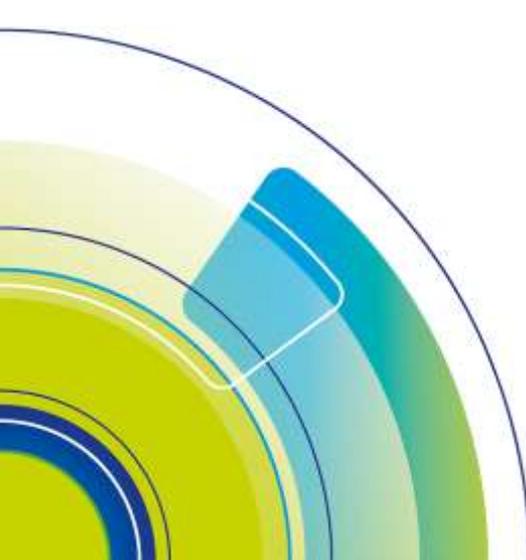




VNM Update - BUY

November 5, 2024



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Company Update

Recommendation

BUY

HSX: **VNM**

Food & Beverage

Target price (VND) **82,000**

Market price (VND) **65,600**

Expected share price return 25.0%

Expected dividend yield 5.9%

Expected total return **30.9%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.7	-4.2	-5.1	-1.0
Relative	-10.2	-2.2	-6.3	-19.0

Source: Bloomberg



Ownership

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

Stock Statistics 4-Nov-2024

Bloomberg code	VNM VN
52-week range (VND)	63,000-76,200
Shares O/S (m)	2,090
Mkt cap (VND bn)	137,101
Mkt cap (USD m)	5,382
Est. Foreign room left (%)	48.2
Est. free float (%)	35.2
3m avg daily vol (shrs)	4,012,974
VND/USD	25,460
Index: VNIIndex / HNX	1244.71/224.48

VIETNAM DAIRY PRODUCTS JSC (VNM VN)

The company reported a 5% YoY slide in EAT, contrary to our expectation, largely driven by a narrower gross margin in 3Q2024. We revised down our earnings projections for 2024-2025 by 3% and 2% respectively compared to the prior update. Revise down 2025 target price to VND82,000/shr. Reiterate a **BUY** recommendation.

VNM announced a 5.1% YoY drop in EAT, in contrast with a growth stream in two previous quarters, on flat net revenue in 3Q2024. On a cumulative basis, net revenue and EAT climbed by 3.5% YoY and 9.6% YoY, to VND46,306bn and VND7,306bn, respectively in 9M2024.

Overseas revenue brightened the results with an upturn of 9.4% YoY in 3Q and 15.7% in 9M, accounting for 19% of sales of finished goods. In which, direct exports rose by 10.3% YoY and overseas subsidiaries (i.e AngkorMilk and Driftwood) rose by 8.5% YoY in 3Q, following irregular growth in 2Q2024, when consumers in export markets heightened stockpiling of goods amid escalation of geopolitical tensions, and VNM gained shares from competitors who left these markets for concerns of risks. The company's sales support for partners persisted in fostering sales.

Domestic revenue, accounting for the majority (81%) of the company's sales of finished goods, contracted by 3.7% in 3Q and flat in 9M, explained by a vague rebound in consumer spending and some impacts from Yagi typhoon in the north, the company noted. Although the modern trade and online channels kept performing well, it was unable to offset the weak performance of the traditional channel, which contributed most to domestic revenue. VNM targets to keep employing omni-channel strategy to boost sales.

