

## Vietnam Dairy Products

### Time to buy back in again

#### Company Update

Food Products. Vietnam



Stock Rating	Target Price	Closing Price
<b>Buy</b>	<b>VND131,000</b>	<b>VND97,000</b>

What's Changed	From	To
2020e EBITDA (mn)	15,406,597	14,315,613
2021e EBITDA (mn)	16,025,562	16,082,159
2022e EBITDA (mn)	17,421,870	17,702,116

### A steady growth cash cow at 16.8x 2021e P/E, VNM's valuation is at its lowest level since 2015

We raise our TP by 8.3% as we roll our DCF valuation forward from 2019 to 2020e and upgrade Vinamilk (VNM) to Buy as its valuation has become LT attractive on recent market weakness (corona virus impact). Our TP of VND131,000 (less VND5,528 in 2019 net cash/share) implies 21x 2021e P/E. Our 2020e div. yield of 5.7%, rising to 6.2% by 2022e (DPO of c90%) gives a 40% TSR for the stock. However, we cautiously forecast a 2019-22e EPS CAGR of 5%. Furthermore, VNM is the main high quality, large-cap, investible (FOL 100%), liquid (ADV cUSD5.0mn), pure consumer F&B play in Vietnam's stock market. Its superior returns (c35% ROE) and liquid net-cash position (USD420mn) make it stand out vs. peers. On a final note, at 19x our 2020e P/E, VNM is trading ahead of its peer group (c18.5x), but nearly two std. deviations below its five-year avg. P/E of 24.4x and one std. dev below its five-year avg. P/B; its multiples have not been this low since 2015.

### Defensive in the face of corona virus impact, in our view

Vinamilk's product range is largely skewed to long-shelf SKUs. Much of its milk (incl. fresh) is still UHT treated or infant and dietary formulas. The company has a history of holding a large buffer of inventory (58 days as of FY19 – of which half is raw materials). In the event of high demand or product scarcity, it can reduce the intensity of product promotions (i.e. buy 3 get 1 free) expenditure (18.5% of domestic sales) and drive up sales. Vinamilk has a global sourcing network, (spanning Aus/NZ, North America and Europe). As such, we think supply chain risks are also quite low. Finally, with the vast majority (c75%) of the POS network in provincial (Tier 2/3 cities) and rural towns, and modern trade is still small (c15%) in terms of sales, we do not expect a mid-term slowdown in volumes, but 2020e will be a flattish year.

### Overseas sales and exports are trending up; GTN Food acquisition cushions 2020e top line

The international business is improving (15% of consolidated top-line in 2019), while subsidiaries grew by 9%, and exports jumped 15% Y-o-Y (9% of top line). Thus far in 2020, mgmt. indicates that it has started getting factory certifications (condensed milk, so far) for China exports and remains focused on new markets and integrating the recently acquired GTN Foods (VND2.96trn in revenue). On the other hand, there is still mid-term optionality on a capital release. As mooted previously, we believe that VNM remains an attractive strategic target due to its dominant market share and USD420mn net cash position. Any further SCIC (govt.) divestments (timing unknown) would reduce the state's stake to below 35% (below super majority levels), opening the door to changes in the capital structure, via leveraging and capital release. On a final note, F&N (21% shareholder) just added 6.0mn shares to its position in the open market, its first buy-in since 2018.

#### Key Financial Highlights (Dec Year End)

In VNDmn, unless otherwise stated	2019a	2020e	2021e	2022e
Revenue	56,318,123	59,520,513	67,705,461	74,421,684
EBITDA	14,314,693	14,315,613	16,082,159	17,702,116
Net income	9,482,096	8,876,213	10,057,016	10,916,030
EPS (VND)	5,445	5,097	5,775	6,268
EPS consensus (VND)	5,445	N/A	N/A	N/A
Price to earnings	17.8x	19.0x	16.8x	15.5x
Dividend yield	4.6%	5.7%	6.2%	6.2%
Net debt (cash) / Equity	(0.3)x	(0.3)x	(0.3)x	(0.4)x
EV / EBITDA	12.7x	12.6x	11.3x	10.2x
ROAE	33.8%	30.2%	34.6%	37.3%
FCF yield	6.1%	4.7%	6.4%	7.1%

Source: Vietnam Dairy Products, Bloomberg and EFG Hermes estimates

#### Stock Data

Closing Price	VND97,000 as of 09 Mar 2020
Last Div. / Ex. Date	VND3,000 / 27 Dec 2019
Mkt. Cap / Shares (mn)	USD7,291 / 1,741
Av. Daily Liquidity (mn)	USD4.44
52-Week High / Low	VND139,000 / VND97,000
Bloomberg / Reuters	VNM VN / VNM.HM
Est. Free Float	33.5%

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## Data Miner

## Investment Thesis

Vinamilk stands out as the only high quality, liquid, pure consumer staples play in Vietnam's stock market. It is also a leading and best in-class dairy concern. We expect revenue to improve in 2020, but grow faster in 2021 as domestic and export sales recover to 2019 levels. However, profit growth is likely to be single digits on higher taxes rates. Going forward, selective ASP increases, the GTN Foods acquisition, premiumisation and a national expansion of the school milk programme are key volume drivers. Demand is stable and the Vietnam Dairy Association predicts an 8.6% increase in domestic consumption annually through 2025e. On the downside, rising urban competition and flat pricing looks to be the new norm for Vinamilk. High SG&A/sales (over 25%) and ongoing heavy promotional expenditure to defend a high 60% domestic share of market volume are evidence of this. Export growth to China remains a mid-term upside option, as does potential for capital release and further share purchases by strategic investors from the SCIC.

Dec Year End	2019a	2020e	2021e	2022e
In VNDmn, unless otherwise stated				
<b>Income Statement</b>				
Revenue	56,318,123	59,520,513	67,705,461	74,421,684
EBITDA	14,314,693	14,315,613	16,082,159	17,702,116
Net operating profit (EBIT)	12,273,660	12,144,371	13,729,148	15,100,985
Taxes or zakat	(2,241,378)	(2,348,304)	(2,746,680)	(3,076,840)
Minority interest	26,844	(173,156)	(196,120)	(212,871)
Net income	9,482,096	8,876,213	10,057,016	10,916,030
<b>Balance Sheet</b>				
Cash and cash equivalents	15,100,939	9,541,507	10,190,150	11,014,306
Total assets	44,699,873	39,852,345	41,491,275	42,916,595
Total liabilities	14,968,613	10,650,998	11,616,075	12,362,622
Total equity	29,731,260	29,201,347	29,875,200	30,553,974
Total net debt (cash)	(9,626,485)	(9,418,514)	(10,087,965)	(10,932,929)
<b>Cash Flow Statement</b>				
Cash operating profit after tax	12,281,101	11,967,309	13,335,479	14,625,276
Change in working capital	392,197	(123,949)	(247,957)	(78,060)
CAPEX	(4,202,398)	(3,850,000)	(2,317,792)	(2,554,125)
Investments	19,887	29	32	35
Free cash flow	7,518,638	8,552,635	9,885,424	11,004,265
Net financing	(3,656,985)	(14,333,481)	(9,600,091)	(10,470,935)
Change in cash	1,142,584	(1,123,687)	648,643	824,156

Source: Vietnam Dairy Products, EFG Hermes estimates

## Valuation and Risks

We value VNM's shares at VND131,000/share as we roll our DCF valuation forward to 2020e. Our TP reflects 22.7x 2021 EPS (in line with peers trailing valuations), which we think is fair given the company's stable mid-term growth outlook, but strong ROE profile, liquidity, and market leading position. Key risks revolve around export growth, raw material prices and SG&A expenses. Mitigating these risks will require Vinamilk to execute on its renewed export strategy more quickly, or using its large USD420mn cash reserves to raise distributions and/or make some further acquisitions. We also note the sensitivity of our DCF valuation to assumed target debt/equity levels and long-term growth rates. These are important considerations for the company's equity story and share price outlook. On a final note, we still expect DPO at nearly 90% of net attributable income, which gives the stock a decent yield just over 5%.

