

March 18, 2022

Analyst Luong Ngoc Tuan Dung
dunglnt@kbsec.com.vn

Net revenue increased modestly, but NPAT decreased in 2021

For the whole year of 2021, Vinamilk (VNM) posted a consolidated NPAT of VND10,633 billion (-5.3% YoY) on net revenue of VND61,012 billion (+2% YoY, fulfilling 94.6% and 98.2% of the full-year plan for profit and revenue, respectively).

Gross profit margin continued to be hit by raw milk price surges

VNM's gross profit margin (GPM) in 2021 was affected by surging freight costs and high raw milk prices. In our estimates, the average price of whole milk powder (WMP) and skimmed milk powder (SMP) rose 22.6% YoY and 29.2% YoY over the past year, respectively.

Gross profit margin will less likely improve in 2022

Given the Russia-Ukraine conflict showing no signs of de-escalation and unresolved supply chain problems, raw milk prices will likely remain high, affecting VNM's GPM in the upcoming time. Specifically, the consolidated GPM may be down slightly to 43.08% in FY22 vs. 43.14% in FY21.

We recommend BUYING VNM shares with a target price of VND105,700 apiece

In 2022, we forecast VNM to achieve VND11,000 billion in NPAT (+3.45% YoY) on revenue of VND62,090 billion (+1.92% YoY). In 2023, those figures should rise to VND11,318 billion (+2.8% YoY) and VND63,617 billion (+2.46% YoY). Despite potentially weaker-than-expected GPM and growth, we maintain our BUY recommendation for VNM shares with a target price of VND105,700/share since VNM valuation remains attractive with the current forward P/E around 14x.

Buy maintain

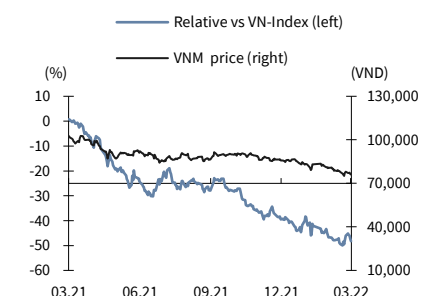
Target price	VND105,700
Upside/Downside	39%
Current price (Mar 18, 2022)	VND76,000
Market cap (VNDbn/USDmn)	158.836/7.059

Trading data	
Free float	40%
3M avg trading value (VNDbn/USDmn)	186.7/8.3
Foreign ownership	54.22%
Major shareholder	SCIC (36%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-6	-11	-17	-24
Relative	-3	-10	-26	-48

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	59,636	60,919	62,090	63,617
Earnings/Loss (VNDbn)	13,539	12,728	13,227	13,617
NPAT (VNDbn)	11,236	10,633	11,013	11,338
EPS (VND)	4,770	4,517	5,222	5,377
EPS growth (%)	-12.9	-5.3	15.6	3.0
P/E (x)	22.8	19.1	14.6	14.1
P/B (9x)	6.8	5.0	4.1	4.0
ROE (%)	36	33	32	31
Dividend yield (%)	45	35	35	35



Source: Bloomberg, KB Securities Vietnam

Updated business performance

4Q21 revenue grew by 10% YoY

In 2021, VNM recorded VND10,633 billion (-5.3% YoY) in consolidated NPAT and VND61,012 billion (+2% YoY) in revenue, fulfilling 94.6% & 98.2% of the whole year plan for profit and revenue, respectively.

In 4Q21 alone, VNM's NPAT was VND2,213 billion on net revenue of VND15,819 billion (+10% YoY), the highest quarterly revenue growth over the past five years. Despite that, lower-than-expected GPM made NPAT flat YoY.

Domestic revenue bounced back after the removal of social distancing

The parent company's domestic revenue rose to VND11,674 billion (+7% YoY), supported by the double-digit growth of modern sales channels. In addition to expanding points of sale, VNM opened nearly 70 new GMSV stores in 4Q21, raising the total number of GMSV stores to approximately 600. Furthermore, VNM promptly deployed an online sales channel to catch up with consumption trends during the pandemic, which brought in revenue three times higher than that over the same period in 2020.

