



# VNM Update - BUY

August 16, 2024

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## Company Update

Recommendation

**BUY**

HSX: VNM

Food & Beverage

Target price (VND) **86,800**

Market price (VND) **73,800**

Expected share price return 17.7%

Expected dividend yield 5.2%

Expected total return **22.9%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	10.6	11.6	11.3	2.9
Relative	1.2	15.5	11.6	1.6

Source: Bloomberg



## Ownership

SCIC	36.0%
F&N Dairy Inv. Pte.Ltd	17.7%
Platinum Victory Pte.Ltd	10.6%

## Stock Statistics 15-Aug-2024

Bloomberg code **VNM VN**

52-week range (VND) 63,000-81,200

Shares O/S (m) 2,090

Mkt cap (VND bn) 154,239

Mkt cap (USD m) 6,118

Est. Foreign room left (%) 48.7

Est. free float (%) 35.2

3m avg daily vol (shrs) 4,657,303

VND/USD 25,210

Index: VNIndex / HNX 1223.56/228.54

## VIETNAM DAIRY PRODUCTS JSC (VNM VN)

A recovery in gross margin continued to bolster the company's earnings growth while a better-than-expected jump in exports refreshed revenue growth in 2Q2024. We slightly revised up our projection for 2024 profit by 2% compared to the prior update and move target price to 2025 at VND86,800/share, with a **BUY** recommendation.

VNM announced EAT growth of 21% YoY on a better-than-expected net revenue growth rate of 9.6% YoY in 2Q2024. On a cumulative basis, the net revenue and EAT rose by 5.7% YoY and 18.6% YoY in 1H2024, respectively.

**Domestic revenue, which accounted for the majority (80%) of the company's sales of finished goods, climbed by 1.9% YoY** in 1H2024 (including 3.7% YoY in 2Q), in line with the industry's better performance (whose drop narrowed to -1.8% YoY in 2Q2024, from -2.8% YoY in 1Q2024 and -4% YoY in 4Q2023, according to VNM's notes). This was accompanied by a 1.7% increase in the company's market share in 1H2024, driven by the drinking yogurt, plant-based milk, elder powdered milk and condensed milk segments.

**Overseas revenue grew by 18.7% YoY in 1H2024**, accounting for 20% of sales of finished goods. In which, direct exports were in the limelight for surging by 21.7% YoY and overseas subsidiaries (i.e AngkorMilk in Cambodia and Driftwood in the US) delivered 15.6% YoY growth. The direct exports' impressive performance was attributed to stockpiling of goods from consumers in export markets amid escalation of geopolitical tensions, particularly in the Middle East, and VNM gaining shares from competitors who left these markets for concerns of risks.

Gross margin strengthened as expected, to 42.2% (1H2023: 39.7%), driving the company's EAT growth in 1H2024, despite the SG&A expenses to net revenue ratio inflating to 24.4% (1H2023: 23.9%).

We project VNM's net revenue and EAT at VND63,478bn (+5.2% YoY) and VND10,105bn (+12.0% YoY) in 2024, about 2% higher compared to the prior update. For 2025, the respective growth is projected at 4.3% YoY and 6.0% YoY. **Our target price for VNM by the end of 2025 is VND86,800/shr, equivalent to a total return of 22.9%.**

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	59,956	60,369	63,478	66,188	68,909
Growth	-1.6%	0.7%	5.2%	4.3%	4.1%
EBITDA (VNDbn)	11,824	12,099	13,562	14,275	14,833
EBITDA margin	19.7%	20.0%	21.4%	21.6%	21.5%
Net Profit (VNDbn)	8,516	8,874	9,950	10,546	11,076
Growth	-19.1%	4.2%	12.1%	6.0%	5.0%
EPS (bonus-adjusted, VND)	3,652	3,802	4,266	4,522	4,749
Growth	-19.2%	4.1%	12.2%	6.0%	5.0%
ROE	27.1%	28.8%	30.5%	30.3%	29.4%
ROA	16.7%	17.5%	18.7%	19.7%	20.7%
Net debt/EBITDA (times)	(1.3)	(1.2)	(1.2)	(1.3)	(1.4)
EV/EBITDA (times)	11.8	11.5	10.3	9.8	9.4
EV/Sales (times)	2.3	2.3	2.2	2.1	2.0
PER (times)	20.2	19.4	17.3	16.3	15.5
PBR (times)	5.2	4.9	4.6	4.3	3.9
DPS (VND)	3,850	3,850	3,850	3,850	3,850
Dividend yield (%)	5.2%	5.2%	5.2%	5.2%	5.2%

