

12 Aug 2022

Food & Beverage

Non-rated

Expected robust earnings growth in 3Q22F

Opposite revenue growth of F&B companies in 2Q22.

In general, food and beverage consumption recovered differently in 2Q22. Based on our estimate, the 2Q22 total revenue momentum growth of the 4 listed milk companies decelerated in 2Q22 after 4 consecutive quarters of acceleration. Revenue growth in 1Q21 was at 5.9% yoy, lower than 10.2% yoy in 4Q21. On the other hand, the total revenue and earnings growth of 14 listed brewery companies continued to recover in 2Q22. The revenue accelerated to 21.9% yoy compared to 15.3% yoy in 1Q22.

Divergent 2Q22 gross margin in F&B producers

In 2Q22, the surging in imported input raw material prices affected differently on the gross margins among F&B producers. The dairy sector's GM was flat in 2Q22 while VNM's GM inched up slightly from 40.5% in 1Q22 to 40.7% in 2Q22 since the spike in selling prices offsets well the sharp rise of imported milk powder. Meanwhile, the gross margin of the beer sector expanded by 3.0%p qoq to 30% in 2Q22. SAB's GM improved strongly by 4.5%p yoy to 34.3% in 2Q22 due to higher APS and cooling prices of raw materials such as aluminum and malting barley.

Gross margin will expand in 3Q22F

We expect the F&B consumption will remain resilient in 3Q22F but it will face the challenge of inflation pressure. The recovery will be supported by better household incomes, the average monthly income of wage workers was VND7.5mn, (+2.7% qoq, +10.3% yoy) in 2Q22, per GSO. We expect gross margins of dairy and brewing listed companies will expand strongly in 3Q22F due to a full benefit from cooling raw material prices and higher selling prices. Meanwhile, the sugar sector's GM also could improve due to better domestic selling prices after officially applying nearly 48% of the tax rate against tax evasion with imported sugar cane from some Asian countries in August 2022.

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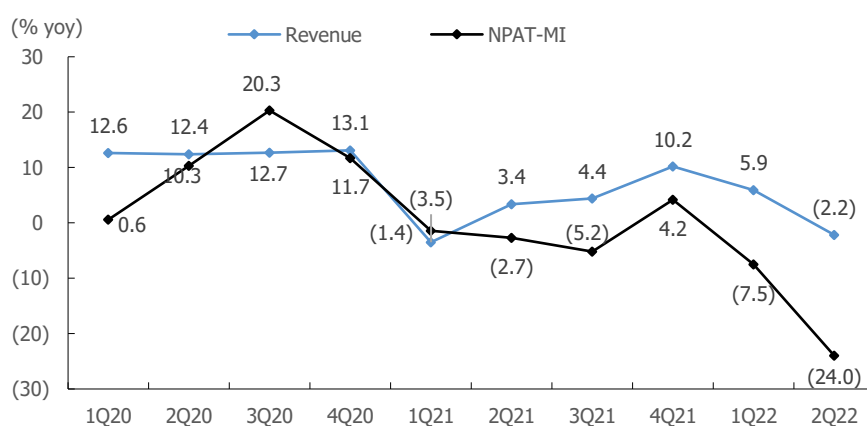
Table 1. 4 dairy producers' aggregated earnings

(VNDbn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	17,854	15,875	17,465	(2.2)	10.0
NP	3,156	2,593	2,399	(24.0)	(7.4)

Source: Company data, KIS

Based on our collection, the aggregated revenue growth momentum of the 4 listed milk companies decelerated in 2Q22 after 4 consecutive quarters of acceleration. Revenue decreased by 2.2% yoy in 2Q22 compared to positive growth of 5.9% yoy in 1Q22. Meanwhile, the earnings growth decelerated continuously from -7.5% yoy in 1Q22 to -24.0% yoy in 2Q22 owing to a negative impact of escalated material costs.

