

11 Aug 2022

Trung An Agriculture (TAR)

Non-rated

Sad sight

Hurting business results in 2Q22

Contrary to our expectation of a rice export booming due to concern about global food shortage, TAR's business results in 2Q22 were depressed. In 2Q22, TAR recorded revenue of VND765bn (-3.3% yoy and -20% qoq) and NPAT of VND24bn (+48% yoy and -13% qoq). Overall, TAR posted revenue of VND VND1,723bn (+40% yoy) in 1H22 and fulfilled 49% of 2022's revenue guidance. Based on 2Q22's business results, we think TAR could complete their 2022's revenue target closely. We estimate that in 2022F, the rice sales volume would be 200,000 tonnes (+5% yoy).

Gross margin could improve in 2H22F

In 2Q22, TAR's gross margin peaked at 11.7%, +2.9%p qoq and +3.1%p yoy. However, the net margin only rose by 0.3%p qoq and 1.1%p yoy to reach 3.1%, which was not an attractive level. TAR's SG&A to sales had increased steadily since 3Q21 and reached 5.6% (+0.5%p qoq and +1.1%p yoy) in 2Q22. We expect TAR's gross margin could improve about 1.3%p – 2%p in 2H22F if the downtrend of material costs could continue as 2Q22.

Valuation

TAR is trading at 12.5x TTM PE and 1.6x PB, nearly the same as the 2-yrs average of 12.0x (PE) and 1.7x (PB). Compared to the other domestic peers who are trading at 6.7x – 21.0x TTM PE, we think TAR's current valuation seems fair. Based on 2022F's EPS of about VND2,300 we expect 2022F's forward PE would be 10.7x, far below the 2-yrs average.

Vietnam rice sector prospect

Although Vietnam's rice export in 1H22 showed impressive growth with 42% yoy, it tended to decrease after peaking in May 2022. In the context of food protectionism emerging as a new threat, we are afraid that the Government could control export more strictly by reducing quotas to ensure national food security in short term. However, we believe the rice sector will still have long-term growth potential with the strategy of "quality over quantity" and plan to enter some strict markets such as the EU and Japan.

Yr to Dec	Sales (VND bn)	OP (VND bn)	NP (VND bn)	EPS (VND)	% chg (YoY)	EBITDA (VND bn)	PE (x)	EV/EBITDA (x)	PB (x)	ROE (%)	DY (%)
2017A	1,440	61	14	n.a	n.a	77	n.a	n.a	n.a	8.9	n.a
2018A	1,973	84	35	n.a	n.a	102	n.a	n.a	n.a	9.5	n.a
2019A	1,837	112	60	1,237	n.a	130	17.4	13.0	2.1	12.6	n.a
2020A	2,713	158	84	1,701	37.5	188	12.7	9.3	1.8	15.1	n.a
2021A	3,120	170	102	1,996	17.3	204	21.3	15.3	3.0	14.7	n.a

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Stock Data

VNIndex (Aug 10, pt)	1,257
Stock price (Aug 10, VND)	25,100
Market cap (USD mn)	76
Shares outstanding (mn)	71
52-Week high/low (VND)	44,800/15,900
6M avg. daily turnover (USD mn)	1.62
Free float / Foreign ownership (%)	83.0/0
Major shareholders (%)	
Mr. Pham Thai Binh	21.65

Performance

	1M	6M	12M
Absolute (%)	5.5	(31.2)	56.9
Relative to VNIndex (%p)	(1.9)	(15.3)	63.2

Stock price trend



Source: Bloomberg

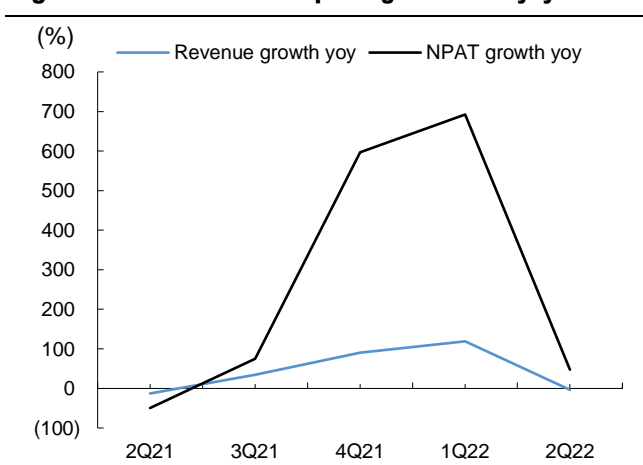
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Complete the plan very closely

