



VNM Update- BUY

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Company Update

Recommendation

BUY

HSX: VNM

Consumer staples

Target price (VND) **81,132**

Current price (VND) **71,900**

Expected share price return 12.8%

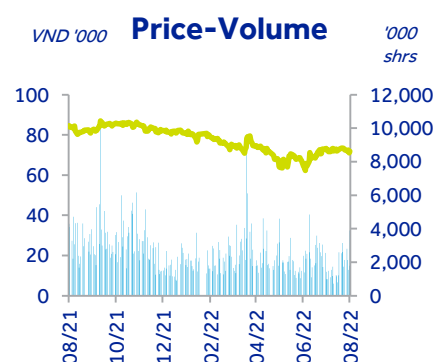
Expected dividend yield 5.4%

Expected total return **18.2%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-12.5	-2.6	5.8	-16.3
Relative	2.5	-11.1	8.9	-9.9

Source: Bloomberg



Ownership

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

Stock Statistics

12-Aug-22

Bloomberg code **VNM VN**

52-week range (VND) 64,500-92,400

Shares O/S (m) 2,090

Mkt cap (VND bn) 150,268

Mkt cap (USD m) 6,418

Foreign room left (%) 45.4

Est. free float (m) 35.2

3m avg daily vol (shrs) 2,052,346

VND/USD 23,530

Index: VNIndex / HNX 1262.3/303.4

VIETNAM DAIRY PRODUCTS JSC (VNM VN)

With milk material prices starting to decelerate, VNM's profit margins are expected to see decent improvements in 4Q2022 and the following year. However, we revised down our projections for the company in 2022 to reflect lower-than-expected results in 1H, though a **BUY** recommendation is maintained with a lower target price of VND81,132/share, representing a 18.2% expected total return.

VNM announced 2Q2022 net revenue of VND14,930bn (-5% YoY) and EAT of VND2,102bn (-26.6% YoY). Domestic revenue fell by 5.9% YoY, despite an increase in selling prices, explained by:

- VNM notes that sales were impacted from inflationary pressures hurting consumer spending. Although we are not fully convinced by this reason considering the controlled inflation rate in Vietnam in 1H2022, it is understandable to some extent if the significant jump in fuel prices and transportation services causes consumers to rebalance their wallets, curbing spending for some other products. Nevertheless, these impacts seem to be more influential in urban area in this period as Kantar Worldpanel's reports indicated that dairy consumption slid by 1% (including 4% drop in volume) in urban 4 key cities, but was resilient in rural area with a growth rate of 13.1% (including 8% increase in volume) in 2Q2022.
- Decline in the company's market share, especially drinking milk except fresh milk. Although detailed numbers were not disclosed, the decline stemmed from the company's rearrangement of distribution system and consumers gradually moving from other drinking milk products to fresh milk, according to VNM's management. Additionally, increasingly tougher competition could be a huge pressure for the company as more foreign players jumped in the market while the local brands also look to strengthen their positions.
- Falling consumption volume as a result of increase in selling prices, leading VNM to raise promotion and sales support expenses to stimulate demand after price changes.

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	59,636	60,919	61,273	64,312	67,487
Growth	5.9%	2.2%	0.6%	5.0%	4.9%
EBITDA (VNDbn)	14,740	13,879	12,318	14,164	14,785
EBITDA margin	24.7%	22.8%	20.1%	22.0%	21.9%
Net Profit (VNDbn)	11,099	10,533	9,029	10,500	11,017
Growth	4.9%	-5.1%	-14.3%	16.3%	4.9%
EPS (bonus-adjusted, VND)	4,774	4,531	3,884	4,517	4,739
Growth	4.7%	-5.1%	-14.3%	16.3%	4.9%
ROE	37.8%	32.7%	26.9%	29.8%	29.0%
ROA	23.8%	20.7%	17.1%	20.1%	21.2%
Net debt/EBITDA (times)	-0.8	-1.0	-1.3	-1.3	-1.5
EV/EBITDA (times)	9.3	9.8	11.1	9.6	9.2
EV/sales (times)	2.3	2.2	2.2	2.1	2.0
PER (times)	15.1	15.9	18.5	15.9	15.2
PBR (times)	4.8	4.5	4.4	4.1	3.8
DPS (VND)	4,100	3,850	3,850	3,850	3,850
Dividend yield	5.7%	5.4%	5.4%	5.4%	5.4%

Overseas revenue was almost flat. While revenue from overseas subsidiaries rose by 21.7% YoY, direct exports contracted by 11.9% YoY, attributed to weaker consumption amid escalated transportation costs and inflation.

On a cumulative basis, VNM's net revenue contracted by 0.3% YoY (including 5-5.5% increase in selling prices) to VND28,808bn and EAT dropped by 19.7% YoY to VND4,386bn in 1H2022. Moc Chau Dairy Breed JSC (Upcom: MCM) generated VND1,514bn of revenue, up by 7.3% YoY.

