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F&B INDUSTRY

Input price is cooling down



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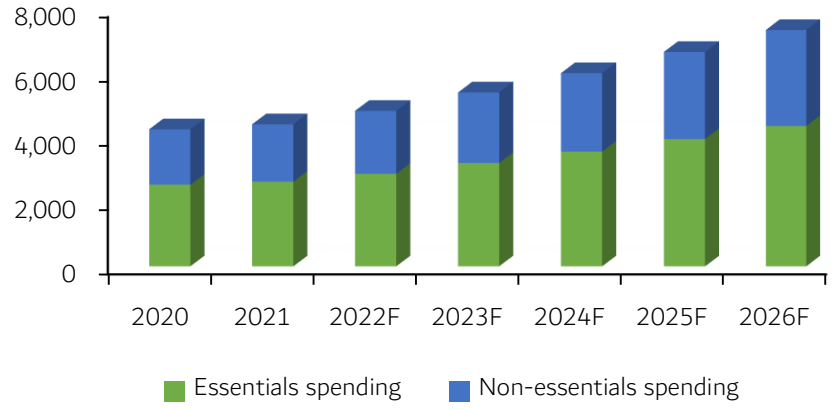


Growth drivers of the F&B industry

Total household spending and Spending on F&B industry

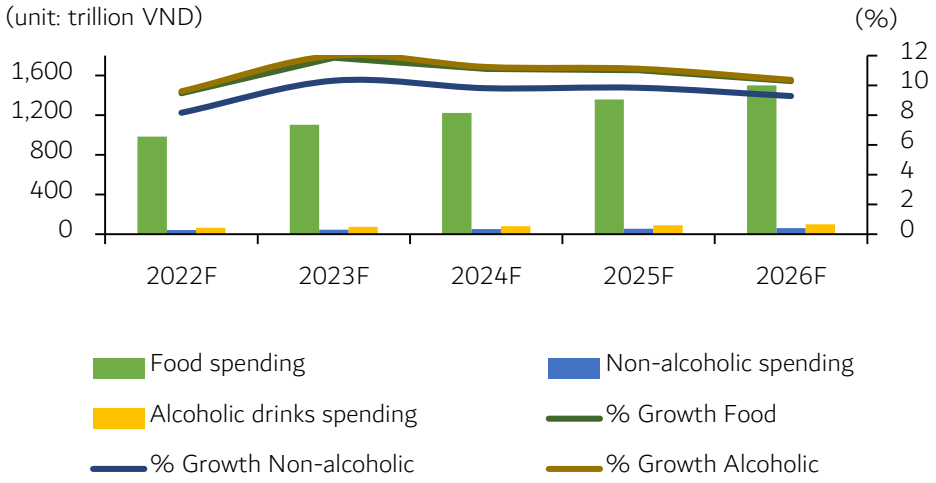
Total household spending from 2020-2026F

(unit: trillion VND)



Source: Fitch Solutions, Shinhan Securities Vietnam

Spending on F&B from 2022F-2026F



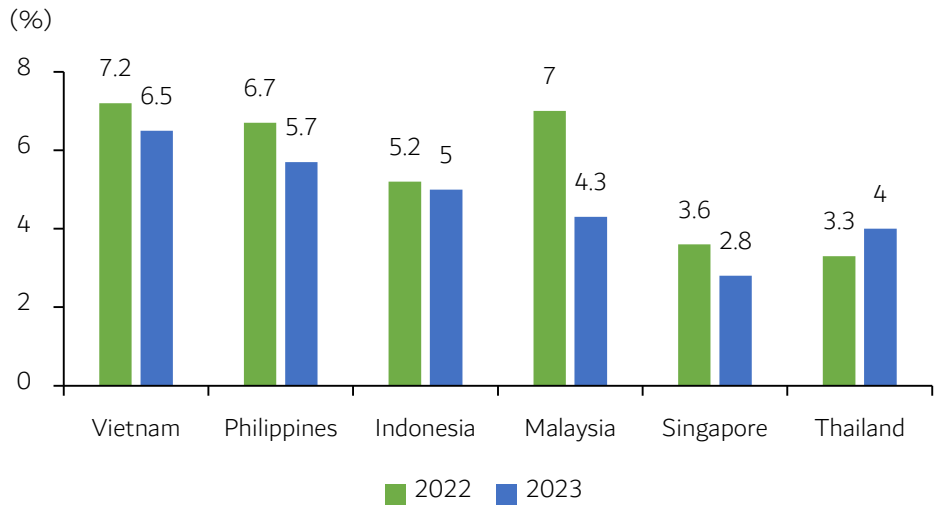
Source: Fitch Solutions, Shinhan Securities Vietnam

- The total household spending is expected to increase steadily by an average of 10%/year due to the increase in GDP per capita of Vietnam. In which, the spending on F&B in Vietnam accounted for more than 20% of the total household spending, and almost 40% of the essentials spending. With the forecast of Fitch Solutions, spending on F&B will achieve a CAGR (2022F-2026F) of 9%. In this industry, spending on food accounted for more than 90% with the average growth rate of 10% each year.

Growth drivers of the F&B industry

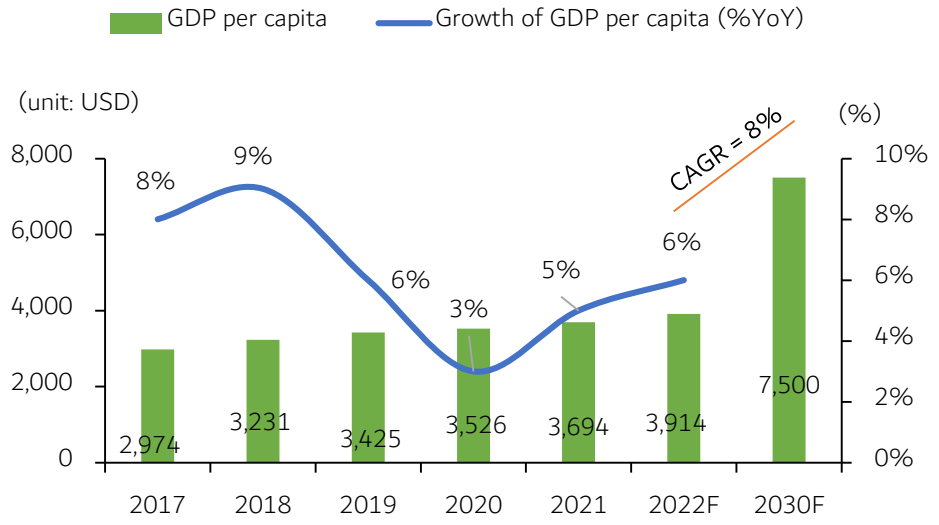
The growth of GDP per capita makes an effort for consumption

