

Vinamilk (VNM)

Heading for higher profit growth post pandemic

- 1Q20 revenue growth decelerates due to the pandemic
- Domestic market to strengthen post pandemic
- Maintain BUY at TP of VND124,400

Facts: 1Q20 revenue growth decelerates due to the pandemic

In 1Q20, Vinamilk recorded consolidated revenue of VND14,153bn, increasing 7.3% yoy. Despite of adverse impact of COVID-19 pandemic, domestic revenue of Vinamilk reached VND12,092bn, increasing 7.9% yoy, mainly driven by GTN consolidation. Export reached VND2,061bn, increasing only 4.2% yoy due to weaken milk demand in export markets in 1Q20. Direct export by Vinamilk reached VND1,081bn (+7.5% yoy) and indirect export via foreign subsidiaries (Driftwood, Angkor Milk) reached VND980bn (+0.8% yoy) in 1Q20.

Vinamilk's gross margin was almost flat at 46.7% in 1Q20. Although WMP (Whole milk powder) price per volume unit increased 3.1% yoy (as our estimate), gross margin was stable because of higher selling price (+3% yoy) in 1Q20.

Because of higher SG&A ratio (+1.6%p yoy) due to GTN consolidation and rising corporate income tax rate (+1%p yoy) of some factories, Vinamilk recorded NPAT at VND2,777bn, decreasing slightly 0.7% yoy in 1Q20.

Pros & cons: Domestic market to strengthen post pandemic

We expect Vinamilk to benefit from stronger domestic demand post COVID-19 pandemic and expand its market share, which was narrowed by 1%p qoq in 1Q20. Meanwhile, we estimate revenue volatility of export to Middle East, coupled with the adverse impact of COVID-19 pandemic in the U.S., to hinder Vinamilk's export in the coming quarters.

Gross profit will grow because low average import milk price (-20% yoy, per our estimates) and revenue contribution of high-margin products will widen overall margin.

Action: Maintain BUY at TP of VND124,400

We expect brighter domestic market and favorable milk input price will strengthen profit growth in the coming quarters. Therefore, we maintain **BUY** for VNM share with TP of VND124,400. Total expected return is 16%.

Earnings Review

15 May 2020

12M rating **BUY (Maintain)**

12M TP **124,400** from 115,000

Up/Downside **+16%** (incl 4% cash dividend)

Stock data

VNIndex (15 May, pt)	827
Stock price (15 May, VND)	110,800
Market cap (USD mn)	8,261
Shares outstanding (mn)	1,741
52-Week high/low (VND)	133,361/83,700
6M avg. daily turnover (USD mn)	5.80
Free float / Foreign ownership (%)	81.8/58.6
Major shareholders (%)	
SCIC	36.0
F&N Dairy Investment	17.6
Platinum Victory	10.6

Valuation

	2018A	2019F	2020F
PE (x)	20.2	17.4	16.0
PB (x)	7.0	6.1	5.3
ROE (%)	39.7	41.7	39.1
DY (%)	3.6	3.6	3.6
EV/EBITDA (x)	13.1	11.1	9.9
EPS (VND)	5,478	6,380	6,915
BPS (VND)	15,797	18,177	21,092

Performance

	1M	6M	12M
Absolute (%)	11.7	(9.1)	(15.2)
Relative to VNIndex (%p)	5.2	8.4	(1.7)

Stock price



Source: Bloomberg

Toan Dao

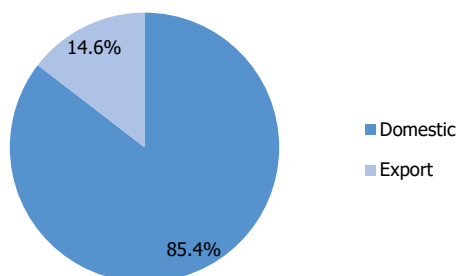
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Table 1. Earnings and outlook

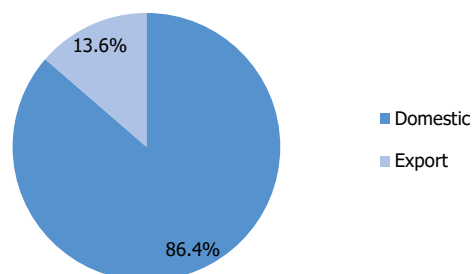
(VND bn, %, %p)

