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9M21 earnings declined YoY while net sales were flat

Vinamilk (VNM) reported 9M21 earnings at VND8,420 billion (down 6.4% YoY, equal to 75% of the full-year target) on net revenue of VND45,178 billion (down slightly YoY and reaching 73% of the year plan). Of that, 3Q revenue grew again by 4.1% YoY after the first two quarters of the year.

Gross profit margin continues to be affected by input material prices

VNM's consolidated gross profit margin in 9M21 was 43.4% (down 3.1% YoY) mainly because input material costs climbed up due to global supply chain disruptions and anti-dumping tax policies against some imported materials.

VNM expects to improve gross profit margin and record revenue from potential joint ventures next year

In the latest meeting with investors, the Board of Directors of the company said that the prices of input materials were likely to decrease, but still maintain at a relatively high level. Therefore, VNM signed contracts to fix the purchase prices of raw materials until the end of 1Q22, thereby improving the company's gross margin. In addition, by 2022, joint venture projects with Kido in Vietnam and Del Monte in the Philippines should bring new revenue sources for VNM.

BUY recommendation with a target price of VND106,800 per share

We maintain our forecast for net revenue and slightly change earnings forecast for 2021 & 2022. At the same time, we maintain our BUY recommendation for VNM shares with a target price of VND106,800 per share.

Buy maintain

Target price VND106,800

Upside/downside (%)	22%
Current price (Dec 10, 2021)	87,400
Market cap (VNDtn/USDmn)	183.49/8.053

Trading data

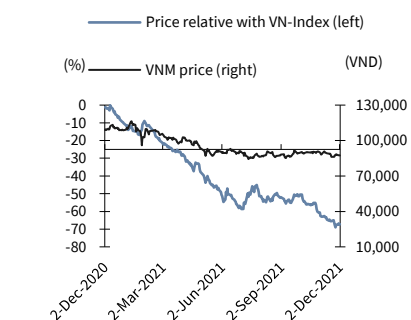
Free float (%)	35.15
3M avg trading value (VNDbn/USDmn)	339.6/14.6
Foreign ownership (%)	54.5
Major shareholder	SCIC (36%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-2	0	-6	-20
Relative	-4	-10	-14	-67

Forecast earnings & valuation

FY-end	2019A	2020A	2021E	2022E
Net sales (VNDbn)	56,318	59,636	60,012	62,509
Earnings/loss (VNDbn)	12,797	13,539	13,205	13,672
Profit attributable to parent (VNDbn)	10,554	11,236	11,103	11,496
EPS (VND)	5,478	4,770	4,713	5,435
EPS growth (%)	3%	-13%	-1%	15%
P/E (x)	21	22	18.5	17.9
P/B (x)	6.8	6.8	5.1	4.7
ROE (%)	38%	38%	34%	33%
Dividend yield (%)	5.21%	4.75%	4%	4%



Source: Bloomberg, KB Securities Vietnam

3Q21 business performance

VNM reported a record high revenue in 3Q

VNM reported 9M21 earnings at VND8,420 billion (-6.4% YoY, equal to 75% of the full-year target) on net revenue of VND45,178 billion (down slightly YoY and reaching 73% of the year plan).

In Q3 alone, VNM's net revenue exceeded VND16 trillion (+4.1% YoY) for the first time. Earnings decreased from the same period last year to VND2,900 billion (-5.7% YoY) mainly due to pressure from input material prices. According to the preliminary results in October, net revenue of the parent company and subsidiaries both grew well (+20% YoY) thanks to (1) rebounding domestic consumption on eased social distancing measures and (2) low base from 4Q20 due to adverse impacts of floods in the Central region on dairy consumption.

Domestic sales grew again

The parent company's domestic sales returned to positive growth in 3Q (+4.5% YoY) after recording negative growth the first two quarters of the year (-9.4% YoY in 1Q and -3.3% YoY in 2Q).

Sales from overseas markets are stable thanks to stable demand from importers and the growth of overseas subsidiaries

Revenue from the export markets was flat YoY at VND1,556 billion. The export segment has remained stable thanks to good demand from the key market Middle East. In addition, VNM has also boosted exports to Asia and Africa.