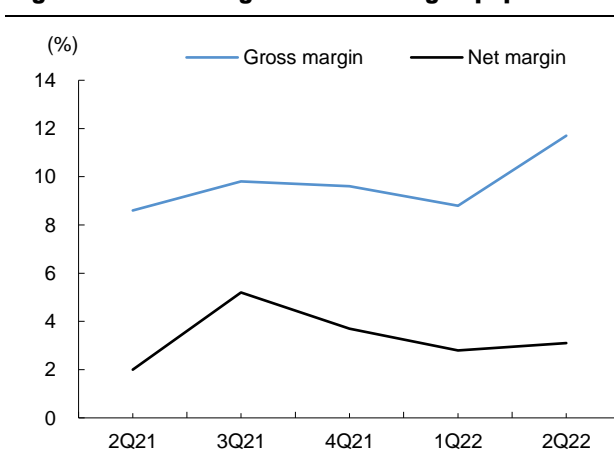
At the beginning of the year, we expect Vietnam's rice export could gain benefit in the context of global food shortage. Thus, TAR's business result in 2Q22 was a little bit disappointed. After reaching a peak in 4Q21, TAR's revenue fell significantly and reached VND756bn (-3.3% yoy and -20% qoq) in 2Q22. Fortunately, net profit improved very well with a growth rate of 48% yoy to reach VND24bn (-13% qoq) due to a low base in 2Q21. As we estimated, sales volume and selling prices in 2Q22 could decrease 14%/6% compared to 1Q22. TAR recorded a VND1,723bn revenue in 1H22, fulfilling 49% of their 2022F revenue guidance. Based on that, we think TAR could complete their 2022's business plan closely.

Figure 1. Revenue and Net profit growth rate yoy



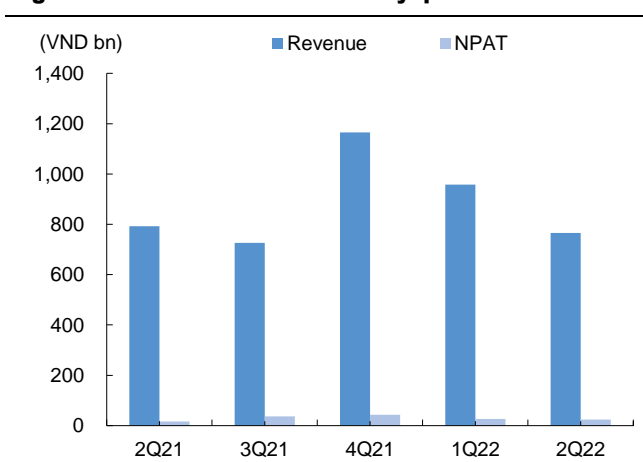
Source: Company data, KIS

Figure 2. Gross margin and Net margin qoq



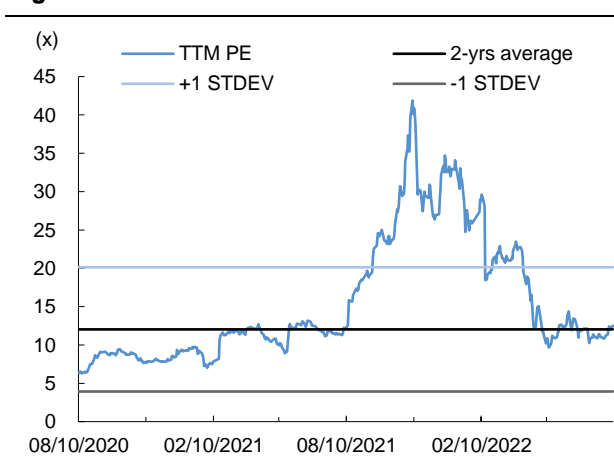
Source: Company data, KIS

Figure 3. TAR revenue and NPAT by quarters



Source: Company data, KIS

Figure 4. TAR PE



Source: Company data, KIS

Gross margin loosens

In 2Q22, gross margin expanded by 2.9%p qoq and 3.1%p yoy to hit the all-time high level of 11.7%. However, the net margin only rose by 0.3%p qoq and 1.1%p yoy to reach 3.1%, which was not an attractive level. SG&A to sales was 5.6%, +0.5%p qoq and +1.1%p yoy. Although this was not a high level compared to other companies in different sectors, TAR's SG&A to sales had increased steadily since 3Q21. In 2021, TAR's gross margin was around 9%.

