

Vinamilk (VNM)

Expects to rebound in 2023

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VNM achieved 88% profit and 94% revenue objectives in 2022

Vinamilk (VNM) announced its 2022 NPAT and revenue hit VND8,577 billion and VND59,956 billion, completing 88% and 94% of the respective targets (vs 90.2% and 96.3% of KBSV's forecasts).

Revenue from domestic market may continue to be flat

We assume VNM's revenue from domestic market will continue to move sideways due to (1) increasingly fierce competition and difficulties in gaining more market share; (2) modest demand for milk in Vietnam; (3) limited purchasing power due to 4Q22 layoffs.

GPM is expected to improve from 2Q or 3Q23

2022 gross profit margin (GPM) did not meet expectations as VNM had to use high-priced milk power inventories. We expect VNM's GPM to improve from 2Q or 3Q23 when the company starts using low-priced powdered milk for production. 2023 GPM should reach 40.84% (up 1ppt YoY).

VNM offers an attractive cash dividend yield of nearly 40%

Although the company did not fully reach its profit target for 2022, VNM plans still pay dividends for 2022 at the rate of 38% on par value and 90% on profit distributed to the parent company.

HOLD recommendation – Target price VND81,200/share

For 2023, VNM expects VND9,368 billion (+9.2% YoY) in NPAT and VND62,096 billion (+3.5% YoY) in revenue. We recommend HOLD for VNM with the target price of VND81,200/share, 8% higher than the closing price on February 27, 2023.

Hold maintain

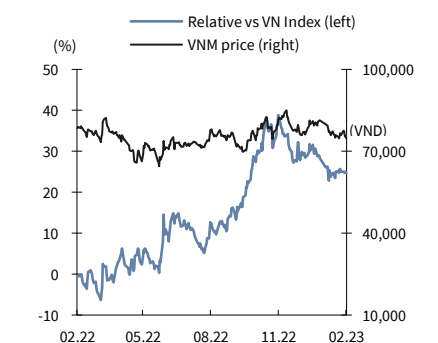
Target price	VND81,200
Upside	8%
Current price (Feb 27, 2022)	75,200
Market cap (VNDbn/USDmn)	156/6.5

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	-6	-10	-1	-7
Relative	0	-11	17	25

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	60,919	59,956	62,096	64,439
Earnings (VNDbn)	12,728	10,491	11,321	12,017
NPAT (VNDbn)	10,633	8,578	9,368	9,942
EPS (VND)	4,517	3,632	4,453	4,728
EPS growth (%)	-12.9	-5.3	22	7
P/E (x)	24.1	23.8	20.0	19.0
P/B (9x)	6.3	5.5	4.4	4.3
ROE (%)	36	33	30	30
Dividend yield (%)	45	35	40	40



Source: Bloomberg, KB Securities Vietnam

4Q22 business performance

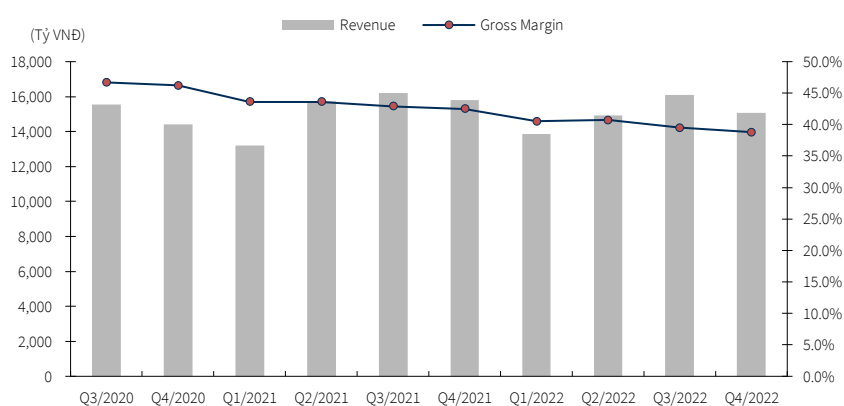
VNM achieved 88% profit and 94% revenue objectives in 2022

VNM recorded 4Q22 NPAT of VND1,869 billion (-15% YoY) on revenue of VND15,068 billion (-5% YoY). Full-year NPAT and revenue hit VND8,577 billion and VND59,956 billion, completing 88% and 94% of the respective targets (vs 90.2% and 96.3% of KBSV's forecasts).

