RONG VIET SECURITIES

MILK

DEMAND WILL BACK TO NORMAL LEVELS IN 2H2022

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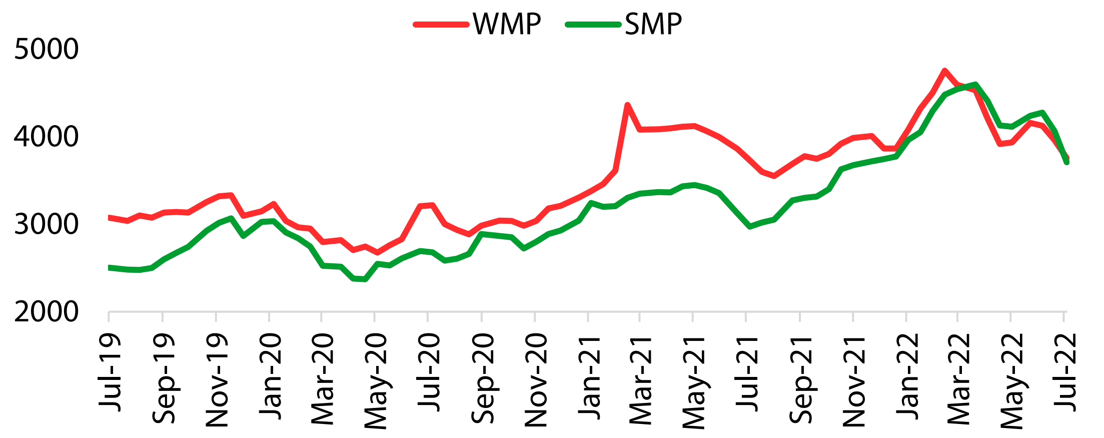
RISING PRODUCTION COSTS LEAD TO LOWER PROFIT MARGIN

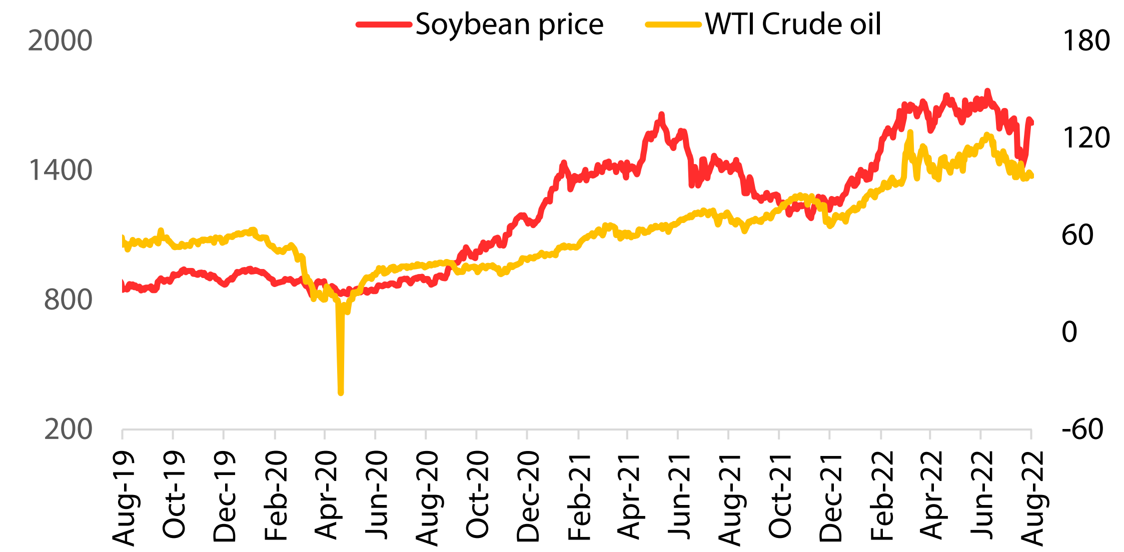
Figure 1: Prices of whole and skimmed milk powder (USD/MT)



Source: Bloomberg, Rong Viet Securities

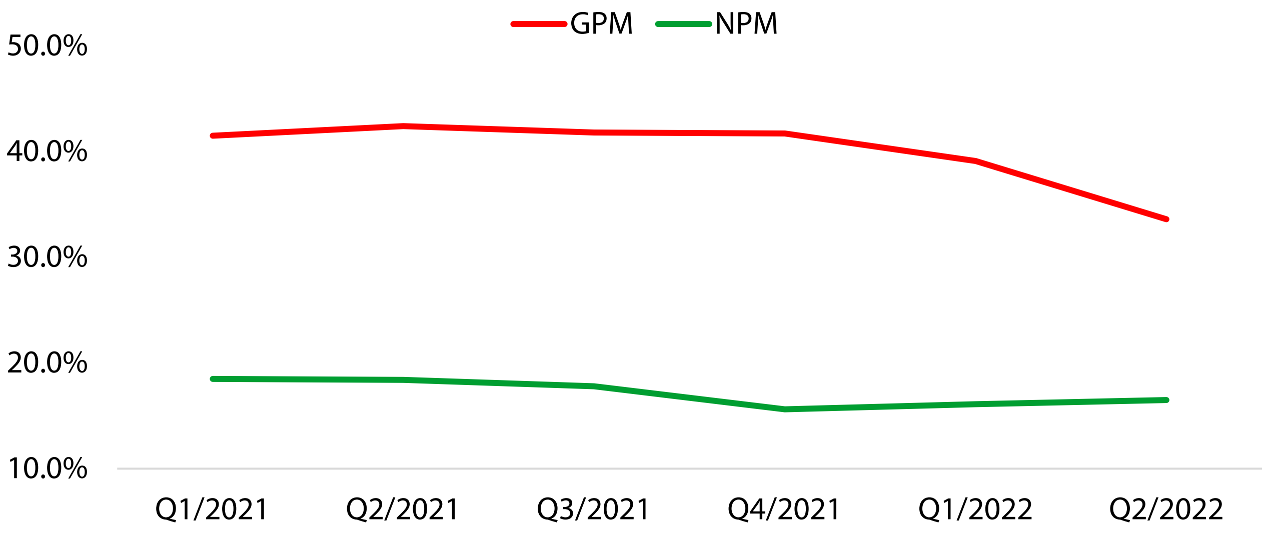
- Raw milk price inflation started since mid-2020 until Mar-2022 is the result of increased feed prices, a decrease in the number of dairy cows as well as higher milk demand from China. In Mar-2022, prices of whole milk powder peaked at USD/MT 4,757 (+9.0% YoY). Meanwhile, 1Q 2022 average selling price of dairy products only increased by +4% YoY, mentioned by Kantar Worldpanel. Production costs increased at a higher pace than selling prices in 1H2022 owing to high-priced inventory generates lower profit margin of Vietnam dairy producers.
- Similarly, non-dairy producers ' performance are hit by strong rising commodity prices such as soybean or sugar. Russia – Ukraine tension not only limited supply of grain products but also pushes crude oil prices up, leading to global commodity price inflation in 1H2022. Therefore, profit margins of Vietnam non-dairy producers likes Quang Ngai Sugar Jsc. (Upcom: QNS) was dragged down.

