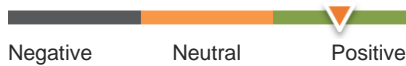


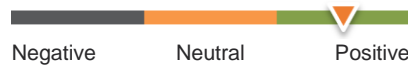
## VIETNAM DAIRY PRODUCTS JSC (VNM) – EARNINGS FLASH

<b>Market Price</b> VND132,400	<b>Target Price</b> VND155,600	<b>Dividend Yield</b> 3.39%	<b>Rating</b> ADD	<b>Sector</b> CONSUMER GOODS
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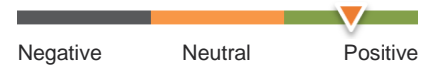
### Outlook – Short term



### Outlook – Long term



### Valuation



01 November 2019

Duc Nguyen Tien

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### Price performance



Source: VNDIRECT RESEARCH

### Key statistics

52w high (VND)	151,600
52w low (VND)	113,378
3m Avg daily volume (shares)	836,654
3m Avg daily value (VNDm)	105,652
Market cap (VNDbn)	230,599
Outstanding shares (m)	1,769
Free float (%)	33
TTM P/E (x)	21.6
Current P/B (x)	8.4

### Ownership

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

Source: VNDIRECT RESEARCH

### Earnings growth on track

**9M19 results in line with our expectation.** VNM posted net revenue and net profit growth of 4.0% yoy and 3.3% yoy in 3Q19, making up 73.7% and 78.4% of our full year forecasts, respectively.

**Both overseas and domestic market demonstrated positive growth in 9M19.** In 9M19, VNM's domestic revenue grew 5.7% yoy to VND35,820bn, higher than the 2.7% growth seen in 9M18. Better domestic revenue growth stemmed from a c.3.7~4.7% sales volume growth and a 1~2% rise in ASP. According to VNM, the positive results was backed up by the launch of 15 products and about 15,000 new points of sales (+4% yoy). In the other side, 9M19 overseas market revenue increased 10.6% yoy to VND6,259bn, accounting for 14.9% of total revenue.

**GP margin expanded on the back of higher domestic ASP.** The average milk powder input price stayed stable at US\$3,086 per tonne, thus leaving no major impact on 9M19 GPM. VNM's 9M19 blended GPM inched up 0.6% pts yoy to 47.3% as a result of 1.1% pts increase in domestic GPM (on the back of 1-2% higher ASP) while overseas GPM dropped 1.9% pts yoy (due to changes in exported product mix).

**Higher tax burden.** VNM's 9M19 EBT margin gained 0.2% pts yoy to 24.1% thanks to higher GPM and a drop of 0.3% pts yoy in SG&A as percentage of revenue. However, effective CIT rate rose 2.1% pts yoy after the tax holiday at several factories ended, prompting net margin to ease 0.3% pts in the period. Excluding abnormal factors (fix asset liquidation, bonus from suppliers), core net profit grew 10.8% yoy in 9M2019.

**China's market is about to open officially.** The Chinese government granted an official milk export licence to TH Food Chains JSC Vietnam in Oct 2019. We believe that VNM might get this official licence in 4Q19F and start distributing its products to China in the last months of 2019.

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	51,041	52,562	57,093	62,588
Revenue growth	9.1%	3.0%	8.6%	9.6%
Gross margin	47.5%	46.8%	46.9%	47.3%
EBITDA margin	21.5%	20.5%	21.8%	24.1%
Net profit (bn)	10,261	10,184	10,668	11,778
Net profit growth	9.4%	(0.7%)	4.8%	10.4%
Recurring profit growth	8.6%	(1.9%)	7.1%	11.3%
FD EPS	5,296	5,336	5,819	6,424
BVPS	16,105	14,805	16,430	18,693
ROAE	44.8%	41.4%	39.2%	38.5%