Figure 1. Net profit growth of dairy producers decelerated in 2Q22

Source: Company data, Fiinpro

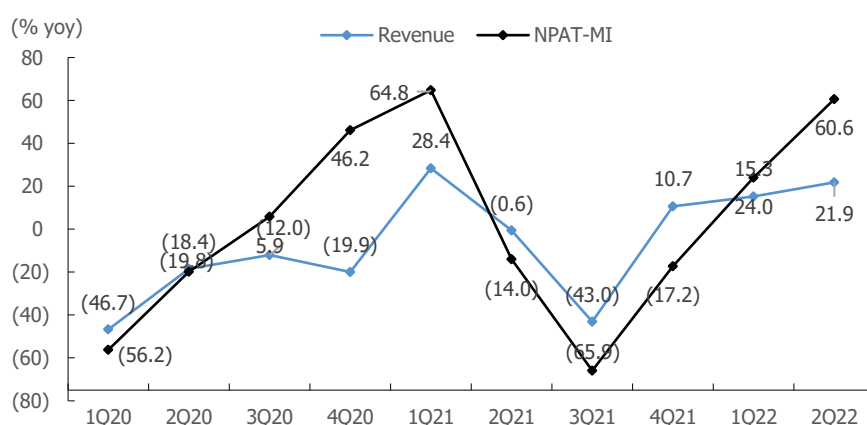
Table 2. Brewery producers' earnings rebounded strongly

(VNDbn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	11,269	10,214	13,551	21.9	32.7
NP	1,324	1,338	2,127	60.6	59.0

Source: Company data, KIS

The total revenue and earnings growth of 14 listed brewery companies continued to recover in 2Q22. The revenue accelerated to 21.9% yoy compared to 15.3% yoy in 1Q22. Net profit recovered very strongly with 60.6% yoy in 2Q22 compared to 24.0% in 1Q22. However, the net profit growth rate was faster, implying there were also other engines of net profit growth.

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

Source: Company data, Fiinpro

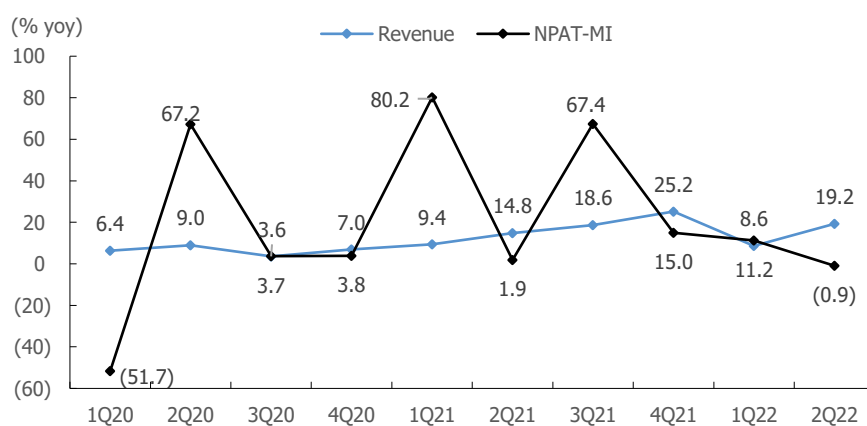
Table 3. 5 sugar producers' aggregated earnings

(VNDbn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	7,334	6,239	8,741	19.2	40.1
NP	629	448	624	(0.9)	39.2

Source: Company data, KIS

The total revenue growth of 5 listed sugar producers on three bourses accelerated but its earnings momentum deteriorated in 2Q22. The revenue growth rate in 2Q22 was 19.2% yoy better than 8.6% yoy in 1Q22. Net profit growth decelerated to -0.9% yoy in 2Q22, worse than positive growth of 11.2% yoy seen in 1Q22. With a slower rate of profit, it raises concerns about other headwinds.

