

5 May 2020

Vinamilk (VNM)

Burden on gross margin

- 1Q22 NPATMI declined 12% yoy owing to the high imported milk powder input prices
- Imported milk powder prices decreased about 15% from the peak in March
- Maintain HOLD with unchanged TP

Facts: Topline grew while margin squeezed

VNM reported its revenue increased 5% yoy to VND13,878bn in 1Q22 contributed by domestic market revenue of 11,658 (+ 4.3% yoy) and overseas market revenue of VND2,220bn (+10.3% yoy). The 1Q22 NPAT-MI posted VND2,266bn, -12% yoy. The 1Q22 results fulfilled 21.2%/20.7% of our Revenue/NPAT-MI forecasts. In 1Q22, the revenue grew thanks to the higher ASP and the solid sales volume as mentioned in [Initiation Report](#). However, the gross margin squeezed by 2%p qoq and 3.1%p yoy to 40.5% in 1Q22 owing to the high prices in raw material prices such as imported milk powder, packaging, and transportation costs.

Pros & cons: Improving gross margin expected from 2Q22F

The Russia-Ukraine conflict escalated an already high-cost situation in 1Q22, the imported whole milk powder (WMP) and skim milk powder (SMP) prices went up by 17.7% and 29.8% yoy. It resulted in the gross margin being suppressed in 1Q22 as the company was still unable to pass all of the cost hikes to end-users. However, the gross margin is expected to improve much in the next quarters due to cooling commodity prices.

Global milk powder prices are under pressure amid concerns that lockdowns in major Chinese cities will hinder demand. As a result, Chinese milk powders imports fell in March, China imported 128.1 mn pounds of WMP, down 30% yoy and Chinese SMP imports fell by 27% yoy. It caused SMP and SMP prices to decrease about 18% and 11%, respectively, from the peak in March 2022. Moreover, VNM increased selling prices in late Jan and April 2022, in our collection. It is expected to fully benefit from higher selling prices and lower input prices in terms of profit in 2Q-3Q22F.

Action: Maintain HOLD rating

Despite negative Q122 VNM's earnings growth, we believe that the sluggish outlook has been relatively reflected in the share price. However, VNM lacks strong growth engines for the next two years. Thus, we maintain HOLD with a TP of VND83,900 with a high cash dividend yield of 5.3%. In our view, the gross margin of VNM will improve slightly due to lower input raw materials prices and better selling prices in the next quarters.

12M rating **HOLD (Maintain)**

12M TP

Up/Downside

Stock data

VNIndex (04 May, pt)	1,349
Stock price (04 May, VND)	72,500
Market cap (USD mn)	6,597
Shares outstanding (mn)	2,090
52-Week high/low (VND)	89,997/72,500
6M avg. daily turnover (USD mn)	8.73
Free float / Foreign ownership (%)	35.2/54.4
Major shareholders (%)	
SCIC	36.0
F&N	17.7
Platinum Victory	10.6

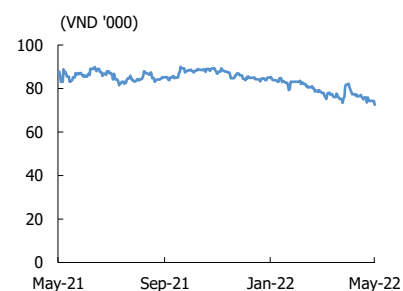
Valuation

	2021A	2022F	2023F
PE (x)	15.9	15.2	13.2
PB (x)	4.2	3.9	3.6
ROE (%)	30.6	30.5	32.0
DY (%)	5.0	5.3	6.1
EV/EBITDA (x)	10.1	9.4	8.2
EPS (VND)	4,559	4,686	5,396
BPS (VND)	17,154	18,816	20,736

Performance

	1M	6M	12M
Absolute (%)	(11.8)	(16.6)	(17.1)
Relative to VNIndex (%p)	(0.3)	(10.1)	(27.0)

Stock price



Source: Bloomberg

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Table 1. 1Q22 earnings

(VND)

bn, %, %p)

	1Q21	2Q21	3Q21	4Q21	1Q22	QoQ	YoY	Consensus
Sales	13,190	15,716	16,194	15,819	13,878	(12.3)	5.2	N/A
Gross profit	5,755	6,854	6,944	6,725	5,625	(16.4)	(2.3)	N/A
GP margin	43.6	43.6	42.9	42.5	40.5	(2.0)	(3.1)	N/A
Operating profit	2,802	3,279	3,242	2,438	2,620	7.5	(6.5)	N/A
OP margin	21.2	20.9	20.0	15.4	18.9	3.5	(2.4)	N/A
EBT	3,154	3,494	3,587	2,688	2,764	2.8	(12.4)	N/A
NP	2,576	2,835	2,926	2,196	2,266	3.2	(12.0)	N/A

