

# Food & Beverage

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**Non-rated**

## Improving gross margin expected in 1Q22F

### Revenue recovered in 4Q21

The lockdown policy eased significantly from Oct, leading food and beverage consumption to recover from the bottom in 3Q21, albeit to a different level in each sector. Based on our estimate, 4Q21 aggregated revenue of listed milk companies, brew and sugar grew by 9.8%, 7.7%, and 26.4% yoy, respectively. The 4Q21 aggregated NPATMI of dairy and sugar producers increased by 4.2% and 15% yoy, respectively. Meanwhile, the NPATMI growth of listed beer companies was softer at -19.7% yoy after bottoming at -66% in 3Q21 due to tepid domestic demand in the lockdown period.

### Gross margin squeezed due to input price hike

The weak growth of the selling price could not compensate for the strong rise of input material prices. Hence, gross margin (GM) narrowed among F&B companies in 4Q21. GM of dairy sector shrank by 3.1%p yoy mainly due to an increase of over 30% yoy in input milk powder price. Besides, the brewing sector's GM lost by 2.3%p yoy owing to spikes in raw material prices such as aluminum and barley malt. Meanwhile, the sugar sector's GM dropped by 1.0%p yoy dragged by the QNS's GM contraction.

### Demand closely backs to normal in 1Q22F

We expect the recovery momentum of F&B consumption will sustain in 1Q22F when the covid-19 pandemic could be controlled well. The recovery will be assisted by (1) growing household incomes (2) the on-trade channel will be fully reopened. In our view, the consumption of F&B will back to a nearly normal level before the pandemic, especially, the unessential stuff like beer could bounce back more vigorously after a severe hit in a pandemic.

### Gross margin could rebound slightly in 1Q22F

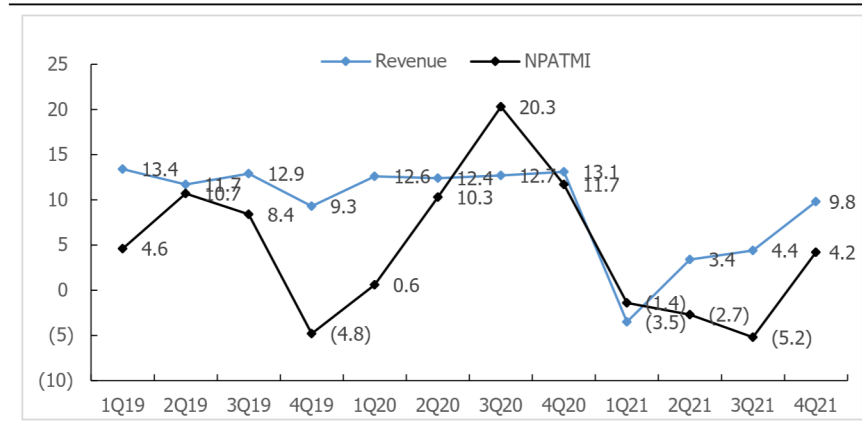
Although F&B domestic demand recovered in 4Q21, most companies struggle to raise the selling prices because the income of households had not recovered strongly and immediately. However, in 1Q22F, when the income of households will grow highly, F&B producers could push selling prices up much easily. Most producers have plans to increase selling prices in 1Q22F to make up for the higher input costs. Big players such as VNM, SAB have just increased prices by about 3-5% in late Dec 2021 and that will support GMs in 1Q22F.

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The 4Q21 total revenue momentum growth of the 4 listed dairy products continued to improve. Revenue growth in 4Q21 was at 9.8% yoy, higher than that of 4.4% yoy in 3Q21. Meanwhile, the earnings growth pace recovered from -5.2% yoy in 3Q21 to 4.2% in 4Q21. The NPATMI growth pace was lower, implying that the gross profit margin was hit.

