

VIETNAM DAIRY PRODUCTS JSC (HSX: VNM)
Growth momentum comes from subsidiaries

(VND bn)	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Net revenue	13,878	15,834	-12.4%	13,190	5.2%
PAT-MI	2,266	2,196	3.2%	2,576	-12.1%
EBIT	2,620	2,438	7.5%	2,820	-6.5%
EBIT margin	18.9%	15.4%	350 bps	21.2%	-230 bps

Source: VNM, Rong Viet Securities

Q1 2022 – Strong increase of raw milk powder prices dragged down profit margins

- Q1/2022 consolidated net revenue reached VND13.9 Tn (or USD 588 Bn, +5.2% YoY), driven by the strong growth of its subsidiaries (Driftwood and Moc Chau Milk).
- Gross margin narrowed by -310 bps YoY to 40.5% - the lowest level in last five years due to the ongoing rise of raw milk powder prices since mid-2020. Although SG&A/revenue declined from 22.4% in Q1/2021 to 21.7% in Q1/2022 as VNM optimized these expenses, it cannot compensate for the strong increase of input costs, resulting in a -320 bps YoY reduction of NPAT-MI margin at 16.3%.
- In 1Q, VNM fulfilled 21.7% of its revenue and 23.5% of its NPAT targets for 2022.

Q2 2022 and whole year outlook – Growth momentum comes from subsidiaries

In Q2 2022, we forecast net revenue and NPAT-MI to reach VND 16.6 Tn (or USD 703 Bn, +5.3% YoY, +19.3% QoQ) and VND 2.4 Tn (or USD 102 Bn, -14.9% YoY, +6.4% QoQ), respectively. We expect that Q2 2022 top-line will remain a modest growth as equal as that was in Q1 2022 owing to increasing ASP (c. +5% YTD) and a two-digit growth of Moc Chau Milk and Driftwood. However, NPAT-MI margin will go down to 14.6% from 18.0% in Q2 2021, resulting from the raising of input costs and SG&A expenses.

For the whole year, we expect net sales and NPAT-MI will be at VND 65.1 Tn (or USD 2,760 Bn, +6.0% YoY) and VND 10.3 Tn (or USD 435 Bn, -2.4% YoY), respectively. Sales are mainly driven by the two-digit growth of subsidiaries, including Moc Chau Milk (larger brand coverage) and Driftwood (strong recovery after the Covid-19 pandemic). However, profits are dragged down by higher-than-expected increase in input prices.

Valuation and recommendation

We suggest that VNM is not a good investment opportunity in 1H2022 due to 1) diminishing growth in its organic sales; and 2) deterioration in profitability due to expensive input prices. However, we expect that VNM's performance will start to recover in Q3 2022 thanks to higher contribution from subsidiaries which will enhance the top-line.

Combining FCFF (50%) and multiples comparison (PER) (50%), our target price for VNM is **VND83,500**. Adding a cash dividend of VND3,850, the 12-months expected return is 21% compared to the closing price on Jun 30th 2022. We believe that the negative expectations on Vinamilk's business performance has reflected for the downtrend of VNM. Based on the rosy outlook in the next five years and current low PER, we recommend it is better to wait to see positive signals of the operation improvements which we expect to happen in 3Q22. The organic sales would grow at a high single-digit rate is for example, to **BUY this stock**.

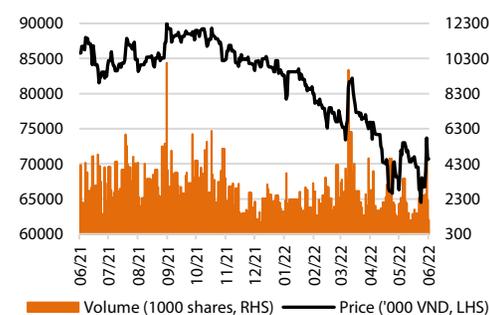
BUY +21%

Current market price (VND)	72,200
Target price (VND)	83,500
Cash dividend (VND)	3,850

Stock Info

Sector	Consumer Staples
Market Cap (VND billion)	146,715
Current Shares O/S	2,090
Avg. Daily Volume (in 20 sessions)	2,402,213
Free float (%)	35
52 weeks High	93,600
52 weeks Low	65,200
Beta	0.78

	FY2021	Current
EPS	4,517	4,390
EPS Growth (%)	-5.3%	-11.6%
Diluted EPS	4,517	4,390
P/E	18.8	16.1
P/B	5.0	4.6
EV/EBITDA	11.8	10.0
Cash dividend yield (%)	4.5%	5.6%
ROE (%)	29.3%	28.9%

Price performance

Major Shareholders (%)

SCIC	36.0
F&N Dairy Inv. Pte Ltd	17.7
Foreign ownership room (%)	45.5

An Nguyen

(084) 028- 6299 2006 – Ext 1541

an.ntn@vdsc.com.vn

Exhibit 1: Q1-2022 Results

(VND Bn)	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Net revenue	13,878	15,834	-12.4%	13,190	5.2%
Gross profit	5,625	6,725	-16.4%	5,755	-2.3%
SG&A	3,005	4,287	-29.9%	2,953	1.8%
Operating income	2,620	2,438	7.5%	2,820	-6.5%
EBITDA	3,328	3,245	2.6%	3,667	-9.2%
EBIT	2,620	2,438	7.5%	2,820	-6.5%
Financial expenses	132	90	46.8%	6	1,962%
- Interest expenses	26	23	13%	13	100%
Dep. and amortization	537	534	0%	500	7.4%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	2,764	2,688	2.8%	3,154	-12.4%
NPAT-MI	2,266	2,196	3.2%	2,576	-12.1%
Adjusted NPAT-MI for (*)	2,266	2,196	3.2%	2,576	-12.1%

Source: VNM, Rong Viet Securities

Exhibit 2: Q1-2022 Performance Analysis

Particulars	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	40.5%	42.5%	-200 bps	43.6%	-310 bps
EBITDA Margin	24.0%	20.5%	350 bps	27.8%	-380 bps
EBIT Margin	18.9%	15.4%	350 bps	21.2%	-230 bps
NPAT-MI Margin	16.3%	13.9%	240 bps	19.5%	-320 bps
Adjusted NPAT-MI Margin	16.3%	13.9%	240 bps	19.5%	-320 bps
Turnover*(x)					
-Inventories	5.0	5.9	-0.9	5.2	-0.2
-Receivables	14.5	14.3	0.2	15.3	-0.8
-Payables	8.6	9.9	-1.3	7.8	0.8
Leverage (%)					
Total Liabilities/Total Equity	51.2%	48.8%	240 bps	50.3%	90 bps

Source: Rong Viet Securities, * Annualized

Exhibit 3: Q2/2022 Performance Forecast

Particulars (VND Bn)	Q2-FY22	+/- qoq	+/- yoy
Revenue	16,554	19.3%	5.3%
Gross profit	6,704	19.2%	-2.2%
EBIT	2,664	1.7%	-18.8%
NPAT-MI	2,411	6.4%	-14.9%

Source: Rong Viet Securities

Q2/2022 assumptions:

- Revenue to grow 5.3% YoY driven by +20% YoY and +2.5% YoY increase in oversea and domestic channels, respectively. The main drivers are Driftwood (+30% YoY) and Moc Chau Milk (+10% YoY).
- Gross margin to remain at 40.5% in Q2, flat QoQ and narrowing 450 bps YoY because in Mar-22, VNM locked raw milk powder contracts until Aug-22 at a high price.
- SG&A/revenue to be 21.8%, higher than Q1 2022 by 9.5 bps to promote selling activities but still lower than Q2/2021 by 100 bps since the company continue optimizing these expenses.

