

17 May 2023

# Agriculture

## Opportunities with many hindrances

**Non-rated**

### Revenue from the agriculture sector edged up slightly

In the agriculture sector, revenue edged up by 7% yoy to VND18.7tn, mainly contributed by the surging revenue of crop producers by 21% yoy, covering 20% yoy revenue slump of feeding companies. Sector revenue decreased by 29% qoq. The gross margin of agriculture companies dropped from 15.9% in 1Q22 to 11.4% in 1Q23 due to the high costs of fertilizer and feed supply. Agriculture companies totally made a net loss after tax of VND53bn in 1Q23, less than the severe loss of VND2tn in 4Q22 but still flopped compared to the NPATMI of VND640bn in 1Q22.

### Crop: revenue improved but profit slumped yoy

Revenue of crop producers increased 21% yoy to VND14tn, however, dropped 28% qoq. Strong recovery on a yearly basis was recorded in the exporting of rice, fruits, vegetable, coffee, and cassava. Despite growing revenue, GPM fell by 4.7%p yoy to 12.2% in 1Q23, mostly contributed by (1) high price of fertilizer used for crops and (2) a higher proportion of rice, which has a low profit margin, in total crop production revenue. Additionally, surging G&A expenses and interest expenses squeezed NPATMI of crop producers down by 61% yoy to VND182bn. VSF contributed the largest proportion with revenue of VND4.5tn, upped 60% yoy.

### Feeding: expenses exceeded revenue

The revenue of feeding companies dropped 20% yoy and downed 31% qoq to VND4.8tn, explained by (1) the low demand during the economic slowdown period and (2) high base in 1Q22 due to pent-up demand post-COVID-19. GM decreased by 4.7%p yoy to 9.2% in 1Q23, due to (1) low poultry/livestock selling price driven by lower-than-expected demand during and after the Tet holiday (2) high costs of feeding supply and (3) African Swine Fever impact increasing expenses and lowering output. Moreover, surging expenses for utilities, breeders, medicines, interest expenses, etc. dragged the business result to the net loss after tax of VND235bn.

### Sector benefits from the reverse of negative factors in 2Q23

China reopening promises the recovery of exporting fruits and vegetables. Cashew and tea exporters are also looking for sales revival in China and Hongkong markets after the zero-COVID policy eased. With the downsizing of the biggest Arabica exporter – Brazil and Colombia due to extreme weather (drought & flood), Vietnam is having a chance to boost raw Robusta exporting in the short term. Many livestock holdings had downsized or left the market after experiencing severe losses in the long term. We expect that falling feed supply prices amid demand increase thanks to the long holiday (30/4-1/5) will help retrieve the pork and poultry price in 2Q23. However, the expenses of utilities and interest expenses could remain at a high level in 2Q23.

**Research Department**

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In this report, we analyzed specific listed companies in crop production and feeding below.

## 1. Revenue of agriculture products rose 21% yoy

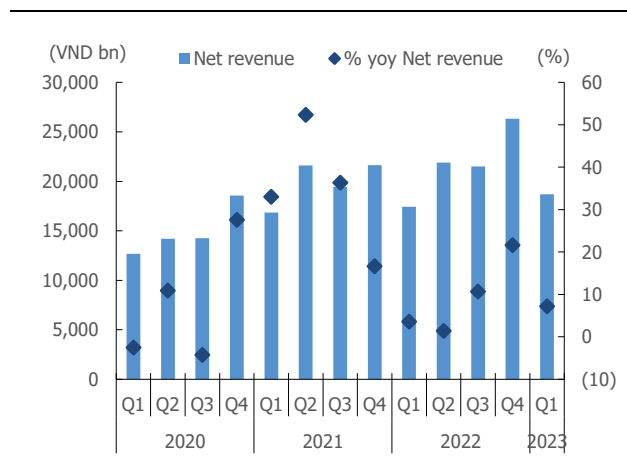
**Table 1. Aggregated earnings of 27 listed agriculture companies** (VND bn, %)

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	17,437	26,314	18,686	7	(29)
NPATMI	640	(2,071)	(53)	N.M	N.M

