April 25th, 2024

Shinhan Securities



Viet Nam Dairy Products JSC

[Vietnam / Food and beverages]

Bloomberg Ticker (VNM VN) | Reuters Ticker (VNM.HM)

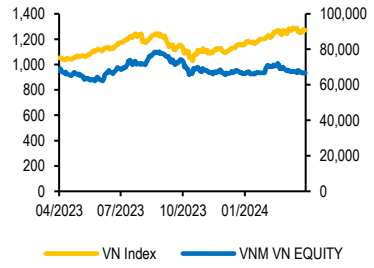
BUY

Initiation Coverage

Target price (12 months)	**VND 84,400**
Current price (25/04/24)	VND 64,700
Upside/downside	30.4%

VNINDEX		1,205
P/E market (22F, x)		11.1
Market Cap (bn VND)		135,220
Outstanding shares (mn)		2,090
Free-Floating (mn)		737
52-Wk High/Low (VND)		81,200/63,000
90-day avg. trading volume (mn)		3.64
90-day avg. turnover (bn VND)		292
Foreign ownership (%)		50.98
Major shareholders (%)	State Capital Investment Corporation (SCIC)	36.0
	F&N Dairy Investments Private Limited	17.69

Performance	3T	6T	12T
Absolute (%)	-3.3	-6.2	-7.4
Relative to VN-Index (%)	-6.2	-15.6	-23.9



Source: Bloomberg

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Strong fundamentals

Initiate coverage with BUY call and target price at VND 84,400

Vietnam Dairy Products Joint Stock Company (Vinamilk, HOSE: VNM) is the leading dairy company in Vietnam and the 6th largest brand in the world. With over 47 years of operation, Vinamilk owns the largest dairy herd and distribution system in the country. In addition, the company is also continuously expanding its market to major countries such as China and the Middle East. From a long-term view, VNM is an investment that can be considered for the following reasons: (1) Vinamilk is expected to benefit from the domestic milk shortage and the overall growth of the industry; (2) its gross margin is expected to improve due to lower raw material prices; (3) Strong financial position and high dividend payout ratio. Based on FCFF and PE methods, we recommend buy VNM with a target price of VND 84,400.

Vinamilk is expected to benefit from the domestic milk shortage and the overall growth of the industry

We expect the Vietnamese dairy industry to continue to have room for growth with a CAGR of 4.1% over the next 5 years. In particular, Statistic forecasts that per capita milk consumption will increase from 19.9kg/person to 22.5kg/person by 2026. However, this level of consumption is still lower than that of other countries in the region such as Thailand (31kg/person) and China (42kg/person). Therefore, improving health awareness and income are expected to contribute to driving domestic milk consumption demand. In addition, domestic milk production only meets 40-50% of consumption. We expect Vinamilk, with its advantages of the largest herd of cows and distribution system in the country, will continue to benefit from the shortage and growth of the industry.

VNM's gross margin is expected to improve due to lower raw material prices

Vinamilk's gross profit margin is affected by the price of imported raw milk. We expect lower raw material prices to help improve gross profit margin in 2024 to 41.7% from 40.7% in 2023. Raw material prices are supported by (1) stable export supply from major countries, (2) while raw material demand from the largest importing country, China, is declining, and (3) feed prices are forecast to decline.

Strong financial position and high dividend payout ratio

VNM's debt/equity ratio is at 0.24x, only half that of the average F&B company. In addition, Vinamilk has also been able to maintain a high and stable dividend payout ratio in recent years, with an average dividend payout ratio of 81% of profit attributable for parent's shareholder and an FCFE/dividend coverage ratio of >1. We expect the company to continue to maintain a high dividend payout ratio due to (1) the continued stability of its business operations and (2) its strong financial position.

Risks: (1) Geographical constraints in expanding farms and increasing milk productivity; (2) Risk of dependence on imported raw materials; (3) Risk of declining birth rates and restrictions on advertising to children under 2 years old.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**59,636**	**60,919**	**59,956**	**60,369**	**62,167**
OP (bn VND)	12,263	11,760	9,753	9,771	10,094
NP (bn VND)	**11,235**	**10,633**	**8,577**	**9,018**	**9,420**
EPS (VND)	4,770	4,517	3,632	3,796	3,970
BPS (VND)	14,975	15,829	14,282	15,166	15,657
OPM	20.6	19.3	16.3	16.2	16.2
NPM	18.8	17.5	14.3	14.9	15.2
ROE	**33.4**	**29.7**	**26.1**	**25.7**	**26.1**
PER (x)	22.8	19.1	19.1	21.0	21.3
PBR (x)	7.3	5.5	5.5	5.3	5.4

Source: Company data, Shinhan Securities Vietnam

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Contents

3 **Company background**

6 **Investment Theses & Catalysts**

9 **Earnings estimates**

10 **Valuation and Recommendation**

14 **Risks**

16 **Appendix: Financial statements**

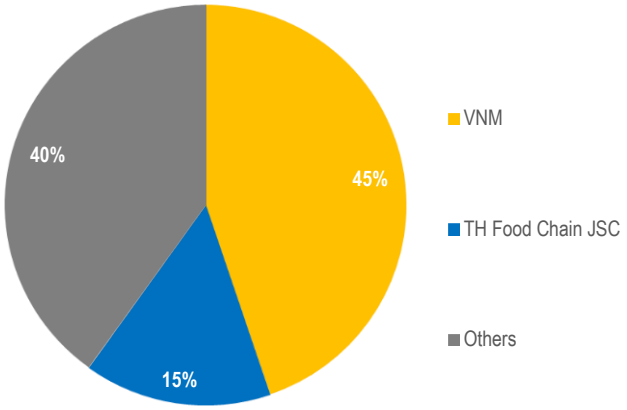
Company background

1. History of development

Vietnam Dairy Products Joint Stock Company (Vinamilk, HOSE: VNM) was established in 1976 based on the takeover of 3 dairy factories from the previous period. By 1998, VNM successfully exported 300 tons of powdered milk and 2,000 tons of full cream milk to Iraq, paving the way for exports to the Middle East market and many other countries around the world. After 3 years of equitization, VNM was officially listed on the stock exchange in 2006 and gradually became the largest food and beverage company on HOSE. With over 47 years of establishment, Vinamilk is currently the leading dairy brand in Vietnam and the 6th largest dairy brand in the world.

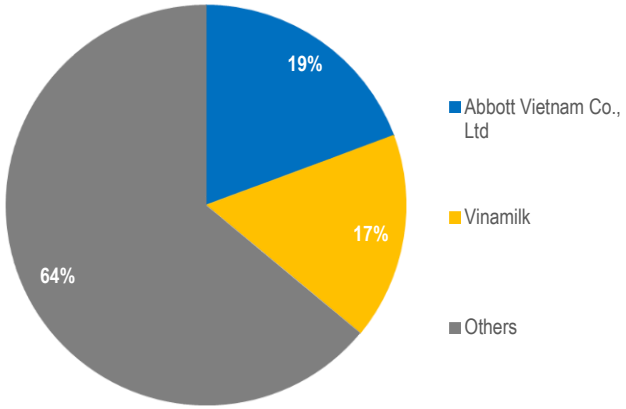
The success of the brand is reinforced by the company's continuous innovation. The company continuously launches and improves products from popular to high-end. Currently, Vinamilk is providing the market with 250 types of products with 4 main product categories including liquid milk (1), yogurt, condensed milk and formula (2). In which, 4 product categories (lliquid milk, infant milk, yogurt and condensed milk) accounts for more than 90% of milk product consumption by Vietnamese people (Euromonitor, 2023). In terms of product categories, Vinamilk holds the leading market share in the fresh milk, yogurt and condensed milk segments, and ranks second in the infant formula segment.

