[Vietnam / Food & Beverage]

MOCCHAU DAIRY CATTLE BREEDING JSC. (MCM VN)

Cooling down strain

[Downgrade/ Target price maintained]

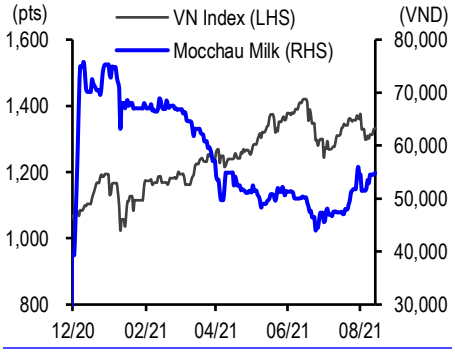
HOLD

Target Price (12 months)	**62,500**
Current Price (Aug 31st)	54,800
Upside (%)	14.1

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VNINDEX			1,331
HNXINDEX			343
Market cap (bn VND)			6,028
Outstanding shares (mn)			110
Free float (1mn)			110
52-week high/low			81,200/40,500
90-day avg. trading volume (shares)			48,764
90-day avg. turnover (mn VND)			2,459
Foreign ownership (%)			100
Major shareholders(%)		Vilico	32.5
		GTN Foods	26.8
Performance	3M	6M	12M
Absolute	11.8	(19.9)	-
Rel. to VNINDEX	12.3	(32.1)	-

Performance



Source: Bloomberg

Downgrade to HOLD, maintain target price at VND62,500

As Mocchau Milk's share price has bottomed out by +24.5% since end-June and maintaining TP at VND62,500, we downgrade to HOLD from BUY rating for Mocchau Dairy Cattle Breeding JSC., or Mocchau Milk (MCM VN). The increase of share price reflected the confirmation of capacity upgrading in mid-July, which will be completed within 2021 and support the two-digit earnings growth. However, there is not any stronger growth driver for Mocchau Milk beyond our forecast so far.

Although Mocchau Milk's 2Q21 business result is higher than our expectation, we conservatively keep our 2021F earnings unchanged in the "Fertile Highland" report, which is mainly attributable to: 1) earlier than expected implementation capacity expansion, one of our key growth drivers of Mocchau Milk, but the expected 2021 production capacity is unchanged; 2) the stable dairy consumption during Covid-19 in Vietnam; and 3) the surging sugar prices to set drive up costs across the food industry, including Mocchau Milk (sugar price increased by +56.1% YoY to USD19.84/lb by August 31st, as bad weather in Brazil, Thailand, and EU).

According to Kantar World report, during the four waves of the Covid-19 pandemic in Vietnam, dairy consumption is the most stable product category amongst food and beverage or packed food sectors due to the demand for healthy immunity boosting. Therefore, we believe that the positive 1H21 business result of Mocchau Milk is a strong base that encourages continuous growth in 2H2021, resulting in double-digit growth in whole year top-and-bottom lines as our forecast.

[2Q21 review] Cooling down strain

Mocchau Milk posted 2Q21 revenue of VND790bn (+7.6% YoY, +27.2% QoQ), which is +6.0% higher our forecast, thanks to: 1) the leverage of Vinamilk's distribution network; and 2) the increasing coverage of "Mocchau Milk" brand. By end-August, the number of Mocchau Milk stores has raised to 32 from 28 units by the end-June. Meanwhile, 2Q21 operating profit strongly improved to VND72bn (+25.9% YoY, +73.6% QoQ), in light of cost optimization via higher economies of scale and administrative cost efficiency. As a result, 2Q21 net profit was VND87bn (+47.4% YoY, +76.3% QoQ), which +23.3% above our forecast.

1H21 revenue showed a slight increase by +3.2% YoY to VND1.4tn due to the weak effect of 1Q21, but it is still +3.2% above our forecast. 1H21 operating profit margin posted a modest improvement to 8.1% from 7.4% in 1H20, which is +60bps above our forecast. Meanwhile, 1H21 net profit was at VND137bn (+28.7% YoY, and +13.7% above our forecast), leaving 1H21 net profit margin to 9.7% from 7.8% in 1H20, and +90 bps above our forecast.