Figure 3. Net profit growth of listed sugar producers in 2Q22

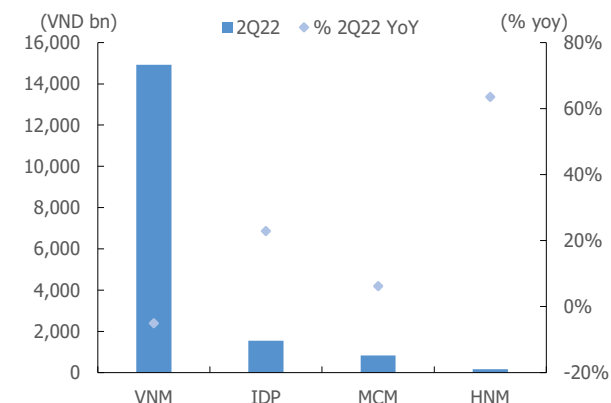
Source: Company data, Fiinpro

APS was the greatest influence

Breaking down dairy aggregate revenue growth by a specific company, VNM top the influence in the light of its dominant position with revenue going down by 5.2% yoy to VND14.9tn in 2Q22. IDP and MCM showed an outperformed revenue growth rate with 23.0% yoy and 6.3% yoy, respectively. Meanwhile, HNM is an outlier, recording mutant growth of 64.5% yoy. Dairy consumption was still weak, according to AC Nielsen, dairy consumption inched up 2.5% yoy in 2Q22, after flatlining in 1Q22. The average selling price (ASP) boosted the

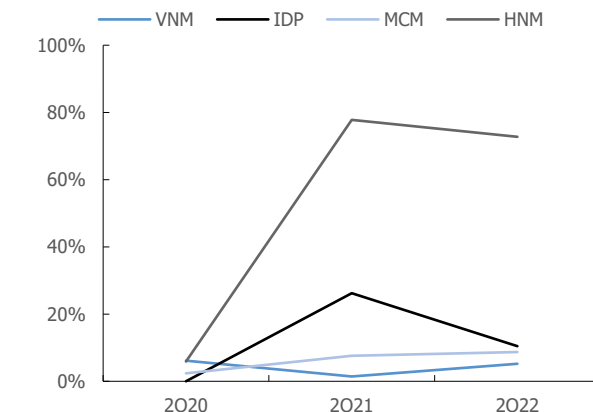
dairy topline growth, in our view. For example, VNM conducted some price hikes in April and May 2022 with ASP increases by 5.5% yoy to ease the impact of surging input prices.

