March 30th, 2021



Vietnam Dairy Products JSC.

[Vietnam / Food & Beverage]

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

BUY

Initiate

Target price (12 mths)	**VND123,000**
Current price (Mar 29)	VND99,000
Upside (%)	+24.2



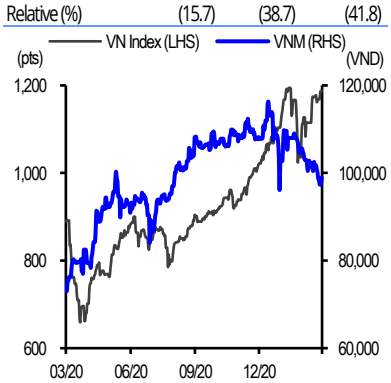
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VNINDEX			1,170
HNXINDEX			276.2
Market cap (bn VND)			206,905.6
Outstanding shares (1mn)			2,090
Free float (1mn)			735.7
52-week high/low (VND)			117,200/74,167
60-day avg. trading volume			2,790,616
60-day avg. turnover (bn VND)			316.4
Foreign ownership (%)			100
Major shareholders		SCIC	36.0
		F&N Dairy	20.4
Performance	3M	6M	12M
Absolute (%)	(9.3)	(9.3)	26.2
Relative (%)	(15.7)	(38.7)	(41.8)



Shinhan Securities

A solid cash-cow

Initiate coverage with BUY rating with target price of VND123,000

Amid current low-interest-rate environment and stock market volatility, we expected Vinamilk to draw attention of investors as a firm cash-cow offering solid dividend policy. We initiate coverage Vinamilk with a BUY rating and target price of VND123,000. Our TP is based in or DCF valuation methodology, as we think it can better capture Vinamilk's stable earnings and cash flow. The shares are current trading at 5.8x of 2021F PBR, which is close to the -1 stand deviation of its 3-years historical average multiples. We expect earnings to recover from 2021, as the positive restructuring procedure and fading impact of COVID-19. Thus, we believe the stock to trade a 5% premium to its historical valuation and the 4.0% of dividend yield for 2021-22 would be more relatively attractive than the other low-interest-rate assets.

Undisputable leadership position amid the harsher competition environment

Vinamilk maintains its sustainable largest market share in Vietnam dairy sector thanks to 1) aggressive penetration to rural areas; 2) increasing premium product coverage; and 3) the synergy of recent M&A activities which gives Vinamilk two new earnings. These three factors are the new playgrounds for Vinamilk to improve the further market share, equipped by the strong rebound of oversea channel, resulting in an uptrend in top-and bottom lines. We expect that 2021-2025 CAGR of revenue and net profit of Vinamilk will be 5.7% and 6.7%.

Vinamilk is a solid cash-cow thanks to cost efficiency

Vinamilk has been restlessly consolidating its leading position via its cost efficiency strategy, given that: 1) the increasing raw milk autonomy rate; and 2) well-managed sales-to-marketing cost management (STM). Thus, Vinamilk gains stable profit margins but also has strong cash-in-hand balance.

Cash rich business encourages high cash dividend policies and future expansion

Vinamilk is a cash rich business thanks to its business nature, which enables the company to maintain a relatively high payout ratio (over 70% p.a.) as well as its future expansions, heading towards a conglomerate in the F&B industry.

Year to Dec.	2019	2020	2021F	2022F	2023F
Revenue (bn VND)	**56,318**	**59,636**	**63,113**	**66,580**	**70,278**
OP (bn VND)	12,182	12,263	13,100	14,027	15,053
NP (bn VND)	**10,581**	**11,099**	**11,788**	**12,442**	**13,280**
EPS (VND)	5,477	5,311	5,640	5,953	6,354
BPS (VND)	15,792	14,975	17,172	18,417	19,765
OPM (%)	21.6	20.6	20.8	21.1	21.4
NPM (%)	18.8	18.6	18.7	18.7	18.9
ROE (%)	**35.5**	**33.4**	**33.5**	**33.0**	**33.0**
PER (x)	19.9	20.5	21.8	20.7	19.4
PBR (x)	6.9	7.3	7.2	6.7	6.2
EV/EBITDA (x)	13.6	16.1	14.4	13.4	12.4

Source: Company data, Shinhan Securities Vietnam

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Contents

3 **Valuation and Recommendation**

6 **Investment Thesis**

13 **Earnings estimates**

15 **Risk**

16 **Company background**

18 **Appendix : Financial statements**

Valuation and Recommendation

Initiate coverage with BUY call and target price VND123,000/ share

We initiate coverage Vietnam Dairy Product JSC or Vinamilk (VNM VN), the largest dairy company in Vietnam in terms of market share, with a BUY rating based on the target price of VND123,000 (a potential upside of +24.2% from the current price of VND99,000) and the expected 2021 dividend yield of 4.1%.

Valuation

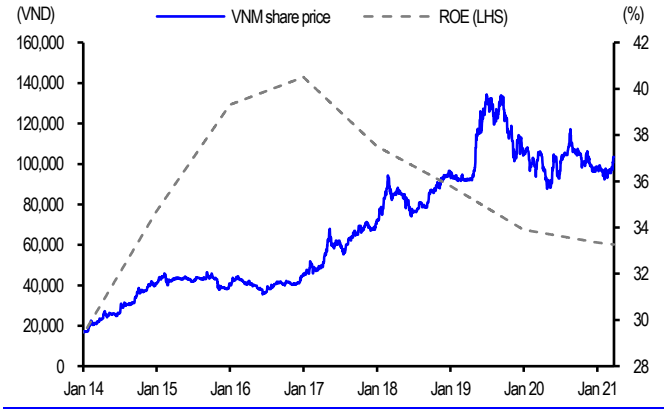
In our view, DCF-based methodology is an acceptable valuation measure for Vinamilk, given that it is able to capture the company's stable earnings and cash flow despite despite several potential M&A transactions in upcoming years. Moreover, the restructuring via merging GTN Food (GTN VN) into Vietnam Livestock Corp. (VLC VN) also lowers minority interest item and slightly improve Vinamilk's free cash flow to equity.

DCF-based valuation of Vinamilk					
(Unit: VND bn)	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**
Revenue	63,113	66,580	70,278	74,152	78,910
EBIT	13,100	14,027	15,053	16,173	17,487
Less: Taxes	2,440	2,583	2,766	2,981	3,221
Plus: D&A	1,831	2,141	2,218	2,345	2,472
Less: Net working capital	(1,459)	1,455	(1,354)	1,924	(1,592)
Less: Capex	4,286	3,629	2,613	1,546	1,164
FCFF	**10,938**	**9,640**	**14,393**	**13,230**	**18,274**
Discount factor	0.9	0.9	0.8	0.8	0.7
PV of FCFF	10,365	8,511	11,838	10,138	13,046
Sum of PV	53,898				
Terminal growth (%)	1.0				
PV of Terminal value	207,840				
Implied equity value	**256,561**				
# of outstanding shares	2,089,955,445				
Value per share (VND)	**123,000**				
Current price (VND) (Mar 29th)	99,000				
Upside (%)	24.2				
WACC calculation		Remark			
WACC (%)	7.3				
Risk-free rate (%)	2.2	10-year government bond yield			
Equity risk premium (%)	8.2				
Beta	0.71	3-year historical data			
Cost of debt (%)	4.0				
Cost of equity (%)	8.0				
Debt to capital ratio (%)	17.1				
Value of debt (bn VND)	7,410				
Value of equity (bn VND)	35,884				

Source: Bloomberg, Shinhan Securities Vietnam

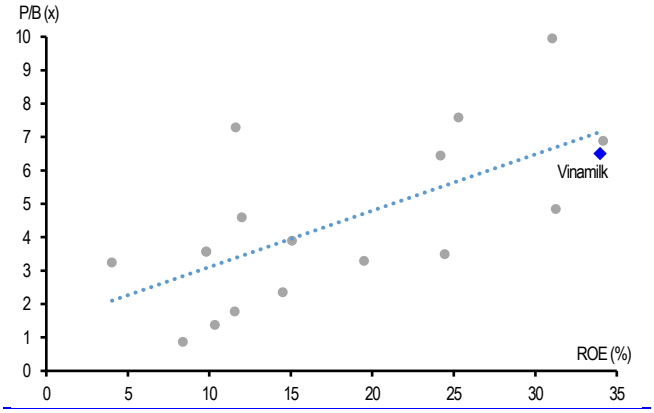
Our target price at VND123,000 is translated into 2021 forward PBR and PER of 7.2x and 21.4x respectively, which are both 5% premium to its 3-year historical average multiples. We believe that our target price is reasonal for a potential return to normal growth trajectory as the bearing fruit from its restructuring procedure and fading negative impact of COVID-19. Moreover, Vinamilk share has been underperformed VN-Index by -41.8% over the past year as investors over concerns about the weak growth prospect of Vietnam FMCG industry as well as dairy sectors. Thus, it seems likely a quite good entry point for such a strong financial position as Vinamilk in low-interest-rate environment.

