VIETNAM DAIRY PRODUCTS - JSC (HSX: VNM)

Business results to recover in 2H-FY21

(VND bn)	1H-FY21	2H-FY20	+/- HoH	1H-FY20	+/- YoY
Net revenue	28,906	29,988	-3.6	29,648	-2.5
PAT	5,411	5,262	2.8	5,837	-7.3
EBIT	6,081	5,670	7.2	6,593	-7.8
EBIT margin	21.0	18.9	2.1	22.2	-1.2

Source: VNM, Rong Viet Securities

1H-FY21 – NPAT dropped due to weakening dairy demand and material price increase

- VNM's revenue was VND 28,906 Bn (USD 1.3 Bn, -2.5% YoY), mainly hit by domestic revenue decrease (VND 24,430 Bn or USD 1.1 Bn, -4% YoY). Export revenue increased 6.8% YoY and accounted for 15% of total revenue in 1H-FY21.
- GPM contracted 273 bps YoY due to the YoY increase of imported milk powder price.
- NPAT came in at VND 5,459 Bn (USD 236 Mn), decreasing 6.9% YoY in 1H-FY21.

FY2021 outlook – NPAT to flatten YoY

In 3Q-FY21, we estimate VNM's total revenue at VND 16,402 Bn (or USD 710 Mn, +5.4% YoY and +4.4% QoQ), led by export revenue increase of 13.4% YoY (VND 2,608 Bn or USD 113 Mn), driven by revenue acceleration in Iraq, US and Cambodia. Besides, domestic revenue will reach VND 13,794 Bn (or USD 597 Mn, +4% YoY) as dairy consumption is improving in Ho Chi Minh City as milk products are included in essential baskets distributed to citizen from August on. We estimate that ***NPAT will be about VND 3,181 Bn (USD 138 Mn, +3.4% YoY)*** in 3Q-FY21 driven by positive revenue growth (+5.4% YoY) and flat SG&A expense ratio to offset partially the contracting gross margin (-92 bps YoY).

We maintain our estimates for VNM's business results in FY2021 with flat growth of both ***revenue (+1.6% YoY) and NPAT (-0.5% YoY) to VND 60,599 Bn (USD 2.6 Bn) and VND 11,039 Bn (or USD 478 Mn), respectively***. We expect export markets to remain revenue growth driver in both the second half (+18.6% YoY) and the whole FY2021 (+13% YoY), as dairy demand is recovering well in export markets. Meanwhile, slight NPAT decrease is the result of (1) domestic demand deceleration impacted by Covid-19, and (2) negative impact of a material price increase on profit margins. We estimate that average whole milk powder price will increase 31% YoY in FY2021 and cause the gross profit to decrease by 2% YoY and gross margin to contract 171 bps.

Valuation and recommendation

We revise up our estimate by 7.5% for 2H-FY21 domestic revenue (VND 26,522 Bn, USD 1.1 Bn, +5% YoY) versus our previous figures (VND 24,665 Bn, USD 1 Bn, -1% YoY) as we have a more optimistic view about the company's prospects in the second half as dairy demand in Ho Chi Minh City is improving. Brighter results in the second half will cushion the weak performance in the first half to help VNM maintain flat NPAT growth for the whole FY2021.

*Based on the 50%:50% valuation mix of DCF and PER, we evaluate VNM share value at **VND100,000**, up 6% versus our previous target price mainly because of our higher estimates for VNM's revenue (+3%) and NPAT (+3%).*

*We maintain an **ACCUMULATE,** with a total expected return of **16%**, including a 4.5% cash dividend yield.*

ACCUMULATE +16%

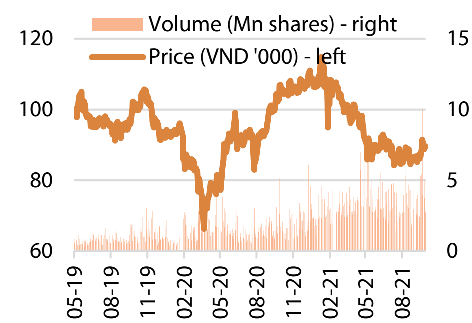
Target price (VND)	100,000
Current market price (VND)	89,800
Expected cash dividend in next 12M (VND)	4,000