Figure 2: Prices of crude oil (USD/Bbl, RHS) and soybean (USD/Bu)



Source: Bloomberg, Rong Viet Securities

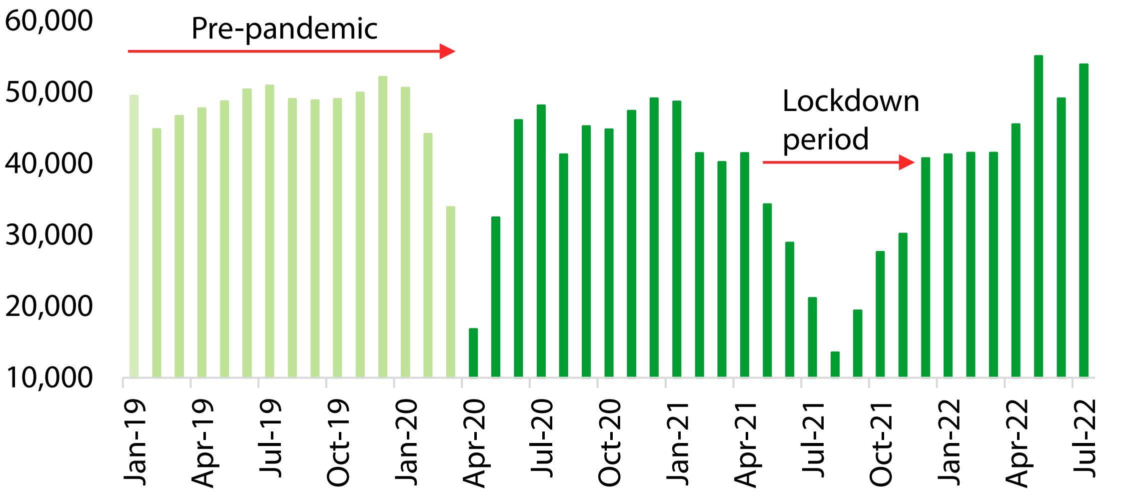
Figure 3: GPM (%) and NPM (%) of listed dairy and non-dairy producers



Source: VNM, MCM, IDP, QNS, Rong Viet Securities

DEMAND WILL BACK TO NORMAL IN 2H2022

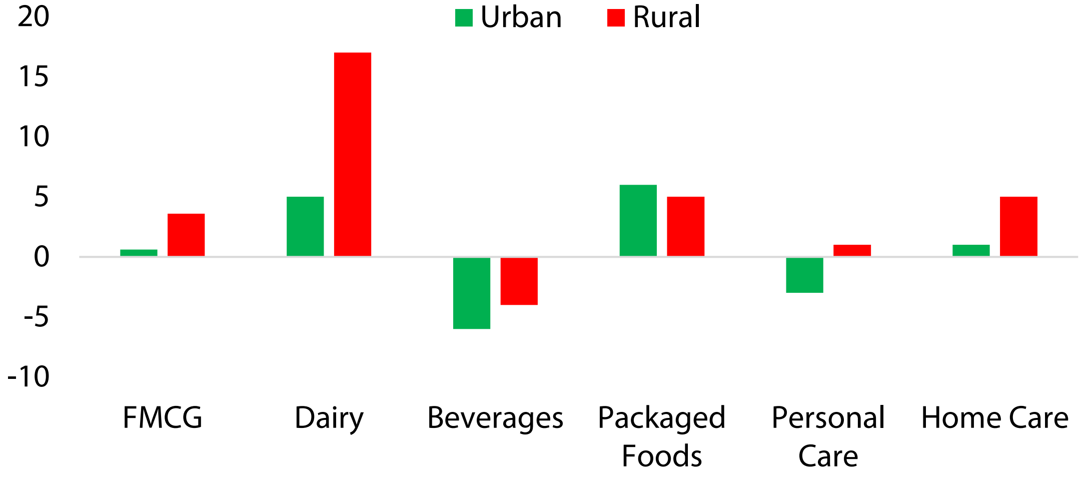
Figure 4: Retail sales of accomodation and catering (VND bn)



Source: Fiinpro, Rong Viet Securities

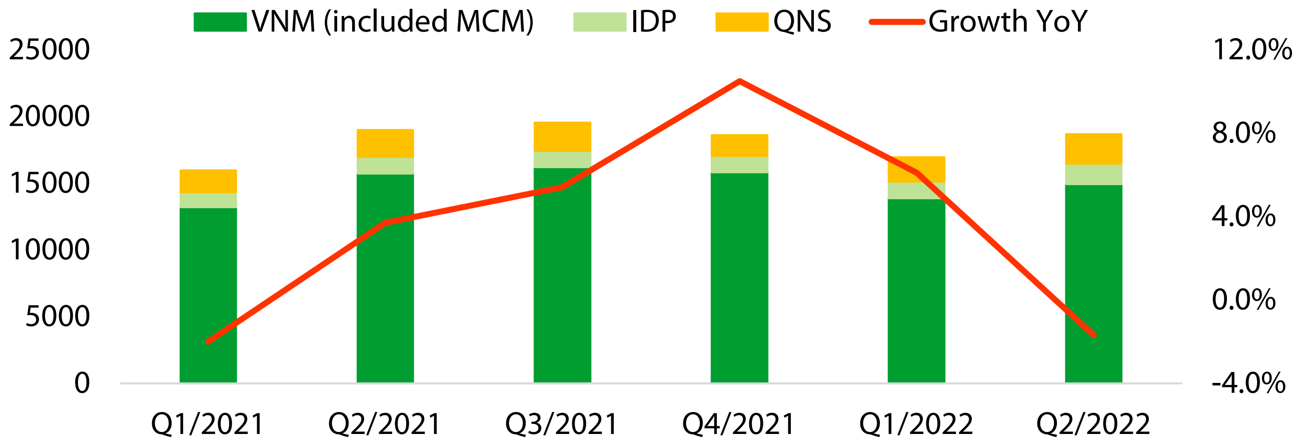
- Milk consumption is expected to back to normal level in 2H2022 after slightly recovered in 1H2022. The main supporters are 1) increasing outdoor activities, especially summer vacation; 2) back to school season (since Sept); and 3) consumers gets used to the new price level.
- According to GSO, Vietnam retail sales of accommodation and catering was below the pre-pandemic level during the first five months of 2022 and starts strongly rising since Jul-2022 (Figure 4). In addition, mentioned by Kantar Worldpanel, dairy consumption is one of the segment showed positive growth in Q1 2022. We believe that consumers are increasingly spending on milk products which boost immune system.
- However, due to the pressure from high inflation and higher selling price, 1H2022 purchasing power has not strongly recovered yet. As a result, we believe that consumers will get used to with the new price level in 2H2022, together with the growing dairy demand from schools, industrial parks and outdoor activities, the consumption will increase in 2H2022.

Figure 5: Change in dairy consumption value in 1Q 2022 (% YoY)



Source: Kantar Worldpanel, Rong Viet Securities

Figure 6: Sales of listed milk producers (VND bn) and growth (% YoY, RHS)

