

VIETNAM DAIRY PRODUCTS JSC (VNM) – AGM NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND75,900	VND110,000	5.27%	Add	CONSUMER GOODS

26 April 2022

Outlook – Short term: **Positive**
 Outlook – Long term: **Positive**
 Valuation: **Positive**

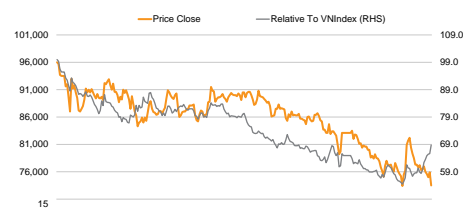
Consensus*: Add:11 Hold:2 Reduce:1

Target price / Consensus: 8.5%

Key changes in the report

➤ N/a

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	110,000
52w low (VND)	73,400
3m Avg daily value (VNDmn)	182,798
Market cap (VND bn)	158,628
Free float (%)	33
TTM P/E (x)	14.6
Current P/B (x)	4.35

Ownership

SCIC	36.0%
F&N Dairy Investment Pte, Ltd	20.0%
Platinum Victory Pte Ltd	10.6%
Others	33.4%

Source: VND RESEARCH

Analyst(s):



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2022 AGM key takeaways

- FY22F business plan was approved by the AGM with VND64,070bn (+5.0% yoy) in revenue and VND9,720bn in net profit (-7.7% yoy).
- Investors' question at VNM's AGM mainly revolved around its expansion strategy in overseas market, input material price, and growth potential in domestic market.

FY22F business plan is prudent, in our view

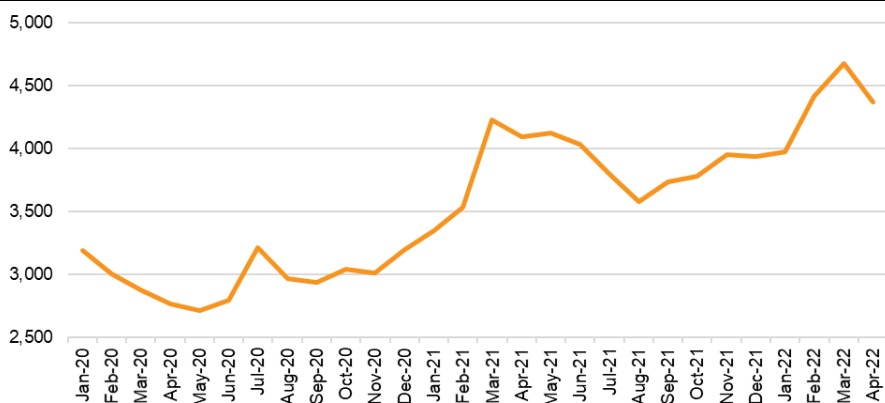
- FY22F business plan was approved by the AGM with VND64,070bn (+5.0% yoy) in revenue and VND9,720bn in net profit (-7.7% yoy).
- The company focus on organic products and re-boost the School milk program as students come back to school.
- In 2021, VNM has tapped into two new countries, bringing the presence of Vinamilk products in 57 countries. FY21F export turnover was about US\$2.6bn (+8.0% yoy). FY22F export revenue is expected to grow 5-10% yoy.
- FY22F net profit target slides 7.7% yoy following the concerns over rising raw material prices, including whole milk powder and sugar. According to management, VNM has fixed whole milk powder price contracts until Aug 2022. We estimate that FY22 whole milk powder input cost is likely 6% higher than the same period last year. Whole milk powder increased 17.7% yoy in 1Q22 but cooled down by 6.6% mom in Apr 2022. We believe that the company took advantage of this opportunity to lock input milk prices until Aug and keep observing the whole milk price movement to come up with reasonable pricing options.
- Per our estimate, VNM's average selling prices has lifted by nearly 2% in 1Q22. The company has no plan to increase selling prices until the end of 2022F.
- FY22F revenue guidance is equivalent with our forecast while FY22F net profit guidance is 10.9% below our forecast. We expect whole milk powder price to gradually cool down in 2H22F, improving VNM's GM by 0.5% pts in FY22F. Thus, we expect VNM's NP to increase slightly to VND10,905bn in FY22F (+3.5% yoy).

