

Vinamilk (VNM)

1Q22 gross margin fell sharply, challenges ahead

May 16, 2022

Analyst Luong Ngoc Tuan Dung
dunglnt@kbsec.com.vn

In 1Q22, revenue increased slightly by +5.2% YoY while NPAT decreased by -12% YoY

In 1Q22, Vinamilk's (VNM) consolidated NPAT reached VND2,283 billion (-12% YoY) on net revenue of VND13,878 billion (+5.2% YoY), fulfilling 23.1% and 21.3% of the full-year plan for profit and revenue, respectively. VNM has witnessed negative growth in consolidated NPAT for the fifth consecutive quarter.

VNM's market share remains unchanged

The BOD shared that VNM still maintained its market share in the first three months of 2022 compared to the same period a year earlier. In 1Q22, yogurt and liquid milk achieved impressive business results, contrary to powdered milk and condensed milk.

Input prices tend to ease off but remain higher than in 2021

We believe VNM's net profit will be most affected in 2Q22 when using materials VNM fixed purchase price in 1Q22. Thus, we revise VNM's gross profit margin for 2022 from 43% to over 41%.

We recommend BUYING VNM shares with a target price of VND84,100

We revised our projection for VNM's business results to reflect the unexpected fluctuations in milk powder prices. Specifically, in 2022, we forecast VNM to post VND9,484 billion (-10% YoY) in NPAT and VND62,781 billion (+3% YoY) in net revenue. For 2023, those figures should be VND10,264 billion (+9.2% YoY) and VND65,105 billion (+3.7% YoY). Based on DCF and P/E valuation methods with a weight of 50-50, we lower VNM's 2022 target price from VND105,700/share to VND84,100/share.

Buy maintain

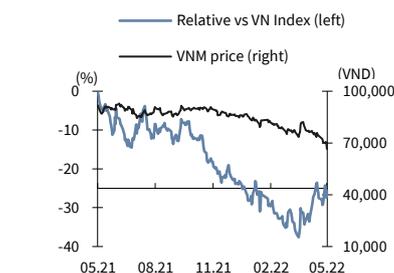
Target price	VND84,100
Upside/Downside	26.5%
Current price	VND66,500
Market cap (VNDbn/USDbn)	139/6.1

Trading data	
Free float	40%
3M avg trading value (VNDbn/USDmn)	214.6/9.5
Foreign ownership	54.36%
Major shareholder	SCIC (36%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-14	-18	-26	-27
Relative	2	0	-10	-26

Forecast earnings & valuation

FY-end	2020A	2021A	2022E	2023E
Net revenue (VNDbn)	59,636	60,919	62,781	65,105
Earnings/Loss (VNDbn)	13,539	12,728	11,375	12,431
NPAT (VNDbn)	11,236	10,633	9,384	10,260
EPS (VND)	4,770	4,517	4,490	4,909
EPS growth (%)	-12.9	-5.3	-1	9
P/E (x)	22.8	19.1	14.8	13.5
P/B (x)	6.8	5.0	3.7	3.7
ROE (%)	36	33	28	30
Dividend yield (%)	45	35	40	40



Source: Bloomberg, KB Securities Vietnam

Updated business performance

In 1Q22, revenue increased slightly by +5.2% YoY while NPAT decreased by -12% YoY

In 1Q22, VNM's consolidated NPAT reached VND2,283 billion (-12% YoY) on net revenue of VND13,878 billion (+5.2% YoY), fulfilling 23.1% and 21.3% of the full-year plan for profit and revenue, respectively. VNM has witnessed negative growth in consolidated NPAT for the fifth consecutive quarter.

Domestic revenue grew slightly without significant improvement

VNM's parent company recorded a slight increase in domestic revenue, reaching VND10,234 billion (+4% YoY). During the first quarter, VNM upgraded the packaging of some primary products. In addition, most of its distribution channels have shown positive results. Specifically, distribution through modern channels grew +30% YoY thanks to their increased popularity and rising consumer demand; distribution through the GMSV store chain grew +25% YoY. Besides, VNM opened 30 new stores in 1Q22, raising the total number of stores to 620.

