



VNM Update - BUY

November 5, 2024



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Company Update

Recommendation

BUY

HSX: VNM

Food & Beverage

Target price (VND) **82,000**

Market price (VND) **65,600**

Expected share price return 25.0%

Expected dividend yield 5.9%

Expected total return **30.9%**

Stock performance (%)

| | YTD | 1M | 3M | 12M |
|----------|-------|------|------|-------|
| Absolute | 1.7 | -4.2 | -5.1 | -1.0 |
| Relative | -10.2 | -2.2 | -6.3 | -19.0 |

Source: Bloomberg



Ownership

| | |
|--------------------------|-------|
| SCIC | 36.0% |
| F&N Dairy Inv. Pte.Ltd | 17.7% |
| Platinum Victory Pte.Ltd | 10.6% |

Stock Statistics 4-Nov-2024

| | |
|----------------------------|----------------|
| Bloomberg code | VNM VN |
| 52-week range (VND) | 63,000-76,200 |
| Shares O/S (m) | 2,090 |
| Mkt cap (VND bn) | 137,101 |
| Mkt cap (USD m) | 5,382 |
| Est. Foreign room left (%) | 48.2 |
| Est. free float (%) | 35.2 |
| 3m avg daily vol (shrs) | 4,012,974 |
| VND/USD | 25,460 |
| Index: VNIIndex / HNX | 1244.71/224.48 |

VIETNAM DAIRY PRODUCTS JSC (VNM VN)

The company reported a 5% YoY slide in EAT, contrary to our expectation, largely driven by a narrower gross margin in 3Q2024. We revised down our earnings projections for 2024-2025 by 3% and 2% respectively compared to the prior update. Revise down 2025 target price to VND82,000/shr. Reiterate a **BUY** recommendation.

VNM announced a 5.1% YoY drop in EAT, in contrast with a growth stream in two previous quarters, on flat net revenue in 3Q2024. On a cumulative basis, net revenue and EAT climbed by 3.5% YoY and 9.6% YoY, to VND46,306bn and VND7,306bn, respectively in 9M2024.

Overseas revenue brightened the results with an upturn of 9.4% YoY in 3Q and 15.7% in 9M, accounting for 19% of sales of finished goods. In which, direct exports rose by 10.3% YoY and overseas subsidiaries (i.e AngkorMilk and Driftwood) rose by 8.5% YoY in 3Q, following irregular growth in 2Q2024, when consumers in export markets heightened stockpiling of goods amid escalation of geopolitical tensions, and VNM gained shares from competitors who left these markets for concerns of risks. The company's sales support for partners persisted in fostering sales.

Domestic revenue, accounting for the majority (81%) of the company's sales of finished goods, contracted by 3.7% in 3Q and flat in 9M, explained by a vague rebound in consumer spending and some impacts from Yagi typhoon in the north, the company noted. Although the modern trade and online channels kept performing well, it was unable to offset the weak performance of the traditional channel, which contributed most to domestic revenue. VNM targets to keep employing omni-channel strategy to boost sales.

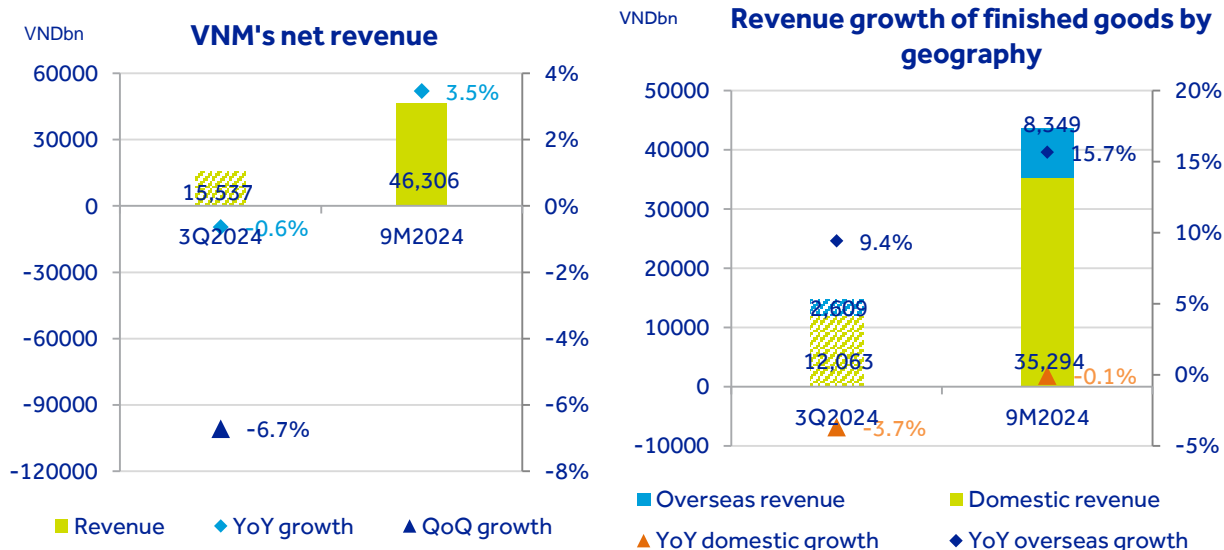
Gross margin reduced to 41.2% in 3Q2024, retreating slightly from 41.9% in 3Q2023 and visibly from 42.4% in 2Q2024, due to a YoY squeeze in margins of other products & services (beyond finished goods) and a QoQ decrease in sales volume, especially in overseas markets. However, for 9M2024, the overall gross margin still strengthened to 41.9% (9M2023: 40.5%) given favorable milk material prices, driving the EAT growth despite the SG&A expenses to net revenue ratio inflating slightly to 24.4% (9M2023: 24.1%).