Vinamilk 12M forward PBR versus ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR-ROE comparison of regional dairy companies



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk 12M forward PBR



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk PBR band chart



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk 12M forward PER



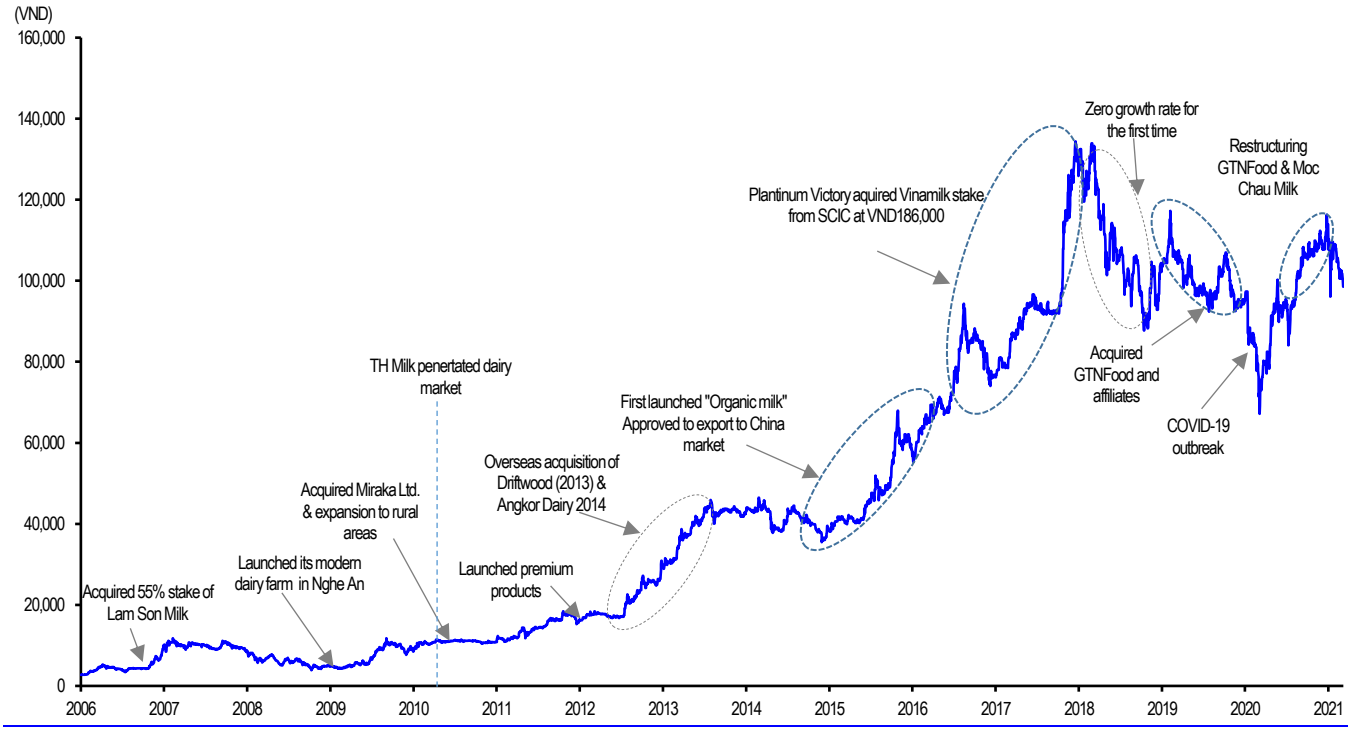
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk PER band chart



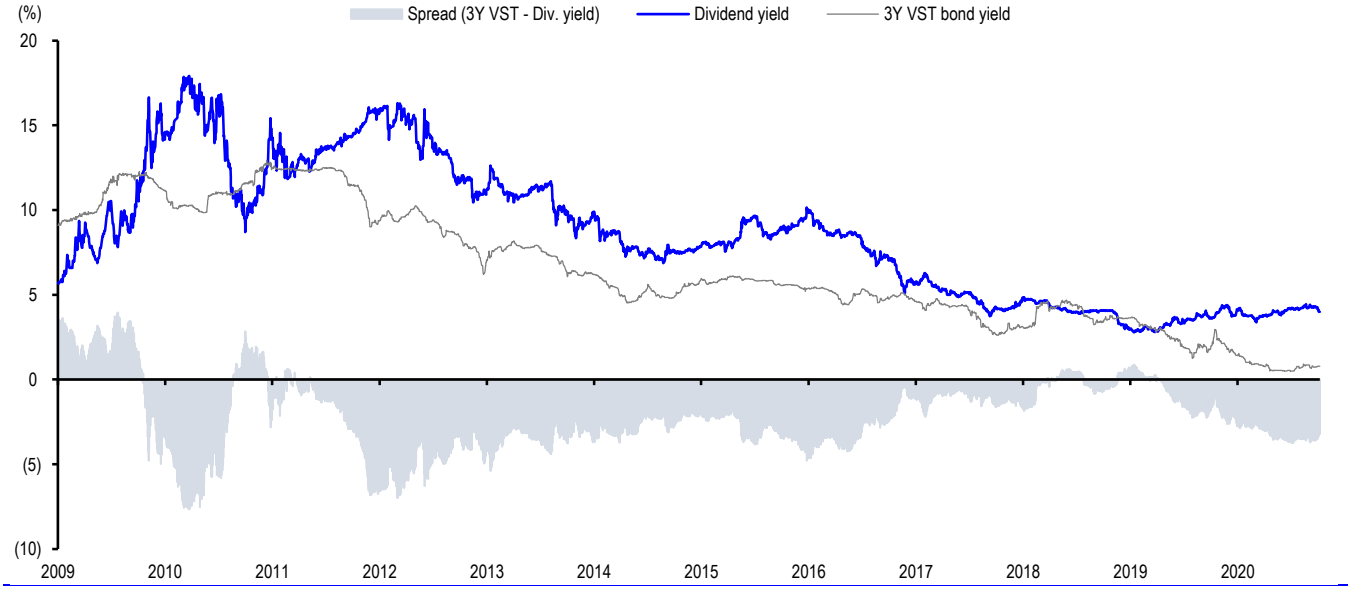
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk 's key event chart



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Dividend yield of Vinamilk and 3-Years Vietnam State Treasury bond yield



Source: Bloomberg, Company data, Shinhan Securities Vietnam

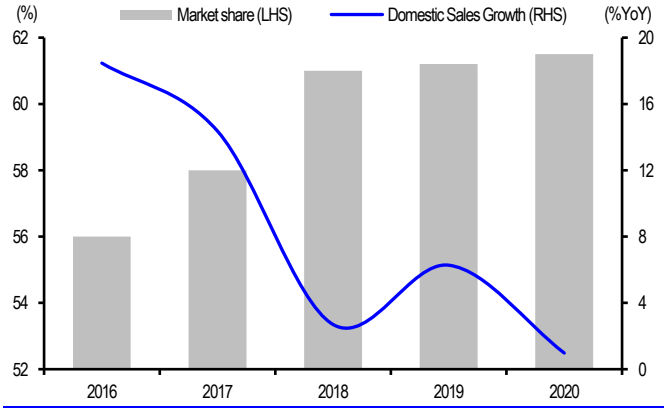
Investment Thesis

Vinamilk – Solid leader position in the local dairy sector

Vietnam Dairy Products JSC or Vinamilk (VNM VN) is one of Vietnam dairy market leaders for years with the largest market share of 61.5% (by end-2020) despite the harsher competition environment.

Although the company's sales growth pace has diminished over the last 5 years, Vinamilk successfully maintains its leading position in the local market, which is mainly attributed to: 1) aggressive penetration to rural areas; 2) increasing premium products coverage; and 3) the synergy of recent M&A activities. We believe that Vinamilk continues enhancing its market leader position in the upcoming years.

Vinamilk remains its largest market share



Source: Euromonitor, Company data, Shinhan Securities Vietnam

Vinamilk is the most chosen dairy brand in Vietnam

Vietnam FMCG Brand footprint 2020 (Dairy only)

CRPs (M) Urban (4 cities)	Score	Rank	Score	*CRPs (M)* Rural
Vinamilk	48	1	136	Vinamilk
TH TrueMilk	11	2	65	Fami
Southern Star Milk	11	3	45	Ong Tho Milk
Milo	10	4	36	Milo
Ong Tho Milk	9	5	23	Moc Chau Milk
Dutch Lady	7	6	22	Southern Star Milk
Fami	5	7	21	TH TrueMilk
Yakult	3	8	18	Susu
Susu	3	9	18	Dutch Lady
Probi	2	10	13	Grow Plus

(*) Blue font is Vinamilk's brand

Source: Kantar World Panel, Shinhan Securities Vietnam / CRPs: Consumer Reach Points

① Rural market is the same but new playground.