Meanwhile, Moc Chau Milk (MCM) recorded net revenue of VND675 billion (+8.6% YoY). In 1Q22, MCM introduced two new pasteurized milk products with eye-catching packaging.

Sales in foreign markets grew mainly from foreign branches

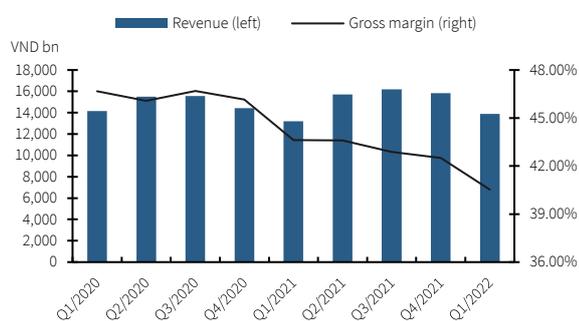
Overseas branches recorded revenue of VND1,081 billion (+28% YoY) as Driftwood sales continued growth with an increase of +40% YoY thanks to stable demand from schools and hotels. In addition, Vietnam's giant milk company delivered export revenue of VND1,139 billion (flat YoY).

Gross profit margin was hit hard because of soaring milk powder

Consolidated gross profit margin in 1Q22 reached 40.5% (-310 ppts YoY). Gross margin continued to be heavily affected by continuously increased input material prices over the past few months. The BOD of VNM shared that the price of primary raw material (milk powder) used in 1Q22 was fixed at a high level in 4Q21. Overall, the downward trend in profit margin is in line with our forecast. However, the profit margin of 40.5% is much lower than our previous forecast of 43% in 2022.

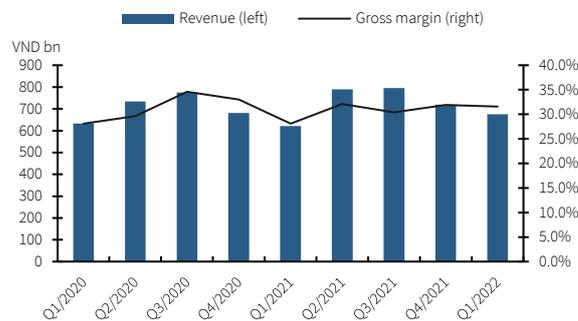
As a result, VNM had to optimize selling and G&A expenses to help improve its net profit margin. In 1Q22, those expenses accounted for 21.7% of net revenue (-73 bps YoY). However, due to the sharp decrease in gross profit margin, the net margin plummeted to only 16.5% (-320 bps YoY).

Fig 1. VNM – Revenue & gross margin (VNDbn, %)



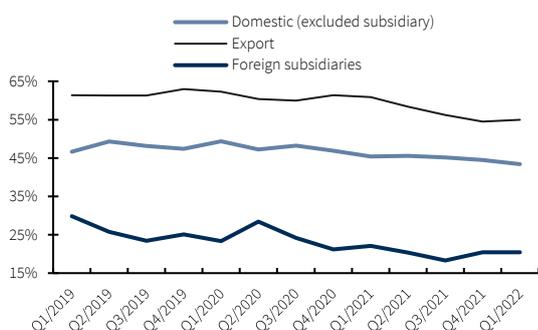
Source: Vinamilk, KB Securities Vietnam

Fig 2. MCM – Revenue & gross margin (VNDbn, %)



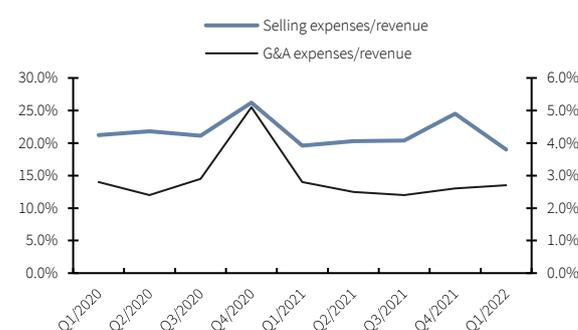
Source: Moc Chau Milk, KB Securities Vietnam

Fig 3. VNM – Gross margin across markets by quarter (%)