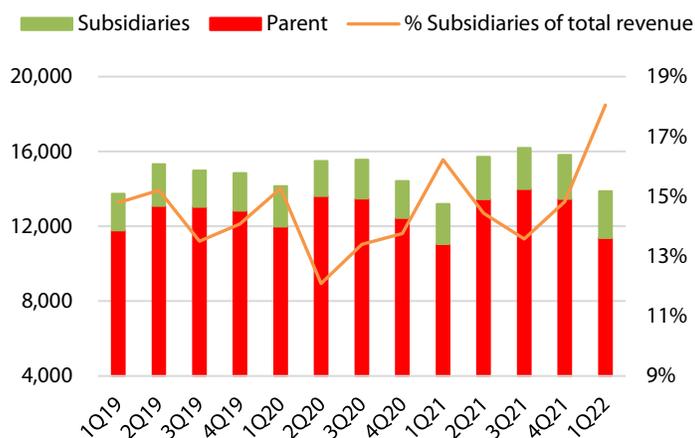
Q1 2022: Strong increase of raw milk powder prices dragging down profit margins

Total revenue growth was driven by subsidiaries (Driftwood and Moc Chau Milk)

In Q1 2022, VNM announced consolidated net revenue and NPAT-MI of VND13.9 Tn (or USD 588 Bn, +5.2% YoY) and VND2.27 Tn (or USD 99 Bn, -12% YoY), respectively. Based on this, VNM fulfilled 21.7% of its revenue and 23.5% of its NPAT targets for 2022.

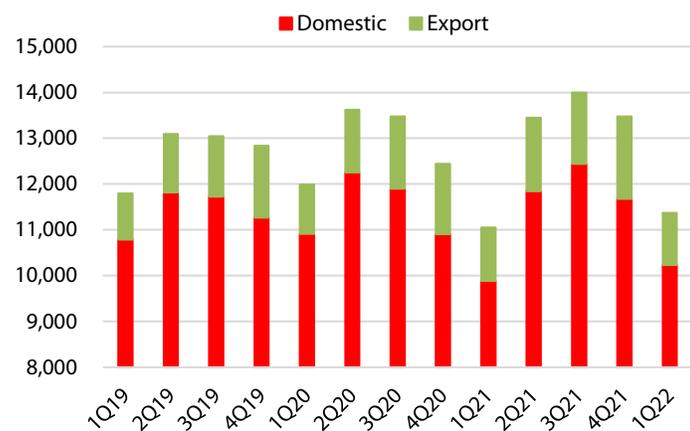
- Revenue from subsidiaries, including Moc Chau Milk (+8.6% YoY), Driftwood (+40% YoY) and Angkor Milk (+7.2% YoY), drove consolidated growth. The ongoing rising dairy demand after the Covid-19 pandemic to reinforce the immune system creates a favorable condition for these companies to boost sales.
- The parent company reported net sales of VND11.4 Tn (or USD 496 Bn, +2.9% YoY) in Q1. The growth was mainly supported by the higher average selling price (ASP, c. ~5% YoY) while the export revenue recorded a drop of 2.3% YoY to VND1.14 Tn (or USD 50 Bn). Regarding exports, customers stored a large volume of Vinamilk's products in Q4 2021, they bought less in Q1 2022.
- Because the revenue from subsidiaries (both domestic and oversea) only accounted for 18.1% of total revenue, the strong growth of subsidiaries cannot compensate for the modest growth of the parent. In general, 1Q22 revenue growth is still in-line with our forecast.

Figure 1: Quarterly net revenue breakdown (VND bn, LHS) and proportion of subsidiaries revenues (% , RHS)



Source: VNM, Rong Viet Securities

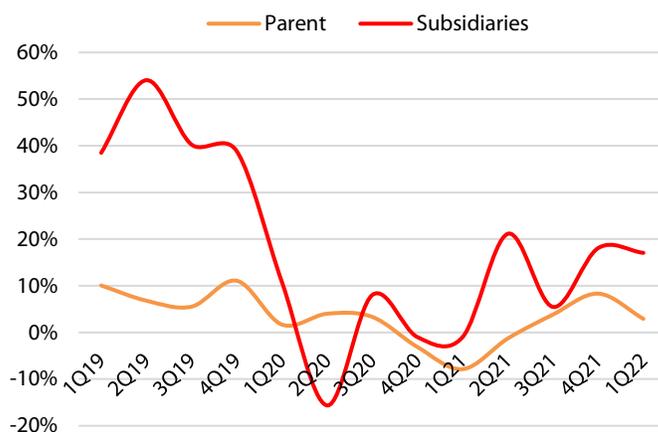
Figure 3: Parent 'sales breakdown by geography (VND bn)



Source: VNM, Rong Viet Securities

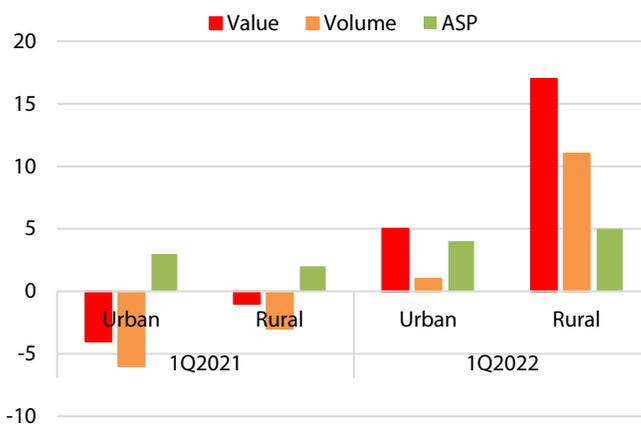
As explained by the company, in 1Q22, domestic sales volume of condensed and powdered milk were hit due to harsh competition from imported products and big rivals such as Friso. Another reason for the downtrend of powdered milk is that consumers, especially in rural area, have switched from powdered milk to liquid milk.