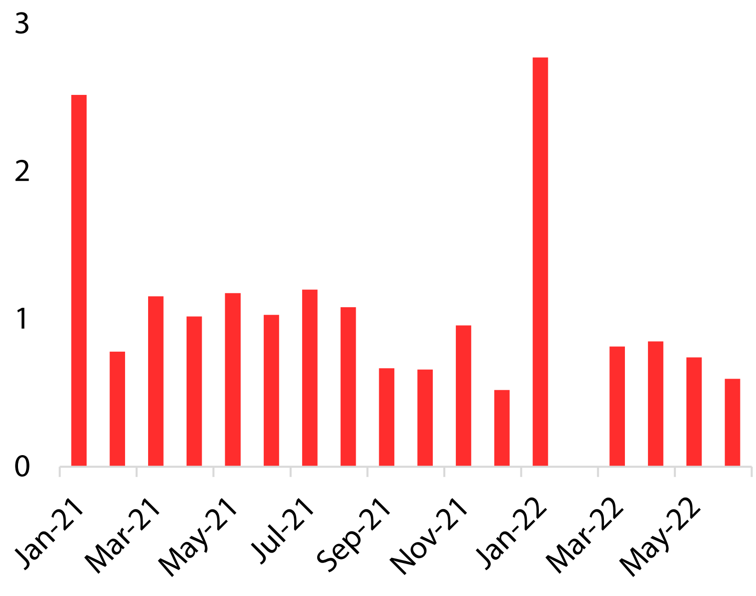


Source: VNM, IDP, QNS, Rong Viet Securities

COSTS OF RAW MATERIAL IS DECREASING TO SAME LEVEL AS 2021

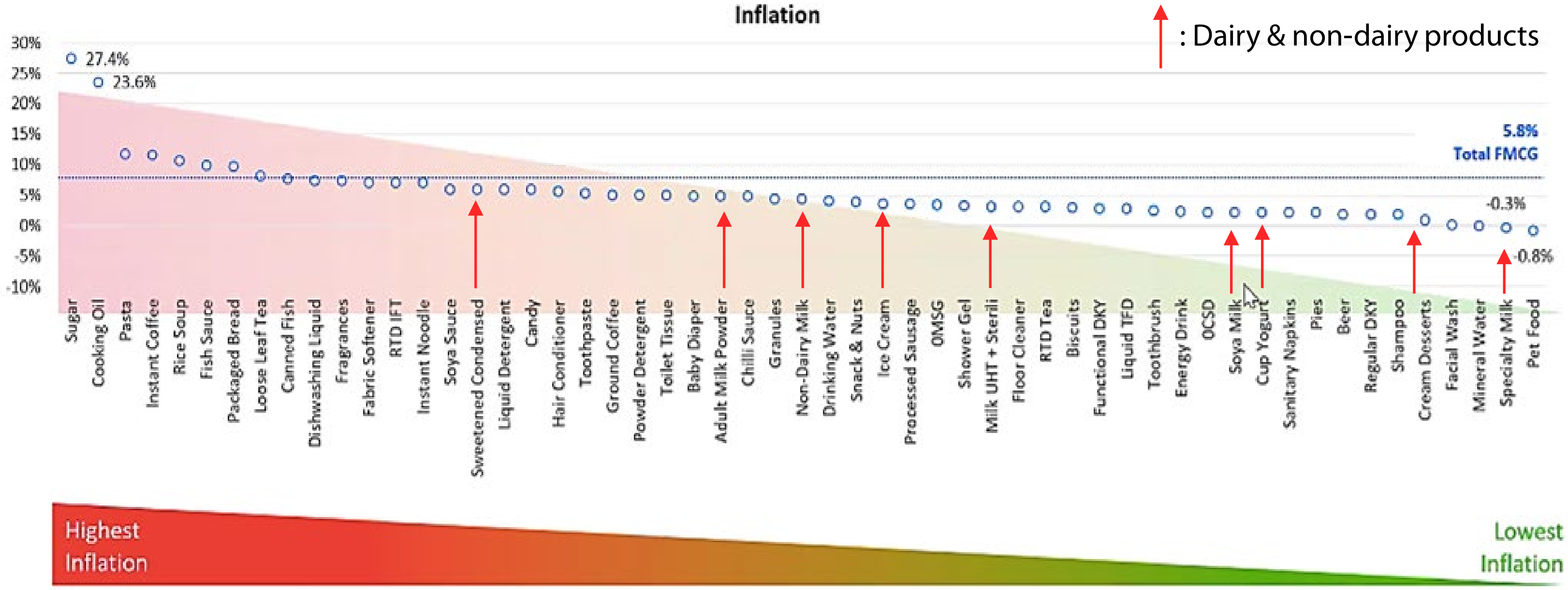
- According to Rabobank report, global milk powder prices peaked in 1H2022, then gradually decreasing. The main reason is a reduction in dairy commodities import from China, driven by high carry-over stocks and weaker demand related to Covid-19 lockdown. In Jul-2022, prices of whole milk powder was USD/MT 3,757 (+0.7% YoY; -8.9% MoM). We expect that prices of raw milk will move down to the lower-level-than-last-year by the end of 2022, thus, improving 2H2022 margins.
- In contrast, prices of other commodities such as soybean or raw sugar is expected to remain at high level. The primary explanation is that bad weather conditions in 2H2022 will harm global supply. As a result, profit margins of non-dairy producers will not improve much as dairy companies.
- Generally, both dairy and non-dairy companies fixed the prices of commodity contracts in Q1 2022 until Q3 2022. Additionally, despite high inflation, prices of these products increased at a modest rate and after the rising production costs due to the nature of consumer staple products. Consequently, we expect that their profit margins will start to recover since Q3 2022, then becoming stronger in Q4 2022 and onwards.

Figure 7: China 's import of dairy commodities (Bn ton)



Source: Bloomberg, Rong Viet Securities

Figure 8: Inflation across Vietnam take home grocery categories in 1Q2022 (% YoY)



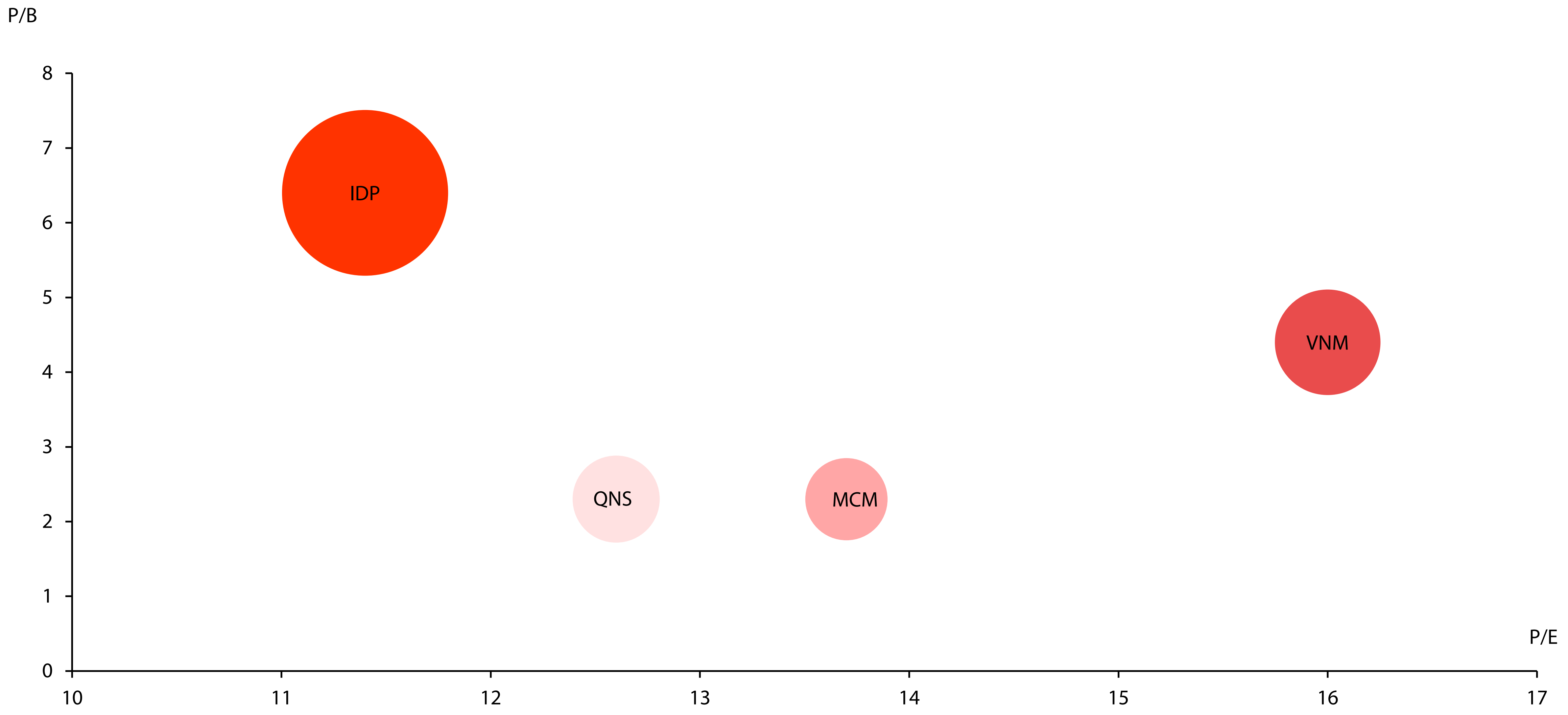
Source: Kantar Worldpanel, Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
VNM	150,895	85,100	3.3%	-6.3%	21.5%	17.6%	-11.3%	15.6%	17.7%	25.8%	5.3%	17.8	4.4
MCM	4,862	N/A	3.6%	1.2%	10.9%	9.1%	13.7%	10.9%	17.2%	18.6%	3.3%	15.3	2.2
IDP	9,903	N/A	25.8%	84.5%	23.1%	-4.8%	64.0%	17.0%	32.1%	77.9%	2.6%	12.0	7.5
QNS	15,777	N/A	13.0%	9.5%	24.4%	45.3%	19.0%	17.1%	13.2%	18.1%	7.0%	10.7	1.9

Source: Fiinpro, Rong Viet Securities. Share price as of 10 August 2022.