Vinamilk maintains its leading position in the liquid milk industry



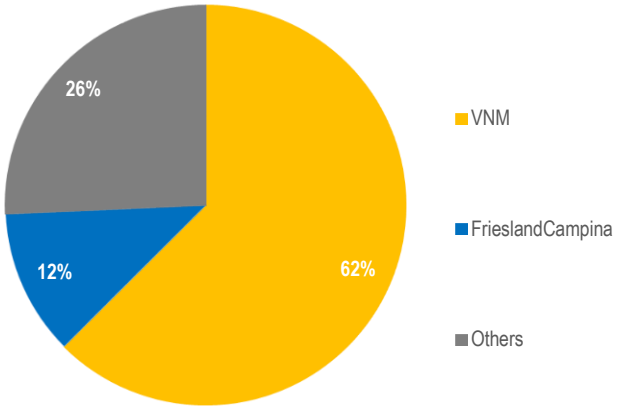
Source: Euromonitor, Shinhan Securities Vietnam

Vinamilk holds the number two position in the infant milk industry



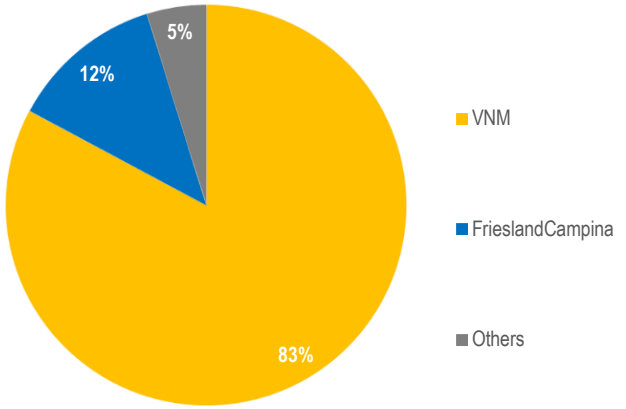
Source: Euromonitor, Shinhan Securities Vietnam

Vinamilk maintains its leading position in the yogurt industry



Source: Euromonitor, Shinhan Securities Vietnam

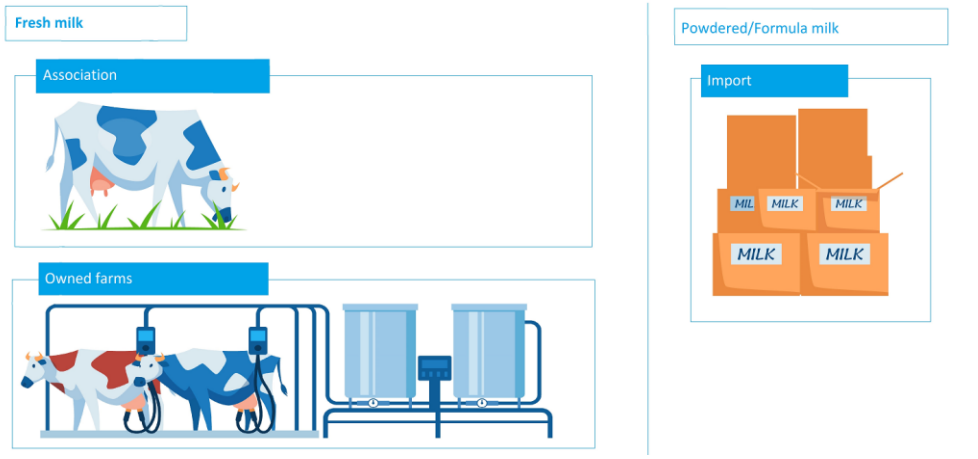
Vinamilk maintains its leading position in the condensed milk industry



Source: Euromonitor, Shinhan Securities Vietnam

2. Farms and raw materials

VNM's raw materials primarily consist of imported fresh milk and powdered milk



Source: VNM – Company presentation (2023), Shinhan Securities Vietnam

To produce fresh milk products, the company collects fresh milk from its own 15 farms and nearly 5,000 affiliated households. VNM is currently exploiting the largest dairy herd in the country with approximately 139,500 cows, supplying about 35% of the total fresh milk volume in the country.

Vinamilk operates the largest dairy cow herd in the country (31/12/2023)

Farms	Herd (cows)	% cows	Milk production (ton/year)	% milk	Productivity (kg/cows/year)
VNM and MCM management	38,000	27%	168,000	40%	4,421
Associating with farmers	101,500	73%	240,000	60%	2,365
Total	**139,500**	**100%**	**408,000**	**100%**	

Source: BCTN (2023), Shinhan Securities Vietnam

Overall, the milk cow productivity of Vinamilk's high-yield farms is nearly double that of affiliated farmers and the national average. High productivity at Vinamilk's farms is mainly due to (1) increased imports of dairy cows from countries with high milk yields such as New Zealand and (2) dairy cows being cared for under a special regimen using advanced technology and animal welfare factors.

On the other hand, domestic milk production currently only meets 40-50% of domestic milk demand (Research and Markets, 2021). Therefore, to meet domestic milk demand and **produce milk powder and nutritional milk products**, VNM imports additional raw materials including whole milk powder (WMP), skim milk powder (SMP)(1) and fat powder from countries such as the US, Europe and New Zealand. This makes VNM's gross profit margin affected by the price of imported raw materials.

However, we expect the plan to expand and open new farms in the coming years to help (1) reduce VNM's dependence on imported raw materials and (2) reduce raw material costs as milk yield per cow increases.

(1) Currently, over 50% of milk product transactions worldwide are WMP and SMP powder due to their greater convenience in transportation and storage compared to liquid milk (which has a water content of about 85%).

Key Vinamilk projects planned for deployment in the next 5 years

Projects	Scale	Investment capital	Operation year
The Complex of Moc Chau Milk Paradise	4,000 heads	VND3,150 billion	2024
Lao-Jagro dairy farm complex	Phase 1 including 24,000 heads	N/A	8,000 heads were harvested in 2022
The Complex of Breeding and Beef Processing Vinabeef Tam Dao – Phase 1	10,000 tons of products per year	~VND3,000 billion	Commencing operations in 2024

Source: Annual report(2023), Shinhan Securities Vietnam

The Vinabeef Tam Dao beef cattle breeding and processing project is a joint venture between (1) Vinamilk's high-quality beef cattle source, (2) Vilico's potential land fund, and (3) Sojitz Corporation of Japan's beef processing expertise in Tam Dao. The project consists of two main components: cattle breeding and a chilled beef processing plant with a capacity of 30,000 beef cattle per year (~10,000 products per year) with a total cooperation scale of USD 500 million. We believe that this cooperation opens up a new direction for Vinamilk, contributing to supporting the company's revenue in the next 5 years. If operating at full capacity, we estimate revenue of around VND 2,000-3,000 billion (accounting for about 3-5% of current revenue). However, due to insufficient information, we are cautious not to reflect the project's projected revenue in the company's revenue. We will provide updates when more information is available.