Growth of GDP of Southeast Asia countries from 2022 to 2023



Source: World Bank, Shinhan Securities Vietnam

GDP per Capita of Vietnam from 2017 to 2022



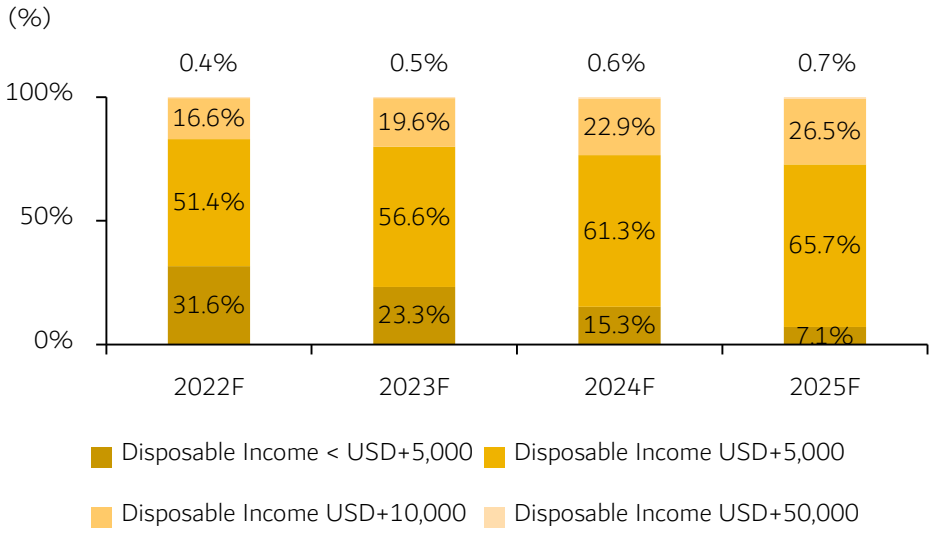
Source: World Bank, Resolution No.138/NQ-CP dated October 25, 2022 on the National Master Plan for period 2021 – 2030, vision to 2050, Shinhan Securities Vietnam

- The growth of GDP per capita of Vietnam is relatively high, with a CAGR (2017-2021) of 5.6%. In 2022, the GDP per capita of Vietnam is expected to increase by 6%, with a GDP per capita of 3,914 USD. Moreover, Vietnam's population in the labor force is quite high, about 57% of the total population, which will make an effort to increase consumption in Vietnam. Accumulated in 9M/2022, the consumption growth is 7.26% YoY.
- International organizations have all positively assessed Vietnam's socio-economic situation and optimistically forecast the country's economic growth in 2022 and 2023, among the highest in Southeast Asia (Moody, WB, IMF, and ADB predicted Vietnam's GDP growth in 2022 at 8.5%, 7.2%, 7%, and 6.5%). The national master plan of Government for the year 2021-2030, vision to 2050 has forecasted that the GDP per capita of Vietnam in 2030 will be double this time with a value of 7,500 USD.

Growth drivers of the F&B industry

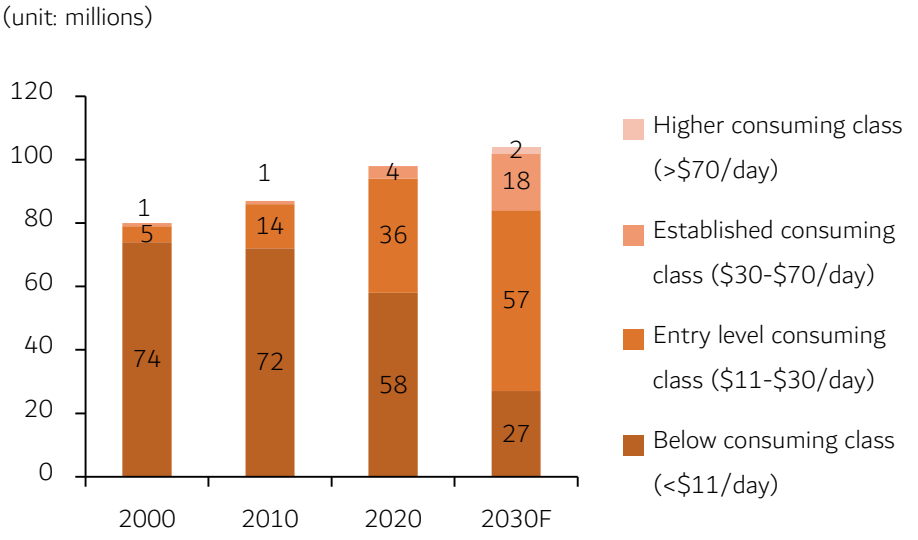
The increase of disposable income will lead to the increase in spending