PE, PB & ROE (TTM)

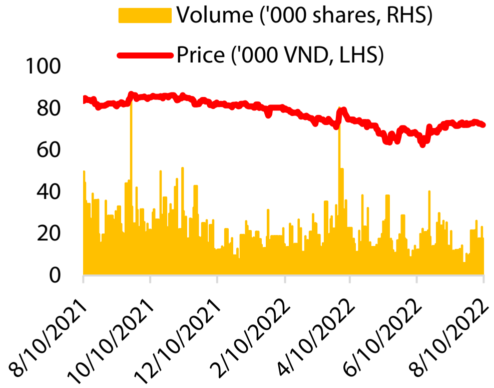


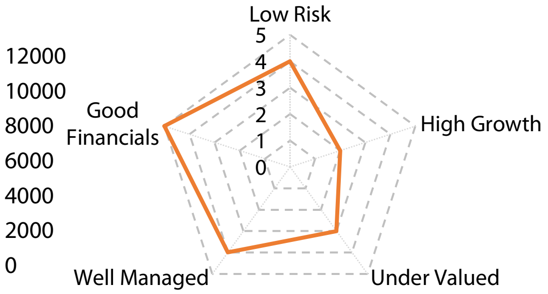
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

GROWTH MOMENTUM COMES FROM SUBSIDIARIES

HSX: VNM

BUY: +23% <MP: 72,500> <TP: 85,100>





STOCK INFO

Sector	Consumer Staple
Market Cap ($ mn)	6,480
Current Shares O/S (mn shares)	2,090
3M Avg. Volume (K)	2,274
3M Avg. Trading Value ($ USD)	6.2
Remaining foreign room (%)	45.4
52-week range ('000 VND)	64.5- 92.4

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	60,919	65,136	69,669
NPATMI VND bn)	10,532	10,301	11,415
ROA (%)	19.9	18.9	20.1
ROE (%)	31.8	30.2	31.4
EPS (VND)	4,517	4,436	4,916
Book Value (VND)	15,830	16,319	17,384
Cash dividend (VND)	3,850	3,850	3,850
P/E (x)	16.1	16.3	14.7
P/B (x)	4.5	4.4	4.1

INVESTMENT RATIONALES

Sales growth is expected to bottom-out since 2022 thanks to the distribution network restructuring strategy and strong growth of subsidiaries

- 2022 sales value is forecast to be VND65,136 bn (or USD 2,832 Mn, +6.0% YoY), mainly driven by high double-digit growth of subsidiaries (Driftwood, Angkormilk and Mocchau Milk). In the period of 2019-2021, VNM present a diminishing sales growth from 7% to 2%, thus we expect that their sales growth to bottom-out since 2022.
- Sales growth of 2022-2026 is expected to gradually increase. In 1H2022, VNM has implemented distribution network restructuring strategy to improve their market share, of which, increasingly taking care general trade (GT) distributors. Backed by this, we believe that VNM's market share will be strengthen since 2023 when the restructuring strategy take fully effect, resulting in positive growth of parents' sales. In addition, we believe that the potential growth of VNM's subsidiaries will continue to have room in the next 3 years as they will launch more SKUs and expand their customer data base.

Net profit margin is expected to recover since 2H2022 and onwards thanks to higher average selling price and decreasing raw milk prices

- 2022 NPAT-MI is expected to decrease by -2.4% YoY to VND10.3 Tn (or USD 435 mn) because of 1H2022 weak performance. However, VNM 's gross profit margin has slightly recovered since Q2 2022 thanks to higher average selling price and fixed production cost. In the background of decreasing prices of raw milk powder and new raw milk powdered contracts will be closed within Q4-2022, we believe that profit margins of VNM will continue to improve in 2H2022 and onwards. As a result, Q2 2022 is expected to be bottom of VNM 's profit margin.

Strong cash flow and healthy capital structure create a favorable condition for future business expansion and stable cash dividend policy

- VNM has a strong cash flow and healthy capital structure which help the company to be able to expand their business (e.g., by M&A or investing on non-dairy business) in the future, resulting in an increasing ROE in the next five years. Besides, this advantage also supports VNM to keep a stable cash dividend policy (~40% on par value annually), creating stable profit for long-term investors.

RISKS TO OUR CALL

- China would back to import huge amounts of raw milk, leading raw milk powder to strongly increase.

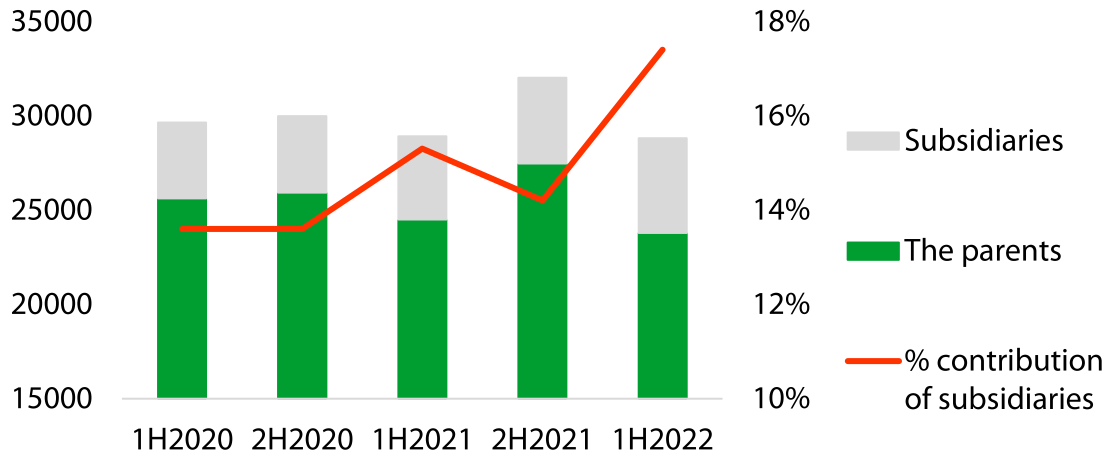
Vinamilk restructured its distribution system in 1H2022, leading to weak performance of the parents' sales

- 1H2022 revenue posted VND28,808 bn (-0.3% YoY, USD1,253 mn), dragged down by the weak performance of the parents' sales with VND23,781 bn (-2.9% YoY, USD1,034 mn). Explained by VNM, it restructured distribution network in 1H2022 to boost further market share in General Trade (GT) channel, leading to fluctuations in revenue. In detail, the company reduces discounts for some supermarkets while focusing on pushing sales of GT distributors, especially in rural areas. Although VNM 's market share slightly down in 1H2022, we expect it will regain the market share thanks to this strategy in 2H2022.
- Subsidiaries: the positive signal of 1H2022 performance of VNM is that all of its subsidiaries records positive sales growth. Notably, the two oversea subsidiaries, including Driftwood (the U.S.) and Angkormilk (Cambodia), presented high double-digit sales growth, at +40% YoY and +14% YoY, respectively.

Production costs surged, led by strong increasing global raw milk powder prices, resulting in a negative growth in 1H2022 net profit.

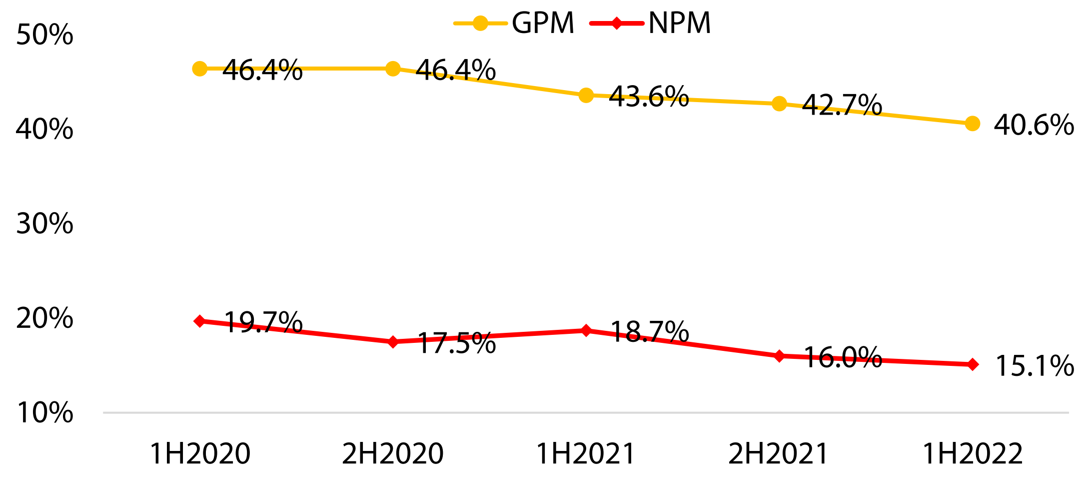
- 1H2022 gross profit reached VND11,701 bn (-7.2% YoY, USD509 mn), equivalent to gross margin of 40.6% (-300 bps YoY). The strong rising of raw milk powder prices since mid-2020 until Mar-2022 is the primary factor. However, Q2 2022 gross margin was 40.7%, +17 bps higher than Q1 2022 thanks to higher ASP.
- 1H2022 NPAT-MI was VND4,384 bn (-19.6% YoY, USD191 mn). The increase in both expenses related to the restructuring strategy and logistic costs led net profit declined at a higher pace than revenue.