### 1H2024 results drew attention with vibrant revenue and EAT performance

VNM generated EAT growth of 21% YoY on net revenue growth of 9.6% YoY in 2Q2024, breaking the company's track record of low single-digit or even negative YoY growth by quarter in the past two years. On a cumulative basis, VNM's net revenue and EAT rose by 5.7% YoY and 18.6% YoY in 1H2024, respectively.

Besides improved revenue growth, the EAT's vibrant result was fostered substantially by a widened gross margin to 42.2% (1H2023: 39.7%), irrespective of an inflated SG&A expenses to net revenue ratio to 24.4% (1H2023: 23.9%).

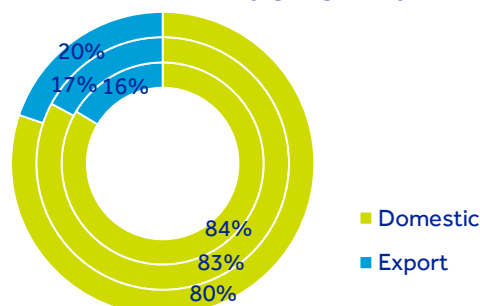
VNM's business results	2Q2024	2Q2023	YoY growth	QoQ growth	1H2024	1H2023	YoY growth
Net revenue (VNDbn)	16,656	15,195	9.6%	18.0%	30,768	29,113	5.7%
EAT (VNDbn)	2,696	2,229	21.0%	22.2%	4,903	4,135	18.6%
Gross margin	42.4%	40.5%			42.2%	39.7%	
SG&A expenses/net revenue	24.2%	23.9%			24.4%	23.9%	

Source: VNM; ACBS

### Overseas revenue gained the spotlight

Both domestic and overseas markets reported an upturn in revenue though the latter outperformed with a high double-digit growth rate of 18.7% YoY in 1H2024.

#### VNM's revenue by geography\*



Source: VNM; ACBS. \*: from the smallest to the largest: 2022, 2023, 1H2024

**Domestic revenue**, contributing most (80%) to the company's sales of finished goods (which were responsible for 95% of the total), climbed by 1.9% YoY (including 3.7% YoY growth in 2Q2024). This was thanks to the industry performing better (its drop narrowed to -1.8% YoY in 2Q2024, from -2.8% YoY in 1Q2024 and -4% in 4Q2024, according to VNM's notes) combined with the company's rebranding activities, boosting omni-channel sales, etc. VNM's market share broadened by 1.7% in 1H2024, driven by the drinking yogurt, plant-based milk, elder powdered milk and condensed milk segments. The baby powdered milk segment remained lackluster although the company noted that its decline was lower than the industry's, thanks to reasonable pricing in the context of increased price elasticity.

### VNM's segmented revenue in 1H2024:

VNDbn	2Q2024	2Q2023	YoY growth	QoQ growth	1H2024	1H2023	YoY growth
Domestic	12,576	12,132	3.7%	18.0%	23,232	22,791	1.9%
Overseas	3,124	2,406	29.9%	19.4%	5,740	4,834	18.7%

Source: VNM; ACBS

**Overseas revenue** soared by 29.9% YoY in 2Q and 18.7% YoY to VND4,384bn, capturing 20% of the company's sales of finished goods in 1H2024. The results were fueled by an upturn in overseas subsidiaries (i.e AngkorMilk in Cambodia and Driftwood in the US) and direct exports.

