

12 Nov 2020

Vinamilk (VNM)

Favorable SG&A ratio to drive 4Q20 NPAT

- NPAT post-MI increased 14.4% yoy in 3Q20
- yoy SG&A ratio improvement to drive 4Q20 NPAT growth
- Maintain Hold

Facts: NPAT post-MI increased 14.4% yoy in 3Q20

In 3Q20, Vinamilk recorded revenue of VND15,563bn (+8.9% yoy), thanks to: (1) Vinamilk's domestic revenue reached VND11,902bn (+1.5% yoy), (2) export revenue rose by 9.1% yoy thanks to Iraq market despite Covid-19's spread.

- In 3Q20, Vinamilk reached VND3,077bn NPAT (+14.4% yoy), mainly driven by:
- Gross margin improvement of Vinamilk domestic market (+0.13%p yoy)
 - SG&A expense ratio decrease 1.2%p yoy
 - Better earning contribution of GTNFoods with VND87.1bn NPAT in 3Q20

Pros & cons: yoy SG&A ratio improvement to drive 4Q20 NPAT growth

In 4Q20, we are concerned that Vinamilk's domestic revenue will be negatively impacted by weakening demand in the Central, caused by the worst flood in history. We estimate Vinamilk can lost VND1,620bn revenue in Central market in 4Q20. As Vinamilk's Central market has been hit by severe flood, we estimate Vinamilk's domestic revenue at VND50,241bn (-1.8% yoy) in 4Q20.

Although milk export to Middle East market reached double-digit yoy revenue growth in 9M20, we have cautious view that milk export to the U.S. will remain low, decreasing 22.4% yoy amid Covid's wider spread in the winter. We estimate Vinamilk's export revenue at VND8,991bn (-0.2% yoy) in 4Q20.

As 3Q20 imported milk material has strong recovery compared to 2Q20 level, we estimate Vinamilk's gross margin will narrow 1.1%p qoq and 1.3%p yoy in 4Q20. However, the impact of yoy lower gross margin will be cushioned by the yoy improvement of SG&A ratio, maintaining at 25.4% (-3.9%p yoy) in 4Q20.

Per our estimate, the improvement of SG&A ratio continues to become Vinamilk's NPAT growth driver in 4Q20, offsetting the negative impacts of Central flood and higher input milk price. We estimate Vinamilk to deliver VND14,021bn revenue (-1.5% yoy) and VND2,531bn NPAT (+16.3% yoy) in 4Q20. In aggregate 2020, we revise up Vinamilk's revenue and NPAT to VND59,232bn (+5.2% yoy) and VND11,530bn (+9.2% yoy), respectively.

12M rating **Hold (Maintain)**

Stock data

VNIndex (Nov 11, pt)	952
Stock price (Nov 11, VND)	107,500
Market cap (USD mn)	9,693
Shares outstanding (mn)	2,090
52-Week high/low (VND)	110,500/67,775
6M avg. daily turnover (USD mn)	6.82
Free float / Foreign ownership (%)	35.2/58.0
Major shareholders (%)	
SCIC	36.0
F&N	17.7
Platinum Victory	10.6

Valuation

	2019A	2020F	2021F
PE (x)	23.5	21.9	21.6
PB (x)	8.2	7.6	7.1
ROE (%)	39.7	40.1	37.9
DY (%)	3.1	3.7	3.7
EV/EBITDA (x)	15.4	13.8	13.6
EPS (VND)	4,565	4,919	4,970
BPS (VND)	13,162	14,081	15,051

Performance

	1M	6M	12M
Absolute (%)	0.7	22.3	3.5
Relative to VNIndex (%)	(2.4)	6.1	8.2

Stock price



Source: Bloomberg

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Action: Maintain Hold

Although Vinamilk's 2H20 business results beat our expectation, we maintain our view that Vinamilk will maintain its single-digit NPAT growth in the period of 2020F-2021F. Besides, we believe that Vinamilk's prospect is fairly priced at forward PE multiple of 21.6. Therefore, we maintain our Hold recommendation for Vinamilk's share in 2021.

Table 1. Earnings and outlook

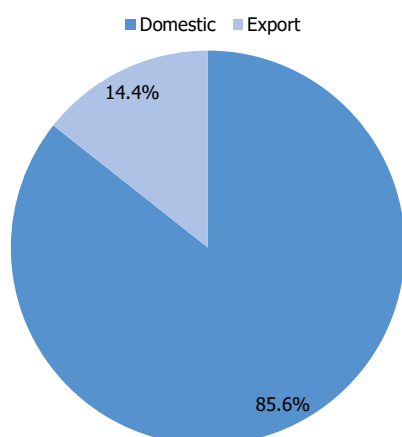
(VND bn, %, %p)