Household disposable income/Total household



Source: Fitch Solutions, Shinhan Securities Vietnam

Population by income group



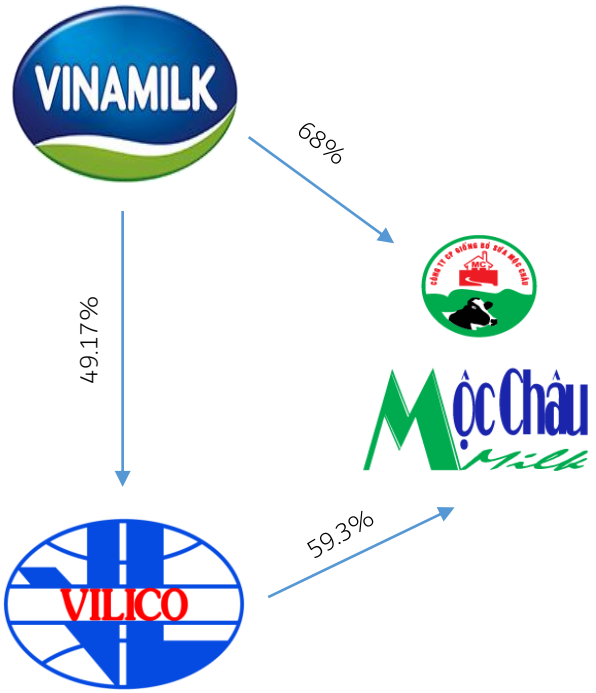
Source: Kantar, Shinhan Securities Vietnam

- With the increase in GDP per capita, market research firm Nielsen has estimated that the middle class in Vietnam will reach 44 million by 2020 and 95 million by 2030. Moreover, the population spending of USD 11/day will decrease sharply, and the people in the high-consuming class (spending >USD 70/day) will be 2 million people in 2030F.
- As disposable incomes increase, the budget for food & beverage will expand, especially the expense for high-end products, because the quality of life increase will make customer shift their behavior of spending and lead to an increase in revenue of the F&B industry.

Growth drivers of the F&B industry

M&A to have an advantage in deciding the selling price





- **M&A:** In the context of increasing high competition today, F&B businesses must constantly expand their business scale and increase brand recognition. To do that, many companies did M&A to acquire businesses in many small groups of F&B industries in the market. This action helps expand the business's scale, company is able to penetrate new market, owning a different system of product lines, infrastructure that once belonged to the acquired or merged party, save opening costs and become the leader in the game because the business owner will have an advantage in deciding the selling price - which is very urgent for improving proft of F&B businesses today.

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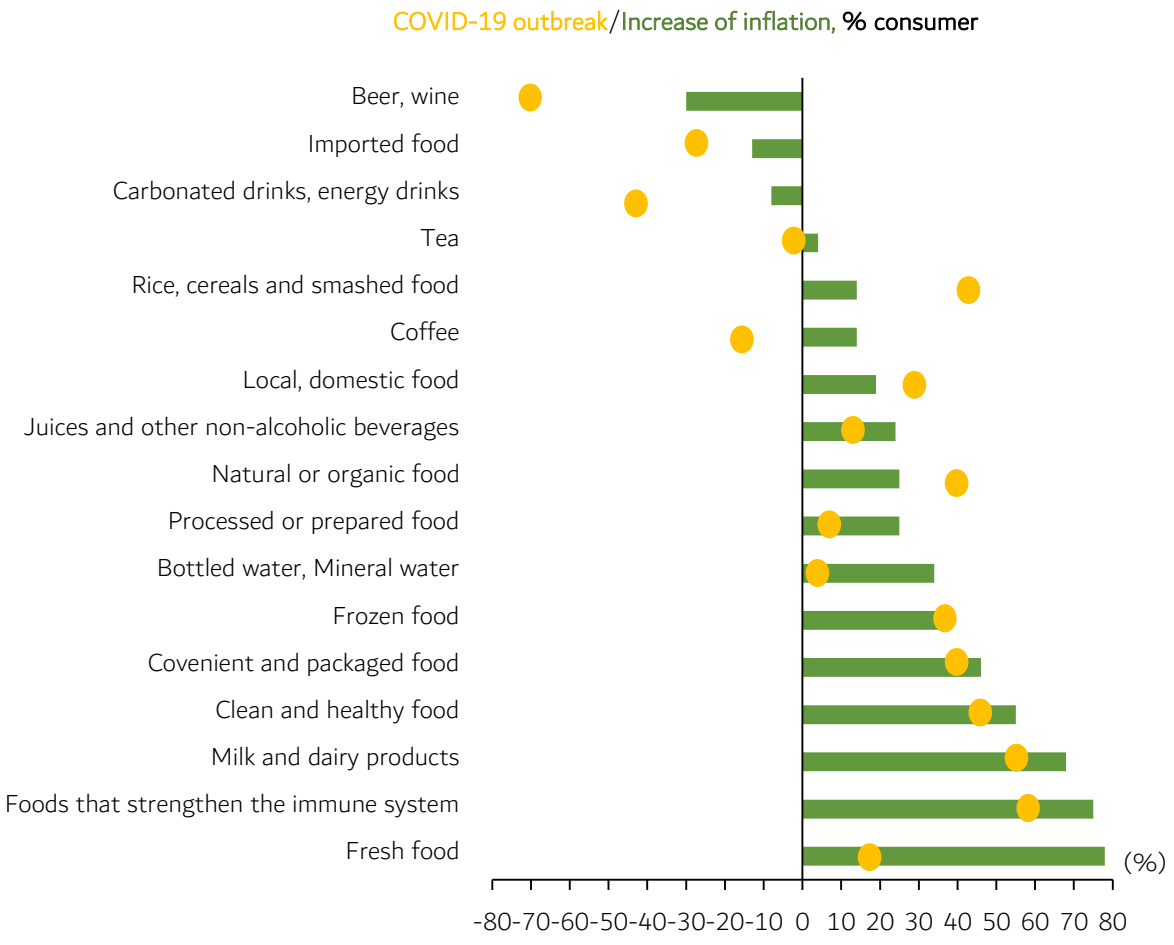
V. Stock pick



New consumption trends

Shift in spending behavior of customer

Increasing trend of food and beverage consumption in monthly spending in 2022



- Although during COVID-19 or when commodity prices increase, spending for some nutritious and healthy products, such as fresh food, milk and dairy products, clean and healthy food remains the same because those are essential spending.
- The increase in GDP per capita and disposable income will shift to a change in consumer spending from cheap to high-end, high-quality, convenient, and environmentally friendly products. So they will pay a high price, which will increase the revenue of the F&B industry.