We project VNM's net revenue and EAT at VND62,753bn (+3.9% YoY) and VND9,851bn (+9.2% YoY) in 2024, 3% lower than the prior update. For 2025, the respective growth is projected at 5.3% YoY and 6.4% YoY. **Our target price for VNM by the end of 2025 is VND82,000/shr**, 5% lower than the prior update, equivalent to a total return of 30.9%.

| | 2022 | 2023 | 2024F | 2025F | 2026F |
|---------------------------|--------|--------|--------|--------|--------|
| Net Sales (VNDbn) | 59,956 | 60,369 | 62,753 | 66,094 | 69,112 |
| Growth | -1.6% | 0.7% | 3.9% | 5.3% | 4.6% |
| NPAT (VNDbn) | 8,516 | 8,874 | 9,696 | 10,316 | 10,852 |
| Growth | -19.1% | 4.2% | 9.3% | 6.4% | 5.2% |
| EPS (bonus-adjusted, VND) | 3,652 | 3,802 | 4,156 | 4,423 | 4,653 |
| Growth | -19.2% | 4.1% | 9.3% | 6.4% | 5.2% |
| ROE | 27.1% | 28.8% | 29.8% | 29.9% | 29.3% |
| ROA | 16.7% | 17.5% | 18.2% | 19.2% | 20.2% |
| Net debt/EBITDA (times) | (1.3) | (1.2) | (1.2) | (1.3) | (1.4) |
| EV/Sales (times) | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 |
| PER (times) | 18.0 | 17.3 | 15.8 | 14.8 | 14.1 |
| PBR (times) | 4.6 | 4.3 | 4.1 | 3.8 | 3.6 |
| DPS (VND) | 3,850 | 3,850 | 3,850 | 3,850 | 3,850 |
| Dividend yield (%) | 5.9% | 5.9% | 5.9% | 5.9% | 5.9% |

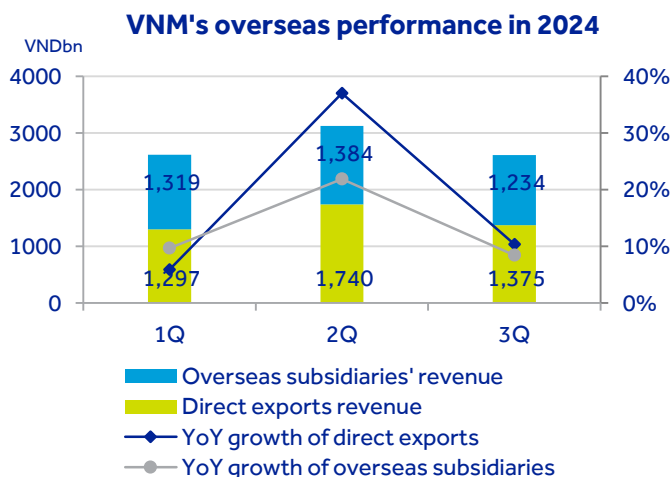
Overseas markets sustained growth while domestic revenue wobbled

VNM posted almost flat net revenue of VND15,537bn in 3Q despite 3.5% YoY growth to VND46,306bn in 9M2024. In which, net revenue of finished goods, which was responsible for 94% of the total, climbed by 2.6% YoY in 9M2024 (including a drop of 1.6% YoY in 3Q).

