

Vietnam Dairy Products JSC (VNM: HOSE)



OUTPERFORM – 1Y Target Price: VND 116,000

Current price: VND 101,500

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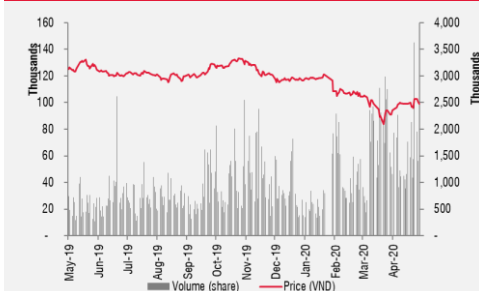
CONSUMER – VIETNAM

Key figures

| | |
|---------------------------|------------|
| Market cap (USD mn) | 7,267 |
| Market cap (VND bn) | 170,307 |
| Outstanding shares (mn) | 1,741 |
| 52W high/low (VND 1,000) | 137.6/83.7 |
| Average 3M volume (share) | 1,520,833 |
| Average 3M value (USD mn) | 6.47 |
| Average 3M value (VND bn) | 151.69 |
| Foreign ownership (%) | 58.47 |
| State ownership (%) | 36 |
| Management ownership (%) | <1 |

Source: SSI Bloomberg

VNM Price & Trading Volume



Source: Bloomberg

Company Snapshot

Vietnam Dairy Products JSC (Vinamilk) was founded in 1993 as a State-owned enterprise. Since listing in 2006, VNM has been the best performing stock and driven the VN-Index.

Vinamilk is Vietnam's leading dairy producer. It also exports to 50 countries, such as Iraq, Cambodia and the Philippines.

Its well-known brand, constant product innovation, extensive distribution network of 266 exclusive distributors and 224,000 retail outlets, as well as good and strong corporate governance are VNM main strengths.

Update on Q1 results & analyst meeting

What's news

VNM announced its 1Q20 results, with consolidated revenue of VND14.15tn (+7.3% YoY) and consolidated net profit of VND2.78 tn (flat YoY), encouraging figures when we compare these results to other Vietnamese listed companies hit hard by the Covid-19 pandemic.

Of the 7.3% revenue growth, 4.8% came from the consolidation of GTN Foods (GTN: HOSE). While revenue growth was in line, flat NPAT was a tad behind the company's guidance of mild growth for 1Q20. While VNM's parent company (domestic & export dairy business) delivered a 3.9% net profit growth and GTN's net profit rose 135% YoY, results of overseas subsidiaries like Driftwood and other business such as sugar were less than encouraging. Another reason was a higher CIT rate of 17.1% in Q1 2020 vs. 16.1% in Q1 2019.

VNM's domestic dairy sales increased by 1.2% YoY in 1Q20. This was attained despite a lack of school milk sales, which accounts for 2-3% of total domestic revenue, rather encouraging compared to the overall demand trend. According to Nielsen, milk-based consumption inched down by 1.9% YoY in 1Q20, and demand shifted from general trade channel to modern trade channel. For VNM, sales at the modern trade channel (~15% of total revenue) grew at double-digit pace in 1Q20.

However, VNM's overall market share reached 60% in 1Q20 (vs. 61% in 4Q19), which contrasts the sales data. Management argued that data from market research providers might not fully reflect the market landscape, especially in the general trade (GT) channel.

In April, management said domestic sales (not including Moc Chau Milk) inched up 4.5% YoY, despite the strict stay at home and elevated social distancing measures for 3 weeks and school closures.

Dairy margin expansion on higher ASP: VNM's domestic dairy business margin improved to 49.4% from 46.6% in 1Q19, mostly due to 3% higher ASP (VNM increased ASP in 2019). The margin for VNM's exports improved to 62.3% from 61.3% in 1Q19. We believe margins in the coming quarters will continue to be supported by both price hike and more favorable input prices.

GTN showed improvement after joining VNM family, evidenced by GTN's net profit soaring by 135% YoY in 1Q20 on restructuring non-core business and Moc Chau Milk (MCM). MCM's revenue and net profit rose by 17.9% and 27.7%, respectively in 1Q20. According to management, over the next 3-5 years, MCM's margin is expected to improve from current 26% to relatively equal with Vinamilk drinking segment margin (more than 40% on our estimates) with annual revenue growth of 7-10%.

Export sales increased by 7.6% YoY in 1Q20. Contrary to our expectation of weaker exports in March-April due to Covid-19 in major export markets, management said that export sales surged 24% YoY in April as demand for powder milk in the Middle East market remains intact.

Sales of Driftwood and Angkor Milk were flat YoY. Driftwood's sales dropped due to school closings in California, while Angkor's revenue in Cambodia market was still positive. Meanwhile, margin of overseas subsidiaries fell to 23.4% from 29.9% in 1Q19.

