

23 Feb 2021

# Vinamilk (VNM)

## Input cost inflation hit gross margin

### Export drove revenue growth

VNM posted 4Q21 results with a VND15.8tn revenue (+9.7% yoy) and a VND2.2tn NPATMI (+0.5% yoy), prompting revenue of VND60.9tn (+2.2% yoy) and NPATMI of VND10.5tn (-5.1% yoy) in 2021. The 4Q21 revenue growth was the best quarterly performance in the 5 past years thanks to a 7.4% yoy domestic revenue partially driven by the low base seen in 4Q20 (flooding in the Central). In our view, modern channel boosted domestic sales with double-digit growth, backed by the expansion of store chain “Giấc mơ sữa Việt” to 600 outlets as of end- 21. Meanwhile, export sales still sustain its growth momentum with a VND2.8tn in 4Q21, 21.5% yoy, accounted for 17.7% total revenue (2021: +10% yoy). The growth was supported by aggressive expansion to foreign markets and demand recovery in Cambodia and Middle East. In terms of distribution channel, sales of VNM-owned outlets increased by 17.3% yoy to VND1.8tn and third-party stores grew by 30% yoy to VND998bn.

### Gross margin squeezed amid raw materials jump

In 4Q21, gross margin (GM) decreased by 3.6% yoy to 42.5%, prompting GM of 2021 contracted by 3.3%p yoy to 43.1% because of spikes in raw material prices such as sugar and import milk powder. Imported whole milk powder (WMP) and skim milk powder (SMP) prices went up 35% yoy in 2021. Global dairy prices are at their highest level since March 2014. Tight global supplies due to accelerating COVID-19-related social restrictions and sustained import demand from China underpinned the rising global dairy prices in 2021. In addition, sugar prices also surged robustly since Vietnam imposed an anti-dumping tax on Thailand sugar.

### SG&A to sales subdued; net margin benefited

Overall, the SG&A to sales ratio slid by 2%p yoy in 2021 and 1.7%p compared to the average of the last four years. In 4Q21, SG&A to sales shrank by 4.2%p to 27.1% due to abnormal goodwill amortization from GTN acquisition in 4Q20. Notably, the 2021 selling margin was 21.3%, squeezed by 1.2%p and 1.8 %p compared to 2020 and 2019, respectively. It illustrated that VNM persisted to reduce marketing expenses and leverage the efficiency of distribution channels to protect net profit amid a softer demand environment.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	51,041	11,430	10,296	6,195	(3.8)	12,730	12.9	8.3	4.9	44.4	5.0
2018A	52,562	11,212	10,227	6,926	11.8	12,839	11.5	10.1	5.3	40.7	5.2
2019A	56,318	12,182	10,581	5,426	(21.7)	14,131	14.7	9.3	4.7	37.7	5.6
2020A	59,636	12,263	11,099	4,736	(12.7)	14,472	16.9	10.8	5.0	35.5	4.7
2021A	60,919	11,760	10,532	4,559	(3.7)	13,882	17.5	11.2	4.7	30.6	4.6

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

12M rating **Hold (Maintain)**

### Stock data

VNIndex (23 Feb, pt)	1,512
Stock price (23 Feb, VND)	80,000
Market cap (USD mn)	7,323
Shares outstanding (mn)	2,090
52-Week high/low (VND)	101,037/79,200
6M avg. daily turnover (USD mn)	10.57
Free float / Foreign ownership (%)	35.2/54.4
Major shareholders (%)	
SCIC	36.0
F&N	17.7
Platinum Victory	10.6

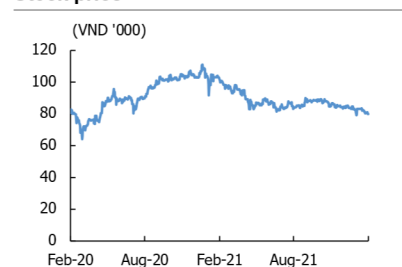
### Valuation

	2019A	2020F	2021F
PE (x)	11.5	14.7	16.9
PB (x)	5.3	4.7	4.6
ROE (%)	40.7	37.7	2.5
DY (%)	5.2	5.6	0.1
EV/EBITDA (x)	10.1	9.3	55.5
EPS (VND)	6,926	5,426	391
BPS (VND)	15,084	17,070	17,476

### Performance

	1M	6M	12M
Absolute (%)	(3.1)	(3.8)	(21.7)
Relative to VNIndex (%p)	(5.8)	(20.9)	(51.6)

### Stock price



Source: Bloomberg

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### Mild expansion of 1H22F GM backed by sale price growth

Per management, VNM has fixed raw materials price for volume imported in 1H22F amid the sustained high price. In addition, VNM raised the average selling price (ASP) two times in late Dec 2021 and Jan 2022, which amounted to cumulative increases of around 3%, in our estimate. Therefore, the gross margin of 1H22F could improve slightly thanks to an increase in selling prices.