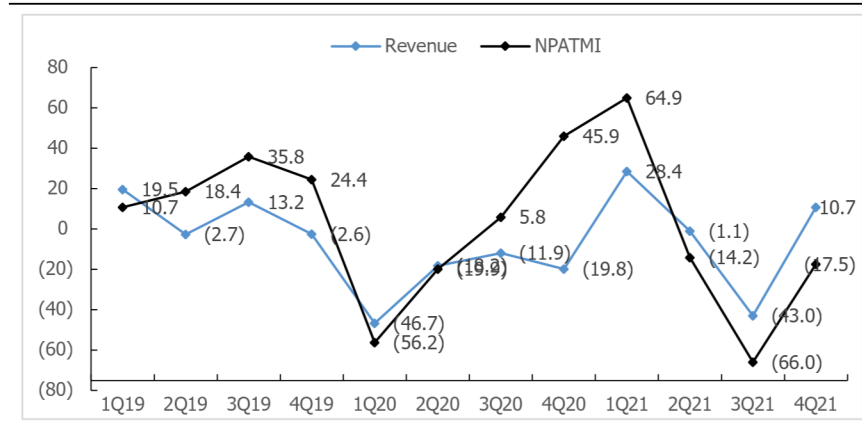
**Figure 1. Net profit growth of listed dairy producers earned in 4Q21**



Source: Company data, Fiinpro

Based on our collection, the 4Q21 aggregate earnings growth of 14 listed beer companies on three bourses recovered from the bottom of 3Q21 due to gloomy domestic demand in the lockdown period. The revenue growth pace in 4Q21 was positive at 10.7% yoy compared to -43% yoy in 3Q21. Net profit growth reverted to -19.7% yoy in 4Q21 from -66% in 3Q21. However, the net profit growth pace was smaller, implying there were also other headwinds on net profit growth.

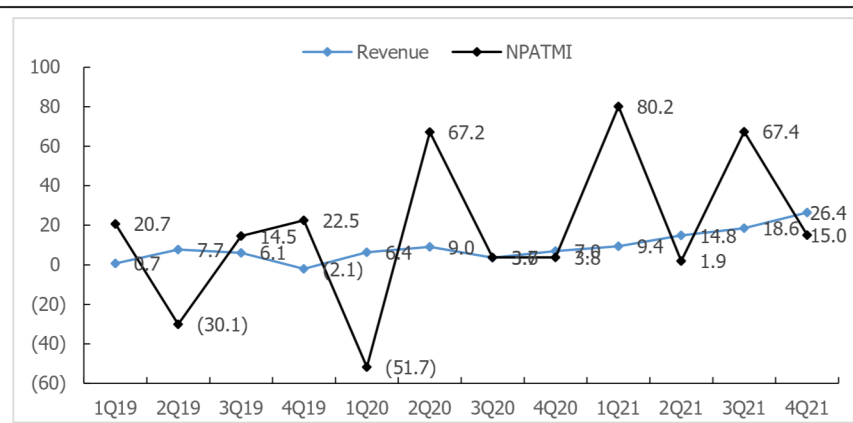
**Figure 2. Net profit growth of listed beer producers earned in 4Q21**



Source: Company data, Fiinpro

The 4Q21 aggregate revenue momentum of 5 listed sugar companies on three bourses accelerated. The revenue growth pace in 4Q21 was still at a high level at 26.4% yoy. However, net profit growth went up only by just 15% yoy in 4Q21, slow down from 67.4% yoy seen in 3Q21. The earnings growth pace was slower, raising concerns about other burdens.