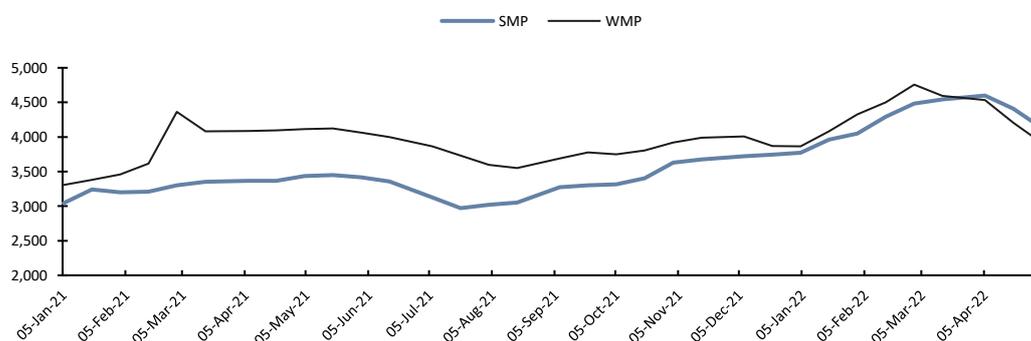
Source: Vinamilk, KB Securities Vietnam

Fig 4. VNM – Selling expense & G&A expense/revenue (%)



Source: Vinamilk, KB Securities Vietnam

Fig 5. VNM – Prices of key raw milk (Whole milk powder –WMP & skimmed milk powder – SMP)



Source: Global Dairy Trade, KB Securities Vietnam

VNM's market share remains unchanged

The BOD shared that VNM still maintained its market share in the first three months of 2022 compared to the same period a year earlier. In 1Q22, yogurt and liquid milk achieved impressive business results, contrary to powdered milk and condensed milk.

Specifically, according to VNM's statistics, the yogurt segment grew by +20% YoY in revenue and gained market share from other brands. The gain mainly came from: (1) VNM's continuously launching plenty of new products and improving packaging in 1Q22 (both yogurt and drinkable yogurt); and (2) the increasing health awareness among customers, leading to the growing demand for yogurt. Meanwhile, powdered milk and condensed milk had negative results for: (1) the tendency to switch from powdered milk to liquid milk to save costs; and (2) the fierce competitiveness of condensed milk compared to products from Malaysia at lower prices.

Input material prices tend to decrease but remain higher than 2021

In the latest auction week, the price of whole milk powder (WMP) was USD3,916/MT, a decrease of 17.6% compared to the highest level in 1Q22 at USD4,757/MT. The reason behind this is that China, the leading WMP import country, has implemented the Zero-Covid policy. Therefore, in the short term, the demand for WMP will decrease, leading to the selling prices no longer increasing as strongly as before. However, we believe when China eases Covid rules, the demand for WMP will surge, pushing WMP prices higher.

Meanwhile, skimmed milk powder (SMP) price was USD4,130/MT recently, down more than 10% from the 1Q22 high of USD4,599/MT. The decline is modest since Europe (the primary supplier) has been adversely affected by the recent price escalation.

According to VNM's BOD, the price of raw materials has been fixed until at least the end of 2Q22. Therefore, we believe VNM's net income will be most affected in 2Q22 and rebound after 3Q22. Overall, for 2022, we adjust VNM's net profit from 43% to over 41% with the following assumptions:

Table 1. VNM – Assumptions & forecast milk powder price

	Average price in 2021	Average price in 2022
Whole milk powder (WMP)	3,641	4,141
% YoY		13.7%
Skimmed Milk Powder (SMP)	3,147	3,982
% YoY		26.5%

Source: KB Securities Vietnam

Table 2. VNM – Update 2022F business results

	2022F (UPDATED)	2022F (PREVIOUS)	+/- %	NOTES
Revenue	62,781	62,090	+1.1%	We revise up forecast revenue given increased domestic sales. Our new forecast for revenue is lower than VNM's plan (nearly 64,000 billion), equivalent to an increase of 3%.
Domestic	52,149	51,458	+1.3%	We revise up domestic sales, including an increase in average selling price (+5%) from VNM.
Foreign	10,632	10,632	+0%	
Gross profit	25,856	26,735	-3.2%	Gross margin fell short of our initial forecast due to an unexpected increase in key raw material prices. Net profit for 2022 of 41.18% comes from the assumption that key raw material (milk powder) prices increase by 20% YoY.
Selling expense	-13,996	-13,039		
G&A expense	-1,570	-1,552		
NPAT	9,484	11,013	-13.8%	Overall, our forecast for NPAT in 2022 decreased by 10.8% compared to the same period in 2021.