Source: VND RESEARCH

Figure 1: Result comparison

VNDbn	3Q19	3Q18	%yoy chg	9M19	9M18	%yoy chg	% vs our FY19F		Comment
							2019F	forecast	
<b>Revenue</b>	<b>14,291</b>	<b>13,735</b>	<b>4.0%</b>	<b>42,079</b>	<b>39,558</b>	<b>6.4%</b>	<b>57,093</b>	<b>73.7%</b>	
Domestics	12,183	11,689	4.2%	35,820	33,897	5.7%	47,866	74.8%	9M19 domestic revenue increased by 5.7% yoy driven by 1~2% price increase and 3.7%~4.7% volume rise.
Overseas	2,108	2,046	3.0%	6,259	5,661	10.6%	9,227	67.8%	9M19 overseas revenue jumped 10.6% yoy thanks to better performance of both export (+10%yoy) and overseas subsidiaries (+11% yoy)
<b>Gross profit</b>	<b>6,723</b>	<b>6,494</b>	<b>3.5%</b>	<b>19,892</b>	<b>18,449</b>	<b>7.8%</b>	<b>26,748</b>	<b>74.4%</b>	
<b>GPM</b>	<b>47.0%</b>	<b>47.3%</b>	<b>-0.2%pts</b>	<b>47.3%</b>	<b>46.6%</b>	<b>0.6%pts</b>	<b>46.9%</b>	<b>0.4%pts</b>	
Domestics	47.0%	46.5%	0.5% pts	47.4%	46.3%	1.1% pts	47.0%	0.4%	Domestics GPM rose 1.1% pts in 9M19 thanks to higher ASP in the context 9M19 average milk price stayed intact at US\$3,086/MT, unchanged from 9M18
Overseas	47.1%	51.7%	-4.7% pts	46.6%	48.4%	-1.9% pts	46.6%	0.0%	
Average global w hole milk powder price (USD/Tonne)	3,065	2,885	6.2%	3,086	3,087	0.0%	3,050	1.2%	
<b>SG&amp;A</b>	<b>3,610</b>	<b>3,411</b>	<b>5.8%</b>	<b>10,207</b>	<b>9,708</b>	<b>5.1%</b>	<b>14,736</b>	<b>69.3%</b>	
SG&A as % of revenue	25.3%	26.9%	-1.7% pts	24.3%	24.5%	-0.3% pts	25.8%	-1.6% pts	SG&A as % revenue in 9M19 slightly reduced by 0.3% pts yoy thanks to Advertisement & promotion as % revenue decreased by 0.4% pts yoy.
<b>EBIT</b>	<b>3,113</b>	<b>2,796</b>	<b>11.3%</b>	<b>10,147</b>	<b>9,445</b>	<b>7.4%</b>	<b>12,012</b>	<b>84.5%</b>	
EBIT margin	21.8%	20.4%	1.4% pts	24.1%	23.9%	0.2% pts	21.0%	3.1% pts	
<b>Pre-tax profit</b>	<b>3,254</b>	<b>3,064</b>	<b>6.2%</b>	<b>10,147</b>	<b>9,445</b>	<b>7.4%</b>	<b>12,775</b>	<b>79.4%</b>	
EBT margin	22.8%	22.3%	0.5% pts	24.1%	23.9%	0.2% pts	22.4%	1.7% pts	
<b>Tax</b>	<b>577</b>	<b>474</b>	<b>21.9%</b>	<b>1,769</b>	<b>1,450</b>	<b>22.0%</b>	<b>2,084</b>	<b>84.9%</b>	
Tax rate	17.7%	15.5%	2.3% pts	17.4%	15.4%	2.1% pts	16.3%	1.1% pts	CIT rate increased by 2.1% pts in 9M19 due to tax incentive period of several VNMs factories was over
<b>NPAT</b>	<b>2,677</b>	<b>2,591</b>	<b>3.3%</b>	<b>8,378</b>	<b>7,995</b>	<b>4.8%</b>	<b>10,690</b>	<b>78.4%</b>	
Net margin	18.7%	18.9%	-0.1% pts	19.9%	20.2%	-0.3% pts	18.7%	1.2% pts	
<b>FD EPS (VND)</b>	<b>1,537</b>	<b>1,487</b>	<b>3.3%</b>	<b>4,810</b>	<b>4,590</b>	<b>4.8%</b>	<b>5,819</b>	<b>82.7%</b>	

