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Business results improved with surging profit

By the end of 4Q23, Vinamilk (VNM) achieved net revenue of VND15,618 billion (+3.6% YoY). GPM 2.4ppts YoY to 41.2% thanks to stably low raw material costs. NPAT surged 25.8% YoY from 2022's low base to VND2,351 billion.

Domestic revenue saw a modest gain thanks to regaining market share

The domestic market continues to be slow due to the negative growth of the dairy industry. However, VNM managed to increase its market share compared to the beginning of the year after implementing a campaign to change its brand identity and continuously launching new products and commercial programs. The subsidiary Moc Chau Milk (MCM) grew after two quarters of falling revenue.

Foreign markets began to show positive signals

Revenue from overseas markets recorded strong growth. VNM income from export markets sharply gained from low comparative levels, led by the recovery in major markets such as the Middle East and East Asia. The foreign branch AngkorMilk maintained strong growth in both revenue and profit, and Driftwood returned to growth and posted record high profits.

HOLD recommendation – Target price VND79,500

We forecast 2024 net revenue of VNM will reach VND63,225 billion (+4.7% YoY), gross profit VND26,122 billion (+6.4% YoY), and GPM 41.3% (+0.7ppts). The company's NPAT may hit VND9,644 billion (+6.9% YoY). In the context of industry competition and slow growth, we suggest HOLDING VNM shares with a target price of VND79,500 apiece.

Hold maintain

Target price VND79,500

Upside	13%
Current price (Dec 4, 2023)	VND70,800
Consensus target price	VND85,772
Market cap (VNDtn/USDbn)	148/6

Trading data

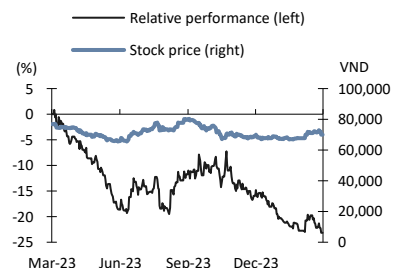
Free float	35.2%
3M avg trading value (VNDbn/USDmn)	228/9.3
Foreign ownership	54.7%
Major shareholder	SCIC (36%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	3.6	1.4	-12.5	-9.0
Relative	-0.5	-8.5	-12.9	-23.2

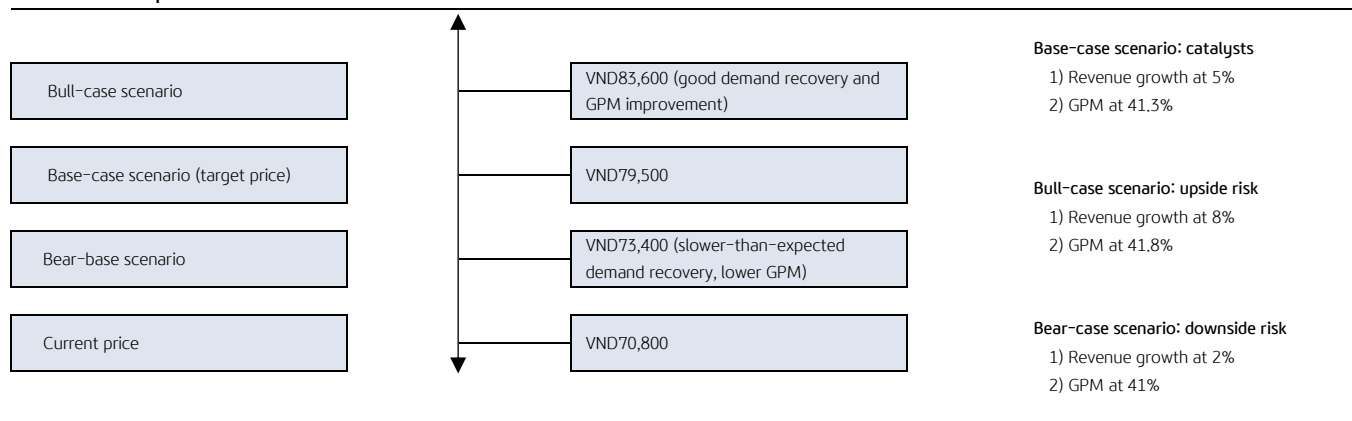
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	59,956	60,369	63,225	66,314
EBIT (VNDbn)	9,753	9,771	10,632	11,325
NPAT (VNDbn)	8,578	9,019	9,644	10,234
EPS (VND thousand)	3,632	3,796	4,566	4,847
EPS growth (%)	-20%	5%	20%	6%
P/E (x)	17.1	16.3	15.2	14.4
P/B (x)	4.5	4.2	4.0	3.8
ROE (%)	25%	27%	27%	27%
Dividend yield (%)	7.1%	5.7%	5.3%	5.3%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

