

Vinamilk (VNM)

Growing from 1Q23 lows

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VNM maintained high NPAT growth from 1Q23 low base

By the end of 1Q24, Vinamilk (VNM) posted VND14,125 billion in net revenue (+1.2% YoY) with a high GPM (41.9%, +3.1ppts YoY) thanks to low raw material prices. NPAT hit VND2,207 billion (+15.8% YoY), maintaining high compared to the low base of the same period last year.

Domestic revenue remained flat amid a decline in the entire industry

The FMCG industry in general and the dairy industry in particular continue to face negative growth. However, VNM outperformed the industry with better revenue growth and should gain more market share, underpinned by condensed milk, drinking yogurt and nut milk product lines.

Income from foreign markets grew 8% YoY

Income from foreign markets impressively grew YoY. Exports to regular customers contributed the main growth, and VNM is researching to promote penetration into potential markets like Africa and South America. Foreign branches in Cambodia and the US both recorded growth thanks to improved brand positioning.

Valuation: BUY rating – price target VND76,000

We expect 2024F net revenue of VNM would be VND62,516 billion (+3.6% YoY) and gross profit would reach VND25,936 billion, corresponding to a GPM of 41.5% (+0.8ppts). Net profit after minority interest should be VND9,343 billion (+5.3% YoY). As the domestic dairy industry has shown signs of bottoming out, foreign markets are improving, and the current valuation is quite low compared to history, we gave a BUY rating to VNM with a price target at VND76,000.

Buy change

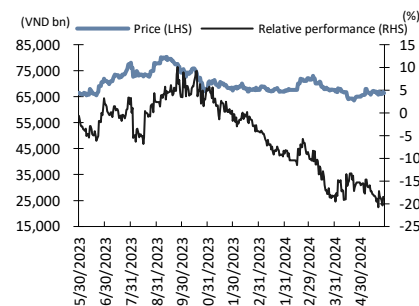
Target price	VND76,000
Upside	15%
Current price (Jun 3, 2024)	VND66,100
Consensus target price	VND80,200
Market cap (VNDtn/USDbn)	138.1/5.4

Trading data	
Free float	35.3%
3M avg trading value (VNDbn/USDmn)	269.4/10.8
Foreign ownership	50.8%
Major shareholder	SCIC (36%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.0	-7.9	-1.6	-0.3
Relative	-3.2	-9.5	-17.9	-18.4