Stock Info

Sector	Food & Beverage
Market Cap (VND billion)	187,260
Current Shares O/S (Mn)	2,090
Avg. Daily Volume (in 20 sessions)	3,600,000
Free float (%)	35.1
52 weeks High	117,200
52 weeks Low	84,000
Beta	0.7

	FY2020	Current
EPS	4,770	4,596
EPS Growth (%)	4.9	-0.5
Diluted EPS	4,770	4,596
P/E	20.4	19.5
P/B	6.0	5.4
EV/EBITDA	16.0	12.6
Cash dividend yield (%)	4.1	4.1
ROE (%)	29.9	31.0

Price performance



Major Shareholders (%)	
SCIC	36.0
F&N	20.4
Platinum Victory Pte	10.6
Jardine Matheson Limited	10.6
Others	22.4
Foreign ownership room (%)	100

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Exhibit 1: 2Q/2021 Results

(VND Bn)	2Q-FY21	1Q-FY21	+/-(QoQ)	2Q-FY20	+/-(YoY)
Net revenue	15,716	13,190	19.1%	15,495	1.4%
Gross profit	6,854	5,755	19.1%	7,138	-4.0%
SG&A	3,575	2,953	21.1%	3,757	-4.8%
Operating income	3,279	2,802	17.0%	3,381	-3.0%
EBITDA	3,827	3,301	15.9%	3,937	-2.8%
EBIT	3,279	2,802	17.0%	3,381	-3.0%
Financial expenses	42	6	556%	1	6148%
- Interest Expenses	*28*	*13*	*117.5%*	*38*	*-25.4%*
Dep. and amortization	548	500	9.6%	557	-1.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	3,494	3,154	10.8%	3,711	-5.9%
PAT	2,835	2,576	10.0%	3,072	-7.7%
(*) Adjusted PAT	2,835	2,576	10.0%	3,072	-7.7%

Source: VNM, Rong Viet Securities

Exhibit 2: 1Q/2021 Performance Analysis

Particulars	2Q-FY21	1Q-FY21	+/-(QoQ)	2Q-FY20	+/-(YoY)
Profitability Ratios (%)					
Gross Margin	43.6	43.6	0.0	46.1	-2.5
EBITDA Margin	24.4	25.0	-0.7	25.4	-1.1
EBIT Margin	20.9	21.2	-0.4	21.8	-1.0
Net Margin	18.0	19.5	-1.5	19.8	-1.8
Adjusted Net Margin	18.0	19.5	-1.5	19.8	-1.8
Turnover *(x) (*)*					
-Inventories	5.3	5.2	0.1	5.8	-0.5
-Receivables	10.8	10.0	0.7	11.9	-1.2
-Payables	4.6	4.4	0.2	4.0	0.7
Leverage (%)					
Total Debt/ Equity	52.7	48.7	4.1	51.6	1.2

Source: VNM, Rong Viet Securities; (*): Quarterly

Exhibit 3: Q3-FY2021 Performance Forecast

(VND Bn)	Q3-FY21	+/- QoQ	+/- YoY
Revenue	16,402	4.4%	5.4%
Gross profit	7,508	9.5%	3.3%
EBIT	3,555	8.4%	1.0%
NPAT	3,181	12.2%	3.4%

Source: Rong Viet Securities

Assumptions

- Domestic revenue will benefit from the presence of milk products in essential baskets distributed to citizen from August on. Export revenue to maintain double-digit growth driven by export of foreign subsidiaries (+13.4% YoY).
- We estimate whole milk powder price to advance 23% YoY, causing the gross margin to contract 92 bps YoY in 3Q-FY21.
- Due to the pressure to maintain revenue growth in rural markets, we expect the SGA expense ratio to be 21%, (+73 bps QoQ, -10 bps YoY) in 3Q-FY21.