	2019				2020	2019A	2020F	1Q20		
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY	Consensus
Sales	13,189	14,599	14,291	14,239	14,153	56,318	60,747	(0.6)	7.3	N.A
Domestic	11,212	12,425	12,184	11,734	12,092	47,555	50,884	3.1	7.9	
Export	1,977	2,174	2,107	2,505	2,061	8,764	9,863	(17.7)	4.2	
Gross profit	6,155	7,014	6,723	6,680	6,606			(1.1)	7.3	N.A
Gross margin	46.7	48.0	47.0	46.9	46.7			(0.2)	-	
Operating expenses	2,949	3,648	3,610	4,183	3,393	14,390	15,253	(18.9)	15.1	N.A
Selling expense	2,670	3,330	3,292	3,701	3,004	12,993	13,773	(18.8)	12.5	
G&A expense	278	318	318	482	389	1,396	1,480	(19.2)	39.9	
Depreciation	489	496	511	520	623	1,948	2,154	19.8	27.3	
Operating profit	3,206	3,366	3,113	2,497	3,212	12,182	14,242	28.6	0.2	N.A
EBT	3,343	3,550	3,254	2,649	3,358	12,796	14,925	26.8	0.5	N.A
Net profit	2,797	2,904	2,677	2,176	2,777	10,554	12,310	27.6	(0.7)	
NP of controlling interest	2,791	2,899	2,690	2,202	2,765	10,581	12,342	25.6	(0.9)	
EBITDA	3,696	3,861	3,624	3,017	3,835	14,131	16,396	27.1	3.8	N.A
EBITDA margin	28.0	26.4	25.4	21.2	27.1	25.1	27.0	5.9	(0.9)	
OP margin	24.3	23.1	21.8	17.5	22.7	21.6	23.4	5.2	(1.6)	

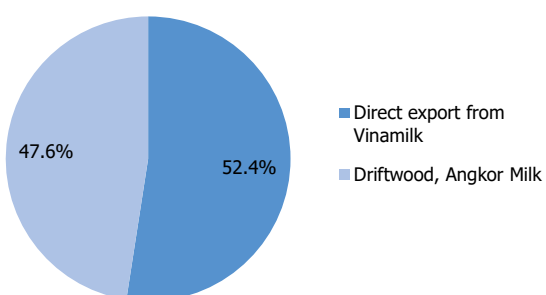
Source: Company data, KIS

Figure 1. Revenue by market, 1Q20


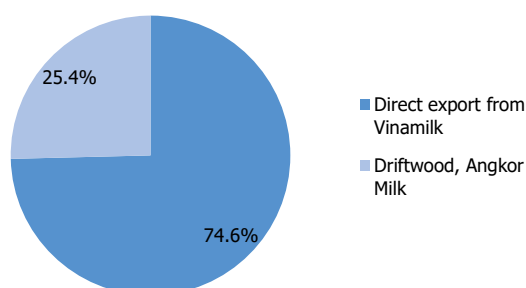
Source: Vinamilk

Figure 2. Gross profit by market, 1Q20


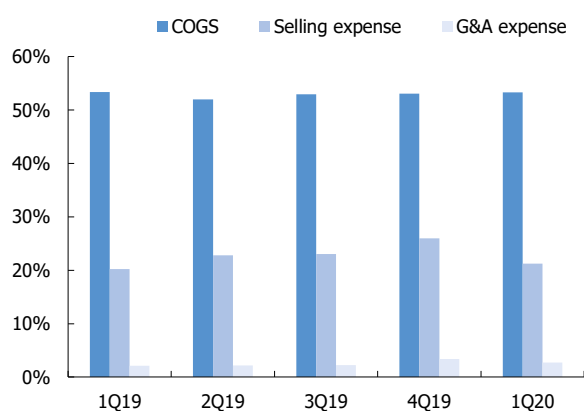
Source: Vinamilk

Figure 3. Export revenue breakdown, 1Q20


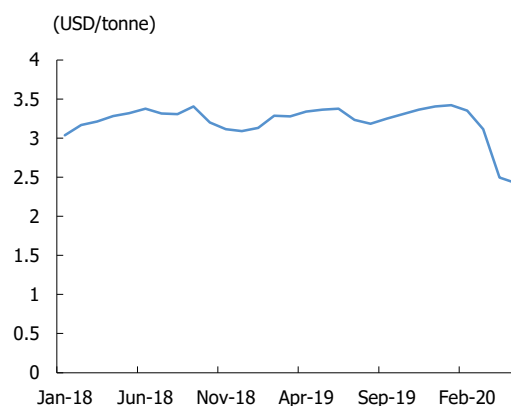
Source: Vinamilk

Figure 4. Gross profit by export source, 1Q20


Source: Vinamilk

Figure 5. Expenses as % of revenue


Source: Vinamilk

Figure 6. Whole milk powder price (Western Europe)


Source: CLAL

Table 4. Fair value calculation

(VND bn, mn shares, VND, %)

	2019A	2020F	Remarks
PE multiple (x)		20	1-Y average PE of Vinamilk's share
Net attributable profit	10,581	12,342	
Common outstanding shares	1,741	1,741	
Basic EPS	5,478	6,380	
Market Price		110,800	
Target Price		124,400	2020
Annualized price return		12.3	
Expected dividend yield		3.6	
Total expected return		15.9	