1H2022 EAT slumped by 19.7% YoY, driven by a narrower gross margin and higher SG&A expenses to net revenue ratio. The SG&A expenses to net revenue ratio was 23.3% in 1H2022 versus 22.6% in 1H2021; in which, the ratio was 24.7% in 2Q (2Q2021: 22.8%), explained by increase in shipping costs, owing to higher fuel prices, and promotion and sales support expenses to foster demand following selling price increase. The gross margin squeezed to 40.6% from 43.6% in 1H2021 because of surging milk material prices. Still, as prices of some primary input materials have shown signs of peaking and the company is negotiating to fix material prices for 4Q2022, we expect the gross margin to improve from this quarter onwards; 2023 earnings growth is consequently projected to be positive.

Main milk materials prices (\$/MT)



Source: www.globaldairytrade.com

In sum, given the company's business performance in 1H2022, we revised down our expected net revenue for the company in 2022 to VND61,273bn (+0.6% YoY), 5% lower than our previous projection. EAT is projected to tumble by 14.3% YoY, to VND9,116bn, 7% lower than previous projection, in 2022 but may jump by c.16% in 2023. **Combining the DCF and PER methods, our target price for this stock is VND81k/share**, equivalent to a total return of 18.2% at the year end.

VNM FINANCIALS MODEL	Price (VND):	71,900	Target (VND):	81,132	Mkt cap (VND bn):	150,268
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	59,636	60,919	61,273	64,312	67,487	
<i>Sales growth (%)</i>	<i>5.9%</i>	<i>2.2%</i>	<i>0.6%</i>	<i>5.0%</i>	<i>4.9%</i>	
CoGS ex-dep'n	29,759	32,520	33,961	34,514	36,294	
Selling expenses	13,448	12,951	13,332	13,993	14,684	
G&A expenses	1,958	1,567	1,576	1,655	1,736	
Financial revenues	433	111	132	136	141	
Financial expenses	165	114	218	122	128	
EBITDA	14,740	13,879	12,318	14,164	14,785	
<i>EBITDA margin (%)</i>	<i>24.7%</i>	<i>22.8%</i>	<i>20.1%</i>	<i>22.0%</i>	<i>21.9%</i>	
Depreciation	2,209	2,121	2,186	2,243	2,267	
Operating profit	12,531	11,758	10,132	11,921	12,518	
<i>Operating profit margin (%)</i>	<i>21.0%</i>	<i>19.3%</i>	<i>16.5%</i>	<i>18.5%</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)	(1,060)	(1,074)	(1,118)	
<i>as % of avg net debt</i>	<i>9.1%</i>	<i>7.8%</i>	<i>7.2%</i>	<i>6.3%</i>	<i>5.5%</i>	
<i>Interest cover (x)</i>	<i>-12.5</i>	<i>-11.6</i>	<i>-9.6</i>	<i>-11.1</i>	<i>-11.2</i>	
Tax	2,283	2,290	2,045	2,383	2,504	
<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	9,029	10,500	11,017	
Cash earnings	13,308	12,654	11,215	12,743	13,284	
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	3,884	4,517	4,739	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	4,774	4,531	3,884	4,517	4,739	
<i>EPS growth (%)</i>	<i>4.7%</i>	<i>-5.1%</i>	<i>-14.3%</i>	<i>16.3%</i>	<i>4.9%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	2,801	1,713	18	137	175
Capex	1,115	1,397	1,677	1,677	1,677
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	9,801	10,936	11,558
Share issues	-	-	-	-	-
Dividends paid	7,836	7,524	8,046	8,046	8,046
Increase in net debt	-2,315	-1,775	-1,755	-2,890	-3,511
Net debt, end of year	-12,141	-13,916	-15,671	-18,561	-22,072
Shareholders' equity	31,297	33,083	34,066	36,520	39,490
BVPS (VND)	14,977	15,830	16,300	17,474	18,895
Net debt / equity (%)	-38.8%	-42.1%	-46.0%	-50.8%	-55.9%
Net debt / EBITDA (x)	-0.8	-1.0	-1.3	-1.3	-1.5
Total assets	48,432	53,332	52,560	52,124	51,583

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	37.8%	32.7%	26.9%	29.8%	29.0%
ROA	23.8%	20.7%	17.1%	20.1%	21.2%
ROIC	55.9%	50.7%	43.6%	53.0%	57.2%
WACC	9.6%	9.6%	9.6%	9.6%	9.6%
EVA	46.3%	41.1%	33.9%	43.4%	47.6%
PER (x)	15.1	15.9	18.5	15.9	15.2
EV/EBITDA (x)	9.3	9.8	11.1	9.6	9.2
EV/FCF (x)	13.4	14.7	13.9	12.5	11.8
PBR (x)	4.8	4.5	4.4	4.1	3.8
PSR (x)	2.5	2.5	2.5	2.3	2.2
EV/sales (x)	2.3	2.2	2.2	2.1	2.0
PEG (x, 3 yr prospective)	-3.1	-15.5	8.0	1.7	2.4
Dividend yield	5.7%	5.4%	5.4%	5.4%	5.4%

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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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