Figure 2: Sales growth of the parent and subsidiaries (YoY)



Source: VNM, Rong Viet Securities

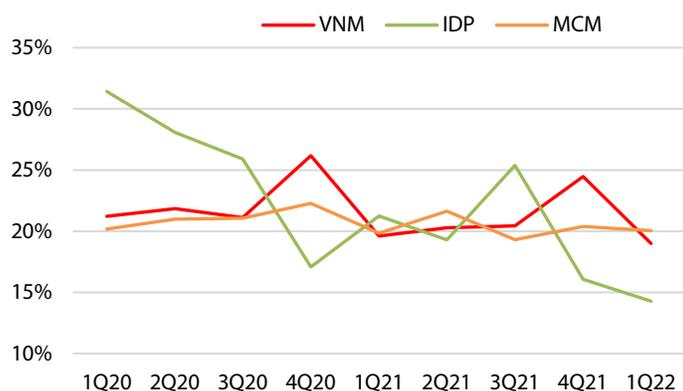
Figure 4: Change in Vietnam dairy consumption in 1Q22 (% YoY)



Source: Kantar Worldpanel, Rong Viet Securities

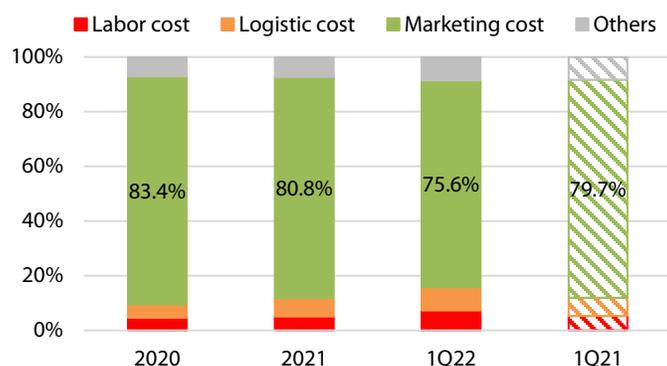
Notably, looking at the comparison of “selling expenses/sales” ratio among VNM, IDP and MCM, despite the fact that VNM spends a lot of money on marketing activities, evidenced by the highest ratio compared to its peers (Figure 5 & 7), its revenue and market share have not strongly increased in recent years (Figure 8). Given the recent modest sales growth of these three companies (Figure 6), we expect the competition environment of Vietnam’s dairy industry to continue being harsh in 2022 and onwards. We forecast VNM’s future revenue growth to remain in the single digit, mainly supported by the growth of subsidiaries and new initiatives (e.g., beef production).

Figure 5: Selling expenses/sales ratio of VNM, IDP, MCM



Source: VNM, IDP, MCM, Rong Viet Securities

Figure 7: Marketing expenses account for the largest proportion in VNM’s total selling expenses



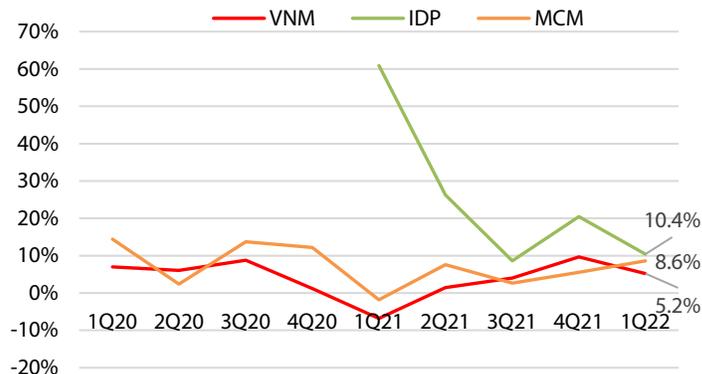
Source: VNM, Rong Viet Securities

NPAT decreased, driven by the strong increase of raw milk powder prices

In terms of profits, because total costs rose stronger than revenue growth due to high-priced inventory (Figure 9) on the back of a strong increase of input costs, 1Q22 profit margins sharply declined, equivalent to a negative growth in profits. The main driver of increasing input cost is the upward trends of raw milk powder prices (Figure 10). By the end-2021, the whole milk powder price (WMP) reached USD/MT 3,867 (+20.5% YoY) before rising to roughly USD/MT 4,757 (+9% YoY) in the beginning of Mar-2022. The average price of WMP in Mar-22 was USD/MT 4,677 (+10.5% YoY). As a result, 1Q2022 gross margin (GPM) sharply dropped to 40.5% - the lowest level in the last five years. Notably, GPM of the export channel was strongly hit since VNM’s main export products are powdered and condensed milk that uses milk powder as the main ingredients, so the margin was hit more strongly than other channels which also sell fresh milk (Figure 11).

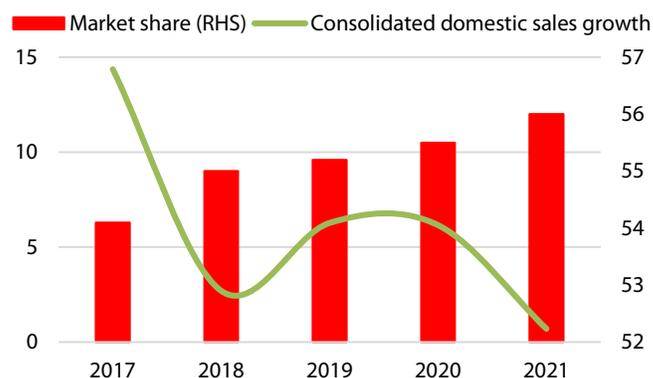
Although the selling expenses/sales ratio was reduced to 19.0% from 19.6% in 1Q21 and the financial incomes grew by +12.4% YoY to VND320 bn, it cannot compensate for the strong increase of input costs, leading to the decrease in NPAT-MI. 1Q22 NPAT-MI margin went down to 16.3% from 19.5% in 1Q21. The profit margin is under our forecast.

Figure 6: Sales growth of VNM, IDP, MCM



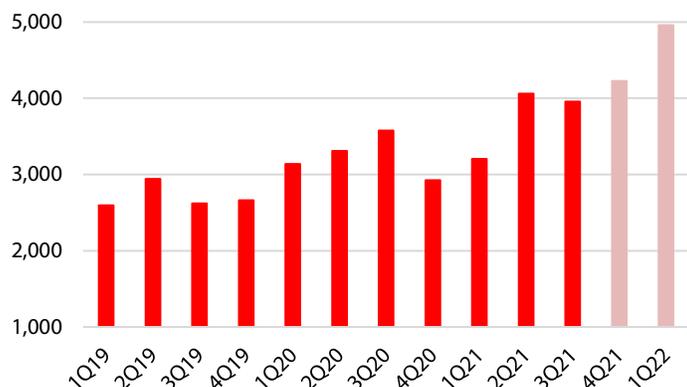
Source: VNM, Rong Viet Securities

Figure 8: VNM’s market share by value (%) and consolidated domestic sales growth (% YoY)



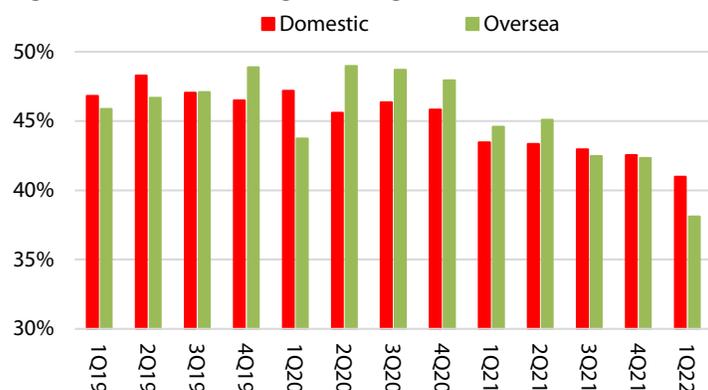
Source: VNM, Rong Viet Securities

Figure 9: VNM's raw material value (VND bn)



