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Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

9M22 business results are flat compared to the same period

Vinamilk (VNM) recorded 9M22 NPAT of VND6,708 billion (down 20% YoY) and net revenue of VND44.887 billion (flat compared to the same period last year, fulfilling 68.7% and 70.2% of their respective full year targets (vs our forecast of 70.5% and 72.1%).

GPM should improve as the prices of raw milk powder has cooled down

VNM signed a contract to fix the price of powdered milk in the next three to six months. As the prices of this material price fell sharply from the peak, we expect VNM's GPM will improve significantly from the 4Q of this year. Although interest rate increases and the USD appreciation may raise the costs for importers, a sharper drop in powdered milk prices will partially undermined the adverse impacts on business performance. We maintain the forecast for 2022 GPM at over 41%.

VNM expanded farms and factories to improve self-efficiency of raw materials and production capacity in the long term

With three dairy farm projects, we estimate that VNM's herd size will increase by 20,000–30,000 heads, thereby helping the company more self-sufficient for raw milk (+18%). Dairy farms in Hung Yen and Moc Chau are expected to come into operation from 2025, VNM's production capacity will increase by 30–40%.

HOLD recommendation with a target price of VND88,100/share

We revise our forecast for net sales and NPAT in 2022 to VND62,278 billion (+2.23% YoY) and VND9.507 billion (–10.5% YoY), respectively. For 2023, net revenue may reach VND65,081 billion (+4.5% YoY), and NPAT should be VND10,105 billion (+6.2% YoY). Combining two methods of DCF valuation and P/E comparison (weighting 50–50), we raise VNM's target price to VND88,100 apiece.

Hold update

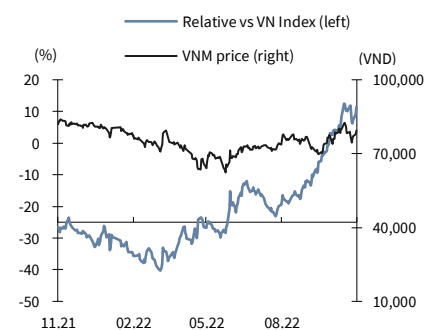
Target price	VND88,100
Upside/Downside	11%
Current price (Mar 18, 2022)	79,400
Market cap (VNDbn/USDmn)	157/6.3

Trading data	
Free float	40%
3M avg trading value (VNDbn/USDmn)	173.7/6.9
Foreign ownership	54.36%
Major shareholder	SCIC (36%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	5	5	16	-13
Relative	9	31	42	11

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	59,636	60,919	62,278	65,081
Earnings/Loss (VNDbn)	13,539	12,728	11,491	12,215
NPAT (VNDbn)	11,236	10,633	9,507	10,105
EPS (VND)	4,770	4,517	4,501	4,787
EPS growth (%)	-12.9	-5.3	-0.4	6.4
P/E (x)	22.8	19.1	14.8	13.9
P/B (9x)	6.8	5.0	3.7	3.7
ROE (%)	36	33	28	29
Dividend yield (%)	45	35	40	40



Source: Bloomberg, KB Securities Vietnam

3Q22 business performance

9M22 business results are flat compared to the high base level of the same period

VNM's 9M22 revenue reached VND44.887 billion, flat compared to the same period last year, and NPAT hit VND6,708 billion, down 20% compared to 9M2021. Accordingly, the company has completed 70.2% and 68.7% of full-year revenue and NPAT targets (vs our forecast of 72.1% and 70.5%, respectively).

In 3Q alone, net revenue reached VND16,079 billion, almost equal to the high base level of 3Q last year when VNM took advantage of its nationwide distribution channel while other businesses' supply chains were disrupted by social lockdown.

