

September 5, 2023

Analyst Nguyen Truong Giang
giangnt1@kbsec.com.vn

Earnings growth was back to positive territory after nine quarters in a row of negative figures despite industry-wide difficulties

In 2Q23, Vietnam Dairy Products (VNM) posted net revenue of VND15,195 billion, up 1.8% YoY due to economic headwinds and weak purchasing power. Gross profit margin (GPM) reached 40.5%, up 1.7 percentage points QoQ, driven by softening input costs and a slight increase in selling prices. NPAT was VND2,229 billion, up 6% YoY after nine consecutive quarters of negative growth since 1Q21.

Repositioning strategy should help VNM win back market share

Domestic sales keep encountering difficulties as the dairy market grows slowly amid a highly competitive environment. However, VNM has regained market share in a number of businesses, some of which are future growth drivers, namely condensed milk and yogurt, all achieving encouraging results. Moc Chau Milk (MCM), VNM's indirect subsidiary, saw a slight fall in business results owing to weak consumption in the northern mountainous area. Besides, VNM has rolled out a repositioning campaign to win back market share and regrow in export markets.

International consumption slowed due to the global economic downturn

International markets recorded VND2,406 billion (-2.2% YoY). In particular, exports dropped by 10% YoY to VND1,270 billion on tapering demand resulting from persistently high inflation. Overseas subsidiaries posted revenue up 9% YoY to VND1,136 billion, with AngkorMilk maintaining stable growth and Driftwood back to normal growth.

We recommend HOLD for VNM with a target price of VND84,000/share

KBSV's respective projections for VNM's 2023F net revenue and NPAT are VND63,205 billion (+5.4% YoY) and VND9,321 billion (+8.7% YoY). We reiterate our HOLD recommendation for VNM with a target price of VND84,000/share.

Hold maintain

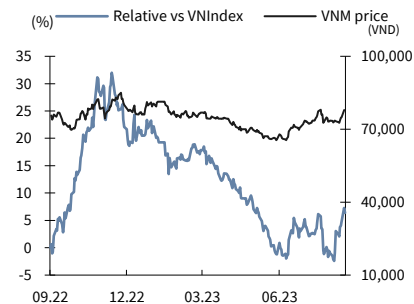
Target price	VND84,000
Upside	5%
Current price (Sep 5, 2023)	VND80,100
Consensus target price	VND82,147
Market cap (VNDtn/USDbn)	165.8/6.9

Trading data	
Free float	42.3%
3M avg trading value (VNDbn/USDmn)	323.5/13.5
Foreign ownership	55.7%
Major shareholder	SCIC (36%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2	18	1	3
Relative	3	9	-14	6

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	60,919	59,956	63,205	68,630
EBIT (VNDbn)	11,760	9,753	10,388	12,059
NPAT (VNDbn)	10,633	8,578	9,321	10,694
EPS (VND thousand)	4,517	3,632	4,412	5,075
EPS growth (%)	-5%	-20%	21%	15%
P/E (x)	14.7	18.3	15.1	13.1
P/B (x)	3.9	4.2	4.1	3.8
ROE (%)	32%	27%	31%	34%
Dividend yield (%)	4.5%	6.7%	5.2%	5.2%