Source: KIS

■ Company overview

Vinamilk (VNM: HSX) is the largest dairy company in Vietnam with 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	2020F	2021F
Current assets	20,186	20,447	24,577	30,512	36,574
Cash & cash equivalents	11,525	10,197	15,101	19,005	25,446
Accounts & other receivables	4,640	4,725	4,493	5,450	5,233
Inventory	4,021	5,526	4,983	6,058	5,895
Non-current assets	13,189	15,393	16,886	16,827	16,625
Fixed assets	12,633	14,324	15,899	15,904	15,702
Investment assets	556	1,069	987	923	923
Others	1,292	1,526	3,237	2,707	3,226
Total assets	34,667	37,366	44,700	50,046	56,426
Advances from customers	360	536	245	437	470
Unearned revenue	8	7	2	7	7
Trade payables	3,966	3,991	3,649	4,377	4,312
Others	5,917	5,285	5,598	5,907	7,277
ST debt & due bonds	268	1,060	5,351	5,351	5,351
LT debt & bonds	275	216	123	123	123
Total liabilities	10,794	11,095	14,969	16,203	17,541
Controlling interest	23,375	25,781	27,504	31,647	36,723
Capital stock	14,515	17,417	17,417	17,417	17,417
Capital surplus	261	-	-	-	-
Other reserves	2,863	1,209	2,212	3,212	4,212
Retained earnings	5,737	7,155	7,875	11,019	15,095
Minority interest	498	490	2,227	2,196	2,162
Shareholders' equity	23,873	26,271	29,731	33,843	38,885

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	51,041	52,562	56,318	60,747	65,274
Operating profit	11,430	11,212	12,182	14,242	15,272
Financial income	816	760	807	865	1,088
Interest income	743	668	724	865	1,088
Financial expenses	87	118	187	177	177
Interest expenses	29	51	109	177	177
Other non-operating profit	18	201	4	-	-
Gains (Losses) in associates, subsidiaries and JV	67	22	(6)	(6)	(6)
Earnings before tax	12,229	12,052	12,796	14,925	16,178
Income taxes	1,951	1,846	2,241	2,614	2,834
Net profit	10,278	10,206	10,554	12,310	13,344
Net profit of controlling interest	10,296	10,227	10,581	12,342	13,378
EBITDA	12,730	12,839	14,131	16,396	17,631

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	9,602	8,140	11,410	13,026	15,563
Net profit	10,278	10,206	10,554	12,310	13,344
Dep'n & Amort'n	1,300	1,627	1,948	2,154	2,360
Net incr. in W/C	1,976	3,692	1,092	1,438	140
C/F from investing	(1,771)	(1,045)	(6,748)	(2,158)	(2,158)
Capex	(2,507)	(3,613)	(1,997)	(2,158)	(2,158)
Incr. in investment	736	2,568	(4,751)	-	-
C/F from financing	(7,535)	(6,535)	(3,516)	(6,964)	(6,964)
Incr. in equity	(282)	(3)	127	-	-
Incr. in debt	(1,447)	724	4,194	-	-
Dividends	(5,806)	(7,256)	(7,836)	(6,964)	(6,964)
C/F from others	121	(1,889)	3,758	-	-
Increase in cash	416	(1,329)	4,904	3,904	6,441

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	6,355	5,295	5,478	6,380	6,915
BPS	16,109	14,807	15,797	18,177	21,092
DPS	5,000	4,500	4,000	4,000	4,000
Growth (%)					
Sales growth	9.1	3.0	7.1	7.9	7.5
OP growth	8.6	(1.9)	8.7	16.9	7.2
NP growth	9.8	(0.7)	3.4	16.6	8.4
EPS growth	9.0	(16.7)	3.5	16.5	8.4
EBITDA growth	8.7	0.9	10.1	16.0	7.5
Profitability (%)					
OP margin	22.4	21.3	21.6	23.4	23.4
NP margin	20.1	19.4	18.7	20.3	20.4
EBITDA margin	24.9	24.4	25.1	27.0	27.0
ROA	32.1	28.3	25.7	26.0	25.1
ROE	45.2	41.6	39.7	41.7	39.1
Dividend yield	4.5	4.1	3.6	3.6	3.6
Dividend payout ratio	78.7	85.0	73.0	62.7	57.8
Stability					
Net debt (VND bn)	(10,982)	(8,921)	(9,626)	(13,530)	(19,971)
Net debt/equity (%)	(46.0)	(34.0)	(32.4)	(40.0)	(51.4)
Valuation (x)					
PE	17.4	20.9	20.2	17.4	16.0
PB	6.9	7.5	7.0	6.1	5.3
EV/EBITDA	14.3	14.4	13.1	11.1	9.9

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Vinamilk (VNM)	27 Aug 18	HOLD	153,600		
	06 Nov 19	HOLD	143,000		
	18 Feb 20	HOLD	115,000		
	24 Mar 20	BUY	115,000		
	15 May 20	BUY	124,400		



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Prepared by: Toan Dao

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