



VNM Update- HOLD

February 21, 2023



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Company Update

Recommendation

HOLD
HSX: VNM
Consumer staples
Target price (VND) **74,065**
Current price (VND) **77,500**
Expected share price return -4.5%

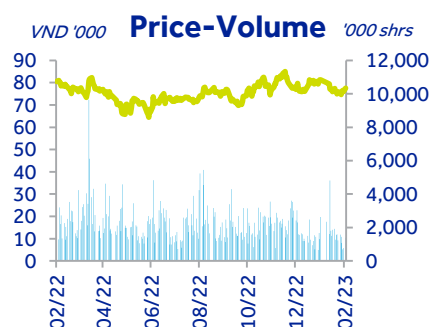
Expected dividend yield 5.0%

Expected total return **0.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.8	-6.1	1.8	-0.9
Relative	-6.3	-3.5	-7.9	27.7

Source: Bloomberg



Ownership

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

Stock Statistics

20-Feb-23

Bloomberg code

VNM VN

52-week range (VND) 64,500-85,600

Shares O/S (m) 2,090

Mkt cap (VND bn) 161,972

Mkt cap (USD m) 7,006

Foreign room left (%) 44.3

Est. free float (m) 35.1

3m avg daily vol (shrs) 1,886,330

VND/USD 23,870

Index: VNIndex / HNX 1086.6/215.8

VIETNAM DAIRY PRODUCTS JSC (VNM VN)

We project that VNM may continue to generate single-digit growth in 2023. Although profit margins are expected to improve thanks to milk material prices trending down, the improvements may be seen from 3Q23. We give a **HOLD** recommendation for the stock with a target price of VND74k/share, representing a 0.5% expected total return at the end of the year.

VNM announced net revenue of VND60,075bn (-1.6% YoY) and EAT of VND8,578bn (-19.3% YoY) in 2022. Domestic revenue fell by 1% YoY, including a 5.9% decline in 2Q22 which was explained by the company's rearrangement of distribution system, falling consumption volume as a result of an increase in selling prices, increasingly tougher competition and probable impacts from inflationary pressures on consumer spending structure. Overseas revenue dropped by 4.8% YoY in 2022; in which, revenue from overseas subsidiaries rose by 23.3% YoY while direct exports tumbled by 21.2% YoY, attributed to weaker consumption amid escalated inflation.

We expect VNM's revenue may return to growth in 2023 (assuming no increase in selling prices), driven by recovery of domestic revenue following rearrangement of distribution system and the company's plan to change/upgrade products in terms of flavor, packaging, quality standards, etc. However, a single-digit growth rate is still assumed, considering the company's stable growth stage and consumer purchasing power amid concerns about future income and job security due to unfavorable economic conditions.

2022 EAT slumped by 19.3% YoY driven by a narrower gross margin despite a lower SG&A expenses to net revenue ratio (23.6% vs. 23.8% in 2021). The gross margin squeezed to 39.9% from 43.1% in 2021 because of surging milk material prices from late 2021. However, as a reversal in milk material prices has been seen since 2H22, VNM estimates the gross margin may enhance from 3Q23, slower than our previous expectations. We expect the company's gross margin may reach 40.7% in 2023 and expand further next year.

In sum, our projections for VNM's net revenue and EAT are VND61,850bn (+3.2% YoY) and VND9,350bn (+9.0% YoY), respectively, in 2023. Combining the DCF and PER methods, our target price for this stock is VND74k/share.

	2021	2022U	2023F	2024F	2025F
Net Sales (VNDbn)	60,919	59,956	61,850	64,819	67,671
Growth	2.2%	-1.6%	3.2%	4.8%	4.4%
EBITDA (VNDbn)	13,879	11,578	12,567	14,667	15,312
EBITDA margin	22.8%	19.3%	20.3%	22.6%	22.6%
Net Profit (VNDbn)	10,533	8,516	9,293	10,989	11,524
Growth	-5.1%	-19.1%	9.1%	18.3%	4.9%
EPS (bonus-adjusted, VND)	4,531	3,664	3,999	4,729	4,959
Growth	-5.1%	-19.1%	9.1%	18.3%	4.9%
ROE	32.7%	27.1%	30.5%	33.7%	32.2%
ROA	20.7%	16.7%	18.9%	21.5%	21.7%
Net debt/EBITDA (times)	-1.0	-1.3	-1.2	-1.0	-1.1
EV/EBITDA (times)	10.6	12.7	11.7	10.0	9.6
EV/sales (times)	2.4	2.5	2.4	2.3	2.2
PER (times)	17.1	21.1	19.4	16.4	15.6
PBR (times)	4.9	5.4	5.2	4.8	4.3
DPS (VND)	3,850	3,850	3,850	3,850	3,850
Dividend yield	5.0%	5.0%	5.0%	5.0%	5.0%