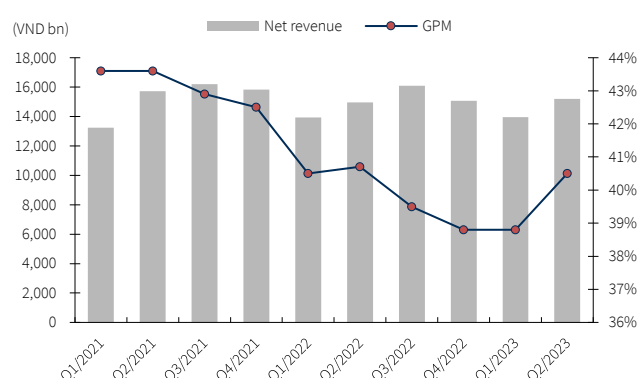
Business performance

Table 1. VNM – 2Q22–2Q23 business results

(VND bn)	2Q2022	2Q2023	%YoY	Comments
Revenue	14,930	15,195	1.8%	Revenue was flat YoY as purchasing power remained weak and showed no recovering signs in both domestic and foreign markets.
Domestic sales	12,471	12,789	2.5%	Amid a challenging macroeconomic environment and low growth of the dairy industry, VNM's growth was driven by condensed milk and yogurt sales, distribution network optimization, and increased market share in the quarter and the next. MCM, VNM's indirect subsidiary, saw negative growth due to diminishing purchasing power in the northern mountainous region.
Exports	1,415	1,270	-10.2%	Export sales decreased due to tapering demand in export markets. Condensed milk export to China is expected in 2H23.
Overseas subsidiaries	1,045	1,136	8.7%	Overseas subsidiaries continued to record positive results. In particular, AngkorMilk maintained stable growth of over 10% and Driftwood's growth was back to normal levels.
Gross profit	6,077	6,150	1.2%	
Gross profit margin	40.7%	40.5%	-0.5%	GPM improved significantly against the previous quarter (up 1.7 ppts from 38.8%) and was nearly equal to the same period last year. This recovery largely came from softening input costs and a slight increase in selling prices. VNM expects its GPM to improve further in the coming quarters.
Financial income	341	384	12.3%	
Financial expense	-135	-116	-14.1%	
SG&A	-3,693	-3,630	-1.7%	SG&A expenses are virtually unchanged YoY, but SG&A to revenue has dropped slightly, showing improvements in sales and human resource development activities.
SG&A/revenue	-24.7%	-23.9%	-3.2%	
EBIT	2,601	2,777	6.8%	
Net other income	-24.88	-48.75	95.9%	
PBT	2,576	2,728	5.9%	
NPAT	2,102	2,229	6.0%	Profit growth was back to positive territory after nine quarter in a row of negative figures, largely driven by improving GPM and operating cost optimization.

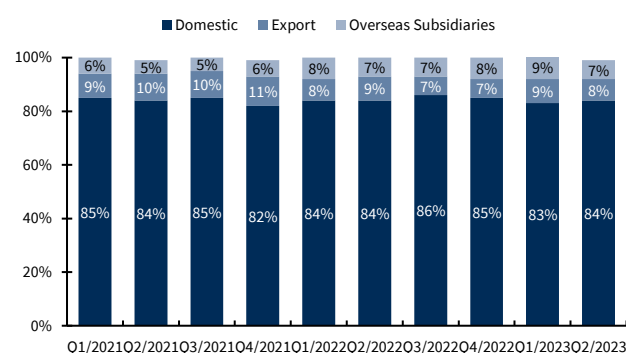
Source: Vietnam Dairy Products, KB Securities Vietnam

Fig 2. VNM – Net revenue & gross profit margin (VNDbn, %)



Source: Vietnam Dairy Products, KB Securities Vietnam

Fig 3. VNM – Revenue breakdown (%)



Source: Vietnam Dairy Products, KB Securities Vietnam

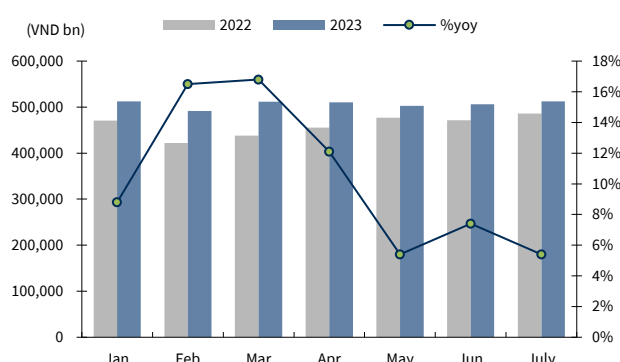
A challenging macroeconomic environment adversely affects the FMCG industry in general and the dairy industry in particular

Per the General Statistics Office (GSO), in 2Q23, GDP, although improved from 1Q23, only expanded by 4.14% YoY, which is still relatively low growth and only above the growth rate of 0.34% in 2Q20 in 2011–2023. The economy witnessed shrinking export turnover, high interest rates, low credit growth, over 100,000 businesses closed in the first six months of this year. These elements take a heavy toll on people’s real income, thus hampering the entire retail industry.