Source: Company data, KIS

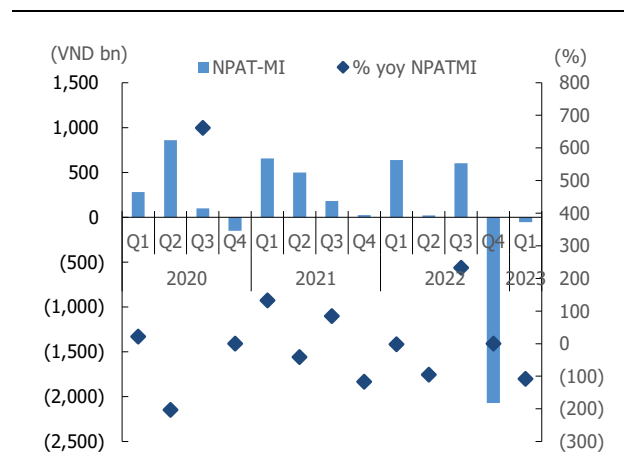
Based on our data collected from 27 listed companies in the agriculture sector, revenue slightly rose by 7% yoy to VND18.7tn, mainly contributed by the surging revenue of crop producers by 21% yoy, which covered the 20% yoy revenue decrease in feeding companies. However, revenue slid by 29% qoq, as a result of a downtrend in both crop production and feeding by 28/ 31% qoq.

**Figure 1. 1Q23 Net revenue of agriculture companies**



Source: Company data, Fiinpro

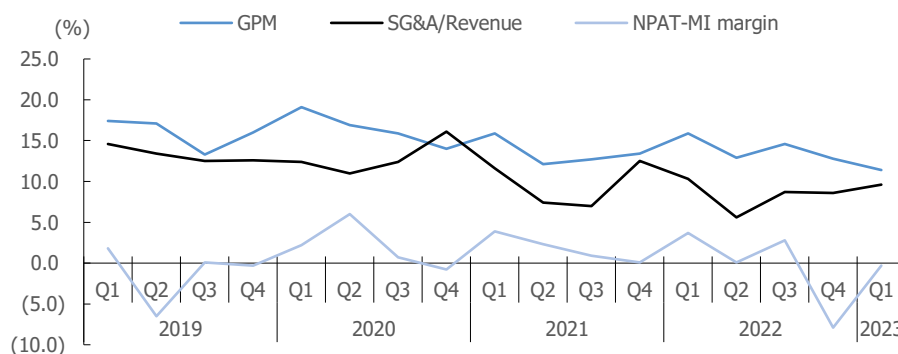
**Figure 2. 1Q23 NPATMI of agriculture companies**



Source: Company data, Fiinpro

The gross margin (GM) of agriculture companies dropped from 15.9% in 1Q22 to 11.4% in 1Q23 due to high costs of fertilizer and feed supply. Agriculture companies totally made a net loss after tax of VND53bn in 1Q23, less than the severe loss of VND2tn in 4Q22 but still flopped compared to NPATMI of VND640bn in 1Q22. Crop producers recorded NPATMI of VND182bn, - 62% yoy while feeding companies made a net loss after tax of VND235bn.

**Figure 3. GM of agriculture companies**



Source: GSO, KIS

## 2. Crop: revenue improved but profit slumped

**Table 2. Aggregated earnings of 3 listed crop producers**

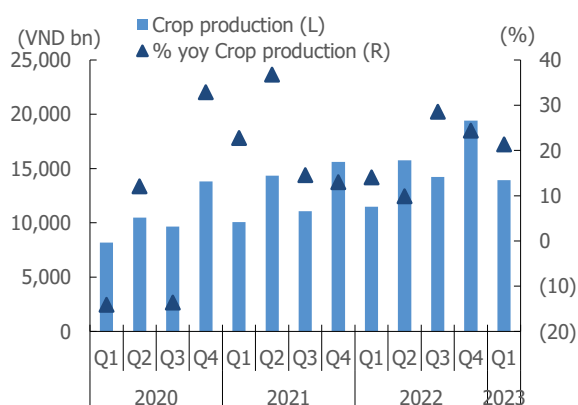
(VND bn, %)

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	11,472	19,403	13,924	21	(28)
NPATMI	472	(2,062)	182	(61)	N.M