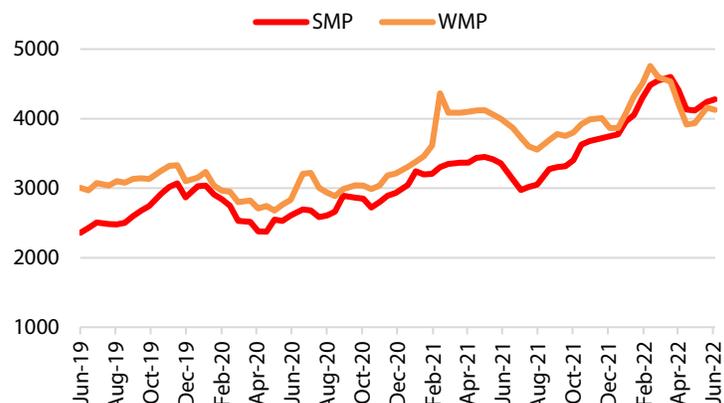
Source: VNM, Rong Viet Securities

Figure 11: Consolidated gross margin breakdown (%)



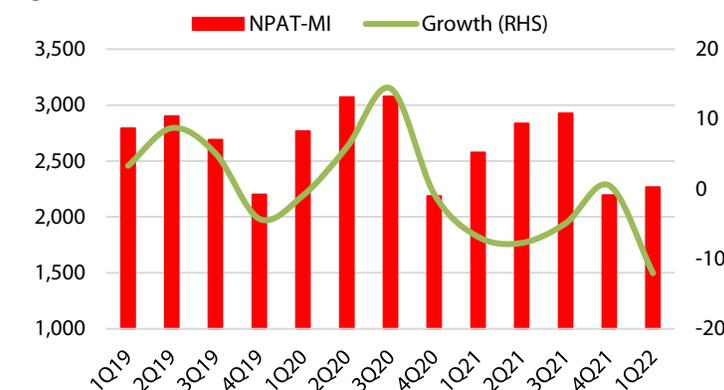
Source: VNM, Rong Viet Securities

Figure 10: Whole and Skim milk prices (USD/MT)



Source: Bloomberg, Rong Viet Securities

Figure 12: VNM's NPAT-MI (VND bn) and Growth (% YoY)



Source: VNM, Rong Viet Securities

Q2 2022 and whole year outlook – Growth momentum comes from subsidiaries

Q2 2022: Profit margins is still weak because VNM locked raw milk powder at a price of the peak until Aug-22

Since Q1 is usually the off-peak seasons for VNM (Figure 1), we expect total sales in Q2 will grow at higher pace than that was in Q1. From the company, however, we have learned that sales volume in Apr and May 2022 did not grow much stronger than it was in the first quarter of 2022, although still higher than the same period last year. Therefore, we expect VNM's June 2022 revenue to increase strongly thanks to the increase in retail prices of some powdered milk products such as "Vinamilk ColosGold" since the end of May 2022; and outdoor activities such as tourisms or entertainments become more active thanks to summer vacation.

In addition, Lao-Jargo farms would not provide raw milk until Q4 2023, one and a half year later than its previous plan. It is expected that VNM's self-supply raw milk ratio will increase, hence partly compensate the ongoing rise of raw milk prices as soon as this project goes live. The delay, therefore, diminishes our expectation on VNM's gross margin improving in Q2.

As a result, we forecast net revenue and NPAT-MI to reach VND 16.6 Tn (or USD 703 Bn, +5.3% YoY, +19.3% QoQ) and VND 2.4 Tn (or USD 102 Bn, -14.9% YoY, +6.4% QoQ), respectively.

The top-line will remain a modest YoY growth as equal as Q1 2022 's number owing to:

- ASP increases 5% YTD, partly compensate for the lower sales volume. As mentioned above, in 1Q 2022, powdered milk showed two-digit negative sales volume growth while the condensed milk 'sales volume was almost flat. We believe that this result will continue to apply to the second quarter since the company does not have any aggressive strategies to cope with this challenge. Because Vinamilk has increased the ASP in Mar-22 and May-22 by c. ~5% compared to that in Dec-21, we expect that the higher selling prices will partly compensate for the lower sales volume, resulting in a modest positive growth in total sales value.

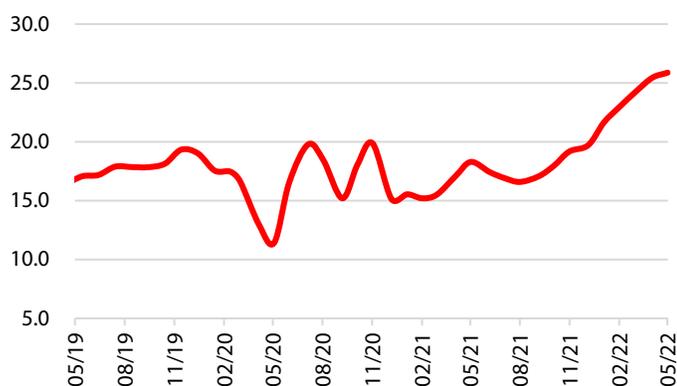
- High sales growth of Moc Chau Milk (MCM: UpCOM) and Driftwood (oversea subsidiary). We expect that MCM's sales will grow 10% YoY, higher than the growth of 8.6%YoY in 1Q 2022. The growth drivers come from (1) Production capacity expansion in May 2022 and (2) Brand coverage increasing. As regards Driftwood, mentioned by Vinamilk, both volume and selling prices has gone up thanks to strong recovery of dairy demand after Covid-19 pandemic. We expect that Driftwood will continue to grow sharply in Q2 2022 and onwards, reaching 30% YoY in 2Q2022 sales growth.

We expect Q2 2022 gross margin to remain stable at low level as equal as it that was in the first quarter (40.5%) due to three reasons:

- In Mar 2022, VNM has locked raw milk powdered contracts until Aug-22 at the high price.
- Lao-Jargo farms project, which is expected to add 8,000 new cows to help increase the self-produced raw milk rate, is delayed. The cost of self-produced raw milk is 20% cheaper than purchase from domestic farmers and 10% higher than imported. Therefore, by increasing its self-produced raw milk rate, VNM can actively manage the "raw material costs/sales" ratio, partly help stabilize the gross profit margin in the future.
- We expect that yogurt and liquid milks will continue to be key drivers for VNM 's sales volume in Q2 2022. Liquid milk products, however, provide the lowest profit margin compared to other dairy products. Therefore, the higher contribution from this business line cannot boost total gross margin of Vinamilk.

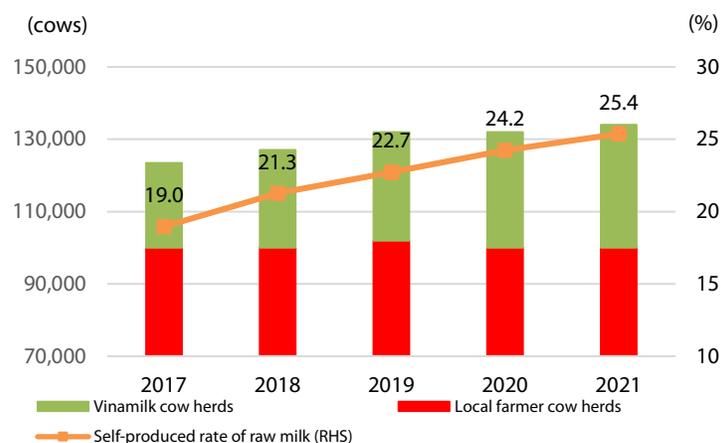
NPAT-MI margin in Q2 2022 will narrow down to 14.6% from 18.0% in Q2 2021. We expect that VNM will have to increasingly promote selling activities from second quarter to cope with the fiercer-and-fiercer competition status of Vietnam dairy industry, resulting in higher SG&A expenses. We suppose that it will take time for Vinamilk's marketing strategies to be effective which we believe will help increase sales volume from the third quarter.