The GSO reported total retail sales of goods and services at an estimated VND1,520 trillion in the second quarter of 2023. Despite an uptrend, there is a clear deceleration seen in each month. According to VNM’s investor newsletter with the source from AC Nielsen, the domestic fast-moving consumer goods (FMCG) industry recorded only 2% YoY growth in 2Q23. Likewise, the dairy industry only saw 1% YoY growth in the same period.

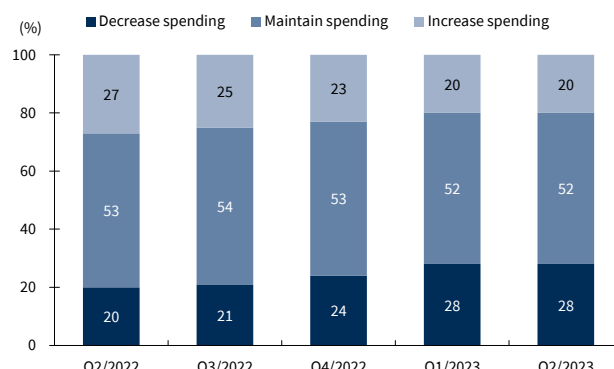
Purchasing power should recover progressively from 3Q23 following stimulus policies and will take some time to approach peak levels. The dairy market continues to grow at a low pace as consumers tend to prioritize affordable products, thus dampening sales revenue.

Fig 4. Vietnam – Retail sales of goods in 2022–2023 (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 5. Vietnam – Household expenditure



Source: Worldpanel Division, KB Securities Vietnam

VNM's domestic sales grew slightly, VNM is winning back market share

VNM saw revenue growth of nearly 4% YoY on weak consumption. However, in relation to ~1% growth of the entire industry, it can be seen that VNM has regained market share in some businesses in the past year. Meanwhile, MCM obtained 2Q23 net revenue of VND790 billion, down 5.8% YoY due to weak consumption in the northern mountainous region.

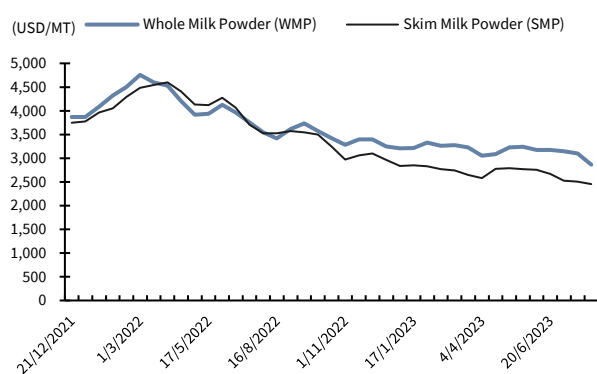
VNM's growth momentum in the coming time should come from condensed milk and yogurt. Condensed milk products, especially Ong Tho condensed milk, have been exported to many large markets, including China with an astounding 1.44 billion citizens, and have been well received. These two segments account for ~80% of the domestic market share. This figure for eat yogurt and drink yogurt is more than 70%. Yogurt products are benefiting from consumers' healthy eating trend. Statista anticipated this segment to see ~8.35% growth in the 2023–2027 period.

Gross profit margin further improved as initially forecast

In 2Q23, VNM's GPM was 40.5%, up 1.7 pts QoQ yet down 0.2 pts YoY. VNM's management has had raw material prices fixed until late 3Q23 and early 4Q23 and is expecting GPM to further improve over the next quarters with increasing revenue and cooling input costs when inflationary pressures subside. However, we believe VNM's GPM is unlikely to return to its pre-pandemic levels (46–47%) due to increasingly fierce competition in the industry.