Source: KB Securities Vietnam

Forecast business performance

2022F business results

In 2022, we forecast VNM's NPAT of VND9,484 billion (-10% YoY) on net revenue of VND62,781 billion (+3% YoY). For 2023, those figures should be VND10,264 billion (+9.2% YoY) and VND65,105 billion (+3.7% YoY).

We recommend BUYING VNM shares with a target price of VND84,100/share

Based on two valuation methods, DCF and P/E, with a weight of 50-50, we lower our forecast for VNM's target price from VND105,700/share to VND84,100/share. It reflects lower-than-expected business results of VNM under the impact of surging input prices on profits.

For the DCF method, we use a beta of 0.76 (unchanged), a risk-free rate of 3% (unchanged), and an E/A of 95% (up from 90%). Thus, the WACC in our model is 10.25%.

Table 3. VNM – Target price according to valuation methods

Valuation method	Forecast price	Weight	Weighted price
DCF	86,600	50%	43,300
P/E	81,683	50%	40,841
Target price			84,141

Source: KB Securities Vietnam

VNM – 2020A–2023E financials

Income statement				
(VNDbn)	2020A	2021A	2022E	2023E
Net sales	59,636	60,919	62,781	65,105
Cost of sales	(31,968)	(34,641)	(36,925)	(37,612)
Gross Profit	27,669	26,278	25,856	27,493
Financial income	1,581	1,215	1,416	1,472
Financial expenses	(309)	(202)	(332)	(345)
of which: interest expenses	(144)	(89)	(206)	(210)
Gain/(loss) from joint ventures	4	(45)	0	0
Selling expenses	(13,447)	(12,951)	(13,996)	(14,514)
General & admin expenses	(1,958)	(1,567)	(1,570)	(1,675)
Operating profit/(loss)	13,539	12,728	11,375	12,431
Net other income/(expenses)	(21)	195	104	107
Pretax profit/(loss)	13,519	12,922	11,478	12,539
Income tax	(2,283)	(2,290)	(1,994)	(2,178)
Net profit/(loss)	11,236	10,633	9,484	10,360
Minority interests	137	100	100	100
Net profit after MI	11,099	10,532	9,384	10,260
Operating ratios				
(%)	2020A	2021A	2022E	2023E
Revenue growth	6%	2%	3%	4%
EBIT growth	6%	-5%	-10%	9%
EBITDA growth	4%	-4%	-9%	8%
NP after MI growth	5%	-5%	-1%	9%
Gross profit margin	46%	43%	41%	42%
EBITDA margin	26%	24%	21%	22%
EBIT margin	23%	21%	19%	20%
Pre-tax profit margin	23%	21%	19%	20%
Net profit margin	19%	17%	15%	16%
Cash flow				
(VNDbn)	2020A	2021A	2022E	2023E
Net profit	13,519	12,922	11,478	12,539
Plus: depreciation & amort	2,817	2,367	1,784	1,802
Plus: investing (profit)/loss	(301)	(987)	(987)	(987)
Change in working capital	(1,174)	(1,293)	(93)	228
(Inc)/dec - receivables	(715)	(517)	(67)	(259)
(Inc)/dec - inventory	(270)	(2,261)	1,091	(1,325)
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	(213)	1,484	(1,152)	1,782
Inc/(dec) - advances	24	0	35	30
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	10,180	9,432	8,992	10,254
ST investments	0	0	0	0
Capital expenditures	(1,265)	(1,531)	(2,455)	(2,530)
Investment properties	0	0	0	0
Investment in subsidiaries	(0)	(23)	0	0
Other assets	0	0	0	0
Other adj for investments	(3,537)	(2,379)	1,972	1,156
Investing cash flow	(4,802)	(3,933)	(483)	(1,374)
Issuance/(repayment) of debt	7,769	9,597	8,961	9,297
ST debt	(5,754)	(7,551)	(8,806)	(9,123)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	0	318	0	0
Dividends paid	(7,928)	(7,621)	(8,360)	(8,360)
Other adj for financing	(14)	0	0	0
Financing cash flow	(5,927)	(5,257)	(8,204)	(8,186)
Net increase in cash & equivalents	(548)	241	305	695
Cash & equivalents - beginning	2,665	2,111	2,349	2,653
Cash & equivalents - ending	2,111	2,349	2,653	3,348