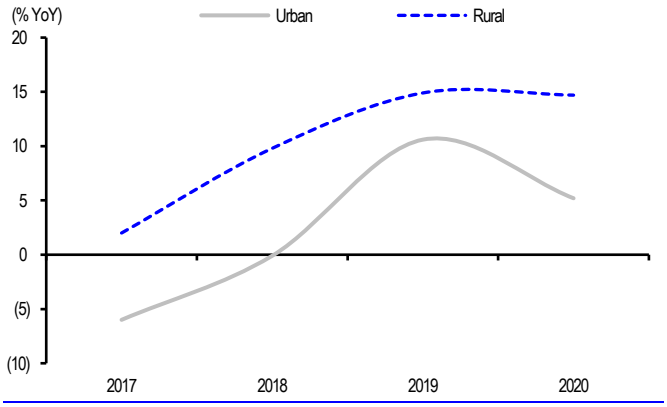
Vinamilk owns the most extensive nationwide distribution network with over 251,000 points of sales by end-2020, which provides them higher brand trust against its rivals. The rural drinking milk demand is growing at a faster pace than urban areas as 60% of the Vietnamese population living in rural areas and having lower dairy consumption than the nationwide average. In 2020, dairy consumption growth in rural areas was at +14.7% YoY, outpaced +5.2% YoY of urban areas. Thus, we believe that Vinamilk has more space to gain more market share in rural via stimulating milk consumption in this rural market. Moreover, the increasing rural revenue of Vinamilk is expected to partially compensate for the flat growth of the urban market.

Distribution network comparison of local dairy manufacturers (2020)

Channel / Company	Vinamilk	TH True Milk & Dalat Milk	Friesland Campina (Dutch Lady)	Nestle	IDP (Ba Vi Milk)
Traditional retailers	251,000	150,000	94,000	185,000	37
Fully-own stores	450	246	0	0	0
+ Tier-1 cities	221	146	0	0	0
+ Rural areas	229	100	0	0	0
Modern retailers & key accounts	Yes	Yes	Yes	Yes	Yes
Online shop	Yes	Yes	No	Yes	Yes

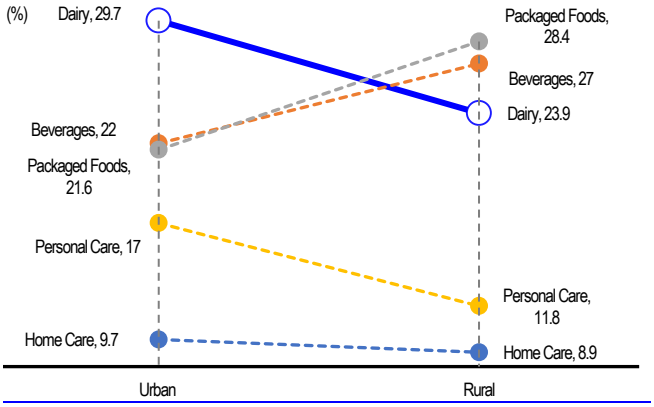
Source: Vinamilk, Shinhan Securities Vietnam

Vietnam dairy consumption growth (2017 – 2020)



Source: Kantar World Panel, Shinhan Securities Vietnam

Dairy product accounts for the major value in total FMCG (2020)



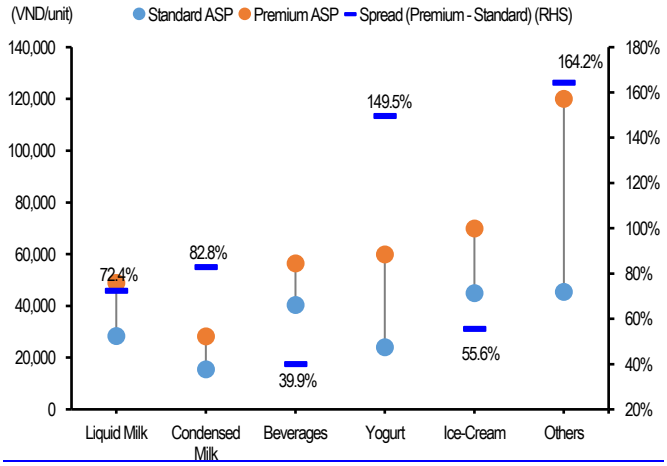
Source: Kantar World Panel, Shinhan Securities Vietnam

② Premiumization is expected a new game-changer.

Local consumers tend to use high-end drinks when they have higher income, in light of: 1) the rising awareness of health benefits; 2) the increasing of middle and high-income class; and 3) the emerging modern retailers creating a better channel for premium products. Meanwhile, many foreign players have been trying to penetrate the Vietnam market as lower importing tariffs under the FTAs. The overseas competitors also set the high-end segment as their main target. Thus, Vinamilk also manages to increase their premium product coverage in order to gain more market share from rising rivals in matured and crowded urban areas.

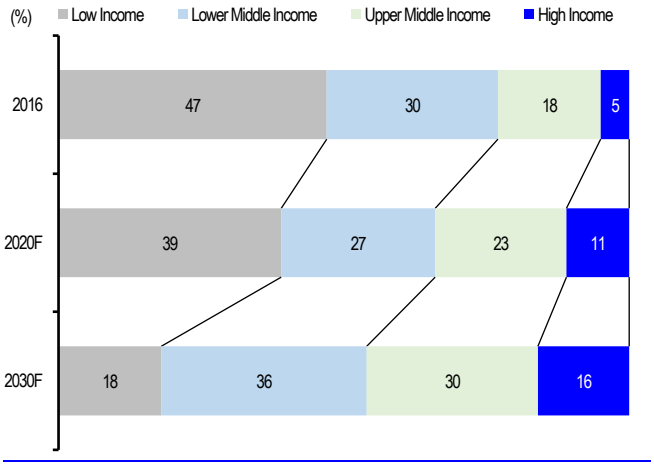
Moreover, we believe that the higher average selling price (ASP) of the premium product will translate into higher revenue growth and gross profit margin, thanks to: 1) Vinamilk's strong bargaining power; and 2) diversified product portfolio. Moreover, we think that Vinamilk is able to transfer the increase in raw milk price to end-users in ASP of premium products than affordable lines, which secure more stable margins for the company.

ASP of premium and standard products of Vinamilk



Source: www.giacmosuaviet.com.vn, Shinhan Securities Vietnam

The increasing mid and high-income class in Vietnam

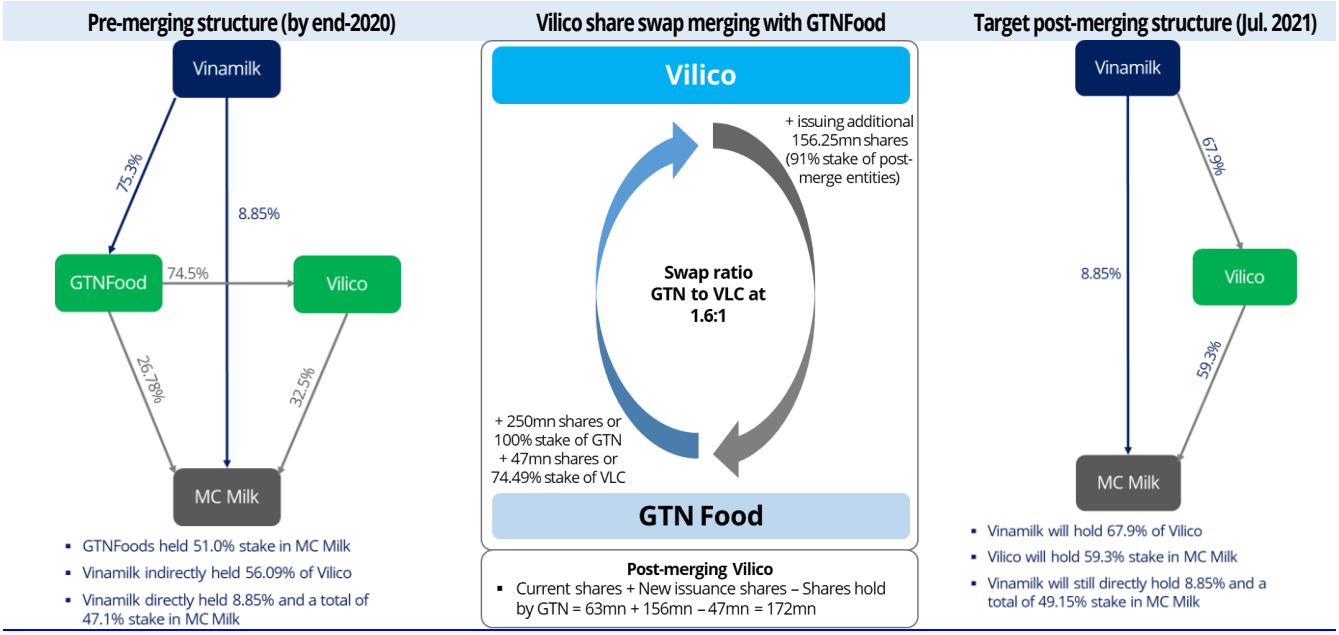


Source: BMI, Shinhan Securities Vietnam

The synergy of M&A: Spending is still a good thing

We expect that Vinamilk will replicate their successful M&A in the most recent one with GTN Food JSC (GTN VN, Non-rated) and related entities in 2019. Via this deal, Vinamilk directly and indirectly holds 49.2% and 68% stake Moc Chau Milk (MCM VN, Non-rated) and Vietnam Livestock Corp. of Vilico (VLC VN, Non-rated), respectively. Through M&A in both local and overseas markets, Vinamilk trying to break out the flat growth trajectory of the dairy sector and limit the rising competition from new players.