Domestic revenue grew QoQ and was stable YoY

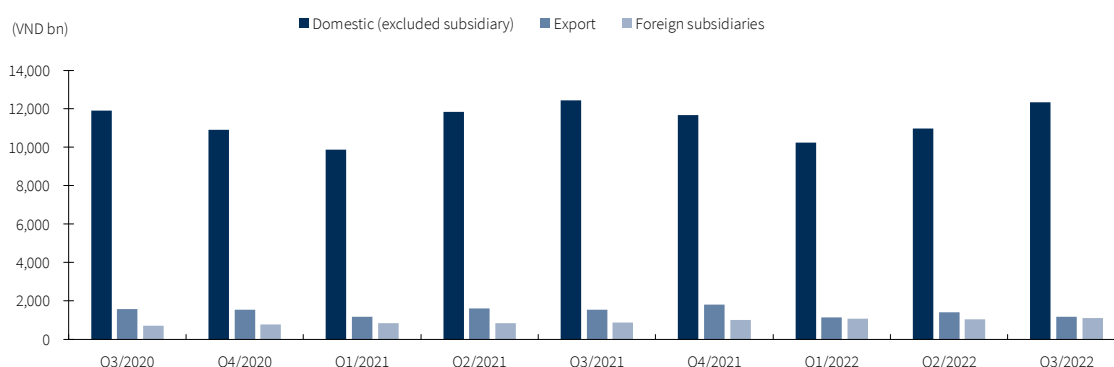
Domestic net sales in 3Q reached VND13,775 billion, up 10% QoQ and flat YoY. The Management said that from the end of 3Q, the market share of important categories started to recover. The company has improved commercial policies to balance benefits, avoid conflicts on promotions and selling prices across channels. Therefore, consumption in distribution channels is relatively stable. To be more specific, the traditional channel has grown slightly; special customer channel grew by 40% YoY as the operation of catering establishments completely recovered; the modern channel opened 600 new retail stores, reflecting the trend of increasing shopping to this channel.

VNM's subsidiary Moc Chau Milk (MCM) recorded a slight growth in revenue of 4.6% YoY. Also in this quarter, MCM collaborated with VNM to launch two new product lines.

Foreign branches performed well, compensating for difficulties in the export market

Foreign branches recorded a net revenue of VND1,117 billion (+26.1% YoY), of which the growth rate of Driftwood was nearly 30% and Angkormilk over 20%. Meanwhile, export activities in 3Q still faced many difficulties since the inflation reduced the purchasing power of users in the Middle East.

Fig 1. VNM - Revenue across markets by quarter (VNDbn)



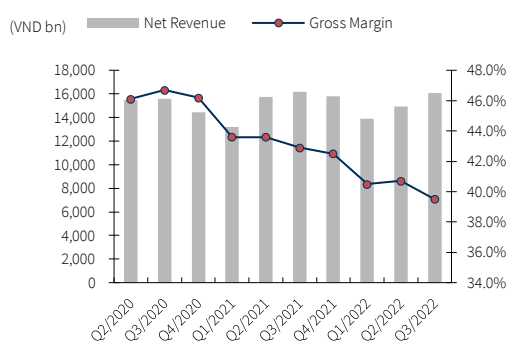
Source: Vinamilk, KB Securities Vietnam

GPM continues to shrink as it is still affected by raw material prices

3Q GPM fell to 39.5%, which is 339bps lower than 3Q21 as the company fixed the price of powdered milk until August 2022. Therefore, the cost of raw materials in this quarter is still high even though powdered milk prices fell 28% from their peak in March 2022. MCM's net profit was significantly improved to 33.1% thanks to optimizing production costs through VNM's existing strengths.

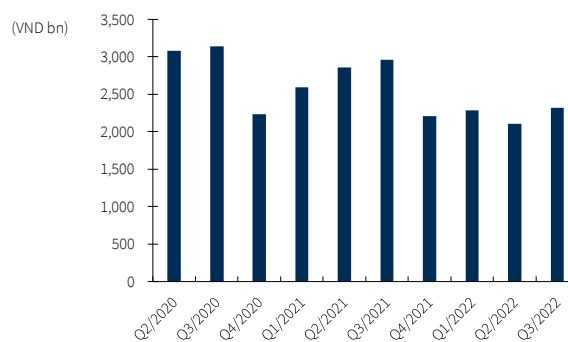
SG&A did not change much compared to the same period last year but improved compared the previous quarter, which proved VNM's efforts in managing operating costs to offset the pressure from GPM.

Fig 2. VNM – Net profit & GPM (VNDbn, %)



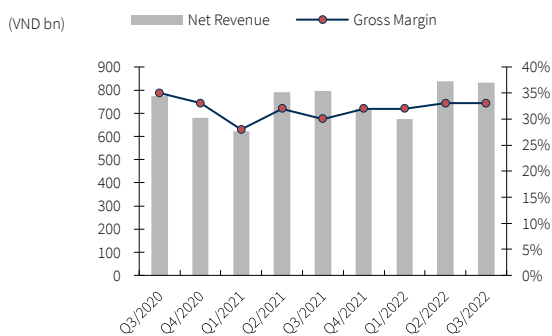
Source: Vinamilk, KB Securities Vietnam

Fig 3. VNM – NPAT by quarter (VNDbn)