Figure 4. Underperformed VNM revenue growth in 2Q22



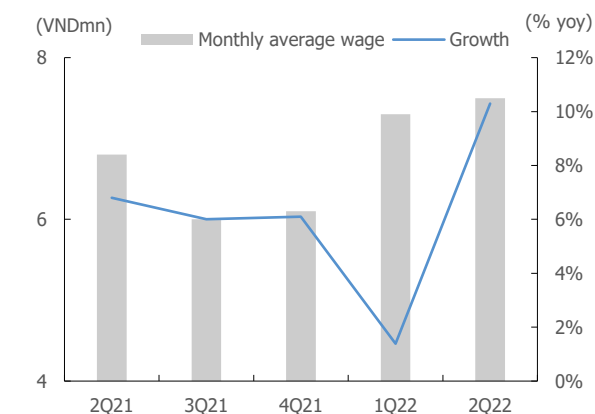
Source: Company data, Fiipro

Figure 5. HNM was an outlier



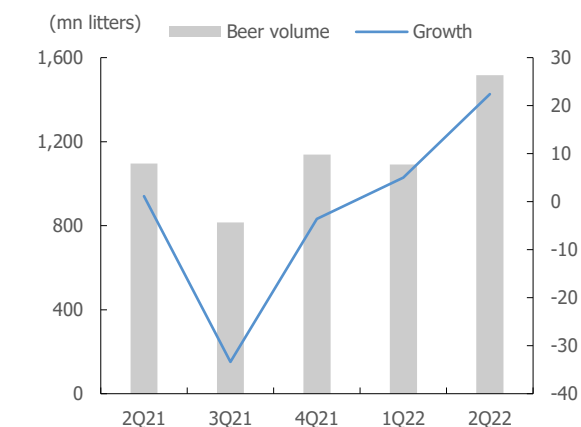
Source: Company data, Fiipro

Figure 6. Wage recovered continuously in 2Q22



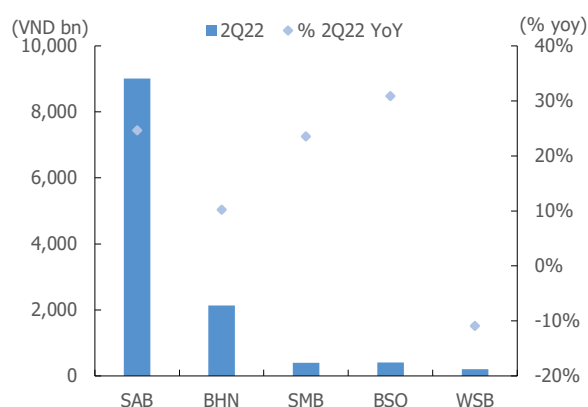
Source: GSO

Figure 7. Strong recovery in beer production

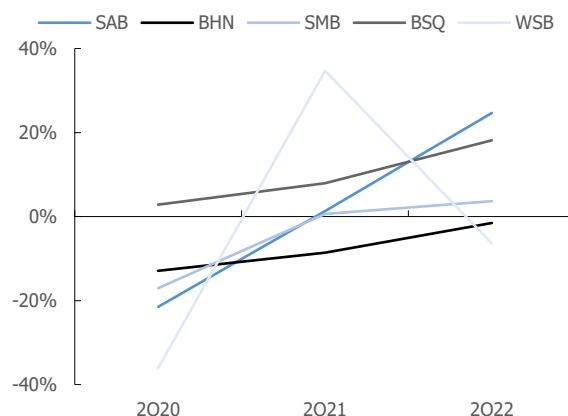


Source: GSO

For the beer sector, SAB, the biggest company announced 2Q22 results with revenue of VND9,0tn (+24.7% yoy and +23.3% qoq), higher than the average of the sector at +20.3% yoy. According to GSO, Vietnam's beer production volume surged by 22.4% yoy to 1,516 mn liters. In addition, the sector's revenue growth benefited from the higher ASP and SAB leveraged ASP by nearly 8% yoy, in our view. Thus, we believe that both of the average selling price (ASP) and sales volume led to the revenue growth of beer sector in 2Q22.

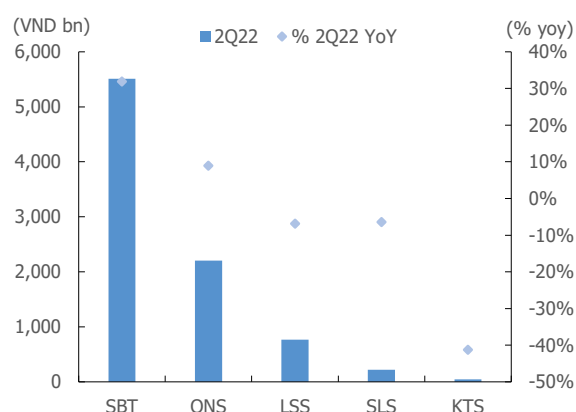
Figure 8. SAB led beer sector revenue in 2Q22

Source: Company data, Fiipro

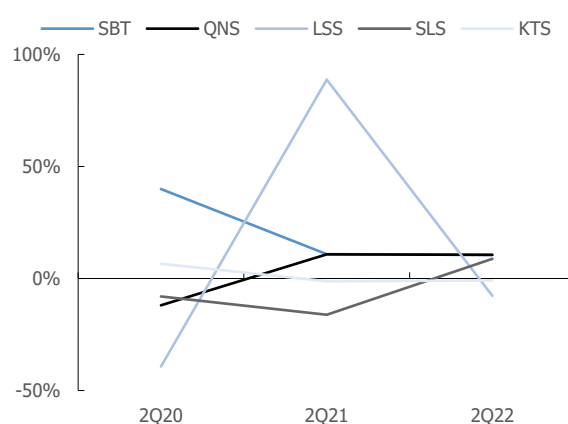
Figure 9. BHN and WSB were outliers in 2Q22

Source: Company data, Fiipro

The sugar selling prices was continuedly the largest tailwind of the sector, in our view. In 2Q22, tax evasion related to Thailand's sugar imports from other Asian countries continued to affect negatively retail domestic sugar prices which decreased by about 3% qoq and 15% from the peak in 4Q21. However, domestic sugar prices averaged at VND17,500 in 2Q22, slightly higher than VND17,300 in 2Q21. In 2Q22, two big players, SBT and QNS recorded revenue growth of 31.9% yoy and 8.9% yoy, respectively. In contrast, LSS, SLS, and KTS recorded negative revenue growth of -6.9% yoy, -6.4% yoy, and -41.3% yoy, respectively.