### Global dairy prices could be cool in 2022F

In 2021, China, the biggest importing country with over 30% share increased their imported SMP and WMP volume by +27% and +32% yoy, respectively to serve the processing industry, including bakery products amid their efforts to secure the inventory given the vulnerable global supply chain. In our view, in 2022F, a slowdown in import demand from China could be expected and is a driver to cool global dairy prices. Additionally, dairy exports supply will improve in response to removed logistic disruptions, lower transportation costs, shown by Baltic Dry Index (BDI) retreated significantly in 4Q21 from the October peak.

### Action: Earnings are under review

We are reviewing our forecast of earnings growth in 2022F-24F, target price, and ratings. Currently, we rate VNM as HOLD given the fact that Vinamilk's prospect is fairly priced at a cash dividend yield of 5% and a forward PE of 16x

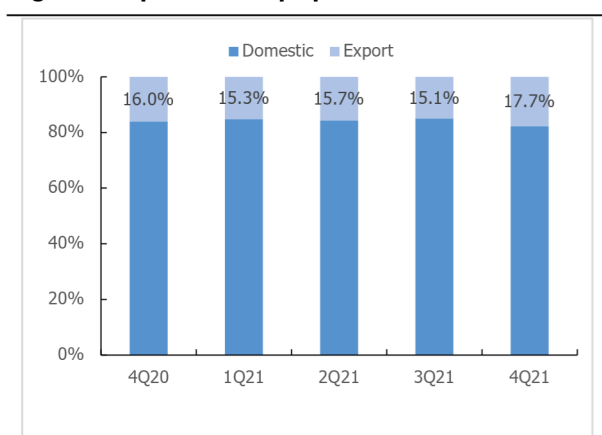
**Table 1. 4Q21 earnings**

(VND bn, %, %p)

	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY	Consensus
Sales	14,425	13,190	15,716	16,194	15,819	(2.3)	9.7	N.A
Gross profit	6,658	5,755	6,854	6,944	6,725	(3.1)	1.0	N.A
Gross margin	46.2	43.6	43.6	42.9	42.5	(0.4)	(3.6)	N.A
OP	2,147	2,802	3,279	3,242	2,438	(24.8)	13.6	N.A
OP margin	14.9	21.2	21	20	15	(4.6)	0.5	N.A
EBT	2,672	3,154	3,494	3,587	2,688	(25.1)	0.6	N.A
NPATMI	2,185	2,576	2,835	2,926	2,196	(24.9)	0.5	N.A