Dec Year End	2019a	2020e	2021e	2022e
In VNDmn, unless otherwise stated				
<b>Per Share Financial Summary</b>				
EPS (VND)	5,445	5,097	5,775	6,268
DPS (VND)	4,499	5,500	6,000	6,000
BVPS (VND)	15,794	15,390	15,665	15,932
<b>Valuation Metrics</b>				
Price to earnings	17.8x	19.0x	16.8x	15.5x
Price to book value	6.1x	6.3x	6.2x	6.1x
Price to cash flow	13.8x	13.4x	13.4x	12.2x
FCF yield	6.1%	4.7%	6.4%	7.1%
Dividend yield	4.6%	5.7%	6.2%	6.2%
EV / EBITDA	12.7x	12.6x	11.3x	10.2x
EV / Invested capital	8.4x	8.5x	8.5x	8.6x
ROAIC	31.5%	31.9%	39.4%	42.0%
ROAE	33.8%	30.2%	34.6%	37.3%
<b>KPIs</b>				
Revenue growth (Y-o-Y)	7.1%	5.7%	13.8%	9.9%
EBITDA growth (Y-o-Y)	9.9%	0.0%	12.3%	10.1%
Gross profit margin	47.2%	46.3%	45.4%	45.0%
EBITDA margin	25.4%	24.1%	23.8%	23.8%
Net operating profit (EBIT) mar	21.8%	20.4%	20.3%	20.3%
Effective tax rate	17.4%	19.0%	19.5%	20.0%
Net Debt (Cash) / Equity	(0.3)x	(0.3)x	(0.3)x	(0.4)x
Net Debt (Cash) / EBITDA	(0.7)x	(0.7)x	(0.6)x	(0.6)x

Source: Vietnam Dairy Products, EFG Hermes estimates

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## Valuation

### Rolling over our DCF valuation to 2020

We retain our primary DCF valuation approach for Vinamilk. We still believe this to be the most relevant methodology as we: i) still see high single digit mid-term earnings growth; and ii) feel that VNM's valuation will be driven by the evolution of the company's capital structure, as well as long-term growth from new markets / M&As. Both of these factors are better reflected in a DCF valuation vs a peer multiple framework, in our view.

Our DCF inputs remain: i) a risk free rate of 6.0%; ii) a risk premium of 1.5%; iii) a Beta of 0.86; iv) a 5% long-run nominal growth rate, which is slightly ahead of inflation (c4.0%) in Vietnam; and finally v) a target debt/equity ratio of 10%.

Our DCF derives a fair value of VND131,000/share (35% upside) for 2020e. We also note that the company remains a prolific payer of dividends with its payout ratio over 75% of reported profits (but c90% of EFGe net income) annually, which helps to stabilise net cash balances across our estimates, but this offsets growth in forward net cash, at the margin.

**Figure 1: DCF target price**

In VNDmn and per share

Year ended:	2020e	2021e	2022e	2023e	Terminal 2024e
Free cash flow (mn)	8,552,635	9,885,424	11,004,265	11,840,611	12,457,087
NPV of FCF stream	48,534,503				
<b>NPV of terminal</b>	<b>171,732,140</b>				<b>246,578,048</b>
Net cash (debt)	9,626,485				
Minorities & Investments	(1,434,547)				
<b>Equity value</b>	<b>228,458,580</b>				
Shares outstanding	1,741,412				
<b>Fair value (VND / share)</b>	<b>131,000</b>				

Source: Company data, EFG Hermes estimates

We continue to run a sensitivity analysis on the key drivers of terminal value in our DCF as the NPV of our terminal estimate accounts for 75% of our derived equity value of VND228.5trn. We note a lower target debt equity of 0% results in a fair value of VND119,000/share, whilst a higher 6.0% nominal growth rate results in a jump in fair value to VND152,000/share (which is 56% ahead of the current share price).

**Figure 2: DCF sensitivity analysis**

		Terminal growth rate				
		3.0%	4.0%	5.0%	6.0%	7.0%
Target debt / equity	0.0%	97,000	106,000	119,000	135,000	158,000
	5.0%	101,000	111,000	124,000	143,000	170,000
	7.5%	103,000	113,000	128,000	148,000	177,000
	10.0%	105,000	116,000	<b>131,000</b>	152,000	185,000
	15.0%	109,000	122,000	139,000	163,000	202,000
	20.0%	114,000	128,000	147,000	176,000	223,000
	25.0%	119,000	135,000	157,000	191,000	249,000

Source: Company data, EFG Hermes estimates

## Looking at valuation multiples and the valuation history

Vinamilk is trading at or below 19x 2020-21e earnings with an ROE outlook of c35%. Its current valuation is well below its long-term average and broadly in-line of its peer group (where it has historically traded at a c20% premium). We believe this to be a reflection of the markets' recent focus on top-line and earnings growth (which has been single digits since 2018) as opposed to valuations and earnings quality.

On a second note, we highlight Vinamilk's peer and local market leading dividend yield of c5% across our forecasts.

Figure 3: Vinamilk – key valuation multiples

Dec Year End	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
EV / EBITDA (x)	18.4	15.5	14.4	14.1	12.7	12.6	11.3	10.2	9.5	9.0
P/E - net inc. (x)	24.0	20.8	19.1	19.2	17.8	19.0	16.8	15.5	14.4	13.7
Price to book (x)	8.1	7.6	7.2	6.6	6.1	6.3	6.2	6.1	5.8	5.5
Dividend yield (%)	3.8%	4.6%	4.6%	4.0%	4.6%	5.7%	6.2%	6.2%	6.2%	6.2%

Source: Company data, EFG Hermes estimates

We also note that Vinamilk is trading at nearly 2.0 standard deviations from its five-year average T12M P/E of 24.4x based on reported EPS. On a P/B basis, the stock is trading at 1.0 std. dev. below its five-year average. However, we note that the trailing PE history is influenced by the surge in its share price in 2018 that culminated in the last govt. stake sale. However, we believe VNM's valuation is now attractive vs its trading history.

Figure 4: VNM's five-year trailing P/E



Source: Bloomberg, EFG Hermes estimates

Figure 5: VNM's five-year trailing P/B



Source: Company data, EFG Hermes estimates

## Further strategic stake purchases

Both of Vinamilk's strategic shareholders (F&N 22% and Jardine Cycle 11%) have continued to register to buy incremental shares. Over the past month, F&N has bought (for the first time since 2018) 6.0mn shares of VNM in the open market. We believe that these investors remain opportunistic buyers, and continue to exhibit some price discipline. While the Vietnam government (through the SCIC) may resume stake sales in 2020 (especially if the state budget comes under pressure – from COVID-19 and fiscal support), for the time being the SCIC states it intends to retain its 36% stake and consequently its super majority veto rights.

## A quick look at peer group and recent peer multiples

We continue to think peer multiples are useful as a sanity test against our base case DCF methodology. As VNM is trading broadly in-line with its peer group, but slightly ahead of our EFG coverage average multiples. As such, we applied these multiples to our EPS estimates to gauge a fair value range for the stock across our forecast period. Despite the in-line valuation versus its peers, we would note: i) Vinamilk's superior earnings and ROE profile; ii) dominant market share; and iii) the company's strong liquid balance sheet (net cash position). Historically, VNM has traded at (and we have felt that these factors should warrant) a reasonable premium (c20%) to peer multiples, in our view.

**Figure 6: EFG Hermes coverage and peer group – summary multiples and items**

(x) and (%)

Company	P/E (x)			P/B (x)			EV/EBITDA (x)			Div. Yield	Net Margin	ROAE	Net Inc. CAGR	FCF Yield	EBITDA margin	Net debt/equity	Net debt/EBITDA
	2019	2020e	2021e	2019	2019	2020e	2021e	2019	2019	2019	2019-20e	2019	2019	2019	2019	2019	
Vinamilk	17.8	19.0	16.8	7.4	13.7	13.6	12.1	4.6%	18.8%	36.3%	8%	4%	24%	-31%	(0.6)		
EFG Hermes Covg. Avg.	18.3	15.7	13.8	3.9	13.4	10.5	9.1	2.8%	7.6%	14.7%	10%	3%	17%	50%	1.5		
<b>Peer Group - Avg.</b>	<b>23.3</b>	<b>20.0</b>	<b>17.0</b>	<b>5.9</b>	<b>13.2</b>	<b>12.0</b>	<b>11.1</b>	<b>1.9%</b>	<b>6.7%</b>	<b>20.2%</b>	<b>18%</b>	<b>3%</b>	<b>14%</b>	<b>30%</b>	<b>2.5</b>		
Peer Group Median	21.0	18.4	15.5	2.9	12.5	11.3	10.7	2.0%	5.1%	11.4%	8%	4%	13%	42%	2.0		
<b>EFG &amp; Peer Avg.</b>	<b>21.9</b>	<b>18.6</b>	<b>15.9</b>	<b>5.0</b>	<b>12.0</b>	<b>11.0</b>	<b>10.2</b>	<b>2.2%</b>	<b>7.0%</b>	<b>19.4%</b>	<b>16%</b>	<b>3%</b>	<b>15%</b>	<b>39%</b>	<b>2.5</b>		

Source: Company data, EFG Hermes estimates

We also see limited downside risk using consensus and VNM's 2020e P/E multiple. At 20 x our 2020e to 2022e EPS estimates and using our DPS forecasts, we derive a price return range of 5.3% to 29.5% and a TSR of 10.5% and 35.2% annually across our forecast period.