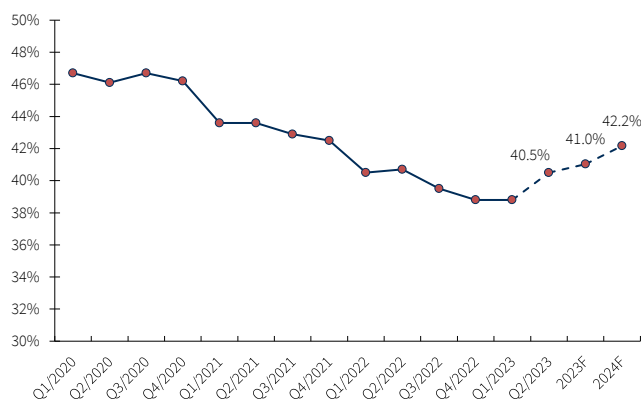
Currently, prices of key raw materials have decreased significantly, with imported milk powder falling by ~10% QoQ and 30–40% from its peaks. Nonetheless, the management said hotter weather than in previous years caused by the El Nino phenomenon has been negatively affecting the productivity and efficiency of cow herds, and animal feed costs have seen substantial rises. To aid farmers, VNM has raised the ask price of farm-gate cow milk sold by farmers by ~7%. Currently, the proportion of milk purchased from farmers and self-sufficient milk at VNM's farms is equal. VNM added that it will enhance its autonomy by increasing the amount of milk from its own farms in the future as it can better control expenses and quality.

Fig 6. Global – WMP & SMP price performance (USD/ton)



Source: Global Dairy Trade, KB Securities Vietnam

Fig 7. VNM – Gross profit growth forecast (%)



Source: Vietnam Dairy Products, KB Securities Vietnam

The rebranding event is the first step of VNM's repositioning strategy

At the July 6th event in Ho Chi Minh City, VNM introduced its new brand identity in the spirit of 'be bold, be determined and be yourself', marking a transformation after 47 years of operation. It will be seen across VNM's distribution network from July 2023. We assess that the repositioning strategy will offer VNM the following benefits:

- (1) Strengthening domestic competitiveness thanks to an attractive identity and design that stands out from other products.
- (2) Targeting the future customer group, GenZ, with a youthful, new, and different design language suitable for this generation's personality.
- (3) Helping VNM in export markets with an eye-catching and sophisticated identity following the increasing simplicity and rejuvenation trend in design domestically and globally. Many big domestic brands like Viettel, BIDV (BID), and Military Bank (MBB) have all fallen into line with this trend.

We believe it is not purely a change of brand recognition but behind are strategies to regain growth momentum after years of stagnation due to fierce competition. We can look back at the case of MBB, in which it has promoted technology, digital transformation, and retail banking after rebranding. Another typical example is Viettel, with its mission switching from ‘universal telecom services’ into ‘pioneering the creation of digital societies’. Rebranding brings Viettel a youthful, modern, and dynamic image appropriate for its new mission.

Fig 8. Vietnam – Rebranding of some major brands



Source: KB Securities Vietnam

Forecast & Valuation

2023F business results

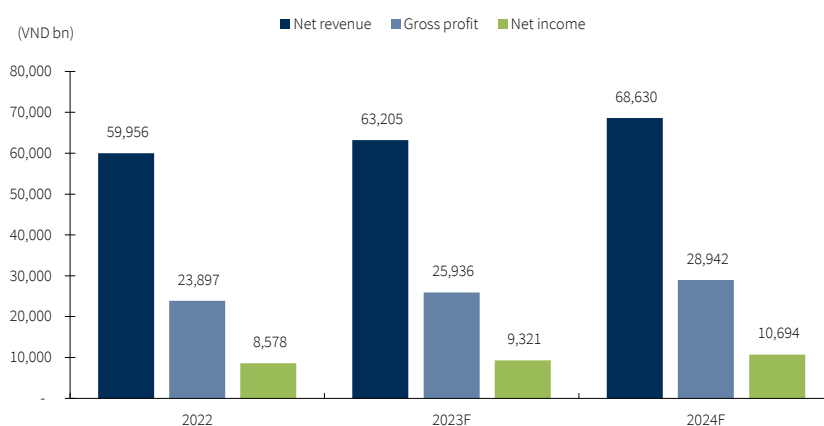
KBSV foresees insignificant growth of the dairy industry will continue in the second half of 2023 due to fragile recovery of purchasing power. We forecast VNM's net revenue of VND62,771 billion (+4.7% YoY) and gross profit of 41% for 2023F and higher in the coming years, given cooling raw milk powder prices and the expectation that gains in other input materials will abate. NPAT should reach VND9,132 billion (+6.5% YoY). In 2024F, we expect the economic rebounds, increased consumption, and VNM's internal changes will help the company itself enjoy higher growth.