On March 19th, the shareholder agreed that GTN Food (the parent company of Vilico) will be merged to Vilico via a share swap, which is considered the latest restructuring move of Vinamilk. We think the merging to boost the value of both core business (dairy products) and new business scope of the whole group. That said, Vinamilk is set to benefit more from the deal, given its: 1) higher equity stake in Vilico and Moc Chau Milk; 2) higher efficiency via eliminating ineffective intermediaries; and 3) greater demand from dairy cattle breeding area.



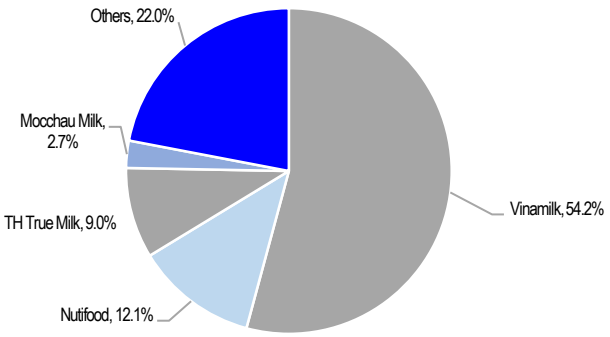
Source: Company data, Shinhan Securities Vietnam

Bearing fruit from Moc Chau Milk. Moc Chau Milk is the 4th largest liquid milk market shares and owns one of the best breeding areas in Vietnam. We believe that the synergy of acquiring Moc Chau Milk includes: 1) strengthen the presence of Vinamilk in the Northern market where consumers still prefer regional brands (e.g. TH True Milk, Moc Chau Milk, Ba Vi Milk, etc.) and spurring the domestic revenue of Vinamilk; 2) providing Vinamilk a more favorable route to export to China, and 3) taking advantage of breeding areas.

We believe that Moc Chau Milk will record a double-digit growth rate in both top and bottom-lines and contribute 1.0 %pt on average to Vinamilk's growth rate over the next 5 years, which is mainly driven by: 1) scaling up production capacity of Moc Chau Milk; 2) utilizing of the extensive distribution network of Vinamilk; and 3) supporting Moc Chau Milk to negotiate relatively lower discount policies with their vendor. A new production line with a capacity of 24,000 units/hour will be installed shortly as Moc Chau Milk's production facilities are currently running its full capacity of 150,000 units/hour, which is expected to boost its sales volume via Vinamilk's distribution network. Moreover, Moc Chau Milk's raw milk autonomy rate will increase to 45% in 2025 from 8% in 2020 thanks to the cowherd expansion (~21,500 heads in 2025 from 2,000 heads in 2020), which will lift its margins via lower raw milk input cost[1].

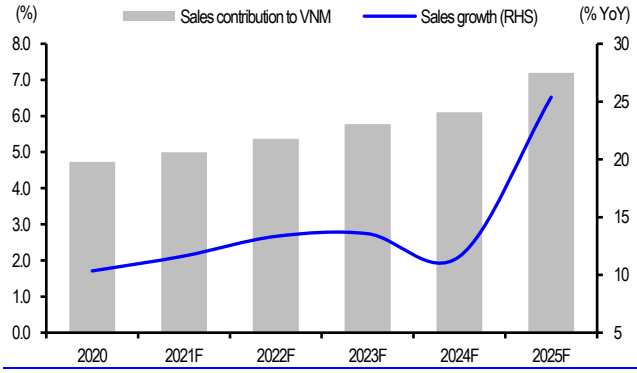
[1] The cost of self-supply raw milk is 20% lower than purchasing from farmers.

Vietnam liquid milk market share breakdown (2020)



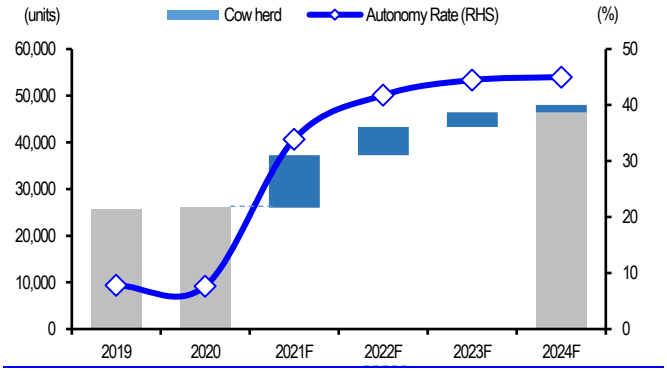
Source: Company data, Shinhan Securities Vietnam

Moc Chau Milk sales growth & contribution to Vinamilk (2020 – 2025F)



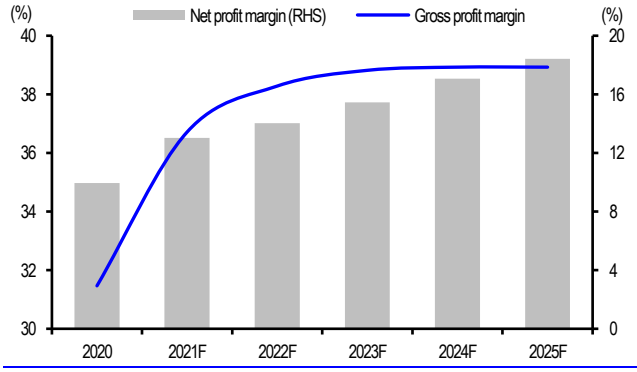
Source: Company data, Shinhan Securities Vietnam

Moc Chau Milk's raw milk autonomy rate (2017 – 2024F)



Source: Company data, Shinhan Securities Vietnam

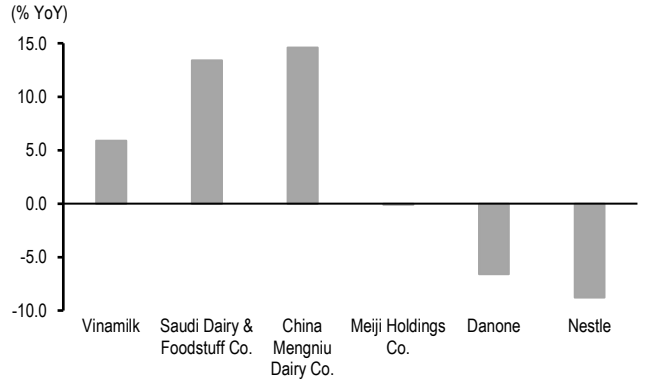
Moc Chau Milk's profit margins (2020-2025F)



Source: Company data, Shinhan Securities Vietnam

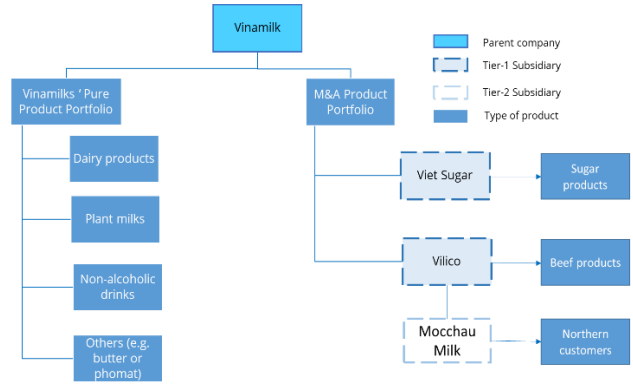
Vilico is a new milestone. The management shows that Vilico has a better brand, thus they decided to merge GTN Food to Vilico and develop the entities as a beef processing and distributing. Under the support of Vinamilk, Vilico has corporate with Sojzit in this new business line, which is expected to bear fruit since 2023 as: 1) Japanese quality of Vilico beef which may lure high-income clients; 2) ~VND2tn of expected revenue in the first year of operation thanks to the increasing beef consumption, by Vilico's BOD in 2021 AGM; and 3) improving margins through cost efficiency.

Vinamilk sales growth compared to global dairy companies (2020)



Source: Bloomberg, Shinhan Securities Vietnam

Vinamilk's product portfolio (2021)



Source: Company data, Shinhan Securities Vietnam

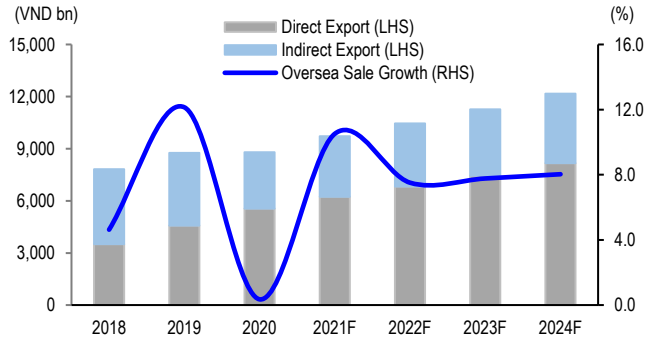
Overseas operations: Getting back on track

We believe that the overseas operations of Vinamilk, accounting for 15% of 2020 sales, will exhibit a strong rebound in 2021. The main drivers include: 1) the resilience of main foreign markets in post-COVID-19; and 2) the higher growth space of neighboring ASEAN markets including Cambodia and Laos.