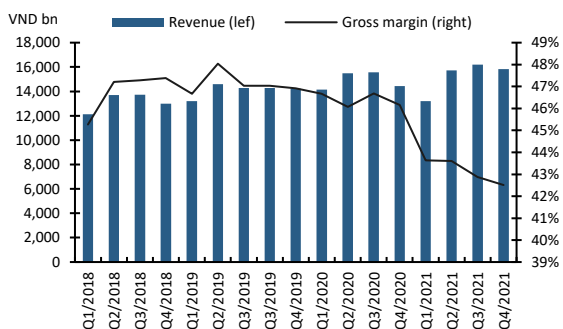
Sales in foreign markets have maintained growth momentum since 3Q21

Sales in foreign markets reached VND1,800 billion (+17.3% YoY), primarily thanks to the recovering demand in the Middle East and Africa markets. Sales at overseas branches jumped to VND998 billion (+30% YoY). To be more specific, Driftwood sales grew by 10% YoY on increased demand at schools, and Angkormilk sales increased by 40% YoY thanks to efficient distribution.

Gross profit margin continued to be hit by surging raw milk prices

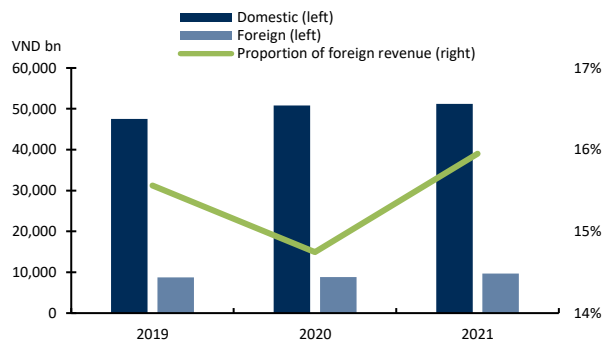
Last year, the GPM of VNM was only 43.1% (-326 bps YoY). In 4Q21, this figure was 42.5% (-90 bps against 9M21 and -364 bps YoY). In general, VNM's gross margin was affected by soaring freight costs, especially high raw milk prices. In our estimates, the average prices of SMP and WMP surged +22.6% YoY and +29.2% YoY over the past year.

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



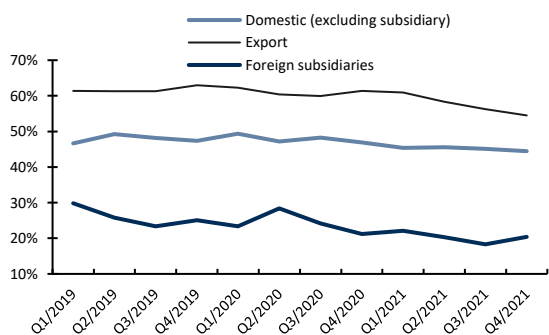
Source: Vinamilk, KB Securities Vietnam

Fig 2. VNM – Revenue breakdown (VNDbn, %)



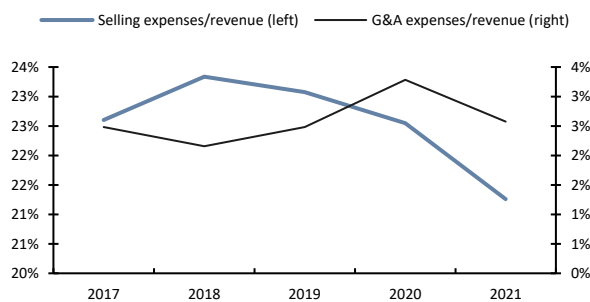
Source: Vinamilk, KB Securities Vietnam

Fig 3. VNM – Gross profit margin across markets (%)



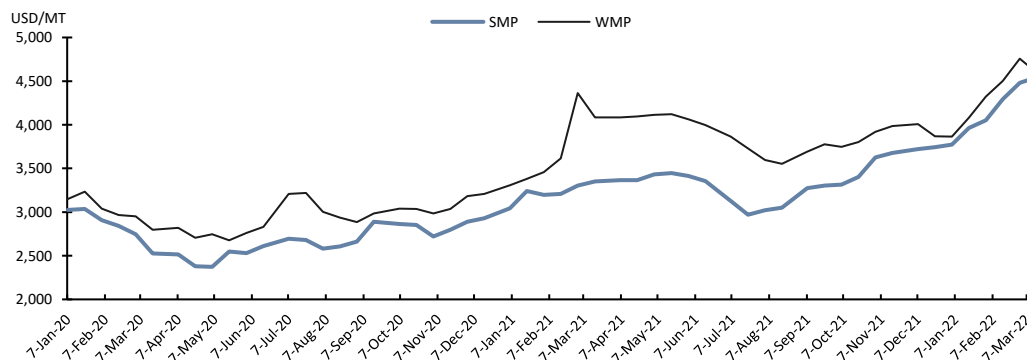
Source: Vinamilk, KB Securities Vietnam

Fig 4. VNM – Selling and GA expenses/revenue (%)



