

17 May 2022

Food & Beverage

Non-rated

Gross margin could improve in 2Q22F

Revenue recovered in 1Q22

Food and beverage consumption recovered continually in 1Q22, albeit to a different level in each sector. Based on our estimate, the 1Q22 total revenue momentum growth of the 4 listed milk companies continued to grow. Revenue growth in 1Q21 was at 5.9% yoy, lower than 10.2% yoy in 4Q21. The 4Q21 aggregate revenue growth of 14 listed brewery companies on three bourses maintained the recovery momentum of 4Q21. The revenue accelerated to 15.3% yoy compared to 10.7% yoy in 4Q21.

1Q22 gross margin mixed in F&B amid input price hike

Gross margin (GM) of the dairy sector narrowed in 4Q21 due to weak growth of the selling price could not offset the strong rise of input material prices. The dairy sector's GM subdued by 2.8%p yoy while VNM's GM plunged strongly by 3.1%p yoy in 1Q22 due to imported milk powder prices raised sharply by 30-40% yoy in 1Q22. On the other hand, the beer sector gross margin expanded by 1.7%p yoy to 27% in 1Q22. SAB's GM improved by 0.6%p yoy in 1Q22 due to high APS although raw material prices such as aluminum and malting barley hiked.

Gross margin could rebound in 2Q22F

We expect the recovery momentum of F&B consumption will continue in 2Q22F and back to the pre-covid level. In our view, demand for F&B will recover continually, especially beer consumption. Reopening fully all industries to prompt household incomes to continue to grow in 2Q22F, thus, F&B companies could increase selling prices more easily to offset the spike in raw materials. Therefore, we expect an expanding gross margin in 2Q22F for dairy and brewing listed companies due to cooling commodity prices and fully benefit from higher selling prices.

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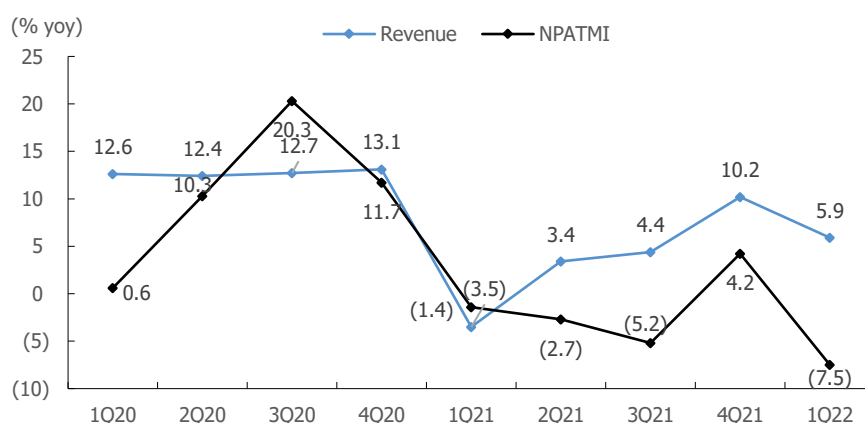
Table 1. 4 aggregated dairy producers' earnings

(VNDbn, %)

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	14,983	17,811	15,875	(7.5)	(10.9)
NP	2,804	2,564	2,593	5.9	1.1

Source: Company data, KIS

Based on our collection, the 1Q22 total revenue momentum growth of the 4 listed milk companies kept growing. Revenue growth in 1Q22 came in at 5.9% yoy, lower than 10.2% yoy in 4Q21. In contrast, the earnings growth pace reversed from 4.2% yoy in 4Q21 to -7.5% in 1Q22 hit by heavier material costs.