**Figure 7: Fair values using 2020e consensus peer avg. P/E vs our VNM estimates across our forecast period**

In VND and %

Item	Peer group 2020e P/E (x)	2020e	2021e	2022e	Item	2020e	2021e	2022e
EPS (adjusted net income)	20.0	5,097	5,775	6,268	DPS	5,500	6,000	6,000
Fair value / share		102,110	115,690	125,580	Div. Yield (%)	5.3%	5.7%	5.7%
<b>Price Upside (%)</b>		<b>5.3%</b>	<b>19.3%</b>	<b>29.5%</b>	<b>TSR (%)</b>	<b>10.5%</b>	<b>25.0%</b>	<b>35.2%</b>

Source: Company data, EFG Hermes estimates

On a more conservative group based on our EFG Hermes coverage average and peer average multiple of 18.6x applied to our 2020 adj. EPS estimate yields a current fair value of VND94,660/share (2.4% downside) before reflecting a 5.3% dividend yield. This results in a TSR of 2.9% for the stock. If we roll our target multiple forward to our 2022e estimate, we derive a fair value of VND116,410/share and TSR of 25.8%, respectively. However, we note that VNM has not traded at such low valuation multiples since at least 2015. As such, we think the downside risk to this valuation is quite limited, based on our estimates.

**Figure 8: Fair values using 2020e EFGe and consensus peer avg. vs our VNM estimates across our forecast period**

In VND and (%)

Item	Peer group 2020e P/E (x)	2020e	2021e	2022e	Item	2020e	2021e	2022e
EPS (adjusted net income)	18.6	5,097	5,775	6,268	DPS	5,500	6,000	6,000
Fair value / share		94,660	107,250	116,410	Div. Yield (%)	5.3%	5.7%	5.7%
<b>Price upside (%)</b>		<b>-2.4%</b>	<b>10.6%</b>	<b>20.0%</b>	<b>TSR (%)</b>	<b>2.9%</b>	<b>16.3%</b>	<b>25.8%</b>

Source: Company data, EFG Hermes estimates

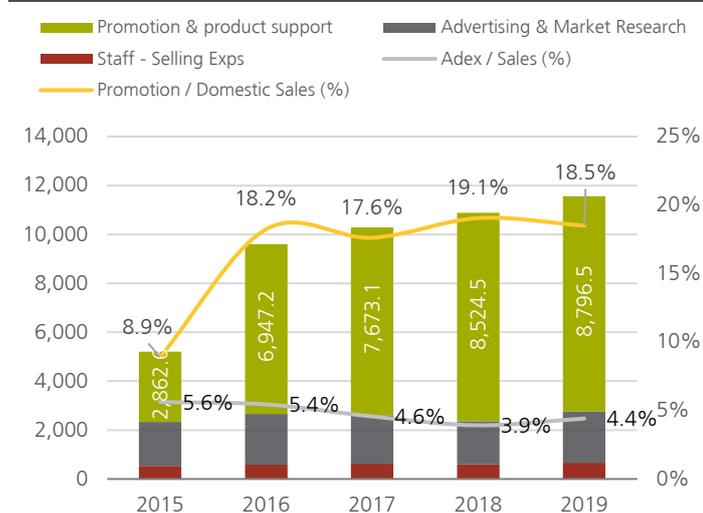
## Recent developments

### Defensive in the face of corona virus, in our view

Vinamilk's product range is largely skewed to long shelf life SKUs. Much of its milk (incl. fresh) is still UHT treated or condensed, or in infant and dietary formulas. The company has a history of holding large buffers in its inventory (58 days as of FY19 – of which half was raw material). In the event of high demand or product scarcity, it can reduce the intensity of product promotions (i.e. buy 3 get 1 free) expenditure (18.5% of domestic sales) and still book sales. Vinamilk has a global sourcing network, (Aus/NZ, North America and Europe). As such, we think supply chain risks are also very low. On a final note, with the vast majority (c75%) of the POS network in provincial (Tier 2 and 3 cities) and rural towns, and modern trade still small (c15%) in terms of sales, we do not expect a material slowdown in volumes.

**Figure 9: Key elements of annual selling expenses**

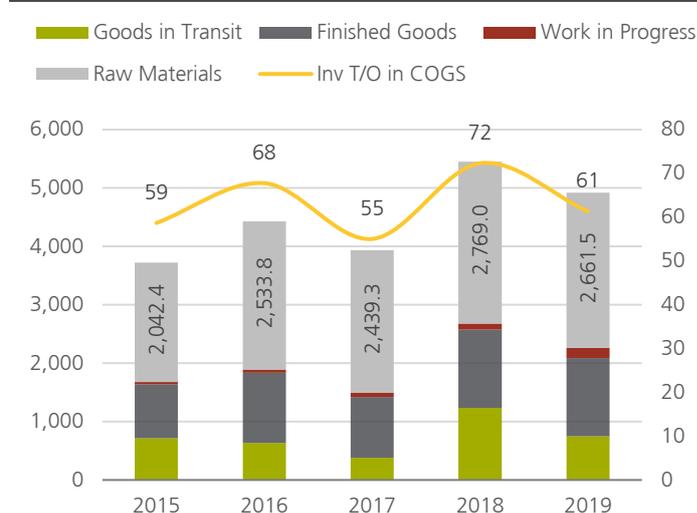
In VND bn and (%)



Source: Company data, EFG Hermes estimates

**Figure 10: Major components in inventory**

In VND bn and days



Source: Company data, EFG Hermes estimates

### Takes control of GTN Foods with further c35% stake purchase, up to 75% overall

Vinamilk secured control of GTN Foods in Dec-19 after increasing its stake from c41% to 75% through follow on market purchases. It assumed management and board control at an AGM held in Feb-20. The focus now is improving operational performance and overall profitability. GTN Foods has set business targets of revenues of VND2,909bn, pre-tax profit of VND159bn and net profit of VND99bn for 2020e, respectively.

GTN Foods has a 95% stake in VinaTea (formerly a SOE tea producer and plantation) and indirect (38% economic interest), but controlling 51% stake in Moc Chau Dairy (held via a 75% subsidiary) – produced nearly 100k tonnes of dairy products in 2017/18 it has 4,000 owned cattle and another 20k under contract/co-operative farming arrangements.

The total acquisition consideration (paid in cash) was VND3,460bn (inclusive of VND1,573bn of goodwill). The pricing translated into an acquisition multiple of 1.2x sales and 2.4x tangible assets. Assuming that VNM can drive GTN to its own comparable returns (c24% EBITDA margins) we could see the acquisition contributing cVND700bn to VNM's consolidated EBITDA over time. However, given the economic interest in Moc Chau is only 38%, unless VNM can reduce minority drag at GTN Foods, much of the improved profitability will be paid away as minority claims.

## Changes to our earnings estimates

In the table below, we provide a summary of our latest earnings revisions. We have reduced our 2020 top-line estimates by 7.4% (due to possible soft 1H20e results as the corona virus could impact demand).

For 2021-22e, we see a nominal overall change in our net attributable income forecasts ranging from 3.4% to +1.9%, largely stemming from a recovery in top-line growth and gross margins as well as a slight improvement in the EBITDA margin. We also believe that Vinamilk will hold its DPS around VND5-6,000, which reflects a payout ratio north of 75% of our reported and c90% of net attributable income estimates, as we think the SCIC and strategic investors will favour continued high payout ratios.