GPM failed to meet expectations

2022 GPM was 40%, lower than our expectation of 41.3% as we expect that lower milk prices would help VNM save raw material costs. 4Q GPM was slightly lower than previous quarters, reaching only 38.8% due to (1) subdued sales 4Q low season and (2) high-priced raw material inventories. In 1H22, VNM successfully kept its GPM over 40% thanks to using low-priced raw materials from the previous year. However, in 2H22, high-priced powdered milk adversely affected GPM which could not recover as quickly as we expected when the prices of powdered milk fell from its peak.

Fig 1. VNM – Net revenue & GPM (VNDbn, %)



Source: Vinamilk, KB Securities Vietnam

Vietnam dairy industry grew 5% by the end of November 2022

According to Nielsen, the domestic dairy industry maintained a recovery momentum with a growth rate of 5% in value as of November 2022 as dairy enterprises raised their product prices to offset rising costs amid inflationary pressure. Meanwhile, the consumption volume did not change much, showing that the prospect of consumption for dairy products is not so positive.

The parent company's domestic sales decreased by 2.5% YoY in 4Q due to (1) the decline in consumer demand and (2) the closing of inefficient retail stores in 2H22. This will affect business results in the short term, but in the long term, it will ensure the sustainability of the whole system.

Subsidiary MCM strongly grew in 2022

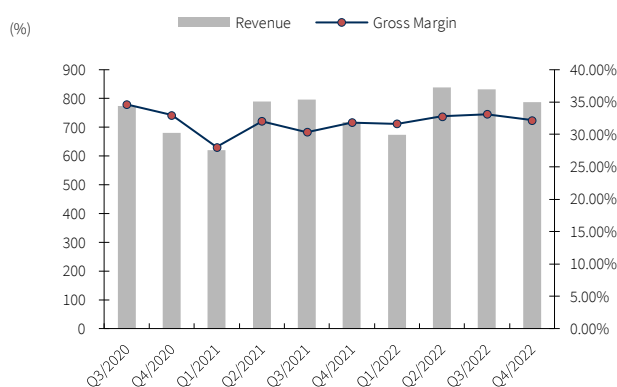
VNM’s subsidiary, Seed Moc Chau Dairy Cattle (MCM), recorded NPAT of VND72 billion on net revenue of VND787 billion (+9.5% YoY) in 4Q, which is the highest growth rate of the year. 2022 GPM gained 1.7ppts YoY to 32.5%. According to the Management, VNM has persuaded MCM farmers to use VNM’s bran formula to feed dairy cows, thereby improving milk quality and quantity. MCM stores achieved an impressive revenue growth of more than 50% in 2022 with more than 60 points of sale by the end of 2022

The export markets are still facing difficulties while foreign branches continue to be bright spots

Revenue from foreign market hit VND2,269 billion in 4Q, of which export sales reached VND1,088 billion (-40% YoY) and revenue from foreign branches was VND1,181 billion (+18% YoY). Inflation has hit hard on the purchasing power of consumers in the export markets of VNM, especially in the Middle East. Therefore, VNM should be flexible in measures to support customers and promote trade.

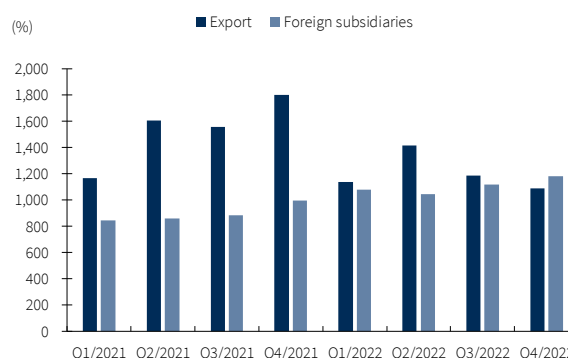
Foreign subsidiary Driftwood recorded a revenue growth of over 30% in 2022 thanks to diversified distribution channels, bringing VNM's products to the US market. Angkormilk also grew over 10% thanks to new products development.