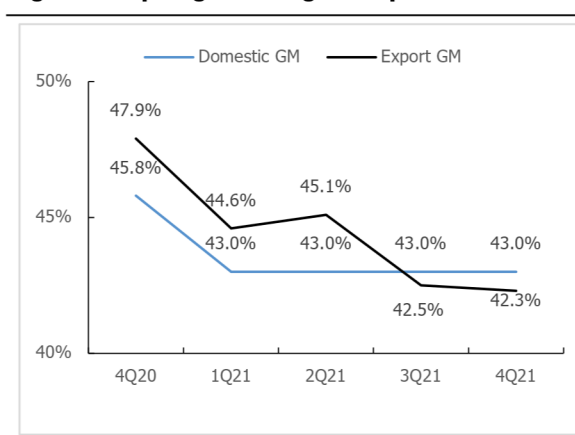
Source: Company data, KIS

**Figure 1. Export revenue proportion rallied in 4Q21**



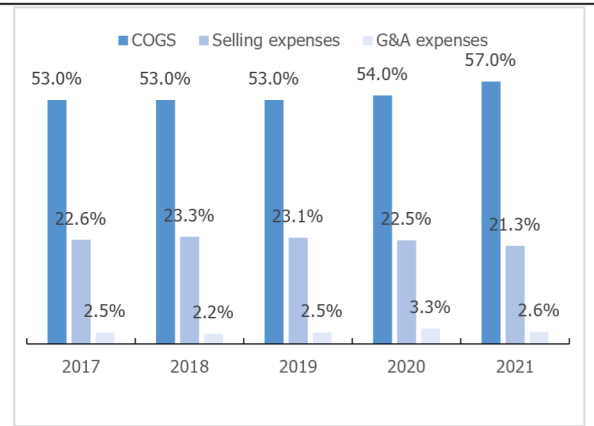
Source: Company data, KIS

**Figure 2. Export gross margin compressed faster**



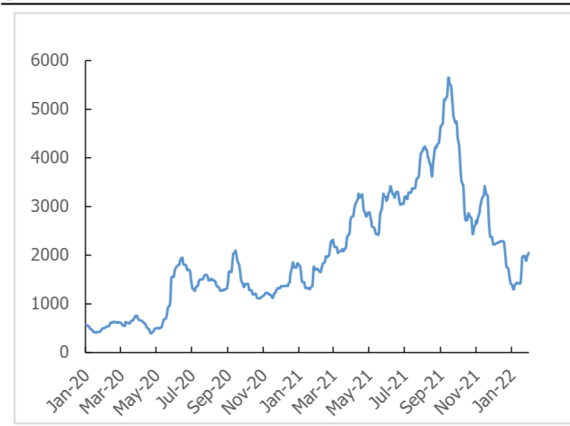
Source: Company data, KIS

**Figure 3. Except COGS, the SG&A to sales subdued in 2021**



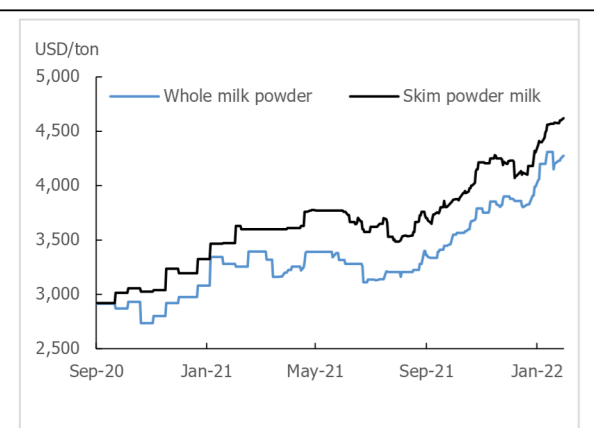
Source: Company data, KIS

**Figure 4. BDI dropped significantly in 4Q21 from Oct peak**



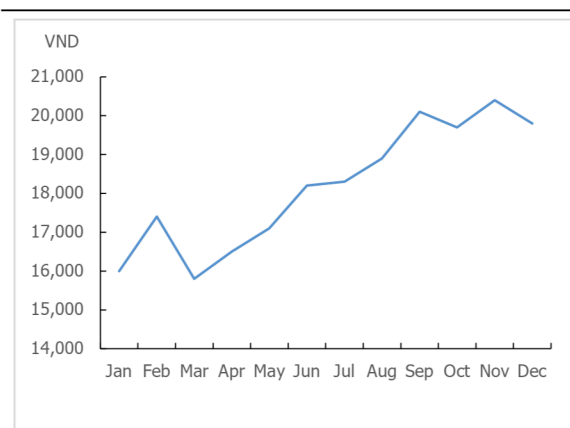
Source: Bloomberg

**Figure 5. Milk powder prices inflated sharply**



Source: Bloomberg

**Figure 6. Vietnam retail sugar price in 2021**



Source: Company data, KIS

**■ Company overview**

Vinamilk (VNM: HSX) is the largest dairy company in Vietnam with a domestic market share of 60%. After more than 40 years, Vinamilk now has 250 product categories, focusing on liquid milk, powdered milk, yogurt and condensed milk.