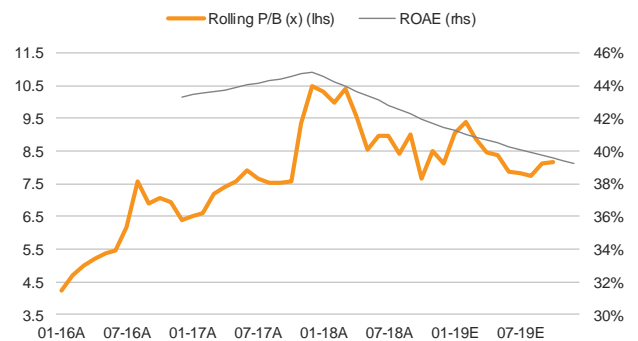
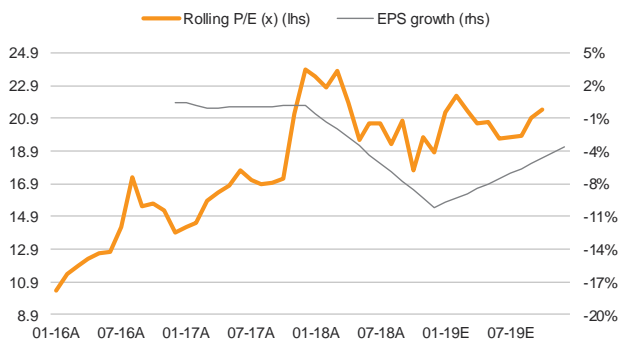
Source: VNDIRECT RESEARCH

Figure 2: Peer comparison (Data as of 1<sup>st</sup> Nov 2019)

Dairy producer	Bloomberg code	Recom.	Target price (VND)	Market cap (US\$m)	EPS growth (%)			P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E(x)
					FY19F	FY20F	TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM			
Inner Mongolia Yili	600887 CH	NR	N/a	25.137	1,1%	10,8%	25,1	25,2	7,0	5,8	27,7%	23,2%	14,3%	13,4%	0,2	
China Mengniu Dairy	2319 HK	NR	N/a	15.731	42,0%	-0,1%	30,9	23,8	4,1	3,7	14,2%	16,1%	5,2%	7,6%	0,4	
Yakult Honsha Co	2267 JP	NR	N/a	9.798	5,3%	-0,1%	29,7	28,6	3,0	2,8	9,5%	10,6%	5,4%	7,0%	0,3	
Vitasoy	345 HK	NR	N/a	4.330	18,2%	13,7%	48,6	42,7	10,1	9,6	22,9%	23,7%	12,6%	12,7%	0,0	
Morinaga Milk Industries	2264 JP	NR	N/a	1.929	42,3%	-19,8%	14,5	10,6	1,2	1,1	8,7%	11,0%	3,3%	5,3%	0,6	
Bright Dairy	600597 CH	NR	N/a	1.898	26,5%	12,2%	34,3	28,7	2,4	2,9	7,2%	8,6%	2,2%	3,6%	0,7	
<b>Average</b>				<b>9.804</b>	<b>22,6%</b>	<b>2,8%</b>	<b>30,5</b>	<b>26,6</b>	<b>4,6</b>	<b>4,3</b>	<b>15,0%</b>	<b>15,5%</b>	<b>7,2%</b>	<b>8,3%</b>	<b>0,4</b>	
<b>Median</b>				<b>7.064</b>	<b>22,4%</b>	<b>5,4%</b>	<b>30,3</b>	<b>26,9</b>	<b>3,6</b>	<b>3,3</b>	<b>11,8%</b>	<b>13,6%</b>	<b>5,3%</b>	<b>7,3%</b>	<b>0,4</b>	
Vietnam Dairy JSC	VNM VN	ADD	155.600	9.757	9,0%	10,4%	21,6	20,2	8,4	8,0	42,9%	36,6%	26,6%	25,5%	0,4	

Source: VNDIRECT RESEARCH, Bloomberg

**Valuation**



**Income statement**

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	52,562	57,093	62,588
Cost of sales	(27,951)	(30,345)	(32,998)
Gen & admin expenses	(1,133)	(1,228)	(1,348)
Selling expenses	(12,266)	(13,508)	(14,878)
<b>Operating profit</b>	<b>11,212</b>	<b>12,012</b>	<b>13,364</b>
Operating EBITDA	10,476	11,122	12,294
<b>Depreciation and amortisation</b>	<b>1,627</b>	<b>1,713</b>	<b>1,911</b>
<b>Operating EBIT</b>	<b>11,212</b>	<b>12,012</b>	<b>13,364</b>
Interest income	666	673	675
Financial expense	(118)	(130)	(177)
Net other income	269	191	209
Income from associates & JVs	22	30	34
<b>Pre-tax profit</b>	<b>12,052</b>	<b>12,775</b>	<b>14,104</b>
Tax expense	(1,846)	(2,084)	(2,301)
Minority interest	(22)	(23)	(25)
<b>Net profit</b>	<b>10,184</b>	<b>10,668</b>	<b>11,778</b>
Adj. net profit to ordinary	10,184	10,668	11,778
Ordinary dividends	(7,838)	(7,838)	(7,838)
<b>Retained earnings</b>	<b>2,346</b>	<b>2,830</b>	<b>3,941</b>