Fig 2. MCM – Net revenue & GPM (VNDbn, %)



Source: Vinamilk, KB Securities Vietnam

Fig 3. VNM – Revenue from export markets & foreign branches (VNDbn)



Source: Vinamilk, KB Securities Vietnam

2023 outlook

The rate of GPM improvement depends on the fluctuation of input material prices

Expectations to rebound in 2023

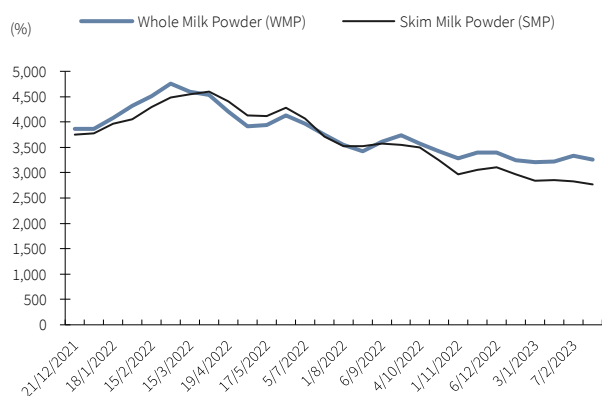
In the recent meeting with analysts, the Management shared that the company has prepared powdered milk materials for use until 3Q23. Assuming high-priced powdered milk remains, we expect VNM's GPM will improve from 2Q or 3Q23 and reach 40.84% for the whole year (up 1ppt YoY).

Sugar, one of the raw materials of VNM, has recently gained in prices, reaching six-year highs. Due to high oil prices, major sugar producing countries such as Brazil, Thailand and India have switched to using sugarcane to produce ethanol, causing a decrease in supply and a sharp increase in global sugar prices in 1H23. This may have some impacts on VNM's production costs as the company still has to import sugar from overseas markets (~30%). However, the impact of sugar prices on GPM will not be as large as the fluctuation in input milk powder prices because VNM uses sugar from its subsidiary, Vietsugar, which currently meets about 70% of VNM's production needs.

Domestic revenue should continue to be flat

In 2022, the consumption of baby formula dropped due to a decrease in birth rates while adult milk powder increased as consumers tend to pay more attention to health after the Covid-19. However, baby formula has shown positive signs since 2023 and recorded a two-digit growth in the first two months of the year. The company would continue to restructure the brand, change products in terms of packaging and flavoring, diversify distribution channels and apply digital transformation to save operating costs. However, we think VNM's domestic market would be flat compared to 2022 due to (1) increasingly fierce competition and difficulties in gaining more market share; (2) modest demand for milk in Vietnam; (3) limited purchasing power due to 4Q22 layoffs.

Fig 4. Global - Whole milk powder and skim milk powder price change (%)



Source: Global Dairy Trade, KB Securities Vietnam

Fig 5. Global - Sugar prices (USD/pound)



Source: Isosugar, KB Securities Vietnam

VNM offers an attractive cash dividend yield of nearly 40%

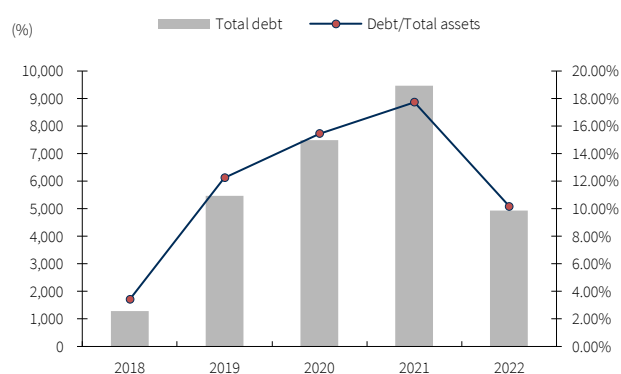
High dividend yields despite not fulfilling profit targets

Although the company did not fully reach its profit target for 2022, VNM plans still pay dividends for 2022 at the rate of 38% on par value and 90% on profit distributed to the parent company. Abundant cash flow is the basis for the company to continue to pay high dividends to investors. As of the end of 2022, VNM's consolidated net cash balance was VND14,781 billion, accounting for 30% of total assets.

Debt to total assets ratio fell to 10%, the lowest level in the past three years

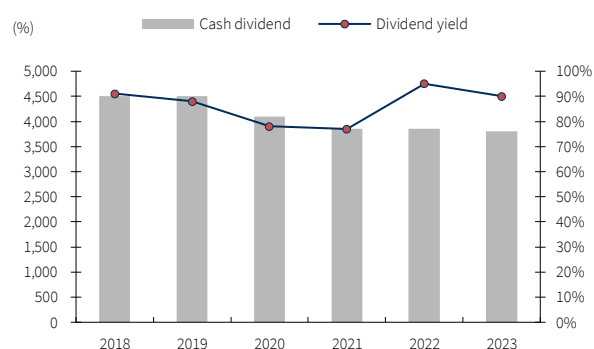
Given high interest rates, the company has actively reduced the ratio of debt to total assets to 10%, the lowest level in the past three years. In 2022, VNM invested VND1,500 billion in total to expand and improve production capacity and increase automation of dairy plants. VNM also disbursed for the Vilico project in 4Q22. The management said that the project will be started in March should come into operation after two years.