Figure 13: Average selling price of fluid milk in the U.S. market (USD/cwt)



Source: Bloomberg, Rong Viet Securities

Figure 14: Total cow herds of Vinamilk – excluding MCM



Source: VNM, Rong Viet Securities

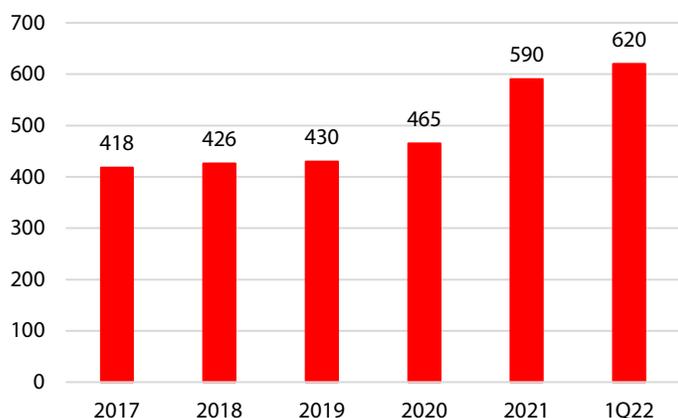
2022 Outlook: Growth momentum comes from subsidiaries

We forecast VNM's 2022 consolidated net revenue and NPAT-MI will be VND65.1 Tn (or USD 2,760 Bn, +6.0% YoY) and VND10.3 Tn (or USD 435 Bn, -2.4% YoY), respectively. Sales is mainly driven by growth of subsidiaries, while profits are dragged down by higher-than-expected increase in input prices.

We expect that the parent sales volume will recover from Q3 2022 thanks to VNM 's aggressive marketing campaigns and the scale-up of "Giac Mo Sua Viet" (GMSV) store chain (expected to reach 1,000 stores in 2023 from 620 stores in 1Q22). According to Vinamilk, the modern trade channel (included GMSV chain) will be its sales growth driver in the upcoming period. Besides, based on recent VNM 's marketing campaigns focusing on yogurt and liquid milks (Figure 16), we expect these two segments will be the pillars for VNM 'sales in 2022.

In a conservative view since we have not seen any positive signals from marketing campaigns of Vinamilk likes higher sales volume in May, we forecast that the parent's sales will be flat in 2022. In contrast, we believe that VNM's subsidiaries will present high growth in 2022, supporting for the sales growth of the whole group.

Figure 15: "Giac Mo Sua Viet" store counts (unit)



Source: VNM, Rong Viet Securities

Figure 16: The recent advertisings of Vinamilk focusing on liquid milk (ADM brand) and drinking yogurt

HOẠT ĐỘNG NỔI BẬT

Thế lệ chương trình khuyến mại siêu hấp dẫn "QUÉT MÃ LIÊN TAY..."
Đơn vị tổ chức: Công ty Cổ phần Sữa Việt Nam 1. Tên chương trình: QUÉT MÃ LIÊN TAY – SẢN NGAY QUÀ ĐÌNH 2...

Thế lệ chương trình khuyến mại siêu hấp dẫn "CHÀO HÈ ADM ..."
Công ty cổ phần sữa Việt Nam (Vinamilk) kính gửi đến Quý Khách Hàng thông tin về Chương trình khuyến mãi cho sản phẩm Sữa...

Chương trình khuyến mãi hấp từ Yomilk "Sản thẻ liên tay, quay..."
I. THÔNG TIN CHƯƠNG TRÌNH: 1. Tên chương trình: Sản thẻ liên tay, Quay ngay 100% trúng. 2. Đối tượng tham gia: áp dụng cho...

Source: VNM, Rong Viet Securities

Moc Chau Milk (Upcom: MCM) – Higher growth thanks to larger brand coverage the Northern market

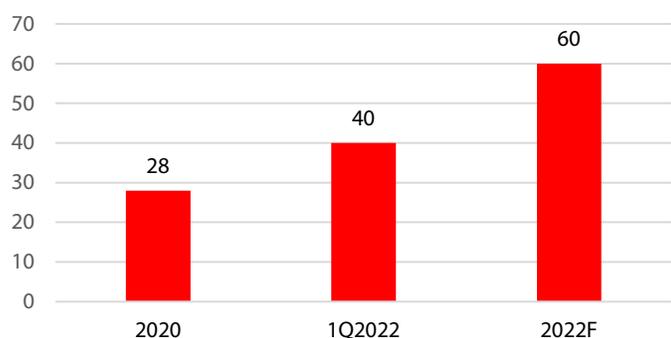
According to MCM, it is going to deploy several campaigns to enhance the awareness of "Moc Chau Milk" brand in Northern market. For example, it will expand "Mộc Châu Milk" store chain by 20 new stores as well as launching new products in 2H2022 (Figure 17 & 18). In addition, the company has signed various marketing contracts to launch its dairy products in big buildings in Hanoi city. However, we conservatively forecast that MCM will show a one-digit growth in selling volume for the whole year of 2022 due to the fierce-and-fierce competition in Vietnam dairy industry and high-base performance in 2H2021, with 2022 net sales of VND3,171 bn (+8.4% YoY).

Driftwood – Strong growth thanks to both sales volume and prices increase

We expect that Driftwood's sales will show the strongest growth among subsidiaries and the parent also. In detail, 2022 sales of Driftwood is calculated at VND4,002 bn (or USD 174 Bn, +40% YoY). There are two main reasons supported for this viewpoint.

- Firstly, the schools in the U.S. closed since 2H2021 due to Covid-19 pandemic (Figure 20). Because this is the main distribution channel of Driftwood, we expect that this earnings source will show a strong recovery in 2H2022. In fact, Driftwood got orders from schools until Jun-2023. Moreover, mentioned by Vinamilk, Driftwood will expand its customer base to HORECA (Hotel, Restaurant and Catering) channel in the future, signaling a higher revenue.
- Secondly, the average retail price of dairy products in the U.S is increasing sharply. In May-22, the average selling price of fluid milk went up by 41.4% YoY reached 25.9 USD/cwt. Therefore, we believe that Driftwood also enjoy this advantage.