Year to Dec.	2019	2020	2021F	2022F	2023F
Revenue (bn VND)	**2,558**	**2,823**	**3,132**	**3,530**	**4,020**
OP (bn VND)	12,182	12,263	12,847	13,322	14,757
NP (bn VND)	**167**	**281**	**312**	**350**	**378**
EPS (VND)	1,517	2,553	2,835	3,186	3,437
BPS (VND)	6,607	8,290	19,966	20,334	20,731
OPM (%)	5.5	9.3	8.7	8.7	9.1
NPM (%)	6.5	9.9	10.0	9.9	9.4
ROE (%)	**22.3**	**34.3**	**20.1**	**15.8**	**16.7**
PER (x)	36.1	21.5	19.3	17.2	15.9
PBR (x)	8.3	6.6	2.7	2.7	2.6
EV/EBITDA (x)	15.4	10.5	14.4	12.3	8.9

Source: Company data, Bloomberg, Shinhan Securities Vietnam

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Mocchau Milk 2Q21 earnings review

(Unit: bn VND, %, %pt)	2Q20	3Q20	4Q20	1Q21	2Q21P	Change YoY	Change QoQ	2Q21F (Shinhan)	Diff. (%)
Sales	734	775	681	621	790	7.6	27.2	745	6.0
Gross profit	218	268	225	174	253	16.5	45.3	211	20.0
Operating profit	58	99	62	42	72	25.9	73.6	60	20.2
Net profit (NP)	59	102	72	50	87	47.4	76.3	71	23.3
GPM	29.6	34.6	33.0	28.1	32.1	2.4	4.0	28.3	3.8
OPM	7.8	12.8	9.0	6.7	9.2	1.3	2.5	8.1	1.1
NPM	8.1	13.2	10.6	8.0	11.0	3.0	3.1	9.5	1.5

Source: Company data, Shinhan Securities Vietnam.

Mocchau Milk 1H21 earnings review

(Unit: bn VND, %, %pt)	1H20A	2H20A	1H21P	Change (YoY)	1H21 (Shinhan)	Diff. (%)
Revenue	1,367	1,412	1,411	3.2	1,367	3.2
Gross profit	395	493	428	8.3	385	11.0
Operating profit	101	161	114	12.7	102	11.9
Pretax profit	117	180	153	30.5	134	14.2
Net profit (NP)	106	175	137	28.7	120	13.7
Margin						
GPM	28.9	34.9	30.3	1.4	28.2	2.1
OPM	7.4	11.4	8.1	0.7	7.5	0.6
NPM	7.8	12.4	9.7	1.9	8.8	0.9

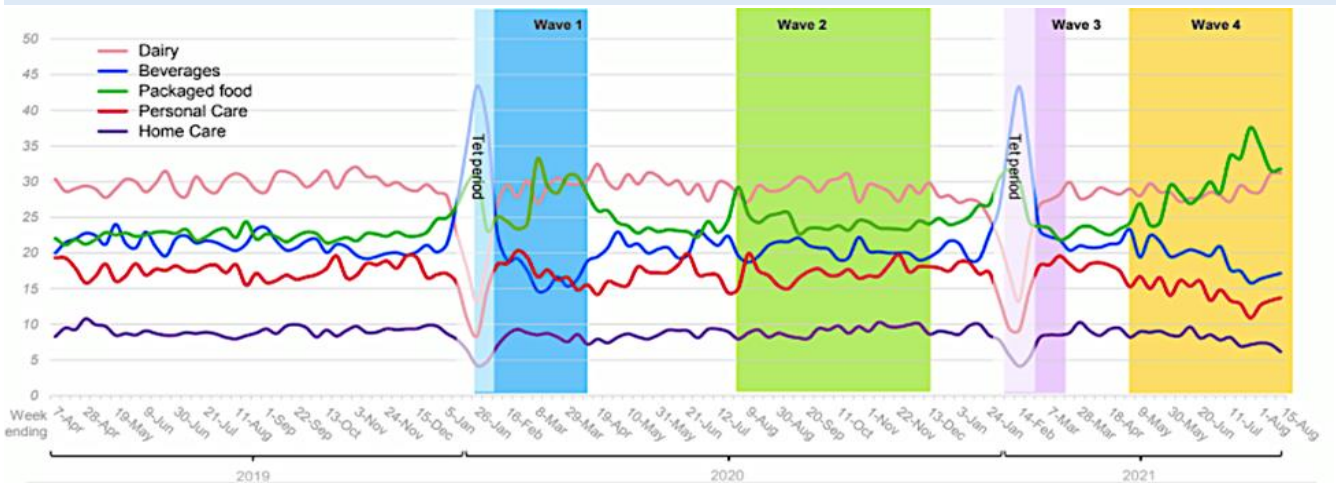
Source: Bloomberg, Shinhan Securities Vietnam