Figure 10. SBT led sugar sector revenue growth in 2Q22

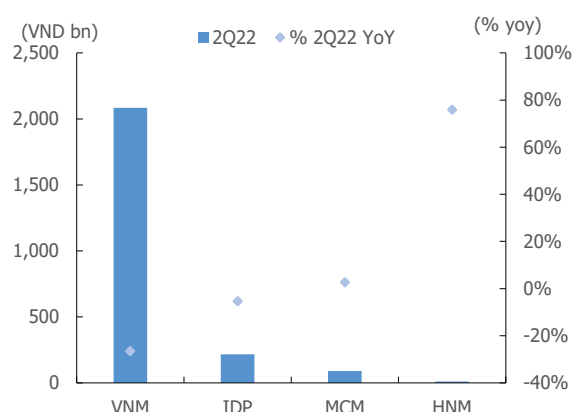
Source: Company data, Fiipro

Figure 11. Divergent revenue growth in sugar producers in 2Q22

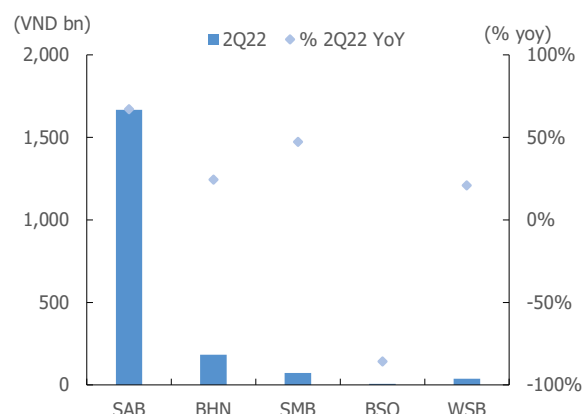
Source: Company data, Fiipro

2Q22 net margin mixed in F&B companies

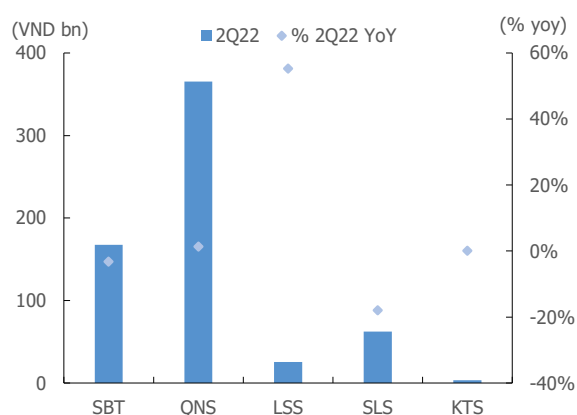
In 2Q22, net profit margin (NM) declined significantly in dairy companies, slumping from 16.3% in 1Q21 to 13.7% as the biggest company, VNM recorded negative net profit growth of -25% yoy. In contrast, MCM, and HNM recorded better performance with net profit growth of 2.6%, and 75.8% yoy, respectively, in 2Q22. On the other hand, beer companies achieved brisk net profit growth of 60.7% yoy in 2Q22. SAB posted net profit growth of 67.0% yoy in 2Q22. Meanwhile, the net profit momentum of the sugar sector decelerated in 2Q22. SBT's net profit went down 3.2% yoy, and the net profit margin was suppressed by 1.1%p yoy and 2.8%p qoq to 3.0% in 2Q22.