Figure 1. Negative net profit growth of listed dairy producers in 1Q22

Source: Company data, Fiinpro

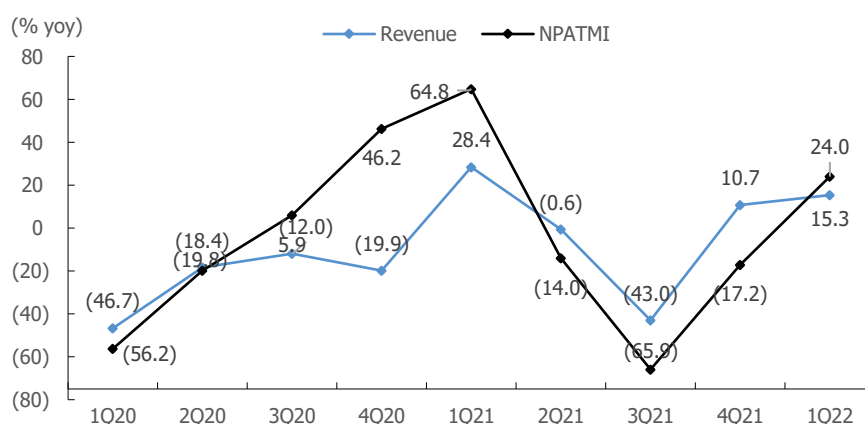
Table 2. 14 aggregated brewery producers' earnings

(VNDbn, %)

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	8,861	13,104	10,214	15.3	(22.1)
NP	1,079	2,563	2,593	24	(13.1)

Source: Company data, KIS

The 1Q22 aggregated revenue and earnings growth of 14 listed brewery companies maintained the recovery momentum. The revenue accelerated to 15.3% yoy compared to 10.7% yoy in 4Q21. Net profit recovered strongly with 24% yoy in 1Q22 compared to -17.2% in 4Q21. However, the net profit growth pace was faster, implying there were also other engines of net profit growth.

Figure 2. Stellar net profit growth of listed beer producers in 1Q22

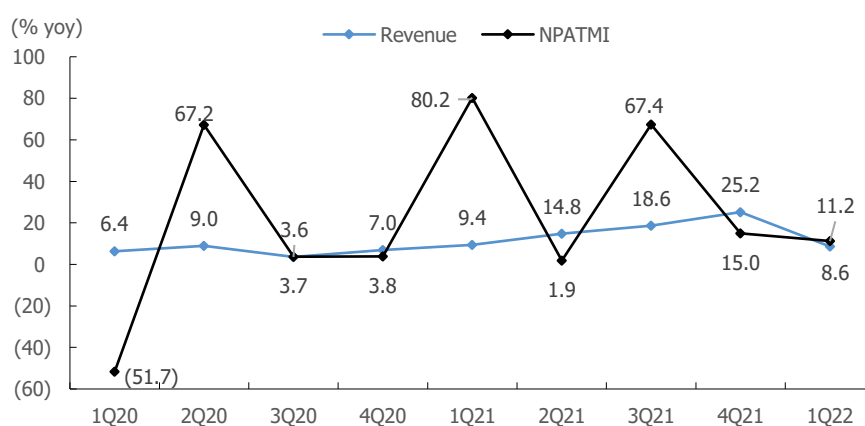
Source: Company data, Fiinpro

Table 3. 5 aggregated sugar producers' earnings (VNDbn, %)

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	5,745	7,238	6,239	8.6	(13.8)
NP	403	628.5	448.1	11.2	(28.7)

Source: Company data, KIS

The 1Q22 aggregate revenue and net profit momentum of 5 listed sugar producers on three bourses deteriorated. The revenue growth pace in 1Q22 was at 8.6% yoy compared to 25.2% yoy in 4Q21. Net profit growth also decelerated to 11.2% yoy in 1Q22, slowing down from 15% yoy seen in 4Q21. The earnings growth pace was slower, raising concerns about other burdens.

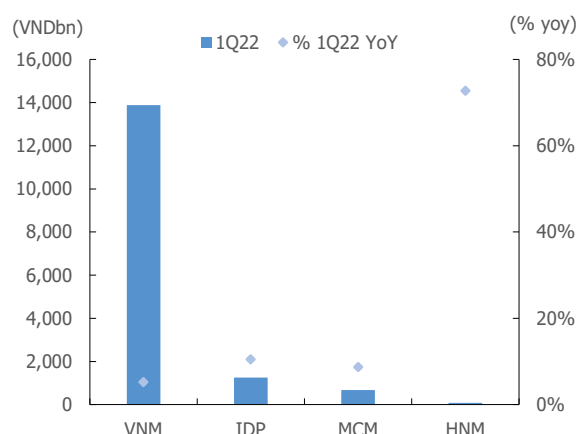
Figure 3. Net profit growth of listed sugar producers earned in 1Q22