FY22F dividend plan

- VNM is likely to maintain FY22F cash dividend plan at VND3,850/share which will provide an attractive dividend yield of 5.27% so far. The first FY22 cash dividend of VND1,500/share will be paid in Aug 2022.
- Responding a shareholder's question, management said that it has no plan to buy treasury shares.

Seeking new growth potential via M&A and joint venture

- According to management, Vietnam dairy market value has increased by 1% yoy in 2021 and still has potential upside following the GDP growth. The dairy market value is expected to reach VND136,000bn by 2025. Thus, VNM aims a revenue CAGR of c.10.3% in the next three years in order to reach VND86,000bn by FY25F.
- In addition, VNM is still looking for M&A opportunities in the FMCG industry related to nutrition to seek new growth potential.

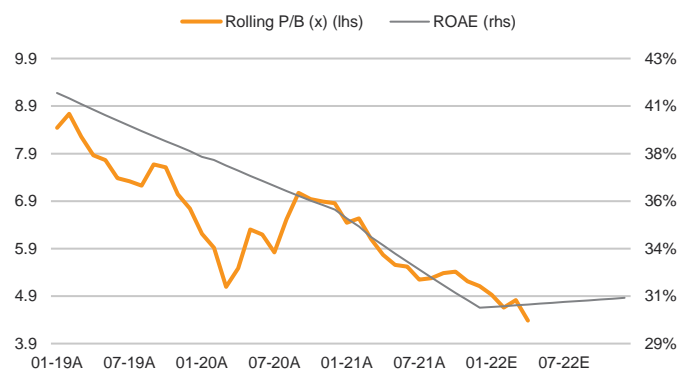
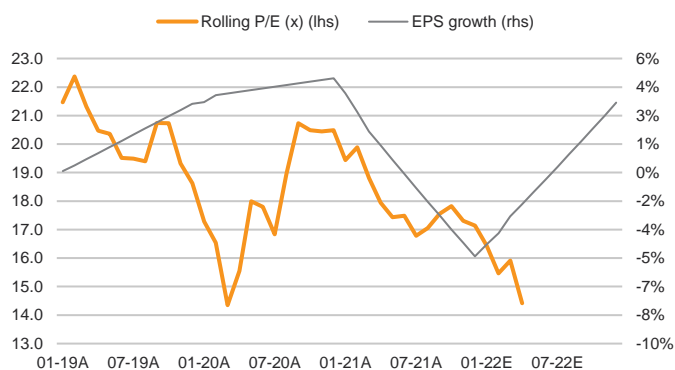
Figure 1: Whole milk powder cooled down by 6.6% mom in Apr 2022 (unit: US\$/MT)


Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 2: Peer comparison (Data as at 26 Apr 2022)

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)		3-year EPS	P/B (x)		ROE (%)		ROA (%)	
		LC\$	LC\$			US\$m	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F
Dairy producers														
China Mengniu Dairy Co	2319 HK	42.6	N/a	N/a	21,437	19.3	16.8	20.7	2.9	2.6	15.6	16.2	6.8	7.2
Bright dairy & food Co Ltd-A	600597 CH	10.6	N/a	N/a	2,241	17.6	16.1	21.5	1.6	1.5	9.1	9.5	3.1	3.6
Inner Mongolia Yili Indus-A	600887 CH	37.9	N/a	N/a	37,100	22.2	18.9	6.5	5.4	4.7	25.4	26.1	12.7	13.6
Meiji Holdings Co Ltd	2269 JP	6,440	N/a	N/a	7,474	15.2	15.1	2.4	1.3	1.2	9.1	8.7	5.3	5.4
Universal Robina Corp	URC PM	107.8	N/a	N/a	4,524	19.2	17.4	44.3	2.0	1.8	10.9	11.6	7.9	8.6
<i>Average</i>					14,555	18.7	16.9	19.1	2.6	2.4	14.0	14.4	7.2	7.7
<i>Median</i>					7,474	19.2	16.8	20.7	2.0	1.8	10.9	11.6	6.8	7.2
Vietnam Dairy Products JSC	VNM VN	75,900	110,000	ADD	6,677	17.7	17.1	0.9	4.7	4.8	31.3	32.9	20.4	21.3