Table 9. VNM – 2022A–2024F business results

(VND bn)	2022A	2023F	+/-% YoY	2024F	+/- YoY	Comments
Revenue	59,956	63,205	5.4%	68,630	8.6%	
Domestic sales	50,704	53,270	5.1%	57,052	7.1%	Slight YoY revenue growth is driven by higher selling prices and winning back market share. Driving forces in the coming time should come from condensed milk and yogurt segments and new brand identity which helps attract new customers.
Export sales	4,828	5,070	5.0%	5,982	18.0%	Export sales grew slowly due to weak recovery of purchasing power in export markets.
Overseas subsidiaries	4,424	4,866	10.0%	5,596	15.0%	Overseas subsidiaries posted positive business results with double-digit growth, with VNM's products increasingly well-received in foreign markets.
Gross profit	23,897	25,936	8.5%	28,942	11.6%	
Gross profit margin	39.9%	41.0%	3.0%	42.2%	2.8%	GPM improved and should further increase in the coming time when input material prices have been corrected markedly.
SG&A	(14,144)	(15,548)	9.9%	(16,883)	8.6%	SG&A expenses seem moderate and only increased slightly thanks to marketing campaigns to boost sales at many points of sale and for rebranding
SG&A/revenue	-23.6%	-24.6%	4.3%	-24.6%	0.0%	
EBIT	9,753	10,388	6.5%	12,059	16.1%	
EBIT margin	16.3%	16.4%	1.0%	17.6%	6.9%	
EBT	10,496	11,367	8.3%	13,041	14.7%	
NPAT	8,578	9,321	8.7%	10,694	14.7%	Higher NPAT forecast is mainly due to improved GPM and repositioning strategy, which should boost revenue in the coming periods.
NPAT margin	14.3%	14.7%	3.1%	15.6%	5.7%	

Source: Vietnam Dairy Products, KB Securities Vietnam

Fig 10. VNM – 2022A–2024F business results



Source: Vietnam Dairy Products, KB Securities Vietnam

**We recommend HOLD for VNM
with a target price of
VND84,000/share**

We assess VNM's value using two valuation methods free cash flows to the firm (FCFF) and P/E comparable with an equal combination.

(1) As for FCFF, with the assumptions stated below, we give VNM a target price of VND79,700/share.

(2) As for P/E valuation, we give VNM a target P/E of 20x, equivalent to its 5-year average P/E and close to the median P/E of comparable peers in the region. Target EPS is VND4,412. Thus, the corresponding target price for VNM is VND88,200/share.

Based on the above two valuation methods, we recommend HOLD for VNM with a target price of VND84,000/share, 5% higher than the closing price on September 5, 2023.

Table 11. VNM – FCFF valuation

Cost of equity	11.25%	PV of terminal value	108,570
Borrowing cost	8.00%	PV of FCFF	44,841
Risk free rate	5.00%	Cash & equivalents	2,457
Beta	0.76	Short-term investments	17,065
Terminal growth	3.0%	Firm value	172,934
Duration	5	Net debt	6,655
WACC	11.00%	Equity value	166,279
		Outstanding shares	2,089,955,445
Target price			79,700