Update

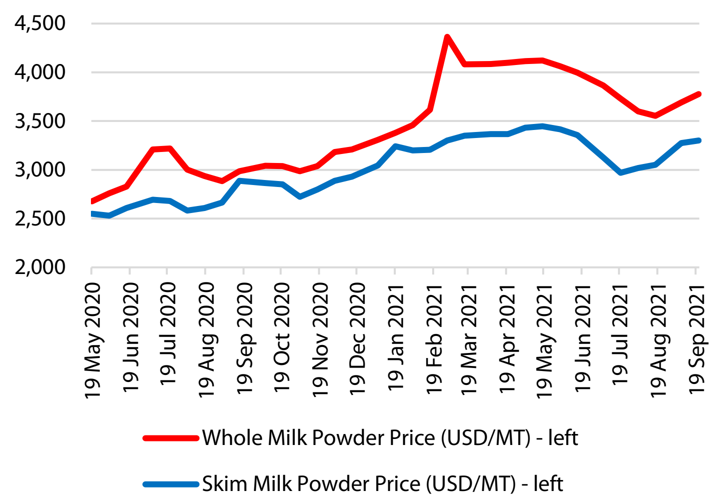
1H-FY21: NPAT dropped 6.9% YoY caused by weak domestic dairy consumption and material price pressure

In 1H-FY21, the company's revenue was VND 28,906 Bn (USD 1.3 Bn, -2.5% YoY), fulfilling 47% of the year guidance, mainly dragged down by revenue decrease in the domestic market (-4% YoY) to VND 24,430 Bn (USD 1 Bn). Weakening domestic revenue was due to accumulated impact of Covid-19 waves since FY2020, undermining both Vietnam's retail expenditure and dairy demand. Per Kanta Worldpanel, Vietnam dairy sales value decreased 3% YoY in 1H-FY21.

Export revenue increased by 6.8% YoY to VND 4,476 Bn (USD 194 Mn) in 1H-FY21. Export revenue to Iraq increased 13% YoY driven by extending dairy supply chain disruption in this country. On the contrary, export revenue via subsidiaries (Driftwood, Angkor Milk) decreased 2.1% YoY, mainly caused by decrease of Driftwood's revenue in the context of the school closure period in the US, while export revenue to Cambodia decelerated as Covid-19 infection cases increased in 2H-FY21.

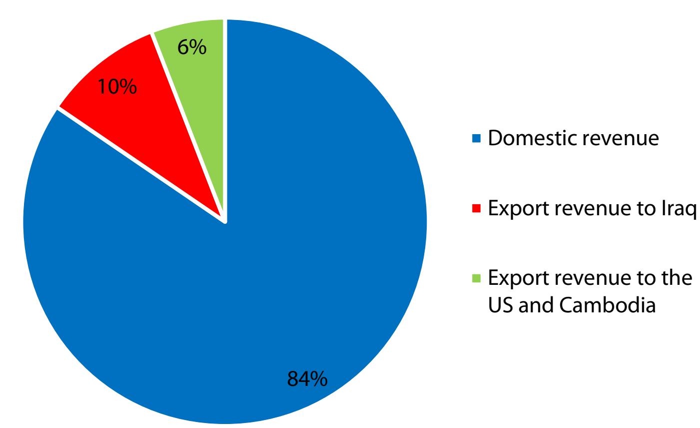
In 1H-FY21, the company recorded VND 5,459 Bn (USD 236 Mn) of NPAT (-6.9% YoY, fulfilling 49% of its target figure). The NPAT decrease was due to contracting gross margin (-273 bps YoY) as the result of material prices increase. Per Global Dairy Trade, whole milk powder (WMP price) and skim milk powder prices (SMP price) jumped 33% YoY and 24% YoY in 1H-FY21, respectively. Noticeably, the SG&A expense ratio decreased 15 bps YoY in 1H-FY21. The decrease of the SG&A expense ratio, cushioning partially the negative impact of contracting gross margin, largely contributed to a stable net margin.