Figure 17: "Moc Chau Milk" store count (unit)



Source: MCM, Rong Viet Securities

Figure 18: One of new products of Moc Chau Milk



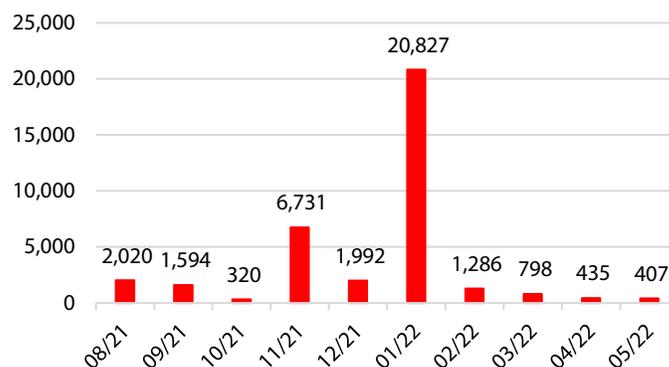
Source: MCM, Rong Viet Securities

Figure 19: Driftwood 'Sales (VND bn) and growth (%YoY)



Source: VNM, Rong Viet Securities

Figure 20: Number of schools closed due to Covid-19 pandemic in the U.S. (unit)



Source: Burbio, Rong Viet Securities

2022 NPAT-MI is expected to decrease by -2.4% YoY to VND10.3 Tn (or USD 435 Bn) following the rising of COGS (due to high raw milk price) and SG&A expense.

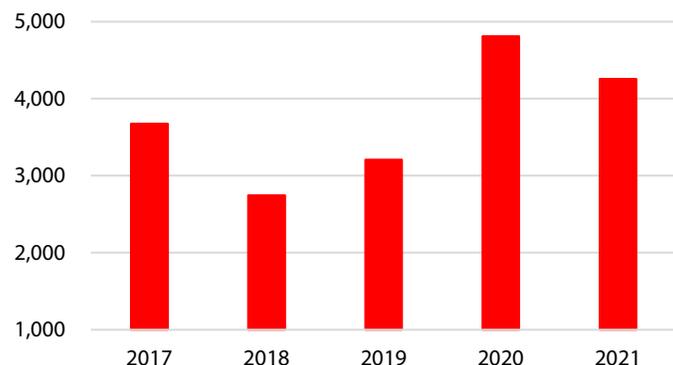
- In our conservative scenario, we expect that raw milk powder prices in the last four months of 2022 will fluctuate at the peak of 2022 with assumption that (1) China will ease its Zero-Covid-19 policy, boosting the raw milk demand and (2) The Ukraine and Russia tension not solve yet.
- Furthermore, we expect 2022 SG&A/Sales ratio will arrive at 23.4% which is 174.7 bps higher than the ration in 1Q 2022 since the company will increasingly promote marketing campaigns to boost sales in 2H2022. VNM's peak season for SG&A expenses is usually in Q4 (Figure 5).

Strong cash flow and healthy capital structure create a favorable condition for future business expansion

In a conservative view, we suppose that the room to achieve double-digit sales growth for Vinamilk in domestic dairy market is really limited. To explain, in the period of 2018-21, VNM 's market share increased only 1% on average per year. Although Vinamilk acquired Moc Chau Milk in 2020 to improve the market share in Northern market, its total market share did not increase strongly. In the harsh competition of Vietnam dairy industry, couple with a high market share (VNM 's current market share is approximately 60%), we expect that VNM have to expand to non-dairy industry business to gain a stronger growth in the future. Otherwise, it has to set it foot in oversea markets whose dairy demand is increasing strongly such as Indonesia.

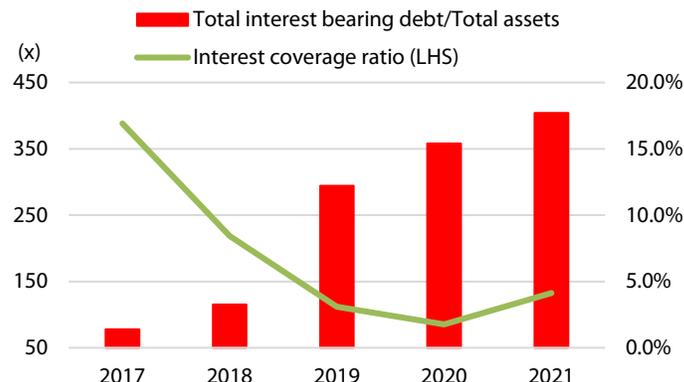
Based on VNM's strong cash flow and healthy capital structure, we believe that the company is able to expand its business following these two strategies, resulting in an increasing ROE in the next five years. In fact, VNM's free cash flow/per share (FCF/share) ratio presented an upward trend in the past four years, while the company increasingly invested in business expansion (Figure 21). In addition, its solvency ratios maintain at safety level during the reviewed period also (Figure 22).

Hình 21: VNM 's FCF/share ratio (VND)



Nguồn: Bloomberg, Rong Viet Securities

Hình 22: VNM's solvency ratios

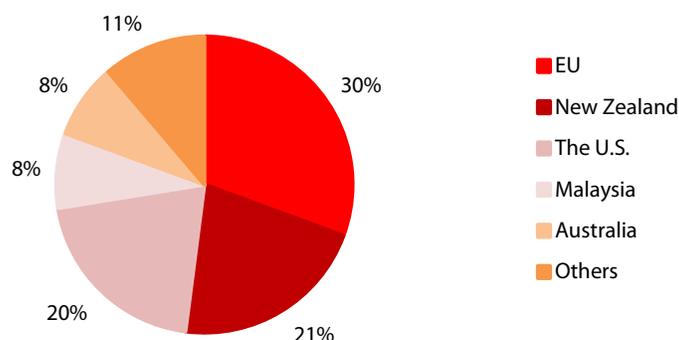


Nguồn: Bloomberg, Rong Viet Securities

In the analyst meeting on May 2022, VNM announced that it is targeting a dairy company in Indonesia to acquire. This will bring strong potential growth opportunities for Vinamilk in the next few years. In Indonesia, according to USDA, in 2021, approximately 81% of all dairy products consumed are imported because local dairy producers cannot produce good quality products (Figure 23). Meanwhile, the demand for dairy products in Indonesia is increasing, expected to see a growth of over +10% p.a. As a result, we expected that if Vinamilk successfully acquired a local dairy company and restructure it, it will capture the upward trend of dairy consumption in Indonesia, and even further, dominate the market since there are no leader in this field. Besides, the recent JVs named Del Monte – Vinamilk Inc. in Philippines is also another weapon help VNM to exploit new overseas markets in the long-term.

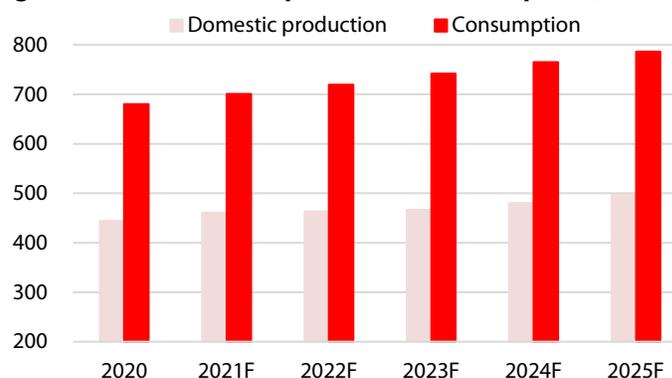
As regards non-dairy businesses, VNM announced that Vilico will officially start to sell beef products since 2024 with targeted revenue in the first operation year of VND1,500 tn. In detail, Vinamilk co-operates with Sojitz – Japan’s leading company in importing and selling beef - to process and sell beef products in Vietnam market and export also. Beef initially will be imported from Japan for distribution to supermarkets and restaurants in Vietnam with the expected revenue of VND100 bn in 2022. The demand for brand beef products in Vietnam is increasing due to the rising demand for high-quality food while almost all brand beef products are imported. Therefore, we expected that VNM will achieve this targeted revenue.