**Figure 3. Net profit growth of listed sugar producers earned in 4Q21**

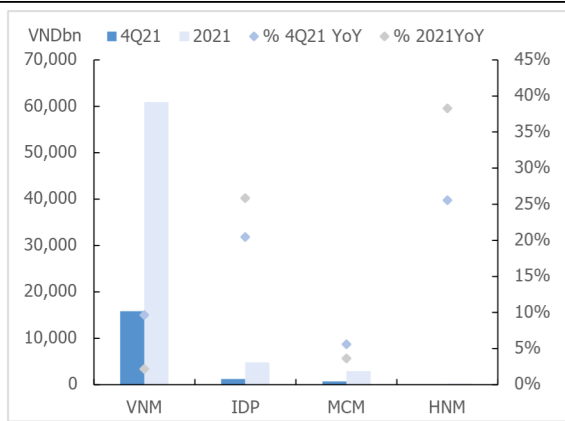


Source: Company data, Fiiipro

**Sales volume led the topline of dairy and brewing industries**

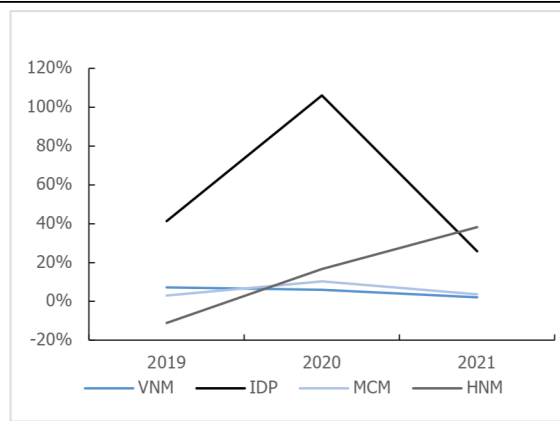
Breaking down milk aggregate revenue growth by a specific company, VNM top the influence in the light of its dominant position with revenue grew by 9.7% yoy to VND15.8tn in 4Q21. MCM, the subsidiary of VNM, kept the same revenue growth pace with 5.6% yoy. Meanwhile, small players such as IDP and HNM recorded higher momentum at 20.4% yoy and 25.5% yoy, respectively. These two companies also reported outperforming results with revenue growth of +25.8% yoy and +38.7% yoy, respectively. The revenue growth of the biggest player, VNM inched up by +2% yoy in 2021.

**Figure 4. IDP and HNM revenue growth far exceeded industry in 4Q21**



Source: Company data, Fiiipro

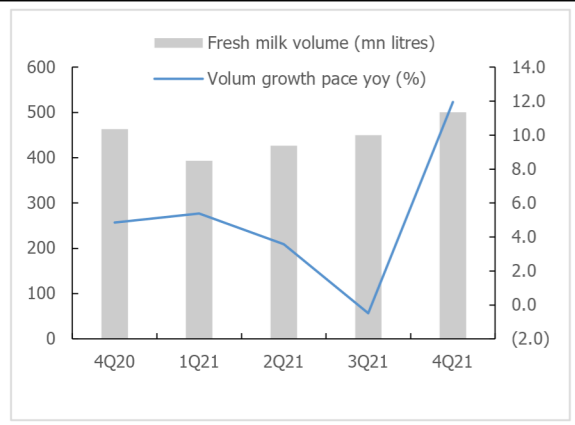
**Figure 5. Revenue growth (yoy) of dairy producers**



Source: Company data, Fiiipro

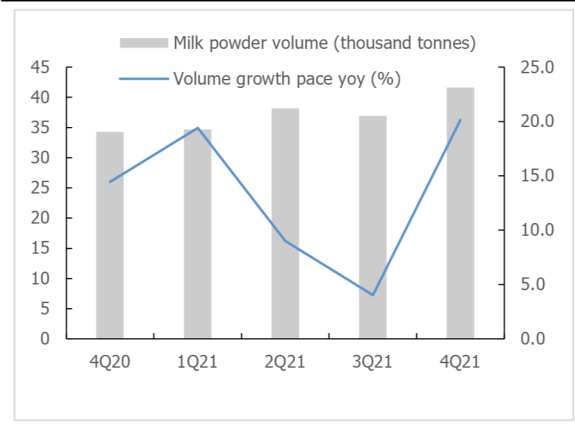
According to the General Statistics Office (GSO), Vietnam's fresh milk and milk powder production volumes went up to 500.4mn liters (+11.9% yoy) and 41,600 tonnes (+20.1% yoy), respectively. Meanwhile, the average selling price (ASP) did not constituent revenue growth in 4Q21 as VNM announced the increase from late Dec.

**Figure 6. Vietnam fresh milk production**



Source: GSO

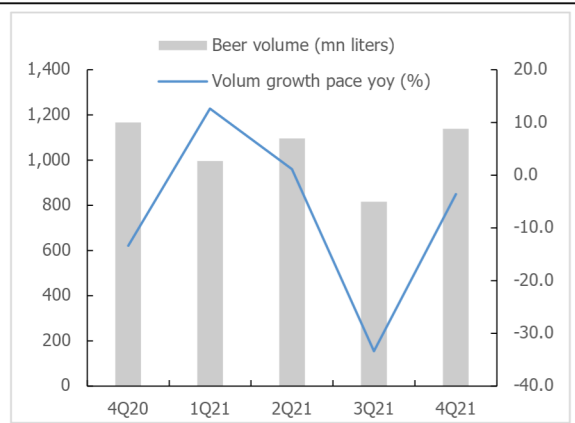
**Figure 7. Vietnam milk powder production**