Driftwood, a 100%-owned subsidiary in the U.S, is expected to make a strong rebound in top-line after posted a plunge by -50.8% YoY to VND1.8tn due to the social distancing. In the recovery of global consumption post-Covid-19 pandemic, we expect that Driftwood revenue will back to the normal level (~VND2.6tn in the period of 2015 -2019). Meanwhile, the Middle East market has resumed ordering from mid-2020 after suspending the geopolitical tensions in 2017. Thus, Vinamilk's direct export sales increased by +7.4% YoY.

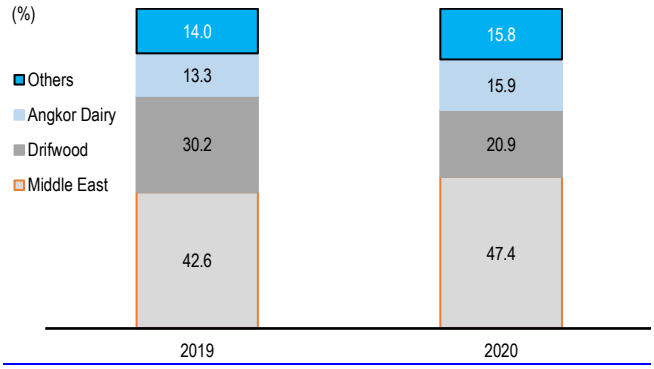
Vinamilk is also making efforts in overseas expansion via: 1) promoting selling activities in the increasing milk consumption countries (i.e. Cambodia, Laos, the Philippines); and 2) increasingly exporting unique products (i.e. nut milk, condensed milk, fruit juice) to Asian developed countries (South Korea, China).

Vinamilk overseas business performance (2018 -2024F)



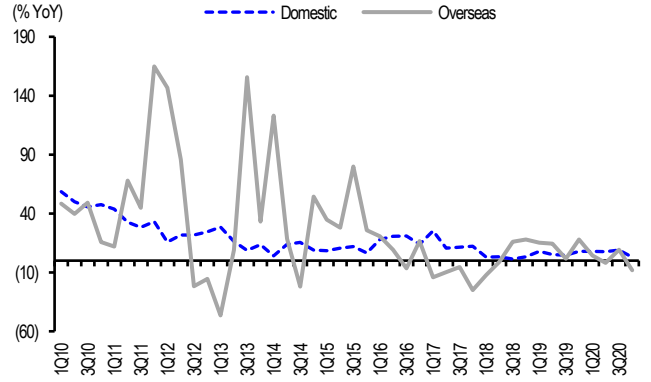
Source: Company data, Shinhan Securities Vietnam

Vinamilk overseas revenue breakdown by geography (2019 -2020)



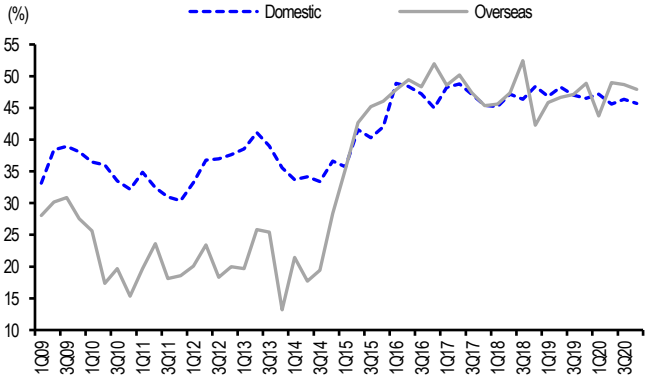
Source: Company data, Shinhan Securities Vietnam

Vinamilk's domestic and overseas sales growth



Source: Company data, Shinhan Securities Vietnam

Gross margin of Vinamilk's domestic and overseas operations



Source: Company data, Shinhan Securities Vietnam

Vinamilk's main overseas markets

Countries	Main Products	Subsidiary	2019 Revenue	Expected Yearly Growth (% YoY)
North America	Fresh Milk, Fruit Juice	Driftwood Dairy	2,645	2.0
Cambodia	Condensed Milk, Yogurt, Fresh Milk	Angkor Dairy Products	1,165	20.0
Laos	Powdered Milk, Fresh Milk	Lao-Jagro Development Xiengkhouang	N/A	N/A
China	Condensed milk, Yogurt	Directly Export	N/A	6.0
South Korea	Nut milk, milk tea	Directly Export	Export from 2020	N/A
Eurasian Economic Union	Fruit Juice	Directly Export	Export from 2020	7.0
Singapore	Organic Fresh Milk	Directly Export	N/A	0.0
Middle East	Powdered Milk, Condensed Milk, Fresh Milk	Directly Export	3,730	6.0

Source: FAO, Company data, Shinhan Securities Vietnam

Cost efficiency provides a stable dividend policy

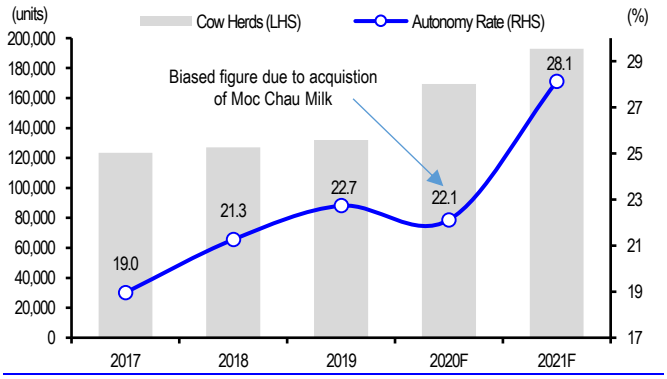
Effective cost management strengthens the uptrend profit

Despite rising competition from both local and foreign entrants, Vinamilk has consolidated its leading position thanks to its competitive advantage in cost efficiency and business viability[2]. Their main strategies include: 1) gradual increasing raw milk autonomy rate via both organic and M&A; and 2) well-managed sales-to-marketing (STM) cost management ability.

Vinamilk has continuously expanded its cowherds through the own farm projects (e.g. Lao-jargo farm) and M&A (e.g. Mocchau Milk), in order to boost the fresh milk autonomy ratio by ~+2% p.a. over the next 5 years. Moreover, Vinamilk is also able to assure their quality and quantity of the raw milk, resulting in: 1) developing premium products (e.g. "organic milk from organic farms"); and 2) mitigating the volatility of global raw milk prices. During 2017-20, Vinamilk's gross profit margin was stable at ~47% while global whole milk price (WMP) widely fluctuated. We expect that the 2021 GM of Vinamilk will be stable despite the sharp increase of global WMP in the first 3 months of 2021 (+27.2% YTD and +36.8% YoY).

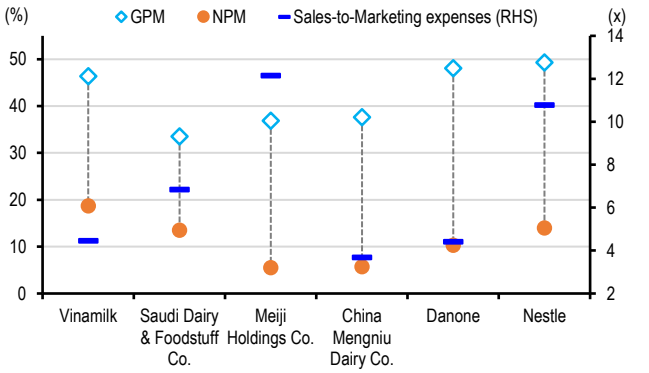
Moreover, Vinamilk recorded the highest net profit margin (NPM), due to its stable STM of ~4.4 times on the annual average. We believe that Vinamilk will succeed in maintaining STM's level while increasing spending on future marketing campaigns, leading to a strong increase in net profit margin since 2023 thanks to the enhance capacities of Mocchau Milk and Vilico.

The autonomy rate of Vinamilk (2017 – 2021F)



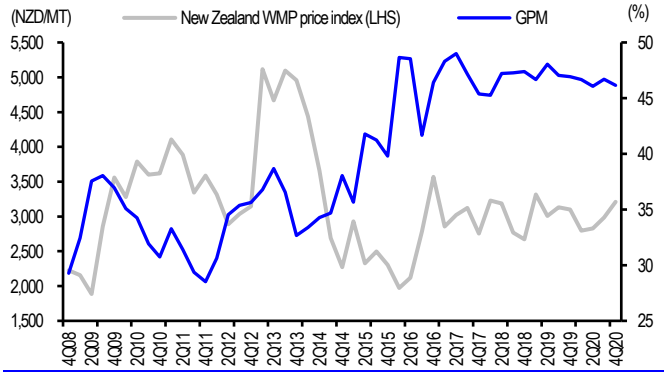
Source: Company data, Shinhan Securities Vietnam

Comparison of Vinamilk and global player (2020)