Figure 23: Global dairy products exports to Indonesia (8M21)



Source: VNM, Rong Viet Securities

Figure 24: Vietnam’s beef production & consumption ('000 tons)



Source: OECD, Rong Viet Securities

2021F-22F Forecast

Table 1: 2022 IS Forecast

Unit: VND Bn	2021A	2022F	% YoY change	Comments
Net revenue	60,919	65,136	6.9%	
- The parent	51,967	54,743	5.3%	In FY22, we forecast the increase in ASP (+< 5% YoY) and the higher contribution from export market will push total sales growth of the parent.
+ Export sales/ total sales of the parent	11.8%	12.8%	100 bps	
- Subsidiaries	8,952	10,393	16.1%	In FY22, we forecast both selling volume and prices increase.
+ Moc Chau Milk	2,926	3,171	8.4%	We expect MCM’s revenue will grow higher thanks to higher ASP (+< 5%YoY), higher production capacity and larger brand coverage in Northern market.
+ Driftwood	2,858	4,002	40%	We expect Driftwood’s revenue to strongly grow due to the reopening of schools which closed during Covid-19 pandemic period, and higher selling prices.
+ Others	3,168	3,220	1.6%	
Gross profit	26,278	26,547	1.0%	
SG&A expenses	(14,518)	(15,252)	5.1%	We expect SG&A expenses/revenue in FY22 will be 23.4%, lower than the level of 23.8% in FY21 as VNM optimizes these expenses.
EBIT	11,760	11,295	-4.0%	
Net non-operating income	1,162	1,426	22.7%	We forecast interest income will rise 12.1% YoY in FY22 relying on higher bank deposit.
NPAT-MI	10,532	10,277	-2.4%	
GPM	43.1%	40.8%	-230 bps	
SG&A/Revenue	23.8%	23.4%	-40 bps	

EBIT margin	19.3%	17.3%	-200 bps
NPAT-MI margin	17.2%	15.7%	-150 bps

Source: Rong Viet Securities

Valuation

We suggest that VNM shares is not clearly a good investment opportunity in 1H2022 due to 1) diminishing growth in its organic sales; and 2) deterioration in profitability due to expensive input prices. However, we expect that VNM 's performance will start to recover since Q3/2022 thanks to higher contribution from subsidiaries which help VNM 's top-line present a positive growth. Since VNM is bearing a higher-than-expected increase in input costs, we lower the estimated 2022 gross profit by -8.2% compared to the latest forecast (VND28,915 bn), resulting in a lower expected NPAT-MI to VND10,277 bn from 11,346 bn.

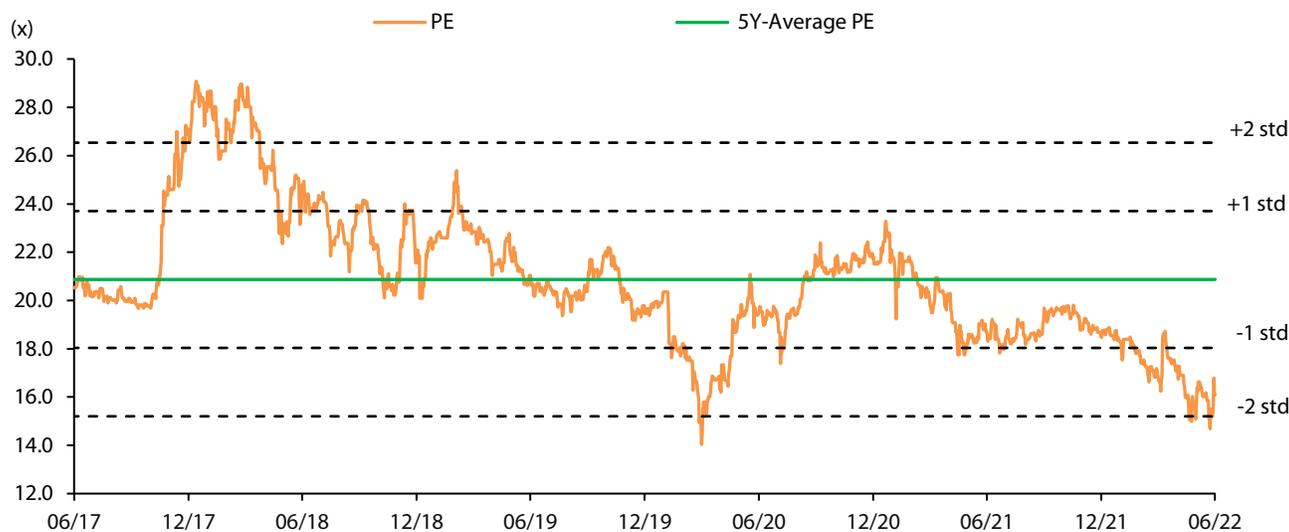
We combined FCFF valuation model (50%) and multiples comparison (50%) with an applied P/E of 17.5x. **Our target price for VNM is VND83,500**, which is lower by 16.5% compared to the latest target price (VND100,000) on Oct-2021. Adding a cash dividend of VND3,850, the 12-months expected return is 21% compared to the closing price on Jun 30th 2022. We believe that the negative expectations on Vinamilk 's business performance has reflected on the downtrend of VNM shares, which is translated into the current low P/E of 16.0x-18.0x – the lowest level since the last 5 years (Figure 25). Based on the rosy outlook in the next five years, we recommend it is better to wait to see positive signals of the operation improvements which we expect to happen in 3Q22, the organic sales grows at high single-digit rate is for example, to **BUY this stock**.

Table 2: VNM's valuation summary

Method	Weight	Valuation (VND/share)
FCFF (WACC: 11.8%, g: 1.0%, EV/EBITDA: 12.7x)	50%	89,500
P/E Multiples	50%	77,500
Total	100%	83,500

Source: Rong Viet Securities

Figure 25: VNM historical P/E band



Source: Bloomberg, Rong Viet Securities

Table 3: Industry peers

Company	Country	Market cap (USD mn)	ROE (%)	Trailing Sales Growth (% YoY)	EPS Growth (% YoY)	Gross margin (%)	Net profit margin (%)	Trailing PE Ratio (%)	5-year average P/E (x)
VNM	VN	6,356	28.9	5.0	-5.3	43.1	17.3	16.1	23.7
Domestic peers									
MCM	VN	208	18.6	3.6	-23.4	30.7	10.9	15.2	-
IDP	VN	420	77.9	25.8	59.4	43.2	17.0	11.9	-
Global peers									
Danone S.A.	FR	35,303	11.5	2.8	-0.4	47.4	7.9	17.1	19.2
China Mengniu Dairy Ltd.,	HK	18,641	14.4	15.9	42.0	36.7	5.7	24.8	32.7
Dutch Lady Milk Industries B.H.D.	MY	482	85.8	6.0	238.1	35.3	21.9	8.4	27.3
Ultrajaya Milk Industry & Trading Co.	ID	1,133	22.2	18.2	22.0	35.9	19.2	12.6	18.3
Megmilk Snow Brand Co. Ltd.,	JP	930	6.0	-9.2	-19.0	16.0	2.2	10.0	13.3
Mean		7,934	33.2	8.5	39.2	36.0	12.8	14.5	23.1
Median		1,031	20.4	5.5	10.8	36.3	14.0	13.9	23.1