Figure 1: Revenue by segment (VND bn)



Source: VNM, Rong Viet Securities

Figure 2: Gross profit margin and net profit margin



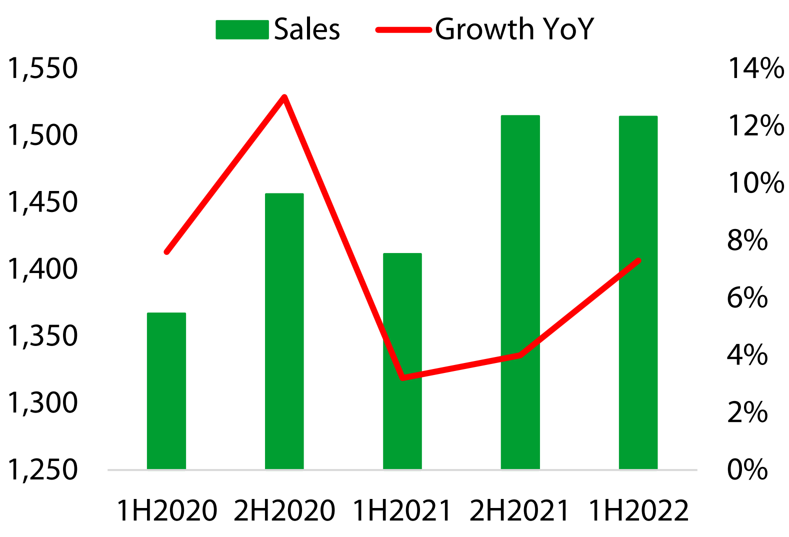
Source: VNM, Rong Viet Securities

2022 SALES GROWTH DRIVEN BY SUBSIDIARIES

2H2022 sales is forecast to strongly recover, backed by double-digit growth of subsidiaries.

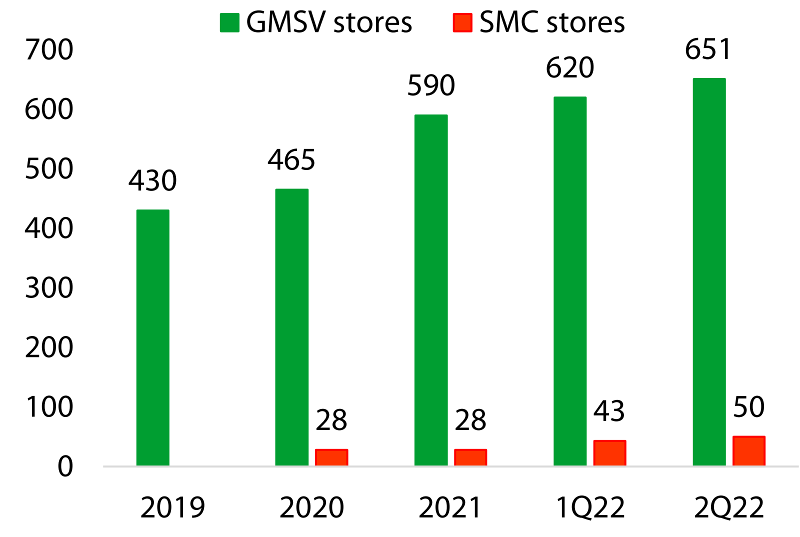
- 2022 revenue is expected to reach VND 65.1 Tn (+6.0% YoY, USD2,760 Mn) driven by double-digit sales growth of subsidiaries. In detail, we believe that Mocchau Milk (Upcom: MCM) will continue to grow higher in 2H2022 after illustrating 1H2022 sales growth of +7.3% YoY, encouraging by higher production capacity since Jul-2022, wider distribution network, and larger SKUs. Mocchau Milk 's BOD aims to open 70 "Sua Moc Chau" stores in 2022. As regards oversea subsidiaries, we believe that 1H2022 strong growth momentum to continue in 2H2022, resulting double-digit sales growth for whole year. The main reason is the recovery of dairy consumption after Covid-19 pandemic in the U.S. and Cambodia markets.
- As regards the parents, we expect that its domestic sales will turn to positive growth in 2H2022, in the pillars of 1) the distribution system restructuring strategy will generate positive result since 2H2022; 2) the reopening of outdoor activities, schools, and industrial park which stimulate dairy consumption; and 3) higher ASP. According to the company, the ASP has been raised in Feb and May-2022 with an increase of +5% and +5.5% YoY, respectively. Furthermore, VNM's domestic revenue in Jul-2022 also recorded a strong growth of 10% YoY on a high base of Jul-2021. As a result, whole year sales growth of the parents will be flat compared to the same period last year.

Figure 3: Mocchau Milk' sales (VND bn) and growth YoY (%, RHS)



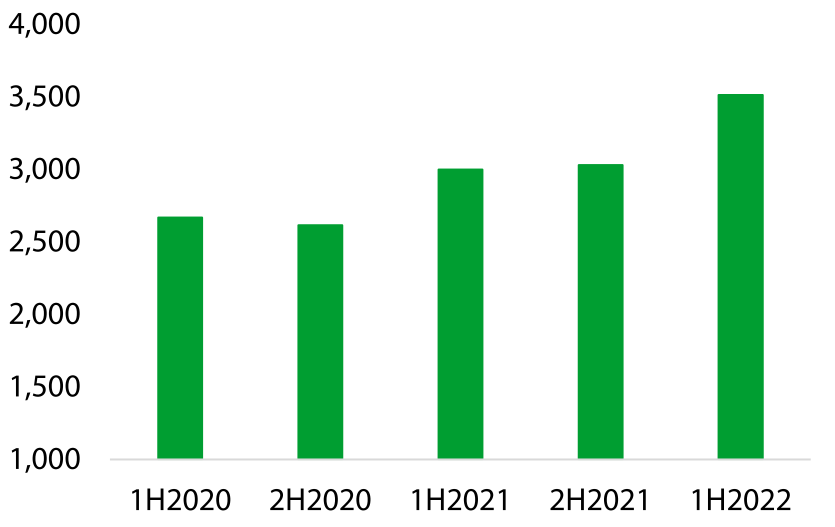
Source: MCM, Rong Viet Securities

Figure 4: "Giac Mo Sua Viet (GMSV)" and "Sua Moc Chau (SMC)" store counts (unit)



Source: VNM, MCM, Rong Viet Securities

Figure 5: Sales of oversea subsidiaries (VND bn)

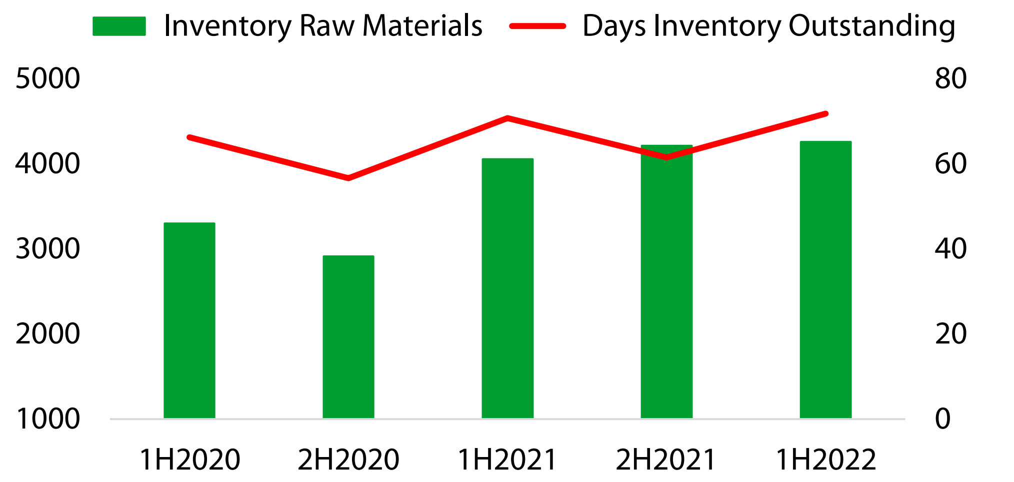


Source: VNM, Rong Viet Securities

2H2022 net profit margin is going to recover thanks to decreasing raw milk powder prices.