Source: Vietnam Report, Shinhan Securities Vietnam

New consumption trends

Popular channel of shopping





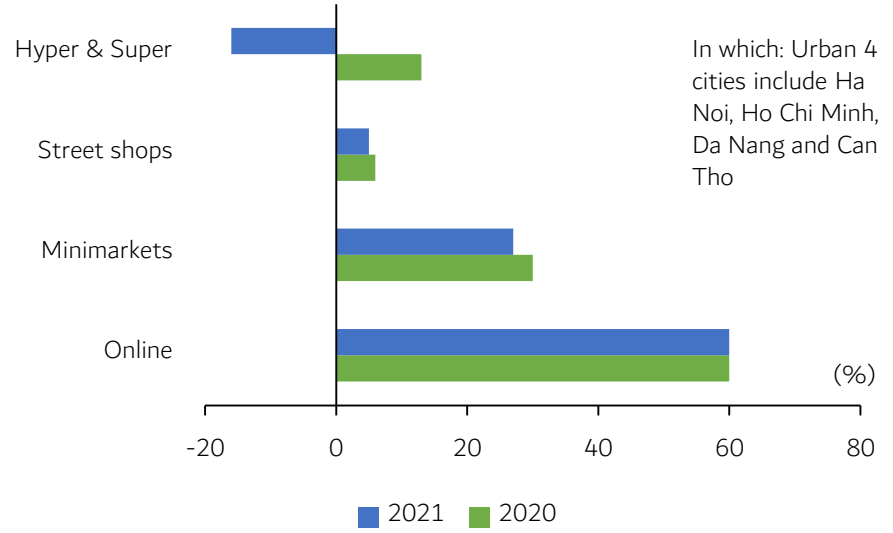






Source: Internet, Shinhan Securities Vietnam

% Value change vs Year Ago of Retail Landscape in Urban 4 cities of Vietnam



Source: Kantar, Shinhan Securities Vietnam

- **Online-channel:** The FMCG value in Vietnam increased by 5.3% YoY in Q2/2022. Since the COVID-19 pandemic, consumer shopping behavior has shifted from offline shopping to online. Statistical results in 2021 show that online shopping has increased by 60% compared to the previous year, and minimarket chains also significantly increased by 30%. Today, businesses in F&B industry have caught up with the trend by setting up online sales websites to help reach consumers shopping online more quickly.

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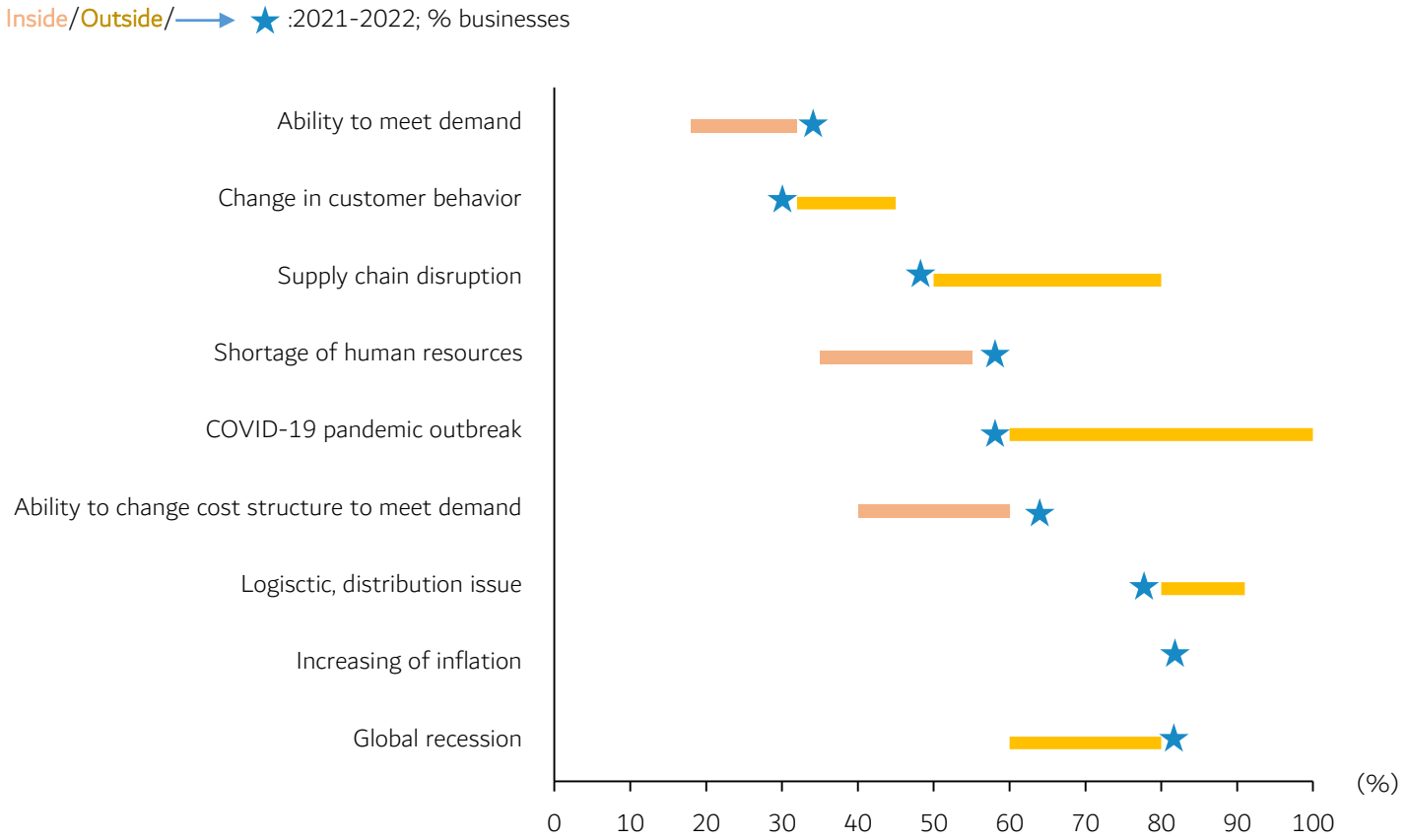
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Risks of F&B industry

The biggest difficulties businesses are facing in 2022



Source: Vietnam Report, Shinhan Securities Vietnam

Risks of F&B industry





- **The increase of inflation:** Although the need for food is a daily need of people, high inflation will also cause people to cut spending, leading to a decline in the profits of companies in the F&B industry. Fortunately, Vietnam has maintained a stable macro-economy with inflation well under control and CPI picking up 2.73% in 9M/2022.
- **Risk of distribution channel:** Today, businesses actively develop online and retail channels to reach consumers efficiently. However, this distribution channel is still new. It brings many risks, such as failure to control suppliers, not providing enough products at each point of sale, the slow online media response to customer messages, etc. Therefore, although growth from online sales channels is very promising, companies must pay more attention to channel control because it will significantly affect the company's reputation.