4. Distribution system

Vinamilk's distribution system is superior to that of its competitors

Distribution system	Vinamilk	Friesland Campina	TH True Milk
Selling points	251,000	>150,000	>180,000
Stores	430	N/A	>250
Distributors	200	>150	>180

Source: YCP Solidiance (2020), Shinhan Securities Vietnam

In addition to the raw material region, the distribution system also plays an important role in the market share battle. According to Euromonitor, about 97% of milk and dairy products are distributed through traditional retail channels such as grocery stores, supermarkets, etc., and only about 3% of products are sold through e-commerce. Therefore, owning a superior distribution system compared to competitors helps to increase the coverage of Vinamilk's products, thereby strengthening its market share.

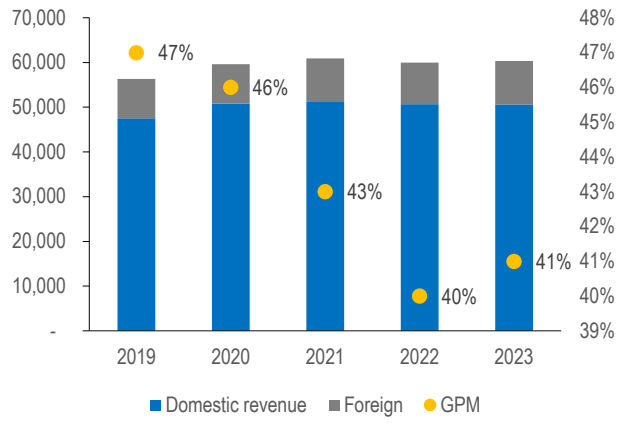
5. Revenue and operating costs

Vinamilk's revenue has grown by about 7.2% over the past 5 years, with about 84% coming from domestic sales and about 16% from foreign sales (exports and revenue from overseas branches). Of which, export revenue is mainly infant formula orders in the Middle East market, condensed milk in the Chinese market and condensed milk, yogurt, fresh milk products in the Asian market. In addition, the revenue of overseas branches including Driftwood - USA, Angkormilk - Cambodia and Del Monte - Vinamilk Joint Venture - Philippines also accounts for nearly 50% of total foreign revenue. In general, domestic revenue is stable while foreign revenue mainly comes from the company's large and long-standing markets and partners.

Raw material costs are the highest proportion of Vinamilk's operating cost structure (55%), followed by selling expenses (26%). Vinamilk often locks in raw materials for 3-6 months in advance, however, the peak raw material prices in 2022 also caused the company's gross profit margin (GPM) to decrease slightly.

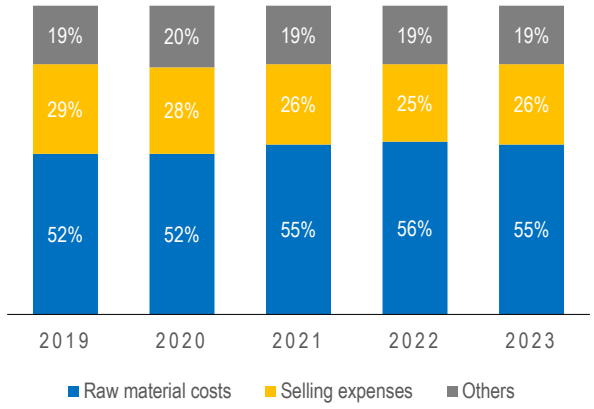
Selling expenses always account for a high proportion of operating costs. This shows the level of competition in the dairy industry in Vietnam when businesses have to increase selling expenses to increase brand awareness and maintain market share.

Revenue (billion VND) and GPM (%) of Vinamilk



Source: Company data, Shinhan Securities Vietnam

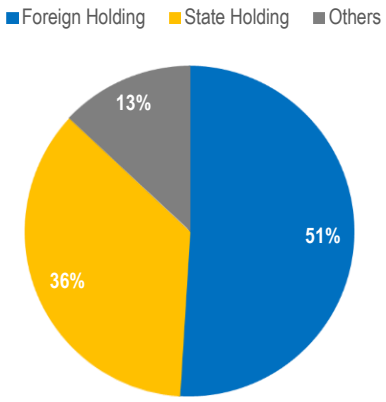
Operating costs (2) of Vinamilk



Source: Company data, Shinhan Securities Vietnam

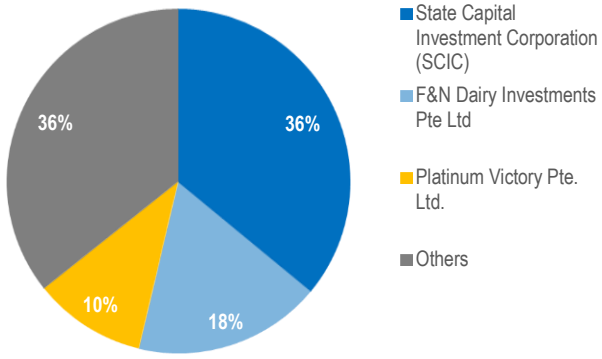
6. Ownership structure

Ownership structure at 15/4/2024



Source: Company data, Shinhan Securities Vietnam

Ownership ratio by company at 15/4/2024



Source: Company data, Shinhan Securities Vietnam

From an ownership structure perspective, foreign organizations and individuals hold a 51% stake in VNM, demonstrating the company's attractiveness and transparency to international investors. Currently, the State Capital Investment Corporation (SCIC) is the largest shareholder (36%), followed by F&N Dairy Investments Pte Ltd (Thai Beverage Group) and other domestic and foreign investment funds.

Investment theses & Catalyts

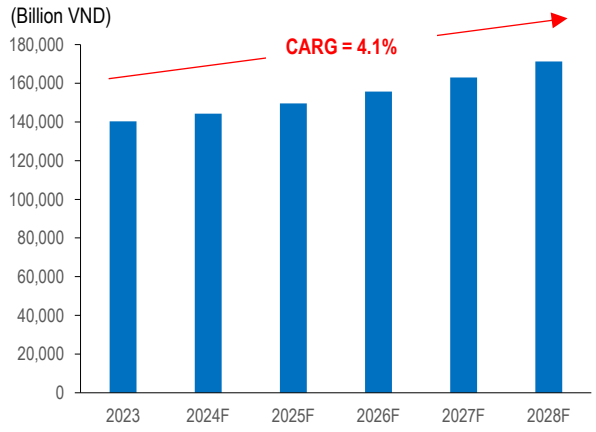
1. Vinamilk expects to benefit from the domestic milk shortage and the overall growth of the industry.

According to Euromonitor, **the demand for milk and dairy products is forecast to grow at a CAGR of 4.1% over the next 5 years.** We expect the Vietnamese dairy industry to achieve this growth rate due to (1) increasing health awareness among the population and (2) projected improvements in consumer income driving increased spending on healthy foods. Specifically, the level of milk consumption in Vietnam has increased by an average of 5%/year from 16 kg/person in 2019 to 19.9 kg/person in 2023, and is expected to reach 22.5 kg/person by 2026.

(2) Operating expenses include cost of goods sold, selling expenses, and general and administrative expenses.