**Figure 11: New vs old estimates**

In VNDbn (unless noted)

Dec Year End	2020e			2021e			2022e		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Net revenues	64,262,798	59,520,513	-7.4%	70,084,549	67,705,461	-3.4%	76,385,836	74,421,684	-2.6%
COGS	(35,084,925)	(31,971,233)	-8.9%	(39,325,574)	(36,984,208)	-6.0%	(43,104,609)	(40,922,866)	-5.1%
Gross profits	29,177,873	27,549,280	-5.6%	30,758,975	30,721,253	-0.1%	33,281,227	33,498,818	0.7%
EBITDA	15,406,597	14,315,613	-7.1%	16,025,562	16,082,159	0.4%	17,421,870	17,702,116	1.6%
Pre-tax	13,706,797	12,359,496	-9.8%	14,030,738	14,085,540	0.4%	15,189,201	15,384,202	1.3%
Reported net profit	11,400,777	9,838,036	-13.7%	11,529,614	11,142,740	-3.4%	12,329,354	12,094,490	-1.9%
Net attr. income	10,289,911	8,876,213	-13.7%	10,406,194	10,057,016	-3.4%	11,128,009	10,916,030	-1.9%
<b>Per Share (VND)</b>									
EPS	5,909	5,097	-13.7%	5,976	5,775	-3.4%	6,390	6,268	-1.9%
BVPS	15,204	15,390	1.2%	15,679	15,665	-0.1%	16,068	15,932	-0.8%
DPS	5,500	5,500	0.0%	6,000	6,000	0.0%	6,000	6,000	0.0%

Source: Company data, EFG Hermes estimates

Despite the acquisition of a controlling 75% stake GTN Foods in Dec 2019, we are still adjusting our top-line estimates for VNM in 2020 this year. While GTN may provide an incremental boost of VND2.9trn (c4.5% of 2020 revenue) on consolidation at Vinamilk, we think that domestic sales may also suffer over 1H20 slightly given the still unknown impact from corona virus on near-term sales volumes.

We also think that Vinamilk can quickly improve profitability at GTN (particularly in Moc Chau Dairy) by integrating the company's sales and distribution functions into its own. This should result in a quick translation of VNM's top-line growth to its reported EBITDA results. However, rising marginal tax rates (c19%) and increased minority claims on profits will keep reported profits and net income growth in the single digit range, on our estimates.

**Figure 12: Vinamilk's growth rates**

(%)

Dec Year End	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Net revenue growth	13.9%	16.8%	9.1%	3.0%	7.1%	5.7%	13.8%	9.9%	9.4%	8.2%
EBITDA growth	21.3%	18.6%	8.3%	2.0%	9.9%	0.0%	12.3%	10.1%	7.8%	5.3%
Op. profit growth	23.3%	19.8%	7.9%	-0.9%	8.2%	-1.1%	13.0%	10.0%	7.8%	4.9%
Pre-tax profit growth	21.2%	19.8%	9.0%	-1.4%	6.1%	-3.4%	14.0%	9.2%	7.8%	5.0%
Rep. profit growth	25.7%	20.0%	10.3%	-0.7%	3.4%	-7.0%	13.3%	8.5%	7.8%	5.0%
Net income growth	25.2%	16.4%	8.5%	-0.5%	7.9%	-6.4%	13.3%	8.5%	7.8%	5.0%

Source: Company data, EFG Hermes estimates

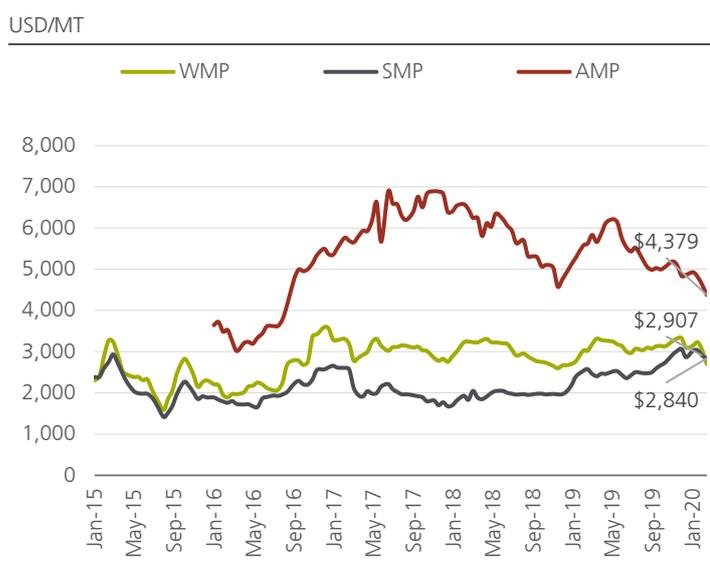
### Early 2020 retail sales indications are still reassuring – but AGM guidance is coming

Vinamilk will publish its AGM resolutions (AGM to be held on 25 April) along with its 2020 formal guidance (revenue and net profit), and it will likely release its 1Q20 results shortly after the AGM. In the interim, the best proxy for revenue growth is the monthly retail sales of consumer spending released as part of CPI statistics. So far in 2020, retail spending on consumer goods has jumped 9.8% Y-o-Y (VND673.9trn – USD30bn) and rose 10.7% in January and 7.9% in February Y-o-Y. If Vinamilk’s core sales (roughly 1.5% of the total) growth correlates well with that growth rate and adding in GTN’s Food revenue guidance for 2020 of VND2.9trn, then top-line growth of 5.7% to VND59.5trn is not unreasonable for 2020e, in our opinion

### Raw materials trends

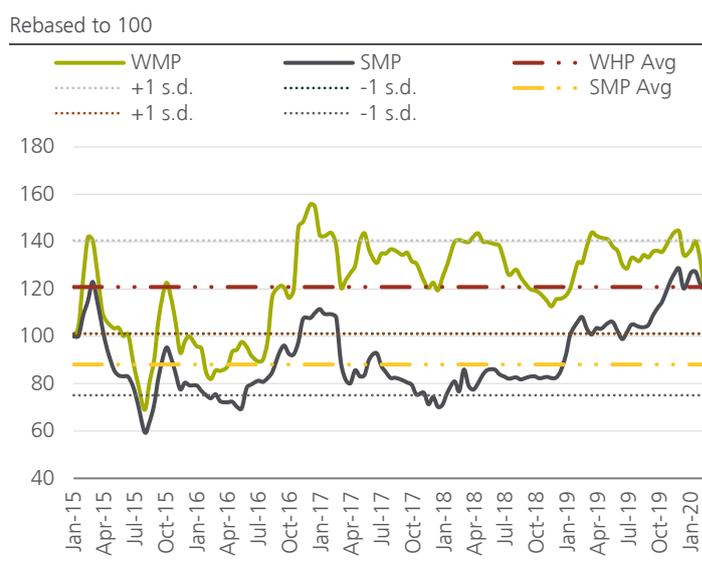
We think that the current environment is beneficial to Vinamilk as a large buyer of whole, skim milk powders (WHP, SMP) and Anhydrous Milk Fat (AMP). Over the past three to five years, WHP prices have been stable, while SMP has been stronger over 2019, but AMP prices have correspondingly weakened. Vinamilk’s management indicates that it has a reasonable degree in flexibility in substitution raw material mixes to achieve an optimal cost base. We also understand that raw material prices are contracted through to April and given the soft pricing environment, we think that VNM will be able to lock in dairy prices through 4Q20, quite easily in the coming months.

Figure 13: WHP, SMP, and AMP price trends since Jan-15



Source: Global Dairy Trade

Figure 14: WMP and SMP vs avg. prices



Source: Global Dairy Trade

### Stable margin outlook

Overall, we think Vinamilk’s margins will hold steady for 2020 and that GMs will subsequently trend down over time. This reflects our flat ex-factory price assumptions, as well as slight increases in raw material prices. We also think VNM should be able to hold EBITDA margins at close to 23-24% as it has done previously through ex-factory pricing adjustments, managing promotions, and overall SG&A expenditure.

