

VIETNAM DAIRY JSC (VNM) – AGM NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND115,900	VND131,000	3.9%	ADD	CONSUMER GOODS

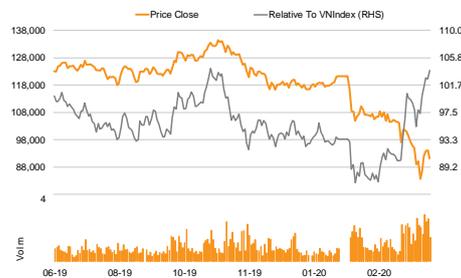
26 June 2020

Outlook – Short term:	Positive
Outlook – Long term:	Positive
Valuation	Positive
Consensus*: Add:8 Hold:5 Reduce:0	
Target price / Consensus:	7.3%

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	139,000
52w low (VND)	83,700
3m Avg daily value (VNDm)	115,604
Market cap (VNDbn)	163,864
Free float (%)	33.0
TTM P/E (x)	21.2
Current P/B (x)	6.7

Ownership

SCIC	36.0%
F&N Dairy Investment Pte, Ltd	20.0%
Platinum Victory Pte Ltd	10.6%
Others	33.4%

Source: VNM

Analyst(s):



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2020 AGM: key takeaways

- 1H20 preliminary results: revenue and net profit grew 7% yoy and 3% yoy, respectively.
- Tie-up with Kido Group (KDC:HOSE) in ice-cream and tap into milk coffee.
- Maintain ADD with unchanged TP of VND131,000.

Better 1H20 performance than company targets

- FY20F business plan was approved by the AGM with VND59,600bn (+5.4% yoy) in revenue and VND10,690bn in net profit (+1.0% yoy). Net profit growth guidance is slightly lower than the 3.4% net profit growth seen in FY19 as the company is concerned about the effects of the Covid-19 outbreak.
- Management unveiled 1H20 prelim revenue/net profit growth at 7.0%/3.0% yoy, respectively. 6M net profit was in line at 50% of our full-year forecast.

FY20F dividend plan

- VNM is likely to maintain FY20F cash dividend plan similar to FY19 at VND4,500/share. VND3,000/share will be paid in advance in Sep 2020 and the remaining amount would be paid in Feb 2021.
- In addition, the company will issue bonus share at the ratio of 5:1. The ex-date for the issue is 30 Sep 2020.

Tie up with KIDO group in ice-cream and tap into takeaway milk coffee

- The ice-cream business segments of VNM and KIDO Group will be merged to form a new joint venture, in which VNM will own 51% stake. We estimate that the new JV will be a giant local player in the ice-cream space with about 50% market share. Vietnam's ice cream market was valued at VND3,500bn (US\$150m) at end-FY19 and is expected to grow at 7.4% CAGR in FY20-23F. However, the competition is scorchingly hot due to the participation of foreign players such as Unilever and Nestle.
- VNM aims to launch the takeaway milk coffee product in 2020F and sell them in the company's 430 "Vietnamese milk dream" shops countrywide. Vietnam's coffee market value is estimated at US\$2.3bn at end-FY19.
- VNM is slated to invest roughly VND1,000bn in its subsidiary GTN to build an organic farm in Moc Chau province. Since mid-2019, VNM started to develop the 1st stage of Laos-Jagro organic farm with 8,000 cows.