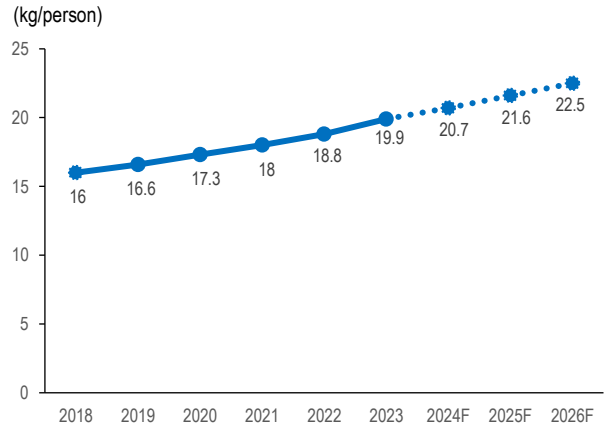
However, **the per capita consumption level in Vietnam is still lower than the regional average**. Specifically, the average per capita milk consumption in Vietnam (19.9 kg/person) is lower than that of the region such as Thailand (about 31 kg/person) and China (about 42 kg/person). Therefore, we expect that with increasing health awareness and income, Vietnamese people will increase milk consumption and narrow the gap with the region.

Dairy industry is forecast to grow at a CAGR of 4.1% from 2023 to 2028



Source: Euromonitor, Shinhan Securities Vietnam

Milk consumption in Vietnam is forecast to continue increasing.

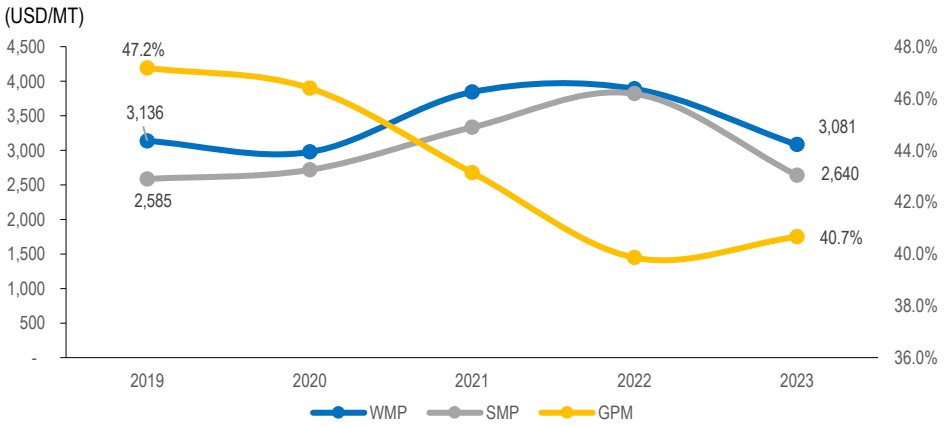


Source: Statistic (2024), Shinhan Securities Vietnam

Meanwhile, **domestic fresh milk production can only meet 40-50% of consumption demand, the rest depends on imports** (Research and Markets, 2021). It is projected that by 2045, milk production will only be able to meet 60% of domestic demand (InvestVietnam, 2016). It can be seen that this long-term shortage creates opportunities for milk producers and distributors. Therefore, we expect VNM, with the advantage of owning the largest farms, herds, factories and distribution system in Vietnam, to continue to benefit from this shortage.

2. Vinamilk's gross margin is expected to improve due to cooling commodity prices

The price of milk powder has an inverse relationship with gross profit margin



Source: Bloomberg, Shinhan Securities Vietnam

Vinamilk's gross profit margin is significantly impacted by the price of imported milk powder as the company annually imports these raw materials to produce powdered milk and nutritional milk. We expect the **price of imported input materials to cool down in 2024, contributing to an improvement in Vinamilk's gross profit margin**. Specifically:

- Regarding supply, according to the United States Department of Agriculture (USDA), the export of raw milk production is stable to slightly increasing.

SMP exports from major countries are forecast to remain stable

Major exporters	2024F (1,000 ton)	Change (%YoY)
US	838	+3%
Europe	810	-1%
New Zealand	440	-5%
Belarus	125	+2%
Australia	125	0%
Total	**2,338**	**0%**

Source: USDA (2023), Shinhan Securities Vietnam

WMP exports from major countries are forecast to increase slightly

Major exporters	2024F (1,000 ton)	Change (%YoY)
New Zealand	1,325	-2%
Europe	250	-4%
Argentina	165	+57%
Australia	40	-11%
Total	**1,780**	**+1%**

Source: USDA (2023), Shinhan Securities Vietnam

- Meantime, the import demand for milk of the top importing country, China, is forecasted to cool down due to (1) a surplus of raw fresh milk in the country and (2) a decrease in the demand for whole milk powder (WMP) for infant formula production as the birth rate continues to decline. Specifically, USDA forecasts WMP imports into A to decline 3% in 2024 to 425,000 metric tons.
- In addition, feed prices are expected to decline compared to the 2022/2023 crop year. This, along with supply and demand factors, contributes to the expectation of lower raw milk prices this year

Feed prices are expected to decrease compared to the 2022/2023 crop year

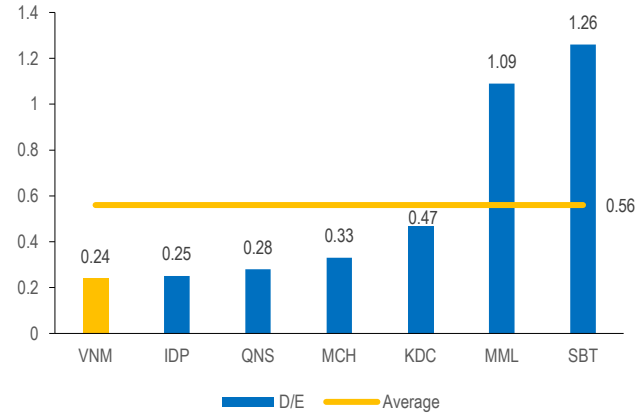
Feed	2022/2023	2023/2024	Change (USD)
Corn (USD/bushel[3])	6.54	4.80	**-1.74**
Soybean (USD/short ton[4])	451.91	350.00	**-101.91**

Source: USDA, Shinhan Securities Vietnam

3. Strong financial capacity, high dividend payout ratio

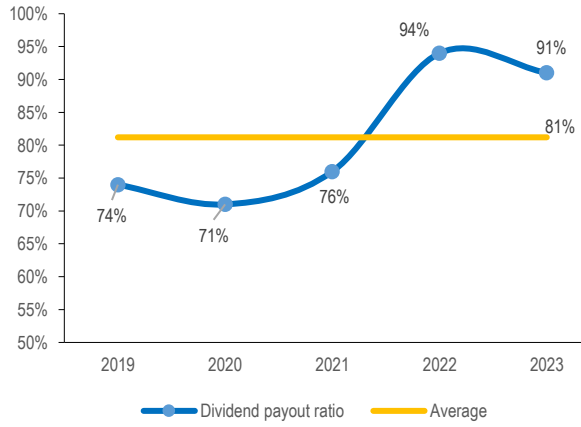
VNM is a leading company in the food and beverage (F&B) industry with a low net debt/equity ratio. Specifically, this ratio for VNM is 0.24x, only half that of the average for large companies in the F&B industry. Low debt levels help the company to be less affected by interest rate risk than other large companies.