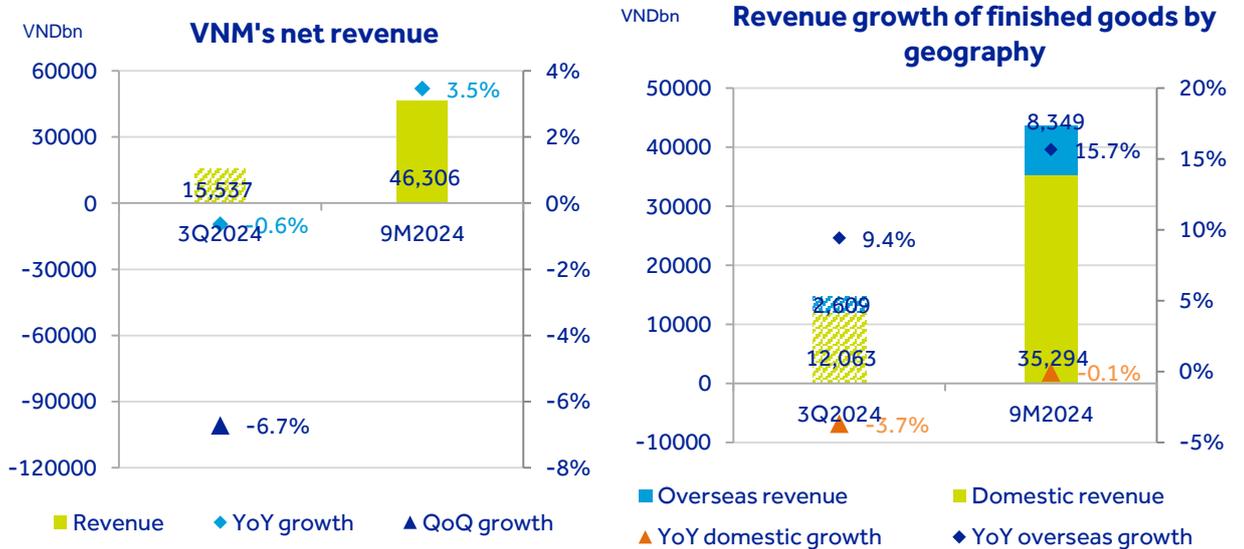
Gross margin reduced to 41.2% in 3Q2024, retreating slightly from 41.9% in 3Q2023 and visibly from 42.4% in 2Q2024, due to a YoY squeeze in margins of other products & services (beyond finished goods) and a QoQ decrease in sales volume, especially in overseas markets. However, for 9M2024, the overall gross margin still strengthened to 41.9% (9M2023: 40.5%) given favorable milk material prices, driving the EAT growth despite the SG&A expenses to net revenue ratio inflating slightly to 24.4% (9M2023: 24.1%).

We project VNM's net revenue and EAT at VND62,753bn (+3.9% YoY) and VND9,851bn (+9.2% YoY) in 2024, 3% lower than the prior update. For 2025, the respective growth is projected at 5.3% YoY and 6.4% YoY. **Our target price for VNM by the end of 2025 is VND82,000/shr**, 5% lower than the prior update, equivalent to a total return of 30.9%.

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	59,956	60,369	62,753	66,094	69,112
Growth	-1.6%	0.7%	3.9%	5.3%	4.6%
NPAT (VNDbn)	8,516	8,874	9,696	10,316	10,852
Growth	-19.1%	4.2%	9.3%	6.4%	5.2%
EPS (bonus-adjusted, VND)	3,652	3,802	4,156	4,423	4,653
Growth	-19.2%	4.1%	9.3%	6.4%	5.2%
ROE	27.1%	28.8%	29.8%	29.9%	29.3%
ROA	16.7%	17.5%	18.2%	19.2%	20.2%
Net debt/EBITDA (times)	(1.3)	(1.2)	(1.2)	(1.3)	(1.4)
EV/Sales (times)	2.0	2.0	1.9	1.9	1.8
PER (times)	18.0	17.3	15.8	14.8	14.1
PBR (times)	4.6	4.3	4.1	3.8	3.6
DPS (VND)	3,850	3,850	3,850	3,850	3,850
Dividend yield (%)	5.9%	5.9%	5.9%	5.9%	5.9%