Source: GSO

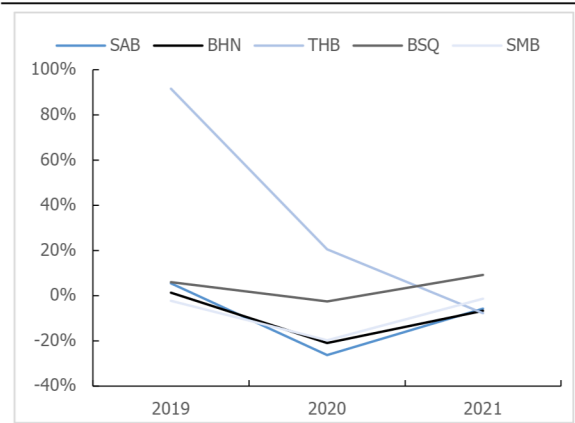
In the brewery sector, the biggest listed beer company SAB announced its 4Q21 results, including revenue of VND9.0tn, +14.5% yoy, higher than the average of the sector at +10.7% yoy. This prompted to 2021 revenue of VND26.4tn, -5.7% yoy. BHN posted revenue growth of +5.6% yoy and -6.7% yoy, respectively in 4Q21 and 2021. According to GSO, Vietnam's beer production volume gradually recovered by 39.5% qoq compared to the bottom of 3Q, reached to 1,138.7mn liters. In addition, sector's revenue growth was beneficiary from the higher ASP. In 2021, SAB announce to leverage ASP two times, including in December 2021 and we are tracking the changes. Based on our collection, the retail ASP of SAB products also increased by nearly 5% yoy in 2021.

