative	-2.8	2.5	3.0	-16.9

Source: Bloomberg



Ownership

SCIC	36.0%
F&N Dairy Investment Pte	17.7%
Platinum Victory Pte	10.6%
F&N Bev Manufacturing Pte	2.7%

Stock Statistics 20-May-22

Bloomberg code **VNM VN**

52-week range (VND) 65,200-93,600

Shares O/S (m) 2,090

Mkt cap (VND bn) 142,326

Mkt cap (USD m) 6,163

Foreign room left (%) 45.6

Est. free float (m) 35.2

3m avg daily vol (shrs) 2,613,690

VND/USD 23,095

Index: VNIndex / HNX 1240.7/307.0

VIETNAM DAIRY PRODUCTS JSC (VNM VN)

VNM is an attractive avenue to access the domestic consumption market as it continues its transition from a high growth to a more mature company. We give a **BUY** recommendation on the stock with a target price of VND85,147/share, representing a 30.7% expected total return, given healthy company financials, dominant domestic market position and expanding export business.

VNM continued to experience humble net sales growth of 5.2% YoY, to VND13,878bn in 1Q2022. Net sales of finished goods, capturing nearly 95% of the total, climbed by c.4% despite an increase (of less than 5%, according to the company) in selling prices.

Overseas revenue rose by 10.3% YoY, to VND2,220bn, contributed by direct exports and overseas subsidiaries. The latter's revenue grew by nearly 28% YoY to VND1,081bn, including Driftwood's 40% YoY growth thanks to increased demand in schools and hotels in the US post-COVID, while Angkormilk in Cambodia also delivered 7.2% YoY revenue growth. Direct exports earned VND1,139bn (-2.3% YoY).

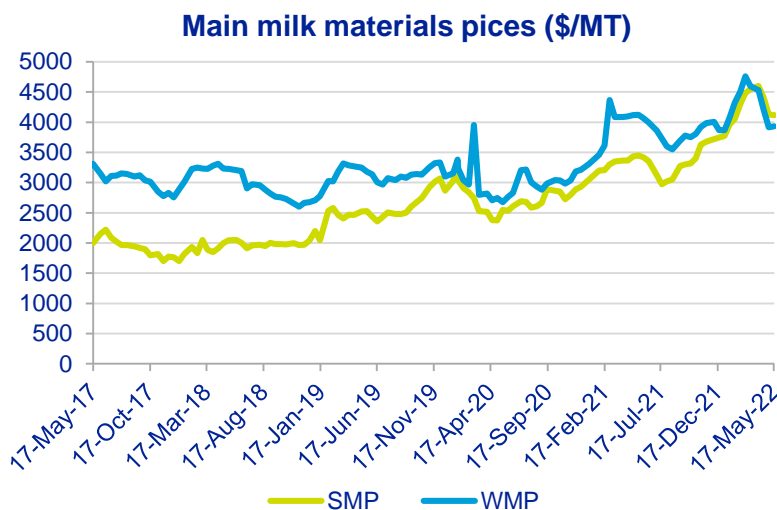
Domestic revenue generated VND11,658bn (+4.3% YoY); of which we estimate revenue of finished goods climbed just by 2.9% YoY. Moc Chau Dairy Breed JSC (Upcom: MCM)'s reported net revenue of VND675bn, up by 8.6% YoY.

While VNM keeps expanding its coverage in the modern channel (e.g supermarkets, convenience stores, etc.), the company has also accelerated the presence of its own dairy retail chain (named Giac mo sua Viet) without neglecting its effectiveness. The chain added 30 new stores in 1Q2022, bringing the total number of stores to nearly 620, located in large and medium-sized cities. Nonetheless, traditional channel remains VNM's mainstream distribution channel.