Overseas markets sustained growth while domestic revenue wobbled

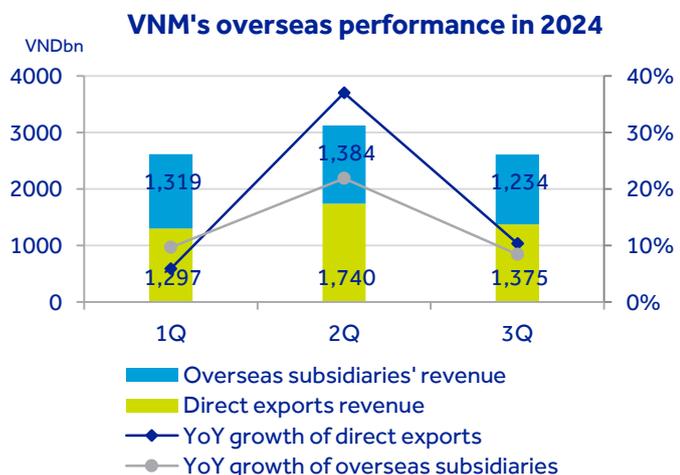
VNM posted almost flat net revenue of VND15,537bn in 3Q despite 3.5% YoY growth to VND46,306bn in 9M2024. In which, net revenue of finished goods, which was responsible for 94% of the total, climbed by 2.6% YoY in 9M2024 (including a drop of 1.6% YoY in 3Q).



Source: VNM; ACBS

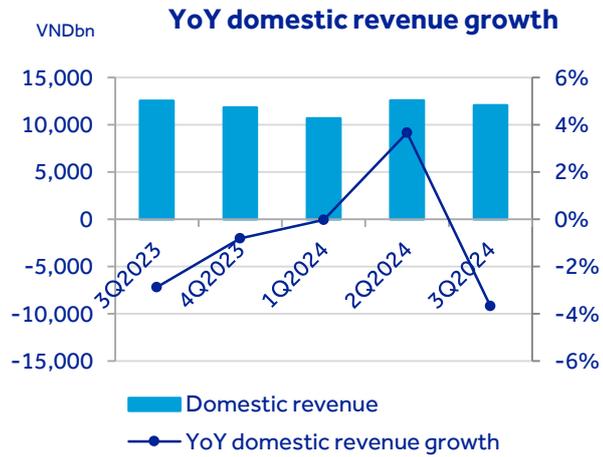
Capturing 19% of the company's sales of finished goods, **overseas markets** continued to outstrip the domestic market with revenue growth of 9.4% YoY in 3Q2024 and 15.7% YoY to VND8,349bn in 9M2024.

The results were fueled by an upturn of 8.5% YoY in overseas subsidiaries (i.e AngkorMilk in Cambodia and Driftwood in the US) and 10.3% YoY in direct exports in 3Q. The lower consumption and normalized growth compared to those in 2Q2024 were in line with our expectation considering irregular growth in 2Q, when 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 incremental sales support for partners – which is usually intensified in the periods that the company's gross margin widens – persisted in fostering sales.



Source: VNM; ACBS.

In contrast, **the domestic performance**, contributing most (81%) to sales of finished goods, remained shaky over quarters in 9M2024, explained by a vague rebound in consumer spending and some impacts from Yagi typhoon in the north in 3Q2024, according to the company. The segmented revenue fell by 3.7% YoY in 3Q and 0.1% YoY to VND35,294bn in 9M. Although the modern and online channels kept performing well, it was unable to offset the weak performance of the traditional channel, which accounts for the majority of VNM's domestic revenue (details were not disclosed).

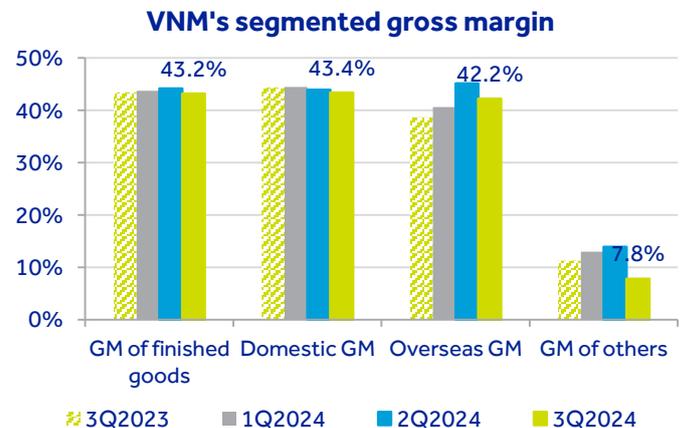
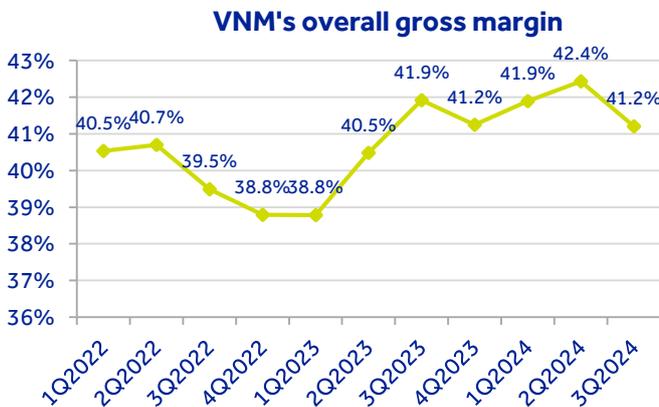