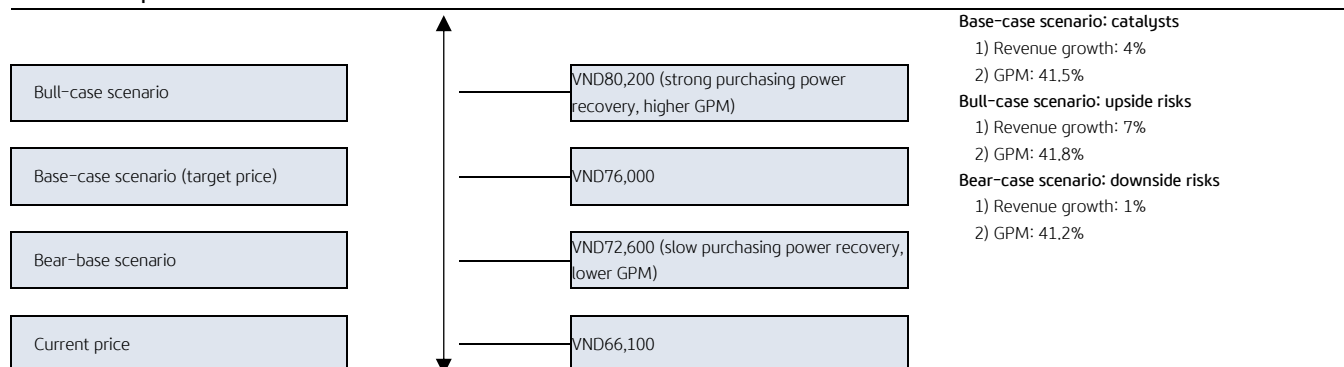
Forecast earnings & valuation

FY-end	2022	2023	2024F	
Net revenue (VNDbn)	59,956	60,369	65,675	
Operating income/loss (VNDbn)	10,491	10,904	12,277	
NPAT-MI (VNDbn)	8,516	8,874	10,018	
EPS (VND)	3,632	4,246	4,793	
EPS growth (%)	-20%	17%	5%	7%
P/E (x)	17.1	16.3	15.5	14.5
P/B (x)	4.5	4.2	4.1	3.9
ROE (%)	25%	27%	27%	27%
Dividend yield (%)	7.1%	5.7%	5.3%	5.3%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	63,225	66,314	62,516	65,675	-1.1%	-1.0%
EBIT	11,698	12,414	11,462	12,277	-2.0%	-1.1%
NP after MI	9,542	10,131	9,348	10,018	-2.0%	-1.1%

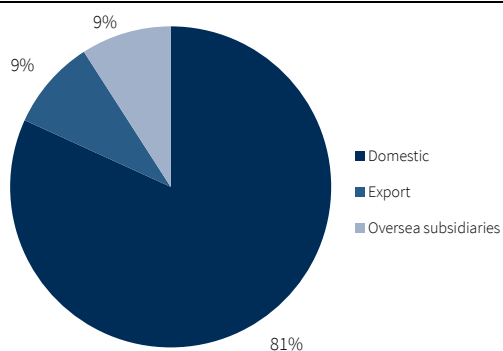
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	62,516	65,675	62,620	65,536	-0.2%	0.2%
EBIT	11,462	12,277	11,048	12,050	3.7%	1.9%
NP after MI	9,348	10,018	9,483	10,308	-1.4%	-2.8%

Source: Bloomberg, KB Securities Vietnam

Revenue composition (1Q24)



Source: Vinamilk, KB Securities Vietnam

Business operation

Vietnam Dairy Products JSC – Vinamilk (VNM) was established in 1976. It mainly operates in the field of production, processing, import and export of dairy and other nutritional products. Currently, the company holds the No. 1 market share in the domestic dairy industry (about 40%). VNM products have been exported to more than 50 countries around the world.

1Q24 performance updates

VNM maintained growth while the whole dairy industry faced difficulties

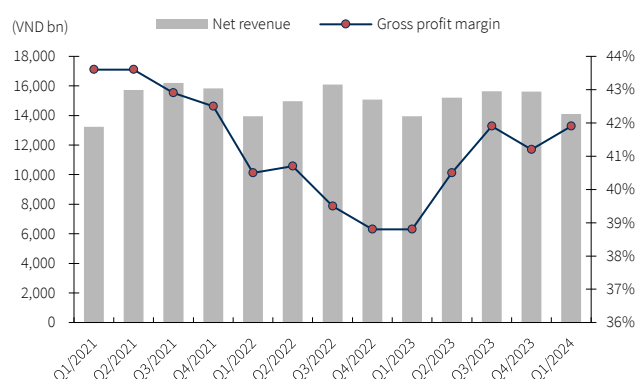
By the end of 1Q24, Vinamilk (VNM) posted VND14,125 billion in net revenue (+1.2% YoY). The local market encountered difficulties, but the export markets grew strongly again. GPM stayed high, which helped profit outgrow revenue. NPAT hit VND2,207 billion (+15.8% YoY).

Table 1. VNM – 1Q24

(VNDbn, %)	1Q23	1Q24	+/-%YoY	3M23	2M24	+/-%YoY	Notes
Revenue	13,918	14,112	1.4%	13,918	14,112	1.4%	
Domestic	11,491	11,497	0.1%	11,491	11,497	0.1%	Revenue from domestic market of VNM went sideways in the context of a slight decline in the entire dairy industry thanks to efforts to increase market share for diverse product lines.
Export	1,225	1,297	5.9%	1,225	1,297	5.9%	The demand from export markets of VNM have begun to recover, helping export revenue to recover from low levels and pace the wave for the company's penetration into potential markets.
Foreign branches	1,203	1,319	9.6%	1,203	1,319	9.6%	Foreign branches in the US and Cambodia maintained growth thanks to their continuously expanding markets and increasing brand presence.
Gross profit	5,398	5,912	9.5%	5,398	5,912	9.5%	Profit margin stayed high compared to previous quarters as input material costs have remained at a low level.
Gross profit margin	38.8%	41.9%	3.1ppts	38.8%	41.9%	3.1ppts	
Financial income	420	387	-7.9%	420	387	-7.9%	
Financial expenses	-158	-102	-35.4%	-158	-102	-35.4%	
SG&A	-3,331	-3,491	4.8%	-3,331	-3,491	4.8%	
Operating profit	2,315	2,716	17.3%	2,315	2,716	17.3%	
PBT	2,312	2,706	17.0%	2,312	2,706	17.0%	
NPAT	1,906	2,207	15.8%	1,906	2,207	15.8%	
NP after MI	1,857	2,195	18.2%	1,857	2,195	18.2%	NPAT grew above the low base of 1Q23 as GPM was improved on colling prices of input materials.
NPAT margin	13.3%	15.6%	2.3ppts	13.3%	15.6%	2.3ppts	