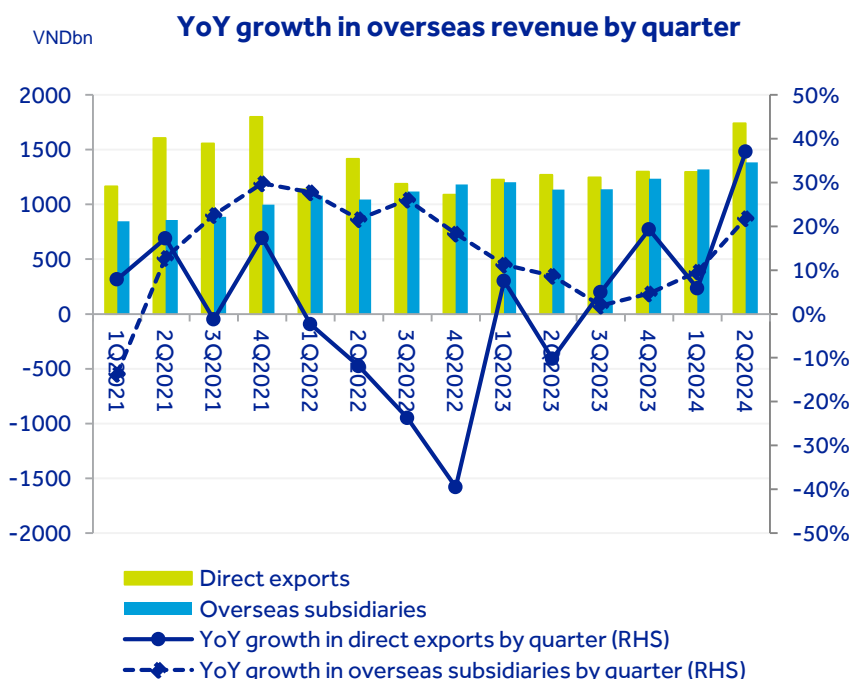
Overseas revenue (VNDbn)	2Q2024	2Q2023	YoY growth	QoQ growth	1H2024	1H2023	YoY growth
Direct exports	1,740	1,270	37.0%	34.2%	3,037	2,495	21.7%
Overseas subsidiaries	1,384	1,136	21.8%	4.9%	2,703	2,339	15.6%

Source: VNM; ACBS

Most prominent in this segment was a 37% YoY jump in direct exports in 2Q2024. This was explained by the facts that consumers in export markets heightened stockpiling of goods amid escalation of geopolitical tensions, particularly in the Middle East, and VNM gained shares from competitors who left these markets for concerns of risks. The company's additional sales support for partners – which is usually launched stronger at a higher frequency in the periods that the company's gross margin widens – also contributed.

VNM is exporting products to 60 countries/territories, including the key market Middle East and others (e.g Africa, APAC, etc.). The company currently finds little risk related to geopolitical tensions in the Middle East as they did not reach VNM's distribution coverage and good understanding about the markets after years of penetration has also helped VNM secure their operation so far. For 1H2024, revenue from direct exports rose by 21.7% YoY.

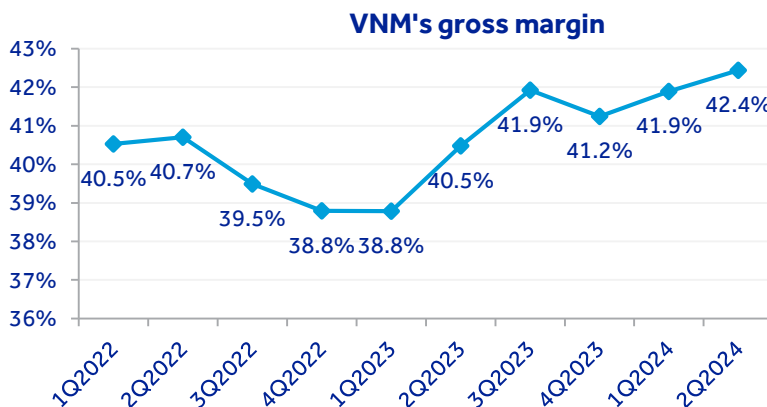
Overseas subsidiaries' revenue increased by 15.6% YoY in 1H, including 21.8% YoY growth in 2Q2024, as a result of a continued momentum in Angkor Milk and enhancement in Driftwood's performance after resolving production planning and transportation issues.