	2019				2020				2019A	2020F	3Q20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QF			QoQ	YoY	Consensus
Revenue	13,189	14,599	14,291	14,239	14,153	15,495	15,563	14,021	56,318	59,232	0.4	8.9	N.A
Domestic	11,212	12,425	12,184	11,734	12,092	13,364	13,264	11,521	47,555	50,241	(0.8)	8.9	
Export	1,977	2,174	2,107	2,505	2,061	2,131	2,299	2,499	8,764	8,991	7.9	9.1	
Gross profit	6,155	7,014	6,723	6,680	6,606	7,138	7,267	6,394	26,572	27,405	1.8	8.1	N.A
Gross margin	46.7	48.0	47.0	46.9	46.7	46.1	46.7	45.6	47.2	46.3	0.6	(0.4)	
Operating expenses	2,949	3,648	3,610	4,183	3,393	3,757	3,743	3,567	14,390	14,461	(0.4)	3.7	N.A
Selling expense	2,670	3,330	3,292	3,701	3,004	3,383	3,284	3,130	12,993	12,802	(2.9)	(0.2)	
G&A expense	278	318	318	482	389	374	459	437	1,396	1,659	22.7	44.2	
Depreciation	489	496	511	520	623	624	675	678	1,948	2,600	8.0	32.0	
Operating profit	3,206	3,366	3,113	2,497	3,212	3,381	3,523	2,827	12,182	12,943	4.2	13.2	N.A
EBT	3,343	3,550	3,254	2,649	3,358	3,711	3,777	3,132	12,796	13,979	1.8	16.1	N.A
Net profit	2,797	2,904	2,677	2,176	2,777	3,085	3,138	2,531	10,554	11,530	1.7	17.2	
NP of controlling interest	2,791	2,899	2,690	2,202	2,765	3,072	3,077	2,507	10,581	11,421	0.2	14.4	
EBITDA	3,696	3,861	3,624	3,017	3,835	4,005	4,198	3,506	14,131	15,544	4.8	15.8	N.A
EBITDA margin	28.0	26.4	25.4	21.2	27.1	25.8	27.0	25.0	25.1	26.2	1.1	1.6	
OP margin	24.3	23.1	21.8	17.5	22.7	21.8	22.6	20.2	21.6	21.9	0.8	0.9	

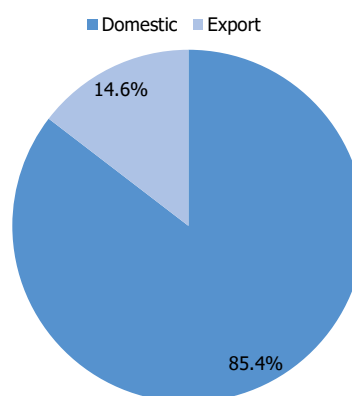
Source: Company data, KIS

■ Company overview

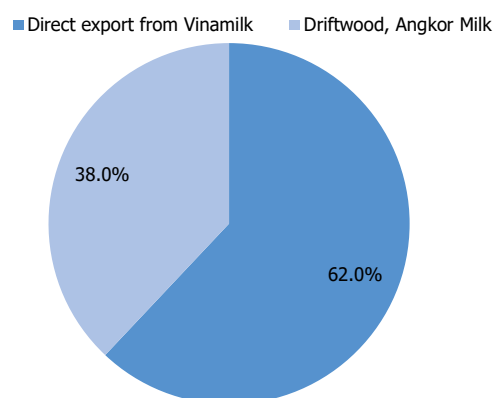
Vinamilk (VNM: HSX) is the largest dairy company in Vietnam with domestic market share of 60%. After more than 40 years, Vinamilk now has 250 product categories, focusing on liquid milk, powdered milk, yogurt and condensed milk.