Figure 1: One year trend of milk powder price



Source: Global Dairy Trade, Rong Viet Securities

Figure 2: VNM's revenue by market in 1H-FY21



Source: VNM, Rong Viet Securities

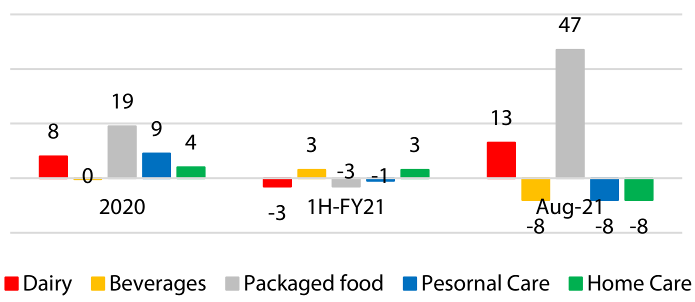
2H-FY21 outlook: Revenue recovery to improve NPAT growth

For 2H-FY21, we have an optimistic view that rising demand amid social distancing in the third quarter, coupled with YoY revenue recovery driven by the acceleration of marketing & promotion campaign in the four quarter, will support results in the second half. We estimate VNM's revenue at VND 31,693 Bn (USD 1.4 Bn, +6% YoY) and NPAT at VND 5,629 Bn (USD 244 Mn, +7% YoY).

3Q-FY21: Results to improve amid strictest social distancing in Ho Chi Minh City

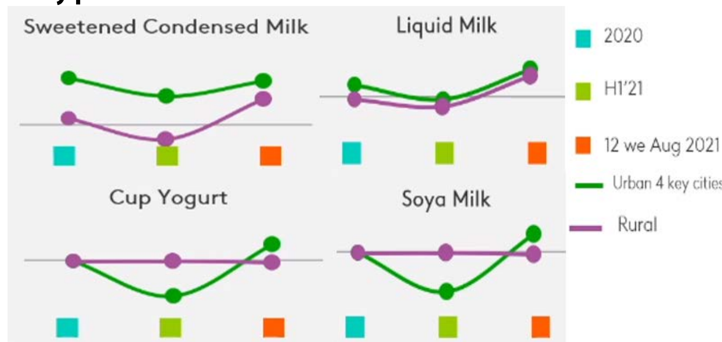
In August, when the government imposed stricter social distancing measures in Ho Chi Minh City, shippers had to stop working and the military began transporting essential goods from minimarket to almost every citizen. This reduced customer traffic in minimarket and limited the accessibility of citizen to multiple choice of FMCG products. However, this change created demand for some product lines, especially packaged food and dairy product. Per Kanta Worldpanel, spending value of packaged food and dairy product grew 47% YoY and 13% YoY in urban areas, respectively, which we attributed to the change in social behavior amid new social distancing. In which, liquid milk, yogurt, sweetened condensed milk and soya milk achieved positive YoY growth and QoQ value recovery in August.

Figure 3: Value growth (%) of FMCG by product lines in urban cities



Source: Kanta Worldpanel

Figure 4: YoY value growth of ready-to-drink nutrition by dairy products



Source: Kanta Worldpanel

With its leading position in Vietnam's dairy market and diversified product portfolio, we expect that the company will benefit from changing consumption trend. The company's 3Q-FY21 total revenue should be VND 16,402 Bn (USD 710 Mn, +5.4% YoY and +4.4% QoQ), in which we expect:

- Domestic market is going to be VND 13,794 Bn (USD 597 Mn, +4% YoY), and
- Export market to reach double-digit growth to VND 2,608 Bn (USD 113 Mn, +13.4% YoY), mostly driven by the revenue increase of the US and Cambodia (+17% YoY). The Iraq market can grow at 12% YoY, given well-controlled Covid-19 outbreak.

In the context of more intense competition in rural areas which are less impacted by Covid-19, we think that the company will increase marketing & promotion expenses there compared to 2Q-FY21. However, due to limited marketing campaigns in urban cities (Ho Chi Minh, Ha Noi), we expect that the SG&A expense ratio can be still lower than that of 3Q-FY20. We estimate 3Q-FY21 SG&A expenses at VND 3,953 Bn (USD 171 Mn, +5.6% YoY) with SG&A margin of 21% (-10 bps YoY and +73 bps QoQ).