Source: Company data, KIS

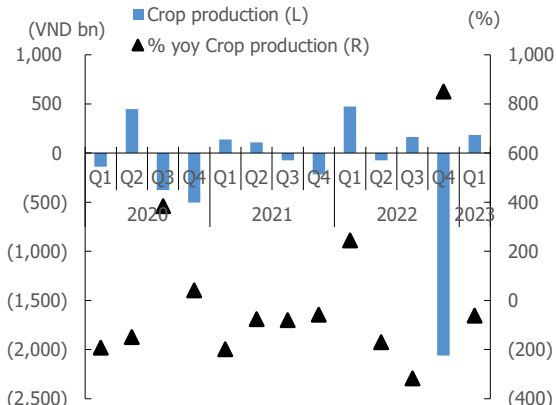
Revenue of crop producers increased 21% yoy to VND14tn, -28% qoq. Strong yoy recovery was recorded in rice, fruits, vegetable, coffee, and cassava. Meanwhile, revenue from tea and cashew declined by 22 /5% yoy respectively. 1Q23 crops exporting value upped 12% yoy to USD5.3bn, contributed by the strong growth of coffee and rice exporting value. Revenue from staple foods strongly grew in terms of both price and volume thanks to (1) low grain output due to extreme weather in planting areas (2) stricter domestic national food security policy and (3) higher demand from importers amid geopolitical volatility ([Strategy Report](#)).

**Figure 4. 1Q23 Net revenue of crop production**



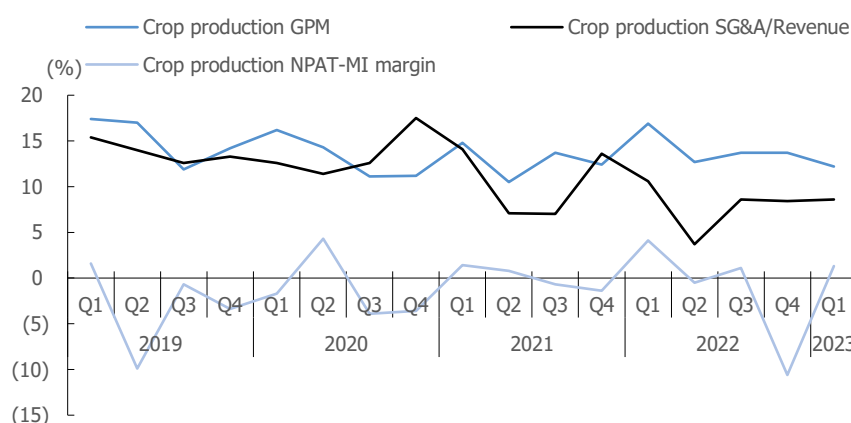
Source: Company data, Fiiipro

**Figure 5. 1Q23 NPATMI of crop production**



Source: Company data, Fiiipro

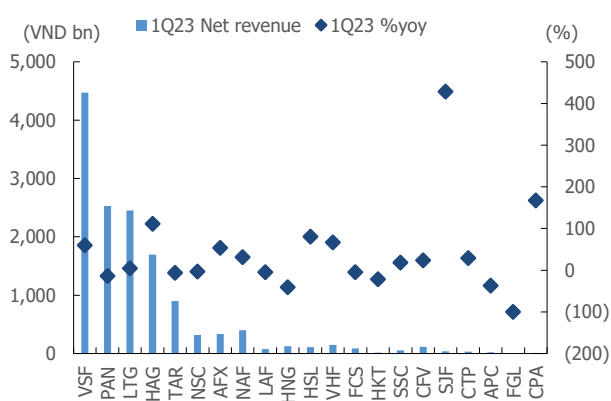
Despite growing revenue, GPM fell by 4.7%p yoy to 12.2% in 1Q23, mostly contributed by (1) high price of fertilizer used for crops and (2) a higher proportion of rice, which has a low-profit margin. NPATMI recovered to a positive value compared to the loss in 4Q22 that primarily attributed to the HNG's net-highly-recorded-loss of VND2.8tn. The surging G&A expenses and interest expenses also dragged the NPATMI of crop producers down by 61% yoy to VND182bn, leading to the NPATMI margin's drop by 2.8%p yoy to 1.3% in 1Q23.

**Figure 6. GPM of crop producers**

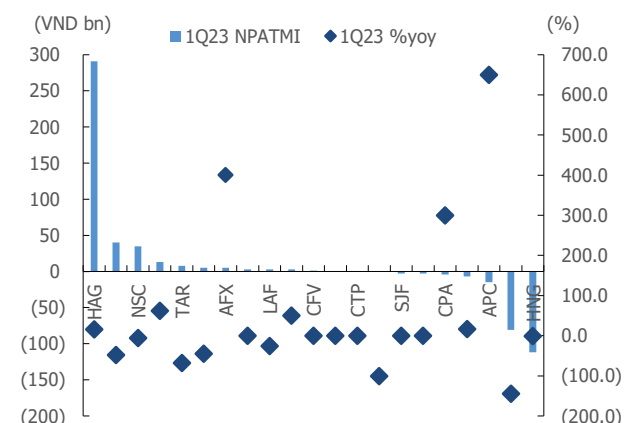
Source: GSO, KIS

VSF contributed the largest proportion with revenue of VND4.5tn, upped 60% yoy. The second runner-up was PAN at a revenue of VND2.5tn (-15% yoy) and LTG at VND2.4tn (+4.6% yoy) in 1Q23. HAG's revenue surged 111% to VND1.7tn, mostly thanks to tripled sales of pork that contributed VND563bn, equivalent to 33% of HAG's revenue in 1Q23. However, HAG's NPATMI at VND291bn primarily came from banana sales thanks to banana's rising price whilst pork price and profit margin remained at a low level.