Figure 12. HNM's 2Q22 net profit growth performed the best

Source: Company data, Fiinpro

Figure 13. SAB led beer's net profit growth

Source: Company data, Fiinpro

Figure 14. LSS net profit growth far exceeded the sugar industry in 2Q22

Source: Company data, Fiinpro

Figure 15. Retail sugar prices rallied in July

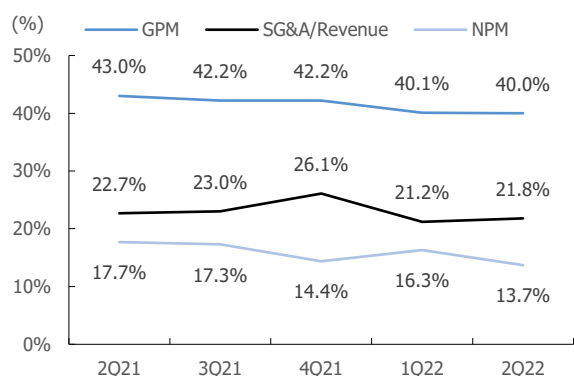
Source: Thitruongmiaduong.com

Divergent 2Q22 gross margin in F&B producers

In 2Q22, the surging in imported input raw material prices affected differently on the gross margins among F&B producers. The dairy sector's GM was flat in 2Q22 while VNM's GM inched up slightly from 40.5% in 1Q22 to 40.7% in 2Q22 since the spike in selling prices offsets well the sharp rise of imported milk powder. Meanwhile, the gross margin of the beer sector expanded by 3.0%p qoq to 30% in 2Q22. SAB's GM improved strongly by 4.5%p yoy to 34.3% in 2Q22 due to higher APS and cooling prices of raw materials such as aluminum and malting barley.

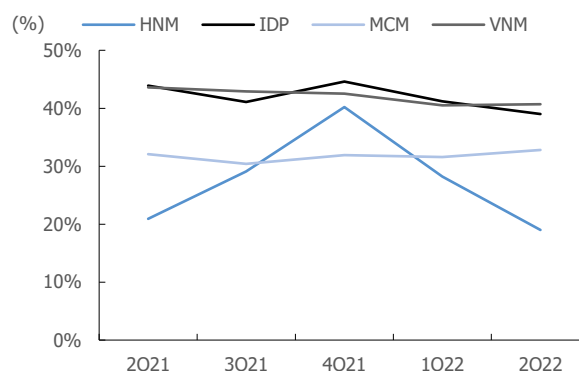
On the other hand, 2Q22 GM of most sugar companies was subdued in 2Q22 owing to lower ASP. SBT and LSS compressed GM by 8.0%p qoq and 5.2%p qoq in 2Q22, respectively.