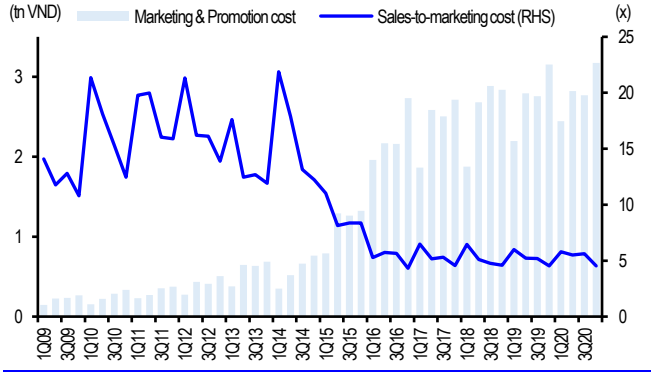
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk's gross profit margin and whole milk powder price



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Vinamilk's marketing cost & sales-to-marketing



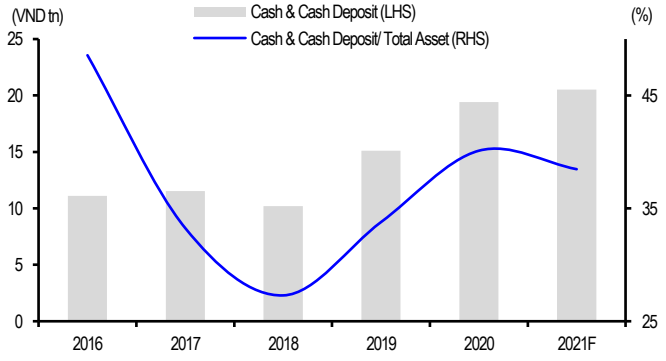
Source: Bloomberg, Company data, Shinhan Securities Vietnam

[2] Business viability is measured by a business' potential for long-term survival and the ability to sustain profits over a period of time.

Cash-rich secures high dividend policy and future expansion

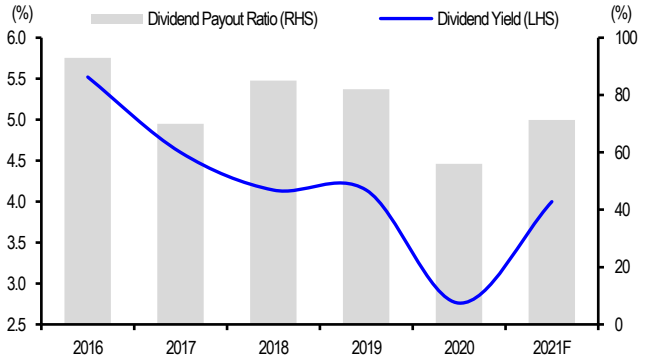
Vinamilk has ample cash-in-hand thanks to its nature business, on the averaging the company has more than VND12tn of cash balance during the last 5 years. Moreover, we expect Vinamilk to earn a net profit of over VND11tn on average during 2021-2025. Consequently, the company will have a high dividend payout ratio of over 70%, implying a dividend yield of ~4% which is considered relatively attractive amid the current low-interest-rate environment. Moreover, its cash-cow business also provides Vinamilk a strong financial capacity to finance future expansion plans (M&A or building plants and farms).

Vinamilk 's cash & cash deposits-to-total asset (2016-2021F)



Source: Company data, Shinhan Securities Vietnam

Vinamilk dividend yield (2016 – 2021F)



Source: Company data, Shinhan Securities Vietnam

Earnings estimates

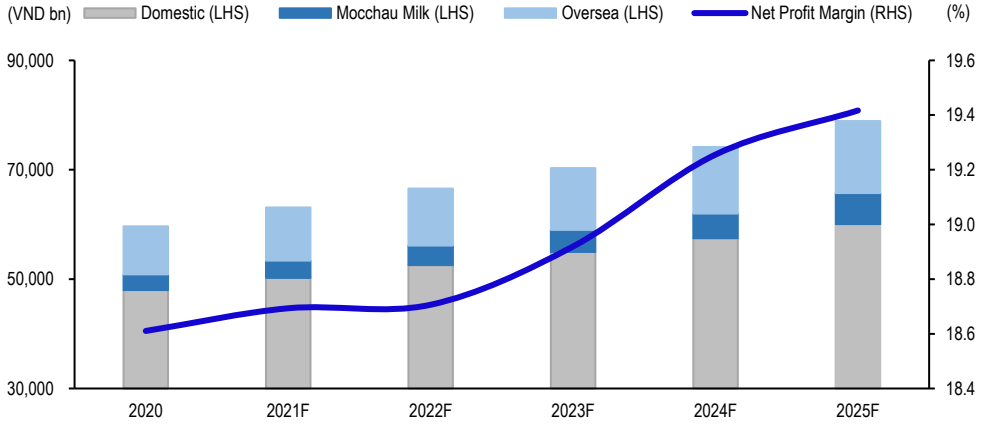
Vinamilk's net profit margin will elevate after 2021

We believe that Vinamilk's revenue will post a slight CAGR of 5.7% during 2021-25, which mainly driven by: 1) stable domestic sales growth of ~+4.6% on annual average; 2) the two-digit growth in sales of Mocchau Milk; and 3) the recovery of oversea sales growth (2021-25 CAGR of 7.9%)

However, Vinamilk's net profit is expected to present a higher growth rate with 2021-25 CAGR of 6.7%, due to: 1) margin expansion factors; 2) potential downside of global raw milk price after experiencing a significant rising in 2017-21; and 3) higher profit from subsidiaries.

Thus, we expect that 2021 will be a reflection point for Vinamilk's net profit margin, in light of: 1) restructuring its subsidiaries (GTN Foods – Vilico – Mocchau Milk) to bring better profitability; and 2) the lower minority interest (from 52.9% to 50.9% after the merge of GTN Food into Vilico); and 3) lower goodwill amortization from a high-base record in 2020.

Earnings forecast of Vinamilk (2020 – 2025F)



Source: Company data, Shinhan Securities Vietnam

Vinamilk's annual earning trend and outlook

(Unit: bn VND)	2019	2020	2021F	2022F	2023F	2024F	2025F
Revenue	**56,318**	**59,636**	**63,113**	**66,580**	**70,278**	**74,152**	**78,910**
① Domestic (ex. MCM)	47,555	48,019	50,243	52,559	54,961	57,460	60,060
② Oversea	8,764	8,794	9,719	10,449	11,262	12,166	13,175
③ Moc Chau Milk	2,558	2,823	3,151	3,572	4,056	4,526	5,675
Gross profit	**26,572**	**27,669**	**29,404**	**31,227**	**33,208**	**35,329**	**37,872**
OP	12,182	12,263	13,100	14,027	15,053	16,173	17,487
Net profit	**10,581**	**11,099**	**11,788**	**12,442**	**13,280**	**14,258**	**15,295**
Margin (%)							
GPM	47.2	46.4	46.6	46.9	47.3	47.6	48.0
OPM	21.6	20.6	20.8	21.1	21.4	21.8	22.2
NPM	18.8	18.6	18.7	18.7	18.9	19.2	19.4
Growth (%YoY)							
Revenue	7.1	5.9	5.8	5.5	5.6	5.5	6.4
GP	8.0	4.1	6.3	6.2	6.3	6.4	7.2
OP	8.6	0.7	6.8	7.1	7.3	7.4	8.1
NP	3.5	4.9	6.2	5.6	6.7	7.4	7.3

Source: Company data, Shinhan Securities Vietnam

Vinamilk's quarterly earning trend and outlook

(Unit: bn VND)	1Q20	2Q20	3Q20	4Q20	1Q21F	2Q21F	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F	2020	2021F	2022F
Revenue	**14,153**	**15,495**	**15,563**	**14,425**	**14,630**	**16,502**	**16,375**	**15,607**	**15,433**	**17,408**	**17,275**	**16,464**	**59,636**	**63,113**	**66,580**
Gross profit	6,606	7,138	7,267	6,658	6,856	7,845	7,488	7,216	7,281	8,331	7,952	7,663	27,669	29,404	31,227
Operating profit	3,212	3,381	3,523	2,147	3,464	3,744	3,357	2,534	3,710	4,009	3,595	2,713	12,263	13,100	14,027
Net profit	**2,765**	**3,072**	**3,077**	**2,185**	**3,045**	**3,295**	**3,108**	**2,340**	**3,214**	**3,477**	**3,281**	**2,470**	**11,099**	**11,788**	**12,442**
Margin (%)															
GPM	46.7	46.1	46.7	46.2	46.9	47.5	45.7	46.2	47.2	47.9	46.0	46.5	46.4	46.6	46.9
OPM	22.7	21.8	22.6	14.9	23.7	22.7	20.5	16.2	24.0	23.0	20.8	16.5	20.6	20.8	21.1
NPM	19.5	19.8	19.8	15.1	20.8	20.0	19.0	15.0	20.8	20.0	19.0	15.0	18.6	18.7	18.7
Growth (%YoY)															
Sales	7.3	6.1	8.9	1.3	3.4	6.5	5.2	8.2	5.5	5.5	5.5	5.5	7.2	5.8	5.5
GP	7.3	1.8	8.1	(0.3)	3.8	9.9	3.0	8.4	6.2	6.2	6.2	6.2	8.0	6.3	6.2
OP	0.2	0.4	13.2	(14.0)	7.8	10.8	(4.7)	18.1	7.1	7.1	7.1	7.1	7.7	6.8	7.1
NP	(0.7)	6.2	17.2	2.7	10.1	7.2	1.0	7.1	5.6	5.6	5.6	5.6	3.4	6.2	5.6