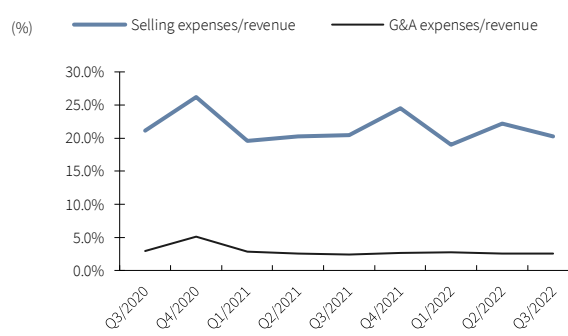
Source: Vinamilk, KB Securities Vietnam

Fig 4. MCM – Net revenue & GPM (VNDbn, %)



Source: Moc Chau Milk, KB Securities Vietnam

Fig 5. VNM – Selling expenses/revenue & G&A expenses/revenue (%)



Source: Vinamilk, KB Securities Vietnam

Investment catalysts

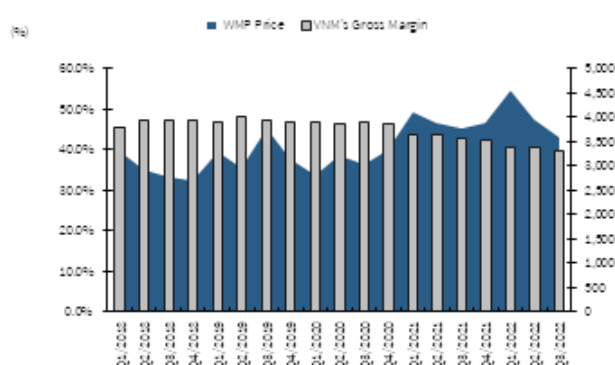
VNM expects to improve GPM thanks to lower input costs and new potential projects

Except for VNM liquid milk product, which VNM can be 100% self-sufficient in input materials, other product lines need to use powdered milk materials imported from other countries like US and New Zealand. Therefore, they will bear the risk of price fluctuations on the international market. Recently, the prices of whole milk powder (WMP) and skim milk powder (SMP) have tended to plunge from the peak in 1Q22 due to the decrease in import volume from China. According to Trade Data Monitor, the import volume of WMP and SMP in China in the first nine months of the year dropped 17% YoY. We expect this trend to continue until the last months of 2022 and possibly may extend to 2023 because China's inventory and domestic supply are still relatively abundant. USDA forecasts that in 2023, domestic production of WMP and SMP will reach 1.1 million tons (+3% YoY) and 25,000 tons (equal to the same period last year), so China's import volume of these two products next year will be flat compared to 2022 for WMP and down 3% YoY for SMP.

According to VNM, the company has signed a contract to fix the price of powdered milk in the next three to six months, so we expect GPM should rise significantly from 4Q this year. Although interest rate increases and USD appreciation would raise the costs for importers, a sharper drop in powdered milk prices will partially undermine the adverse impacts of this problem. We maintain the forecast for 2022 GPM at over 41%.

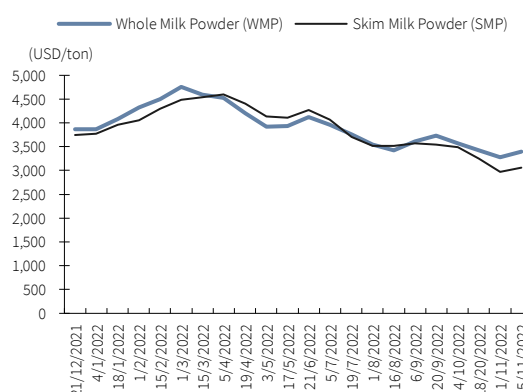
In addition, the Management also said that VNM has successfully tested the extraction of SMP and butter. Raw milk usually gives a higher yield in winter while the demand has not changed significantly, leading to oversupply. VNM has invested in production lines to solve the problem and made the two types of products, of which VNM previously had to import SMP. Although it is not possible to optimize the cost, VNM is gradually raising its self-inefficiency in powdered milk materials.

Fig 6. VNM – WMP prices and GPM relation



Source: Moc Chau Milk, KB Securities Vietnam

Fig 7. Global – WMP and SMP prices (USD/ton)



Source: Vinamilk, KB Securities Vietnam

VNM expanded farms and factories to improve self-efficiency of raw materials and production capacity in the long term

In 2021, Vinamilk owned 13 dairy farms with a total herd of more than 160,000 heads, providing 391 million liters of milk. The company plans to expand the farm through the implementation of dairy farm projects that are expected to be inaugurated and put into operation between 2023 and 2024. With three dairy projects including Lao-Jagro Dairy Farm Complex, Ecological Farm, and Moc Chau Hi-tech Dairy Cow and Moc Chau 2 Dairy Breeding Center Upgrade, thereby helping the company more self-sufficient for raw milk (+18%).