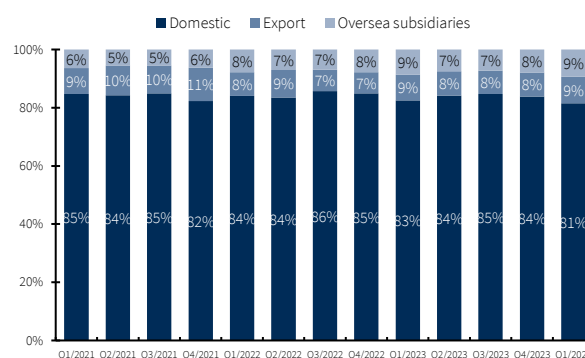
Source: Vinamilk, KB Securities Vietnam

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



Source: Vinamilk, KB Securities Vietnam

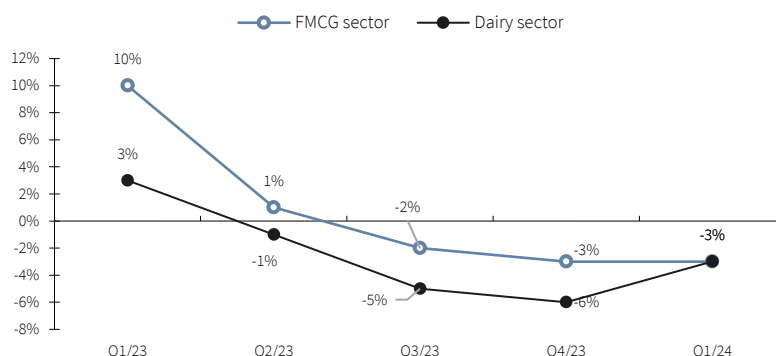
Fig 3. VNM – Revenue composition by market (%)



Source: Vinamilk, KB Securities Vietnam

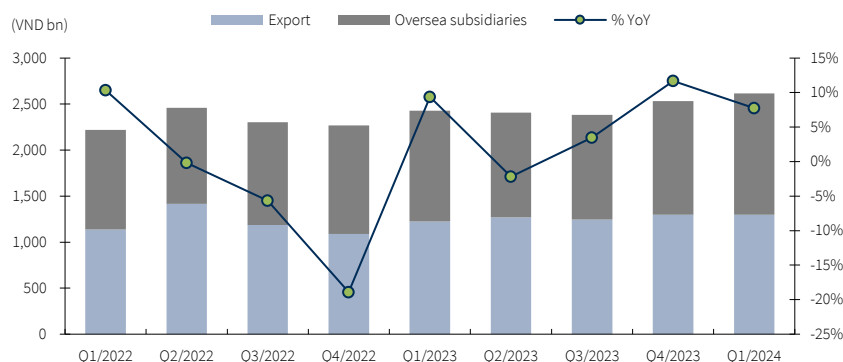
According to AC Nielsen, in 1Q24, the dairy industry continued its downward trend from mid-2023. The reason is still weak purchasing power not only for dairy products but many other FMCGs. However, the rate of decline has slowed down, and recovery is expected in the near future.