**Balance sheet**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	20,307	20,560	24,722	29,666	36,110
Cash & cash equivalents	11,525	10,197	15,101	19,425	23,374
Accounts & other receivables	4,592	4,639	4,503	5,187	5,822
Inventory	4,021	5,526	4,983	4,905	6,773
Non-current assets	14,360	16,806	19,978	18,767	17,222
Fixed assets	10,609	13,365	14,894	13,854	12,707
Investment assets	2,579	2,027	1,993	2,096	1,934
Others	1,287	1,523	3,205	2,945	2,706
Total assets	34,667	37,366	44,700	48,432	53,332
Advances from customers	360	536	245	111	66
Unearned revenue	8	7	2	16	4
Trade payables	3,966	3,991	3,648	3,199	4,214
Others	5,917	5,285	5,598	3,975	3,740
ST debt & due bonds	268	1,060	5,351	7,316	9,382
LT debt & bonds	275	216	123	167	76
Total liabilities	10,794	11,095	14,969	14,785	17,482
Controlling interest	23,375	25,781	27,504	31,297	33,083
Capital stock	14,515	17,417	17,417	20,900	20,900
Capital surplus	261	0	0	0	34
Other reserves	2,870	1,219	2,223	3,500	4,555
Retained earnings	5,737	7,155	7,875	6,910	7,594
Minority interest	498	490	2,227	2,350	2,767
Shareholders' equity	23,873	26,271	29,731	33,647	35,850

**Cash flow**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	9,602	8,140	11,410	10,180	9,432
Net profit	10,278	10,206	10,554	11,236	10,633
Dep'n & Amort'n	1,300	1,627	1,948	2,209	2,121
Net incr. in W/C	(1,976)	(3,692)	(1,092)	(3,264)	(3,322)
C/F from investing	(1,771)	(1,045)	(6,748)	(4,802)	(3,933)
Capex	(2,673)	(3,186)	(2,158)	(1,265)	(1,531)
Incr. in investment	902	2,141	(4,590)	(3,537)	(2,402)
C/F from financing	(7,535)	(6,535)	(3,516)	(5,927)	(5,257)
Incr. in equity	(282)	(3)	127	(14)	318
Incr. in debt	(1,447)	724	4,194	2,016	2,046
Dividends	(5,806)	(7,256)	(7,836)	(7,928)	(7,621)
C/F from others	0	0	0	0	0
Increase in cash	295	560	1,146	(548)	241

**Income statement**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	51,041	52,562	56,318	59,636	60,919
COGS	26,807	27,951	29,746	31,968	34,641
Gross profit	24,234	24,611	26,572	27,669	26,278
SG&A expenses	12,804	13,399	14,390	15,406	14,518
Operating profit	11,430	11,212	12,182	12,263	11,760
Financial income	816	760	807	1,581	1,215
Interest income	743	666	724	1,149	0
Financial expenses	87	118	187	309	202
Interest expenses	29	51	109	144	89
Other non-operating profit	3	175	(1)	(21)	195
Gains (Losses) in associates, subsidiaries and JV	67	22	(6)	4	(45)
Earnings before tax	12,229	12,052	12,796	13,519	12,922
Income taxes	1,951	1,846	2,241	2,283	2,290
Net profit	10,278	10,206	10,554	11,236	10,633
Net profit of controlling interest	10,296	10,227	10,581	11,099	10,532
EBITDA	12,730	12,839	14,131	14,472	13,882

**Key financial data**

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Per-share data (VND, adj.)					
EPS	6,195	6,926	5,426	4,736	4,559
BPS	16,448	15,084	17,070	16,099	17,154
DPS	4,000	4,166	4,499	3,793	3,646
Growth (%)					
Sales growth	9.1	3.0	7.1	5.9	2.2
OP growth	8.6	(1.9)	8.7	0.7	(4.1)
NP growth	10.1	(0.7)	3.5	4.9	(5.1)
EPS growth	(3.8)	11.8	(21.7)	(12.7)	(3.7)
EBITDA growth	21.0	0.9	10.1	2.4	(4.1)
Profitability (%)					
OP margin	22.4	21.3	21.6	20.6	19.3
NP margin	20.1	19.4	18.7	18.8	17.5
EBITDA margin	24.9	24.4	25.1	24.3	22.8
ROA	32.1	28.3	25.7	24.1	20.9
ROE	44.4	40.7	37.7	35.5	30.6
Dividend yield	20.0	19.2	17.8	21.1	21.9
Dividend payout ratio	64.6	60.1	82.9	80.1	80.0
Stability					
Net debt (VND bn)	(10,982)	(8,921)	(9,626)	(11,941)	(13,916)
Net debt/equity (%)	(46.0)	(34.0)	(32.4)	(35.5)	(38.8)
Valuation (x)					
PE	12.9	11.5	14.7	16.9	17.5
PB	4.9	5.3	4.7	5.0	4.7
EV/EBITDA	8.3	10.1	9.3	10.8	11.2

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