For the factory system, VNM is implementing two key projects, including a dairy plant in Hung Yen (total investment capital of VND4,600 billion and capacity of about 400 million liters/year) and Moc Chau factory (total investment capital of VND2,000 billion and capacity of 500 tons of milk/year in the first phase and 1,000 tons/year in the second). It is expected that in the period from 2025 when the factories come into operation, VNM's production capacity should increase by 30-40%.

For the JVL beef cooperated project between Vilico (VNM owns 68%) and a Japanese partner, we assess that this project has a great potential to become VNM's growth force as the premium beef market in Vietnam is still fragmented. Currently, JVL has conducted trial farming and selling of beef products in Vietnam and has initially built up a customer network. The products should be available on the market in 2023 or 2024 with three main distribution points, which are restaurants-hotels, supermarkets and retail outlets.

Table 1. VNM – Notes on projects

No.	Projects	Total investment	Expected operating time	Scale	Designed capacity	KBSV notes
1	Lao-Jagro Dairy Farm Complex	150 USD mn	2023	24,000 cows		With three dairy farm projects, we estimate that VNM's herd size should increase by 20,000-30,000 heads, thereby helping the company more self-sufficient for raw milk (+18%) in 2023
2	Eco dairy complex in Moc Chau	1,000 VND bn	2024	150 ha farm, raising 4,000 dairy cows	20 lit mil/year	
3	Moc Chau 2 Dairy Breeding Center Upgrade	150 VND bn	2024 - 2025	Upgrade to 2,000 cows		
4	Dairy factory in Moc Chau	2,000 VND bn	2024 - 2025	n/a	Phase 1: 500 tons/day GĐ2: 1,000 tons/day	These are key projects to meet market demand in the next two or three years since VNM's factories in the North are currently at over 70% capacity. We forecast that VNM's total factory capacity may rise 30-40% in the period 2025-2027
5	Dairy factory in Hung Yen province (2 phases)	4,600 VND bn	2025	n/a	Phase 1: 200 million liters/year Phase 2: 200 million liters/year	
6	The beef farming & production project (the joint venture between Vilico and Sojitz)	2,985 VND bn	2024	30,000 cows	Slaughtering - processing - packing capacity of 100 fish/day	This could be VNM's new growth driver because (1) the premium beef market in Vietnam is quite fragmented; and (2) the company has the advantage of size and quality of breeding cows and long-term breeding experience

Source: Vinamilk, KB Securities Vietnam

Forecast & valuation

2022–2023F performance

We lower our forecast for VNM's business results, compared to the previous report because 4Q is not the peak quarter for sales, and the risk of inflation may reduce purchasing power. Accordingly, we expect net revenue and NPAT in 2022 to be VND62,278 billion (+2.23% YoY) and VND9,507 billion (-10.5% YoY), respectively. For 2023, net revenue can reach VND65,081 billion (+4.5% YoY), and NPAT may reach VND10,105 billion (+6.2% YoY). We think VNM is still a defensive stock, with net revenue CAGR of around 5–6% over the period 2023–2026.

Table 2. VNM – Changes in forecast performance

	Updated forecast		Previous forecast		(+/-%)		Notes
	2022F	2023F	2022F	2023F	2022F	2023F	
Revenue	62,278	65,081	62,781	65,105	-0.8%	+0.1%	Adjusted down sales because Q4 was not the peak sales quarter. Inflationary pressure may affect purchasing power
<i>Domestic</i>	52,149	53,724	52,149	53,461	0.0%	+0.5%	
<i>Foreign</i>	10,129	11,357	10,632	11,644	-4.7%	-2.5%	
Gross Profit	25,728	27,182	25,856	27,493	-0.5%	-1.1%	Gross margin is expected to improve at 41.31% in 2022 due to the benefit of lower input material prices
Selling expense	(13,701)	(14,318)	(13,996)	(14,514)	-2.1%	-1.4%	
G&A expense	(1,619)	(1,692)	(1,570)	(1,675)	+3.1%	+1.0%	
NPAT	9,507	10,105	9,484	10,360	+0.2%	-2.5%	Our forecast for NPAT in 2022 decreased by 10.5% compared to the same period in 2021.

Source: KB Securities Vietnam

HOLD recommendation with a target price of VND88,100 apiece

We combine two valuation methods DCF and P/E (weighting 50–50 for each method) to value VNM stocks. We raise our target price from VND84,100/share to VND88,100/share, equal to an upside of 11% compared to the closing price on November 23, 2022. We recommend HOLD for VNM stocks as the stock has recently outperformed the general market, partly reflecting its growth expectations in 2023.