Figure 15: Vinamilk's margins and spreads

(%)

Margins & spreads	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Gross profit margin	40.6%	47.7%	47.5%	46.8%	47.2%	46.3%	45.4%	45.0%	44.4%	43.4%
EBITDA margin	24.8%	25.2%	25.0%	24.8%	25.4%	24.1%	23.8%	23.8%	23.4%	22.8%
Operating margin	22.1%	22.7%	22.4%	21.6%	21.8%	20.4%	20.3%	20.3%	20.0%	19.4%
Pre-tax profit margin	23.4%	24.0%	24.0%	22.9%	22.7%	20.8%	20.8%	20.7%	20.4%	19.8%
Net income margin	17.4%	17.4%	17.3%	16.7%	16.8%	14.9%	14.9%	14.7%	14.5%	14.0%

Source: Company data, EFG Hermes estimates

### Sensitivities show that EBITDA growth is mostly linked to SG&A expenditure...

We have been running the same GM and SG&A analysis on our forward EBITDA estimates since our initiation. Our EBITDA estimates are more sensitive to increased SG&A expenditure than a reduction in GMs. All else being equal, a 2% increase in our SG&A/sales assumption to 27.5% results in a 9% drop in our EBITDA estimate in that year. Likewise, a 3% drop in the gross margins results in a 10% EBITDA contraction.

On the other hand, should VNM be able to maintain a GM of c47% in the absence of a surge in SMP and WHP prices, any reduction in promotional expenses as a percentage of sales would filter straight through to the top- and bottom-lines.

Figure 16: SGS/Sales EBITDA sensitivity

In VNDmn

	Gross margin	SG&A as % of sales					
		23.0%	24.0%	25.5%	26.5%	27.5%	28.5%
		44.5%	13,245,299	12,650,094	11,780,960	11,162,081	10,566,876
46.0%	14,138,106	13,542,901	12,673,768	12,054,888	11,459,683	10,864,478	
47.5%	15,030,914	14,435,709	<b>13,566,576</b>	12,947,696	12,352,491	11,757,286	
49.0%	15,923,722	15,328,517	14,459,384	13,840,504	13,245,299	12,650,094	
50.5%	16,816,530	16,221,324	15,352,191	14,733,312	14,138,106	13,542,901	

Source: Company data, EFG Hermes estimates

### ...which should remain generally stable and track VNM's revenue growth

Overall, in a semi-mature market and given stable SG&A expenditure assumptions. We expect VNM's EBITDA and net income growth profile to broadly reflect underlying net revenue growth.

In our view, 2020e top-line should see a steady recovery from the 2018 low and be helped on by revenues from GTN consolidation and an overall refreshed product portfolio (see Appendix pg. 12-13) that has been steadily implemented over the past two years. We also think that with the product portfolio largely refreshed, there is scope for reduced overall SG&A expenditure going forward. Looking forward to 2021e, we would expect that any potential shocks from the corona virus to this year's sales volumes to recover.

## Overall, VNM's growth outlook is now high single digits

We forecast that VNM will achieve three-year revenue, EBITDA and net income CAGRs of 9.7%, 7.3% and 4.6%, respectively, through 2022e. Our mid-term per share estimates show comparable growth as we see no significant dilution risks for the company.

Figure 17: Vinamilk summary P&L

In VNDbn and per share

Dec Year End	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	3-Yr CAGR	5-Yr CAGR
Net revenues	40,080	46,794	51,041	52,562	56,318	59,521	67,705	74,422	81,425	88,132	9.7%	9.4%
Gross profits	16,262	22,336	24,234	24,611	26,572	27,549	30,721	33,499	36,142	38,282	8.0%	7.6%
EBITDA	9,949	11,797	12,771	13,023	14,315	14,316	16,082	17,702	19,081	20,089	7.3%	7.0%
Dep'n & amort.	(1,097)	(1,191)	(1,324)	(1,684)	(2,041)	(2,171)	(2,353)	(2,601)	(2,799)	(3,015)		
Pre-tax	9,351	11,242	12,243	12,004	12,888	12,359	14,086	15,384	16,589	17,420	6.1%	6.2%
Reported net profit	7,774	9,332	10,296	10,227	10,577	9,838	11,143	12,094	13,042	13,695	4.6%	5.3%
Net attr. income	6,988	8,137	8,832	8,787	9,482	8,876	10,057	10,916	11,771	12,360	4.8%	5.4%
<b>Per Share (VND)</b>												
EPS	4,044	4,672	5,071	5,046	5,445	5,097	5,775	6,268	6,759	7,098	4.8%	5.4%
BVPS	11,973	12,728	13,422	14,804	15,794	15,390	15,665	15,932	16,691	17,788	0.3%	2.4%
DPS	3,704	4,444	4,416	3,917	4,499	5,500	6,000	6,000	6,000	6,000	10.1%	5.9%

Source: Company data, EFG Hermes estimates

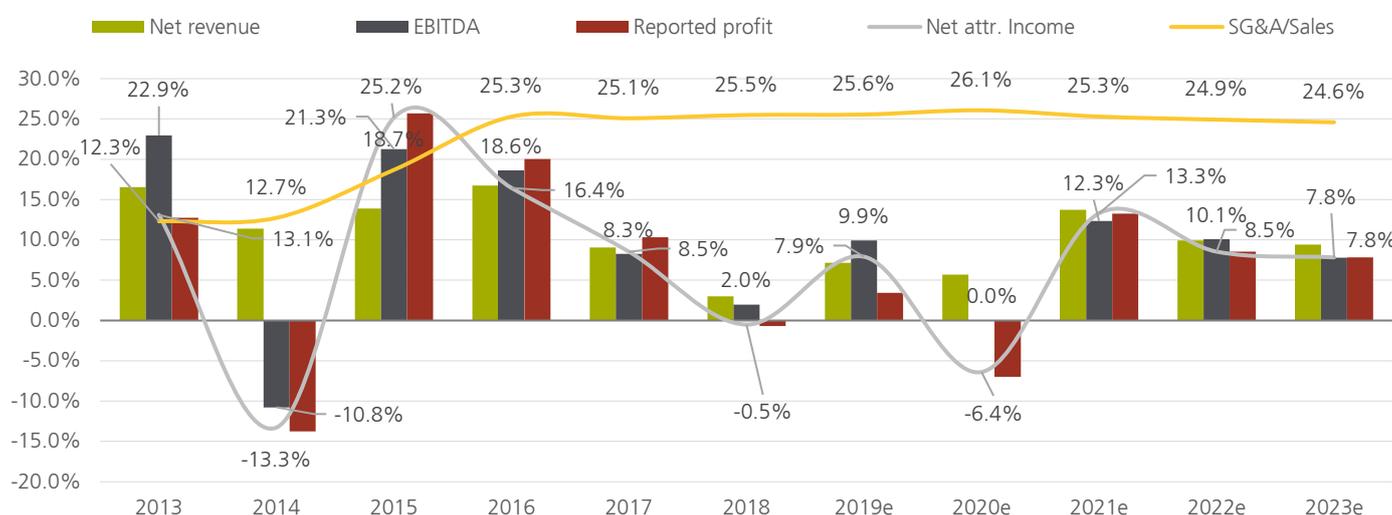
### At the expense of flat EBITDA and a c6% EPS drop in 2020, before recovering in 2021

We believe VNM is on track for a flat 2020e driven by 5.7% top-line expansion and stable gross and EBITDA margins of 46.3% and 24.1%, respectively. Management has indicated that they have locked in raw material prices through April and with nearly 60 days of raw materials and finished goods in inventory, we think they can hold costs steady through 1H20e and likely for the balance of 2020 (given softening WHP and SMP prices).

As such, given a soft trading outlook due to corona virus, we estimate net revenue of VND59,521bn (+5.7% Y-o-Y), EBITDA of VND14,316bn (+0% Y-o-Y) and net income of VND9,838bn (-6.4%) for 2020e. However, looking forward to 2021e, we expect demand to normalise and trading conditions to strengthen once again. We forecast a recovery in revenue, EBITDA, and net income of 12-13% that year.