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Summary of outstanding companies in F&B industry

Top companies in F&B industry in 2022

Rank 1st in diary industry

Rank 1st in sugar industry

Rank 1st in packaged food industry

Rank 4th in fresh food industry

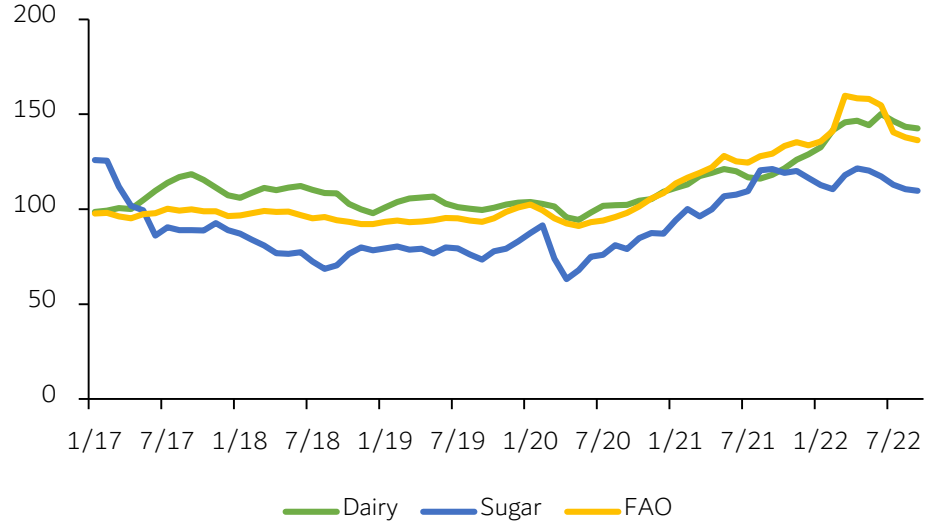
Rank 2nd in cooking oil industry

Rank 2nd in beer industry

Source: Vietnam Report, Shinhan Securities Vietnam

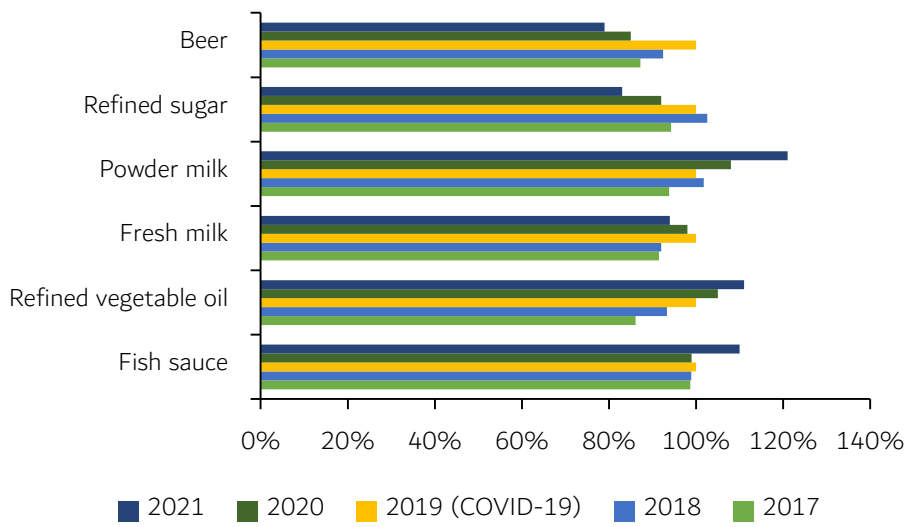
The commodities price is decreasing and Production volume is increasing

The index of commodities price 2017-2022



Source: Bloomberg, Shinhan Securities Vietnam

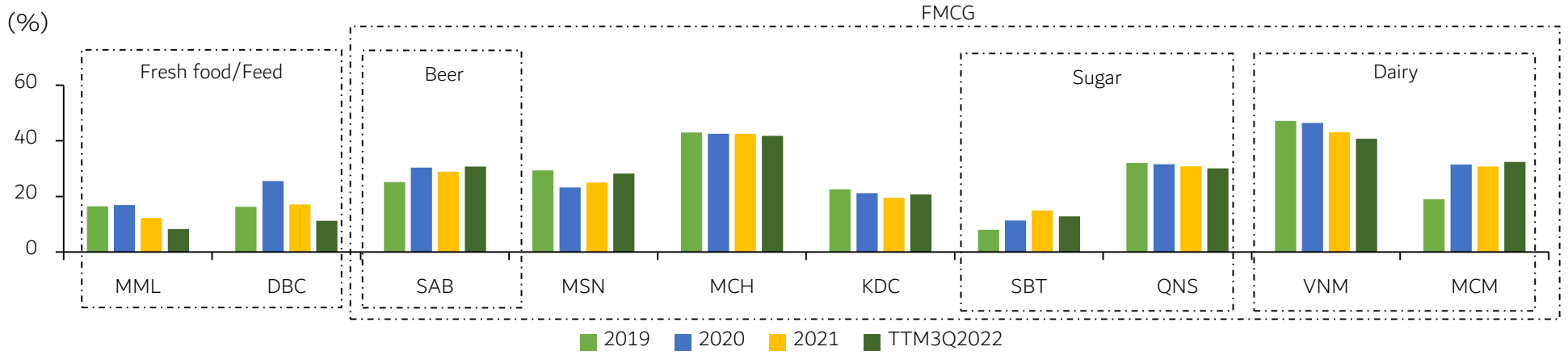
Growth of F&B production before and after pandemic



Source: GSO, Shinhan Securities Vietnam

- From 4M2020 to 4M2022, commodity prices skyrocketed due to the COVID-19 pandemic causing the supply to be exhausted and pushing up commodity prices. Since 2022, this index has shown signs of cooling down due to improved supply, creating a driving force for consumption to grow again.
- Moreover, the COVID-19 pandemic made almost all the companies in the F&B industry cut down their production in the year 2020 and 2021. The social distancing caused a shortage of suppliers and increased raw material costs. Among all the F&B production, powder milk production showed the fastest recovery after the pandemic, with an increase of more than 120% compared to 2019.