**Figure 8. Vietnam beer production**

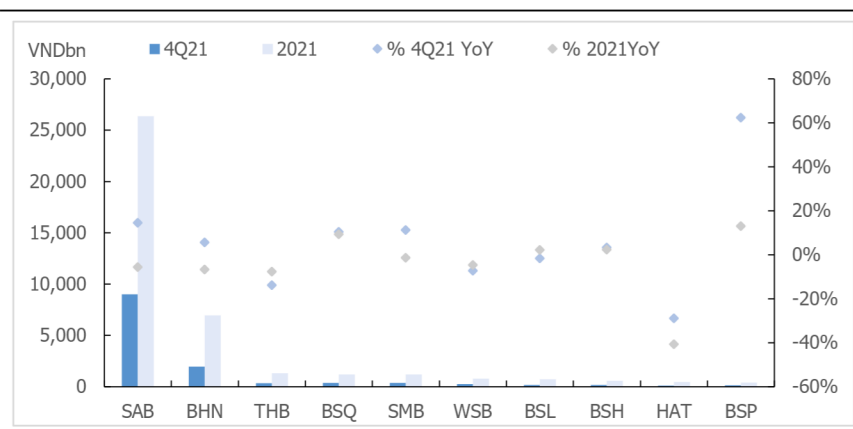


Source: GSO

**Figure 10. Tepid revenue growth of brewers in 2021**



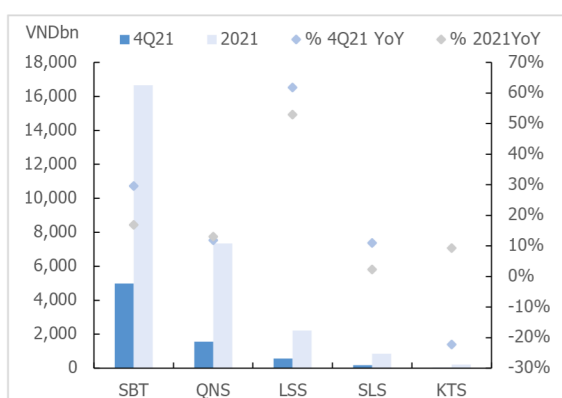
Source: Company data, Finpro

**Figure 10. SAB revenue growth far exceeded industry**

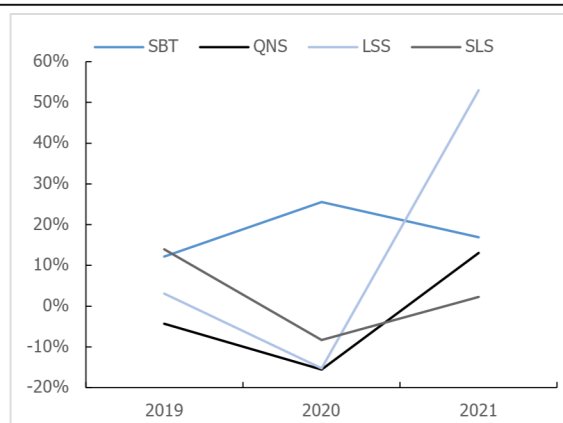
Source: Company data, Fiinpro

**ASP boosted the topline growth of sugar industry in 4Q21**

In contrast, the selling price was the largest tailwind of the sugar sector, in our view. Retail sugar prices rallied by nearly 30% yoy in 2021 followed the global commodities trend, from about VND15.000/kg in 4Q20 to VND20.000/kg in 3Q21, and remained in 4Q21. SBT, the leader sugar industry, posted a stellar revenue growth of 29.6% yoy in 4Q21. Meanwhile, QNS, the multi-industry company, sustained the same revenue growth of 13% yoy in 4Q21 and 2021. LSS kept performing the best driven by its highest 4Q21 revenue growth of 61.8% yoy.

**Figure 11. LSS beat industry revenue growth in 4Q21**

Source: Company data, Fiinpro

**Figure 11. Revenue growth of sugar producers**

Source: Company data, Fiinpro

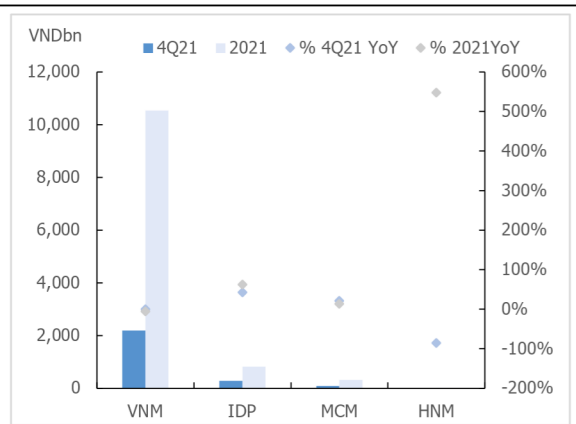
**4Q21 net margin mixed in F&B**

We saw an average net profit margin (NM) decline slightly in dairy makers, slumping from 15.2% in 4Q20 to 14.4% in 4Q21. VNM, the biggest company, recorded net profit growths of +0.5% yoy and -5.1% yoy in 4Q21 and 2021, respectively. However, IDP, the new listed company, performed the best with a 42.6% yoy net profit growth in 4Q21 and +63.0% yoy in 2021.

For beer makers, 4Q21 was still a tough quarter because only a few players saw their positive net profit growth. SAB, the largest producer in term of the absolute net profit of VND1.3tn in 2021, suffered a negative net profit growth of -10.4% yoy in 4Q21 and -22.1% yoy in 2021.

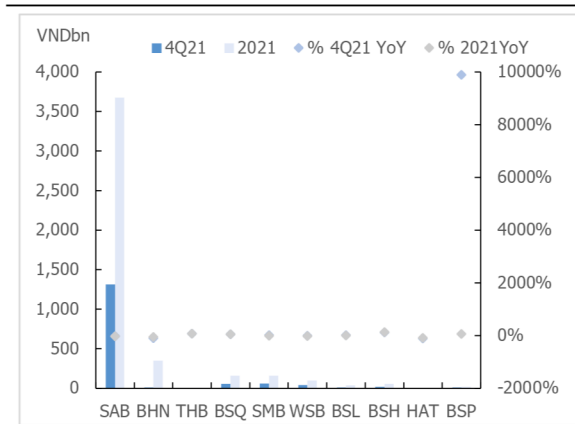
On the other hand, 4Q21 was another exciting timeframe for the sugar sector since most of the players reaped the brisk net profit growth. SBT's net profit rose by +55.4% yoy in 4Q21 and +42.6% yoy in 2021, respectively and net profit margin went up by 0.7%p to 4.3% in 4Q21. Meanwhile, QNS's NM dropped by 3.3%p yoy to 23.9% in 4Q21 due to the extraordinarily high base NM seen in 4Q20.