VNM's net debt-to-equity ratio is lower than the industry average



Source: Fiinpro, Shinhan Securities Vietnam

Dividend payout ratio to NPAT consistently remains high

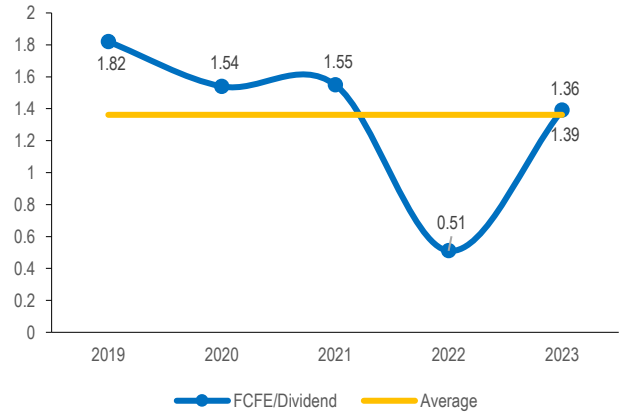


Nguồn: Fiinpro, Shinhan Securities Vietnam

(3) Bushel: ~36 litres
(4) Short ton: ~907 kilograms

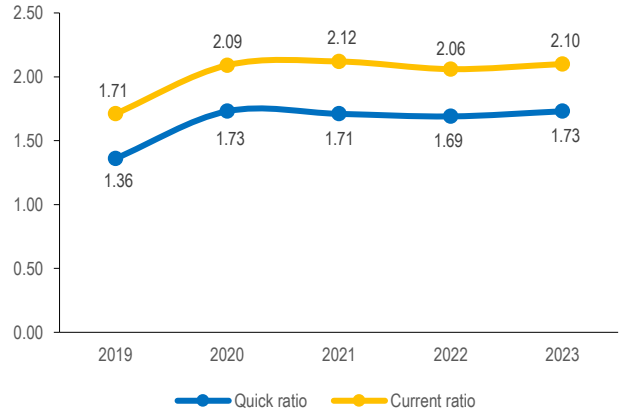
VNM has a consistently high dividend payout ratio (an average of 81% of profit attributable for parent's shareholder over the past 5 years) and an average free cash flow to equity (FCFE) to dividend ratio of over 1. This indicates that the company has the ability to maintain high and stable dividends. **We expect the company to continue to maintain a high dividend payout ratio** due to (1) the continuation of a stable business situation and (2) the company's strong financial position to support investment projects (dairy farm expansion and beef projects).

Average FCFE-to-dividend payout ratio above 1



Source: Fiinpro, Shinhan Securities Vietnam

Liquidity ratio consistently remains high and stable over the years.

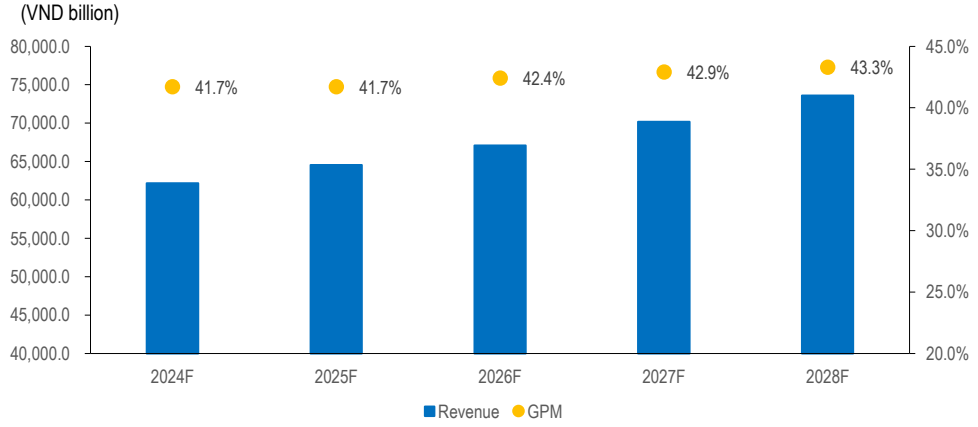


Source: Fiinpro, Shinhan Securities Vietnam

Earning estimates

Based on the aforementioned arguments, we expect Vinamilk's revenue in 2024 to increase by 3% YoY to VND 62,167 billion with a gross profit margin of 41.7% (up 1% from 40.7%), equivalent to VND 25,924 billion in 2024. For the period 2025F-2028F, we forecast revenue growth of 3.8 – 4.9% per year and a gross profit margin maintained at 42-43% due to (1) the expansion of crop cultivation (feed) is expected to improve input costs in the dairy industry, (2) the operation of farms will help reduce dependence on imported raw milk, and also contribute to reducing input costs.

Forecasted volume and average selling price of beer segment



Source: Company data, Shinhan Securities Vietnam

Forecasted revenue and net profit of VNM (2024F-2028F)					
(Unit: VND billion)	2024F	2025F	2026F	2027F	2028F
Net Revenue	62,167	64,548	67,111	70,176	73,619
Gross profit	25,924	27,239	28,522	30,246	32,098
Operating profit	10,094	10,987	11,049	11,783	12,522
Net profit	9,420	10,105	10,421	11,152	11,898
Profit margin (%)					
Gross profit margin	41.7	42.2	42.5	43.1	43.6
Operating profit margin	16.2	17.0	16.5	16.8	17.0
Net profit margin	15.2	15.7	15.5	15.9	16.2
Growth (%YoY)					
Net Revenue	3.0	3.8	4.0	4.6	4.9
Operating profit	3.3	7.3	3.1	7.0	6.7
Net profit	4.5	5.9	5.4	7.3	7.1

Source: Company data, Shinhan Securities Vietnam

Recommendation and Valuation

Recommended BUY with target price VND 84,400

We offer an initial valuation for Viet Nam Dairy Products JSC with a buy recommendation and a target price of VND 84,400 equivalent to a 30.4% upside compared to the current market price. From a long-term view, VNM is an investment that can be considered for the following reasons:

1) Vinamilk expects to benefit from the domestic milk shortage and the overall growth of the industry;
2) Vinamilk's gross margin is expected to improve due to cooling commodity prices;
3) Strong financial capacity, high dividend payout ratio.

Valuation method

We apply a combination of P/E and Discounted Cash Flow (DCF) valuation methods with the weights of 50% and 50%, respectively to value VNM. Based on the P/E method, we collect data from businesses in the same industry with VNM operating in the country and in the Asia-Pacific region. The average P/E of businesses in the statistics (except VNM) is at 22.3x. Combined with our forward EPS of VND 3,970 we expect a 12-month VNM price target of VND 88,531.

Peer valuation					
Ticker	PE	Mkt Cap (USD mil)	EPS Growth (%)	ROA (%)	ROE (%)
SAP CN EQUITY	25.5	12,635.4	125.76	2.3	4.8
FNH MK EQUITY	26.3	3,124.0	40.19	9.8	15.0
GLB ID EQUITY	20.0	3,410.7	70.36	8.7	16.7
2269 JT Equity	16.7	10,174.2	(18.52)	5.5	9.2
EMMN SW Equity	22.8	4,663.9	2.05	7.0	15.1
Mean	22.3				
EPS forward	3,970				
Target price	**88,531**				

Source: Bloomberg, Shinhan Securities Company

For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield at 2.9% as the risk-free rate. Beta is calculated based on the last 5 years' historical data of VNM and VNINDEX. Based on those assumptions, VNM's FCFF target price is valued at VND 80,270.