Net profit margin of company in F&B industry by segment from 2019 to TTM3Q2022



Source: Bloomberg, Shinhan Securities Vietnam

- The profit of the companies in F&B industry is diversified due to :

❖ **Fresh food/Feed:** Companies in the meat processing and feed production segment are affected by the rise of raw material prices and the decrease in selling price. The outbreak of African swine fever in many provinces was also the leading cause of the company's decline in profits.

❖ **FMCG:** Companies in the FMCG segment have a different business picture:

➢ **Beer:** Beer brewing business benefited from the reopening after the COVID-19 pandemic, along with an increase in selling prices that will contribute to improving profit margins.

➢ **Sugar:** The sugar segment has benefited from the imposition of tax by the Ministry of Industry and Trade on imported sugar (specifically, Thailand, with an anti-dumping tax rate of 47.64%).

➢ **Dairy:** The profits of dairy businesses dropped sharply due to the sharp rise in milk powder prices and the sudden increase in feed prices, which eroded the profits of the dairy industry. **However, the powder milk price showed a decrease from Q1/2022, a driver for the growth of the whole industry.**

Prospects for 2023

General info				Share price			Key financials (TTM3Q2022)			Valuation (23F)			
No.	Ticker	Sub-sector	Mkt Cap (billion VND)	Curent price (VND)	Target price (VND)	Return (%)	Gross profit margin (%)	ROA (%)	ROE (%)	P/E (x)	P/B (x)	Revenue growth (% YoY)	EPS growth (% YoY)
1	SAB	Beer	125,050	195,000	222,217	14.0	30.8	17.5	23.0	20.5	4.3	14.7	15.6
2	MSN	FMCG	126,854	89,100	130,793	46.8	28.2	7.6	24.9	16.2	2.7	16.5	39.5
3	KDC	Cooking oil	15,459	60,100	61,803	2.8	20.7	3.5	6.8	20.3	2.1	6.7	24.0
4	SBT	Sugar	7,674	11,400	#N/A	#N/A	12.8	3.3	8.9	#N/A	#N/A	#N/A	#N/A
5	QNS	Sugar, Milk	13,314	37,300	55,720	49.4	30.1	12.2	17.5	8.0	1.4	10.7	10.2
6	VNM	Milk	165,106	79,000	93,200	18.0	40.8	16.7	25.0	16.8	4.5	5.0	15.17

Source: Bloomberg, Shinhan Securities Vietnam, Data as of Novermber, 14th 2022

- The Vietnamese stock market is entering the bear market in the current recession. In this period, the consumer staples group is a defensive industry and considered an industry with investment potential. In this industry group, we choose VNM to recommend because of the company's leading position and ability to keep the price in recent times.

➢ Low debt/equity ratio and mainly short-term debt with abundant cash.

➢ The ability to expand into new industry groups such as beef project with Vilico will be implemented in 2023.

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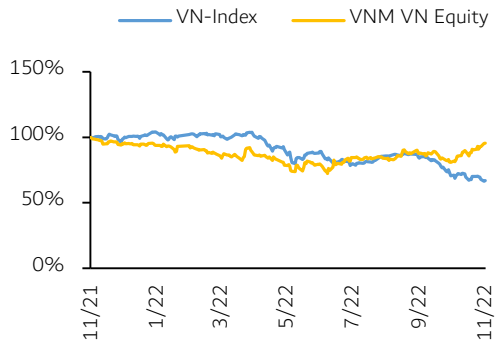


BUY

(Company Update)

Target price (12 months)	**VND 93,200**
Current price (14/11/22)	VND 79,000
Return (%)	18%
VNINDEX	941
Market P/E (x)	9.1
Market Cap (bn VND)	165,106
Outstanding shares (mn)	2,090
Free-Floating (mn)	735
52-Wk High/Low (VND)	89,600/ 64,500
90-day avg. trading volume (mn)	2.12
90-day avg. turnover (bn VND)	166
Foreign ownership (%)	26.43
Shareholders (%)	SCIC 36.0
	F&N Dairy 17.7

Performance	3M	6M	12M
Absolute (%)	9.9	19.5	-11.5
Relative to VNIndex (%)	35.3	40.0	24.6



Vietnam Dairy Products JSC (VNM VN)

Investment thesis & Catalyst

- Vietnam Dairy Products JSC (Vinamilk) is the largest Vietnam dairy company with a diverse product portfolio, 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 has come from domestic market since 2007.

- Vinamilk is the leading company in the dairy industry, with an annual GPM of over 45%, taking more than 40% market share, and an annual dividend rate of around 5%. Moreover, the company has a low debt ratio and mainly short-term debt with abundant cash.