Fig 4. VNM – Domestic FMCG & dairy industry growth (%)



Source: AC Nielsen, Vinamilk, KB Securities Vietnam

Fig 5. VNM –



Source: Vinamilk, KB Securities Vietnam

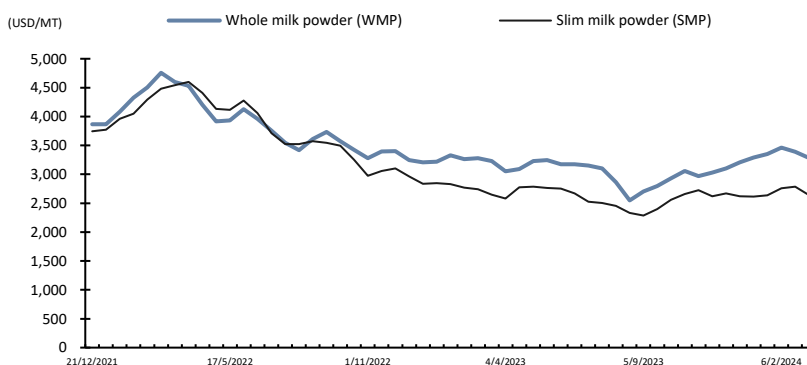
Revenue is forecast to grow slightly in the context of the entire industry slowing down

In 2024, VNM's revenue growth motivation is not much left. For the domestic market, we forecast that the entire dairy industry will return to growth in 2H24 when macro signals are more positive, but it will only be flat for the whole year due to the influence of negative growth from the first half of the year. VNM is still making efforts to increase market share after changing its brand identity, which starts to gain promising results with the fresh milk industry. The company will soon change the identity of all products in the remaining lines. However, we assess that competition in the industry is very fierce, so it will be difficult to gain much market share. We forecast the domestic market of VNM will record modest growth (mainly from the additional market share) in the context of the whole industry going sideways.

For foreign markets, export revenue is expected to grow more positively when the global economy rebounds, and VNM continuously searches for potential new markets in Africa and South America. Revenue from the US and Cambodia branches is also expected to grow further as inflation cools and brand positioning increases.

Milk powder prices may not see any big fluctuation. On the demand side, global demand is recovering, but the speed should be slow. On the supply side, according to many forecasts, La Nina will appear from the middle of this year. The less harsh climate will help increase the productivity of cows, making the milk supply abundant again.

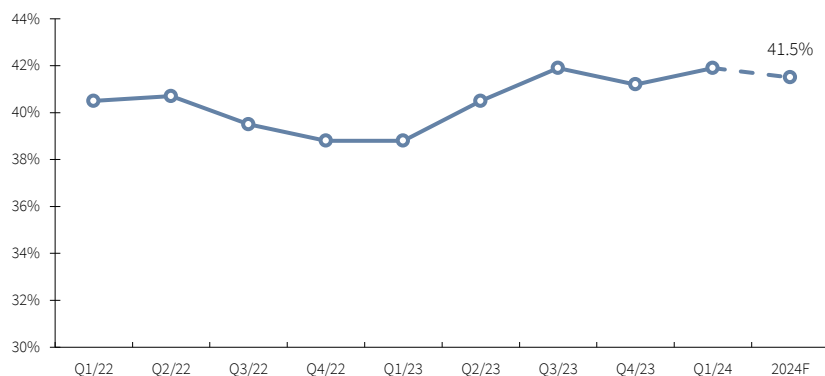
Fig 6. Global – Whole milk & skim milk powder prices (USD/MT)



Source: Global Dairy Trade, KB Securities Vietnam

Thanks to low and stable input raw material prices, profit margins are forecast to continue to maintain the current highs.

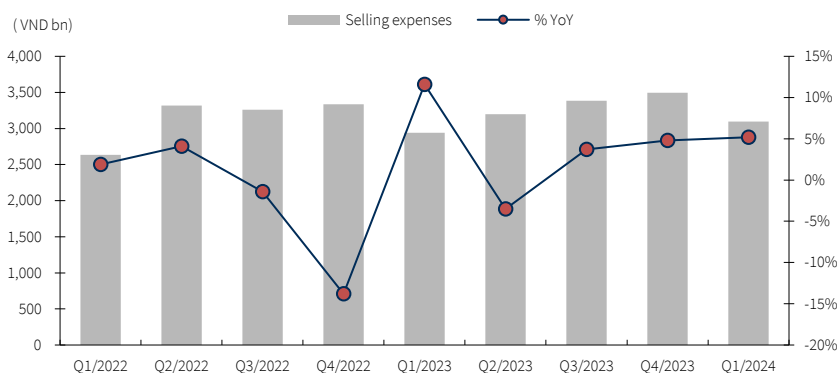
Fig 7. VNM – 2022A-2024F GPM (%)