Source: Vinamilk, KB Securities Vietnam

Fig 5. Global – Prices of key raw milk (Whole milk powder –WMP & skimmed milk powder – SMP)



Source: Bloomberg, KB Securities Vietnam

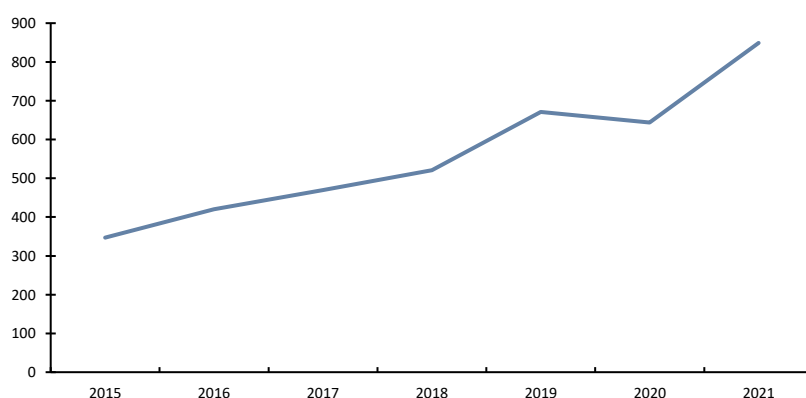
Lack of support factors in the short term

VNM has been pressured by raw milk price increases

In 3Q21, the company signed contracts to fix the purchase prices of raw milk until late 1Q22. However, they have constantly climbed since early 2022 (Figure 5). In particular, the prices of SMP and WMP rose by +21% YTD and +18% YTD.

From our observation, the reasons behind recent spiking raw milk prices include: (1) Big dry and climate change in New Zealand, one of the leading countries in exporting milk powder, has caused disruptions in milk production; (2) supply chain problems worsened by the Omicron variant have shown no signs of easing; and (3) the demand for imports from China in 2021 is dwindling (Figure 6).

Fig 6. China – WWP imports (Metric tons)



Source: Statista, KB Securities Vietnam

However, in the latest auction week, the prices of WMP decreased by 2.1% (Figure 5) from the previous week due to potential risks that may cause the demand of China, the leading importer of dairy raw milk for production, to shrink. On the contrary, the prices of SMP tend to rise since geopolitical tensions between Russia and Ukraine have boosted animal feed costs, affecting the production of SMP in the EU, the major exporter.

Given the Russia-Ukraine crisis showing no signs of de-escalation, along with the unresolved supply chain problems, the prices of the above materials will likely stay high in the coming periods. We assume that VNM would fix input material prices for the next two consecutive quarters right in 1Q21, with the average prices of SMP and WWP in 1Q21 being 33.9% and 17.6% higher than those in 3Q21. In the meantime, with VNM raising the average price in December 2021 and January 2022 by 3–4%, we believe VNM's profit margin will continue to be affected in the coming time. To be more specific, the consolidated GPM will be 43.08% in 2022 vs. 43.14% in 2021.

Dairy plant in Hung Yen Province which was granted the investment permit should go into operation in 2024

Hung Yen Province has granted a license to VNM to build a dairy plant worth VND4,600 billion (USD199.3 million), which will be the company's largest facility in northern Vietnam. The factory has a production capacity of 400 million liters/year with two phases and will go into operation in 2024.

In our view, investing in a new factory not only enhances the No. 1 position of the business, raising the total number of factories to 14, but also creates a growth momentum for VNM in the long term when local milk consumption per capita currently appears modest in Asia.

VNM valuation remains attractive with a forward P/E of 14x

Despite unfavorable short-term factors, we believe VNM's forward P/E of 14x is relatively attractive for a leading business like VNM (Table 1). In particular, VNM's forward P/E is 20–30% lower than the average of other regional peers and 50% lower than its five-year average of 22x. Meanwhile, VNM still keeps its superior business performance in the dairy industry.