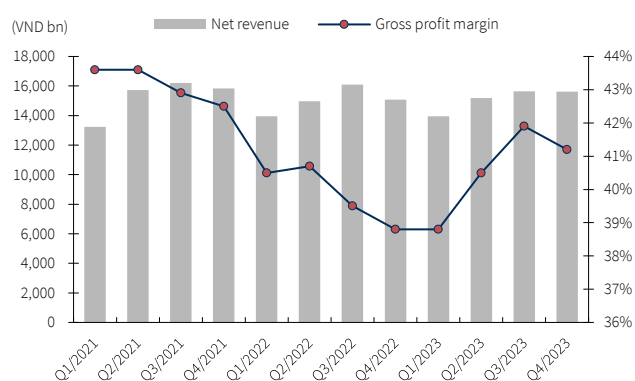
2023 performance updates

Table 1. VNM – 4Q23 & 2023 business results

	4Q22	4Q23	+/-%Yo Y	2022	2023	+/-%Yo Y	KBSV's notes
Revenue (VNDbn)	15,069	15,619	3.6%	59,957	60,369	0.7%	
Domestic sales	12,800	13,085	2.2%	50,704	50,578	-0.2%	The domestic market increased slightly despite subdued dairy industry thanks to improved market share after implementing brand identity changes. Subsidiary MCM also recorded similar difficulties when purchasing power was weak and the entire industry faced difficulties.
Exports	1,088	1,298	19.3%	4,829	5,039	4.3%	Export revenue recovered positively from the low base of the same period in 2022, and the demand in VNM's main export markets has also started to recover.
Overseas subsidiaries	1,181	1,236	4.7%	4,424	4,713	6.5%	Foreign branches in the US and Cambodia all have positive revenue growth. They have tried to optimize costs to bring in steady profits.
Gross profit (VNDbn)	5,846	6,442	10.2%	23,898	24,545	2.7%	Gross profit improved thanks to sustained revenue growth and higher GPM. GPM improved as the prices of raw milk remained low, and many other input materials also cooled down after a period of high inflation.
Gross profit margin (%)	38.8%	41.2%	2.4ppts	39.9%	40.7%	0.8ppts	
Financial income (VNDbn)	379	429	13.2%	1,380	1,716	24.3%	
Financial expenses (VNDbn)	-207	-119	-42.5%	-618	-503	-18.6%	
SG&A (VNDbn)	-3,784	-3,998	5.7%	-14,144	-14,772	4.4%	COGS increased because the company implemented a campaign to change brand awareness, promote marketing, advertising, and promotions to reach customers.
SG&A/revenue ratio (%)	2,229	2,726	22.3%	10,491	10,904	3.9%	
Operating income	2,295	2,852	24.3%	10,495	10,968	4.5%	
Other incomes (net, VNDbn)	1,869	2,351	25.8%	8,577	9,019	5.2%	NPAT surged from low comparative levels in the previous year thanks to improving GPM and effective cost control.