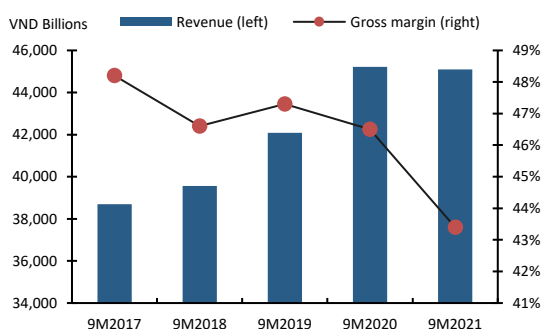
The sales from overseas subsidiaries in 3Q reached VND886 billion, impressively recovering 22% from the same period last year thanks to the reopening of schools in the US. The subsidiary Driftwood grew by nearly 30% in revenue in 3Q. The sales of Angkor Milk also announced a two-digit growth, driven by the Cambodian Government's better control of the COVID-19 pandemic.

Gross profit margin was lower due to high input material prices

9M21 gross profit margin reached 42.9%, down slightly compared to 1H21 and down 381bps YoY. The main reason was high input material costs, putting a great pressure on gross margin. Although the prices of whole milk powder (WMP) tended to go down in August, they rose again from September (+14.5% YoY) to November 2021 (+34.6% YoY). Meanwhile, the price of skimmed milk powder (SMP) also gained 41% in the past one year.

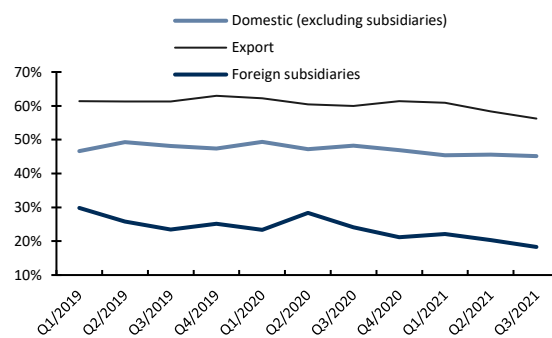
The ratio of selling, general and administrative expenses (SG&A) to accumulated revenue in the first nine months of the year decreased 1.2% YoY to 22.9%. VNM continued to cut SG&A as in 6M21 to better cushion profit from negative impacts on gross profit margin. On the other hand, social distancing makes the need to advertise products not really necessary.

Fig 1. VNM – Revenue & gross profit margin (VNDbn, %)



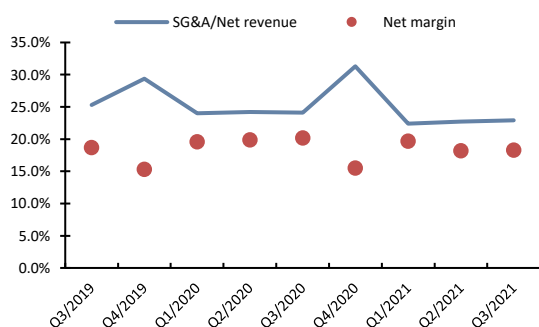
Source: Vinamilk, KB Securities Vietnam

Fig 2. VNM – Quarterly gross profit margin (%)



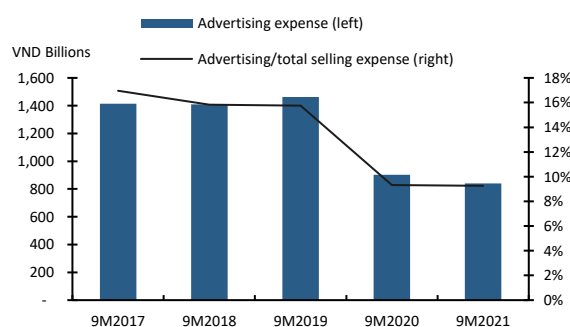
Source: Vinamilk, KB Securities Vietnam

Fig 3. VNM – SG&A/revenue ratio & net profit margin (%)