Source: Vinamilk, KB Securities Vietnam

Although the market share improved, VNM's selling costs also tended to increase after changing its identity. It is necessary to further monitor the increase in selling expenses and the ability to improve market share in the coming time to evaluate effectiveness of the campaign.

Fig 8. VNM – Selling expenses (VNDbn)



Source: Vinamilk, KB Securities Vietnam

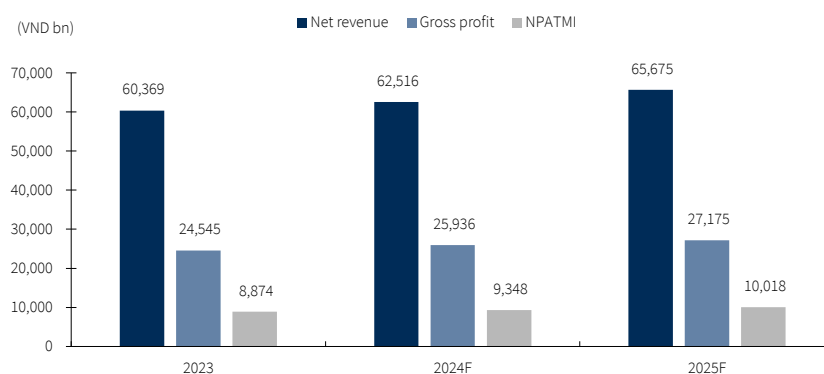
Forecast & valuation

Table 9. VNM – 2024–2025F results

(VNDbn, %)	2023	2024F	+/- % YoY	2025F	+/- YoY	Notes
Revenue	60,369	62,516	3.6%	65,675	5.1%	
Domestic	50,617	51,890	2.5%	53,986	4.0%	Forecast domestic revenue was lowered by 1% due to domestic purchasing power recovering more slowly than expected.
Export	5,039	5,442	8.0%	5,986	10.0%	The forecast was adjusted to decrease by 2% for foreign markets when the global economy is still recovering quite slowly.
Foreign branches	4,713	5,184	10.0%	5,703	10.0%	
Gross profit	24,545	25,936	5.7%	27,175	4.8%	
Gross profit margin	40.7%	41.5%	0.8ppts	41.4%	-0.1ppts	Gross profit margin continues to maintain given little fluctuations from input materials.
SG&A	(14,774)	(15,567)	5.4%	(16,090)	3.4%	
Operating profit	10,904	11,462	5.1%	12,277	7.1%	
PBT	10,968	11,524	5.1%	12,343	7.1%	NPAT forecast was lowered by about VND200 billion, in line with the company's guidance at the AGM.
NPAT	9,019	9,450	4.8%	10,121	7.1%	
NP after MI	8,874	9,348	5.3%	10,018	7.2%	
NPAT margin	14.7%	15.0%	1.7%	15.3%	2.0%	

Source: Vinamilk, KB Securities Vietnam

Fig 10. VNM – 2024–2025F results (VNDbn)



Source: Vinamilk, KB Securities Vietnam

Valuation: BUY rating – price target VND76,000

We value VNM shares with two methods: (1) FCFE and (2) comparables approach:

- (1) FCFE: We discounted the free cash flow in the FCFE enterprise with the assumptions stated below and found the target price of VNM shares for this method was VND71,500/share.
- (2) Comparables: We use a target P/E of 18x, equal to the five-year average P/E -1SD due to lower profit growth potential in the near future. Target EPS is VND4,473/share, and target price is VND80,500/share.