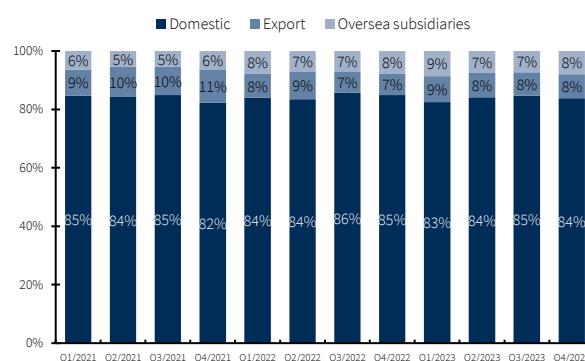
Source: Vinamilk, KB Securities Vietnam

Fig 2. VNM – Net revenue & GPM (VNDbn)



Source: Vinamilk, KB Securities Vietnam

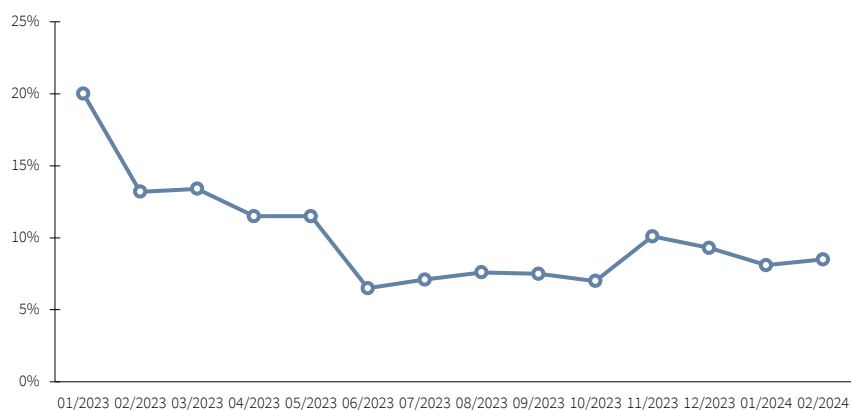
Fig 3. VNM – Revenue structure by market (%)



Source: Vinamilk, KB Securities Vietnam

Vietnam's economy has obviously decelerated. According to GSO, the total retail sales of goods and services in 2023 grew by a mere of 6-7% for many consecutive months. For the whole year 2023, total retail sales of goods and consumer services only inched up 9.6% YoY, lower than the steady two-digit growth rate before the Covid pandemic.

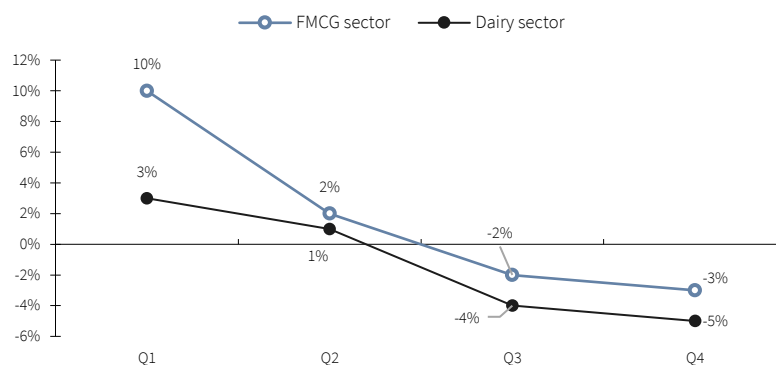
Fig 4. Vietnam – Total retail sales of goods & services in 2023–2M24 (%)



Source: General Statistics Office, KB Securities Vietnam

The economy is decelerating, and people's income is decreasing, so consumption is no exception. According to an AC Nielsen's report, the FMCG industry recorded a 3% YoY decline in value in 4Q23 and inched by 2% YoY for the whole year 2023. The dairy industry also witnessed a lag of 5% YoY in 4Q23 and lost 1% in 2023.