Source: Company data, Shinhan Securities Vietnam

Shinhan's annual earnings estimation versus Bloomberg consensus

(Unit: bn VND)	Shinhan estimate			Bloomberg consensus			Difference (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Revenue	63,113	66,580	70,278	64,278	69,579	74,794	(1.81)	(4.31)	(6.04)
OP	13,100	14,027	15,053	13,415	14,498	14,186	(2.35)	(3.25)	6.11
Pre-tax profit	14,447	15,292	16,381	14,504	16,013	16,987	(0.39)	(4.50)	(3.56)
Net profit	11,788	12,442	13,280	11,670	12,616	13,237	1.01	(1.38)	0.32

Source: Bloomberg, Shinhan Securities Vietnam

Shinhan's quarterly earnings estimation versus Bloomberg consensus

(Unit: bn VND)	Shinhan's estimate				Bloomberg consensus				Difference (%)			
	1Q21F	2Q21F	3Q21F	4Q21F	1Q21F	2Q21F	3Q21F	4Q21F	1Q21F	2Q21F	3Q21F	4Q21F
Revenue	14,630	16,502	16,375	15,607	13,672	17,240	17,316	16,049	7.01	(4.28)	(5.43)	(2.76)
Net profit	3,045	3,295	3,108	2,340	2,384	3,373	3,422	2,491	27.73	(2.31)	(9.18)	(6.06)

ource: Bloomberg, Shinhan Securities Vietnam

Risks

The unexpected damages of Covid-19 Pandemic. Although Vinamilk is one of the companies whose business performance is modestly attacked by the Covid-19 pandemic, the consumption of Vinamilk's products was lower during the period of social distancing in both domestic and overseas markets. As consequence, in the case the Covid-19 pandemic is out of control, it will prolong the social distancing period, causing Vinamilk's growth to slow down.

The risk of losing key overseas customers. More than 15% of Vinamilk 's total revenue comes from overseas markets from 2015 to 2020, of which, the Middle East is one of the biggest contributors. Since the consumption of this market is unstable (strongly correlate with crude oil prices), customer demand is unexpectedly disrupted, leading to a lower Vinamilk's imported products. For example, between 2017 and 2018, the Middle Eastern distributors stopped importing Vinamilk powdered milk due to geopolitical tension.

The risk of increasing competition in the Vietnam dairy industry. Vinamilk experienced single-digit growth during the years of 2017 – 2020 in the background of fierce competition in the Vietnam dairy industry, due to: 1) the EVFTA agreement that came into effect in 2020 gives more options (EU milk products) for Vietnamese consumers in purchasing dairy products, and 2) other major competitors including TH True Milk or IDP are increasingly spending money on grabbing more market share.

Company background

History

Vietnam Dairy Products JSC was established in 1976 as a state-owned company (SOE), based on the combination of three factories, namely Thong Nhat Dairy Factory, Truong Tho Dairy Factory, and Dielac Powdered Milk Factory, known as Southern Coffee-Dairy Company. In 1992, it changed the name to Vietnam Dairy Company (Vinamilk), under the management of the Ministry of Industry. In 2003, Vinamilk became a joint-stock company through the first bidding of state-owned shares.

In 2006, the company was first listed on the HOSE exchange after reducing the state ownership ratio to 50% from 80% of the initial charter capital at VND1.59tn.

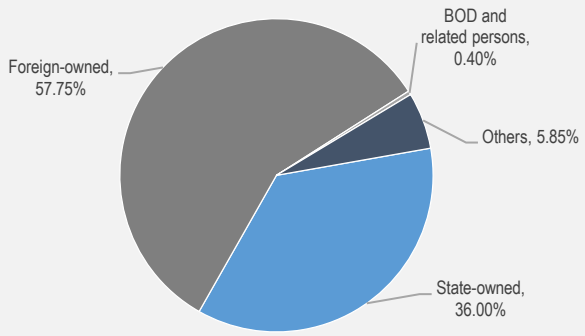
Shareholder structure

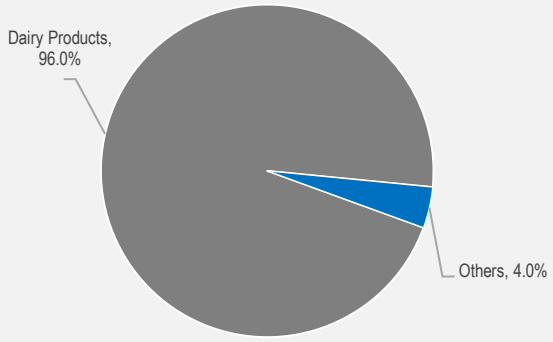
Vinamilk has a diversified shareholder structure with a free-float ratio of 35.2% and foreign ownership limitation of 100%. By the date of March 30th, 2021, Vinamilk 'shareholder structure by investor types are: 1) State-owned (36.00%); 2) Foreign-owned (57.82%); 3) Board of Directors and related persons (0.40%) and 4) Others (11.77%). Of which, the two major shareholders are State Capital Investment Corporation or SCIC (36.00%) and F&N Dairy Investment Pte. Ltd. (20.39%), investing in Vinamilk's shares with the purpose of financial investment.

Business mixed

Vinamilk is the largest Vietnam dairy company (both of market share and business size) with a diverse product portfolio with more than 200 SKUs, capturing the demand of various consumers' classes, varying from prenatal to elderly, from standard products to premium products, and from cow milk-based dairy to plant-based dairy. Over 80% of Vinamilk's revenue comes from local market from 2007.

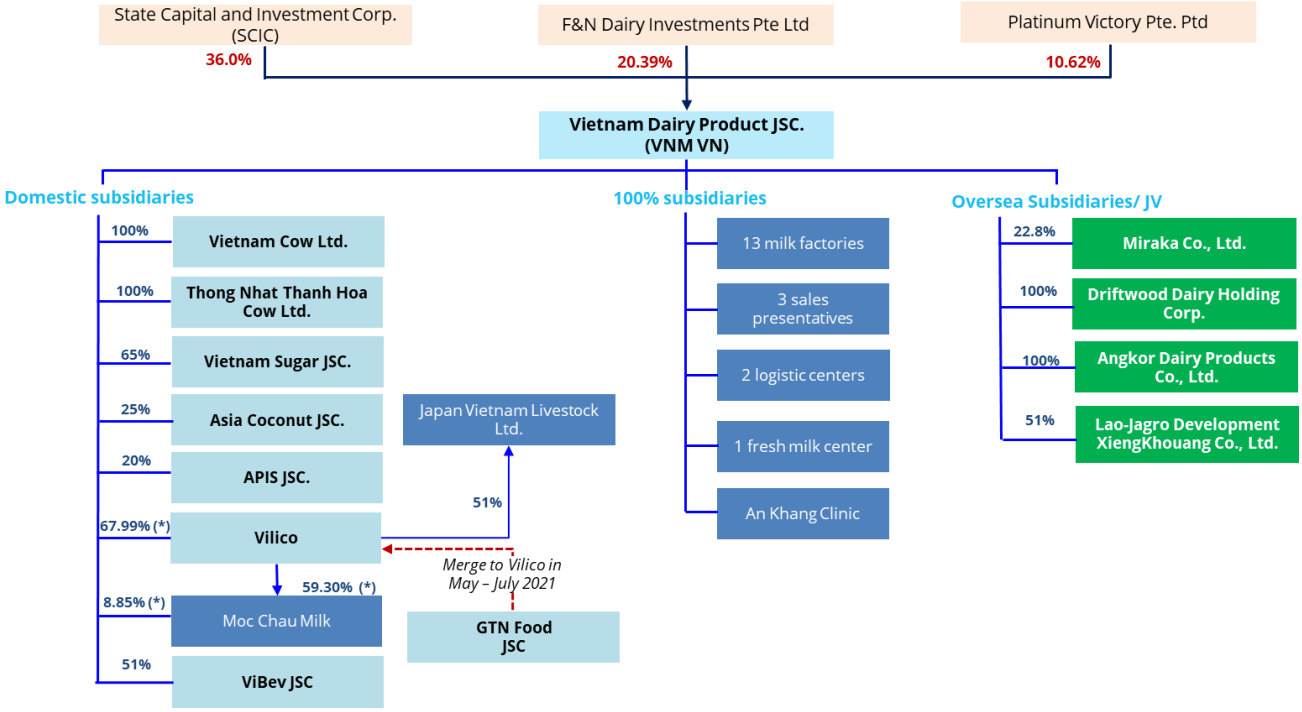
As regards the downstream structure, in the domestic market, Vinamilk distributes its products by three channels, including traditional trade (over 251,000 PoS), key accounts, and modern trade. As regards the overseas market, Vinamilk sells its products by two channels, including foreign distributors and subsidiaries (Driftwood Dairy and Angkor Dairy)