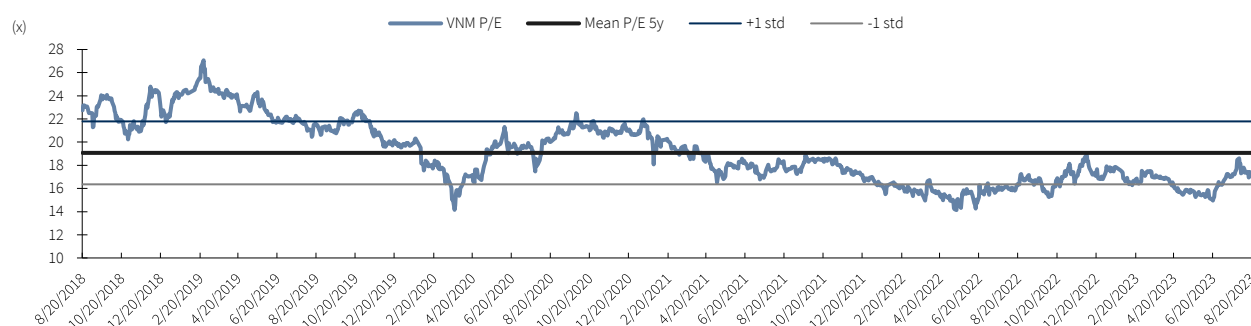
Source: KB Securities Vietnam

Table 12. VNM – P/E comparable

Comparable peers	P/E	Comparable peers	P/E
2319 HK	15.0	2206 JP	22.7
2264 JP	13.8	2269 JP	21.4
600597 CH	22.0	151 HK	15.6
600887 CH	15.7	NESZ MK	41.0
2270 JP	17.2	ICBP IJ	14.6
Average P/E			19.7
P/E forward for VNM			20
2023F EPS			4412
Target price			88,200