Source: VNM; ACBS

Gross margin retreated in 3Q despite still widening on a cumulative basis

VNM's EAT experienced a drop of 5.1% YoY to VND2,403bn in 3Q2024 for a narrower gross margin in defiance of a slight improvement in the SG&A expenses to net revenue ratio (24.2% vs. 24.4% in 3Q2023). For 9M2024, VNM generated 9.6% YoY growth in EAT to VND7,306bn.

Favorable milk material prices have helped reinstate the company's gross margin to 41.9% in 9M2024, compared to 40.5% in 9M2023. Nonetheless, the margin was 41.2% in 3Q2024, retreating slightly from 41.9% in 3Q2023 and visibly from 42.4% in 2Q2024, largely due to a YoY squeeze (of 3.5 percentage points) in margins of other products & services (whereas finished goods' gross margin did not vary substantially YoY) and a QoQ decrease in sales volume, especially in overseas markets. Additionally, we are not sure if there is any lag in booking sales support between 2Q and 3Q, which could contribute to this margin diminution.



Source: VNM; ACBS

Earnings forecasts for 2024-2025

We believe that dairy remains the company's key earner in the following years. Employing omni-channel sales will be the company's focus to boost sales growth. We expect more vibrant performance, in terms of both revenue and earnings, in 4Q2024 compared to that in 3Q thanks to absence of adverse impacts of weather like 3Q, better consumer spending in the year-end festivals combined with continued rebranding activities. For 2025, we assume that the company's revenue growth may uphold stable single-digit rates, while EAT growth will likely be no longer supported by a widened gross margin from a low base like 2024. We project the expected gross margin of 42% in 2024 may almost maintain in 2025, with the assumption that the international milk material prices may not experience any sharp fluctuation and the company may consider selling price increase next year.

The beef slaughtering and farming complex of VNM and Sojitz Group was inaugurated in early 2023 in Vinh Phuc province. The company plans to operate the complex and bring products to the market in 4Q2024. However, we have yet reflected this business in our projections until details are released and significant contribution is realized.

Valuation

We project VNM's net revenue and EAT at VND62,753bn (+3.9% YoY) and VND9,851bn (+9.2% YoY) in 2024, 3% lower than the prior update. For 2025, the respective growth is projected at 5.3% YoY and 6.4% YoY. **Our target price for VNM by the end of 2025 is VND82,000/shr**, 5% lower than the prior update.

VNM FINANCIAL MODEL	Price (VND):	65,600	Target (VND):	82,000	Mkt cap (VND bn):	137,101
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
Total Net Sales	59,956	60,369	62,753	66,094	69,112	
<i>Sales growth (%)</i>	-1.6%	0.7%	3.9%	5.3%	4.6%	
CoGS ex-dep'n	34,099	33,906	34,431	36,344	38,006	
Selling expenses	12,496	12,963	13,727	14,261	14,913	
G&A expenses	1,267	1,428	1,433	1,525	1,606	
Financial revenues	181	177	192	173	178	
Financial expenses	452	149	119	126	131	
EBITDA	11,824	12,099	13,235	14,012	14,634	
<i>EBITDA margin (%)</i>	19.7%	20.0%	21.1%	21.2%	21.2%	
Depreciation	2,341	2,300	2,360	2,412	2,504	
Operating profit	9,483	9,799	10,875	11,599	12,130	
<i>Operating profit margin (%)</i>	15.8%	16.2%	17.3%	17.5%	17.6%	
Other profits/losses	4	64	4	4	4	
Profits/Losses from associates	(24)	(81)	13	17	22	
Net interest expense	(1,033)	(1,186)	(1,088)	(1,125)	(1,256)	
<i>as % of avg net debt</i>	7.2%	8.0%	7.2%	6.8%	6.6%	
<i>Interest cover (x)</i>	-9.2	-8.3	-10.0	-10.3	-9.7	
Tax	1,918	1,949	2,128	2,264	2,383	
<i>Effective tax rate (%)</i>	18.2%	17.7%	17.8%	17.8%	17.8%	
Minority interest	62	146	155	165	176	
Attributable net profit	8,516	8,874	9,696	10,316	10,852	
Cash earnings	10,857	11,174	12,056	12,728	13,356	
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)	3,652	3,802	4,156	4,423	4,653	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	3,652	3,802	4,156	4,423	4,653	
<i>EPS growth (%)</i>	-19.2%	4.1%	9.3%	6.4%	5.2%	