Table 1. Asia – Dairy businesses

Name	Bloomberg ticker	Market cap (USDbn)	Forward P/E	P/B	ROE (%)	ROA (%)
China Mengniu Dairy Co Ltd	2319 HK	523,083	22.2	4.2	16.4	6.1
Bright Dairy & Food Co Ltd	600597 CH	57,511	18.3	2.3	10.2	3.1
Angel Yeast Co Ltd	600298 CH	133,151	21.5	5.5	22.4	12.2
San Miguel Food and Beverage I	FB PM	165,119	18.4	4.1	24.3	7.4
Dali Foods Group Co Ltd	3799 HK	160,960	10.8	2.4	22.8	16.5
Inner Mongolia Yili Industrial	600887 CH	869,262	21.4	6.6	28.4	11.3
Average		318,181	18.8	4.2	20.8	9.4
Vietnam Dairy Products JSC	VNM VN	158,837	14x	4.8	29.3	20.7

Source: Bloomberg, KB Securities Vietnam

Forecast business performance, valuation & recommendation

2022F business results

In 2022, we forecast VNM's NPAT to reach VND11,000 billion in NPAT (+3.45% YoY) on net revenue of VND62,090 billion (+1.92% YoY). In 2023, those figures should be VND1,318 billion (+2.8% YoY) and VND63,617 billion (+2.46% YoY), respectively.

Table 2. VNM – 2022E business results

	2021A	2022F	% YoY
Net revenue	60,919	62,090	+1.92%
Domestic	51,202	51,458	+0.5%
Foreign	9,717	10,632	+9.4%
Gross profit	26,278	26,735	+1.7%
Selling expense	-12,951	-13,039	
G&A expense	-1,567	-1,552	
Net profit after tax	10,532	11,013	+3.5%

Source: KB Securities Vietnam

We recommend BUYING VNM shares with a target price of VND105,700 apiece

We combined DCF and P/E multiple valuation methods with a ratio of 50–50 to find the target price for VNM shares at VND105,700/share, 39% higher than the closing price on March 18, 2022.

According to the P/E method, we lower VNM's target P/E for FY22 to 21x, which is lower than its five-year average P/E of 22x, equivalent to EPS of VND5,236/share.

Table 3. VNM – Share price according to DCF & P/E valuation methods (VND)

Valuation method	Forecast price (VND)	Weight	Weighted price
DCF	100,732	50%	50,366
P/E	110,663	50%	55,331
Target price (VND)			105,697

Source: KB Securities Vietnam

VNM – 2020A–2023E financials

Income statement				
(VNDbn)	2020A	2021A	2022E	2023E
Net sales	59,636	60,919	62,090	63,617
Cost of sales	(31,968)	(34,641)	(35,355)	(36,046)
Gross Profit	27,669	26,278	26,735	27,571
Financial income	1,581	1,215	1,413	1,549
Financial expenses	(309)	(202)	(330)	(341)
of which: interest expenses	(144)	(89)	(206)	(210)
Gain/(loss) from joint ventures	4	(45)	0	0
Selling expenses	(13,447)	(12,951)	(13,039)	(13,524)
General & admin expenses	(1,958)	(1,567)	(1,552)	(1,637)
Operating profit/(loss)	13,539	12,728	13,227	13,617
Net other income/(expenses)	(21)	195	102	105
Pretax profit/(loss)	13,519	12,922	13,329	13,722
Income tax	(2,283)	(2,290)	(2,316)	(2,384)
Net profit/(loss)	11,236	10,633	11,013	11,338
Minority interests	137	100	100	100
Net profit after MI	11,099	10,532	10,913	11,238

Operating ratios				
(%)	2020A	2021A	2022E	2023E
Revenue growth	6%	2%	2%	2%
EBIT growth	6%	-5%	4%	3%
EBITDA growth	4%	-4%	4%	3%
NP after MI growth	5%	-5%	4%	3%
Gross profit margin	46%	43%	43%	43%
EBITDA margin	26%	24%	25%	25%
EBIT margin	23%	21%	22%	22%
Pre-tax profit margin	23%	21%	22%	22%
Net profit margin	19%	17%	18%	18%