Although WMP price is cooling down in 3Q-FY21, we estimate that it will remain at high level compared to the same period last year with the increase of 23% YoY. We estimate the company's gross margin at 45.8% (-92 bps YoY) and gross profit at VND 325 Bn (USD 14 Mn, +3.3% YoY) in 3Q-FY21. Overall, the company can reach VND 3,181 Bn (USD 138 Mn, +3.4% YoY) in NPAT in 3Q-FY21.

4Q-FY21 outlook: NPAT to increase 12% YoY but decrease 23% QoQ due to cooling-down dairy demand from the 3Q peak

In 4Q-FY21, we view that demand of packaged food and dairy products will decelerate after Ho Chi Minh City enacted Directive 18 to ease social distancing period gradually from October 1st to gradually re-opens the economy. According to Directive 18, residents who are vaccinated with at least one dose after 14 days and are virus-free can move freely inside the city. Several business activities with customer traffic restrictions are allowed to resume, including offices, industrial parks, processing zones, high-tech parks, grocery stores, online ordering from restaurants, non-essentials shopping via e-commerce... We view that the ease of social distancing period will directly reduce the frequency of essentials delivery by military as well as cool down the expenditure budget concentration for essentials as being witnessed in July and August, causing to the normalized dairy consumption in 4Q-FY21.

In 4Q-FY21, we estimate VNM to reach revenue of VND 15,290 Bn (USD 662 Mn, +6% YoY) and NPAT of VND 2,448 Bn (USD 106 Mn, +12% YoY), driven by (1) domestic revenue increase by 5% YoY, (2) export revenue increase of 15% YoY and (3) SG&A expenses decrease of 5% YoY due to last year high base.

Compared to 3Q-FY21's figures, 4Q-FY21's revenue and NPAT will decrease 7% QoQ and 23% QoQ, respectively, mainly caused by:

- ***Domestic revenue decrease by 8% QoQ*** due to the cooling-down customer spending for daily products versus 3Q-FY21's peak. Export revenue will be stable with a slight increase of 2% QoQ.
- ***Marketing & promotion campaign will be enhanced from October*** to stimulate domestic dairy spending under Directive 18. SG&A expenses are going to be VND 4,295 Bn (USD 186 Mn, +9% QoQ) with SG&A margin of 28% (+400 bps QoQ).

FY2021 outlook: NPAT to flatten -0.5% YoY on the back of SG&A expenses cut

For FY2021, we maintain a neutral view for VNM's prospects as results will see flat growth of both revenue and NPAT, mainly due to (1) the slow demand recovery of dairy products in Vietnam in 2021 and (2) unavoidably negative impact of material prices surge on profit margins. Particularly, we expect:

- ***Export market to grow 13% YoY in revenue.*** Since FY2018, export revenue has contributed annually around 15% of Vinamilk's total revenue. We expect export revenue to extend the recovery in 2H-FY21, supported by Iraq, the US and Cambodia. We note that revenue growth of the US market will be volatile, depending on the uncertain school re-opening progress. We estimate the company's export revenue to Iraq can increase 12.4% YoY in FY2021. Furthermore, total export revenue to the US and Cambodia will maintain positive revenue growth at 14% YoY.
- ***Domestic market to flatten -0.4% YoY.*** Revenue recovery will be clearer in 2H-FY21 driven by economic re-opening schedule applied for the South of Vietnam. With solid competitive advantages (strong brand, diversified product portfolio and stable dominant market share), VNM will extend positive revenue growth via MT channel and e-commerce channel while revenue via traditional market will recover partially. We estimate domestic revenue to increase 5.7% YoY in 2H-FY21 after already decreased 4% YoY in 1H-FY21.

Overall, we estimate VNM's revenue at VND 60,599 Bn (USD 2.6 Bn, +1.6% YoY) in FY2021. Although we project gross profit (-2.1% YoY) to be hit by higher material costs, we expect a lower SG&A cost ratio (-145 bps YoY), highlighted by the decrease of marketing and promotion cost. This will help the company to complete its FY2021 guidance. We estimate FY2021 NPAT to reach VND 11,039 Bn (USD 478 Mn), almost flat YoY, mostly driven by lower operating expenses, cushioning the impact of higher material input prices. Consequently, 2021 EPS will be about VND 4,754.