**Balance sheet**

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	1,523	1,672	1,868
Short term investments	8,674	7,708	8,449
Accounts receivables	4,621	5,020	5,503
Inventories	5,526	6,611	7,095
Other current assets	304	1,475	2,683
<b>Total current assets</b>	<b>20,648</b>	<b>22,485</b>	<b>25,598</b>
Fixed assets	14,234	15,172	16,189
Total investments	1,069	2,812	2,612
Other long-term assets	1,416	1,418	1,434
<b>Total assets</b>	<b>37,366</b>	<b>41,887</b>	<b>45,833</b>
Short-term debt	1,060	1,588	1,699
Accounts payable	3,991	4,335	4,752
Other current liabilities	5,588	4,823	4,846
<b>Total current liabilities</b>	<b>10,640</b>	<b>10,746</b>	<b>11,297</b>
Total long-term debt	216	1,779	1,209
Other liabilities	239	260	285
Share capital	17,417	17,417	17,417
Retained earnings reserve	7,155	9,452	12,804
<b>Shareholders' equity</b>	<b>25,781</b>	<b>28,611</b>	<b>32,552</b>
Minority interest	490	490	490
<b>Total liabilities &amp; equity</b>	<b>37,366</b>	<b>41,887</b>	<b>45,833</b>

**Cash flow statement**

(VNDbn)	12-18A	12-19E	12-20E
<b>Pretax profit</b>	<b>12,052</b>	<b>12,775</b>	<b>14,104</b>
Depreciation & amortisation	1,684	1,770	1,968
Tax paid	(1,880)	(2,084)	(2,301)
Other adjustments	(675)	(706)	(683)
<b>Change in working capital</b>	<b>(3,040)</b>	<b>(1,905)</b>	<b>(562)</b>
<b>Cash flow from operations</b>	<b>8,140</b>	<b>9,849</b>	<b>12,526</b>
Capex	(3,186)	(3,196)	(3,504)
Proceeds from assets sales	94	87	61
Others	1,398	(777)	(542)
Other non-current assets changes	648	(68)	(82)
<b>Cash flow from investing activities</b>	<b>(1,045)</b>	<b>(3,953)</b>	<b>(4,067)</b>
New share issuance	0	0	0
Shares buyback	(3)	0	0
Net borrowings	724	2,091	(459)
Other financing cash flow	(1)	0	0
Dividends paid	(7,256)	(7,838)	(7,838)
<b>Cash flow from financing activities</b>	<b>(6,536)</b>	<b>(5,746)</b>	<b>(8,297)</b>
Cash and equivalents at beginning of period	963	1,523	1,672
<b>Total cash generated</b>	<b>559</b>	<b>149</b>	<b>162</b>
Cash and equivalents at the end of period	1,523	1,672	1,834

**Key ratios**

	12-18A	12-19E	12-20E
<b>Dupont</b>			
Net profit margin	19.4%	18.7%	18.8%
Asset turnover	1.46	1.44	1.43
ROAA	28.3%	26.9%	26.9%
Avg assets/avg equity	1.47	1.46	1.43
ROAE	41.4%	39.2%	38.5%
<b>Efficiency</b>			
Days account receivable	23.5	23.5	23.5
Days inventory	72.2	79.5	78.7
Days creditor	52.1	52.1	52.7
Fixed asset turnover	3.93	3.88	3.99
ROIC	37.0%	32.9%	32.8%
<b>Liquidity</b>			
Current ratio	1.9	2.1	2.3
Quick ratio	1.4	1.5	1.6
Cash ratio	1.0	0.9	0.9
Cash cycle	43.5	50.8	49.5
<b>Growth rate (yoy)</b>			
Revenue growth	3.0%	8.6%	9.6%
Operating profit growth	(1.9%)	7.1%	11.3%
Net profit growth	(0.7%)	4.8%	10.4%
EPS growth	(0.7%)	4.8%	10.4%

Source: VND 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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