1Q2022 EAT slid by 12.1% YoY, to VND2,283bn, attributed to narrowed gross margin (40.5% in 1Q2022 vs 43.6% in 1Q2021) despite the company's control of the SG&A expense to net revenue ratio (21.7% in 1Q2022 vs. 22.4% in 1Q2021). VNM's EAT has fell into a downtrend since 1Q2021 as a result of escalating input prices, primarily illustrated by milk material prices. Although milk material prices somewhat eased in recent months, it is uncertain to affirm a firm reversal as some prices still fluctuate

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	59,636	60,919	64,187	67,077	70,930
Growth	5.9%	2.2%	5.4%	4.5%	5.7%
EBITDA (VNDbn)	14,740	13,879	13,233	13,925	15,330
EBITDA margin	24.7%	22.8%	20.6%	20.8%	21.6%
Net Profit (VNDbn)	11,099	10,533	9,764	10,380	11,622
Growth	4.9%	-5.1%	-7.3%	6.3%	12.0%
EPS (bonus-adjusted, VND)	4,774	4,531	4,201	4,465	5,000
Growth	4.7%	-5.1%	-7.3%	6.3%	12.0%
ROE	37.8%	32.7%	28.8%	28.9%	29.9%
ROA	23.8%	20.7%	18.4%	19.9%	22.6%
ROIC	55.9%	50.7%	47.6%	52.6%	61.3%
Net debt/EBITDA (times)	-0.8	-1.0	-1.2	-1.4	-1.6
EV/EBITDA (times)	8.8	9.4	9.8	9.4	8.5
EV/sales (times)	2.2	2.1	2.0	1.9	1.8
PER (times)	14.5	15.2	16.4	15.5	13.8
PBR (times)	4.6	4.4	4.1	3.9	3.5
DPS (VND)	4,100	3,850	3,850	3,850	3,850
Dividend yield	5.9%	5.6%	5.6%	5.6%	5.6%

around the five-year record high, higher than our expectations. VNM has fixed their milk material prices until August 2022. We assume the current gross margin will remain for the whole year 2022.



Source: www.globaldairytrade.com

The beef cattle project, which is deployed with cooperation between VNM and Sojitz Corp (Japan), is in progress. In 2021, Japan Vietnam Livestock Company Limited was established with the initial chartered capital of VND46bn (which likely increases to VND2,985bn in the next phase), engaged in importing, processing and trading beef products. This comprises 51% of ownership of Vietnam Livestock Corporation (Upcom: VLC), VNM's subsidiary, and 49% of Sojitz. The expected number of cows will be exploited is 30,000 per year. Further information about the project's profit contribution is not available. We will reflect this in our model later when the profit picture becomes clearer.

Vinamilk has set 2022 net revenue and EAT targets of VND64,070bn (+5% YoY) and VND9,770bn (-8.1% YoY), which we feel accurately reflects the prospects for the year. Moving forward, VNM believes the industry's growth potential remains, though at a more modest rate than in years past. The company expects its revenue to reach VND86,000bn in 2026, translating to a CAGR of 7.6% in 2022-2026, which seems quite challenging if looking back CAGR of 5.3% in 2017-2020 and considering the recovery momentum of the company's sales growth post COVID-19. With a slower growth outlook in the coming years and contracted gross margin due to surging milk materials, investors may hardly accept a PER of more than 20x for VNM. We revised down our target PER from 20-22x to 18x, similar to its average PER in 2021. However, VNM is trading at a PER of just c.16x based on our projected EPS for 2022 and still has a solid balance sheet and good financial ratios. Combining the DCF and PER methods, our target price for this stock is VND85k/share, equivalent to a total return of 30.7% at the year end.