Fig 5. VNM – FMCG & dairy industry growth in 2023 (%)



Source: AC Nielsen, Vinamilk, KB Securities Vietnam

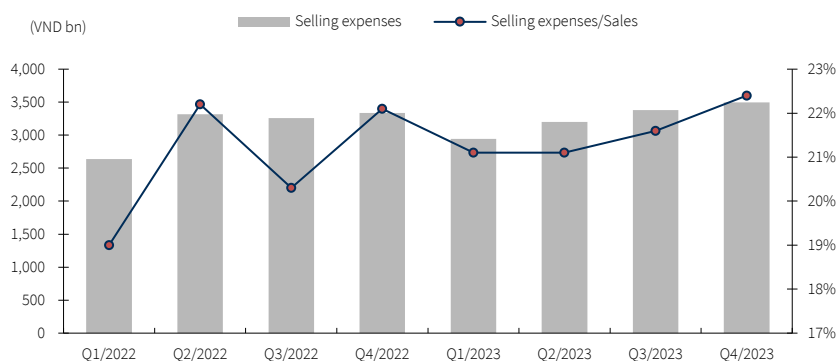
VNM expects to maintain domestic market share after changing its brand recognition

As the dairy market is entering a period of saturation and slow growth in the coming years, competing for market share is a big need for dairy businesses to ensure stable revenue growth. After changing its brand identity, VNM has continuously regained market share from competitors. Market share in 4Q was more stable than in 3Q for all products (at the end of 3Q, VNM announced a 2ppt-increase in market share compared to January 2023).

However, VNM must trade off market share against advertising and marketing costs. 4Q23 selling expenses accounted for 22.4% of net revenue, which is the highest ratio in the past two years. Although it is a seasonal factor when selling costs often increase sharply in 4Q, VNM really had to raise selling costs to regain market share in the last two quarters after changing its recognition.

We believe that VNM will be able to maintain and slightly improve market share in 2024, but it is necessary to monitor market share developments and selling expenses in the coming quarters to evaluate the effectiveness of the campaign to change the identify of VNM and answer the question whether VNM can maintain market share without raising the expenses.

Fig 6. VNM – Selling expenses & selling expenses to sales ratio (VNDbn, %)



Source: Vinamilk, KB Securities Vietnam

Profit margins remained stable in 2024

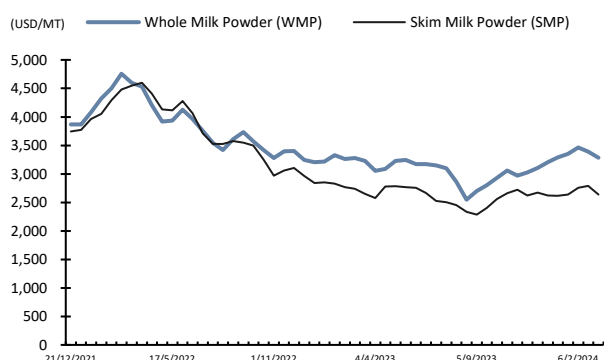
In 4Q23, the GPM of the entire company maintained an increase of 41.2%, gaining 2.45ppts YoY but slightly declining 0.7ppts QoQ due to seasonal factors. Cumulatively for the whole year, GPM of VNM reached 40.7% (up 0.8ppts YoY). However this margin is still quite low compared to the pre-Covid levels when competition was not as fierce as it is now.

We forecast 2024 GPM of VNM can be maintained and slightly improved compared to the current level but will not increase as strongly as in 2023 due to the following factors:

- (1) Milk powder prices have bottomed out and are starting to rebound as global demand begins to recover, especially in developing markets such as the Middle East and Southeast Asia. However, on the supply side, the end of the El Nino (predicted to end in 1H24) and switching to La Nina will make the weather less harsh and help the productivity of cattle herds and milk output increase again.
- (2) The farm in Laos has initially been put into operation, helping to increase the self-sufficiency in raw material and undermine the impacts from external factors.