Mocchau Milk– Earnings trend and outlook

(Unit: bn VND)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021F	2022F
Revenue	633	734	775	681	621	790	877	844	777	953	953	844	2,823	3,132	3,530
Gross profit	178	218	268	225	174	253	286	255	228	280	321	291	888	968	1,120
Operating profit	44	58	99	62	42	72	96	64	63	67	106	70	262	274	307
Net profit	47	59	102	72	50	87	103	72	66	80	115	90	281	312	350
Growth (% YoY)															
Revenue	14.4	2.4	13.7	12.2	(1.8)	7.6	13.2	23.9	25.0	20.6	8.7	(0.0)	10.3	10.9	12.7
Gross profit	75.0	76.0	102.9	73.9	(1.8)	16.5	6.5	13.4	31.1	10.5	12.5	14.2	82.6	9.0	15.7
Operating profit	27.2	84.2	124.8	95.1	(4.7)	25.9	(3.5)	3.8	50.7	(6.8)	10.7	9.9	85.4	4.4	12.0
Net profit	34.6	46.2	112.9	66.2	5.1	47.4	0.5	0.3	33.8	(8.8)	11.4	25.3	68.2	11.1	12.4
Margin (%)															
GPM	28.1	29.6	34.6	33.0	28.1	32.1	32.6	30.2	29.4	29.4	33.7	34.5	31.5	30.9	31.7
OPM	6.9	7.8	12.8	9.0	6.7	9.2	10.9	7.6	8.1	7.1	11.1	8.3	9.3	8.7	8.7
NPM	7.4	8.1	13.2	10.6	8.0	11.0	11.7	8.6	8.5	8.3	12.0	10.7	9.9	10.0	9.9

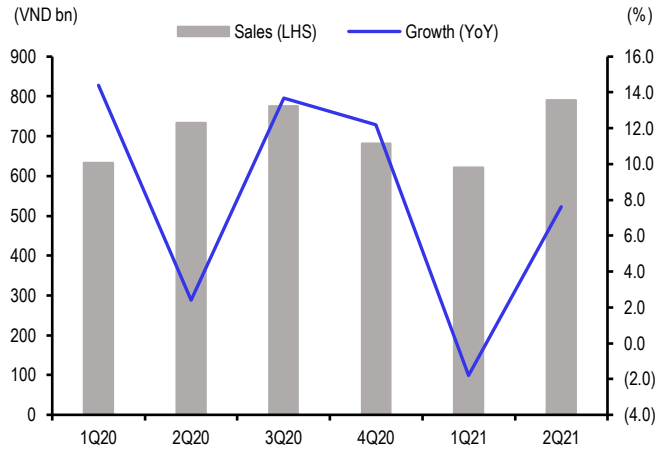
Source: Company Data, Shinhan Securities Vietnam

Dairy consumption is the most stable sector - Weekly FMCG spending during Covid-19 pandemic in Vietnam (Urban area)



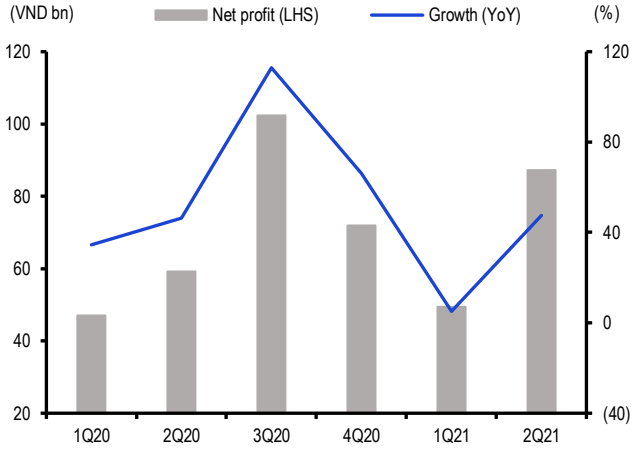
Source: Kantar World, Shinhan Securities Vietnam