Maintain Add with unchanged TP of VND131,000

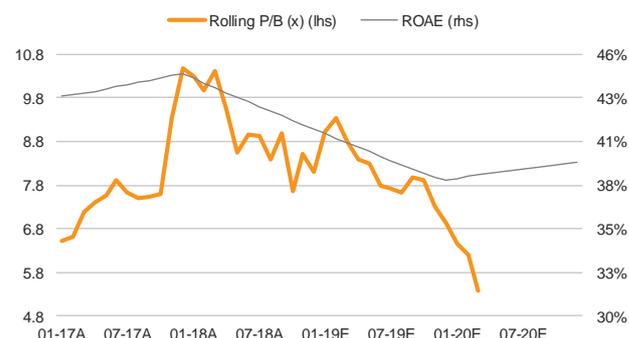
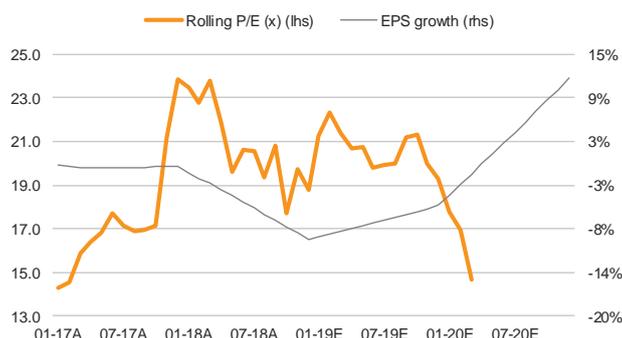
- Stock price has rallied 20.8% since the company's announcement of share buyback plan. The last day of the buyback period is 20 Jun 2020, but we don't have updated information on the value of completed transaction so far.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net revenue (bn)	52,562	56,318	62,042	66,330
Revenue growth	3.0%	7.1%	10.2%	6.9%
Gross margin	46.8%	47.2%	47.1%	47.4%
EBITDA margin	26.1%	26.4%	28.3%	28.9%
Net profit (bn)	10,184	10,527	11,766	12,793
Net profit growth	(0.7%)	3.4%	11.8%	8.7%
Adjusted EPS	5,295	5,485	6,080	6,611
BVPS	15,084	17,070	17,754	20,599
ROAE	41.4%	38.3%	39.4%	38.9%

Figure 1: Peer comparison (Data as at 26 Jun 2020)

Dairy producer	Bloomberg code	Recom.	TP (VND)	Market cap (US\$m)	EPS growth (%)		P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E (x)
					TTM	FY20F	TTM	FY20F	TTM	FY20F	TTM	FY20F	TTM	FY20F	
Inner Mongolia Yili	600887 CH	NR	N/a	26,412	-20.8%	-14.2%	35.2	30.9	6.8	6.4	21.8%	22.1%	9.5%	9.2%	0.5
China Mengniu Dairy	2319 HK	NR	N/a	15,134	39.6%	-29.1%	26.0	32.7	3.7	3.4	15.1%	10.6%	5.7%	4.3%	0.7
Meiji Holdings	2269 JP	NR	N/a	11,957	6.9%	3.6%	18.1	18.3	2.2	2.1	12.4%	12.2%	6.7%	7.1%	0.2
Yakult Honsha Co	2267 JP	NR	N/a	9,958	10.9%	-5.9%	25.2	27.3	2.7	2.5	10.9%	9.6%	6.4%	6.8%	0.3
Bright Dairy	600597 CH	NR	N/a	2,541	8.9%	-21.4%	42.1	34.1	3.2	3.0	7.8%	9.0%	2.5%	3.9%	0.5
Morinaga Milk Industries	2264 JP	NR	N/a	2,189	12.8%	-5.1%	12.5	15.4	1.3	1.2	10.7%	7.9%	4.3%	3.5%	0.6
Average				11,365	9.7%	-12.0%	26.5	26.4	3.3	3.1	13.1%	11.9%	5.8%	5.8%	0.4
Median				10,957	9.9%	-10.1%	25.6	29.1	3.0	2.7	11.6%	10.1%	6.0%	5.5%	0.5
Vietnam Dairy Products	VNM VN	ADD	131,000	8,688	1.1%	11.8%	21.2	23.4	6.7	8.0	32.6%	39.4%	25.2%	25.4%	0.2