Source: Company Data, Shinhan Securities Vietnam

Vinamilk 's corporate governance structure in 2021



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	**44,700**	**48,433**	**53,691**	**54,891**	**57,804**
Current assets	24,722	29,666	32,434	32,798	35,741
Cash & equivalents	2,665	2,111	2,234	2,357	2,488
Short-term financial asset	12,436	17,314	18,323	19,330	20,404
Accounts receivable	4,503	5,187	5,341	5,570	5,983
Inventories	4,983	4,905	6,378	5,375	6,691
Non-current assets	19,978	18,767	21,257	22,093	22,063
Net fixed assets	14,894	13,854	16,544	17,580	17,750
Investment assets	987	973	973	973	973
Other long-term assets	4,097	3,940	3,740	3,540	3,340
Total liabilities	**14,969**	**14,786**	**17,807**	**16,407**	**16,501**
Current liabilities	14,443	14,213	17,148	15,826	16,021
Accounts payable	6,710	4,412	7,316	4,984	7,913
Short-term borrowings	5,352	7,317	7,157	8,056	5,158
Others	2,381	2,484	2,675	2,786	2,950
Non-current liabilities	526	573	659	581	480
Long-term borrowings	123	167	253	175	74
Other financial liabilities	403	406	406	406	406
Total shareholders' equity	**26,271**	**29,731**	**34,359**	**35,631**	**37,247**
Capital stock	17,417	20,900	20,900	20,900	20,900
Capital surplus	0	0	0	0	0
Other capital	0	0	0	0	0
Acc. other comprehensive	2,211	3,488	4,463	5,681	6,982
Retained earnings	7,876	6,910	7,779	8,707	9,693
Non-controlling interest equity	2,227	2,350	2,742	3,196	3,728
*Total debt	5,475	7,484	7,410	8,230	5,232
*Net debt (cash)	4,199	2,009	(74)	820	(2,998)

Statement of comprehensive income

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Revenue	**56,318**	**59,636**	**63,113**	**66,580**	**70,278**
Growth (%)	7.1	5.9	5.8	5.5	5.6
COGS	**29,746**	**31,968**	**33,709**	**35,354**	**37,070**
Gross profit	**26,572**	**27,669**	**29,404**	**31,227**	**33,208**
GPM (%)	47.2	46.4	46.6	46.9	47.3
SG&A	14,390	15,406	16,304	17,200	18,155
Operating profit	**12,182**	**12,263**	**13,100**	**14,027**	**15,053**
Growth (%)	8.6	0.7	6.8	7.1	7.3
OPM (%)	21.6	20.6	20.8	21.1	21.4
Non-operating profit	619	1,252	1,320	1,237	1,298
Financial income	807	1,581	1,550	1,465	1,545
Financial expense	187	308	278	278	300
In which: interest expenses	109	144	175	169	185
Net other non-operating profit	(1)	(21)	48	50	53
Pre-tax profit	**12,795**	**13,519**	**14,447**	**15,292**	**16,381**
Income tax	2,238	2,311	2,440	2,583	2,766
Net profit	**10,554**	**11,236**	**12,007**	**12,710**	**13,615**
Growth (%)	3.4	6.5	6.9	5.9	7.1
NPM (%)	18.8	18.6	18.7	18.7	18.9
Controlling interest	10,581	11,099	11,788	12,442	13,280
Non-controlling interest	(27)	137	219	268	335
EBIT	**12,182**	**12,263**	**13,100**	**14,027**	**15,053**
Growth (%)	8.6	0.7	6.8	7.1	7.3
EBIT Margin (%)	21.6	20.6	20.8	21.1	21.4
EBITDA	**14,130**	**14,472**	**14,931**	**16,168**	**17,271**
Growth (%)	10.1	2.4	3.2	8.3	6.8
EBITDA margin (%)	25.1	24.3	23.7	24.3	24.6

Statement of cash flow

Year to Dec.(bn VND)	2019	2020	2021F	2022F	2023F
Cash flow from operations	**12,544**	**9,892**	**10,815**	**11,422**	**14,788**
Net profit	10,554	11,236	12,007	12,710	13,615
Depreciation expense	1,948	2,209	1,831	2,141	2,218
Amortization expense	0	0	0	0	0
Interest expenses	(109)	(144)	(175)	(169)	(185)
Change in working capital	350	(3,194)	1,459	(1,455)	1,354
Others	(417)	(503)	(4,658)	(2,143)	(2,584)
Cash flow from investments	**(6,748)**	**(4,802)**	**(3,648)**	**(3,080)**	**(2,056)**
Increase in tangible assets	621	396	3,091	2,475	2,828
Decrease in tangible assets	114	150	0	0	0
Change in intangible assets	0	0	0	0	0
Change in investment assets	(2,545)	(3,687)	(1,009)	(1,007)	(1,074)
Others	(2,158)	0	0	0	0
Free cash flow	**10,448**	**8,350**	**6,674**	**7,934**	**12,329**
Cash flow from financing	**(3,516)**	**(5,927)**	**(8,530)**	**(8,220)**	**(12,601)**
Change in equity	(1)	0	35	0	0
Borrowing	10,427	7,769	3,010	1,777	1,301
Debt payments	(6,233)	(5,753)	(2,998)	(944)	(4,239)
Dividends	(7,836)	(7,928)	(8,577)	(9,053)	(9,662)
Change in total cash	**2,449**	**932**	**(1,363)**	**123**	**131**
Beginning cash	1,523	2,665	3,597	2,234	2,357
Change in FX rates	(1)	(2)	(1)	(1)	(1)
Ending cash	3,972	3,597	2,234	2,357	2,488

Source: Company data, Shinhan Securities Vietnam

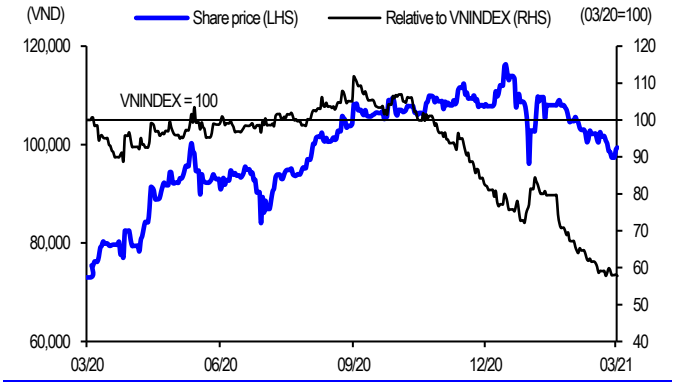
Key ratios

Year to Dec.	2019	2020	2021F	2022F	2023F
EPS (VND)	5,477	5,311	5,640	5,953	6,354
BPS (VND)	15,792	14,975	17,172	18,417	19,765
DPS (VND)	4,499	2,916	4,104	4,331	4,623
PER (x)	19.9	20.5	21.8	20.7	19.4
PBR (x)	6.9	7.3	7.2	6.7	6.2
EV/EBITDA (x)	13.6	16.1	14.4	13.4	12.4
Dividend payout ratio (%)	82.0	56.0	71.4	71.2	71.0
Dividend yield (%)	4.1	2.8	4.1	4.4	4.7
Profitability					
EBITDA margin (%)	25.1	24.3	23.7	24.3	24.6
OPM (%)	21.6	20.6	20.8	21.1	21.4
NPM (%)	18.7	18.8	19.0	19.1	19.4
ROA (%)	25.8	23.8	26.9	26.2	25.4
ROE (%)	35.5	33.4	33.5	33.0	33.0
Stability					
Debt to equity ratio (%)	18.4	22.2	20.6	21.4	12.7
Net debt ratio (%)	29.7	13.9	(0.5)	5.1	(17.4)
Cash ratio (%)	18.5	14.9	13.0	14.9	15.5
Interest coverage ratio (x)	112	85	75	83	81
Activity (%)					
Working capital turnover (times)	5.5	3.9	4.1	3.9	3.6
Inventory turnover (days)	64.5	56.4	61.1	60.7	59.4
Receivable turnover (days)	29.6	29.7	30.4	29.9	30.0

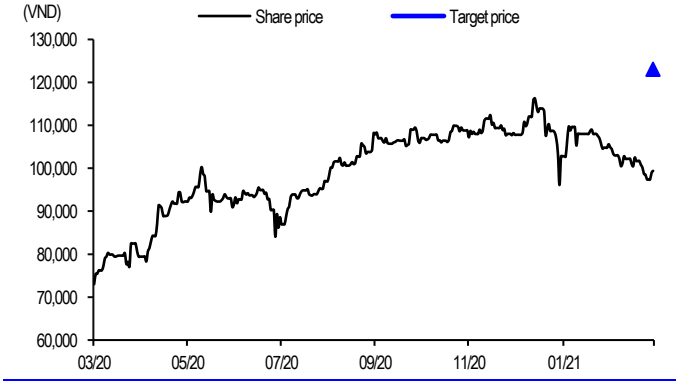
Source: Company data, Shinhan Securities Vietnam

Vietnam Dairy Product JSC (VNM VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%) Average	Max/Min
Mar. 30, 2021 (Initiate)	BUY	123,000	(1.4)	(12.1)/13.1

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

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 6-month gain of 20% or more ◆ **Trading BUY:** Expected 6-month gain of 10% to loss of 10% ◆ **HOLD:** Expected 6-month loss of 10% to 20% ◆ **REDUCE:** Expected 6-month loss of 20% 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 Trading BUY or HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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