

**BUY [+37%]**

Updated: 28/04/2021

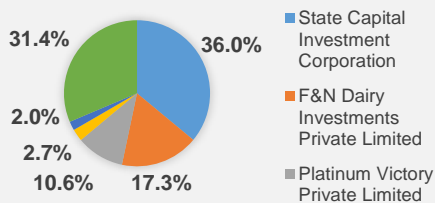
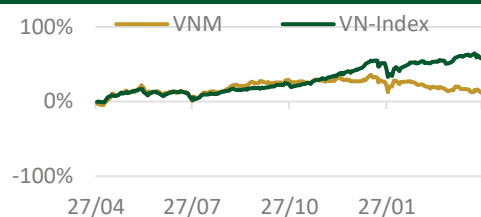
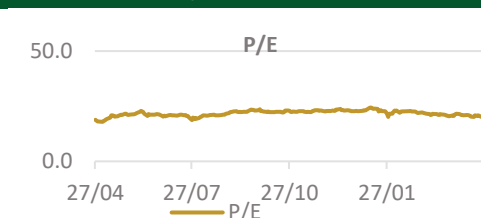
Fair price	128,000	VND
Current price	93,700	VND

**PHS**

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**Stock Information**

Outstanding shares (mil)	2,089.9
Free-float (mil)	1,044.9
Market cap. (bil VND)	200,636
3m avg. volume (shares)	3,775,329
Foreign ownership (%)	55.46%
First listing date	19/01/2006

**Major shareholders**

**Price movement compared to the Index**

**Valuation history**


Source: Bloomberg, PHFM collect

**Annual General Meeting Note**
**Key points of AGM:**

**Business performance in Q1/2021:** VNM posted VND 13,241 billion of Net Revenue (-6% YoY) and VND 2,597 billion of Net Profit (-6% YoY), completing 21.3% of revenue plan and 23% of profit target. Compared to the Company's forecasts, business results of Q1/2021 were less positive due to the Covid-19 outbreak in February. In which, domestic revenue was flat while export revenue grew 8%.

**Increase the number of dairy cows in 2021:** On March 21, 2021, VNM directly imported more than 2,100 HF cows from the US into Vinamilk Quang Ngai Farm. The Company will continue to import 3,000 more high-yielding dairy cows to increase the number of herds for Moc Chau and Laos farms.

**Expectations for growth in new segment in the long term:** VLC will invest in a beef farm with a scale of 20,000 cows/year with a total investment of VND 1,700 billion in Vinh Phuc. Beef revenue could be VND 2,000 billion in 2023.

**Searching for M&A opportunities in the next 3-5 years:** General Director of VNM stated that Company invested CAPEX in the period of 2017 – 2021 to increase capacity from 60- 80%, which could meet the demand until 2025. VNM will invest in mergers and acquisitions deals to grow, and could also develop a new business line if potential.

**2021 targets:** VNM set Net Revenue target of VND 62,160 billion (+4.1% YoY). Net Profit could be VND 11,240 billion, flat compared to 2020. We think that The Management of VNM set a conservative 2021 target due to the complicated development of Covid-19 pandemic and there are currently not many countries implementing community vaccination. We believe that VNM could exceed its revenue target thanks to increased domestic revenue with the expectation that Covid-19 vaccination could be launched in the second half of 2021 and many new products attract consumers. Moreover, subsidiary Driftwood (USA) could recover when the US plans to complete the community vaccination program in May. Although VNM pegged raw material prices until June 2021, the price of raw materials increases too strongly while the selling price cannot increase correspondingly. This will negatively affect profitability. Net Profit is estimated to complete 93% of the 2021 target.

**Dividend policy:** VNM pays a cash dividend of 41% in 2020 (VND 4,100/share), equivalent to a total payable amount of VND 7,871 billion. The first and second dividend payment could be 15% and 14% respectively in 2021, and the remaining dividend payment will be decided in the AGM of 2022.