Other updates

China market holds great potential, with an estimated market size of more than USD50bn. However, fierce competition is an apt description of the landscape, and management does not expect this market to perform well in the next several years, as it takes time to increase coverage and product awareness to be well accepted by Chinese consumers.

Raw material trend: VNM maintains its strategy to stock up 3 months of inventory in advance. Currently, it has already hedged its raw material needs until June, and is bidding for raw materials for production purposes to cover its needs until September. Management said that margins in 2020 will be supported by cheaper raw material inputs, and believes that raw milk prices will go up once Covid-19 is contained.

2020 guidance not finalized yet. Management is still looking at 3 scenarios of revenue growth (+10%/7%/5%). Details will be announced around the AGM (June 2020).

Estimates update

For 2020, given the positive initial guidance of management on the export activities (which exceeds our expectation), we slightly raise our revenue forecast. In addition, we alter our assumption for raw material prices, and now we assume the raw milk powder price this year will be 10% lower YoY (in VND) given the downtrend witnessed since March.

Accordingly, we estimate VNM to post VND61.55tn in revenue (+9.3% YoY) and net profit of VND11.36tn (+7.6% YoY).

| VND bn | 2020E | | 2021E | | Note |
|-------------------|--------|--------|--------|--------|---|
| | Old | New | Old | New | |
| Sales | 61,190 | 61,551 | 65,383 | 66,018 | Higher export sales forecast |
| Increase/Decrease | | 0.59% | | 0.97% | |
| Net income | 10,459 | 11,359 | 11,377 | 12,148 | Higher GPM on decreased raw milk price assumption |
| Increase/Decrease | | 8.60% | | 6.78% | |

Source: SSI estimates

What we recommend

Factoring in the forecast revisions, we raise our 1-yr target price for VNM to VND 116,000/share (from VND 108,000/share), based on a banded 2020F target P/E of 21x (25% discount to regional peers) and DCF methodology (with an increased WACC on higher equity risk premium for Vietnam). As our target price represents 14% upside potential from current market price, we upgrade VNM from Market Perform to Outperform.

Downside risks to our call: higher-than-expected raw material prices and lower-than-expected sales growth.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

| VND Billion | 2018 | 2019 | 2020F | 2021F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Balance Sheet | | | | |
| + Cash | 1,523 | 2,665 | 6,150 | 7,867 |
| + Short-term investments | 8,674 | 12,436 | 8,001 | 8,001 |
| + Account receivables | 4,639 | 4,503 | 4,922 | 5,279 |
| + Inventories | 5,526 | 4,983 | 5,406 | 5,856 |
| + Other current assets | 198 | 134 | 146 | 158 |
| Total Current Assets | 20,560 | 24,722 | 24,625 | 27,160 |
| + LT Receivables | 88 | 21 | 23 | 25 |
| + Net Fixed Assets | 13,365 | 14,894 | 15,014 | 15,927 |
| + Investment properties | 90 | 62 | 52 | 43 |
| + LT Assets in progress | 868 | 944 | 967 | 987 |
| + LT Investments | 1,069 | 987 | 688 | 688 |
| + Other LT Assets | 1,325 | 3,071 | 2,894 | 2,745 |
| Total Long-Term Assets | 16,806 | 19,978 | 19,639 | 20,414 |
| Total Assets | 37,366 | 44,700 | 44,264 | 47,575 |
| + Current Liabilities | 10,640 | 14,443 | 12,444 | 13,479 |
| <i>In which: ST debt</i> | <i>1,060</i> | <i>5,351</i> | <i>2,582</i> | <i>2,796</i> |
| + Non-current Liabilities | 455 | 526 | 570 | 618 |
| <i>In which: LT debt</i> | <i>216</i> | <i>123</i> | <i>133</i> | <i>145</i> |
| Total Liabilities | 11,095 | 14,969 | 13,015 | 14,097 |
| + Contributed capital | 17,417 | 17,417 | 17,417 | 17,417 |
| + Share premium | 0 | 0 | 0 | 0 |
| + Retained earnings | 7,155 | 7,875 | 8,798 | 10,386 |
| + Other capital/fund | 1,699 | 4,439 | 5,046 | 5,685 |
| Shareholders' Equity | 26,271 | 29,731 | 31,260 | 33,488 |
| Total Liabilities & Equity | 37,366 | 44,700 | 44,275 | 47,586 |
| Cash Flow | | | | |
| CF from operating activities | 8,083 | 11,342 | 16,653 | 13,200 |
| CF from investing activities | -1,045 | -6,748 | -1,701 | -3,000 |
| CF from financing activities | -6,535 | -3,516 | -11,456 | -8,483 |
| Net increase in cash | 503 | 1,078 | 3,496 | 1,717 |
| Beginning cash | 963 | 1,523 | 2,597 | 6,093 |
| Ending cash | 1,466 | 2,597 | 6,093 | 7,810 |
| Liquidity Ratios | | | | |
| Current ratio | 1.93 | 1.71 | 1.98 | 2.01 |
| Acid-test ratio | 1.39 | 1.36 | 1.53 | 1.57 |
| Cash ratio | 0.96 | 1.05 | 1.14 | 1.18 |
| Net debt / EBITDA | -0.72 | -0.62 | -0.66 | -0.71 |
| Interest coverage | 238.79 | 119.40 | 114.66 | 113.90 |
| Days of receivables | 24.3 | 22.2 | 21.6 | 21.8 |
| Days of payables | 52.0 | 46.9 | 43.0 | 43.0 |
| Days of inventory | 62.3 | 64.5 | 58.8 | 58.8 |
| Capital Structure | | | | |
| Equity/Total asset | 0.70 | 0.67 | 0.71 | 0.70 |
| Liabilities/Total Assets | 0.30 | 0.33 | 0.29 | 0.30 |
| Liabilities/Equity | 0.42 | 0.50 | 0.42 | 0.42 |
| Debt/Equity | 0.05 | 0.18 | 0.09 | 0.09 |
| ST Debt/Equity | 0.04 | 0.18 | 0.08 | 0.08 |