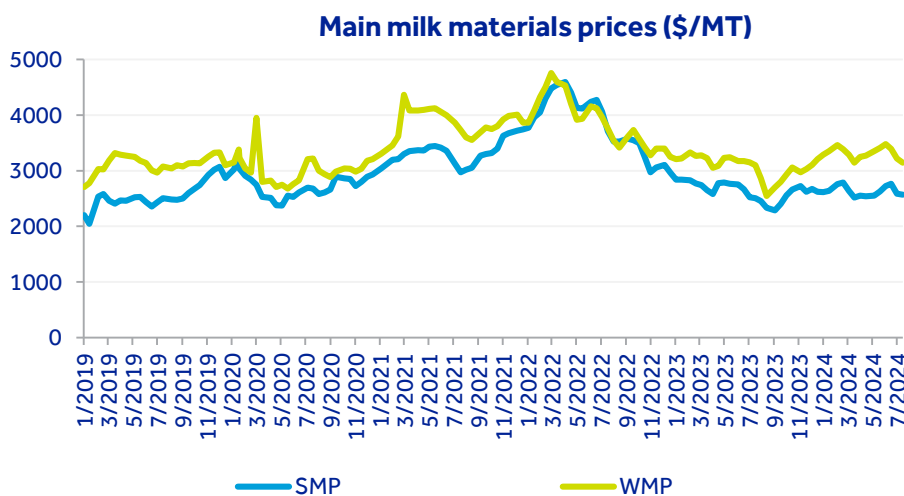
Source: VNM; ACBS

### Improved gross margin fostered EAT growth

A strengthened gross margin thanks to decreasing milk material prices facilitated the company to realize expectations about decent earnings growth in 2024. The margin enhanced to 41.9% in 1Q and 42.4% in 2Q2024 (1H2024: 42.2%) from the 5-year low 38.8% in 1Q2023 and 4Q2022 (1H2023: 39.7%). This drove the company's EAT to skyrocket by 21% YoY in 2Q and 18.6% YoY in 1H2024.



Source: VNM; ACBS



Source: <https://www.globaldairytrade.info>; ACBS

### Earnings forecasts for 2024-2025

We believe that dairy remains the company's key earner in the following years. For 2H2024, overseas revenue is projected to extend its momentum; however, growth from direct exports may not be as high as that in 2Q, unless stockpiling in export markets sustains due to geopolitical tensions worsening.

For 2025, we assume that the company's revenue growth may continue with stable rates, while EAT growth will likely be no longer supported by a widened gross margin from a low base like what was seen in 2024. We project the gross margin in 2024 may almost maintain in 2025, with the assumption that the international milk material prices may not experience any sharp fluctuation next year.

### Valuation

We project EAT at VND10,105bn (+12% YoY) in 2024, slightly up by 2% versus the prior update, and VND10,711bn (+6.0% YoY) in 2025. Combining the DCF and PER methods, our **target price for VNM by the end of 2025 is VND86,800/share, equivalent to a total return of 22.9%.**