Mocchau Milk's revenue and revenue growth



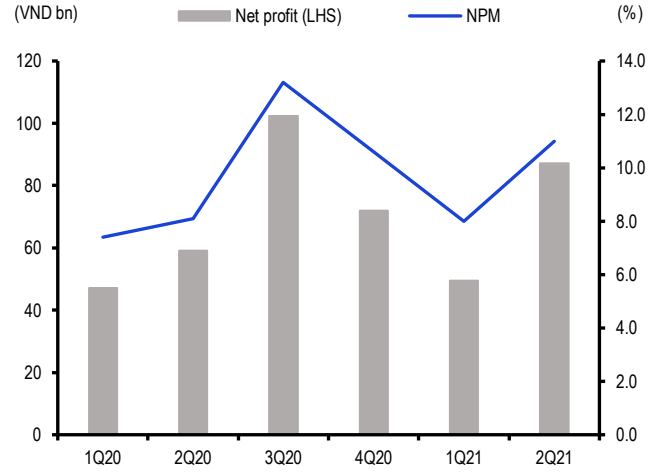
Source: Company Data, Shinhan Securities Vietnam

Mocchau Milk's net profit and net profit growth



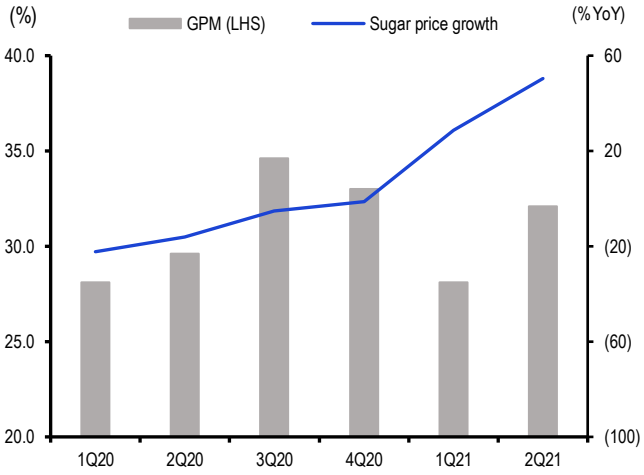
Source: Company Data, Shinhan Securities Vietnam

Net profit and net profit margin of Mocchau Milk



Source: Company Data, Shinhan Securities Vietnam

Mocchau Milk's gross profit margin and sugar price growth



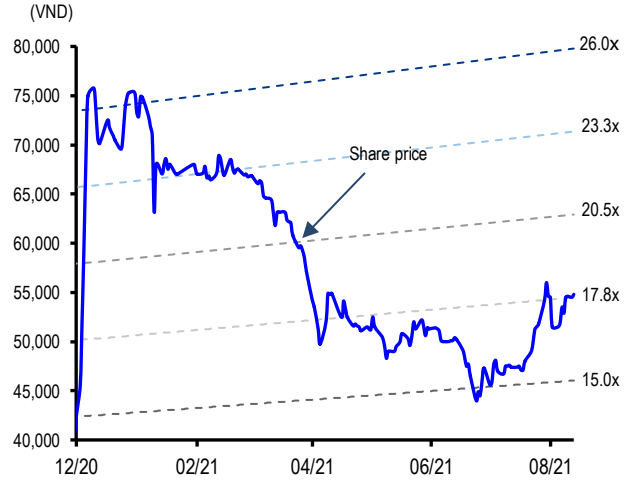
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Mocchau Milk PBR band chart