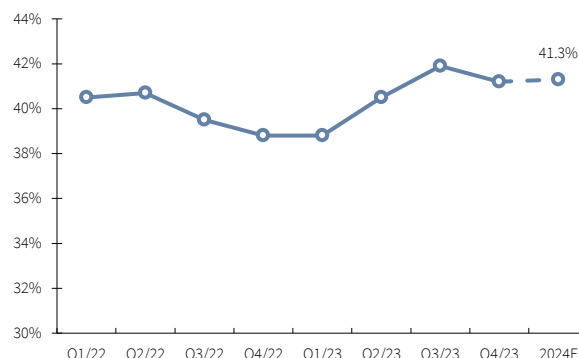
Risks can come from political instability and supply chain disruptions, causing commodity prices to escalate. However, the management said that they have also finalized the orders early and implemented contracts to minimize risks, so it is forecasted that there will be no major effects on the GPM.

Fig 7. VNM – Prices of whole milk powder & skim milk power (USD/MT)



Source: Vinamilk, KB Securities Vietnam

Fig 8. VNM – 2022A–2024F GPM (%)



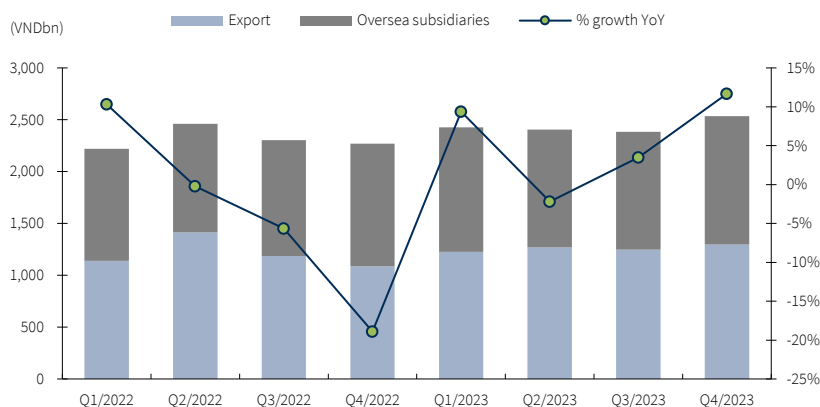
Source: Vinamilk, KB Securities Vietnam

The foreign markets are developing positively and should continue the growth in 2024

Net export revenue showed impressive growth thanks to YoY low comparative levels and recovering purchasing power. It is forecasted that in 2024, when the global economy recovers, VNM's major export markets (Southeast Asia and Middle East) will begin to recover in consumption demand. In particular, VNM's products are getting more popular in the Middle East market, but this market is not quite stable due to political tensions. Developed markets are also quite receptive to VNM's products thanks to their consistent quality and the company's ability to meet ESG standards.

Foreign branches also continue to show positive signs, Driftwood in the US still maintained slight growth and recorded a profit of over USD2 million for the first time. AngkorMilk in Cambodia continued to grow impressively, revenue and profit increased by 6% and 27% YoY, respectively. By increasingly building a solid brand in the market and expanding the customer base, combined with the potential and support of the parent company, these markets should maintain growth momentum in terms of revenue and profit in 2024.

Fig 9. VNM – Business performance in overseas markets (VNDbn)