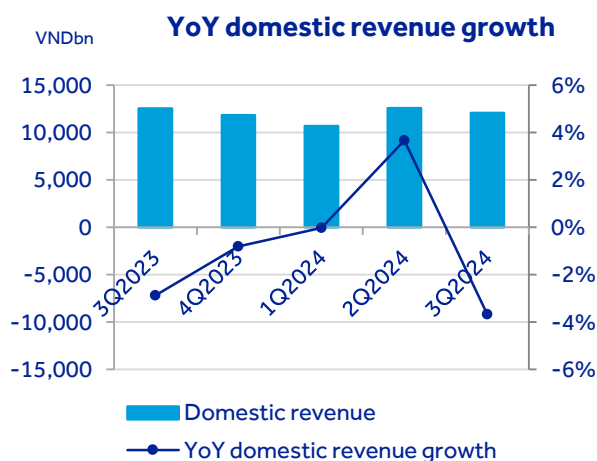


Capturing 19% of the company's sales of finished goods, **overseas markets** continued to outstrip the domestic market with revenue growth of 9.4% YoY in 3Q2024 and 15.7% YoY to VND8,349bn in 9M2024.

The results were fueled by an upturn of 8.5% YoY in overseas subsidiaries (i.e AngkorMilk in Cambodia and Driftwood in the US) and 10.3% YoY in direct exports in 3Q. The lower consumption and normalized growth compared to those in 2Q2024 were in line with our expectation considering irregular growth in 2Q, when consumers in export markets heightened stockpiling of goods amid escalation of geopolitical tensions, particularly in the Middle East, and VNM gained shares from competitors who left these markets for concerns of risks. The company's incremental sales support for partners – which is usually intensified in the periods that the company's gross margin widens – persisted in fostering sales.



In contrast, **the domestic performance**, contributing most (81%) to sales of finished goods, remained shaky over quarters in 9M2024, explained by a vague rebound in consumer spending and some impacts from Yagi typhoon in the north in 3Q2024, according to the company. The segmented revenue fell by 3.7% YoY in 3Q and 0.1% YoY to VND35,294bn in 9M. Although the modern and online channels kept performing well, it was unable to offset the weak performance of the traditional channel, which accounts for the majority of VNM's domestic revenue (details were not disclosed).

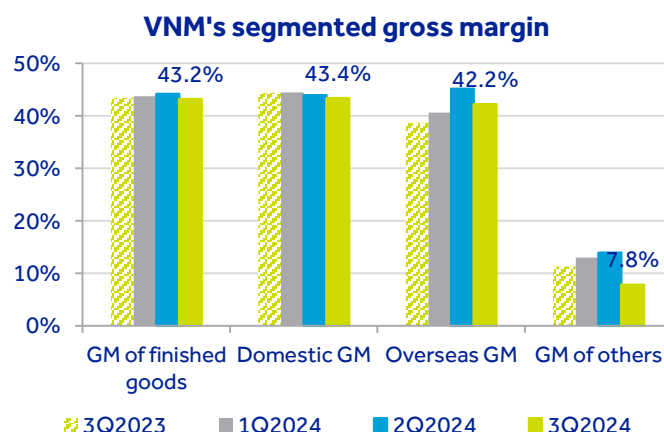
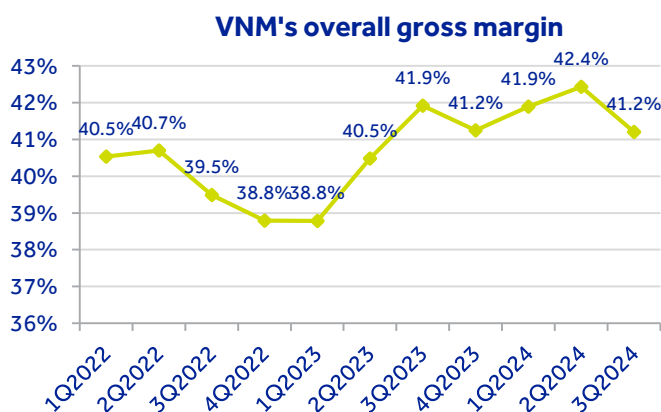


Source: VNM; ACBS

Gross margin retreated in 3Q despite still widening on a cumulative basis

VNM's EAT experienced a drop of 5.1% YoY to VND2,403bn in 3Q2024 for a narrower gross margin in defiance of a slight improvement in the SG&A expenses to net revenue ratio (24.2% vs. 24.4% in 3Q2023). For 9M2024, VNM generated 9.6% YoY growth in EAT to VND7,306bn.