Table 3. VNM – Combination of the two methods

Valuation method	Weight	Forecast price
DCF	50%	89,850
P/E	50%	86,428
Target price	100%	88,100

Source: KB Securities Vietnam

VNM – 2020A–2023E financials

Income statement					Balance sheet				
(VNDbn)	2020A	2021A	2022E	2023E	(VNDbn)	2020A	2021A	2022E	2023E
Net sales	59,636	60,919	62,278	65,081	Total assets	48,432	53,332	53,294	56,283
Cost of sales	(31,968)	(34,641)	(36,550)	(37,899)	Current assets	29,666	36,110	35,975	39,221
Gross Profit	27,669	26,278	25,728	27,182	Cash & equivalents	2,111	2,349	2,764	3,077
Financial income	1,581	1,215	1,414	1,469	ST investments	17,315	21,026	21,694	22,481
Financial expenses	(309)	(202)	(330)	(426)	Accounts receivable	4,174	4,368	4,364	4,761
of which: interest expenses	(144)	(89)	(206)	(291)	Inventory	4,953	6,820	5,602	7,279
Gain/(loss) from joint ventures	4	(45)	0	0	Other current assets	1,113	1,547	1,552	1,624
Selling expenses	(13,447)	(12,951)	(13,701)	(14,318)	Long-term assets	18,767	17,222	17,319	17,062
General & admin expenses	(1,958)	(1,567)	(1,619)	(1,692)	LT trade receivables	20	17	0	0
Operating profit/(loss)	13,539	12,728	11,491	12,215	Fixed assets	12,717	11,620	10,189	8,743
Net other income/(expenses)	(21)	195	103	107	Investment properties	60	60	43	25
Pretax profit/(loss)	13,519	12,922	11,594	12,323	LT incomplete assets	794	835	1,855	2,920
Income tax	(2,283)	(2,290)	(2,087)	(2,218)	LT investments	988	763	970	1,014
Net profit/(loss)	11,236	10,633	9,507	10,105	Goodwill	0	0	0	0
Minority interests	137	100	100	100	Other LT assets	4,187	3,928	4,262	4,360
Net profit after MI	11,099	10,532	9,407	10,005	Liabilities	14,785	17,482	16,151	18,595
					Current liabilities	14,213	17,068	15,663	18,109
					Trade accounts payable	3,199	4,214	2,960	5,076
					Advances from customers	16	4	8	8
					ST borrowings	7,316	9,382	9,569	9,764
					Special reserves	0	0	0	0
					Other current liabilities	3,681	3,468	3,126	3,261
					Long-term liabilities	573	414	488	487
					LT payables	0	0	0	0
					LT borrowings	167	76	49	32
					Other LT liabilities	405	338	438	455
					Shareholders' equity	31,297	33,083	34,376	34,920
					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	7,935	7,467
					Reserve & others	3,489	4,555	5,507	6,520
					Minority interests	2,350	2,767	2,767	2,767
					Total liabilities & equity	48,432	53,332	53,294	56,283
					Key ratios				
					(x, % VND)	2020A	2021A	2022E	2023E
					Valuations				
					P/E	22.8	19.1	14.8	13.9
					P/E diluted	22.8	19.1	14.8	13.9
					P/B	6.8	5.0	3.7	3.7
					P/S	3.2	3.0	2.2	2.1
					EV/EBITDA	12.8	16.6	18.0	17.0
					EV/EBIT	14.9	19.3	20.8	19.4
					EPS	4,770	4,517	4,501	4,787
					DPS (annual, ordinary)	4,553	3,647	4,001	4,001
					Dividend payout ratio (%)	45%	35%	35%	35%
					Operating performance				
					ROE	36%	33%	28%	29%
					ROA	23%	21%	18%	18%
					ROIC	29%	25%	22%	23%
					Financial structure				
					Total liab/equity	0.5	0.5	0.5	0.5
					Current ratio (x)	2.1	2.1	2.3	2.2
					Interest coverage (x)	95.0	146.5	57.2	43.3
					Activity ratios				
					Asset turnover	1.4	1.2	1.2	1.2
					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

Source: Vinamilk, KB Securities Vietnam

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

Research Division
research@kbsec.com.vn

Equity

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

Macro/Strategy

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

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Strategy, Chemicals

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

Real Estate, Construction & Materials

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

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

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

Oil & Gas, Utilities

Tieu Phan Thanh Quang – Analyst
quangtpt@kbsec.com.vn

Industrial Real Estate, Logistics

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

Support team

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

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@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

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