Figure 18: Vinamilk's growth and sales intensity outlook – key P&L items vs SG&A as a % of sales

(%)



Source: Company data, EFG Hermes estimates

## Appendix

Figure 19: EFG Hermes dairy coverage and peer comps

In (x) and (%)

Company	Ticker	Country	Mkt. Cap (USDmn)	P/E (x)			P/B (x)	EV/EBITDA (x)			Div. Yield	Net Margin	ROAE	Net Inc. CAGR	FCF Yield	EBITDA margin	Net debt/equity
				2019	2020e	2021e		2019	2019	2020e							
EFG Hermes Covg. Avg.				18.3	15.7	13.8	3.9	13.4	10.5	9.1	2.8%	7.6%	14.7%	10%	3%	17%	50%
Almarai	ALMARAI AB	KSA	11,490	22.4	21.6	20.7	3.1	13.6	13.3	13.0	2.0%	13.4%	14.6%	-2%	4%	29%	84%
<b>Vinamilk</b>	<b>VNM VN</b>	<b>Viet.</b>	<b>8,935</b>	<b>17.8</b>	<b>19.0</b>	<b>16.8</b>	<b>7.4</b>	<b>13.7</b>	<b>13.6</b>	<b>12.1</b>	<b>4.6%</b>	<b>18.8%</b>	<b>36.3%</b>	<b>8%</b>	<b>4%</b>	<b>24%</b>	<b>-31%</b>
SADAFCO	SADAFCO AB	KSA	1,171	20.0	18.0	16.7	3.5	13.2	11.2	10.5	3.0%	12.1%	17.6%	-4%	6%	16%	-40%
Nadec	NADEC AB	KSA	562	17.8	16.5	15.2	1.4	8.1	7.9	7.7	0.8%	5.3%	8.1%	25%	9%	21%	118%
Juhayna	JUFO EY	Egypt	482	22.4	14.9	10.5	3.0	8.3	7.0	5.8	2.5%	4.3%	14.2%	16%	0%	15%	71%
Engro Foods	FCEPL PA	Pak.	324	N/M	N/M	N/M	6.8	35.3	18.1	12.7	0.0%	-5.2%	-24.4%	N/M	0%	4%	85%
Domty	DOMT EY	Egypt	143	17.6	11.4	9.5	3.2	8.4	6.4	5.8	3.2%	4.5%	19.0%	26%	-2%	13%	97%
Obour Land	OLFI EY	Egypt	129	10.1	8.6	7.5	3.0	6.9	6.1	5.5	6.0%	7.8%	32.4%	4%	4%	14%	18%
<b>Peer Group - Avg.</b>				<b>23.3</b>	<b>20.0</b>	<b>17.0</b>	<b>5.9</b>	<b>13.2</b>	<b>12.0</b>	<b>11.1</b>	<b>1.9%</b>	<b>6.7%</b>	<b>20.2%</b>	<b>18%</b>	<b>3%</b>	<b>14%</b>	<b>30%</b>
Danone	BN FP	France	47,917	25.1	15.4	14.6	2.9	N/A	11.3	10.7	2.8%	7.6%	N/A	6%	6%	18%	N/A
Inner Mongolia Yili	600887 CH	China	26,076	25.7	23.9	20.5	6.0	18.6	16.6	14.2	2.5%	7.9%	23.4%	9%	2%	11%	-44%
China Mengniu Dairy	2319 HK	China	14,394	21.0	22.0	18.5	3.4	15.7	13.5	11.6	1.1%	5.6%	16.3%	18%	4%	8%	-14%
Saputo	SAP CN	Canada	11,397	21.0	18.9	4.1	2.4	12.7	11.5	10.7	1.8%	4.7%	11.4%	4%	4%	10%	42%
Vietnam Dairy Products	VNM VN	Viet.	8,935	17.8	19.0	16.8	7.4	13.7	13.6	12.1	4.6%	18.8%	36.3%	8%	4%	24%	-31%
Yakult Honsha	2267 JT	Japan	7,776	21.1	21.5	20.2	2.0	12.1	11.5	11.3	0.9%	9.2%	9.7%	2%	4%	17%	-9%
Emmi	EMMN SW	Swiss.	5,134	27.1	25.6	24.2	2.9	N/A	13.6	13.1	1.1%	4.8%	N/A	-9%	4%	N/A	N/A
Glanbia	GLB ID	Ireland	3,711	16.8	12.5	11.6	1.8	12.6	11.6	11.0	2.6%	4.6%	10.6%	7%	6%	7%	36%
Bright Dairy & Food	600597 CH	China	1,923	27.8	24.6	21.9	2.4	7.7	7.1	6.9	1.3%	2.2%	8.5%	26%	-4%	9%	11%
Grupo Lala Sab	LALAB MM	Mexico	1,817	21.8	15.1	12.5	1.8	8.2	6.9	6.2	3.8%	2.4%	8.2%	13%	5%	11%	122%
Savencia	SAVE FP	France	905	7.8	6.7	6.2	0.6	5.0	4.6	4.3	2.1%	1.8%	7.6%	49%	4%	7%	42%
China Modern Dairy	1117 HK	China	791	16.6	8.8	7.0	0.8	6.6	6.1	5.8	0.2%	14.5%	4.6%	N/A	-9%	35%	97%
Bega Cheese	BGA AU	Aus.	601	32.6	19.9	15.9	1.1	12.5	9.8	8.7	1.9%	1.9%	4.6%	97%	7%	7%	35%
Pinar	PNSUT TI	Turkey	91	16.4	N/A	N/A	0.7	N/A	N/A	N/A	0.0%	2.1%	N/A	N/A	7%	N/A	N/A
<b>EFG &amp; Peer Median</b>				<b>21.0</b>	<b>18.4</b>	<b>15.5</b>	<b>2.9</b>	<b>12.5</b>	<b>11.3</b>	<b>10.7</b>	<b>2.0%</b>	<b>5.1%</b>	<b>11.4%</b>	<b>8%</b>	<b>4%</b>	<b>13%</b>	<b>42%</b>
<b>EFG &amp; Peer Avg.</b>				<b>21.9</b>	<b>18.6</b>	<b>15.9</b>	<b>5.0</b>	<b>12.0</b>	<b>11.0</b>	<b>10.2</b>	<b>2.2%</b>	<b>7.0%</b>	<b>19.4%</b>	<b>16%</b>	<b>3%</b>	<b>15%</b>	<b>39%</b>

Source: Company data, EFG Hermes estimates

## 2019 and 2018 product launches, rebranding's and registrations

Figure 20: 2019 product launches, rebrandings and registrations

Product - Common food	Issued on	Product - Supplemental food	Issued on
Yoghurt water ice - orange flavour - Subo	Feb-19	Energy drink - chocolate - Vinamilk Power	Jan-19
Yoghurt water ice - passion fruit flavour - Subo	Feb-19	UHT Drinking Yoghurt - Orange Flavour - Vinamilk Susu IQ	Feb-19
Yoghurt water ice - lychee flavour - Subo	Feb-19	UHT Drinking Yoghurt - Strawberry Flavour - Vinamilk Susu IQ	Feb-19
Coffee ice cream with almonds - Delight	Feb-19	UHT Drinking Yoghurt - Apple and Grape Flavours - Vinamilk Susu IQ	Feb-19
Yoghurt water ice - strawberry flavour - Subo	Feb-19	Fermented milk drink - Pineapple flavour - Probi	Feb-19
Yoghurt water ice - Subo	Feb-19	Sweetened Yoghurt - Vinamilk Susu IQ	Feb-19
Yoghurt water ice - soursop flavour - Subo	Feb-19	Apple and Banana Yoghurt - Vinamilk Susu IQ	Feb-19
UHT Fresh Whole Milk - Vinamilk 100% Organic	Mar-19	Strawberry and Banana Yoghurt - Vinamilk Susu IQ	Feb-19
Walnut Yoghurt Brand Vinamilk	Mar-19	Drinking Milk - Dielac Mama Gold - Vanilla Flavour	Mar-19
Soymilk - Vinamilk	Mar-19	Reduced Fat Milk Powder & Calcium Supplement - Vinamilk CanxiPro	Mar-19
Bottled Drinking Water - Vinamilk ICY Premium	Mar-19	Drinking Milk - Dielac Alpha Gold IQ	Mar-19
Salted Caramel Coconut Ice Cream With Almond - Delight	Mar-19	Drinking Milk - Dielac Grow Plus	Mar-19
UHT Fresh Milk - Sweetened Vinamilk 100% Fresh Milk - School Milk	Apr-19	Drinking Milk - Dielac Grow	Mar-19
Milk Tea - Less Sugar - Vinamilk Happy	Apr-19	Red Bean Soymilk - Vinamilk	Mar-19
Strawberry Yoghurt - Vinamilk	May-19	Almond Soymilk - Vinamilk	Mar-19
Mixed Fruits Yoghurt - Vinamilk	May-19	UHT Drinking Yoghurt - Orange Flavour - Vinamilk Susu IQ	Mar-19
Drinking Yoghurt - Vinamilk	May-19	UHT Drinking Yoghurt - Strawberry Flavour - Vinamilk Susu IQ	Mar-19
Drinking Yoghurt - Peach flavour - Vinamilk	May-19	UHT Drinking Yoghurt - Apple and Grape Flavours - Vinamilk Susu IQ	Mar-19
UHT Fresh Whole Milk Brand Vinamilk 100% Fresh Milk	Jun-19	Soymilk - Vinamilk Double Calcium	Mar-19
UHT Fresh Milk - Sweetened Brand Vinamilk 100% Fresh Milk	Jun-19	Energy drink - orange and peach flavour - Vinamilk Power	Apr-19
Drinking Kefir - No sugar - Vinamilk	Jun-19	Energy Drink - Orange and Peach Flavour - Vinamilk My Joy	May-19
Pomegranate Yoghurt - Vinamilk	Jun-19	Energy Drink - Chocolate - Vinamilk My Joy	May-19
Sweetened Yoghurt - Vinamilk	Jul-19	Pomegranate Yoghurt with collagen - Probeauty	May-19
Matcha Ice Cream with Red Bean - Delight	Jul-19	Nutritious Milk Sweetened - Vinamilk ADM IQ Gold	May-19
Strawberry Ice Cream with Cranberry - Delight	Jul-19	Nutritious Milk Strawberry flavour - Vinamilk ADM IQ Gold	May-19
Chocolate Ice Cream with Peanut - Delight	Jul-19	Nutritious Milk Chocolate - Vinamilk ADM IQ Gold	May-19
UHT Fresh Whole Milk - Vinamilk 100% Fresh Milk - School Milk	Aug-19	Nutritious Milk - Sweetened - Vinamilk Happy Star	May-19
Artichoke Drink - Low sugar - Vfresh	Aug-19	Walnut Soymilk Brand Vinamilk	May-19
Artichoke Drink - Sugar Free - Vfresh	Aug-19	Roasted Rice Milk - Less Sugar - Vinamilk Zori	Jun-19
		Nutritious Milk Banana - Vinamilk ADM IQ Gold	Jun-19
		Drinking Milk - Vinamilk Yoko Gold	Jul-19
		UHT Fresh Milk - Sweetened Vinamilk 100% Fresh Milk - School Milk	Aug-19
		Aloe Vera Tea Drink - Less Sugar - Vfresh Beauty Plus	Aug-19
		Fermented milk drink with honey, curcumin from turmeric - Probi Gold	Sep-19