Source: Company data, Fiinpro

APS boosted the F&B topline growth

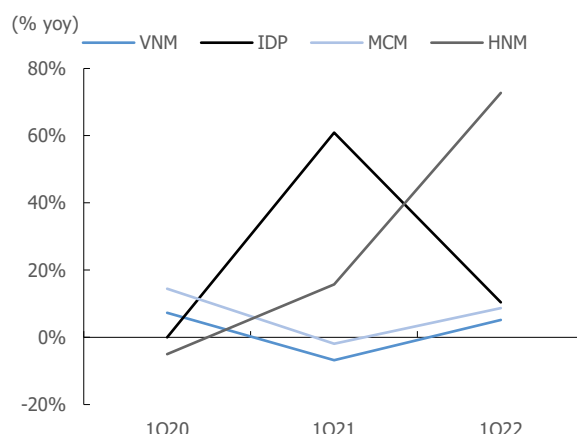
Breaking down milk aggregate revenue growth by a specific company, VNM top the influence in the light of its dominant position with revenue growing by 5.2% yoy to VND13.9tn in 1Q22. IDP and MCM showed an outperform revenue growth pace with 8.7% yoy and 10.5% yoy, respectively. Meanwhile, HNM is an outlier, recording high growth of 72.7% yoy. According to the General Statistics Office (GSO), Vietnam's milk powder production volumes went down to 41,600 tonnes (-4.2% yoy). Meanwhile, VNM conducted some price hikes between Dec 2021 to April 2022 with ASP increases by 5% yoy to offset the spike in input prices.