VNM FINANCIALS MODEL	Price (VND):	77,500	Target (VND):	74,065	Mkt cap (VND bn):	161,972
(VND bn except where stated)	2021	2022U	2023F	2024F	2025F	
Total Net Sales	60,919	59,956	61,850	64,819	67,671	
<i>Sales growth (%)</i>	<i>2.2%</i>	<i>-1.6%</i>	<i>3.2%</i>	<i>4.8%</i>	<i>4.4%</i>	
CoGS ex-dep'n	32,520	33,964	34,572	34,541	36,062	
Selling expenses	12,951	12,548	12,945	13,890	14,501	
G&A expenses	1,567	1,596	1,770	1,725	1,801	
Financial revenues	111	181	118	121	123	
Financial expenses	114	452	114	116	119	
EBITDA	13,879	11,578	12,567	14,667	15,312	
<i>EBITDA margin (%)</i>	<i>22.8%</i>	<i>19.3%</i>	<i>20.3%</i>	<i>22.6%</i>	<i>22.6%</i>	
Depreciation	2,121	2,095	2,098	2,161	2,273	
Operating profit	11,758	9,483	10,469	12,506	13,039	
<i>Operating profit margin (%)</i>	<i>19.3%</i>	<i>15.8%</i>	<i>16.9%</i>	<i>19.3%</i>	<i>19.3%</i>	
Other profits/losses	195	4	3	3	3	
Profits/Losses from associates	(45)	(24)	(13)	(6)	(3)	
Net interest expense	(1,015)	(1,033)	(986)	(1,037)	(1,169)	
<i>as % of avg net debt</i>	<i>7.8%</i>	<i>7.2%</i>	<i>6.7%</i>	<i>7.0%</i>	<i>7.3%</i>	
<i>Interest cover (x)</i>	<i>-11.6</i>	<i>-9.2</i>	<i>-10.6</i>	<i>-12.1</i>	<i>-11.2</i>	
Tax	2,290	1,918	2,095	2,485	2,610	
<i>Effective tax rate (%)</i>	<i>17.9%</i>	<i>18.2%</i>	<i>18.3%</i>	<i>18.4%</i>	<i>18.4%</i>	
Minority interest	100	62	57	65	74	
Attributable net profit	10,533	8,516	9,293	10,989	11,524	
Cash earnings	12,654	10,612	11,391	13,151	13,796	
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)	4,531	3,664	3,999	4,729	4,959	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	4,531	3,664	3,999	4,729	4,959	
<i>EPS growth (%)</i>	<i>-5.1%</i>	<i>-19.1%</i>	<i>9.1%</i>	<i>18.3%</i>	<i>4.9%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022U	2023F	2024F	2025F
Increase in working capital	1,713	-3,712	26	126	-23
Capex	1,397	1,320	1,320	1,320	1,320
Change in investment in affiliates	-25	3	-28	-22	-18
Other cashflow items	-271	-4,090	-2,180	-3,135	-2,658
Free cash flow	9,299	8,911	7,894	8,591	9,860
Share issues	-	-	-	-	-
Dividends paid	7,524	8,046	8,046	8,046	8,046
Increase in net debt	-1,775	-865	153	-545	-1,814
Net debt, end of year	-13,916	-14,780	-14,628	-15,173	-16,987
Shareholders' equity	33,083	29,849	31,096	34,039	37,516
BVPS (VND)	15,830	14,282	14,879	16,287	17,951
Net debt / equity (%)	-42.1%	-49.5%	-47.0%	-44.6%	-45.3%
Net debt / EBITDA (x)	-1.0	-1.3	-1.2	-1.0	-1.1
Total assets	53,332	48,483	49,882	52,280	53,943

KEY RETURN AND VALUATION RATIOS	2021	2022U	2023F	2024F	2025F
ROE	32.7%	27.1%	30.5%	33.7%	32.2%
ROA	20.7%	16.7%	18.9%	21.5%	21.7%
ROIC	50.7%	44.9%	53.9%	57.5%	53.8%
WACC	11.7%	11.7%	11.7%	11.7%	11.7%
EVA	39.0%	33.2%	42.2%	45.8%	42.0%
PER (x)	17.1	21.1	19.4	16.4	15.6
EV/EBITDA (x)	10.6	12.7	11.7	10.0	9.6
EV/FCF (x)	15.8	16.5	18.6	17.1	14.9
PBR (x)	4.9	5.4	5.2	4.8	4.3
PSR (x)	2.7	2.7	2.6	2.5	2.4
EV/sales (x)	2.4	2.5	2.4	2.3	2.2
PEG (x, 3 yr prospective)	-3.4	7.7	1.8	1.8	3.2
Dividend yield	5.0%	5.0%	5.0%	5.0%	5.0%

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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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