Source: KB Securities Vietnam

Fig 13. VNM – Historical P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

VNM – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND Billion)	2021A	2022A	2023F	2024F	(VND Billion)	2021A	2022A	2023F	2024
Net sales	60,919	59,956	63,205	68,630	Total assets	53,332	48,483	48,675	53,25
Cost of sales	-34,641	-36,059	-37,269	-39,688	Current assets	36,110	31,560	31,525	35,78
Gross profit	26,278	23,897	25,936	28,942	Cash & equivalents	2,349	2,300	2,457	3,44
Financial Income	1,215	1,380	1,422	1,448	ST investments	21,026	17,415	17,066	18,53
Financial Expenses	-202	-618	-506	-534	Accounts receivable	4,368	4,634	4,661	4,93
of which: interest expenses	-89	-166	-319	-326	Inventory	6,820	5,560	5,907	7,32
Gain/(loss) from joint ventures	-45	-24	0	0	Long-term assets	17,222	16,922	17,151	17,47
Selling expenses	-12,951	-12,548	-13,716	-14,961	LT trade receivables	17	38	24	2
General & admin expenses	-1,567	-1,596	-1,833	-1,922	Fixed assets	11,620	10,860	10,593	10,65
Operating profit/(loss)	12,728	10,491	11,304	12,973	Investment properties	835	1,471	1,595	1,57
Net other income/(expenses)	195	4	63	69	Liabilities	17,482	15,666	14,897	17,13
Pretax profit/(loss)	12,922	10,496	11,367	13,041	Current liabilities	17,068	15,308	14,247	16,52
Income tax	-2,290	-1,918	-2,046	-2,347	Trade accounts payable	4,214	4,284	4,464	5,20
Net profit/(loss)	10,633	8,578	9,321	10,694	Advances from customers	4	4	4	
Minority interests	100	62	99	87	ST borrowings	9,382	4,867	6,384	7,61
Net profit after MI	10,532	8,516	9,222	10,607	Long-term liabilities	414	358	650	61
					LT payables	0	0	0	
					LT borrowings	76	66	271	21
					Other LT liabilities	338	292	379	40
					Shareholders' equity	35,850	32,817	33,778	36,11
					Paid-in capital	20,900	20,900	20,900	20,90
					Share premium	34	34	34	3
					Undistributed earnings	7,594	3,353	3,226	4,33
					Reserve & others	4,555	5,469	6,460	7,59
					Minority interest	2,767	2,967	3,067	3,15
Margin ratio					Key ratio				
	2021A	2022A	2023F	2024F	(x, %, VND)				
Gross profit margin	43.1%	39.9%	41.0%	42.2%	Multiple				
EBITDA margin	26.2%	26.5%	26.9%	25.0%	P/E	14.7	18.3	15.7	14.
EBIT margin	21.5%	18.5%	18.8%	19.8%	P/E diluted	14.7	18.3	15.7	14.
Pre-tax profit margin	21.2%	17.5%	18.0%	19.0%	P/B	3.9	4.2	3.9	3.
Operating profit margin	20.9%	17.5%	17.9%	18.9%	P/S	1.9	2.3	2.2	2.
Net profit margin	17.5%	14.3%	14.7%	15.6%	P/Tangible Book	4.0	4.4	4.0	3.
					P/Cash Flow	575.5	(2,295)	635.5	429.
					EV/EBITDA	14	13	12	1
					EV/EBIT	16	16	14	1
Cash flow statement					Operating Performance				
(VND Billion)	2021A	2022A	2023F	2024F	ROE%	30%	25%	28%	31%
Net profit	12,922	10,496	11,367	13,041	ROA%	20%	17%	19%	21%
Plus: depreciation & amort	2,121	2,095	1,862	1,944	ROIC%	23%	23%	23%	24%
Plus: investing (profit)/loss	-987	-1,098	-1,010	-1,000	Financial Structure				
Interest Expense	-89	-166	-319	-326	Cash ratio	0.1	0.5	0.4	0.
Change in working capital	13,967	11,326	11,901	13,659	Quick Ratio	1.7	1.7	1.8	1.
(Inc)/dec - receivables	-517	-288	214	-326	Current Ratio	2.1	2.1	2.2	2.
(Inc)/dec - inventory	-2,261	851	-347	-1,415	LT Debt/Equity	0.0	0.0	0.0	0.
Inc/(dec) - payables	1,484	-386	-2,491	1,067	LT Debt/Total assets	0.0	0.0	0.0	0.
Inc/(dec) - advances	0	-73	-30	-142	ST Debt/Equity	0.3	0.1	0.2	0.
Other adj for operations	0	0	0	0	ST Debt/Total assets	0.3	0.1	0.2	0.
Operating cash flow	9,432	8,827	7,537	10,834	ST liabilities/Equity	0.2	0.3	0.3	0.
Purchase of Fixed Assets and long-term assets	-1,531	-1,457	-1,667	-1,932	ST liabilities/Total assets	0.2	0.2	0.2	0.
Proceeds from disposal of fixed assets	134	137	0	0	Total liabilities/Equity	0.2	0.3	0.2	0.
Loans granted, purchases of debt instruments	-3,514	0	0	-1,465	Total liabilities/Total assets	0.2	0.2	0.2	0.
Collection of loans, proceeds from sales of debts instruments	0	3,635	349	0					
Investments in other entities	-23	-43	-434	-266	Activity Ratio				
Proceed from divestment in other entities	1	0	0	0	Account receivable turnover	13.9	12.9	13.6	13.
Dividends and interest received	1,000	1,201	1,010	1,000	Inventory turnover	5.1	6.5	6.3	5.
Investing cash flow	-3,933	3,473	-741	-2,663	Account payable turnover	8.7	8.1	8.4	7.
Proceeds from issue of shares	318	338	0	0					
Payment for share returns and repurchase	0	0	0	0					
Proceeds from borrowings	9,597	6,258	8,861	9,308					
Repayment of borrowings	-7,551	-10,789	-7,136	-8,149					
Finance lease principal payments	0	0	0	0					
Dividends paid	-7,621	-8,167	-8,360	-8,360					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	-5,257	-12,360	-6,638	-7,184					
Net increase in cash & equivalents	241	-61	157	987					
Cash & equivalents - beginning	2,111	2,349	2,300	2,457					
Cash & equivalents - ending	2,349	2,300	2,457	3,443					

Source: Vietnam Dairy Products, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.