**Figure 13. IDP's 4Q21 net profit growth performed the best**



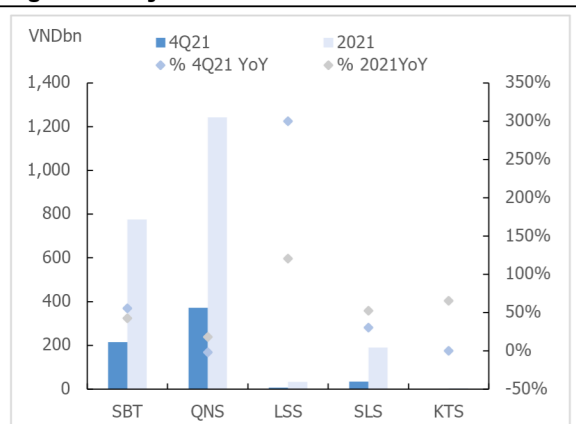
Source: Company data, Fiinpro

**Figure 14. BSP net profit growth was an outline**



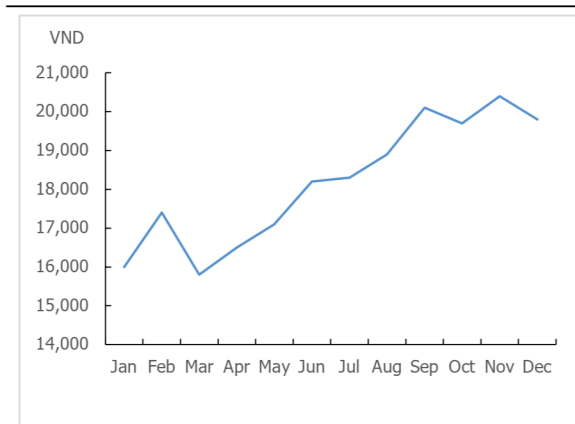
Source: Company data, Fiinpro

**Figure 15. LSS net profit growth far exceeded the sugar industry in 4Q21**



Source: Company data, Fiinpro

**Figure 16. Vietnam retail sugar price in 2021**

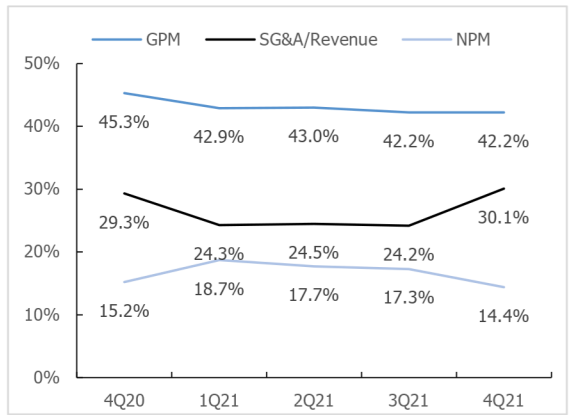


Source: Bloomberg

**Gross margin squeezed due to input prices hike in 4Q21**

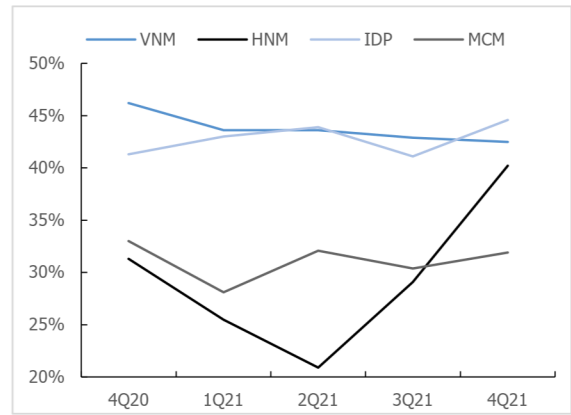
The upward trend of imported input raw material prices and elevated transportation costs compressed the gross margin among F&B companies in 4Q21. The dairy sector's GM contracted by 3.1%p yoy while VNM's GM plunged strongly by 3.7%p yoy to 42.5% in 4Q21. Imported milk powder and sugar gained sharply by an average 35% yoy in 2021 and could persist in 1Q22F. The beer sector gross margin was still hit with a 2.3%p yoy reduction in 4Q21. SAB's GM subdued by 3.7%p yoy to 27.7% in 4Q21 which were weighted by the booming growth of raw material prices such as aluminum and malting barley, with +33% and +85% yoy, respectively.