Valuation

We use our valuation mix of 50%:50% for DCF:PER to evaluate the stock. Our fair value arrives at **VND 100,000** per share, implying a FY2021 PER of 19x. With a cash dividend yield of 4.5%, we maintain our **ACCUMULATE** recommendation with a total stock return of **16%** as of the closing price on October 18th.

Table 1: Valuation summary

Method	Fair value (VND/share)	Weighting	Contribution (VND/share)	Comments
FCFE	103,560	50%	51,780	• Please refer to Table 2 and Table 3 for more details.
PER	96,545	50%	48,263	• We apply a target PER of 20.3, a PEG of 5.0, equal to the average level of FY2016-2020 and regarding FY2021 a forward PER of 19. • We apply a PER multiple at a 25% discount compared to its peer group and lower than its 5-year-average PER of 22x. It is likely to deliver (1) flat YoY EPS growth in FY2021, while its peer group is estimated to reach one-year double-digit EPS growth (around 33% YoY, per Bloomberg estimates) and (2) lower CAGR in next 5Y compared to that in last 5Y.
Target price			**100,000**	

Source: Rong Viet Securities

Table 2: FCFE valuation summary

Cost of Capital		FCFE (Five-year)	
Risk free rate (%)	1.1	Present Value of FCFE	34,690
Beta	0.7	Present Value of Terminal Value (5.4% growth)	181,746
Equity Risk Premium (%)	10.1	Equity Value (VND)	216,436
Cost of Equity (%)	8.6	Share outstanding (Mn)	2,090
		Implied Price per Share (VND)	**103,560**

Source: Rong Viet Securities; VND Bn

Table 3: Five year FCFE projection (VND Bn)

	2020	2021F	2022F	2023F	2024F	2025F
Net income	**11,099**	**11,039**	**11,346**	**11,664**	**12,281**	**12,946**
+ D&A	2,817	1,972	2,149	2,328	3,008	2,684
+ Interest * (1-T)	119	122	117	111	110	110
- Financial income	1,581	1,418	1,451	1,475	1,509	1,559
- WCInv	2,762	-360	206	223	237	252
- FCInv	810	4,000	4,161	4,331	4,510	4,700
FCFF	**8,882**	**8,075**	**7,794**	**8,073**	**9,142**	**9,229**
- Interest * (1-T)	119	122	117	111	110	110
+ Net borrowing	2,009	10	10	-	-	-
FCFE	**10,772**	**7,963**	**7,687**	**7,962**	**9,032**	**9,119**
Present Value of FCFE		7,799	6,935	6,616	6,912	6,428

Source: Rong Viet Securities

Table 4: Comparable peers

	Country	Market cap (USD Mn)	FY2020 Revenue (USD Mn)	FY2020 NPAT (USD Mn)	Forward PER	FY2021 EPS Growth
600887 CH Equity	China	35,470	10,552	1,027	26.3	23.3%
2319 HK Equity	Hong Kong	25,428	11,031	511	30.9	51.2%
2269 JP Equity	Japan	9,832	8,548	603	13.7	20.0%
2270 JP Equity	Japan	1,451	5,764	127	11.5	-9.1%
2264 JP Equity	Japan	3,116	5,484	194	9.2	90.2%
DLM MK Equity	Malaysia	497	262	18	22.2	27.8%
600597 CH Equity	China	2,633	3,659	93	26.2	6.0%
ULTJ IJ Equity	Indonesia	1,235	410	76	18.2	-16.4%
Weighted Average		**9,557**	**9,723**	**709**	**25.1**	**32.7%**
VNM VN Equity (*)	**Viet Nam**	**8,088**	**2,582.0**	**480.0**	**18.8**	**-0.5%**