Source: Company, SSI forecasts

| VND Billion | 2018 | 2019 | 2020F | 2021F |
|--|---------------|---------------|---------------|---------------|
| Income Statement | | | | |
| Net Sales | 52,562 | 56,318 | 61,551 | 66,018 |
| COGS | -27,951 | -29,746 | -32,269 | -34,954 |
| Gross Profit | 24,611 | 26,572 | 29,282 | 31,064 |
| Financial Income | 760 | 807 | 1,011 | 1,075 |
| Financial Expense | -118 | -187 | -335 | -363 |
| Income from associates | 0 | 0 | 0 | 0 |
| Selling Expense | -12,266 | -12,993 | -14,416 | -15,087 |
| Admin Expense | -1,133 | -1,396 | -1,705 | -1,801 |
| Income from business operation | 11,877 | 12,797 | 13,868 | 14,921 |
| Net Other Income | 175 | -1 | 18 | 20 |
| Profit Before Tax | 12,052 | 12,796 | 13,887 | 14,940 |
| Net Income | 10,206 | 10,554 | 11,359 | 12,148 |
| NI attributable to shareholders | 10,227 | 10,581 | 11,330 | 12,114 |
| Minority interest | -22 | -27 | 29 | 34 |
| Basic EPS (VND) | 5,295 | 5,478 | 5,855 | 6,260 |
| BVPS (VND) | 14,802 | 15,794 | 16,653 | 17,913 |
| Dividend (VND/share) | 6,000 | 6,000 | 5,000 | 5,000 |
| EBIT | 12,103 | 12,905 | 14,009 | 15,073 |
| EBITDA | 13,730 | 14,853 | 15,898 | 17,169 |
| Growth | | | | |
| Sales | 3.0% | 7.1% | 9.3% | 7.3% |
| EBITDA | 1.3% | 8.2% | 7.0% | 8.0% |
| EBIT | -1.3% | 6.6% | 8.6% | 7.6% |
| NI | -0.7% | 3.4% | 7.6% | 6.9% |
| Equity | 10.0% | 13.2% | 5.1% | 7.1% |
| Chartered Capital | 20.0% | 0.0% | 0.0% | 0.0% |
| Total assets | 7.8% | 19.6% | -1.0% | 7.5% |
| Valuation | | | | |
| P/E | 22.7 | 21.3 | 17.3 | 16.1 |
| P/B | 8.1 | 7.4 | 6.2 | 5.8 |
| Dividend yield | 4.2% | 4.3% | 4.9% | 4.9% |
| EV/EBITDA | 14.4 | 12.9 | 10.7 | 9.9 |
| EV/Sales | 3.8 | 3.4 | 2.8 | 2.6 |
| Profitability Ratios | | | | |
| Gross Margin | 46.8% | 47.2% | 47.6% | 47.1% |
| Operating Margin | 22.9% | 22.3% | 21.0% | 21.3% |
| Net Margin | 19.4% | 18.7% | 18.5% | 18.4% |
| Selling exp./Net sales | 23.3% | 23.1% | 23.4% | 22.9% |
| Admin exp./Net sales | 2.2% | 2.5% | 2.8% | 2.7% |
| ROE | 40.7% | 37.7% | 37.2% | 37.5% |
| ROA | 28.3% | 25.7% | 25.5% | 26.5% |
| ROIC | 39.4% | 33.9% | 33.1% | 34.8% |

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