Source: Vinamilk, KB Securities Vietnam

Forecast & valuation

2024F performance

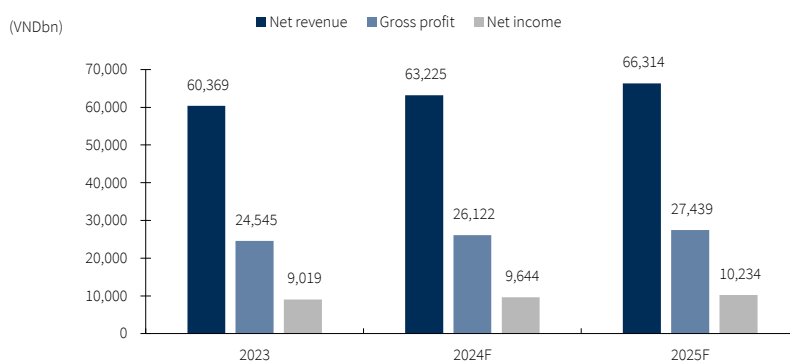
We believe that the dairy industry in 2024 will have a slight recovery when purchasing power recovers thanks to positive signals from the macro economy. We expect net revenue for the whole year 2024 of VNM to record VND63,225 billion (+4.7% YoY), and domestic growth will be slower than foreign markets. Gross profit may hit VND26,122 billion (+6.4% YoY) with a GPM of 41.3% (+0.7ppts). Thanks to efforts to optimize costs and improve profit margins, the company's NPAT is forecast to reach VND9,644 billion (+6.9% YoY).

Table 10. VNM – 2024–2025F results

	2023	2024F	+/-% YoY	2025F	+/- YoY	KBSV's notes
Revenue (VNDbn)	60,369	63,225	4.7%	66,314	4.9%	
<i>Domestic</i>	50,617	52,404	3.5%	54,521	4.0%	Domestic revenue continues to grow slowly in the context of slow recovery in purchasing power, saturated industry, and fierce competition with domestic and foreign competitors. Growth mainly comes from increasing selling prices and efforts to maintain market share.
<i>Export</i>	5,039	5,543	10.0%	5,986	8.0%	The export market continues to grow steadily with the expansion of new markets and customer growth in old markets.
<i>Overseas branches</i>	4,713	5,279	12.0%	5,806	10.0%	Foreign branches continue to expand their markets and increase their customer base.
Gross profit (VNDbn)	24,545	26,122	6.4%	27,439	5.0%	
<i>Gross profit margin (%)</i>	<i>40.7%</i>	<i>41.3%</i>	<i>0.7ppts</i>	<i>41.4%</i>	<i>0.1ppts</i>	Gross profit and gross profit margin are forecast to continue to improve. Gross profit margin is expected to be maintained with few major fluctuations when milk prices are stable, and the company also continuously increases the herd of cows to be self-sufficient in raw materials.
SG&A (VNDbn)	(14,774)	(15,490)	4.8%	(16,114)	4.0%	
EBIT (VNDbn)	9,771	10,632	8.8%	11,325	6.5%	
EBT (VNDbn)	10,968	11,761	7.2%	12,480	6.1%	
NPAT (VNDbn)	9,019	9,644	6.9%	10,234	6.1%	In the context of a saturated industry and fierce competition, the company will make efforts to optimize costs to maintain profit growth, but the growth rate is forecast to be very slow.

Source: Vinamilk, KB Securities Vietnam

Fig 11. VNM – 2023A–2025F performance (VNDbn)



Source: Vinamilk, KB Securities Vietnam

Valuation: HOLD rating – target price VND79,500

We price VNM stock with two methods (1) FCFF and (2) comparables:

(1) With the FCFF method, discounting the free cash flow in the FCFF enterprise with the assumptions stated below, we find the target price of VNM stock for this method will be VND72,300/share.

(2) With the comparables method, we use a target P/E of 19x, lower than the five-year average P/E due to lower profit growth potential compared to the previous period. The target EPS is VND4,566/share. The target price of VNM by this method is VND86,700/share.