**Valuation and recommendation:** Net Revenue in 2021 could increase by 7% YoY thanks to increased milk consumption. However, we cautiously estimate Gross Profit Margin of 45%, lower than 46.4% in 2020 due to the sharp increase in raw milk and sugar prices. Accordingly, VNM's estimated Net Profit in 2021 could reach VND 10,488 billion (-7% YoY). By using DCF and P/E methods, the fair price of VNM is VND **128,000/share** (+37% compared to the current price). Hence, we recommend **BUY** for this stock.

**Investment risk:** (1) Fluctuation from input material price; (2) Imported products directly compete with VNM ; (3) Risk after M&A deal

Financial Indicators	2016A	2017A	2018A	2019A	2020A	2021F
Net revenue (billion VND)	46,794	51,041	52,562	56,318	59,636	63,811
Profit after tax (billion VND)	9,364	10,278	10,206	10,554	11,236	10,488
EPS (VND)	5,831	6,355	5,295	5,478	5,311	4,972
EPS Growth (%)	0%	9%	-17%	3%	-3%	-6%
Book Value (VND)	13.973	14.736	15.087	15.392	16.102	16.501
P/E	21.54	32.82	22.66	21.27	18.86	25.75
P/B	8.99	14.16	7.95	7.57	6.69	7.76
Cash dividend (%)	60%	50%	45%	45%	45%	45%

## Valuation and recommendations:

By DCF and P/E valuation methods, we expect target price for VNM stock is **VND 128,000/share**, upside +37%. Therefore, we recommend **BUY** for this stock.

### DCF valuation

(billion dong)	2021F	2022F	2023F	2024F	2025F
Net profit	10,389	11,460	12,859	14,192	16,106
Interest expense after tax	158	171	187	205	226
CAPEX	(1,306)	(1,285)	(1,577)	(1,934)	(2,243)
Depreciation	1,938	2,054	2,253	2,324	2,215
WC	358	(747)	(893)	(713)	(971)
FCFF	11,537	11,653	12,828	14,075	15,332
DCF (WACC 7%)	10,777	10,169	10,457	10,718	10,906
Terminal value (2% g)	309,720				
Net debt	(7,627)				
Equity value	281,251				
Outstanding shares	2,089,645,346				
<b>Target price (VND/share)</b>	<b>134,593</b>				

### P/E method

	DCF	P/E	Fair price
<b>EPS 2021</b>			
<b>4,972</b>			
<b>P/E industry</b>			
<b>20.46</b>			
<b>Fair price</b>			
<b>101,755</b>			
<b>Fair price (VND/share)</b>	<b>134,593</b>	<b>101,755</b>	<b>128,000</b>
<b>Proportion</b>	<b>80%</b>	<b>20%</b>	<b>VND/share</b>