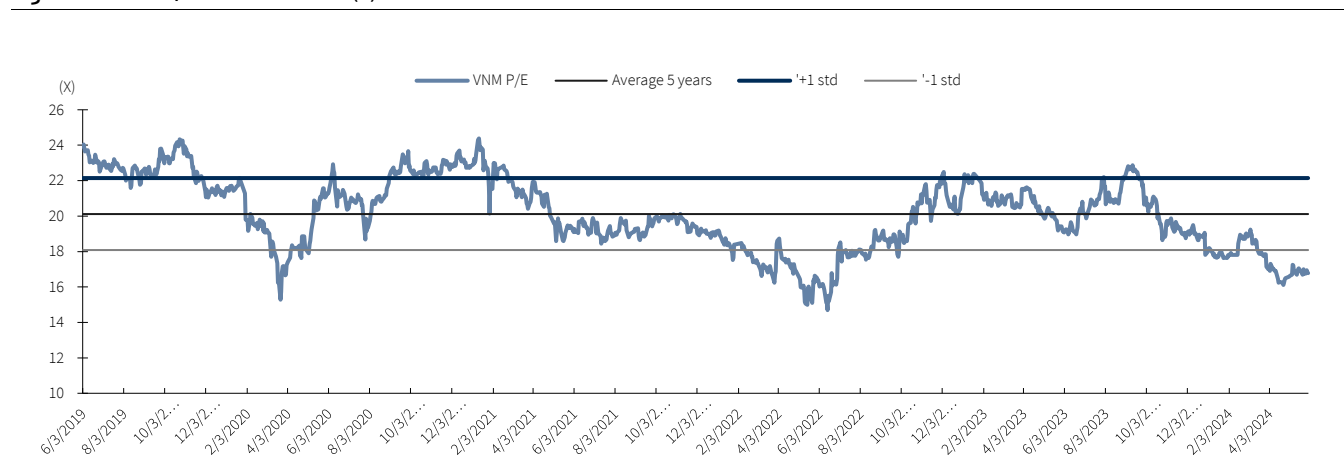
With the proportion used in the valuation model for each method being 50-50, we give a BUY rating to VNM with a price target of VND76,000, 15% higher than the closing price on June 3, 2024.

Table 11. VNM – FCFE valuation & assumption

Cost of equity	10.02%	PV of terminal value	99,570
Borrowing cost	7.00%	PV of FCFE	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			72,300