Fig 6. VNM – Debt to total assets ratio (%)



Source: Vinamilk, KB Securities Vietnam

Fig 7. VNM – Dividend yields over the years (%)



Source: Vinamilk, KB Securities Vietnam

Forecast & valuation

2023F performance

In 2023, VNM's revenue from domestic market should grow by a mere of 2%, assuming that powdered milk products have better consumption compared to the same period last year, and VNM does not increase product prices this year as raw material costs have cooled down compared to 2022. Meanwhile, the export market may face difficulties as the economic instability in the Middle East market will probably have stronger and longer impacts on consumers' purchasing power. Accordingly, we expect VNM's revenue from export markets to grow 5% from the low base of 2022, assuming consumption will be stable and positive again in 2H23. Sales to foreign countries should maintain a two-digit growth rate in the period of 2023–2027.

For 2023, VNM expects VND9,368 billion (+9.2% YoY) in NPAT and VND62,096 billion (+3.5% YoY) in revenue while GPM should improve by 1ppt from the previous year's 40.85%.

Brighter outlook in 2024

We assess the outlook for 2024 would be more positive, based on (1) VNM's continuing the recovery in consumption from the end of 2023 and (2) Vietnam's higher demand for dairy products. For 2024, we expect VNM's NPAT and net revenue to reach VND9,942 billion (+6.1% YoY) and VND64,439 billion (+4% YoY) respectively.

Table 1. VNM – A summary of forecast changes

	Latest forecast		Former forecast		Change (%)		KBSV's notes
	2023F	2024F	2023F	2024F	2023F	2024F	
Revenue	62,096	64,439	65,081	68,950	-5%	-7%	The forecast was adjusted as VNM did not fulfill 2022 objectives, and the purchasing power has not strongly recovered in 1H23
Domestic	51,718	52,758	53,724	55,889	-4%	-6%	
Foreign	10,378	11,681	11,357	13,060	-9%	-11%	Export markets are facing many difficulties while foreign subsidiaries may maintain two-digit growth
Gross profit	25,364	26,654	27,182	29,538	-7%	-10%	
Selling expenses	(13,351)	(13,854)	(14,318)	(18,824)	-7%	-26%	
Administrative expenses	(1,763)	(1,830)	(1,692)	(1,793)	4%	2%	
NPAT	9,368	9,942	10,105	11,638	-7%	-15%	2023 NPAT should grow 9% from last year's low bases

Source: KB Securities Vietnam

HOLD recommendation with a target price of VND81,200/share

We combine two valuation methods DCF and P/E (weighting 50–50 for each method) to value VNM. For the DCF model, we use WACC = 10.82% after adjusting the market risk premium to 8.08%. For the P/E model, we apply a 2023 target P/E of 20.x, close to the industry average.

All things considered, we recommend HOLD for VNM stocks with the target price of VND81,200/share, 8% higher than the closing price on February 27, 2023.

Table 2. VNM – Final valuation

Method	Weight	Weighted price
DCF	50%	73,385
P/E	50%	89,063
Final	100%	81,200

Source: KB Securities Vietnam

Table 3. Global – Some peers in the dairy industry

Companies	Current market cap (USD)	P/E
VNM VN Equity	6,557.0	20.6
URC PM Equity	5,503.1	27.3
ICBP IJ Equity	7,676.3	25.1
NESTLE PA Equity	929.9	15.9
151 HK Equity	7,572.3	14.2
ZYWL IN Equity	1,083.9	29.1
ULTJ IJ Equity	1,157.5	7.3
1117 HK Equity	1,272.3	13.3
MONDE PM Equity	3,750.9	35.9
CNPF PM Equity	1,602.8	17.9
FNH MK Equity	2,213.0	20.1
TFMAMA TB Equity	1,907.3	24.0
DNL PM Equity	1,037.5	18.7
INDF IJ Equity	3,766.8	8.4
Median	2,060.1	19.4