**Figure 17. GM of the dairy sector dropped in 4Q21**



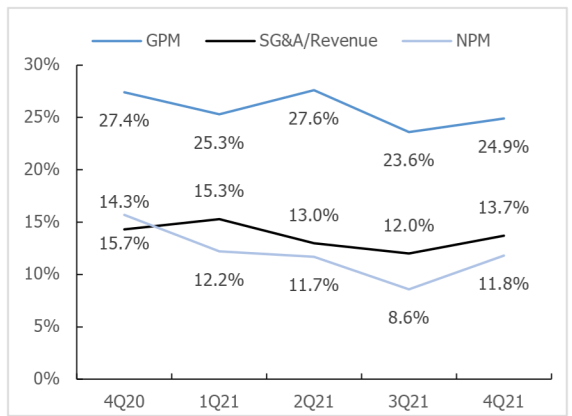
Source: Company data, Fiinpro

**Figure 18. VNM and IDP's GM far exceeded sector**



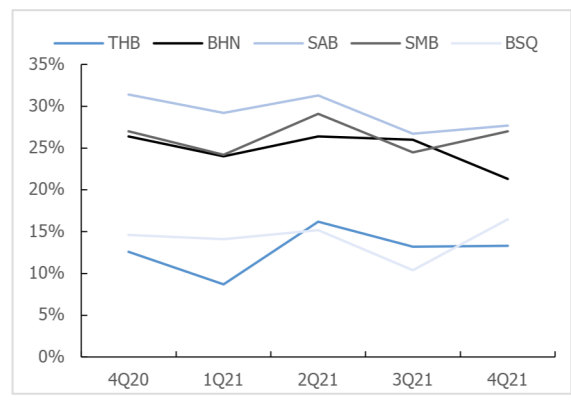
Source: Company data, Fiinpro

**Figure 19. GM of the brewery sector dropped in 4Q21**



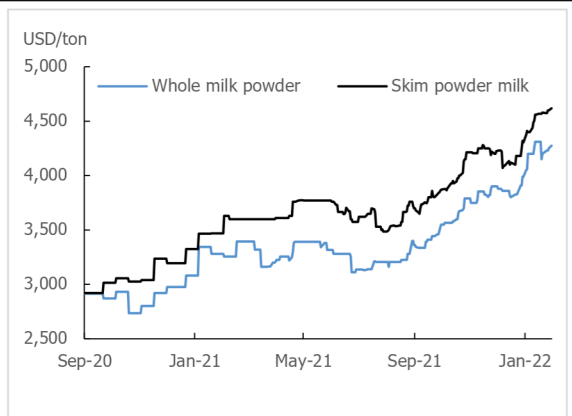
Source: Company data, Fiinpro

**Figure 20. SAB' GM far exceeded sector**



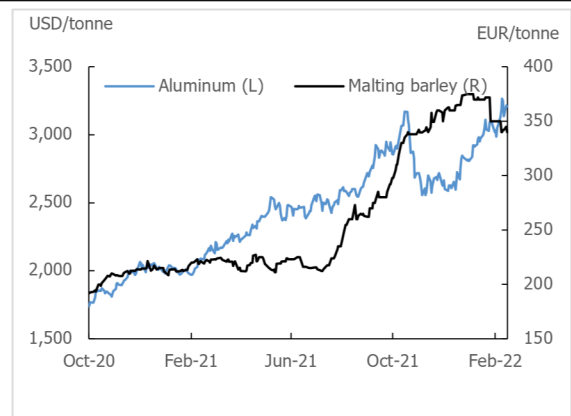
Source: Company data, Fiinpro

**Figure 21. Imported milk powder prices rallied sharply**



Source: Bloomberg

**Figure 22. Aluminum and malting barley trended upward**

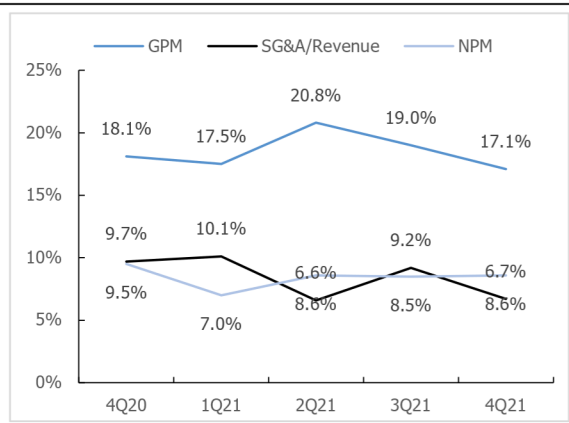


Source: Bloomberg



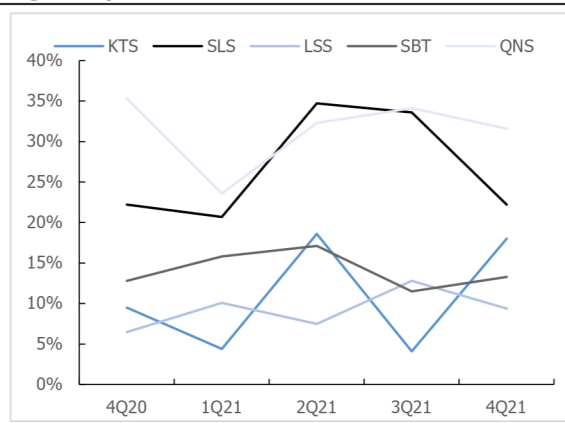
In contrast, 4Q21 GM of most players in the sugar sector improved including SBT with a 0.5%p yoy to 13.3% backed by rise in retail sugar prices, the biggest contributor to gross margin expansion. However, the gross margin of QNS decreased by 3.7%p yoy, to 31.6% due to the abnormal base seen in 4Q20. It prompted the blended sector GM to drop by 1.0%p yoy.

**Figure 23. GM of the sugar sector plunged in 4Q21 due to QNS's GM slide**



Source: Company data, Fiinpro

**Figure 24. QNS's GM still stay healthy despite a slight drop in 4Q21**



Source: Company data, Fiinpro

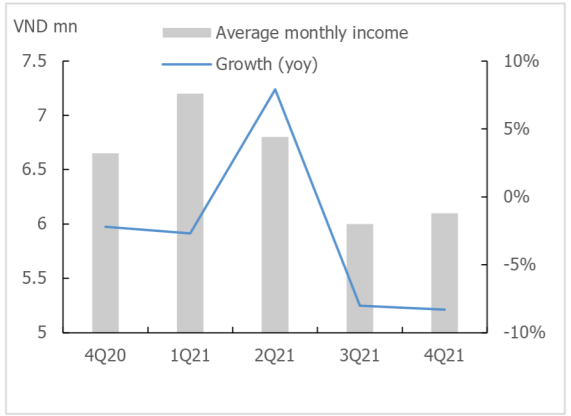
### Demand closely back normal in 1Q22F

We expect the recovery momentum of F&B consumption will continue to be maintained in 1Q22F when the covid-19 pandemic will be controlled well. The recovery will be supported by (1) growing household incomes (2) the on-trade channel will be fully reopened. In 4Q21, the