Source: KB Securities Vietnam

Fig 12. VNM – P/E in 2019–2024 (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	2025F
Net sales	59,956	60,369	62,516	65,675	Total assets	48,483	52,673	52,210	53,692
Cost of sales	-36,059	-35,824	-36,581	-38,501	Current assets	31,560	35,936	35,695	37,611
Gross profit	23,897	24,545	25,936	27,175	Cash & equivalents	2,300	2,912	3,222	2,642
Financial Income	1,380	1,716	1,588	1,650	ST investments	17,415	20,138	20,630	21,673
Financial Expenses	-618	-503	-445	-427	Accounts receivable	4,634	4,808	4,454	5,205
of which: interest expenses	-166	-354	-323	-295	Inventory	5,560	6,166	5,828	6,395
Gain/(loss) from joint ventures	-24	-81	-50	-30	Long-term assets	16,922	16,737	16,515	16,081
Selling expenses	-12,548	-13,018	-13,816	-14,252	LT trade receivables	38	16	23	24
General & admin expenses	-1,596	-1,756	-1,750	-1,839	Fixed assets	10,860	11,689	11,242	10,598
Operating profit/(loss)	10,491	10,904	11,462	12,277	Investment properties	1,471	555	421	480
Net other income/(expenses)	4	64	63	66	Liabilities	15,666	17,648	16,094	15,814
Pretax profit/(loss)	10,496	10,968	11,524	12,343	Current liabilities	15,308	17,139	15,537	15,278
Income tax	-1,918	-1,949	-2,074	-2,222	Trade accounts payable	4,284	3,806	4,431	4,550
Net profit/(loss)	8,578	9,019	9,450	10,121	Advances from customers	4	0	0	0
Minority interests	62	146	102	103	ST borrowings	4,867	8,218	7,527	6,870
Net profit after MI	8,516	8,874	9,348	10,018	Long-term liabilities	358	509	557	536
					LT payables	0	0	0	0
					LT borrowings	66	238	185	144
					Other LT liabilities	292	270	372	392
					Shareholders' equity	32,817	35,026	36,115	37,877
					Paid-in capital	20,900	20,900	20,900	20,900
					Share premium	34	34	34	34
					Undistributed earnings	3,353	3,926	3,910	4,493
					Reserve & others	5,469	6,663	7,666	8,742
					Minority interest	2,967	3,329	3,431	3,534
Margin ratio					Key ratio				
	2022	2023	2024F	2025F	(x, %, VND)	2022A	2023	2024F	2025F
Gross profit margin	39.9%	40.7%	41.5%	41.4%	Multiple				
EBITDA margin	26.5%	26.9%	25.0%	22.0%	P/E	17.1	16.3	15.5	14.5
EBIT margin	18.5%	19.0%	19.1%	19.4%	P/E diluted	17.1	16.3	15.5	14.5
Pre-tax profit margin	17.5%	18.2%	18.4%	18.8%	P/B	4.5	4.2	4.1	3.9
Operating profit margin	17.5%	18.1%	18.3%	18.7%	P/S	2.5	2.4	2.4	2.2
Net profit margin	14.3%	14.9%	15.1%	15.4%	P/Tangible Book	4.6	4.3	4.2	4.0
					P/Cash Flow	(2,427.2)	242.4	474.5	(253.5)
					EV/EBITDA	13.2	11.3	12.5	10.5
					EV/EBIT	15.8	13.6	14.5	12.1
Cash flow statement					Operating Performance				
(VND Billion)	2022	2023	2024E	2025F	ROE%	25%	27%	27%	27%
Net profit	10,496	10,968	11,524	12,343	ROA%	17%	18%	18%	19%
Plus: depreciation & amort	2,095	2,300	1,892	1,958	ROIC%	33%	31%	33%	36%
Plus: investing (profit)/loss	-1,098	-1,643	-1,181	-1,222	Financial Structure				
Interest Expense	-166	-354	-323	-295	Cash ratio	0.2	0.2	0.2	0.2
Change in working capital	11,326	11,271	11,913	12,784	Quick Ratio	1.7	1.7	1.9	2.0
(Inc)/dec - receivables	-288	-245	612	-835	Current Ratio	2.1	2.1	2.3	2.5
(Inc)/dec - inventory	851	-1,021	338	-567	LT Debt/Equity	0.0	0.0	0.0	0.0
Inc/(dec) - payables	-386	-443	-809	418	LT Debt/Total assets	0.0	0.0	0.0	0.0
Inc/(dec) - advances	-73	8	189	-96	ST Debt/Equity	0.1	0.2	0.2	0.2
Other adj for operations	0	0	0	0	ST Debt/Total assets	0.1	0.2	0.1	0.1
Operating cash flow	8,827	7,887	10,491	9,784	ST liabilities/Equity	0.3	0.3	0.2	0.2
Purchase of Fixed Assets and long-term assets	-1,457	-1,580	-1,256	-1,330	ST liabilities/Total assets	0.2	0.2	0.2	0.2
Proceeds from disposal of fixed assets	137	105	0	0	Total liabilities/Equity	0.3	0.3	0.2	0.2
Loans granted, purchases of debt instruments	0	-2,856	-492	-1,042	Total liabilities/Total assets	0.2	0.2	0.2	0.2
Collection of loans, proceeds from sales of debts instruments	3,635	0	0	0	Activity Ratio				
Investments in other entities	-43	-36	-509	-155	Account receivable turnover	12.9	12.6	14.0	12.6
Proceed from divestment in other entities	0	11	0	0	Inventory turnover	6.5	5.8	6.3	6.0
Dividends and interest received	1,201	1,368	1,181	1,222	Account payable turnover	8.1	9.6	8.2	8.6
Investing cash flow	3,473	-2,989	-1,077	-1,306					
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	12,753	10,508					
Repayment of borrowings	-10,789	-8,277	-13,498	-11,206					
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	-9,104	-9,058					
Net increase in cash & equivalents	-61	606	310	-580					
Cash & equivalents - beginning	2,349	2,300	2,912	3,222					
Cash & equivalents - ending	2,300	2,912	3,222	2,642					

Source: Vinamilk, KB Securities Vietnam

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	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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