Source: Bloomberg; (*) Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2019	FY2020	FY2021E	FY2022F
Revenue	**56,318**	**59,636**	**60,599**	**63,854**
COGS	29,746	31,968	33,520	34,939
Gross profit	**26,572**	**27,669**	**27,079**	**28,915**
Selling Expense	12,993	13,447	13,122	14,402
G&A Expense	1,396	1,958	1,654	1,743
Finance Income	807	1,581	1,418	1,451
Finance Expenses	187	309	214	209
Other profits	-7	-17	59	59
PBT	**12,796**	**13,519**	**13,566**	**14,071**
Prov. of Tax	2,241	2,283	2,347	2,505
Minority's Interest	-27	137	180	221
PAT to Equity S/H	**10,581**	**11,099**	**11,039**	**11,346**
EBIT	12,182	12,263	12,302	12,770
EBITDA	14,131	14,472	14,274	14,919

%

FINANCIAL RATIO	FY2019	FY2020	FY2021E	FY2022F
Growth (%)				
Revenue	7.1	5.9	1.6	5.4
Operating Income	10.1	2.4	-1.4	4.5
EBITDA	8.7	0.7	0.3	3.8
PAT	3.5	4.9	-0.5	2.8
Total Assets	19.6	8.4	6.8	4.3
Equity	6.7	13.8	5.0	5.6
Profitability (%)				
Gross margin	47.2	46.4	44.7	45.3
EBITDA margin	25.1	24.3	23.6	23.4
EBIT margin	21.6	20.6	20.3	20.0
Net margin	18.8	18.6	18.2	17.8
ROA	23.8	23.0	21.5	21.1
ROE	39.8	35.5	33.9	33.5
Efficiency				
Receivable Turnover	12.5	11.5	11.1	11.1
Inventory Turnover	6.0	6.5	5.9	5.9
Payable Turnover	3.5	5.0	4.3	4.3
Liquidity				
Current	1.8	2.2	2.1	2.1
Quick	1.4	1.8	1.7	1.7
Finance Structure (%)				
Total Debt/Equity	19.9	23.9	22.8	21.6
Current Debt/Equity	19.5	23.4	22.5	21.6
Long-term Debt/Equity	0.4	0.5	0.3	-

VND Billion

BALANCE SHEET	FY2019	FY2020	FY2021E	FY2022F
Cash and cash equivalents	2,665	2,111	2,871	3,097
Short-term investments	12,436	17,314	17,314	17,314
Account receivable	4,503	5,187	5,454	5,747
Inventories	4,983	4,905	5,698	5,940
Other current assets	134	148	156	164
Property, plant & equipment	14,500	13,571	15,609	17,633
Acquired intangible assets	3,516	3,195	2,583	1,958
Long-term investments	987	973	977	981
Other non-current assets	726	758	796	836
Total assets	**44,450**	**48,164**	**51,458**	**53,669**
Accounts payable	8,457	6,337	7,756	8,085
Short-term borrowings	5,351	7,316	7,411	7,505
Long-term borrowings	123	167	84	0
Other non-current liabilities	403	405	426	447
Bonus and Welfare fund	634	559	559	559
Technology-science, dev. fund	-	-	-	-
Total liabilities	**14,969**	**14,785**	**16,236**	**16,595**
Common stock and APIC	17,417	20,900	20,900	20,900
Treasury stock (enter as -)	-12	-12	-12	-12
Retained earnings	7,875	6,910	7,381	8,098
Other comprehensive income	23	213	213	213
Inv. and Dev. Fund	2,200	3,286	4,390	5,525
Total equity	**27,504**	**31,297**	**32,873**	**34,724**
Minority Interest	**2,227**	**2,350**	**2,350**	**2,350**

VALUATION RATIO (*)	FY2019	FY2020	FY2021E	FY2022F
EPS (dong)	5,478	4,770	4,754	4,886
P/E (x)	22.4	20.4	20.3	20.3
BV (dong)	17,070	16,099	15,729	16,615
P/B (x)	7.2	6.0	5.7	5.4
DPS (dong/cp)	4,000	4,000	4,000	4,000
Dividend yield (%)	3.3	4.1	4.5	4.5

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	103,560	50%	51,780
P/E	96,545	50%	48,273
Target price (VND)			**100,000**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
Jun 2021	100,000	ACCUMULATE	1-year
Aug 2021	94,000	ACCUMULATE	1-year
Sep 2021	100,000	ACCUMULATE	1-year

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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