Despite the high revenue growth, VSF and LTG recorded a net loss after tax of VND7bn and VND81bn respectively, explained by the (1) low GPM of rice products while fertilizer prices rocketed, (2) rising packaging and logistics expenses, and (3) doubled interest expense. Added to the sector's adversity, HNG has suffered from lower output due to the Noru storm in 2H22. As a result, HNG made a net loss after tax of VND112bn, an accumulated loss of VND3.7tn by the end of Mar-2023.

**Figure 7. 1Q23 Net revenue of crop companies**

Source: Company data, Fiipro

**Figure 8. 1Q23 NPATMI of crop companies**

Source: Company data, Fiipro

### 3. Feeding: expenses exceeded revenue

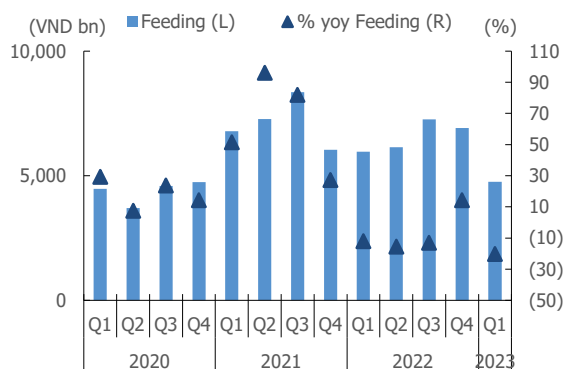
**Table 3. Aggregated earnings of 4 feeding companies**

	(VND bn, %)				
	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	5,965	6,911	4,762	(20)	(31)
NPATMI	168	(9)	(235)	N.M	N.M

Source: Company data, KIS

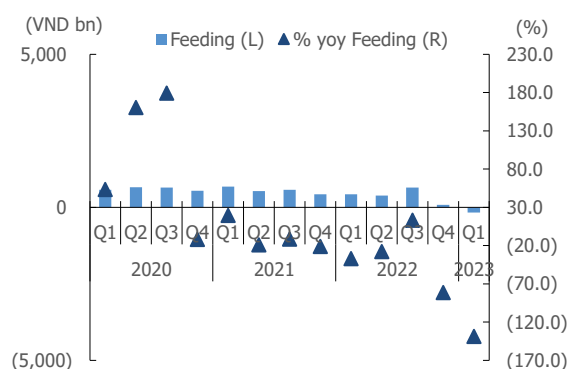
Aggregating 4 listed feeding companies in 1Q23, the 1Q23 revenue dropped 20/-31% qoq to VND4.8tn, explained by (1) the low demand among economic slowdown, (2) the high base in 1Q22 due to the pent-up demand post-COVID-19. GPM decreased by 4.7%p yoy to 9.2%, due to (1) low poultry/livestock selling price driven by lower-than-expected demand during and after the Tet holiday (2) high costs of feeding supply, and (3) African Swine Fever impact on increasing expenses and lowering output. Moreover, surging expenses for utilities, breeders, medicines, interest expenses, etc. dragged the business result to the net loss after tax of VND235bn, more severe than the loss of VND9bn in 4Q22.