<b>VNM FINANCIAL MODEL</b>	<b>Price (VND):</b>	<b>73,800</b>	<b>Target (VND):</b>	<b>86,800</b>	<b>Mkt cap (VND bn):</b>	<b>154,239</b>
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
<b>Total Net Sales</b>	<b>59,956</b>	<b>60,369</b>	<b>63,478</b>	<b>66,188</b>	<b>68,909</b>	
<i>Sales growth (%)</i>	-1.6%	0.7%	5.2%	4.3%	4.1%	
CoGS ex-dep'n	34,099	33,906	34,299	35,890	37,389	
Selling expenses	12,496	12,963	13,886	14,215	14,801	
G&A expenses	1,267	1,428	1,762	1,838	1,916	
Financial revenues	181	177	183	188	194	
Financial expenses	452	149	152	158	164	
<b>EBITDA</b>	<b>11,824</b>	<b>12,099</b>	<b>13,562</b>	<b>14,275</b>	<b>14,833</b>	
<i>EBITDA margin (%)</i>	19.7%	20.0%	21.4%	21.6%	21.5%	
Depreciation	2,341	2,300	2,357	2,422	2,460	
<b>Operating profit</b>	<b>9,483</b>	<b>9,799</b>	<b>11,205</b>	<b>11,853</b>	<b>12,373</b>	
<i>Operating profit margin (%)</i>	15.8%	16.2%	17.7%	17.9%	18.0%	
Other profits/losses	4	64	4	4	4	
Profits/Losses from associates	(24)	(81)	(8)	(4)	(1)	
Net interest expense	(1,033)	(1,186)	(1,088)	(1,172)	(1,308)	
<i>as % of avg net debt</i>	7.2%	8.0%	7.2%	6.9%	6.6%	
<i>Interest cover (x)</i>	-9.2	-8.3	-10.3	-10.1	-9.5	
Tax	1,918	1,949	2,183	2,314	2,431	
<i>Effective tax rate (%)</i>	18.2%	17.7%	17.8%	17.8%	17.8%	
Minority interest	62	146	155	165	176	
<b>Attributable net profit</b>	<b>8,516</b>	<b>8,874</b>	<b>9,950</b>	<b>10,546</b>	<b>11,076</b>	
Cash earnings	10,857	11,174	12,308	12,968	13,536	
Total number of shares	2,089,955,445	2,089,955,445	2,089,955,445	2,089,955,445	2,089,955,445	
<b>EPS (VND) (after treasury shares)</b>	<b>3,652</b>	<b>3,802</b>	<b>4,266</b>	<b>4,522</b>	<b>4,749</b>	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
<b>Adjusted EPS (VND)</b>	<b>3,652</b>	<b>3,802</b>	<b>4,266</b>	<b>4,522</b>	<b>4,749</b>	
<i>EPS growth (%)</i>	-19.2%	4.1%	12.2%	6.0%	5.0%	



KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	-3,712	2,540	133	94	93
Capex	1,320	1,475	1,475	1,475	1,475
Change in investment in affiliates	3	-62	-25	-20	-18
Other cashflow items	-4,336	788	-1,774	-493	-1,134
<b>Free cash flow</b>	<b>8,911</b>	<b>8,009</b>	<b>8,951</b>	<b>10,927</b>	<b>10,853</b>
Share issues	-	-	-	-	-
Dividends paid	8,046	8,046	8,046	8,046	8,046
Increase in net debt	-865	38	-904	-2,881	-2,807
<b>Net debt, end of year</b>	<b>-14,780</b>	<b>-14,743</b>	<b>-15,647</b>	<b>-18,528</b>	<b>-21,335</b>
<b>Shareholders' equity</b>	<b>29,849</b>	<b>31,697</b>	<b>33,601</b>	<b>36,101</b>	<b>39,130</b>
BVPS (VND)	14,282	15,166	16,077	17,273	18,723
Net debt/equity	-49.5%	-46.5%	-46.6%	-51.3%	-54.5%
Net debt/EBITDA (x)	-1.3	-1.2	-1.2	-1.3	-1.4
<b>Total assets</b>	<b>48,483</b>	<b>52,673</b>	<b>53,673</b>	<b>53,292</b>	<b>53,515</b>

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
ROE	27.1%	28.8%	30.5%	30.3%	29.4%
ROA	16.7%	17.5%	18.7%	19.7%	20.7%
ROIC	44.9%	49.5%	52.0%	54.1%	56.7%
WACC	10.4%	10.4%	10.4%	10.4%	10.4%
EVA	34.5%	39.1%	41.6%	43.7%	46.3%
PER (x)	20.2	19.4	17.3	16.3	15.5
EV/EBITDA (x)	11.8	11.5	10.3	9.8	9.4
EV/FCF (x)	15.7	17.4	15.6	12.8	12.9
PBR (x)	5.2	4.9	4.6	4.3	3.9
PSR (x)	2.6	2.6	2.4	2.3	2.2
EV/sales (x)	2.3	2.3	2.2	2.1	2.0
PEG (x, 3 yr prospective)	-30.1	2.5	2.2	2.9	2.8
Dividend yield	5.2%	5.2%	5.2%	5.2%	5.2%



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**BUY:** Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

**OUTPERFORM:** Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

**NEUTRAL:** Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

**UNDERPERFORM:** Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

**SELL:** Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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