We think that TAR's gross margin could expand about 1.3%p – 2%p in 2H22F if the downtrend of material costs could continue as 2Q22.

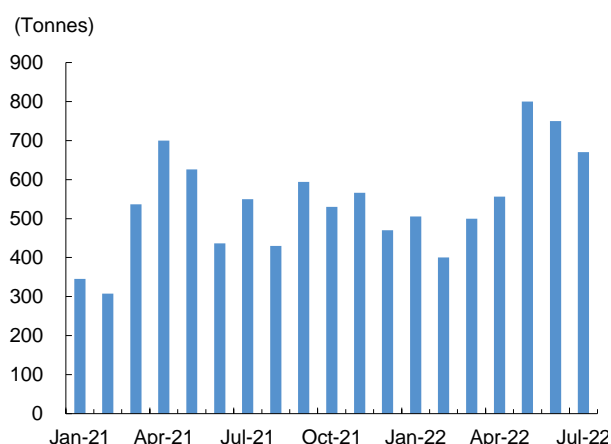
Pros and cons

In general, export sales accounted for about 15-20% of TAR's total sales. They export around 220 tonnes/month, which is a modest number. Therefore, domestic is still TAR's main market. TAR has strength in producing organic and high-quality rice. We believe that this is a strategy that not only TAR but also other rice producers are heading to as the changing in people's eating habits. We think that TAR's revenue could go sideways in 3Q22F but increase in 4Q22F by around 5%-15% thanks to domestic demand up when it comes to the Tet holiday. Moreover, by observation, we think that companies and Government organizations are very fond of Trung An rice as Tet gifts for employees.

According to Vietnam Food Association (VFA), demand in 2H22F still has room. In addition, export prices will continue to remain high, and may even increase due to the impact of the Russia – Ukraine war as Ukraine does not export wheat, leading to high prices of grains and other agricultural products. They evaluated that these factors will bring beneficial to Vietnam's rice exports. In 2022F, Vietnam's rice industry aims to export about 6.4mn tonnes. Vietnam exported about 4.2mn tonnes in 7M22, so Vietnam has more confidence in achieving this target.

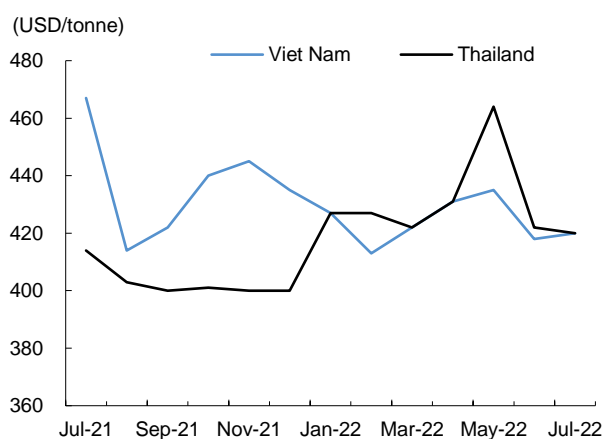
However, rice is very important to nation's food security. Thus, the Government may intervene deeply in rice export quotas. Although rice export in 1H22 showed impressive growth with 42% yoy, it tended to decrease after peaking in May 2022. In the context of food protectionism emerging as a new threat, we are afraid that the Government could control export more strictly by reducing quotas to ensure the nation's food security in short term. However, we believe the rice sector will still have long-term growth potential with the strategy of "quality over quantity" and plan to enter some strict markets such as the EU and Japan.