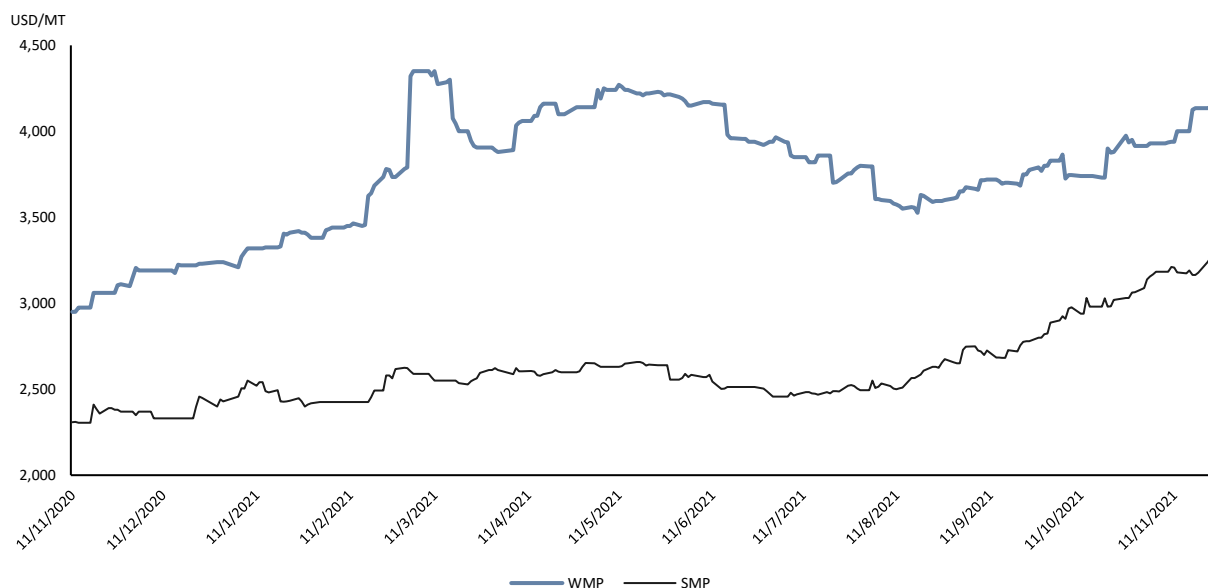
Source: Vinamilk, KB Securities Vietnam

Fig 4. VNM – Marketing expenses & promotion expenses to selling expenses ratio (VNDbn, %)



Source: Vinamilk, KB Securities Vietnam

Fig 5. Global – WMP & SMP prices (USD/MT)



Source: Bloomberg, KB Securities Vietnam

Brighter outlook in 2022

Pressure from high input costs will reduce in early 2022

According to VNM's Board of Directors, the prices of input materials will decrease marginally in 2022. In addition, the fixed cost of milk powder will be lower until the end of 1Q22 as compared to 3Q21. Therefore, we believe that VNM's gross margin will soon improve in 4Q21 and be more stable in 2022. Specifically, we forecast VNM's gross profit margin to reach 43.7% in 2021 and 45.65% in 2022.

Vibev, joint venture between VNM and Kido, entered the beverage market

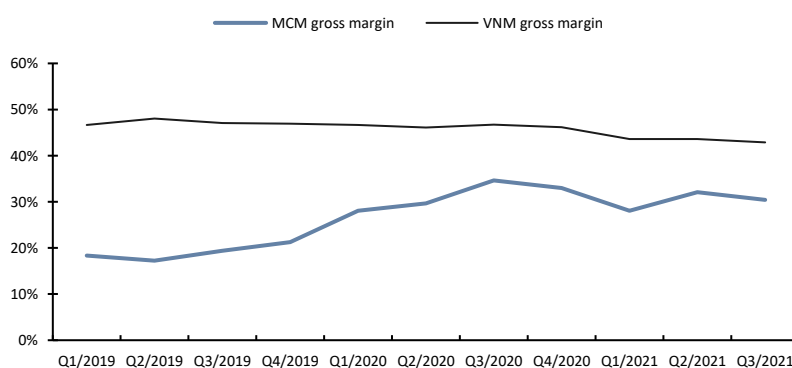
Vibev Food and Beverage Joint Venture Co., Ltd (a joint venture between VNM and Kido) has officially entered the Vietnamese beverage market by rolling out two products namely fresh corn and green bean milk products under the Oh Fresh brand on November 15. According to a representative of Vibev, the non-carbonated beverage industry still has a lot of growth potential as consumers are becoming more and more interested in healthy products. In particular, Vibev aims to lead the market share in the fresh drink sector after five years with an output of 150 million bottles/year (equivalent to VND2,000 billion in revenue).

In our view, this promises to be a very potential joint venture project when both VNM and Kido are now leading brands in Vietnam thanks to taking advantage of VNM's modern production lines and distribution systems of both brands.