Figure 4. HNM revenue growth far exceeded industry in 1Q22



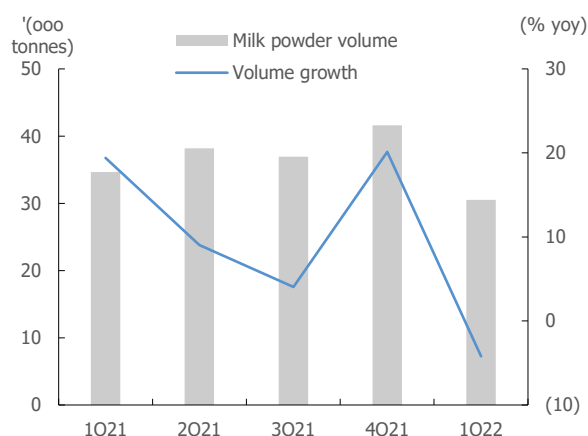
Source: Company data, Fiinpro

Figure 5. Revenue growth of dairy producers



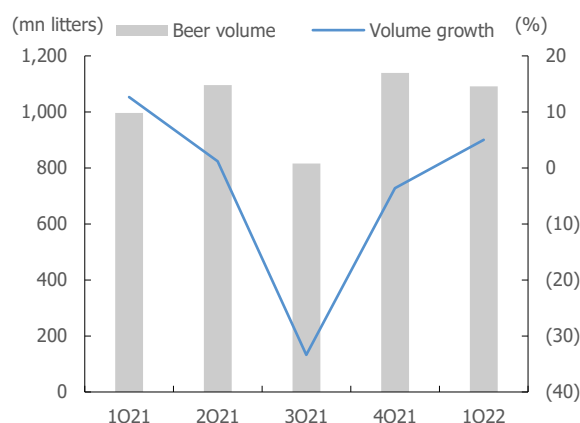
Source: Company data, Fiinpro

Figure 6. Vietnam's fresh milk production



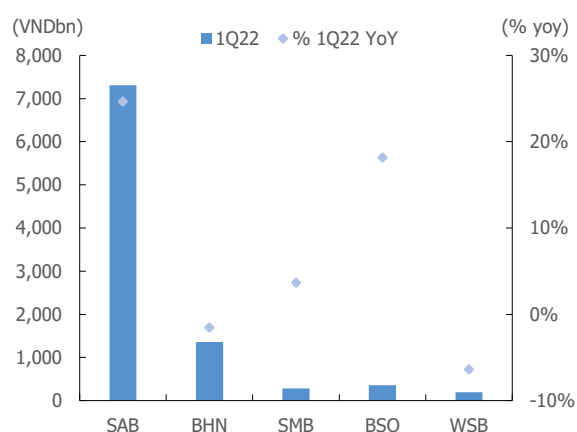
Source: GSO

Figure 7. Recovery in Vietnam beer production

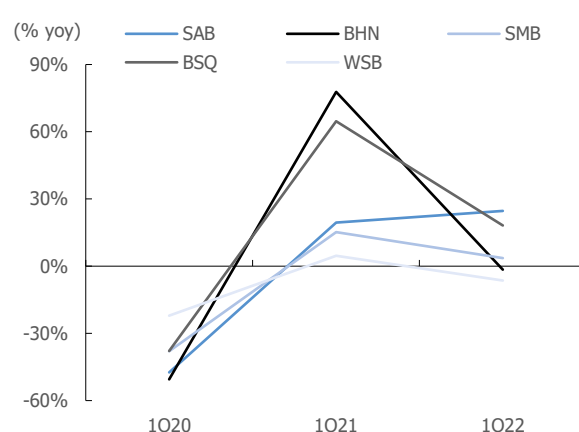


Source: GSO

For the brewery sector, the biggest company SAB announced 1Q22 results with revenue of VND7,306bn (+25% yoy), higher than the average of the sector at +15.3% yoy. According to GSO, Vietnam's beer production volume went up by 5% yoy to 1,091 mn liters, lower significantly than the 15% growth of aggregate revenue. In addition, the sector's revenue growth was beneficiary of the higher ASP and SAB leveraged ASP by nearly 5% yoy in 2021. Thus, the average selling price (ASP) led to the revenue growth of the dairy and beer sectors in 1Q22, in our view.

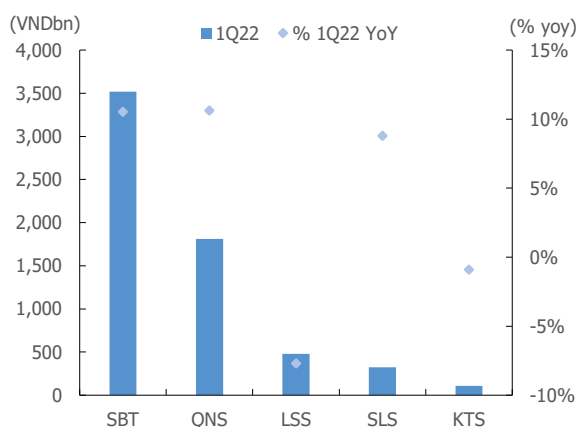
Figure 8. SAB led beer sector revenue in 1Q22

Source: Company data, Fiipro

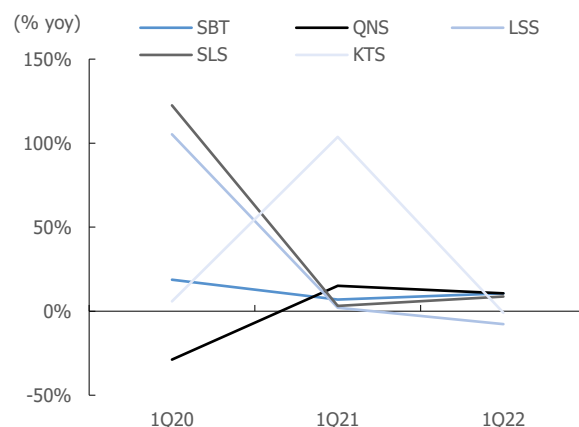
Figure 10. Except SAB, others stagnated in 1Q22

Source: Company data, Fiipro

The sugar selling price was continuedly the largest tailwind of the sector, in our view. Domestic sugar prices hiked by nearly 25% yoy in 2021, from about VND16.000/kg in 1Q21 to VND20.000/kg in 4Q21. In 1Q22, tax evasion related to Thailand's sugar imports from other Asian countries led retail domestic sugar prices to decrease by about 15% qoq from the peak in 4Q21 but it was higher by 10% than in 1Q21. Per GSO, 1Q22 Vietnam's sugar production volume was equal to 1Q21 at 599.7 thousand tonnes. Two leaders SBT and QNS posted revenue growth of 10.5% yoy and 10.6% yoy, respectively, in 1Q22. In contrast, LSS, and KTS recorded negative revenue growth of -7.7% yoy and -1% yoy, respectively.