VNM FINANCIALS MODEL	Price (VND):	68,100	Target (VND):	85,147	Mkt cap (VND bn):	142,326
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	59,636	60,919	64,187	67,077	70,930	
<i>Sales growth (%)</i>	<i>5.9%</i>	<i>2.2%</i>	<i>5.4%</i>	<i>4.5%</i>	<i>5.7%</i>	
CoGS ex-dep'n	29,759	32,520	36,003	37,201	38,730	
Selling expenses	13,448	12,951	13,324	14,260	15,079	
G&A expenses	1,958	1,567	1,587	1,726	1,825	
Financial revenues	433	111	96	99	102	
Financial expenses	165	114	136	66	69	
EBITDA	14,740	13,879	13,233	13,925	15,330	
<i>EBITDA margin (%)</i>	<i>24.7%</i>	<i>22.8%</i>	<i>20.6%</i>	<i>20.8%</i>	<i>21.6%</i>	
Depreciation	2,209	2,121	2,179	2,222	2,229	
Operating profit	12,531	11,758	11,054	11,703	13,101	
<i>Operating profit margin (%)</i>	<i>21.0%</i>	<i>19.3%</i>	<i>17.2%</i>	<i>17.4%</i>	<i>18.5%</i>	
Other profits/losses	(21)	195	4	4	4	
Profits/Losses from associates	4	(45)	(35)	(18)	(9)	
Net interest expense	(1,005)	(1,015)	(1,041)	(1,145)	(1,279)	
<i>as % of avg net debt</i>	<i>9.1%</i>	<i>7.8%</i>	<i>6.9%</i>	<i>6.4%</i>	<i>5.9%</i>	
<i>Interest cover (x)</i>	<i>-12.5</i>	<i>-11.6</i>	<i>-10.6</i>	<i>-10.2</i>	<i>-10.2</i>	
Tax	2,283	2,290	2,213	2,356	2,643	
<i>Effective tax rate (%)</i>	<i>16.9%</i>	<i>17.9%</i>	<i>18.3%</i>	<i>18.3%</i>	<i>18.4%</i>	
Minority interest	137	100	87	98	111	
Attributable net profit	11,099	10,533	9,764	10,380	11,622	
Cash earnings	13,308	12,654	11,943	12,602	13,852	
Total number of shares	2,089,955,445	2,089,955,445	2,089,955,445	2,089,955,445	2,089,955,445	
EPS (VND) (after treasury shares)	4,774	4,531	4,201	4,465	5,000	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	4,774	4,531	4,201	4,465	5,000	
<i>EPS growth (%)</i>	<i>4.7%</i>	<i>-5.1%</i>	<i>-7.3%</i>	<i>6.3%</i>	<i>12.0%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	2,801	1,713	243	147	202
Capex	1,115	1,397	1,397	1,397	1,397
Change in investment in affiliates	-2	-25	-38	-20	-11
Other cashflow items	757	-271	243	-14	115
Free cash flow	10,151	9,299	10,585	11,065	12,378
Share issues	-	-	-	-	-
Dividends paid	7,836	7,524	8,046	8,046	8,046
Increase in net debt	-2,315	-1,775	-2,538	-3,018	-4,332
Net debt, end of year	-12,141	-13,916	-16,454	-19,473	-23,805
Shareholders' equity	31,297	33,083	34,801	37,135	40,711
BVPS (VND)	14,977	15,830	16,652	17,768	19,479
Net debt / equity (%)	-38.8%	-42.1%	-47.3%	-52.4%	-58.5%
Net debt / EBITDA (x)	-0.8	-1.0	-1.2	-1.4	-1.6
Total assets	48,432	53,332	52,512	51,827	51,071

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	37.8%	32.7%	28.8%	28.9%	29.9%
ROA	23.8%	20.7%	18.4%	19.9%	22.6%
ROIC	55.9%	50.7%	47.6%	52.6%	61.3%
WACC	8.9%	8.9%	8.9%	8.9%	8.9%
EVA	47.0%	41.9%	38.8%	43.7%	52.5%
PER (x)	14.3	15.0	16.2	15.3	13.6
EV/EBITDA (x)	8.7	9.3	9.7	9.2	8.4
EV/FCF (x)	12.7	13.8	12.1	11.6	10.4
PBR (x)	4.5	4.3	4.1	3.8	3.5
PSR (x)	2.4	2.3	2.2	2.1	2.0
EV/sales (x)	2.2	2.1	2.0	1.9	1.8
PEG (x, 3 yr prospective)	-5.6	-7.4	4.4	1.8	1.6
Dividend yield	6.0%	5.7%	5.7%	5.7%	5.7%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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