Balance sheet				
(VNDbn)	2020A	2021A	2022E	2023E
Total assets	48,432	53,332	53,408	56,253
Current assets	29,666	36,110	36,047	39,181
Cash & equivalents	2,111	2,349	2,653	3,348
ST investments	17,315	21,026	21,669	22,471
Accounts receivable	4,174	4,368	4,435	4,694
Inventory	4,953	6,820	5,729	7,054
Other current assets	1,113	1,547	1,561	1,614
Long-term assets	18,767	17,222	17,361	17,072
LT trade receivables	20	17	0	0
Fixed assets	12,717	11,620	10,189	8,743
Investment properties	60	60	43	25
LT incomplete assets	794	835	1,863	2,929
LT investments	988	763	978	1,014
Goodwill	0	0	0	0
Other LT assets	4,187	3,928	4,288	4,361
Liabilities	14,785	17,482	16,285	18,359
Current liabilities	14,213	17,068	15,793	17,875
Trade accounts payable	3,199	4,214	3,062	4,844
Advances from customers	16	4	8	8
ST borrowings	7,316	9,382	9,571	9,766
Special reserves	0	0	0	0
Other current liabilities	3,681	3,468	3,153	3,258
Long-term liabilities	573	414	492	483
LT payables	0	0	0	0
LT borrowings	167	76	49	32
Other LT liabilities	405	338	443	451
Shareholders' equity	31,297	33,083	34,356	35,127
Paid-in capital	20,900	20,900	20,900	20,900
Share premium	0	34	34	34
Treasury stock	(12)	0	0	0
Undistributed earnings	6,910	7,594	7,917	7,650
Reserve & others	3,489	4,555	5,505	6,544
Minority interests	2,350	2,767	2,767	2,767
Total liabilities & equity	48,432	53,332	53,408	56,253
Key ratios				
(x, % VND)	2020A	2021A	2022E	2023E
Valuations				
P/E	22.8	19.1	14.8	13.5
P/E diluted	22.8	19.1	14.8	13.5
P/B	6.8	5.0	3.7	3.7
P/S	3.2	3.0	2.2	2.1
EV/EBITDA	12.8	16.6	18.2	16.8
EV/EBIT	14.9	19.3	21.0	19.2
EPS	4,770	4,517	4,490	4,909
DPS (annual, ordinary)	4,553	3,647	4,001	4,001
Dividend payout ratio (%)	45%	35%	35%	35%
Operating performance				
ROE	36%	33%	28%	30%
ROA	23%	21%	18%	19%
ROIC	29%	25%	22%	23%
Financial structure				
Total liab/equity	0.5	0.5	0.5	0.5
Current ratio (x)	2.1	2.1	2.3	2.2
Interest coverage (x)	95.0	146.5	56.6	60.7
Activity ratios				
Asset turnover	1.4	1.2	1.2	1.2
Receivables turnover	13.5	14.3	14.3	14.3
Inventory turnover	6.1	5.9	5.9	5.9
Payables turnover	9.3	9.8	9.8	9.8

Source: Vinamilk, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Banks, Insurance & Securities
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Real Estate, Construction & Materials
ngaphb@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Retails & Consumers
dunglnt@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Oil & Gas, Utilities
quangtpt@kbsec.com.vn

Nguyen Duc Huy
Analyst – Banks, Insurance & Securities
huynd1@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy, Chemicals
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy, Fishery & Textiles
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.