Source: Company Data, Shinhan Securities Vietnam

Mocchau Milk PER band chart



Source: Company Data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Total assets	**1,072**	**1,223**	**2,596**	**2,610**	**3,407**
Current assets	871	1,036	2,252	1,843	1,589
Cash & equivalents	74	21	211	253	366
Short-term financial asset	419	611	1,645	1,142	707
Accounts receivable	71	145	121	165	160
Inventories	294	204	254	257	321
Others	13	53	22	27	34
Non-current assets	201	187	344	767	1,818
Net fixed assets	194	151	339	761	1,813
Investment assets	-	29	-	-	-
Others	7	6	5	5	5
Total liabilities	**345**	**311**	**400**	**373**	**1,127**
Current liabilities	343	251	340	313	424
Accounts payable	304	217	308	277	385
Short-term borrowings	-	-	-	-	-
Others	38	33	32	36	39
Non-current liabilities	3	60	60	60	703
Long-term borrowings	-	-	-	-	643
Others	3	60	60	60	60
Total shareholders' equity	**727**	**912**	**2,196**	**2,237**	**2,280**
Capital stock	668	668	1,100	1,100	1,100
Capital surplus	-	-	817	817	817
Retained earnings	42	199	203	208	214
Other capital	17	45	76	111	149
Non-controlling interest equity	-	-	-	-	-
*Total debt	-	-	-	-	643
*Net debt (cash)	(74)	(21)	(211)	(253)	277

Statement of comprehensive income

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Revenue	**2,558**	**2,823**	**3,132**	**3,530**	**4,020**
Growth (%)	3.1	10.4	10.9	12.7	13.9
COGS	**2,072**	**1,935**	**2,164**	**2,410**	**2,727**
Gross profit	**486**	**888**	**968**	**1,120**	**1,293**
GPM (%)	19.0	31.5	30.9	31.7	32.2
Selling expenses	321.8	596.6	661.9	776.6	884.4
Administrative expenses	23.3	29.5	32.7	36.9	42.0
Operating profit	**141**	**262**	**274**	**307**	**367**
Growth (%)	(13.0)	86.0	4.4	12.0	19.6
OPM (%)	5.5	9.3	8.7	8.7	9.1
Non-operating profit	42	30	84	96	66
Financial income	48	41	95	108	81
Financial expense	0	0	0	1	0
In which: interest expenses	0	-	-	-	-
Net other non-operating profit	(3)	(6)	(5)	(6)	(7)
Pre-tax profit	**186**	**298**	**363**	**408**	**440**
Income tax	-	17	51	57	62
Net profit	**167**	**281**	**312**	**350**	**378**
Growth (%)	(7.2)	68.3	11.1	12.4	7.9
NPM (%)	6.5	9.9	10.0	9.9	9.4
Controlling interest	167	281	312	350	378
Non-controlling interest	-	-	-	-	-
EBIT	**141**	**262**	**274**	**307**	**367**
Growth (%)	(12.9)	85.8	4.4	12.0	19.6
EBIT Margin (%)	5.5	9.3	8.7	8.7	9.1
EBITDA	**193**	**314**	**331**	**388**	**603**
Growth (%)	(14.2)	62.8	5.4	17.3	55.3
EBITDA margin (%)	7.5	11.1	10.6	11.0	15.0

Statement of cash flow

Year to Dec.(bn VND)	2019	2020	2021F	2022F	2023F
Cash flow from operations	**214**	**299**	**301**	**169**	**493**
Net profit	167	281	312	350	378
Depreciation expense	63	52	57	81	236
Amortization expense	-	-	-	-	-
Interest expenses	0	-	-	-	-
Change in working capital	35	24	66	(78)	48
Others	(51)	(58)	(134)	(185)	(169)
Cash flow from investments	**16**	**(208)**	**(1,248)**	**0**	**(852)**
Increase in tangible assets	(32)	(20)	(216)	(503)	(1,286)
Decrease in tangible assets	2	3	-	-	-
Change in intangible assets					
Change in investment assets	45	(192)	(1,034)	503	435
Others	-	-	1	-	-
Free cash flow	**182**	**279**	**86**	**(334)**	**(793)**
Cash flow from financing	**(190)**	**(167)**	**1,040**	**(234)**	**391**
Change in equity	-	-	1,249	-	-
Change in short-term debt	-	-	-	-	-
Change in long-term debt	-	-	-	-	643
Dividends	(190)	(167)	(244)	(274)	(296)
Other	0	0	35	40	44
Change in total cash	**39**	**(77)**	**94**	**(65)**	**33**
Beginning cash	23	74	23	211	253
Change in FX rates	-	-	-	-	-
Ending cash	94	23	211	253	366