**Figure 9. 1Q23 Net revenue of feeding**



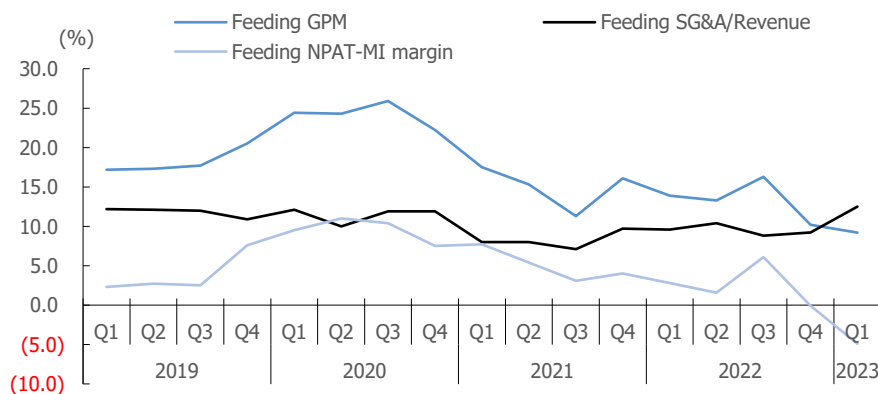
Source: Company data, Fiiipro

**Figure 10. 1Q23 NPATMI of feeding**



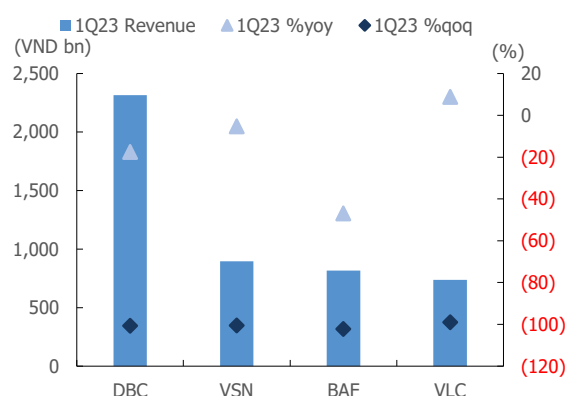
Source: Company data, Fiiipro

**Figure 11. GPM of poultry and livestock feeders**

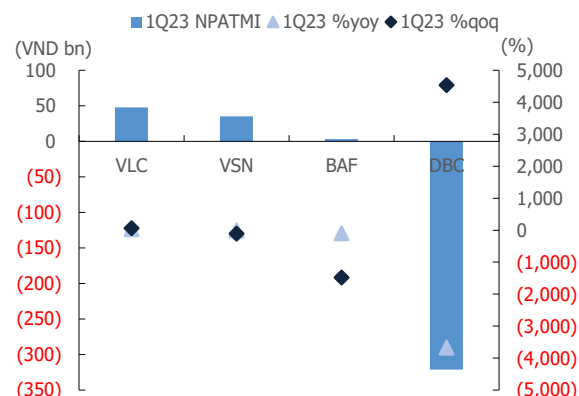


Source: GSO, KIS

DBC earned revenue of VND2.3tn in 1Q23, which fell by 17% yoy but still doubled that of VSN (VND985bn, -5% yoy), BAF (VND817bn, -47% yoy) and VLC (VND736bn, +9% yoy). However, The big feeder DBC made a net loss after tax of VND321bn in 1Q23. Inversely, VLC earned the NPATMI of VND48bn, increased by 37% yoy and 61% qoq, thanks to consolidated the stable revenue and profit from MCM (1Q23: MCM's revenue: VND734bn, +9% yoy and NPATMI: VND101bn, +17% yoy).

**Figure 12. 1Q23 Net revenue of feeding listed companies**

Source: Company data, Finpro

**Figure 13. 1Q23 NPATMI of listed feeding companies**

Source: Company data, Finpro

#### 4. Sector benefits from the reverse of negative factors in 2Q23

Many countries, namely China, Indonesia, Philippines increase rice import to cover their buffer stock. We anticipate the rice export turnover grows slightly on qoq basis in 2Q23. China's reopening promises the recovery of exporting fruits and vegetables. More specifically, China recently approved several growing area codes for Vietnam's durian and sweet potato in Mar-23 and Apr-23. Cashew and tea exporters are also looking for recovered sales to China and Hongkong, after zero-COVID policy ease. With the downsizing of the biggest Arabica exporters – Brazil and Colombia due to extreme weather, Vietnam is having a chance to boost raw Robusta exporting. Despite the high-quality requirement from China market, where HORECA channel is reopening, Vietnam can indirectly increase exporting raw coffee nuts to this market through global coffee processors, EU and USA. Falling fertilizer prices thanks to recovered wheat and corn supply in Ukraine, combined with lower oil prices (lower logistic and lower fertilizer prices), might improve GPM of crop producers in 2Q23. Many livestock holdings have downsized or left the market after experiencing severe losses in a long-term. We expect that falling feed supply price while demand expects to increase thanks to the long holiday (30/4-1/5) will help retrieve the pork and poultry price in 2Q23. However, we anticipate that expenses of utilities and interest expenses will remain at the high level in 2Q23.

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