Source: Company data

Figure 21: Selection of 2019 new product launches

Energy drink - active



Milk tea



Energy drink - youth



Rice milk



A2 milk



Organic milk



Source: Company data, EFG Hermes estimates

Figure 22: 2018 product rebranding and registrations

Product - Common food	Issued on	Product - Supplemental food	Issued on
Pineapple Yoghurt - Vinamilk	Mar-18	Walnut Soy Milk Brand Vinamilk	Mar-18
Mixed Berries Yoghurt - Vinamilk Greek Yoghurt Style	Mar-18	Drinking Cheese Vanilla Flavour - Susu	Mar-18
Peach Yoghurt - Vinamilk Greek Yoghurt Style	Mar-18	Orange Smoothie - Vfresh	May-18
Sweetened condensed creamer - Southern Star (blue)	Apr-18	Nutritious milk-Banana - Vinamilk ADM Gold	Jun-18
Sweetened condensed creamer - Southern Star (red)	Apr-18	Pomegranate Yoghurt with collagen - Probeauty	Jun-18
Sweetened condensed creamer - Southern Star (orange)	Apr-18	Blueberry Yoghurt with collagen - Probeauty	Jun-18
Sweetened condensed creamer - Southern Star (green)	Apr-18	Sweetened Yoghurt - Vinamilk Probi	Jun-18
UHT drinking yoghurt – orange flavour - Vinamilk Yomilk	Apr-18	Nutritious Milk - Sweetened - Vinamilk	Jun-18
UHT drinking yoghurt – strawberry flavour - Vinamilk Yomilk	Apr-18	Nutritious Milk - Plain - Vinamilk	Jun-18
Bottled Drinking Water - ICY	Apr-18	Nutritious Milk - Chocolate - Vinamilk	Jun-18
Sweetened condensed milk with vegetable oil - Ong Tho (blue)	Apr-18	Nutritious Milk - Strawberry Flavour - Vinamilk	Jun-18
Sweetened condensed milk with vegetable oil - Ong Tho (red)	Apr-18	Nutritious Milk - Sweetened - Vinamilk Star	Jun-18
3 in 1 Ice Cream with Coconut - Chocolate - Vanilla - Vinamilk	Apr-18	Nutritious Milk - Less Sugar - Vinamilk	Jun-18
Sweetened condensed creamer - Ong Tho	Apr-18	UHT Fresh Milk - Less Sugar Vinamilk 100% Fresh Milk	Jun-18
Sweetened condensed milk - Ong Tho	Apr-18	UHT Fresh Milk - Sweetened Vinamilk 100% Fresh Milk	Jun-18
Chocolate Ice Cream – Delight Yolo	May-18	UHT Fresh Milk - Chocolate Vinamilk 100% Fresh Milk	Jun-18
Coconut Taro Ice Cream – Delight Yolo	May-18	UHT Fresh Milk - Strawberry Flavour Vinamilk 100% Fresh Milk	Jun-18
Coconut Ice Cream – Delight Yolo	May-18	Drinking Milk - Dielac Alpha Gold IQ	Jul-18
Sweetened Yoghurt - Star	Jun-18	High Protein Soymilk - Sweetened - GoldSoy - Vinamilk	Jul-18
Aloevera Yoghurt - Vinamilk	Jun-18	High Protein Soymilk - No sugar added - GoldSoy - Vinamilk	Jul-18
Less sugar Yoghurt - Vinamilk	Jun-18	Drinking Cheese Vanilla Flavour - Susu	Jul-18
Plain Yoghurt - Vinamilk	Jun-18	UHT Drinking Yoghurt - Apple and Gape Flavours - Susu	Jul-18
Plain Yoghurt kefir - Vinamilk	Jun-18	UHT Drinking Yoghurt - Strawberry Flavour - Susu	Jul-18
Pomegranate Yoghurt - Vinamilk	Jun-18	UHT Drinking Yoghurt - Orange Flavour - Susu	Jul-18
Strawberry Yoghurt - Vinamilk	Jun-18	Thức uống cacao lúa mạch - Vinamilk Super Susu	Jul-18
Sweetened Yoghurt - Vinamilk	Jun-18	Nutritious Milk Sweetened - Vinamilk ADM Gold	Jul-18
Mixed Fruits Yoghurt - Vinamilk	Jun-18	Nutritious Milk Strawberry Flavour - Vinamilk ADM Gold	Jul-18
Black Rice Yoghurt - Vinamilk	Jun-18	Nutritious Milk - Chocolate - Vinamilk ADM Gold	Jul-18
UHT Drinking Yoghurt - orange flavour - Vinamilk	Jul-18	Walnut Soymilk Vinamilk	Jul-18
UHT Drinking Yoghurt - strawberry flavour - Vinamilk	Jul-18	UHT Fresh Whole Milk - Vinamilk - 100% A2	Jul-18
Yoghurt water ice - soursop flavour - Subo	Jul-18	UHT Drinking Yoghurt - Pomegranate - Vinamilk	Jul-18
Yoghurt water ice - passion fruit flavour - Subo	Jul-18	UHT Drinking Yoghurt - Aloe vera - Vinamilk	Jul-18
Yoghurt water ice - lychee flavour - Subo	Jul-18	Sweetened Yoghurt - Vinamilk Susu	Aug-18
Yoghurt water ice - orange flavour - Subo	Jul-18	Apple and Banana Yoghurt - Vinamilk Susu	Aug-18
Yoghurt water ice - strawberry flavour - Subo	Jul-18	Strawberry and Banana Yoghurt - Vinamilk Susu	Aug-18
Yoghurt water ice - Subo	Jul-18	Dietary Food - Vinamilk Sure Prevent	Aug-18
Grape Juice Drink Aloe vera - Vfresh	Jul-18	Orange Smoothie - Vfresh	Aug-18
Salty Lemonade - ICY	Aug-18	Strawberry Smoothie - Vfresh	Aug-18
Green Tea Aloe vera - Vfresh	Aug-18	UHT Fresh Milk - Sweetened Vinamilk 100% Fresh Milk - School Milk	Aug-18
Chocolate ice cream and almonds - Delight	Aug-18	UHT Fresh Milk - Plain Vinamilk 100% Fresh Milk - School Milk	Aug-18
Matcha tea ice cream and almonds - Delight	Aug-18	Drinking Milk - Optimum Gold	Aug-18
UHT Reduced Fat Fresh Milk - Sweetened 100% Fresh Milk	Aug-18	Fermented milk drink - Probi	Aug-18
Coconut Water - Cocofresh	Aug-18	Nutritional Milk Powder - Dielac Mama Gold - Orange Flavour	Sep-18
Sweetened condensed creamer - Vinamilk - Tai Loc	Aug-18	Fermented milk drink - Strawberry flavour - Probi	Sep-18
Coffee ice cream and almonds - Delight	Sep-18	Fermented milk drink - Melon flavour - Probi	Sep-18
Vanilla ice cream - Vinamilk	Sep-18	Fermented milk drink - less sugar - Probi	Sep-18
Coconut ice cream - Vinamilk	Sep-18	Fermented milk drink - Blueberry flavour - Probi	Sep-18
Durian ice cream - Vinamilk	Sep-18	Nutritious Milk Sweetened - Vinamilk ADM Gold - School Milk	Sep-18
Taro ice cream - Vinamilk	Sep-18	UHT drinking yoghurt – Aloe vera - Vinamilk Yomilk	Oct-18
Strawberry ice cream - Vinamilk	Sep-18	UHT drinking yoghurt – Pomegranate - Vinamilk Yomilk	Oct-18
Chocolate ice cream - Vinamilk	Sep-18	Sweetened Full Cream Milk Powder - Vinamilk Nutrition	Nov-18
Green bean ice cream - Vinamilk	Sep-18	Nutritious milk - Banana - Vinamilk ADM Gold	Dec-18
3 in 1 ice cream with Green bean - Taro – Coconut - Vinamilk	Sep-18	Nutritious milk - Sweetened - Vinamilk ADM Gold	Dec-18
Vanilla ice cream - Twin Cows	Sep-18	Nutritious milk - Strawberry flavour - Vinamilk ADM Gold	Dec-18
Matcha ice cream - Twin Cows	Sep-18	Nutritious milk - Chocolate - Vinamilk ADM Gold	Dec-18
Chocolate ice cream - Twin Cows	Sep-18		
Tiramisu flavoured ice cream - Twin Cows	Sep-18		
Strawberry Cheese ice cream - Twin Cows	Sep-18		
Processed cheese - pâté - Vinamilk	Oct-18		
Chocolate Strawberry Ice Cream - Nhoc Kem Vinamilk	Nov-18		
Chocolate Durian Ice Cream - Nhoc Kem Vinamilk	Nov-18		
Chocolate Coconut Taro Ice Cream - Nhoc Kem Vinamilk	Nov-18		
Chocolate Coconut Ice Cream - Nhoc Kem Vinamilk	Nov-18		
2X Chocolate Ice Cream - Nhoc Kem Vinamilk	Nov-18		
Kem Đậu Xanh Sôcôla - Nhoc Kem Vinamilk	Nov-18		
Chocolate Peanut Ice Cream - Nhoc Kem Vinamilk	Nov-18		
Pasteurized Fresh Whole Milk Vinamilk 100% Fresh Milk	Dec-18		
Pasteurized Fresh milk - Sweetened Vinamilk 100% Fresh milk	Dec-18		
Pineapple Yoghurt - Vinamilk	Dec-18		