Favorable milk material prices have helped reinstate the company's gross margin to 41.9% in 9M2024, compared to 40.5% in 9M2023. Nonetheless, the margin was 41.2% in 3Q2024, retreating slightly from 41.9% in 3Q2023 and visibly from 42.4% in 2Q2024, largely due to a YoY squeeze (of 3.5 percentage points) in margins of other products & services (whereas finished goods' gross margin did not vary substantially YoY) and a QoQ decrease in sales volume, especially in overseas markets. Additionally, we are not sure if there is any lag in booking sales support between 2Q and 3Q, which could contribute to this margin diminution.



Source: VNM; ACBS

Earnings forecasts for 2024-2025

We believe that dairy remains the company's key earner in the following years. Employing omni-channel sales will be the company's focus to boost sales growth. We expect more vibrant performance, in terms of both revenue and earnings, in 4Q2024 compared to that in 3Q thanks to absence of adverse impacts of weather like 3Q, better consumer spending in the year-end festivals combined with continued rebranding activities. For 2025, we assume that the company's revenue growth may uphold stable single-digit rates, while EAT growth will likely be no longer supported by a widened gross margin from a low base like 2024. We project the expected gross margin of 42% in 2024 may almost maintain in 2025, with the assumption that the international milk material prices may not experience any sharp fluctuation and the company may consider selling price increase next year.

The beef slaughtering and farming complex of VNM and Sojitz Group was inaugurated in early 2023 in Vinh Phuc province. The company plans to operate the complex and bring products to the market in 4Q2024. However, we have yet reflected this business in our projections until details are released and significant contribution is realized.

Valuation

We project VNM's net revenue and EAT at VND62,753bn (+3.9% YoY) and VND9,851bn (+9.2% YoY) in 2024, 3% lower than the prior update. For 2025, the respective growth is projected at 5.3% YoY and 6.4% YoY. **Our target price for VNM by the end of 2025 is VND82,000/shr**, 5% lower than the prior update.

| VNM FINANCIAL MODEL | Price (VND): | 65,600 | Target (VND): | 82,000 | Mkt cap (VND bn): | 137,101 |
|--|---------------------|---------------|----------------------|---------------|--------------------------|----------------|
| (VND bn except where stated) | 2022 | 2023 | 2024F | 2025F | 2026F | |
| Total Net Sales | 59,956 | 60,369 | 62,753 | 66,094 | 69,112 | |
| <i>Sales growth (%)</i> | <i>-1.6%</i> | <i>0.7%</i> | <i>3.9%</i> | <i>5.3%</i> | <i>4.6%</i> | |
| CoGS ex-dep'n | 34,099 | 33,906 | 34,431 | 36,344 | 38,006 | |
| Selling expenses | 12,496 | 12,963 | 13,727 | 14,261 | 14,913 | |
| G&A expenses | 1,267 | 1,428 | 1,433 | 1,525 | 1,606 | |
| Financial revenues | 181 | 177 | 192 | 173 | 178 | |
| Financial expenses | 452 | 149 | 119 | 126 | 131 | |
| EBITDA | 11,824 | 12,099 | 13,235 | 14,012 | 14,634 | |
| <i>EBITDA margin (%)</i> | <i>19.7%</i> | <i>20.0%</i> | <i>21.1%</i> | <i>21.2%</i> | <i>21.2%</i> | |
| Depreciation | 2,341 | 2,300 | 2,360 | 2,412 | 2,504 | |
| Operating profit | 9,483 | 9,799 | 10,875 | 11,599 | 12,130 | |
| <i>Operating profit margin (%)</i> | <i>15.8%</i> | <i>16.2%</i> | <i>17.3%</i> | <i>17.5%</i> | <i>17.6%</i> | |
| Other profits/losses | 4 | 64 | 4 | 4 | 4 | |
| Profits/Losses from associates | (24) | (81) | 13 | 17 | 22 | |
| Net interest expense | (1,033) | (1,186) | (1,088) | (1,125) | (1,256) | |
| <i>as % of avg net debt</i> | <i>7.2%</i> | <i>8.0%</i> | <i>7.2%</i> | <i>6.8%</i> | <i>6.6%</i> | |
| <i>Interest cover (x)</i> | <i>-9.2</i> | <i>-8.3</i> | <i>-10.0</i> | <i>-10.3</i> | <i>-9.7</i> | |
| Tax | 1,918 | 1,949 | 2,128 | 2,264 | 2,383 | |
| <i>Effective tax rate (%)</i> | <i>18.2%</i> | <i>17.7%</i> | <i>17.8%</i> | <i>17.8%</i> | <i>17.8%</i> | |
| Minority interest | 62 | 146 | 155 | 165 | 176 | |
| Attributable net profit | 8,516 | 8,874 | 9,696 | 10,316 | 10,852 | |
| Cash earnings | 10,857 | 11,174 | 12,056 | 12,728 | 13,356 | |
| Total number of shares | 2,089,955,445 | 2,089,955,445 | 2,089,955,445 | 2,089,955,445 | 2,089,955,445 | |
| EPS (VND) (after treasury shares) | 3,652 | 3,802 | 4,156 | 4,423 | 4,653 | |
| Bonus factor (x) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | |
| Adjusted EPS (VND) | 3,652 | 3,802 | 4,156 | 4,423 | 4,653 | |
| <i>EPS growth (%)</i> | <i>-19.2%</i> | <i>4.1%</i> | <i>9.3%</i> | <i>6.4%</i> | <i>5.2%</i> | |