Figure 5. Vietnam rice export volume



Source: MoIT, KIS

Figure 6. Viet Nam & Thailand Rice White FOB price (5% broken)



Source: Bloomberg, KIS

■ Company overview

Trung An High-Tech Agriculture (TAR: HNX) was established in 1996. The company mainly operates in the field of rice processing, trading, and exporting. TAR was listed and traded on the Hanoi Stock Exchange (HNX) in 2019. The company currently manages and operates 06 rice processing plants on a total area of 122,760 m² with a processing capacity of 1,000 tonnes of rice/day, supplying about 360,000 tonnes of rice/year.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	703	774	866	757	1,406
Cash & cash equivalents	12	33	14	22	89
Accounts & other receivables	235	225	266	69	297
Inventory	452	516	584	655	1,008
Non-current assets	358	404	399	616	589
Fixed assets	195	189	311	309	559
Investment assets	163	215	82	302	26
Others	5	0	8	18	15
Total assets	1,061	1,178	1,265	1,373	1,995
Advances from customers	30	61	31	17	5
Unearned revenue	0	0	0	0	0
Trade payables	18	29	27	19	82
Others	3	54	10	13	10
ST debt & due bonds	640	610	678	699	1,178
LT debt & bonds	47	0	33	39	31
Total liabilities	738	754	779	787	1,306
Controlling interest	1,625	2,980	3,250	559	651
Capital stock	284	350	350	420	462
Capital surplus	0	0	0	0	0
Other reserves	0	0	0	0	0
Retained earnings	39	74	131	140	189
Minority interest	0	0	5	27	38
Shareholders' equity	322	424	487	586	689

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	33	44	(57)	215	(420)
Net profit	14	35	60	84	102
Dep'n & Amort'n	16	18	18	30	34
Net incr. in W/C	3	(9)	(135)	101	(556)
C/F from investing	(61)	(49)	(15)	(224)	8
Capex	(61)	(56)	(14)	(223)	(4)
Incr. in investment	0	7	(1)	(1)	12
C/F from financing	7	26	54	17	479
Incr. in equity	0	0	0	0	0
Incr. in debt	(10)	(39)	58	10	490
Dividends	0	0	0	0	0
C/F from others	0	0	0	0	0
Increase in cash	(20)	21	(18)	7	68

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	1,440	1,973	1,837	2,713	3,120
COGS	1,330	1,836	1,678	2,502	2,838
Gross profit	110	136	159	210	282
SG&A expenses	49	52	47	52	115
Operating profit	61	84	112	158	167
Financial income	2	3	1	2	5
Interest income	0	1	0	0	159
Financial expenses	45	43	46	63	71
Interest expenses	43	40	45	63	71
Other non-operating profit	0	0	0	2	7
Gains (Losses) in associates, subsidiaries and JV	0	0	1	0	0
Earnings before tax	328	254	597	2	108
Income taxes	4	9	8	16	6
Net profit	14	35	60	84	102
Net profit of controlling interest	14	35	57	79	93
EBITDA	77	102	130	188	204

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020A	2021F
Per-share data (VND, adj.)					
EPS	n.a	n.a	1,237	1,701	1,996
BPS	11,349	12,120	13,906	13,955	14,905
DPS	n.a	n.a	n.a	n.a	n.a
Growth (%)					
Sales growth	53.7	37.0	(6.9)	47.6	15.0
OP growth	4.8	38.5	33.4	41.0	5.3
NP growth	19.2	147.6	61.3	37.7	18.3
EPS growth	n.a	100.9	61.3	14.7	7.6
EBITDA growth	4.8	38.5	33.4	41.0	5.3
Profitability (%)					
OP margin	4.2	4.3	6.1	5.8	5.3
NP margin	1.0	1.8	3.3	3.1	3.3
EBITDA margin	4.2	4.3	6.1	5.8	5.3
ROA	2.7	3.2	4.9	6.3	6.1
ROE	8.9	9.5	12.6	15.1	14.7
Dividend yield	n.a	n.a	n.a	n.a	n.a
Dividend payout ratio	n.a	n.a	n.a	n.a	n.a
Stability					
Net debt (VND bn)	675	578	697	716	1,120
Net debt/equity (%)	210.0	140.0	140.0	120.0	160.0
Valuation (x)					
PE	n.a	n.a	17.4	12.7	21.3
PB	n.a	n.a	2.1	1.8	3.0
EV/EBITDA	n.a	n.a	13.0	9.3	15.3

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