Source: Company data

## Financial Statements

### Income Statement (Dec Year End)

In VNDmn	2019a	2020e	2021e	2022e
Revenue	56,318,123	59,520,513	67,705,461	74,421,684
COGS	(29,745,906)	(31,971,233)	(36,984,208)	(40,922,866)
Gross profit	26,572,217	27,549,280	30,721,253	33,498,818
SG&A	(14,265,574)	(15,160,014)	(16,759,700)	(18,171,461)
Other operating inc (expense)	91,200	114,062	132,473	146,589
EBITDA	14,314,693	14,315,613	16,082,159	17,702,116
Depreciation and amortisation	(2,041,033)	(2,171,242)	(2,353,011)	(2,601,132)
Net operating profit (EBIT)	12,273,660	12,144,371	13,729,148	15,100,985
Share of results from associates	(5,717)	(6,288)	(6,917)	(7,609)
Net investment income (loss)	26	29	32	35
Net interest income (expense)	615,377	221,385	363,277	290,791
Other non-operating inc (exp.)	20,132	0	0	0
FX gains (loss)	(14,397)	0	0	0
Net provisions	(602)	0	0	0
Income before taxes or zakat	12,888,479	12,359,496	14,085,540	15,384,202
Taxes or zakat	(2,241,378)	(2,348,304)	(2,746,680)	(3,076,840)
Net inc before minority interest	10,647,102	10,011,192	11,338,860	12,307,361
Minority interest	26,844	(173,156)	(196,120)	(212,871)
Reported net income	10,673,945	9,838,036	11,142,740	12,094,490
Adjusted net income	9,482,096	8,876,213	10,057,016	10,916,030

Source: Vietnam Dairy Products, EFG Hermes estimates

### Balance Sheet (Dec Year End)

In VNDmn	2019a	2020e	2021e	2022e
Cash and cash equivalents	15,100,939	9,541,507	10,190,150	11,014,306
Accounts receivable (current)	3,474,499	3,415,111	3,756,262	4,026,927
Inventory	4,983,044	5,597,267	6,393,051	6,888,346
Other debit balances (current)	1,163,083	1,171,319	1,268,226	1,347,681
Total current assets	24,721,565	19,725,205	21,607,689	23,277,260
PP&E (net)	14,688,699	15,449,783	15,493,564	15,539,090
Goodwill & intangibles	1,211,649	845,227	799,949	754,670
Investments (non-current)	986,676	980,359	973,410	965,766
Other debit balances (non-current)	3,092,228	2,855,622	2,619,016	2,382,410
Total non-current assets	19,978,308	20,127,140	19,883,585	19,639,335
Total assets	44,699,873	39,852,345	41,491,275	42,916,595
Short term debt	5,351,461	20,808	20,808	81,377
Accounts payable (current)	3,648,446	3,930,889	4,559,697	5,045,285
Other credit balances (current)	5,442,939	6,194,770	6,551,847	6,833,613
Total current liabilities	14,442,846	10,146,467	11,132,351	11,960,275
Long term debt	122,993	102,185	81,377	0
Other credit balances (non-current)	402,775	402,347	402,347	402,347
Total non-current liabilities	525,767	504,532	483,724	402,347
Total net worth	27,504,063	26,800,993	27,278,726	27,744,629
Total equity	29,731,260	29,201,347	29,875,200	30,553,974
Total equity and liabilities	44,699,873	39,852,345	41,491,275	42,916,595

Source: Vietnam Dairy Products, EFG Hermes estimates

### Cash Flow (Dec Year End)

In VNDmn	2019a	2020e	2021e	2022e
Cash operating profit after taxes	12,281,101	11,967,309	13,335,479	14,625,276
Change in working capital	392,197	(123,949)	(247,957)	(78,060)
Cash flow after change in WC	11,701,148	12,402,606	12,203,185	13,558,354
CAPEX	(4,202,398)	(3,850,000)	(2,317,792)	(2,554,125)
Investments	19,887	29	32	35
Free cash flow	7,518,638	8,552,635	9,885,424	11,004,265
Non-operating cash flow	(2,719,068)	4,657,158	363,309	290,826
Cash flow before financing	4,799,570	13,209,793	10,248,734	11,295,091
Net financing	(3,656,985)	(14,333,481)	(9,600,091)	(10,470,935)
Change in cash	1,142,584	(1,123,687)	648,643	824,156

Source: Vietnam Dairy Products, EFG Hermes estimates

### Rating and Target Price chart



### Rating Distribution

Rating	Coverage Universe%
Buy	55%
Neutral	33%
Sell	13%
Not Rated	0%
Under Review	0%

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Company (Reuters/Bloomberg)	Rating (09 Mar 2020)	Price (09 Mar 2020)
FPT Corp (FPT.HM/FPT VN)	Buy	VND50300.00
Masan Group Corp (MSN.HM/MSN VN)	Neutral	VND52000.00
Mobile World Investment Corp (MWG.HM/MWG VN)	Buy	VND95900.00
Vietjet Aviation (VJC.HM/VJC VN)	Neutral	VND113500.00
Vietnam Dairy Products (VNM.HM/VNM VN)	Neutral	VND97000.00