| KEY CASHFLOW AND BS ITEMS | 2022 | 2023 | 2024F | 2025F | 2026F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Increase in working capital | -3,712 | 2,540 | 93 | 131 | 111 |
| Capex | 1,320 | 1,475 | 1,622 | 1,475 | 1,475 |
| Change in investment in affiliates | 3 | -62 | -4 | 0 | 5 |
| Other cashflow items | -4,336 | 788 | -1,774 | -1,774 | -1,774 |
| Free cash flow | 8,911 | 8,009 | 8,571 | 9,349 | 9,992 |
| Share issues | - | - | - | - | - |
| Dividends paid | 8,046 | 8,046 | 8,046 | 8,046 | 8,046 |
| Increase in net debt | -865 | 38 | -525 | -1,302 | -1,946 |
| Net debt, end of year | -14,780 | -14,743 | -15,267 | -16,570 | -18,515 |
| Shareholders' equity | 29,849 | 31,697 | 33,346 | 35,616 | 38,423 |
| BVPS (VND) | 14,282 | 15,166 | 15,956 | 17,042 | 18,384 |
| Net debt/equity | -49.5% | -46.5% | -45.8% | -46.5% | -48.2% |
| Net debt/EBITDA (x) | -1.3 | -1.2 | -1.2 | -1.2 | -1.3 |
| Total assets | 48,483 | 52,673 | 53,798 | 54,766 | 55,627 |

| KEY RETURN AND VALUATION RATIOS | 2022 | 2023 | 2024F | 2025F | 2026F |
|---------------------------------|-------|-------|-------|-------|-------|
| ROE | 27.1% | 28.8% | 29.8% | 29.9% | 29.3% |
| ROA | 16.7% | 17.5% | 18.2% | 19.0% | 19.7% |
| ROIC | 44.9% | 49.5% | 50.4% | 50.7% | 50.6% |
| WACC | 10.4% | 10.4% | 10.4% | 10.4% | 10.4% |
| EVA | 34.5% | 39.1% | 40.0% | 40.3% | 40.1% |
| PER (x) | 18.0 | 17.3 | 15.8 | 14.8 | 14.1 |
| EV/EBITDA (x) | 10.3 | 10.1 | 9.2 | 8.7 | 8.4 |
| EV/FCF (x) | 13.7 | 15.3 | 14.3 | 13.1 | 12.2 |
| PBR (x) | 4.6 | 4.3 | 4.1 | 3.8 | 3.6 |
| PSR (x) | 2.3 | 2.3 | 2.2 | 2.1 | 2.0 |
| EV/sales (x) | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 |
| PEG (x, 3 yr prospective) | -9.3 | 2.6 | 2.3 | 2.5 | 2.4 |
| Dividend yield | 5.9% | 5.9% | 5.9% | 5.9% | 5.9% |

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DISCLAIMER

Our Recommendation System

BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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