beer industry was still affected negatively due to on-trade channels such as bars, restaurants... remaining closed. But the on-trade channels will reopen fully nationwide by 1Q22F. Moreover, Vietnam's tourism ministry proposed a full reopening of the country to foreign visitors and lifting of nearly all travel restrictions from Mar. Reopening fully all industries to prompt household incomes to continue to grow in Q122F. Therefore, the consumption of F&B will likely back to a nearly normal level before the pandemic. In our view, demand for unessential products like beer was hit more significantly by the pandemic, so it will recover stronger than essential products such as milk and sugar.

In addition, although F&B domestic demand recovered in 4Q21, most companies struggle to raise selling prices because the income of households had not recovered strongly and immediately after the pandemic. The average monthly income of wage workers was VND6.1mn, (-8.3% yoy, +1.7% qoq), per GSO. However, in 1Q22F, when the income of households will grow significantly, F&B producers could increase selling prices more easily. So most of the producers have plans to increase selling prices in 1Q21 to make up for the high input costs. Big players such as VNM, SAB have just increased selling prices in late Dec. We expect an expanding gross margin in 1Q22F for dairy and brewing listed companies.

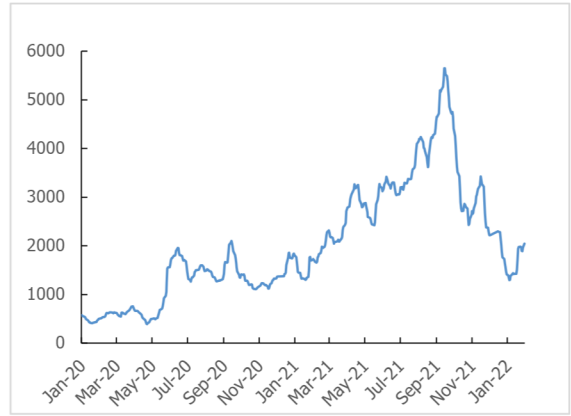


**Figure 25. Average monthly household income plummeted harshly in 3Q21 and 4Q21**



Source: GSO

**Figure 26. BDI dropped significantly in 4Q21 from Oct peak**



Source: Bloomberg

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