Weighted Average Cost of Capital (WACC)

WACC (%)	**10.1**
Risk-free rate (%)	2.9
Equity risk premium (%)	9.0
Beta	0.89
Debt cost (%)	3.0
The cost of equity(%)	10.9
Debt-to-equity ratio	0.06
Total debt (Billion VND)	8,456

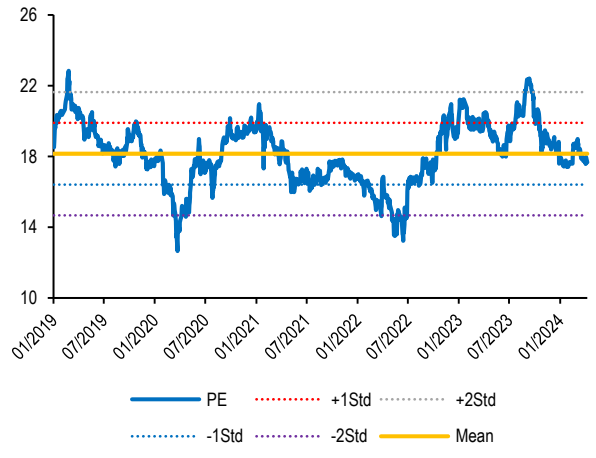
Source: Company data, Shinhan Securities Vietnam

FCF valuation

Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit	9,420	9,973	10,513	11,281	12,078
Plus: After-tax interest expense	116	130	114	111	108
Plus: Depreciation & Amortization	1,969	2,062	2,178	2,226	2,352
Minus: Change in working capital	-247	-523	169	834	-767
Minus: CapEx	1,486	1,651	1,665	1,621	1,666
Free Cash Flow (FCF)	**10,266**	**11,037**	**10,971**	**11,163**	**13,639**
PV of FCF	46,953				
Growth rate	1.5%				
Present value of long-term value	109,547				
Enterprise value	156,500				
Debt	8,456				
Cash and cash equivalents	23,049				
Minority interest	3,329				
Number of shares outstanding (billion units)	2.09				
Target price (VND)	**80,270**				

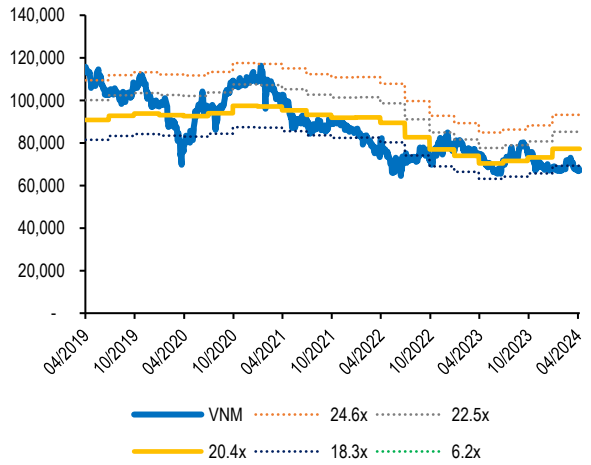
Source: Company data, Shinhan Securities Vietnam

PER of VNM



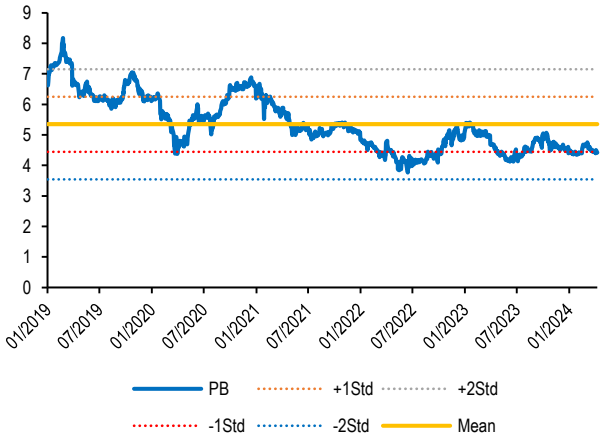
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of VNM



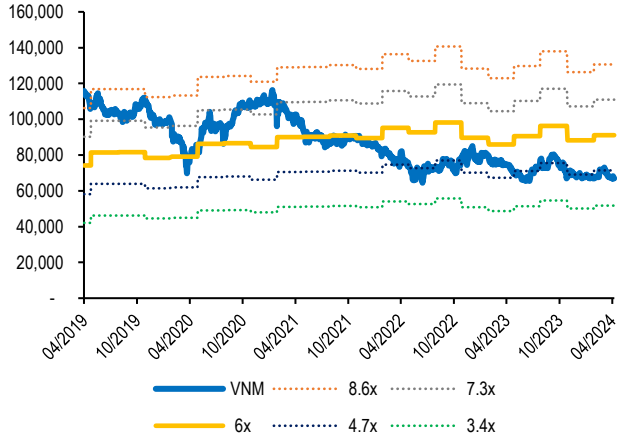
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VNM



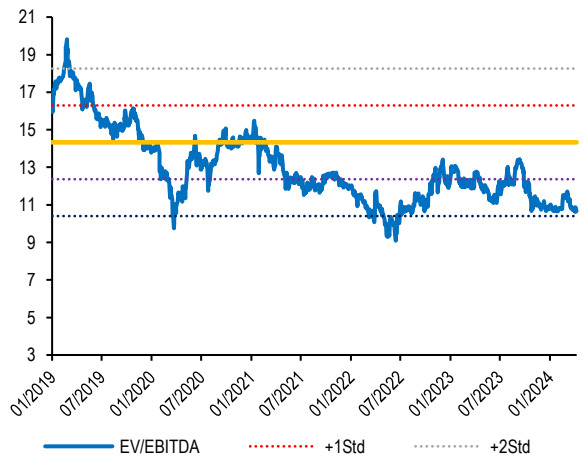
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band of VNM



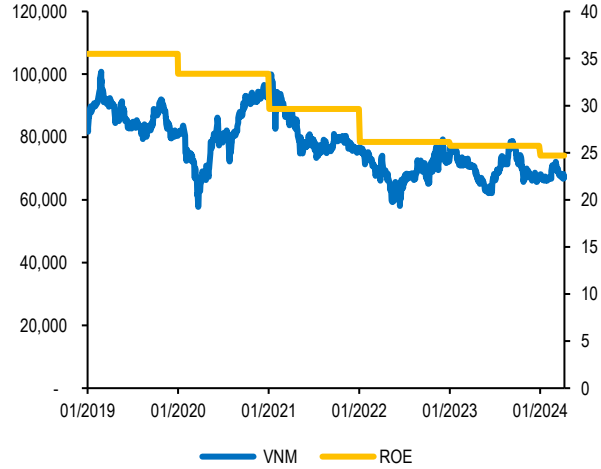
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of VNM



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Price and forecasted ROE of VNM



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events chart of VNM



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Geographical constraints in expanding farms and increasing milk productivity

According to the US Department of Agriculture (USDA), when the temperature-humidity index (THI) exceeds 70, cattle are prone to heat stress and this can affect milk yield. Specifically, milk production can decrease by 10-25% when cows are heat-stressed. At temperatures above 27 degrees Celsius, milk production decreases significantly.