Source: Company data, Shinhan Securities Vietnam

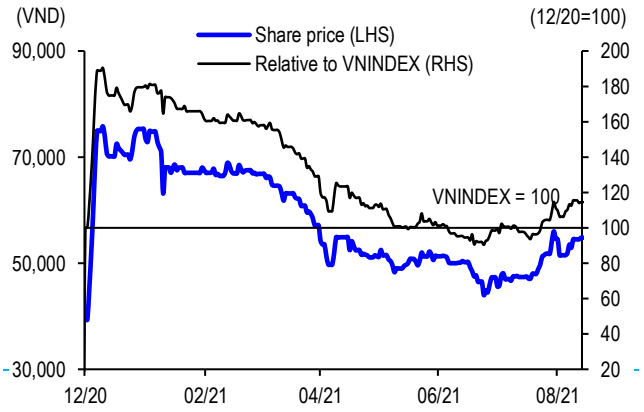
Key ratios

Year to Dec.	2019	2020	2021F	2022F	2023F
EPS (VND)	1,517	2,553	2,835	3,186	3,437
BPS (VND)	6,607	8,290	19,966	20,334	20,731
DPS (VND)	3,438	1,000	3,651	2,492	2,688
PER (x)	36.1	21.5	19.3	17.2	15.9
PBR (x)	8.3	6.6	2.7	2.7	2.6
EV/EBITDA (x)	15.4	10.5	14.4	12.3	8.9
Dividend payout ratio (%)	117.1	23.8	78.2	78.2	78.2
Dividend yield (%)	6.9	2.0	7.3	5.0	5.4
Profitability					
EBITDA margin (%)	7.5	11.1	10.6	11.0	15.0
OPM (%)	5.5	9.3	8.7	8.7	9.1
NPM (%)	6.5	9.9	10.0	9.9	9.4
ROA (%)	15.1	24.5	16.3	13.5	12.6
ROE (%)	22.3	34.3	20.1	15.8	16.7
Stability					
Debt to equity ratio (%)	-	-	-	-	28.2
Net debt ratio (%)	-	-	-	-	1.1
Cash ratio (%)	13.7	16.0	39.4	71.1	84.1
Interest coverage ratio (x)	871	-	-	-	-
Activity					
Working capital turnover (x)	4.7	4.3	2.3	2.1	3.0
Inventory turnover (days)	55.4	47.0	38.6	38.6	38.6
Receivable turnover (days)	10.3	14.0	15.5	14.8	14.8
Payable turnover (days)	54.1	49.2	44.3	44.3	44.3

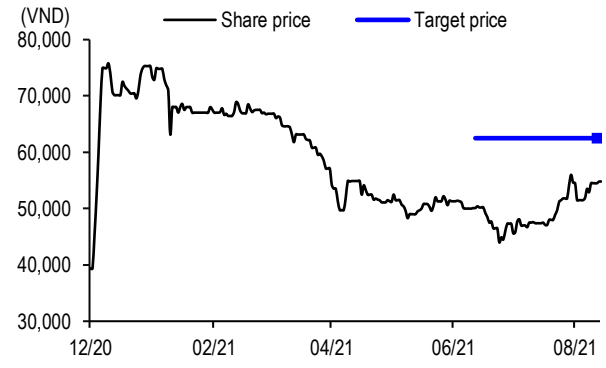
Source: Company data, Shinhan Securities Vietnam

Mocchau Milk JSC (MCM VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%)	
			Average	Max/Min
Aug 31, 2021	HOLD	62,500	-	-
Jun 30, 2021 (Initiate)	BUY	62,500	-	-

Note: Calculation of target price gap based on past 6 months

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- **Trading BUY:** Expected 12-month gain of 15% to 20%
- **HOLD:** Expected 12-month gain of 15% to loss of -15%
- **SELL:** Expected 12-month loss of -15% or more

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