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	-3,712	2,540	93	131	111
Capex	1,320	1,475	1,622	1,475	1,475
Change in investment in affiliates	3	-62	-4	0	5
Other cashflow items	-4,336	788	-1,774	-1,774	-1,774
Free cash flow	8,911	8,009	8,571	9,349	9,992
Share issues	-	-	-	-	-
Dividends paid	8,046	8,046	8,046	8,046	8,046
Increase in net debt	-865	38	-525	-1,302	-1,946
Net debt, end of year	-14,780	-14,743	-15,267	-16,570	-18,515
Shareholders' equity	29,849	31,697	33,346	35,616	38,423
BVPS (VND)	14,282	15,166	15,956	17,042	18,384
<i>Net debt/equity</i>	<i>-49.5%</i>	<i>-46.5%</i>	<i>-45.8%</i>	<i>-46.5%</i>	<i>-48.2%</i>
<i>Net debt/EBITDA (x)</i>	<i>-1.3</i>	<i>-1.2</i>	<i>-1.2</i>	<i>-1.2</i>	<i>-1.3</i>
Total assets	48,483	52,673	53,798	54,766	55,627

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
<i>ROE</i>	<i>27.1%</i>	<i>28.8%</i>	<i>29.8%</i>	<i>29.9%</i>	<i>29.3%</i>
<i>ROA</i>	<i>16.7%</i>	<i>17.5%</i>	<i>18.2%</i>	<i>19.0%</i>	<i>19.7%</i>
<i>ROIC</i>	<i>44.9%</i>	<i>49.5%</i>	<i>50.4%</i>	<i>50.7%</i>	<i>50.6%</i>
<i>WACC</i>	<i>10.4%</i>	<i>10.4%</i>	<i>10.4%</i>	<i>10.4%</i>	<i>10.4%</i>
<i>EVA</i>	<i>34.5%</i>	<i>39.1%</i>	<i>40.0%</i>	<i>40.3%</i>	<i>40.1%</i>
<i>PER (x)</i>	<i>18.0</i>	<i>17.3</i>	<i>15.8</i>	<i>14.8</i>	<i>14.1</i>
<i>EV/EBITDA (x)</i>	<i>10.3</i>	<i>10.1</i>	<i>9.2</i>	<i>8.7</i>	<i>8.4</i>
<i>EV/FCF (x)</i>	<i>13.7</i>	<i>15.3</i>	<i>14.3</i>	<i>13.1</i>	<i>12.2</i>
<i>PBR (x)</i>	<i>4.6</i>	<i>4.3</i>	<i>4.1</i>	<i>3.8</i>	<i>3.6</i>
<i>PSR (x)</i>	<i>2.3</i>	<i>2.3</i>	<i>2.2</i>	<i>2.1</i>	<i>2.0</i>
<i>EV/sales (x)</i>	<i>2.0</i>	<i>2.0</i>	<i>1.9</i>	<i>1.9</i>	<i>1.8</i>
<i>PEG (x, 3 yr prospective)</i>	<i>-9.3</i>	<i>2.6</i>	<i>2.3</i>	<i>2.5</i>	<i>2.4</i>
<i>Dividend yield</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>

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DISCLAIMER

Our Recommendation System

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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