In a tropical climate like Vietnam, where the average temperature is often above 25 degrees Celsius and the relative humidity often exceeds 80%, the THI regularly exceeds 75. These factors affect the overall milk yield of the industry. Therefore, to limit the effects of climate, dairy cattle farming is mainly concentrated in areas with natural, geographical and technical advantages.

Dairy cattle farming is concentrated mainly in provinces with geographical and technical advantages.

Province	No. of heads	%
Nghe An	78,906	24.3
HCMC	61,340	18.9
Lam Dong	29,338	0.09
Son La	26,024	0.08
Others	129,546	39.8
Total	**325,154**	**100**

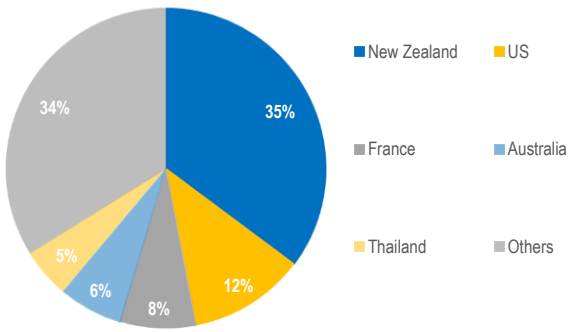
Source: Livestock statistics (2022), Shinhan Securities Vietnam

We believe that geographical and natural limitations can affect (1) the expansion of dairy farms in Vietnam in general and Vinamilk in particular, and (2) milk yield at farms where modern technology cannot yet be applied to reduce the effects of heat stress.

Risk of dependence on imported raw materials

A characteristic of the Vietnamese dairy industry is that domestic production only meets 40% - 50% of consumption demand. As a result, most dairy companies have to import milk powder from countries with high milk production such as Australia, the United States, France, etc., to meet domestic demand. This puts Vietnamese businesses at a disadvantage and exposes them to risks associated with imported raw materials, while also handing the initiative to foreign dairy companies such as Abbott and FrieslandCampina.

Vietnam increases imports of milk and dairy products from New Zealand



Source: General Department of Vietnam Customs (11T2023), Shinhan Securities Vietnam

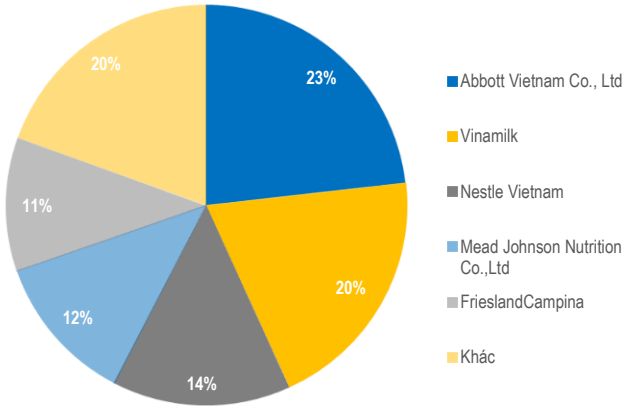
However, companies have their own strategies to maintain their position in the dairy industry. Specifically, TH Milk focuses on the fresh milk segment by developing a raw material region with the highest-yielding herd in Vietnam, Nutifood invests in factories and procures dairy products from Hoang Anh Gia Lai to reduce production costs. For Vinamilk, the company continuously expands the scale of its farms and herd, and cooperates with farmers to reduce dependence on imported raw materials.

Risk of declining birth rates and restrictions on advertising to children under 2 years old

Infant milk consumption accounts for 24% of total milk and dairy product consumption. However, the level of competition in the infant milk segment among businesses is the most intense due to (1) the decline in the birth rate in Vietnam from 2.12 children/woman (2020) to 1.96 children/woman (2023), causing infant milk consumption to slow down, and (2) the increasing trend of spending on high-end products for children while foreign dairy companies have an advantage in terms of brands. It can be seen that foreign dairy companies are holding a higher market share than domestic dairy companies like Vinamilk.

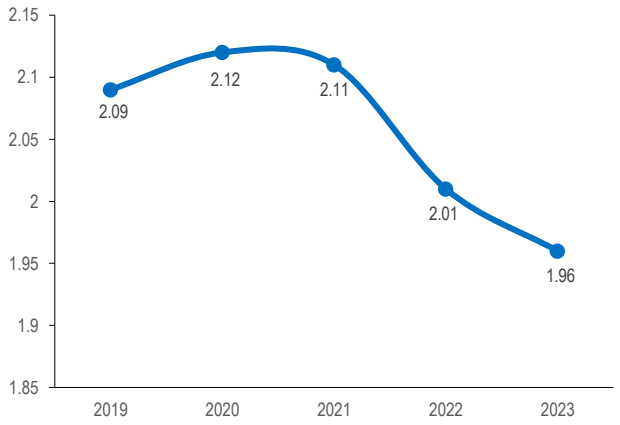
In addition, the Advertising Law 2018 prohibits the advertising of milk substitutes for breast milk for children under 24 months of age and supplementary nutritional products for children under 6 months of age. This contributes to limiting the access of domestic dairy companies in the infant milk segment.

The infant milk formula market is fragmented



Source: Euromonitor, Shinhan Securities Vietnam

The total fertility rate (TFR) in Vietnam has been declining over the years



Source: GSO, Shinhan Securities Vietnam

Appendix: Financial Statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023	2024F
Total assets	**48,433**	**53,332**	**48,482**	**52,673**	**53,894**
Current assets	29,666	36,110	31,560	35,936	38,067
Cash & equivalents	2,111	2,349	2,300	2,912	2,649
Short-term financial asset	17,314	21,026	17,414	20,137	22,568
Accounts receivable	5,187	5,822	6,100	6,530	6,327
Inventories	4,905	6,773	5,538	6,128	6,324
Other short-term assets	149	140	208	229	199
Non-current assets	18,767	17,222	16,922	16,737	15,827
Net fixed assets	13,854	12,707	11,903	12,690	11,664
Investment assets	1,063	1,130	1,805	937	1,099
Other long-term assets	4,913	4,515	5,019	4,047	4,163
Total liabilities	**14,785**	**17,482**	**15,666**	**17,648**	**17,731**
Current liabilities	14,213	17,068	15,308	17,139	17,305
Accounts payable	3,199	4,214	4,284	3,806	4,221
Short-term borrowings	7,317	9,382	4,867	8,218	8,217
Others	3,697	3,472	6,157	5,115	4,867
Non-current liabilities	573	414	358	509	426
Long-term borrowings	167	76	66	238	156
Other financial liabilities	406	338	292	271	270
Total shareholders' equity	**33,647**	**35,850**	**32,817**	**35,026**	**36,163**
Capital stock	20,900	20,900	20,900	20,900	20,900
Investment and development fund	3,286	4,352	5,267	6,164	7,123
Other capital	201	237	330	707	707
Retained earnings	6,910	7,594	3,353	3,926	3,994
Non-controlling interest equity	2,350	2,767	2,967	3,329	3,439
*Total debt	7,484	9,458	4,933	8,456	8,373
*Net debt (cash)	(11,941)	(13,917)	(14,781)	(14,593)	(16,844)