Source: VNDIRECT RESEARCH, Bloomberg

Valuation

Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	56,318	62,042	66,330
Cost of sales	(29,746)	(32,840)	(34,889)
Gen & admin expenses	(1,396)	(1,634)	(1,750)
Selling expenses	(12,993)	(13,957)	(14,911)
Operating profit	12,182	13,612	14,780
Operating EBITDA	14,131	16,574	18,142
Depreciation and amortisation	(1,948)	(2,962)	(3,362)
Operating EBIT	12,182	13,612	14,780
Interest income	807	1,052	1,091
Financial expense	(187)	(277)	(202)
Net other income	(1)	(2)	(2)
Income from associates & JVs	(6)	25	27
Pre-tax profit	12,796	14,411	15,694
Tax expense	(2,241)	(2,594)	(2,825)
Minority interest	(27)	(51)	(76)
Net profit	10,527	11,766	12,793
Adj. net profit to ordinary	10,527	11,766	12,793
Ordinary dividends	(7,838)	(7,838)	(7,838)
Retained earnings	2,690	3,928	4,956

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	2,665	3,445	3,920
Short term investments	12,436	12,408	13,266
Accounts receivables	4,442	5,455	5,832
Inventories	4,983	6,329	6,689
Other current assets	134	234	250
Total current assets	24,660	27,871	29,957
Fixed assets	15,837	15,964	16,324
Total investments	1,100	897	1,196
Other long-term assets	3,133	3,134	2,950
Total assets	44,731	47,866	50,428
Short-term debt	5,351	3,785	1,400
Accounts payable	3,648	4,019	4,297
Other current liabilities	5,443	7,522	8,013
Total current liabilities	14,443	15,326	13,710
Total long-term debt	123	91	29
Other liabilities	434	1,527	811
Share capital	17,417	17,417	17,417
Retained earnings reserve	7,875	10,627	14,304
Shareholders' equity	29,240	30,432	35,387
Minority interest	491	490	490
Total liabilities & equity	44,731	47,866	50,428

Cash flow statement

(VNDbn)	12-19A	12-20E	12-21E
Pretax profit	12,796	14,411	15,694
Depreciation & amortisation	2,016	3,177	3,600
Tax paid	(2,034)	(2,594)	(2,825)
Other adjustments	(556)	(742)	(833)
Change in working capital	(808)	91	32
Cash flow from operations	11,414	14,342	15,669
Capex	(2,158)	(4,192)	(3,762)
Proceeds from assets sales	114	59	73
Others	(5,370)	230	(1,156)
Other non-current assets changes	666	(224)	(64)
Cash flow from investing activities	(6,748)	(4,127)	(4,909)
New share issuance	128	0	0
Shares buyback	(1)	1	0
Net borrowings	4,194	(1,598)	(2,447)
Other financing cash flow	(8)	0	0
Dividends paid	(7,836)	(7,838)	(7,838)
Cash flow from financing activities	(3,524)	(9,435)	(10,285)
Cash and equivalents at beginning of period	1,523	2,665	3,445
Total cash generated	1,143	780	475
Cash and equivalents at the end of period	2,665	3,445	3,920

Key ratios

	12-19A	12-20E	12-21E
Dupont			
Net profit margin	18.7%	19.0%	19.3%
Asset turnover	1.37	1.34	1.35
ROAA	25.6%	25.4%	26.0%
Avg assets/avg equity	1.49	1.55	1.49
ROAE	38.3%	39.4%	38.9%
Efficiency			
Days account receivable	22.5	23.5	23.5
Days inventory	61.1	70.5	70.0
Days creditor	44.8	44.8	45.0
Fixed asset turnover	3.75	3.90	4.11
ROIC	29.9%	33.8%	34.3%
Liquidity			
Current ratio	1.7	1.8	2.2
Quick ratio	1.4	1.4	1.7
Cash ratio	1.0	1.0	1.3
Cash cycle	38.9	49.3	48.5
Growth rate (yoy)			
Revenue growth	7.1%	10.2%	6.9%
Operating profit growth	8.7%	11.7%	8.6%
Net profit growth	3.4%	11.8%	8.7%
EPS growth	3.4%	11.8%	8.7%

Source: VNDIRECT RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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