Figure 11. LSS' revenue growth was an outlier

Source: Company data, Fiipro

Figure 12. Decelerated revenue growth of sugar producers

Source: Company data, Fiipro

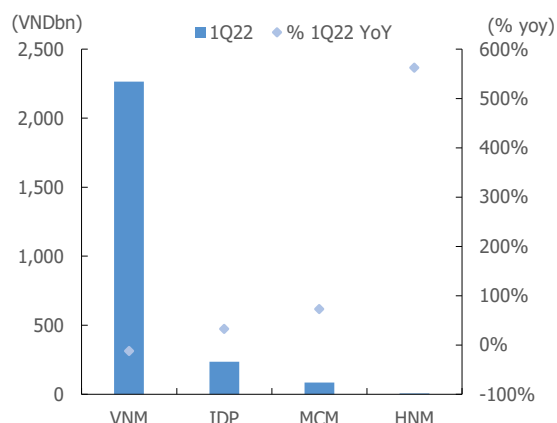
1Q22 net margin mixed in F&B companies

Net profit margin (NM) declined significantly in dairy companies, slumping from 18.7% in 1Q21 to 16.3% in 1Q22 as the biggest player, VNM recorded negative net profit growth of -12% yoy. In contrast, IDP, MCM, and HNM recorded good performance with net profit growth of 33.2%, 73.1%, and 562% yoy, respectively, in 1Q22.

Otherwise, beer companies reaped a brisk net profit growth of 24% yoy in 1Q22. SAB posted a net profit of VND1.170bn, up 27.1% yoy in 1Q22, after suffering a negative net profit growth of -10.4% yoy in 4Q21 and -22.1% yoy in 2021. Meanwhile, the net profit momentum of sugar sector decelerated in 1Q22.

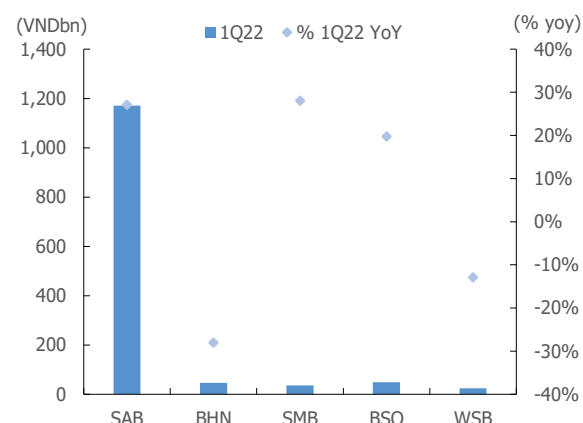
SBT's net profit went up just +6.9% yoy, and the net profit margin was suppressed by 0.2%p to 5.8% yoy in 1Q22. QNS's NM dropped by 0.1%p yoy to 9.7% in 2Q21.