Statement of comprehensive income

Năm (Tỷ đồng)	2020	2021	2022	2023	2024F
Year to Dec. (bn VND)	**59,636**	**60,919**	**59,956**	**60,369**	**62,167**
Revenue	5.9	2.2	-1.6	0.7	3.0
Growth (%)	**(31,968)**	**(34,641)**	**(36,059)**	**(35,824)**	**(36,243)**
COGS	**27,668**	**26,278**	**23,897**	**24,545**	**25,924**
Gross profit	46.4	43.1	39.9	40.7	41.7
GPM (%)	**(15,405)**	**(14,518)**	**(14,144)**	**(14,774)**	**(15,830)**
SG&A	**12,263**	**11,760**	**9,753**	**9,771**	**10,094**
Operating profit	0.7	(4.1)	(17.1)	0.2	3.3
Growth (%)	20.6	19.3	16.3	16.2	16.2
OPM (%)	**1,255**	**1,163**	**742**	**1,196**	**1,382**
Non-operating profit	1,581	1,215	1,380	1,716	1,759
Financial income	(309)	(202)	(618)	(503)	(361)
Financial expense	(144)	(89)	(166)	(354)	(142)
In which: interest expenses	(17)	150	(20)	(17)	(16)
Net other non-operating profit	**13,518**	**12,923**	**10,495**	**10,967**	**11,476**
Pre-tax profit	(2,283)	(2,290)	(1,918)	(1,949)	(2,056)
Income tax	**11,235**	**10,633**	**8,577**	**9,018**	**9,420**
Net profit	6.5	(5.4)	(19.3)	5.1	4.5
Growth (%)	18.8	17.5	14.3	14.9	15.2
NPM (%)	11,099	10,532	8,516	8,874	9,310
Controlling interest	136	101	61	144	110
Non-controlling interest	**13,662**	**13,012**	**10,661**	**11,321**	**11,618**
EBIT	5.9	(4.8)	(18.1)	6.2	2.6
Growth (%)	22.9	21.4	17.8	18.8	18.7
EBIT Margin (%)	**16,479**	**15,379**	**13,002**	**13,867**	**13,587**
EBITDA	10.4	(6.7)	(15.5)	6.7	(2.0)
Growth (%)	27.6	25.2	21.7	23.0	21.9

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023	2024F
Cash flow from operations	**10,180**	**9,431**	**8,827**	**7,888**	**9,368**
Net profit	13,519	12,922	10,496	10,968	11,476
D&A expense	2,817	2,367	2,341	2,546	1,969
(Gain) from investing activities	(305)	(987)	(1,098)	(1,643)	(1,580)
Change in working capital	(1,174)	(1,294)	104	(1,701)	247
Others	(4,677)	(3,577)	(3,016)	(2,282)	(2,744)
Cash flow from investments	**(4,801)**	**(3,933)**	**3,473**	**(2,988)**	**(2,337)**
Change in fixed assets	(1,115)	(1,397)	(1,320)	(1,475)	(1,486)
Change in investment assets	(4,849)	(3,514)	3,635	(2,856)	(2,431)
Others	1,163	978	1,158	1,343	1,580
Cash flow from financing	**(5,927)**	**(5,257)**	**(12,360)**	**(4,294)**	**(7,298)**
Change in equity	(14)	318	338	347	-
Net borrowing	2,015	2,046	(4,531)	3,511	(83)
Dividends	(7,928)	(7,621)	(8,167)	(8,152)	(7,215)
Change in total cash	**(548)**	**241**	**(60)**	**606**	**(267)**
Beginning cash	2,669	2,115	2,352	2,300	2,912
Change in FX rates	(10)	(7)	8	6	4
Ending cash	2,111	2,349	2,300	2,912	2,649

Source: Company data, Shinhan Securities Vietnam

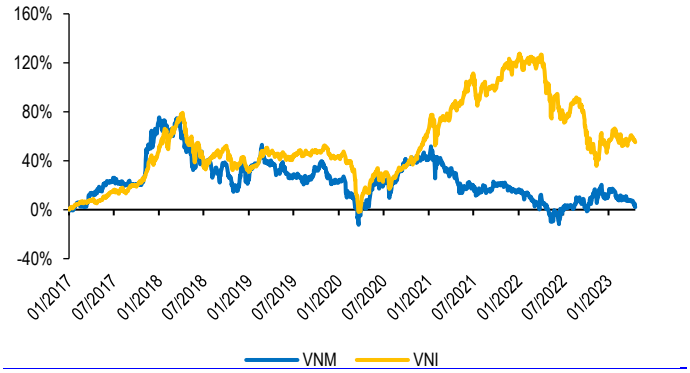
Key ratios

Year to Dec.	2020	2021	2022	2023	2024F
EPS (VND)	4,770	4,517	3,632	3,796	3,970
BPS (VND)	14,975	15,829	14,282	15,166	15,657
DPS (VND)	3,793	3,646	3,908	3,900	3,452
PER (x)	22.8	19.1	19.1	21.0	21.3
PBR (x)	7.3	5.5	5.5	5.3	5.4
EV/EBITDA (x)	14.3	14.3	9.5	9.3	11.5
Dividend payout ratio (%)	71	76	94	91	78
Dividend yield (%)	4.5	4.3	4.6	4.6	4.1
Profitability					
EBITDA margin (%)	27.6	25.2	21.7	23.0	21.9
OPM (%)	20.6	19.3	16.3	16.2	16.2
NPM (%)	18.8	17.5	14.3	14.9	15.2
ROA (%)	23.2	19.9	17.7	17.1	17.5
ROE (%)	33.4	29.7	26.1	25.7	26.05
Stability					
Debt to equity ratio (%)	22.2	26.4	15.0	24.1	23.2
Cash ratio (%)	136.7	137.0	128.8	134.5	145.7
Interest coverage ratio (x)	94.9	146.2	64.2	32.0	81.8
Activity (%)					
Working capital turnover (times)	42.1	40.0	46.4	40.3	40.7
Inventory turnover (days)	56.4	61.5	62.3	59.4	62.7
Receivable turnover (days)	29.7	33.0	36.3	38.2	37.7

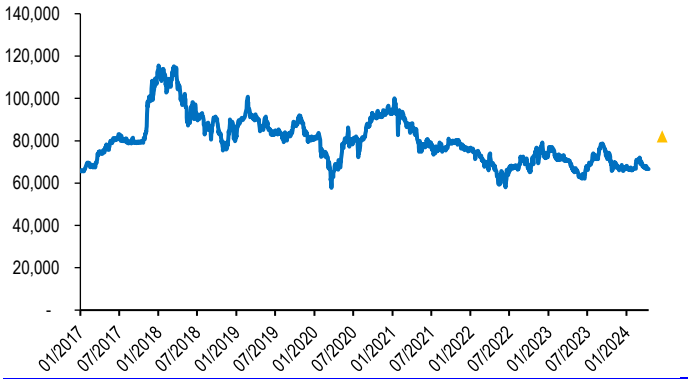
Source: Company data, Shinhan Securities Vietnam

Viet Nam Dairy Products JSC (VNM VN)

Stock price



Target price



Date	Rating	TP (VND)	TP gap (%)	
			TB	TB
25/04/2024 (Initiation)	BUY	84,400	18.6	26.4/6.8

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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