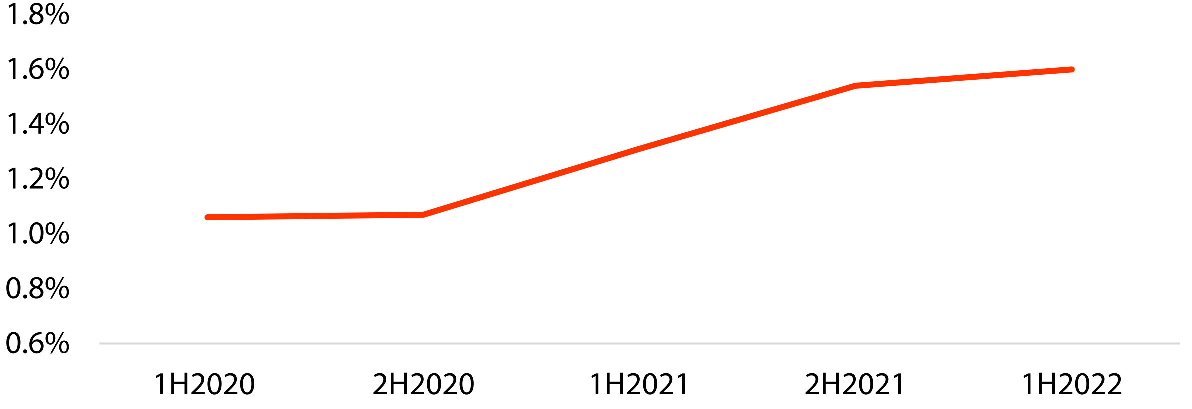
- 2022 NPAT-MI is expected to decrease by -2.4% YoY to VND10.3 Tn (or USD 435 Mn), of which, 2H2022 strong growth will compensate for the two-digit negative growth of 1H2022. In Mar-2022, VNM has locked raw milk powdered contracts until Aug-2022 at the high price (Figure 6), thus we expect that the company will make new contracts within Q4-2022, taking advantage of decreasing raw milk powder prices. In the background of higher ASP, we expect that VNM 's gross margin will continue to gradually recover since Q3 2022, then improving in Q4 2022 after bottom-out in Q2 2022. Equipped by recent downward trend of global crude oil prices, 2H2022 logistic costs is expected to ease, thus supporting operating margin. Consequently, net profit margin is going to improve.
- 2H2022 GPM and NPM are forecast to be 40.9% (-183 bps YoY) and 15.6% (-42 bps YoY), but higher than 1H2022 results by +25 bps and +48 bps, respectively.

Figure 6: VNM 's raw material inventory (VND bn, LHS) and days of total inventory outstanding (days, RHS)



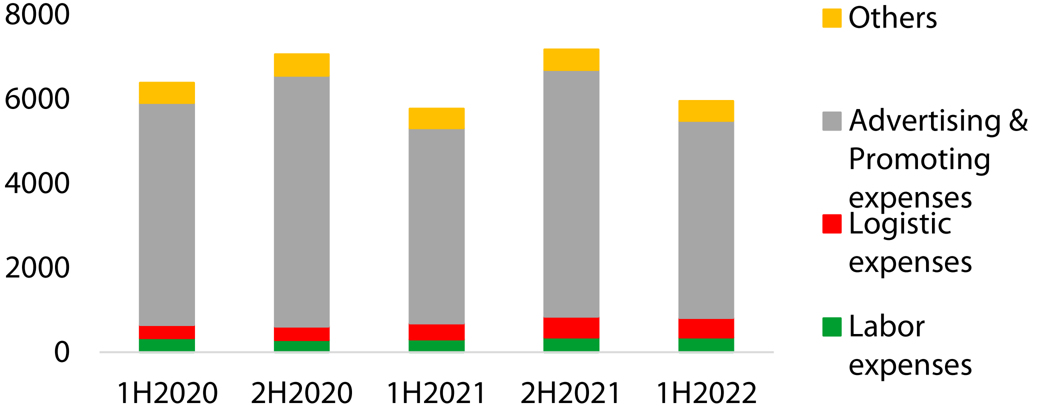
Source: VNM, Rong Viet Securities

Figure 7: VNM 's logistic expenses/sales



Source: VNM, Rong Viet Securities

Figure 8: VNM 's selling expenses breakdown (VND bn)

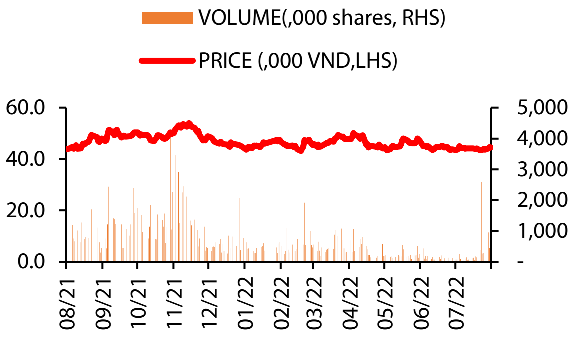


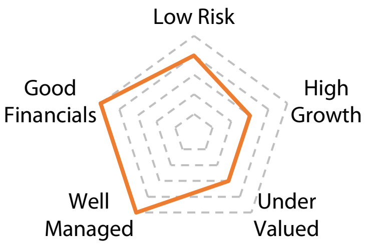
Source: VNM, Rong Viet Securities

RISING INPUT COSTS WEIGH ON SHORT TERM MARGIN

UPCoM: QNS

<ACCUMULATE: +19%> <TP: 44,500> <MP: 50,300>





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	679
Current Shares O/S (mn shares)	357
3M Avg. Volume (K)	265
3M Avg. Trading Value ($ mn)	9
Remaining foreign room (%)	30.6
52-week range ('000 VND)	58 – 41.2

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	7,335	8,314	9,317
NPATMI VND bn)	1,254	1,279	1,470
ROA (%)	12.7%	12.3%	13.2%
ROE (%)	17.7%	17.2%	18.8%
EPS (VND)	4,117	4,160	4,778
Book Value (VND)	23,539	24,699	25,977
Cash dividend (VND)	3,000	3,000	3,000
P/E (x)	11.7	10.5	9.1
P/B (x)	2.0	1.8	1.7

INVESTMENT RATIONALES

Soymilk consumption recovery meanwhile rising costs weigh on short term profit margin

- The soymilk revenue rose by 12% YoY in 1H2022. However, profit growth has been hindered by the rising costs including imported soybean, sugar, etc. The margin pressure is expected to remain until 1H2023.
- FY2022, soymilk sales is projected to rise by 11% YoY driven by a 6% growth in sales volume. Gross profit will pose a modest growth, 8% YoY due to margin pressure on rising inputs cost.

The imposition of anti-dumping tax on imported sugar from 5 ASEAN countries will improve the sugar segment in 2H 2022

- The 1H2022 sugar revenue witnesses a decline due to sales volume dropped significantly given rising competition from the circumvented-tax barrier as well as smuggled sugar. We expected action on circumventing anti-dumping measures will support the domestic sugar price. Therefore, the segment in FY22 is forecasted to increase by 25% YoY in sales supported by expected strong volume growth in 2H22. However, we expect gross margin of this segment to contract 450 bps YoY on the high base of 2021, flattening sugar gross profit YoY.
- In FY2022, QNS's business growth is expected at 13% YoY and 2% YoY in revenue and NPATMI, respectively.

Healthy cashflow enables an attractive dividend policy

- Decent financial structure with average D/E ca. 29% and no expected long-term debts during 2022-2025.
- Attractive cash dividend yield, 7% for FY2022.