MCM's operational efficiency should continue to improve

In 3Q21 alone, MCM posted a net revenue of VND795 billion (+2.6% YoY) while NPAT decreased by 7.8% YoY due to the impact of rising input material prices. As a result of fluctuating input costs, MCM's gross profit margin was only 30.3% (-4.3% YoY). We believe that besides the improvement of the gross margin, there is still room for MCM to raise operational efficiency by making better use of VNM's nationwide distribution system.

Fig 6. VNM, MCM – Gross profit margin (%)



Source: Vinamilk, Moc Chau Milk, KB Securities Vietnam

Forecast business performance, valuation & recommendation

We maintain our forecast for VNM's net sales as in the previous report. To be more specific, we expect VNM to record NPAT of shareholders at VND10,967 billion (-1.2% YoY) on revenue of VND60,012 billion (+0.6% YoY) for 2021. These figures for 2022 should be VND11,359 billion (+3.5% YoY) and VND62,509 billion (+4.16% YoY).

Table 2. VNM – 2021F–2022F business results

VNDbn	2020	2021F	2022F
Net revenue	59,636	60,012	62,509
<i>Domestic</i>	50,842	50,033	51,843
<i>Abroad</i>	8,794	9,679	10,666
Gross profit	27,699	26,235	28,537
Selling expenses	-13,447	-12,603	-14,095
G&A expense	-1,958	-1,500	-2,052
Profit after tax	11,236	10,967	11,359

Source: KB Securities Vietnam

We recommend BUYING VNM shares with a target price of VND106,800 apiece

Basing on two methods of valuation discounted cash flow (DCF) and P/E multiples with a ratio of 50:50, we recommend BUYING VNM shares with a target price of VND106,800 per share, 22% higher than the closing price on December 2, 2021. Regarding the P/E multiples, we give VNM a reasonable P/E of 22x for 2022 (equaling the average of the last five years), with a 2022 EPS of VND5,436/share.

Table 3. VNM – Target price according to valuation methods (VND)

Valuation method	Estimated price	Weight	Weighted price
DCF	94,131	50%	47,065
P/E multiples	119,589	50%	59,794
Target price			VND106,860

Source: KB Securities Vietnam

VNM – 2019A–2022E financials

Income statement (VNDbn)	2019A	2020A	2021E	2022E
Net sales	56,318	59,636	60,012	62,509
Cost of sales	(29,746)	(31,968)	(33,777)	(33,973)
Gross Profit	26,572	27,669	26,235	28,537
Financial income	807	1,581	1,488	1,781
Financial expenses	(187)	(309)	(415)	(498)
of which: interest expenses	(109)	(144)	(312)	(383)
Gain/(loss) from joint ventures	(6)	4	0	0
Selling expenses	(12,993)	(13,447)	(12,603)	(14,095)
General & admin expenses	(1,396)	(1,958)	(1,500)	(2,052)
Operating profit/(loss)	12,797	13,539	13,205	13,672
Net other income/(expenses)	(1)	(21)	104	108
Pretax profit/(loss)	12,796	13,519	13,309	13,780
Income tax	(2,241)	(2,283)	(2,206)	(2,284)
Net profit/(loss)	10,554	11,236	11,103	11,496
Minority interests	(27)	137	137	137
Net profit after MI	10,581	11,099	10,967	11,359

Operating ratios (%)	2019A	2020A	2021E	2022E
Revenue growth	7%	6%	1%	4%
EBIT growth	7%	6%	0%	4%
EBITDA growth	1%	5%	0%	4%
NP after MI growth	3%	5%	-1%	4%
Gross profit margin	47%	46%	44%	46%
EBITDA margin	26%	26%	26%	26%
EBIT margin	23%	23%	23%	23%
Pre-tax profit margin	23%	23%	23%	23%
Net profit margin	19%	19%	18%	18%