Figure 13. HNM's 1Q22 net profit growth performed the best



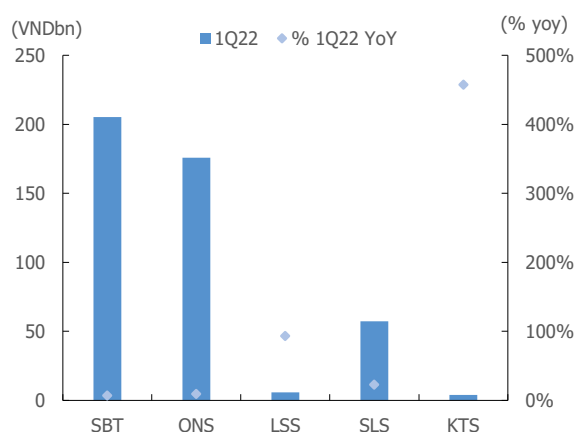
Source: Company data, Fiipro

Figure 14. BHN net profit growth was an outlier



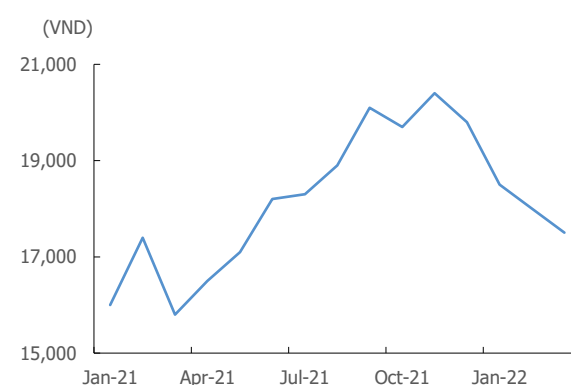
Source: Company data, Fiipro

Figure 15. KTS net profit growth far exceeded the sugar industry in 1Q22



Source: Company data, Fiipro

Figure 16. Domestic retail sugar price



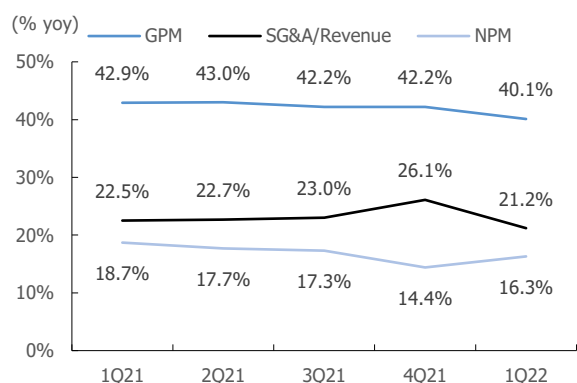
Source: Thitruongmiaduong.com

1Q22 gross margin mixed in F&B producers

The spike in imported input raw material prices compressed the gross margin among F&B companies in 1Q22. The dairy sector's GM subdued by 2.8%p yoy while VNM's GM plunged strongly by 3.1%p yoy to 40.1% in 1Q22 due to sharp rise of imported milk powder prices by 30-40% yoy in 1Q22. On the other hand, the beer sector gross margin expanded by 1.7%p yoy to 27% in 1Q22. SAB's GM improved by 0.6%p yoy to 29.8% in 1Q22 due to high APS although raw material prices such as aluminum and malting barley hiked.

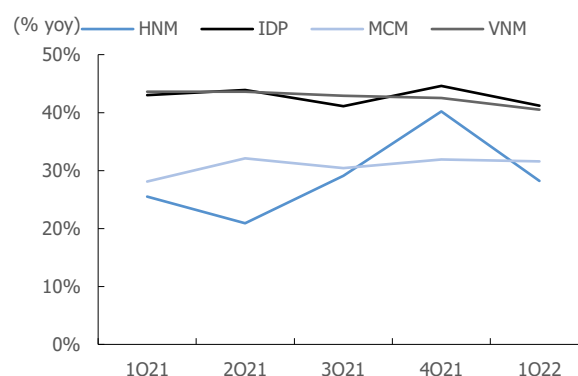
For the sugar sector, 1Q22 GM of most players in the sugar sector improved compared to 1Q21 due to higher ASP. SBT and QNS expand GM by 1.6%p yoy and 3.1p% yoy in 1Q22, respectively.