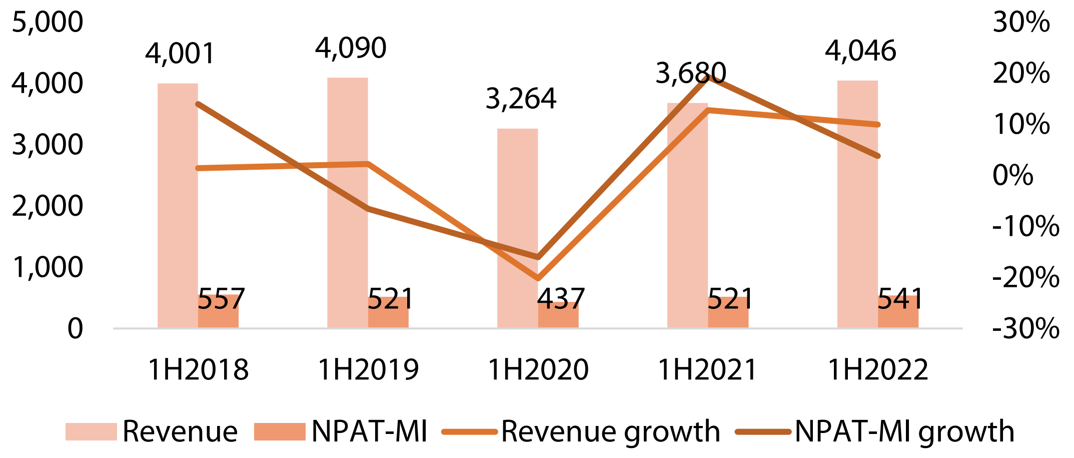
RISKS TO OUR CALL

- Continuously rising inputs cost including import soybean and sugar.
- Failure in controlling cross-border smuggling.

1H 2022: SOYMILK SEGMENT HELPED PROFITS GROW SLIGHTLY

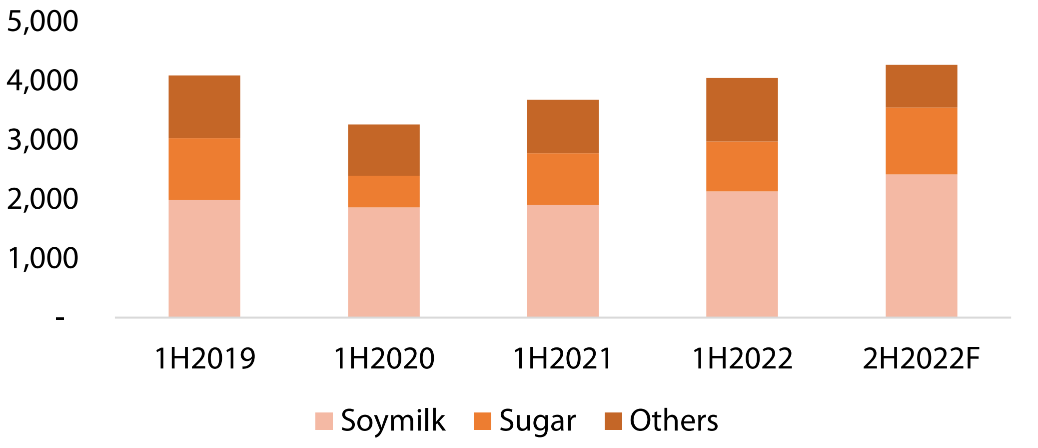
- In 1H2022, QNS recorded revenue and NPAT-MI to be VND 4,046 Bn (or USD 176 Mn) and VND 541 Bn (or USD 23 Mn), increasing by 9% YoY and 4% YoY, respectively. This growth mainly comes from the soymilk segment to offset the slight decrease of the sugar segment competed with smuggled sugar.
- Both soymilk GPM and sugar GPM declined in 1H2022, by 190 bps YoY and 370 bps YoY, respectively, due to high materials costs (soybeans, sugar materials). However, GPM improvement of other segments helped 1H2022 GPM remain unchanged of 28.2% YoY.
- Selling costs went up 21% YoY in 1H2022 due to the promotion for new products, leading to NPAT to grow at a lower rate than revenue.

Figure 1: 1H2022 results (VND Bn)



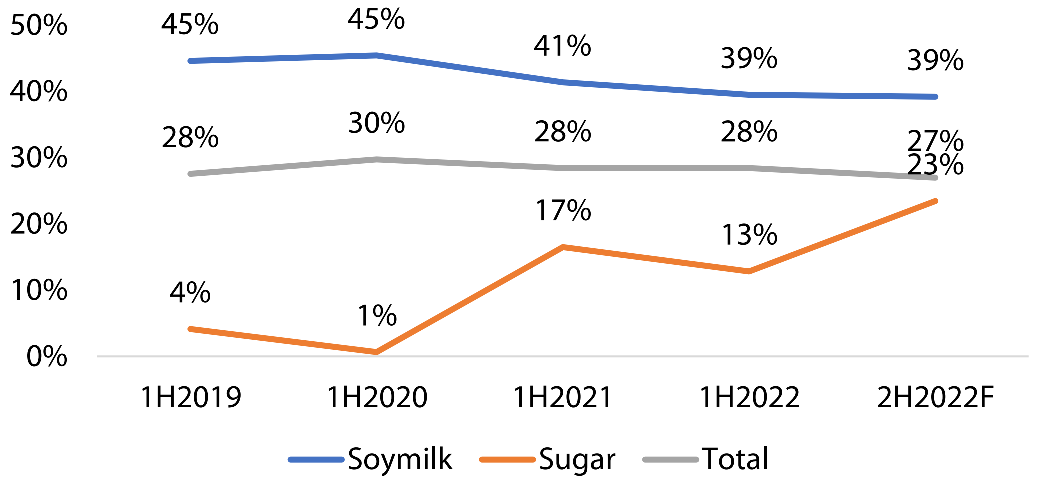
Source: QNS, Rong Viet Securities

Figure 2: Revenue breakdown by products (VND Bn)



Source: QNS, Rong Viet Securities

Figure 3: Gross margin by products (%)



Source: QNS, Rong Viet Securities

Slow recovery due to high soybeans prices

- In 1H2022, revenue from soy milk increased by 12% YoY with sales volume growth of 7% and selling price increased by 5%. These positive results underscore the resilience of demand for soy milk.
- However, gross margin is affected due to high input material costs, undermining the profit growth. In the second half of 2022, gross margin is continuously under pressure given inputs cost expected to remain at a high base while selling price hike is limited to support demand recovery.
- In FY2022, we expect soymilk's revenue to reach VND 4,554 Bn, up 11% YoY in 2022 thanks to 6% YoY increase in volume and 5% YoY increase in selling price, while gross profit of this segment only increased by 8% YoY.
- We view that soymilk's GPM would remain at a low level in FY2023 as the company fixed a part of soybeans prices for 1H2023 while there is no sign that soybean prices will cool down in 2023.

Figure 4: Soymilk revenue and gross profit (bnVND)

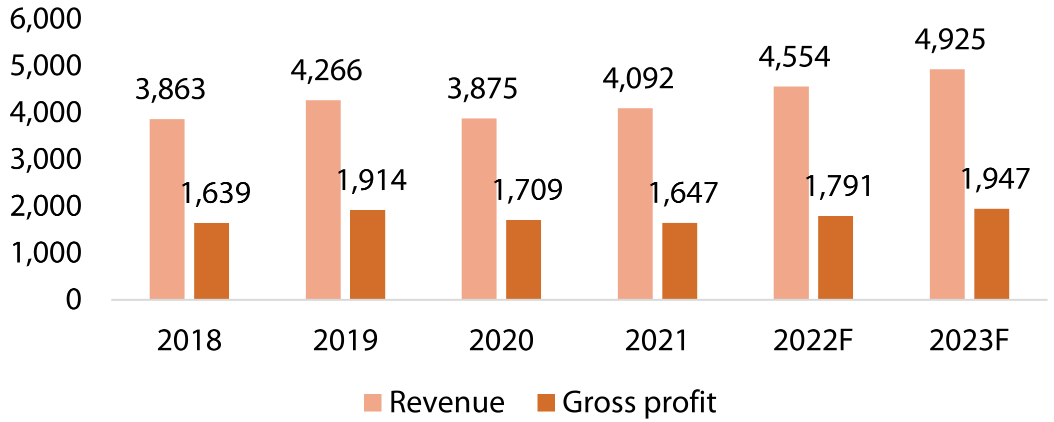
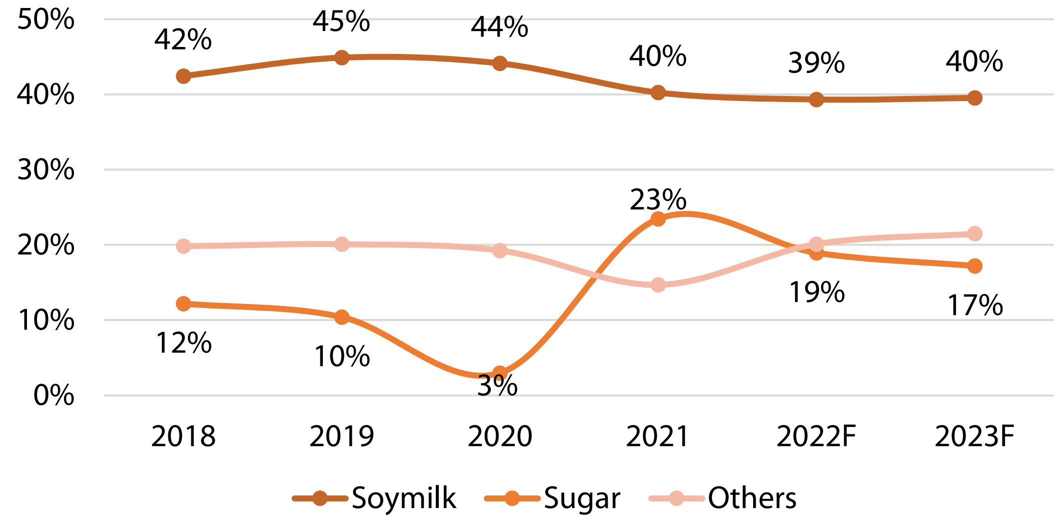