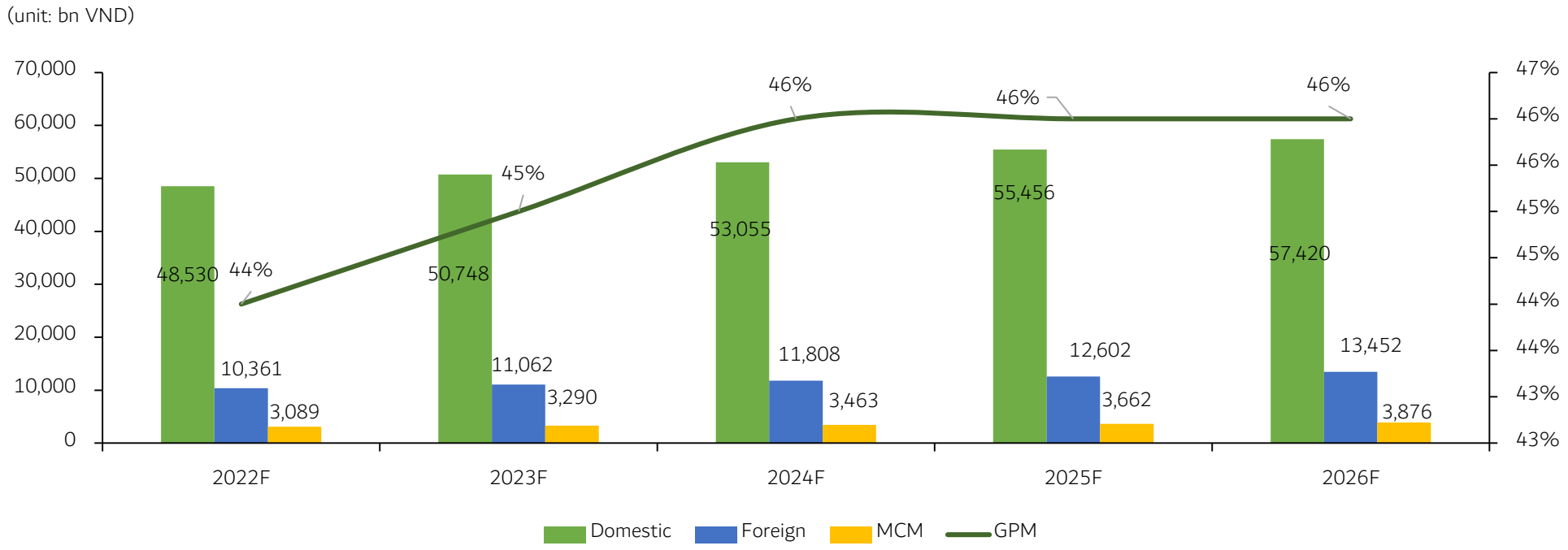
- Vinamilk will continue to improve its GPM by cooling down the raw material prices as China increases domestic supply and reduces milk imports. This year, the nut milk segment has a positive result of 3 times higher than expected revenue due to reasonable selling prices and is expected to account for 3 % of the total plant milk segment. Besides, Vilico – a subsidiary of VNM, is investing VND 2,083 billion in establishing a 200-million litter milk factory (expected to b e completed in 2025) and VND 1,522 billion in the beef project.

Risks: (1) Risk of losing key overseas customers; (2) Risk of increasing competition.

Year	2020	2021	2022F	2023F	2024F
Revenue (bnVND)	59,636	60,919	61,980	65,100	68,327
Operating profit (bnVND)	12,263	11,760	11,794	13,562	14,528
Net profit (bnVND)	11,099	10,532	10,428	12,011	12,886
EPS (VND)	4,770	4,517	4,943	5,693	6,108
BPS (VND)	16,099	17,154	18,293	19,837	21,441
OPM (%)	21%	19%	19%	21%	21%
NPM (%)	19%	17%	17%	18%	19%
ROE (%)	36%	31%	28%	30%	30%
PER (x)	20.9	18.2	14.7	12.8	11.9
PBR (x)	6.2	4.5	4.0	3.7	3.4
EV/EBITDA (x)	14.4	12.0	14.9	13.2	12.3

Revenue forecast of Vinamilk (2022F –2026F)

Revenue forecast of Vinamilk (2022F –2026F)



Source: Company data, Shinhan Securities Vietnam

- We believe that Vinamilk's revenue will post a slight CAGR of 4% during 2022-2026, which mainly driven by: 1) stable domestic sales growth of ~+2% 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 5.5%). However, Vinamilk's net profit is expected to present a higher growth rate with 2021-25 CAGR of 6.6%, due to: 1) margin expansion factors; 2)potential downside of global raw milk price after experiencing a significant rising in 2017-2021; and 3) higher profit from subsidiaries.

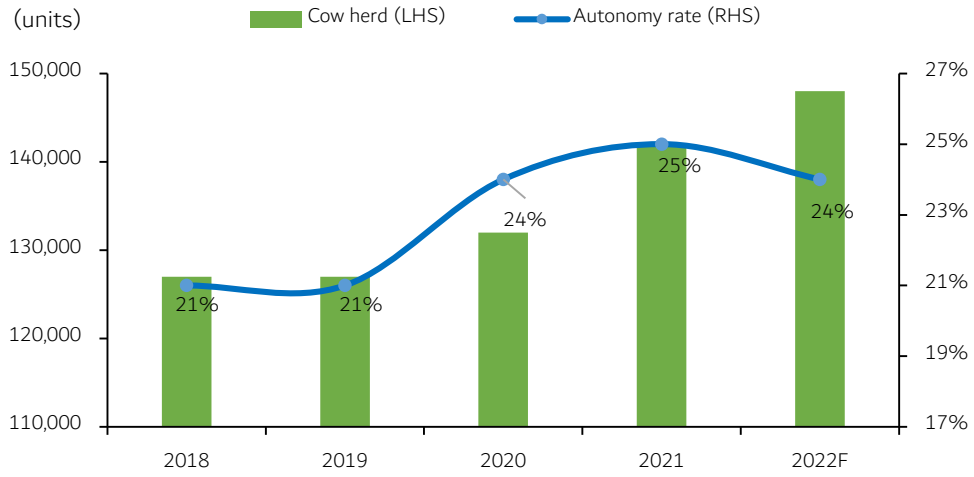
Top 10 companies in diary industry in 2022