Cash flow				
(VNDbn)	2020A	2021A	2022E	2023E
Net profit	13,519	12,922	13,329	13,722
Plus: depreciation & amort	2,817	2,367	1,784	1,802
Plus: investing (profit)/loss	(301)	(987)	(987)	(987)
Change in working capital	(1,174)	(1,293)	102	343
(Inc)/dec - receivables	(715)	(517)	30	(244)
(Inc)/dec - inventory	(270)	(2,261)	1,625	(1,860)
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(213)	1,484	(1,579)	2,426
Inc/(dec) - advances	24	0	26	20
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	10,180	9,432	10,715	11,264
ST investments	0	0	0	0
Capital expenditures	(1,265)	(1,531)	(2,455)	(2,502)
Investment properties	0	0	0	0
Investment in subsidiaries	(0)	(23)	0	0
Other assets	0	0	0	0
Other adj for investments	(3,537)	(2,379)	2,076	1,419
Investing cash flow	(4,802)	(3,933)	(379)	(1,083)
Issuance/(repayment) of debt	7,769	9,597	8,863	9,084
ST debt	(5,754)	(7,551)	(8,709)	(8,915)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	0	318	0	0
Dividends paid	(7,928)	(7,621)	(8,360)	(8,360)
Other adj for financing	(14)	0	0	0
Financing cash flow	(5,927)	(5,257)	(8,206)	(8,190)
Net increase in cash & equivalents	(548)	241	2,130	1,991
Cash & equivalents - beginning	2,665	2,111	2,349	4,478
Cash & equivalents - ending	2,111	2,349	4,478	6,470

Balance sheet				
(VNDbn)	2020A	2021A	2022E	2023E
Total assets	48,432	53,332	54,270	58,592
Current assets	29,666	36,110	36,967	41,656
Cash & equivalents	2,111	2,349	4,478	6,470
ST investments	17,315	21,026	21,431	21,957
Accounts receivable	4,174	4,368	4,338	4,582
Inventory	4,953	6,820	5,196	7,055
Other current assets	1,113	1,547	1,525	1,592
Long-term assets	18,767	17,222	17,303	16,936
LT trade receivables	20	17	0	0
Fixed assets	12,717	11,620	10,189	8,743
Investment properties	60	60	43	25
LT incomplete assets	794	835	1,851	2,893
LT investments	988	763	967	991
Goodwill	0	0	0	0
Other LT assets	4,187	3,928	4,253	4,284
Liabilities	14,785	17,482	15,786	18,466
Current liabilities	14,213	17,068	15,313	18,002
Trade accounts payable	3,199	4,214	2,635	5,062
Advances from customers	16	4	8	8
ST borrowings	7,316	9,382	9,568	9,759
Special reserves	0	0	0	0
Other current liabilities	3,681	3,468	3,102	3,173
Long-term liabilities	573	414	473	465
LT payables	0	0	0	0
LT borrowings	167	76	49	32
Other LT liabilities	405	338	424	432
Shareholders' equity	31,297	33,083	35,717	37,359
Paid-in capital	20,900	20,900	20,900	20,900
Share premium	0	34	34	34
Treasury stock	(12)	0	0	0
Undistributed earnings	6,910	7,594	9,123	9,628
Reserve & others	3,489	4,555	5,660	6,797
Minority interests	2,350	2,767	2,767	2,767
Total liabilities & equity	48,432	53,332	54,270	58,592

Key ratios				
(x, % VND)	2020A	2021A	2022E	2023E
Valuations				
P/E	22.8	19.1	14.6	14.1
P/E diluted	22.8	19.1	14.6	14.1
P/B	6.8	5.0	4.1	4.0
P/S	3.2	3.0	2.6	2.5
EV/EBITDA	12.8	16.6	15.9	15.4
EV/EBIT	14.9	19.3	18.0	17.3
EPS	4,770	4,517	5,222	5,377
DPS (annual, ordinary)	4,553	3,647	4,001	4,001
Dividend payout ratio (%)	45%	35%	35%	35%
Operating performance				
ROE	36%	33%	32%	31%
ROA	23%	21%	20%	20%
ROIC	29%	25%	24%	24%
Financial structure				
Total liab/equity	0.5	0.5	0.4	0.5
Current ratio (x)	2.1	2.1	2.4	2.3
Interest coverage (x)	95.0	146.5	65.6	66.3
Activity ratios				
Asset turnover	1.4	1.2	1.2	1.1
Receivables turnover	13.5	14.3	14.3	14.3
Inventory turnover	6.1	5.9	5.9	5.9
Payables turnover	9.3	9.8	9.8	9.8

KB SECURITIES VIETNAM RESEARCH

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

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information technology
tungna@kbsec.com.vn

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

Le Anh Tung
Senior Analyst – Oil & Gas & Banks
tungla@kbsec.com.vn

Nguyen Ngoc Hieu
Analyst – Power & Construction Materials
hieunn@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Industrial Real Estate & Logistics
quangtpt@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Consumers & Retailing
dunglnt@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

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

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy & Mid cap Stocks
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy & Mid cap Stocks
anhttp@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 G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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.