Figure 5: GPM by products

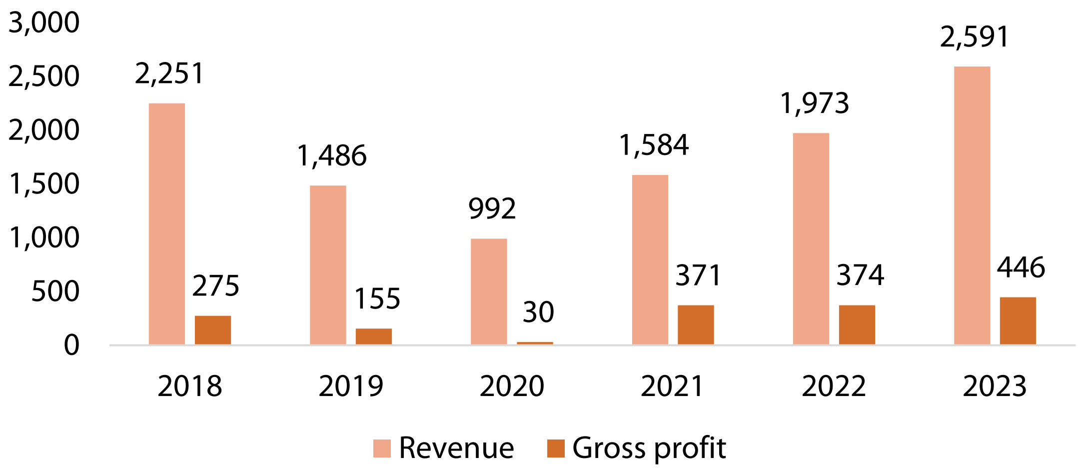


Source: QNS, Rong Viet Securities

Domestic sugar prices have cooled down since the beginning of 2022 after a sharp increase in the second half of 2021 due to the recovery of sugar production in Thailand and an increase in sugar smuggling into Vietnam. For QNS, in 1H2022, gross margin of sugar segment decreased by 370 bps YoY to 13% due to rising sugarcane cost while sugar price declined.

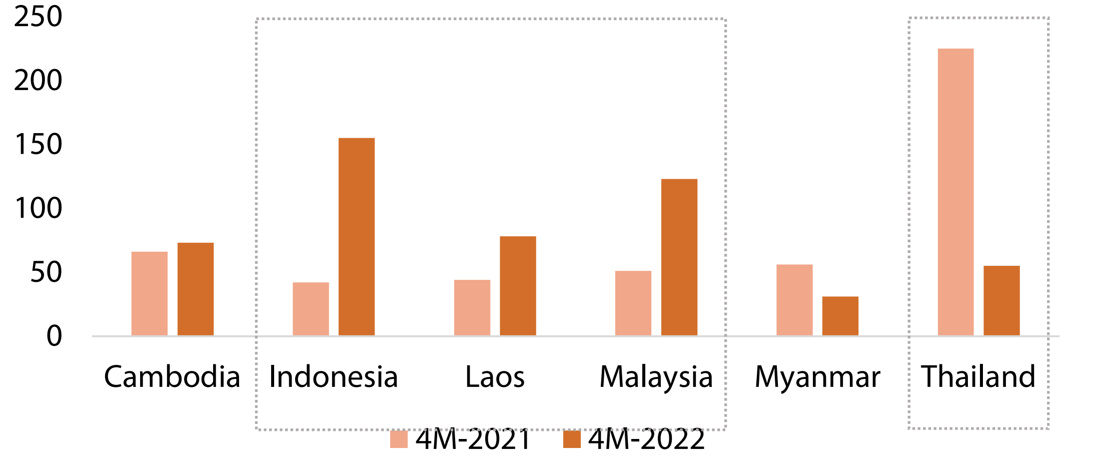
A lessen competition expected from the implementing of anti-dumping tax on sugar from 5 ASEAN countries would support the domestic sugar price. FY22, the revenue is expected to reach VND 1,973 bn in 2022, up 25% YoY thanks to increased sales volume in the 2H2022 while PBT 2022 will reach VND 320 bn, flat versus the high base in 2021, contributing 24% and 21% to the company's total revenue and PBT, respectively.

Figure 6: Sugar revenue and gross profit (VND bn)



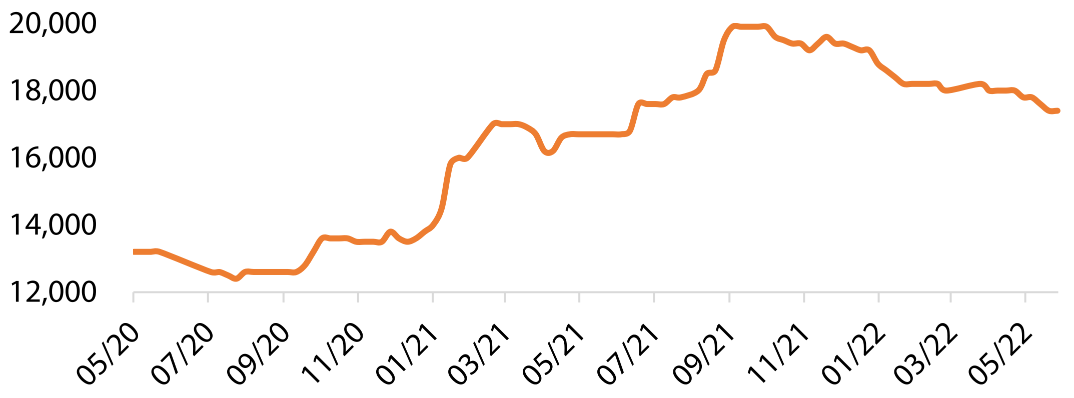
Source: QNS, Rong Viet Securities

Figure 7: Vietnam sugar import from ASEAN change during 21-22



Source: VSSA, Rong Viet Securities

Figure 8: Local RS sugar price (VND/kg)



Source: VSSA, Rong Viet Securities

Table: Valuation summary

FCFE		Sum of the parts (SOTP)		
Risk-free rate	3.0%	**Segment**	**Method**	**Valuation**
Expected market return	13.0%	Soymilk	P/E 14x	27,185
Beta	0.75	Sugar	P/E 10x	9,012
Risk premium	3.0%	Biomass	FCFE	3,541
Cost of Equity	13.6%	Others (Beers, Confectionary, Minerals)	P/E 8x	5,484
Target price (VNĐ)	**55,391**	Target price (VND)		**45,223**
Target price, VND (50% FCFE, 50% SoTP)				**50,307**

Source: Rong Viet Securities

- For FY22, we forecast QNS's profit to grow only single digit due to rising inputs cost, weighing on profitability of FMCG manufacturers such as QNS as well as the sugar industry after high base of 2021. However, in the long term, QNS is a favorable stock driven by its dominant position in the branded soymilk market, which poses spacious market room in Vietnam, sound financial as well as attractive cash dividend.
- Based on a combined valuation of DCF and SoTP, we value QNS stock at VND 50,300. We recommend to ACCUMULATE this stock with a total expected return of 19%, including a cash dividend of 7%.

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