Source: Bloomberg, KB Securities Vietnam

VNM – 2021A–2024E financials

Income statement					Balance sheet				
(VNDbn)	2021A	2022A	2023E	2024E	(VNDbn)	2021A	2022A	2023E	2024E
Net sales	60,919	59,956	62,096	64,439	Total assets	53,332	48,483	52,498	53,205
Cost of sales	(34,641)	(36,059)	(36,732)	(37,785)	Current assets	36,110	31,560	35,618	36,668
Gross Profit	26,278	23,897	25,364	26,654	Cash & equivalents	2,349	2,300	2,630	3,515
Financial income	1,215	1,380	1,415	1,479	ST investments	21,026	17,415	19,587	20,600
Financial expenses	(202)	(618)	(344)	(432)	Accounts receivable	4,368	4,634	4,689	4,986
of which: interest expenses	(89)	(166)	(92)	(167)	Inventory	6,820	5,560	7,052	5,922
Gain/(loss) from joint ventures	(45)	(24)	0	0	Other current assets	1,547	1,652	1,660	1,646
Selling expenses	(12,951)	(12,548)	(13,351)	(13,854)	Long-term assets	17,222	16,922	16,880	16,536
General & admin expenses	(1,567)	(1,596)	(1,763)	(1,830)	LT trade receivables	17	38	0	0
Operating profit/(loss)	12,728	10,491	11,321	12,017	Fixed assets	11,620	10,860	10,189	8,743
Net other income/(expenses)	195	4	104	107	Investment properties	60	58	43	25
Pretax profit/(loss)	12,922	10,496	11,425	12,124	LT incomplete assets	835	1,471	1,822	2,846
Income tax	(2,290)	(1,918)	(2,056)	(2,182)	LT investments	763	766	867	900
Net profit/(loss)	10,633	8,578	9,368	9,942	Goodwill	0	0	0	0
Minority interests	100	62	62	62	Other LT assets	3,928	3,729	3,960	4,022
Net profit after MI	10,532	8,516	9,307	9,880	Liabilities	17,482	15,666	16,481	16,753
Operating ratios					Current liabilities	17,068	15,308	16,019	16,287
(%)	2021A	2022A	2023E	2024E	Trade accounts payable	4,214	4,284	5,050	3,901
Revenue growth	2%	-2%	4%	4%	Advances from customers	4	4	8	9
EBIT growth	-5%	-18%	8%	7%	ST borrowings	9,382	4,867	4,867	6,097
EBITDA growth	-5%	-16%	7%	6%	Special reserves	0	0	0	0
NP after MI growth	-5%	-19%	9%	6%	Other current liabilities	3,468	6,153	6,093	6,280
Gross profit margin	43%	40%	41%	41%	Long-term liabilities	414	358	462	467
EBITDA margin	24%	21%	21%	22%	LT payables	0	0	0	0
EBIT margin	21%	18%	19%	19%	LT borrowings	76	66	88	82
Pre-tax profit margin	21%	18%	19%	19%	Other LT liabilities	338	292	374	385
Net profit margin	17%	14%	15%	15%	Shareholders' equity	33,083	29,849	33,050	33,484
					Paid-in capital	20,900	20,900	20,900	20,900
					Share premium	34	34	34	34
					Treasury stock	0	0	0	0
					Undistributed earnings	7,584	3,353	5,648	5,021
					Reserve & others	4,555	5,469	6,469	7,529
					Minority interests	2,767	2,967	2,967	2,967
					Total liabilities & equity	53,332	48,483	52,498	53,205
					Key ratios				
					(x, % VND)	2021A	2022A	2023E	2024E
					Valuations				
					P/E	24.1	23.8	17.0	16.0
					P/E diluted	24.1	23.8	17.0	16.0
					P/B	6.3	5.5	4.4	4.3
					P/S	3.1	3.0	2.5	2.5
					EV/EBITDA	13.6	19.3	18.1	17.1
					EV/EBIT	15.8	23.1	20.9	19.6
					EPS	4,517	3,632	4,453	4,728
					DPS (annual, ordinary)	4,376	3,908	4,001	4,001
					Dividend payout ratio (%)	45%	40%	40%	40%
					Operating performance				
					ROE	32%	27%	30%	30%
					ROA	20%	17%	19%	19%
					ROIC	25%	25%	25%	25%
					Financial structure				
					Total liab/equity	0.5	0.5	0.5	0.5
					Current ratio (x)	2.1	2.1	2.2	2.3
					Interest coverage (x)	146.5	64.2	125.3	73.6
					Activity ratios				
					Asset turnover	13	12	12	12
					Receivables turnover	13.5	13.3	13.3	13.3
					Inventory turnover	5.6	5.8	5.8	5.8
					Payables turnover	9.8	8.2	8.2	8.2

Source: Vinamilk, KB Securities Vietnam

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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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