Figure 17. GM vs NP of the dairy sector dropped in 1Q22



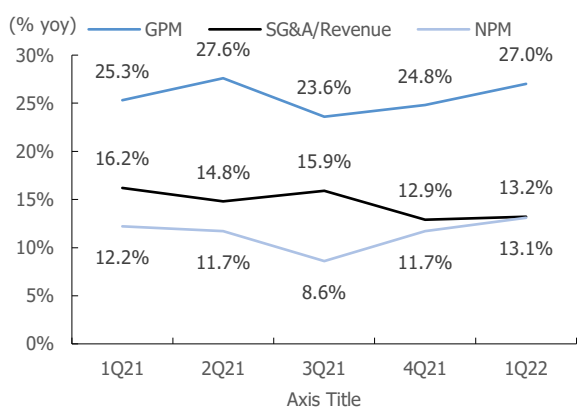
Source: Company data, Fiinpro

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



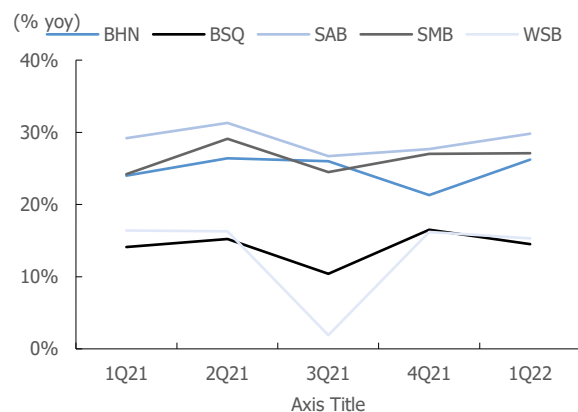
Source: Company data, Fiinpro

Figure 19. GM of the brewery sector expanded in 1Q22



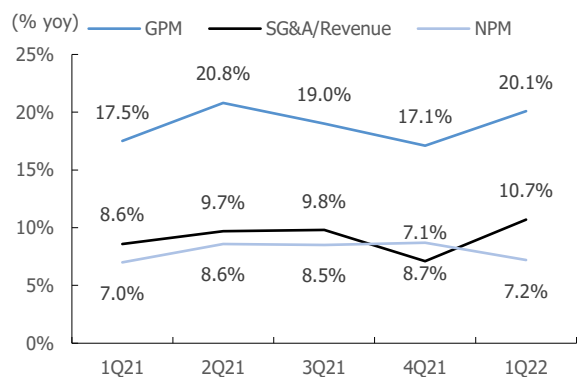
Source: Company data, Fiinpro

Figure 20. SAB' GM far exceeded sector



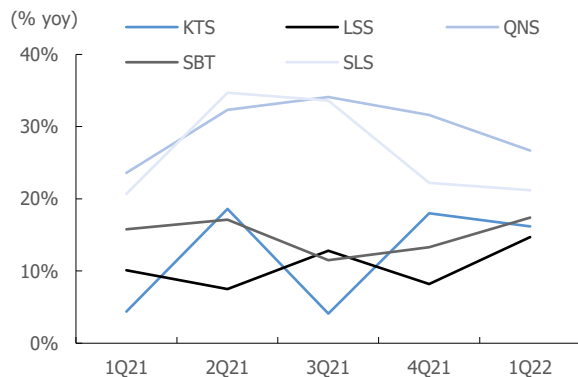
Source: Company data, Fiinpro

Figure 21. GM of the sugar sector improved in 1Q22



Source: Company data, Fiinpro

Figure 22. QNS's GM still stayed healthy despite a slight drop in 1Q22

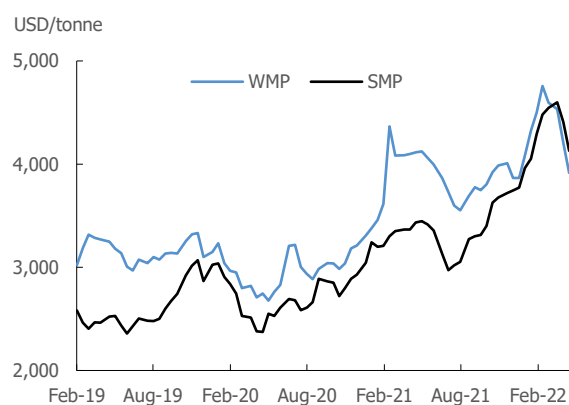


Source: Company data, Fiinpro

Gross margin could expand in 2Q22F

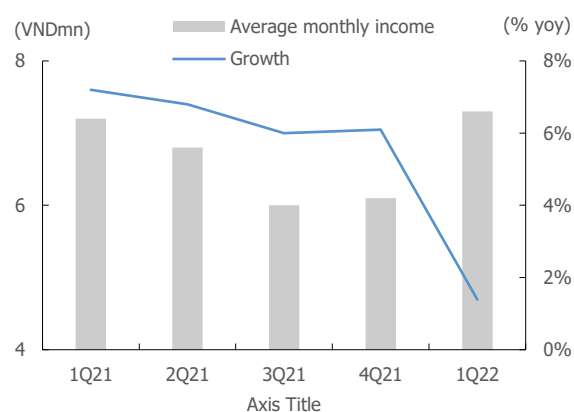
We expect the recovery momentum of F&B consumption will continue in 2Q22F and back to the pre-covid level. The recovery will be supported by (1) growing household incomes, (2) the on-trade channel reopening fully nationwide. Moreover, 1Q22 average monthly income of wage workers was VND7.3mn, (+1.4% yoy, +19.7% qoq), per GSO. Reopening fully all industries to prompt household incomes could persist in 2Q22F. In our view, demand for F&B will recover continually, especially beer consumption. In 2Q22F, the high growth in income of households will lead F&B companies to increase selling prices more easily to offset the spike in raw materials. Thus, we expect an expanding gross margin in 2Q22F for dairy and brewing listed companies due to cooling commodity prices and fully benefit from higher selling prices.

Figure 23. Imported milk powder prices are cooling down



Source: Bloomberg

Figure 24. High growth (qoq) in average monthly income in 1Q22



Source: GSO

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