Figure 1. Revenue by market, 9M20


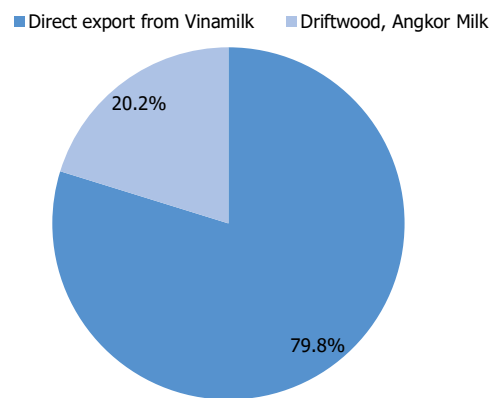
Source: Vinamilk

Figure 2. Gross profit by market, 9M20


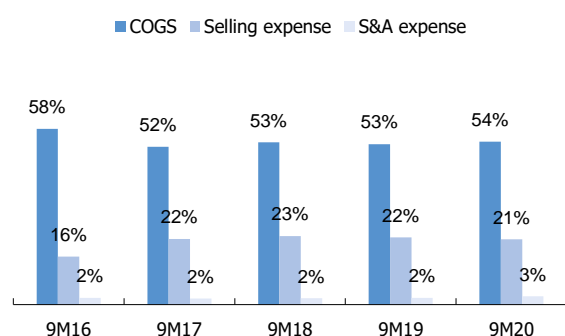
Source: Vinamilk

Figure 3. Export revenue breakdown, 9M20


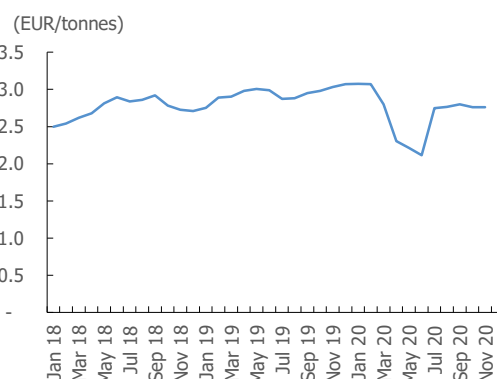
Source: Vinamilk

Figure 4. Gross profit by export source, 9M20


Source: Vinamilk

Figure 5. Expenses as % of revenue


Source: Vinamilk

Figure 6. Whole milk powder price (Western Europe)


Source: CLAL

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	20,186	20,447	24,577	28,881	32,004
Cash & cash equivalents	11,525	10,197	15,101	17,418	20,660
Accounts & other receivables	4,640	4,725	4,493	5,202	5,213
Inventory	4,021	5,526	4,983	6,261	6,131
Non-current assets	13,189	15,393	16,886	16,381	15,839
Fixed assets	12,633	14,324	15,899	15,458	14,916
Investment assets	556	1,069	987	923	923
Others	1,292	1,526	3,237	2,610	3,320
Total assets	34,667	37,366	44,700	47,872	51,163
Advances from customers	360	536	245	426	458
Unearned revenue	8	7	2	7	7
Trade payables	3,966	3,991	3,649	4,525	4,484
Others	5,917	5,285	5,598	5,678	6,841
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	16,111	17,265
Controlling interest	23,375	25,781	27,504	29,424	31,451
Capital stock	14,515	17,417	17,417	20,900	20,900
Capital surplus	261	-	-	-	-
Other reserves	2,863	1,209	2,212	3,212	4,212
Retained earnings	5,737	7,155	7,875	5,313	6,340
Minority interest	498	490	2,227	2,337	2,447
Shareholders' equity	23,873	26,271	29,731	31,761	33,899

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	51,041	52,562	56,318	59,232	63,631
COGS	26,807	27,951	29,746	31,827	35,078
Gross profit	24,234	24,611	26,572	27,405	28,553
SG&A expenses	12,804	13,399	14,390	14,461	15,652
Operating profit	11,430	11,212	12,182	12,943	12,901
Financial income	816	760	807	700	1,393
Interest income	743	668	724	1,200	1,393
Financial expenses	87	118	187	259	164
Interest expenses	29	51	109	159	164
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	13,979	14,124
Income taxes	1,951	1,846	2,241	2,449	2,474
Net profit	10,278	10,206	10,554	11,530	11,650
Net profit of controlling interest	10,296	10,227	10,581	11,421	11,540
EBITDA	12,730	12,839	14,131	15,544	15,601

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	9,602	8,140	11,410	12,834	13,759
Net profit	10,278	10,206	10,554	11,530	11,650
Dep'n & Amort'n	1,300	1,627	1,948	2,600	2,700
Net incr. in W/C	1,976	3,692	1,092	1,296	591
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)	(8,359)	(8,359)
Incr. in equity	(282)	(3)	127	-	-
Incr. in debt	(1,447)	724	4,194	-	-
Dividends	(5,806)	(7,256)	(7,836)	(8,359)	(8,359)
C/F from others	121	(1,889)	3,758	-	-
Increase in cash	416	(1,329)	4,904	2,317	3,242

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	5,296	4,413	4,565	4,919	4,970
BPS	13,424	12,339	13,162	14,081	15,051
DPS	4,167	3,750	3,333	4,000	4,000
Growth (%)					
Sales growth	9.1	3.0	7.1	5.2	7.4
OP growth	8.6	(1.9)	8.7	6.2	(0.3)
NP growth	9.8	(0.7)	3.4	9.2	1.0
EPS growth	9.0	(16.7)	3.5	(10.2)	1.0
EBITDA growth	8.7	0.9	10.1	10.0	0.4
Profitability (%)					
OP margin	22.4	21.3	21.6	21.9	20.3
NP margin	20.1	19.4	18.7	19.5	18.3
EBITDA margin	24.9	24.4	25.1	26.2	24.5
ROA	32.1	28.3	25.7	24.9	23.5
ROE	45.2	41.6	39.7	40.1	37.9
Dividend yield	3.9	3.5	3.1	3.7	3.7
Dividend payout ratio	78.7	85.0	73.0	81.3	80.5
Stability					
Net debt (VND bn)	(10,982)	(8,921)	(9,626)	(11,944)	(15,186)
Net debt/equity (%)	(46.0)	(34.0)	(32.4)	(37.6)	(44.8)
Valuation (x)					
PE	20.3	24.4	23.5	21.9	21.6
PB	8.0	8.7	8.2	7.6	7.1
EV/EBITDA	16.8	16.8	15.4	13.8	13.6

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