Source: Bloomberg, as of Jun 23rd, 2022

VND Billion

INCOME STATEMENT	FY2020	FY2021	FY2022E	FY2023F
Revenue	59,636	60,919	65,136	69,669
COGS	31,968	34,641	38,589	40,732
Gross profit	27,669	26,278	26,547	28,938
Selling Expense	13,447	12,951	13,611	15,394
G&A Expense	1,958	1,567	1,641	1,756
Finance Income	1,581	1,215	1,362	1,441
Finance Expense	309	202	207	164
Other profits	-17	150	271	271
PBT	13,519	12,922	12,721	13,335
Prov. of Tax	2,283	2,290	2,285	2,395
Minority's Interest	137	100	159	244
PAT to Equity S/H	11,099	10,532	10,277	10,696
EBIT	12,263	11,760	11,295	11,788
EBITDA	14,472	13,882	12,815	13,360

%

FINANCIAL RATIO	FY2020	FY2021	FY2022E	FY2023F
Growth (%)				
Revenue	5.9	2.2	6.9	7.0
Operating Income	0.7	-4.1	-4.0	4.4
EBITDA	2.4	-4.1	-7.7	4.2
PAT	6.5	-5.4	-1.8	4.8
Total Assets	8.4	10.1	2.8	2.9
Equity	13.2	6.5	3.0	4.6
Profitability (%)				
Gross margin	46.4	43.1	40.8	41.5
EBITDA margin	24.3	22.8	19.7	19.2
EBIT margin	20.6	19.3	17.3	16.9
Net margin	18.8	17.5	15.8	15.4
ROA	24.1	20.9	19.4	19.6
ROE	35.5	30.6	31.1	31.4
Efficiency				(times)
Receivable Turnover	12.3	11.1	11.2	12.7
Inventory Turnover	6.5	5.9	5.7	6.4
Payable Turnover	4.3	5.1	5.4	4.4
Liquidity				(times)
Current	2.1	2.1	2.3	2.3
Quick	1.7	1.7	0.9	0.9
Finance Structure (%)				
Total Debt/Equity	42.2	47.6	51.4	48.9
Current Debt/Equity	42.2	47.6	46.1	45.1
Long-term Debt/Equity	1.7	1.2	2.8	1.3

VND Billion

BALANCE SHEET	FY2020	FY2021	FY2022E	FY2023F
Cash and cash equivalents	2,111	2,349	2,271	2,336
Short-term investments	17,314	21,026	22,383	21,962
Accounts receivable	5,187	5,822	5,488	5,733
Inventories	4,905	6,773	6,406	6,408
Other current assets	148	141	148	155
Property, plant & equipment	13,571	12,515	13,479	15,239
Acquired intangible assets	3,195	2,900	2,652	2,391
Long-term investments	973	744	744	744
Other non-current assets	758	769	769	769
Total assets	48,164	53,037	54,520	56,099
Accounts payable	6,337	7,179	9,276	9,054
Short-term borrowings	7,316	9,382	6,451	7,045
Long-term borrowings	167	76	938	479
Other non-current liabilities	405	338	338	338
Bonus and Welfare fund	559	507	507	507
Technology-science, dev. fund	-	-	-	-
Total liabilities	14,785	17,482	17,511	17,424
Common stock and APIC	20,900	20,934	20,934	20,934
Treasury stock (enter as -)	(12)	-	-	-
Retained earnings	6,910	7,594	7,770	8,280
Other comprehensive income	213	203	-	-
Inv. and Dev. Fund	3,286	4,352	5,380	6,450
Total equity	31,297	33,083	34,084	35,663
Minority Interest	2,350	2,767	2,962	3,011

VALUATION RATIO (*)	FY2020	FY2021	FY2022E	FY2023F
EPS (VND)	4,770	4,517	4,426	4,606
P/E (x)	17.5	18.5	18.9	18.1
BV (dong)	14,975	15,830	16,308	17,064
P/B (x)	5.6	5.3	5.1	4.9
DPS (dong/cp)	4,100	3,850	3,850	3,850
Dividend yield (%)	3.5	4.5	5.4	5.4

VALUATION MODEL	Price	Weight	Average
FCFF	89,500	50%	44,800
P/E	77,500	50%	38,700
Target price (VND)			83,500

VALUATION HISTORY	Price	Recommendation	Period
Oct 2021	100,000	ACCUMULATE	Long-term
Jun 2022	83,500	BUY	Long-term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2006, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT
Lam Nguyen
Head of Research

lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

- Market
- Industrial Park

Vu Tran
Senior Manager

vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)

- O&G
- Fertilizer

Tam Pham
Manager

tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)

- Bank
- Insurance

Tung Do
Manager

tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)

- Retails
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst

an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1541)

- Food & Beverage
- Automotive & Spare parts

Anh Tran
Senior Analyst

anh.tk@vdsc.com.vn
+ 84 28 6299 2006 (1544)

- Market
- Residential RE
- Construction

Loan Nguyen
Analyst

loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)

- Textile
- Fishery
- F&B

Thanh Nguyen
Analyst

thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)

- Bank
- Insurance
- Securities

Thao Nguyen
Analyst

thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)

- Utilities
- Sea ports
- Logistics

Ha Tran
Assistant

ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Bernard Lapointe
Senior Consultant

bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha My Tran
Senior Consultant

my.tth@vdsc.com.vn
+ 84 28 6299 2006

- Macroeconomics

Quan Cao
Analyst

quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)

- Technology

Trang Tran
Assistant

trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

This research report is copyrighted by Rong Viet Securities. All rights reserved. Therefore, copy, reproduction, republish or redistribution by any person or party for any purpose is strictly prohibited without the written permission of VDSC. Copyright 2022 Viet Dragon Securities Corporation.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC. Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES
Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at 575 Fifth Avenue, 27th Floor, New York, NY 10017. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered

or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries (“Tellimer”) provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer’s conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA’s protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority (“DFSA”). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.



HEAD OFFICE
141 Nguyen Du Street, Ben Thanh Ward,
District 1, Ho Chi Minh City

- T** +84 28 6299 2006
- F** +84 28 6299 7986
- E** info@vdsc.com.vn
- W** www.vdsc.com.vn

HANOI BRANCH
10th Floor, Eurowindow Building, 2 Ton That Tung,
Trung Tu Ward, Dong Da District, Hanoi

- T** +84 24 6288 2006
- F** +84 24 6288 2008
- E** info@vdsc.com.vn
- W** www.vdsc.com.vn

NHA TRANG BRANCH
7th Floor, 76 Quang Trung, Loc Tho Ward,
Nha Trang City, Khanh Hoa

- T** +84 258 3820 006
- F** +84 258 3820 008
- E** info@vdsc.com.vn
- W** www.vdsc.com.vn

CAN THO BRANCH
95-97-99 Vo Van Tan Street,
Ninh Kieu District, Can Tho City

- T** +84 292 381 7578
- F** +84 292 381 8387
- E** info@vdsc.com.vn
- W** www.vdsc.com.vn

Hanoi

Ho Chi Minh City

Nha Trang

Can Tho

Hoang Sa

Trung Sa