**Financial Statement (billion VND)**

<b>Business Results</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>
Net revenue	51,041	52,562	56,318	59,636	63,811
Cost of goods sold	(26,807)	(27,951)	(29,746)	(31,968)	(35,096)
Gross profit	24,234	24,611	26,572	27,669	28,715
Selling expense	(11,537)	(12,266)	(12,993)	(13,447)	(15,634)
Administration expense	(1,268)	(1,133)	(1,396)	(1,958)	(1,787)
Operating profit	11,430	11,212	12,182	12,263	11,295
Financial profit	729	642	620	1,273	842
Interest expense	(29)	(51)	(109)	(144)	(198)
Profit before tax	12,229	12,052	12,796	13,519	12,619
Profit after tax	10,278	10,206	10,554	11,236	10,488
Profit after tax for shareholders of parent company	10,296	10,227	10,581	11,099	10,389
<b>Balance sheet</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>
<b>Short-term asset</b>	<b>20,307</b>	<b>20,560</b>	<b>24,722</b>	<b>29,666</b>	<b>35,521</b>
Cash & cash equivalent	963	1,523	2,665	2,111	2,259
Short-term investment	10,562	8,674	12,436	17,314	22,334
Receivables	4,592	4,639	4,503	5,187	5,301
Inventory	4,021	5,526	4,983	4,905	5,517
Other short-term asset	170	198	135	148	110
<b>Long-term asset</b>	<b>14,360</b>	<b>16,806</b>	<b>19,978</b>	<b>18,767</b>	<b>17,558</b>
Long-term receivables	54	88	21	20	55
Fixed asset	10,609	13,365	14,894	13,854	13,226
Property investment	95	90	62	60	51
Construction-in-progress	1,929	868	944	1,063	991
Long-term investments	555	1,069	987	973	1,007
Other long-term assets	643	787	705	738	777
Goodwill	475	538	2,366	2,059	1,451
<b>Total Asset</b>	<b>34,667</b>	<b>37,366</b>	<b>44,700</b>	<b>48,433</b>	<b>53,078</b>
<b>Total Liabilities</b>	<b>10,794</b>	<b>11,095</b>	<b>14,969</b>	<b>14,785</b>	<b>18,598</b>
Short-term liabilities	10,196	10,640	14,443	14,213	17,904
Long-term liabilities	599	455	526	573	694
<b>Shareholder's equity</b>	<b>23,873</b>	<b>26,272</b>	<b>29,731</b>	<b>33,647</b>	<b>34,480</b>
Charter capital	14,515	17,417	17,417	20,900	20,900
Minority Interest	-	-	-	-	-
<b>Total Equity</b>	<b>34,667</b>	<b>37,366</b>	<b>44,700</b>	<b>48,433</b>	<b>53,078</b>

<b>Cash flow</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>
Net cash flow from operating activities	9,602	8,140	11,410	10,180	12,130
Net cash flow from investing activities	(1,771)	(1,045)	(6,748)	(4,802)	(1,306)
Net cash flow from financing activities	(7,535)	(6,535)	(3,516)	(5,927)	(10,676)
Net cash flow for the period	295	560	1,146	(548)	148
Beginning cash and cash equivalents	655	963	1,523	2,665	2,111
Ending cash and cash equivalents	963	1,523	2,665	2,111	2,259
<b>Financial indicators (%)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>
<b>Growth rate (%)</b>					
Revenue	9.1%	3.0%	7.1%	5.9%	7.0%
Earnings after tax	9.8%	-0.7%	3.4%	6.5%	9.0%
Total asset	18.0%	7.8%	13.7%	2.5%	2.2%
Total shareholder's equity	6.5%	10.0%	13.2%	13.2%	2.5%
<b>Profitability</b>					
Gross Margin	47.5%	46.8%	47.2%	46.4%	45.0%
EBIT margin	24.0%	23.0%	22.9%	22.9%	20.1%
Net margin	20.1%	19.4%	18.7%	18.8%	16.4%
ROA	29.6%	27.3%	23.6%	23.2%	19.8%
ROE	43.1%	38.8%	35.5%	33.4%	30.4%
<b>Operating efficiency</b>					
Receivable days	20.47	23.95	22.21	24.19	23.10
Inventory days	58.16	62.34	60.46	56.02	53.97
Payables days	54.26	48.79	44.15	36.03	43.57
<b>Liquidity</b>					
Current ratio	1.99	1.93	1.71	2.09	1.98
Quick ratio	1.60	1.41	1.37	1.74	1.68
<b>Financial structure</b>					
Debt to asset ratio	0.02	0.03	0.12	0.15	0.19
Debt to equity ratio	0.02	0.05	0.18	0.22	0.29
Short term debt to equity	0.01	0.04	0.18	0.22	0.28
Long term debt to equity	0.01	0.01	0.00	0.00	0.00

Source: PHFM

## Analyst certification

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Buy = Expected to outperform the local market by >10%  
Hold = Expected to in line with the local market by +10%~ -10%  
Sell = Expected to underperform the local market by >10%.  
Not Rated = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends)

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