Cash flow (VNDbn)	2019A	2020A	2021E	2022E
Net profit	12,796	13,519	13,309	13,780
Plus: depreciation & amort	2,016	2,817	1,908	1,938
Plus: investing (profit)/loss	(2)	(301)	(301)	(301)
Change in working capital	388	(1,174)	1,081	(1,573)
(Inc)/dec - receivables	374	(715)	651	(971)
(Inc)/dec - inventory	402	(270)	(606)	546
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(400)	(213)	977	(1,182)
Inc/(dec) - advances	16	24	60	35
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	11,410	10,180	12,523	10,105
ST investments	0	0	0	0
Capital expenditures	(2,158)	(1,265)	(2,906)	(2,924)
Investment properties	0	0	0	0
Investment in subsidiaries	(2,158)	(0)	0	0
Other assets	0	0	0	0
Other adj for investments	(2,431)	(3,537)	0	0
Investing cash flow	(6,748)	(4,802)	(2,906)	(2,924)
Issuance/(repayment) of debt	10,427	7,769	8,060	8,405
ST debt	(6,233)	(5,754)	(6,190)	(6,455)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	0	0	0	0
Dividends paid	(7,836)	(7,928)	(7,315)	(7,315)
Other adj for financing	127	(14)	0	0
Financing cash flow	(3,516)	(5,927)	(5,445)	(5,364)
Net increase in cash & equivalents	1,146	(548)	4,173	1,816
Cash & equivalents - beginning	1,523	2,665	2,111	6,284
Cash & equivalents - ending	2,665	2,111	6,284	8,100

Balance sheet (VNDbn)	2019A	2020A	2021E	2022E
Total assets	44,700	48,432	52,871	56,710
Current assets	24,722	29,666	34,060	37,433
Cash & equivalents	2,665	2,111	6,284	8,100
ST investments	12,437	17,315	17,800	18,946
Accounts receivable	3,474	4,174	3,523	4,494
Inventory	4,996	4,953	5,559	5,014
Other current assets	1,149	1,113	894	879
Long-term assets	19,978	18,767	18,811	19,277
LT trade receivables	21	20	0	0
Fixed assets	13,744	12,717	11,275	9,809
Investment properties	62	60	58	56
LT incomplete assets	694	794	2,507	4,292
LT investments	993	988	1,091	1,137
Goodwill	0	0	0	0
Other LT assets	4,464	4,187	3,880	3,984
Liabilities	14,969	14,785	16,903	17,855
Current liabilities	14,443	14,213	16,313	17,226
Trade accounts payable	3,648	3,199	4,176	2,994
Advances from customers	2	16	9	9
ST borrowings	5,351	7,316	9,169	11,099
Special reserves	0	0	0	0
Other current liabilities	5,441	3,681	2,960	3,125
Long-term liabilities	526	573	590	629
LT payables	0	0	0	0
LT borrowings	123	167	198	235
Other LT liabilities	403	405	392	394
Shareholders' equity	27,504	31,297	33,618	36,505
Paid-in capital	17,417	20,900	20,900	20,900
Share premium	0	0	0	0
Treasury stock	(12)	(12)	(12)	(12)
Undistributed earnings	7,875	6,910	8,371	10,146
Reserve & others	2,200	3,489	4,359	5,471
Minority interests	2,227	2,350	2,350	2,350
Total liabilities & equity	44,700	48,432	52,871	56,710

Key ratios (x, % VND)	2019A	2020A	2021E	2022E
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Valuations	2019A	2020A	2021E	2022E
P/E	213	22.8	18.5	17.9
P/E diluted	213	22.8	18.5	17.9
P/B	6.8	6.8	5.1	4.7
P/S	3.6	3.8	3.0	2.9
EV/EBITDA	13.6	15.7	15.5	15.0
EV/EBIT	15.6	18.2	17.7	17.0
EPS	5,478	4,770	4,713	4,882
DPS (annual, ordinary)	4,500	3,794	3,501	3,501
Dividend payout ratio (%)	45%	35%	35%	35%

Operating performance	2019A	2020A	2021E	2022E
ROE	38%	38%	34%	33%
ROA	24%	24%	22%	21%
ROIC	32%	29%	26%	24%

Financial structure	2019A	2020A	2021E	2022E
Total liab/equity	0.5	0.5	0.5	0.5
Current ratio (x)	1.7	2.1	2.1	2.2
Interest coverage (x)	118.6	95.0	43.7	37.0

Activity ratios	2019A	2020A	2021E	2022E
Asset turnover	1.4	1.3	1.2	1.1
Receivables turnover	13.9	15.6	15.6	15.6
Inventory turnover	5.7	6.4	6.4	6.4
Payables turnover	7.6	9.3	9.3	9.3

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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

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