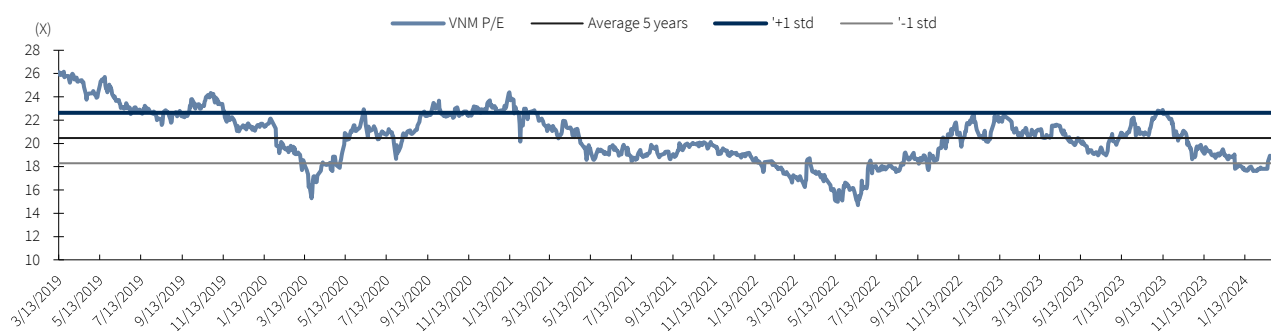
With the proportion used in the valuation model for each method being 50–50, we give a HOLD rating to VNM stock with the target price of VND79,500/share, 12% higher than the closing price on March 13, 2024.

Table 4. VNM – FCFF & assumption

Cost of equity	10.02%	PV of terminal value	99,570
Borrowing cost	7.00%	PV of FCFF	35,239
Risk free rate	4.70%	Cash & equivalents	3,856
Beta	0.7	Short-term investments	18,968
Terminal growth	3.0%	Firm value	157,632
Duration	5	Net debt	6,631
WACC	9.79%	Equity value	151,001
		Outstanding shares	2,089,955,445
Target price			VND72,300