#1 #2 #3 #4 #5

#6 #7 #8 #9 #10

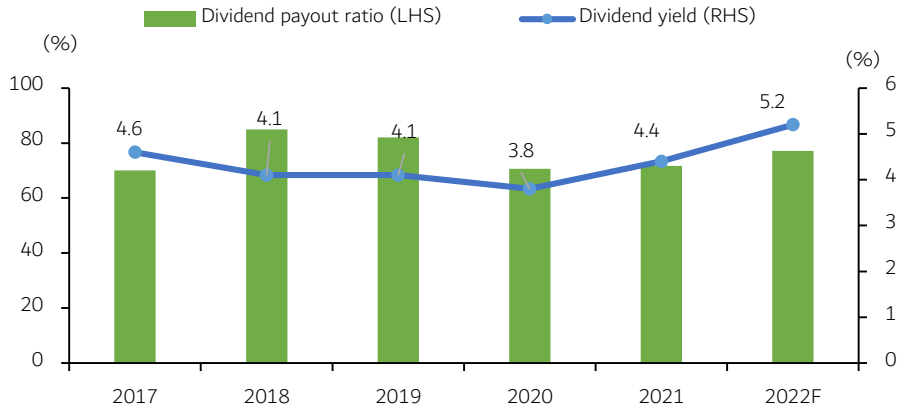
Source: Vietnam Report, Shinhan Securities Vietnam

The autonomy rate of VNM (2018-2022F)



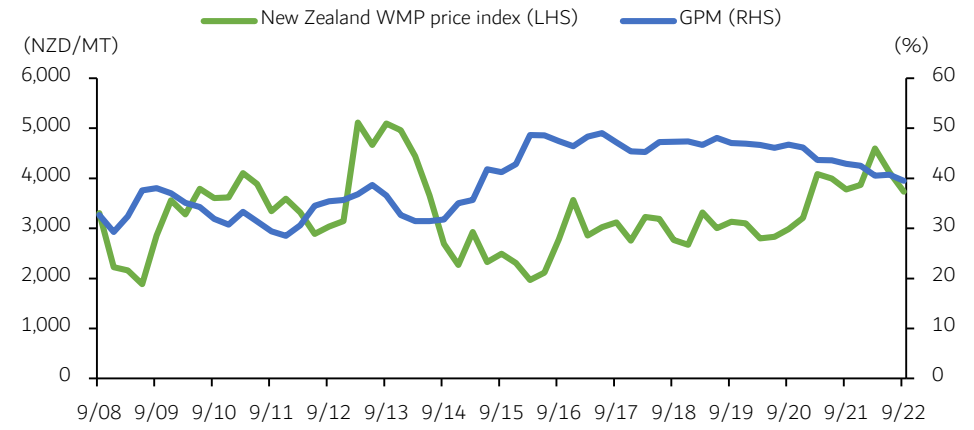
Source: Company data, Shinhan Securities Vietnam

Vinamilk dividend yield (2017 – 2022F)



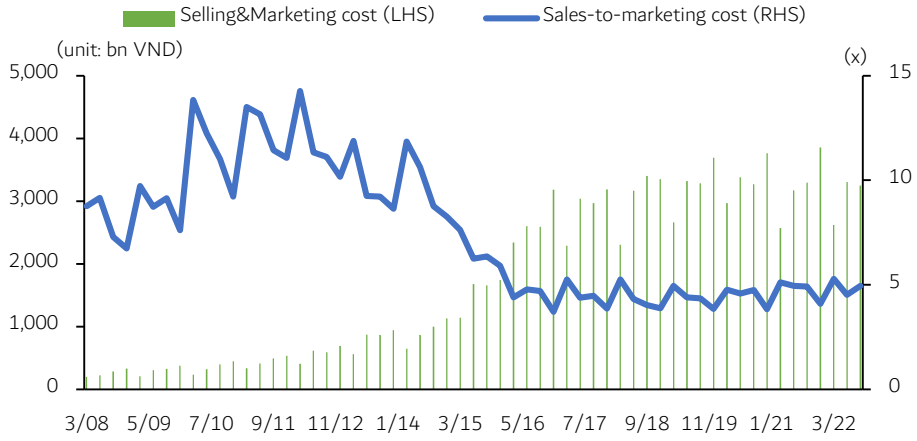
Source: Company data, Shinhan Securities Vietnam

Vinamilk's gross profit margin and whole milk powder price



Source: Company data, Shinhan Securities Vietnam

Vinamilk's marketing cost & sales-to-marketing



Source: Company data, Shinhan Securities Vietnam

Valuation methods

Combine valuation of VNM		
	Weight	Target Price
P/E	50%	92,620
FCFF	50%	93,966
Total	**100%**	**93,200**

WACC (%)	**8.7%**
Risk-free rate	5%
Equity risk premium	7.8%
Beta	0.71
Cost of debt (%)	2.72%
Cost of equity (%)	10.5%
Debt to equity ratio (%)	21%
Value of debt (bn VND)	9,775

Forecast FCF of VNM					
Unit: billion VND	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Net profit	10,428	12,011	12,886	13,536	14,351
Plus: After-tax interest expense	73	217	155	202	194
Plus: Depreciation & Amortization	2,401	2,401	2,518	2,702	1,911
Minus: Change in working capital	(1,326)	693	484	329	209
Minus: CapEx	2,524	3,089	2,694	2,725	0
Free Cash Flow (FCF)	**11,705**	**10,846**	**12,382**	**13,386**	**16,248**
PV of FCF	11,705	9,971	10,458	10,385	11,551
Terminal growth rate	1%				
Present value of long-term value	147,619				
Enterprise value	201,690				
Debt	9,775				
Cash and cash equivalents	4,507				
Implied Equity Value	196,385				
Number of shares outstanding (billion)	2.089				
Target price (VND)	**93,966**				

Source: Company data, Shinhan Securities Vietnam

- We apply a combination of P/E and Discounted Cash Flow (DCF) valuation methods with 50% and 50% weights to value Vinamilk.. For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield at 5% as the risk-free rate. Beta is calculated based on the last 5 years' historical data of VNM and VNINDEX.
- Based on the P/E method, we collect data of VNM's 5-year average P/E, with a weight of 50%. We estimate VNM' s target P/E at 18.74x. With the 2022 forward EPS at VND 4,943, VNM's target price is VND 92,620.

Appendix – Important Disclosure



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