Source: VNDIRECT RESEARCH, BLOOMBERG

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	60,919	64,738	68,944
Cost of sales	(34,641)	(36,410)	(38,346)
Gen & admin expenses	(1,567)	(1,838)	(2,155)
Selling expenses	(12,951)	(13,784)	(14,810)
Operating profit	11,760	12,706	13,634
Operating EBITDA	13,882	14,472	15,492
Depreciation and amortisation	(2,121)	(1,766)	(1,858)
Operating EBIT	11,760	12,706	13,634
Interest income	1,215	1,359	1,455
Financial expense	(202)	(454)	(441)
Net other income	195	(2)	(2)
Income from associates & JVs	(45)	(45)	(45)
Pre-tax profit	12,922	13,565	14,601
Tax expense	(2,290)	(2,404)	(2,587)
Minority interest	(100)	(257)	(276)
Net profit	10,532	10,905	11,737
Adj. net profit to ordinary	10,532	10,905	11,737
Ordinary dividends	(8,360)	(8,360)	(8,360)
Retained earnings	2,173	2,545	3,377

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	2,349	2,119	2,479
Short term investments	21,026	22,658	24,131
Accounts receivables	5,822	6,142	6,541
Inventories	6,773	6,474	6,894
Other current assets	162	244	260
Total current assets	36,131	37,637	40,305
Fixed assets	13,837	13,505	13,329
Total investments	740	772	773
Other long-term assets	2,625	2,122	2,249
Total assets	53,332	54,036	56,657
Short-term debt	9,382	8,416	8,480
Accounts payable	4,214	4,265	4,542
Other current liabilities	3,472	3,774	4,019
Total current liabilities	17,068	16,455	17,041
Total long-term debt	76	167	178
Other liabilities	338	2,444	1,969
Share capital	20,900	20,900	20,900
Retained earnings reserve	7,594	9,049	11,252
Shareholders' equity	35,326	34,480	36,978
Minority interest	524	490	490
Total liabilities & equity	53,332	54,036	56,657

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	12,922	13,565	14,601
Depreciation & amortisation	2,367	2,478	1,786
Tax paid	(2,357)	(2,404)	(2,587)
Other adjustments	(937)	(834)	(942)
Change in working capital	(2,563)	332	(297)
Cash flow from operations	9,432	13,138	12,560
Capex	(1,531)	(2,266)	(2,413)
Proceeds from assets sales	134	15	32
Others	(3,536)	(1,665)	(1,473)
Other non-current assets changes	1,000	(216)	(61)
Cash flow from investing activities	(3,933)	(4,133)	(3,915)
New share issuance	318	0	0
Shares buyback	0	0	0
Net borrowings	2,046	(875)	75
Other financing cash flow	(4)	0	0
Dividends paid	(7,621)	(8,360)	(8,360)
Cash flow from financing activities	(5,261)	(9,235)	(8,285)
Cash and equivalents at beginning of period	2,111	2,349	2,119
Total cash generated	237	(230)	361
Cash and equivalents at the end of period	2,349	2,119	2,479

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	17.3%	16.8%	17.0%
Asset turnover	1.20	1.21	1.25
ROAA	20.7%	20.3%	21.2%
Avg assets/avg equity	1.49	1.54	1.55
ROAE	30.8%	31.2%	32.9%
Efficiency			
Days account receivable	26.2	25.9	25.9
Days inventory	71.4	64.9	65.6
Days creditor	44.4	42.8	43.2
Fixed asset turnover	4.24	4.74	5.14
ROIC	23.2%	25.0%	25.4%
Liquidity			
Current ratio	2.1	2.3	2.4
Quick ratio	1.7	1.9	2.0
Cash ratio	1.4	1.5	1.6
Cash cycle	53.1	48.1	48.3
Growth rate (yoy)			
Revenue growth	2.2%	6.3%	6.5%
Operating profit growth	(4.1%)	8.0%	7.3%
Net profit growth	(5.1%)	3.5%	7.6%
EPS growth	(5.1%)	3.5%	7.6%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock’s total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock’s total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock’s total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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