Source: Vinamilk, KB Securities Vietnam

Fig 4. VNM – P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

VNM – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND Billion)	2022	2023	2024F	2025F	(VND Billion)	2022	2023	2024F	2025
Net sales	59,956	60,369	63,225	66,314	Total assets	48,483	52,673	51,523	54,29
Cost of sales	-36,059	-35,824	-37,103	-38,875	Current assets	31,560	35,936	34,956	38,15
Gross profit	23,897	24,545	26,122	27,439	Cash & equivalents	2,300	2,912	3,856	4,40
Financial Income	1,380	1,716	1,593	1,601	ST investments	17,415	20,138	18,968	19,89
Financial Expenses	-618	-503	-526	-512	Accounts receivable	4,634	4,808	4,559	5,19
of which: interest expenses	-166	-354	-339	-312	Inventory	5,560	6,166	5,999	6,95
Gain/(loss) from joint ventures	-24	-81	0	0	Long-term assets	16,922	16,737	16,567	16,13
Selling expenses	-12,548	-13,018	-13,720	-14,324	LT trade receivables	38	16	23	2
General & admin expenses	-1,596	-1,756	-1,770	-1,790	Fixed assets	10,860	11,689	11,242	10,59
Operating profit/(loss)	10,491	10,904	11,698	12,414	Investment properties	1,471	555	430	49
Net other income/(expenses)	4	64	63	66	Liabilities	15,666	17,648	15,213	16,10
Pretax profit/(loss)	10,496	10,968	11,761	12,480	Current liabilities	15,308	17,139	14,650	15,56
Income tax	-1,918	-1,949	-2,117	-2,246	Trade accounts payable	4,284	3,806	4,589	4,56
Net profit/(loss)	8,578	9,019	9,644	10,234	Advances from customers	4	0	0	
Minority interests	62	146	102	103	ST borrowings	4,867	8,218	6,446	7,10
Net profit after MI	8,516	8,874	9,542	10,131	Long-term liabilities	358	509	563	54
					LT payables	0	0	0	
					LT borrowings	66	238	185	14
					Other LT liabilities	292	270	378	39
					Shareholders' equity	32,817	35,026	36,310	38,18
					Paid-in capital	20,900	20,900	20,900	20,90
					Share premium	34	34	34	3
					Undistributed earnings	3,353	3,926	4,084	4,76
					Reserve & others	5,469	6,663	7,687	8,77
					Minority interest	2,967	3,329	3,431	3,53
Margin ratio					Key ratio				
	2022	2023	2024F	2025F	(x, %, VND)				
Gross profit margin	39.9%	40.7%	41.3%	41.4%	Multiple				
EBITDA margin	26.5%	26.9%	25.0%	22.0%	P/E	17.1	16.3	15.2	14.
EBIT margin	18.5%	19.0%	19.4%	19.6%	P/E diluted	17.1	16.3	15.2	14.
Pre-tax profit margin	17.5%	18.2%	18.6%	18.8%	P/B	4.5	4.2	4.0	3.
Operating profit margin	17.5%	18.1%	18.5%	18.7%	P/S	2.5	2.4	2.3	2.
Net profit margin	14.3%	14.9%	15.3%	15.4%	P/Tangible Book	4.6	4.3	4.2	3.
					P/Cash Flow	(2,427.2)	242.4	155.7	269.
					EV/EBITDA	13.2	11.3	12.1	10.
					EV/EBIT	15.8	13.6	14.0	11.
Cash flow statement					Operating Performance				
(VND Billion)	2022	2023	2024F	2025F	ROE%	25%	27%	27%	27%
Net profit	10,496	10,968	11,761	12,480	ROA%	17%	18%	19%	19%
Plus: depreciation & amort	2,095	2,300	1,892	1,958	ROIC%	33%	31%	35%	36%
Plus: investing (profit)/loss	-1,098	-1,643	-1,181	-1,169	Financial Structure				
Interest Expense	-166	-354	-339	-312	Cash ratio	0.2	0.2	0.3	0.
Change in working capital	11,326	11,271	12,134	12,957	Quick Ratio	1.7	1.7	2.0	2.
(Inc)/dec - receivables	-288	-245	507	-719	Current Ratio	2.1	2.1	2.4	2.
(Inc)/dec - inventory	851	-1,021	167	-960	LT Debt/Equity	0.0	0.0	0.0	0.
Inc/(dec) - payables	-386	-443	-610	273	LT Debt/Total assets	0.0	0.0	0.0	0.
Inc/(dec) - advances	-73	8	167	-97	ST Debt/Equity	0.1	0.2	0.2	0.
Other adj for operations	0	0	0	0	ST Debt/Total assets	0.1	0.2	0.1	0.
Operating cash flow	8,827	7,887	10,588	9,530	ST liabilities/Equity	0.3	0.3	0.2	0.
Purchase of Fixed Assets and long-term assets	-1,457	-1,580	-1,265	-1,339	ST liabilities/Total assets	0.2	0.2	0.2	0.
Proceeds from disposal of fixed assets	137	105	0	0	Total liabilities/Equity	0.3	0.3	0.2	0.
Loans granted, purchases of debt instruments	0	-2,856	0	-927	Total liabilities/Total assets	0.2	0.2	0.2	0.
Collection of loans, proceeds from sales of debts instruments	3,635	0	1,170	0	Activity Ratio				
Investments in other entities	-43	-36	-544	-152	Account receivable turnover	12.9	12.6	13.9	12.
Proceed from divestment in other entities	0	11	0	0	Inventory turnover	6.5	5.8	6.2	5.
Dividends and interest received	1,201	1,368	1,181	1,169	Account payable turnover	8.1	9.6	8.0	8.
Investing cash flow	3,473	-2,989	541	-1,248					
Proceeds from issue of shares	338	490	0	0					
Payment for share returns and repurchase	0	-143	0	0					
Proceeds from borrowings	6,258	11,788	11,823	11,936					
Repayment of borrowings	-10,789	-8,277	-13,648	-11,314					
Finance lease principal payments	0	0	0	0					
Dividends paid	-8,167	-8,152	-8,360	-8,360					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	-12,360	-4,293	-10,185	-7,738					
Net increase in cash & equivalents	-61	606	944	544					
Cash & equivalents - beginning	2,349	2,300	2,912	3,856					
Cash & equivalents - ending	2,300	2,912	3,856	4,400					

Source: Vinamilk, KB Securities Vietnam

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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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