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.	2019A	2020A	2021A	2022F	2023F
Current assets	24,722	29,666	36,110	38,402	40,418
Cash & cash equivalents	15,101	19,425	23,374	25,880	27,157
Accounts & other receivables	4,503	5,187	5,822	5,754	6,438
Inventory	4,983	4,905	6,773	6,610	6,651
Non-current assets	19,978	18,767	17,222	21,459	25,756
Fixed assets	14,894	13,854	12,707	16,545	20,388
Investment assets	1,993	2,096	1,934	1,944	1,954
Others	3,205	2,945	2,706	3,108	3,564
Total assets	44,700	48,432	53,332	59,862	66,174
Advances from customers	245	111	66	986	1,073
Unearned revenue	2	16	4	4	4
Trade payables	3,648	3,199	4,214	4,278	4,050
Others	5,598	3,975	3,740	3,864	3,969
ST debt & due bonds	5,351	7,316	9,382	11,804	14,681
LT debt & bonds	123	167	76	0	0
Total liabilities	14,969	14,785	17,482	20,936	23,776
Controlling interest	27,504	31,297	33,083	36,079	39,529
Capital stock	17,417	20,900	20,900	20,900	20,900
Capital surplus	0	0	34	34	34
Other reserves	2,223	3,500	4,555	5,672	6,959
Retained earnings	7,875	6,910	7,594	9,473	11,637
Minority interest	2,227	2,350	2,767	2,871	2,993
Shareholders' equity	29,731	33,647	35,850	38,950	42,522

Income statement

(VND bn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Sales	56,318	59,636	60,919	65,762	71,517
COGS	29,746	31,968	34,641	37,236	38,796
Gross profit	26,572	27,669	26,278	28,526	32,721
SG&A expenses	14,390	15,406	14,518	15,804	17,745
Operating profit	12,182	12,263	11,760	12,722	14,977
Financial income	807	1,581	1,215	1,357	1,291
Interest income	724	1,149	0	1,357	1,291
Financial expenses	187	309	202	279	374
Interest expenses	109	144	89	224	319
Other non-operating profit	(1)	(21)	195	0	0
Gains (Losses) in associates, subsidiaries and JV	(6)	4	(45)	0	0
Earnings before tax	12,796	13,519	12,922	13,801	15,894
Income taxes	2,241	2,283	2,290	2,553	2,940
Net profit	10,554	11,236	10,633	11,248	12,953
Net profit of controlling interest	10,581	11,099	10,532	10,946	12,603
EBITDA	14,131	14,472	13,882	10,535	12,726

Cash flow

(VND bn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
C/F from operations	11,410	10,180	9,432	8,581	8,127
Net profit	10,554	11,236	10,633	11,248	12,953
Dep'n & Amort'n	1,948	2,209	2,121	2,187	2,251
Net incr. in W/C	(1,092)	(3,264)	(3,322)	(4,854)	(7,077)
C/F from investing	(6,748)	(4,802)	(3,933)	(304)	(311)
Capex	(2,158)	(1,265)	(1,531)	(1,661)	(1,601)
Incr. in investment	(4,590)	(3,537)	(2,402)	1,357	1,291
C/F from financing	(3,516)	(5,927)	(5,257)	(5,771)	(6,540)
Incr. in equity	127	(14)	318	0	0
Incr. in debt	4,194	2,016	2,046	2,321	2,778
Dividends	(7,836)	(7,928)	(7,621)	(8,092)	(9,317)
C/F from others	0	0	0	0	0
Increase in cash	1,146	(548)	241	2,506	1,277

Key financial data

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Per-share data (VND, adj.)					
EPS	5,426	4,736	4,559	4,686	5,396
BPS	17,070	16,099	17,154	18,816	20,736
DPS	4,499	3,793	3,646	3,872	4,458
Growth (%)					
Sales growth	7.1	5.9	2.2	7.9	8.8
OP growth	8.7	0.7	(4.1)	8.2	17.7
NP growth	3.5	4.9	(5.1)	5.8	15.1
EPS growth	(21.7)	(12.7)	(3.7)	4.6	15.1
EBITDA growth	10.1	2.4	(4.1)	7.4	15.5
Profitability (%)					
OP margin	21.6	20.6	19.3	19.3	20.9
NP margin	18.7	18.8	17.5	17.1	18.1
EBITDA margin	25.1	24.3	22.8	22.7	24.1
ROA	25.7	24.1	20.9	19.9	20.6
ROE	37.7	35.5	30.6	30.5	32.0
Dividend yield	6.2	5.2	5.0	5.3	6.1
Dividend payout ratio	82.9	80.1	80.0	81.2	81.2
Stability					
Net debt (VND bn)	(9,626)	(11,941)	(13,916)	(14,449)	(13,289)
Net debt/equity (%)	(32.4)	(35.5)	(38.8)	(36.1)	(29.3)
Valuation (x)					
PE	13.4	15.3	15.9	15.2	13.2
PB	4.2	4.5	4.2	3.9	3.6
EV/EBITDA	8.3	9.7	10.1	9.4	8.2

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