Figure 16. NP of the dairy sector dropped in 2Q22



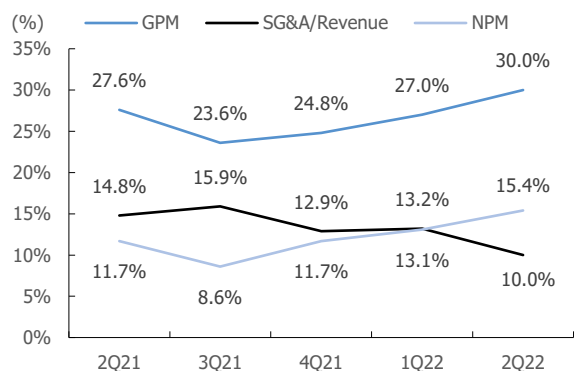
Source: Company data, Fiipro

Figure 17. VNM and IDP's GM far exceeded sector



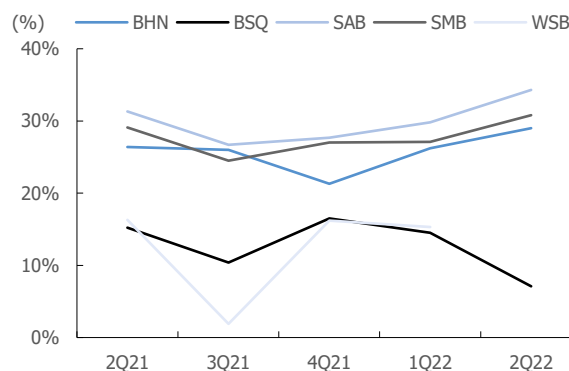
Source: Company data, Fiipro

Figure 18. GM of the brewery sector expanded in 2Q22



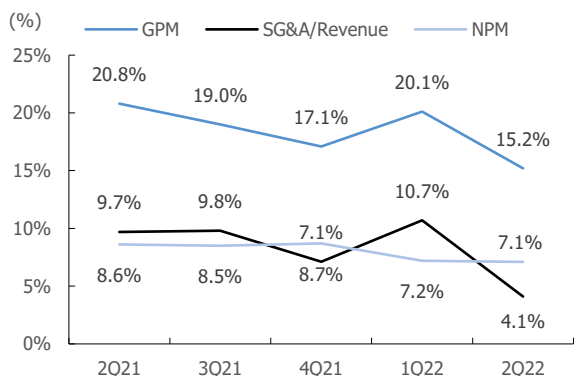
Source: Company data, Fiipro

Figure 19. SAB' GM far exceeded the sector



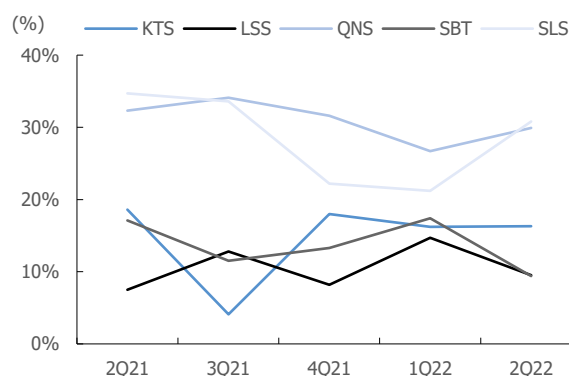
Source: Company data, Fiipro

Figure 20. GM of the sugar sector narrowed in 2Q22



Source: Company data, Fiipro

Figure 21. QNS's GM still stayed healthy in 2Q22

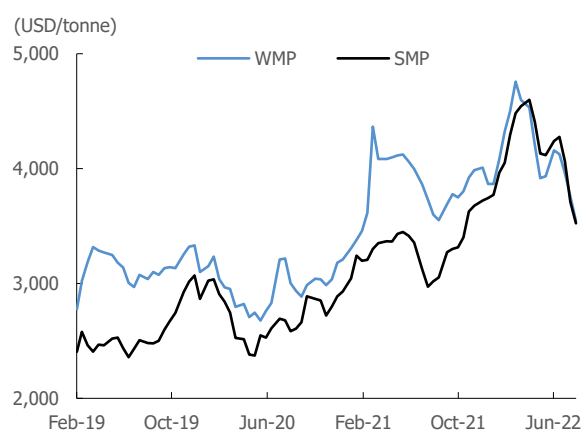


Source: Company data, Fiipro

Gross margin will expand in 3Q22F

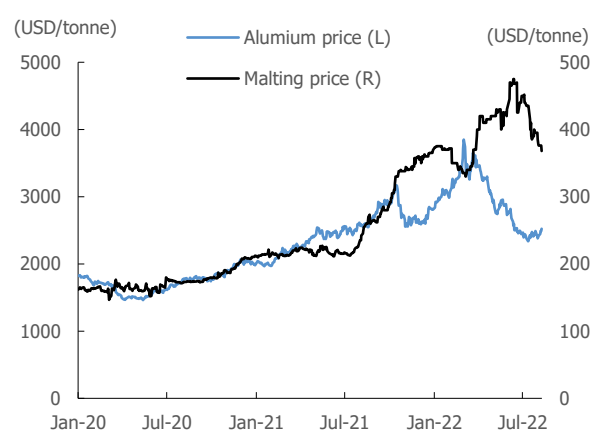
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Figure 22. Imported milk prices are cooling down



Source: Bloomberg

Figure 23. Easing of beer's raw materials prices



Source: Bloomberg

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