

Food & Beverage

Non-rated

Expected better gross margins in 4Q22F

Breweries led F&B's revenue and earnings growth in 3Q22

The aggregated revenue and earnings growth of 14 listed brewery producers accelerated sharply in 3Q22 compared to a low base in 3Q21. The revenue accelerated to 84% yoy compared to 21.9% yoy in 2Q22. SAB which is the biggest beer company announced solid 3Q22 results with revenue of VND8,6tn (+101% yoy), and the sharp YoY earnings growth was because of a significant low base in 3Q21. Besides, beer producers achieved brisk net profit growth of 160% yoy compared to 60.6% yoy in 2Q22. SAB and BHN posted net profit growth of 202% yoy and 60.7% yoy, respectively in 3Q22.

APS was the greatest influence amid inflation

According to Kantar, dairy demand was still weak in 3Q22, dairy consumption volume was down 7% yoy in urban areas and was up 2% yoy in rural areas. The average selling price (ASP) boosted the topline growth of the milk sector, Kantar estimated that ASP increased by 4% yoy and 7% yoy in urban and rural areas, respectively, equivalent to an increase in ASP of VNM. Besides, the sector's revenue growth was supported by the higher ASP, such as SAB increased ASP by above 8% yoy amid inflation and strong recovery demand, in our view.

Mixed 3Q22 gross margin in F&B producers

In 3Q22, the surging in imported input raw material prices affected differently on the gross margins among F&B producers. The milk sector's GM declined slightly in 3Q22 while VNM's GM was subdued by 3.4%p yoy and 1.2%p qoq to 39.5% in 3Q22. In contrast, the gross margin of the beer sector expanded by 3.9%p yoy to 30% in 3Q22. The gross margin of SAB in 3Q22 improved by 4.5%p yoy but it was suppressed by 3.1%p qoq to 31.2%. Meanwhile, 3Q22 GM of most sugar companies was subdued slightly YOY but expanded strongly QoQ in 3Q22 following the volatility of retail sugar prices.

GM of F&B sector will expand in 4Q22F

We expect the F&B consumption continue to face the challenge of inflation pressure in 4Q22F. However, the F&B revenue could stay solid driven by the ASP hike. Furthermore, their earnings could remain resilient due to improving gross margins. We expect the gross margins of listed dairy and beer companies will expand on qoq basis in 4Q22F due to a bigger gain from cooling raw material prices. Besides, the sugar sector GM also could improve continuously due to better selling prices after officially applying the tax rate against tax evasion with imported sugar cane from some Asian countries in 3Q22.

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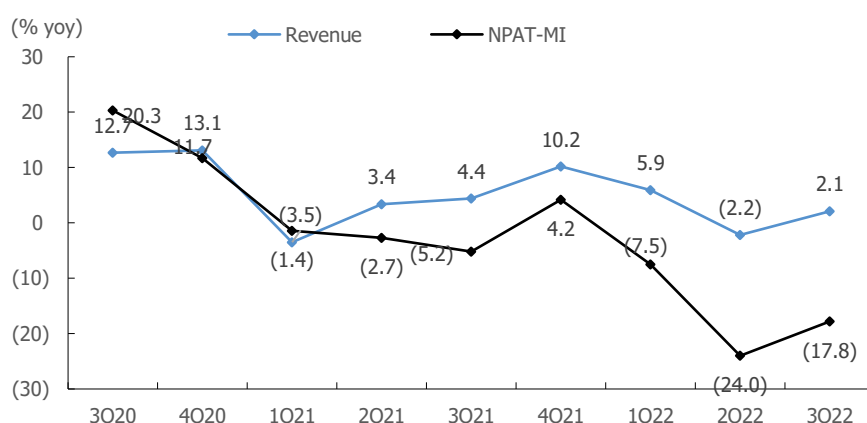
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Table 1. 4 milk producers' aggregated earnings

| | 3Q21 | 2Q22 | 3Q22 | YoY | QoQ |
|---------|--------|--------|--------|--------|-----|
| Revenue | 18,293 | 18,682 | 17,465 | 2.1 | 7.0 |
| NP | 3,165 | 2,601 | 2,399 | (17.8) | 8.4 |

Source: Company data, KIS

Based on our collection, the total revenue growth momentum of the 4 listed dairy companies accelerated in 3Q22 after a quarter of deceleration in 2Q22. Revenue went up by 2.1% yoy in 3Q22 compared to negative growth of -2.2% yoy in 2Q22. In contrast, the earnings growth decelerated continuously from -24.0% yoy in 2Q22 to -17.8% yoy in 3Q22 owing to the continued impact of escalating material costs and weak demand amid the inflation.

Figure 1. Net profit growth of dairy producers decelerated in 3Q22

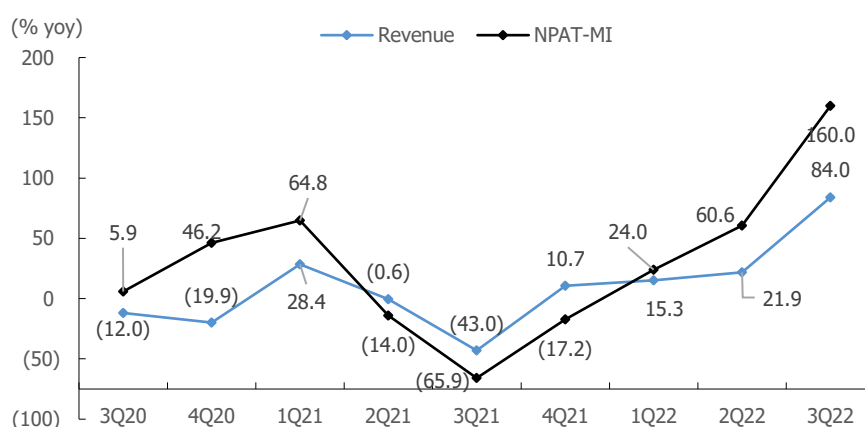
Source: Company data, Fiinpro

Table 2. Brewery producers' earnings rebounded strongly yoy

| | 3Q21 | 2Q22 | 3Q22 | YoY | QoQ |
|---------|-------|--------|--------|-------|--------|
| Revenue | 7,419 | 13,685 | 13,551 | 84.5 | 1.0 |
| NP | 643 | 1,672 | 2,127 | 160.0 | (21.4) |

Source: Company data, KIS

The aggregated revenue and earnings growth of 14 listed brewery producers accelerated sharply in 3Q22 compared to a low base in 3Q21. The revenue accelerated to 84% yoy compared to 21.9% yoy in 2Q22. Net profit recovered very strongly with 160% yoy in 3Q22 compared to 60.6% in 2Q22. 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 3Q22

Source: Company data, Fiinpro

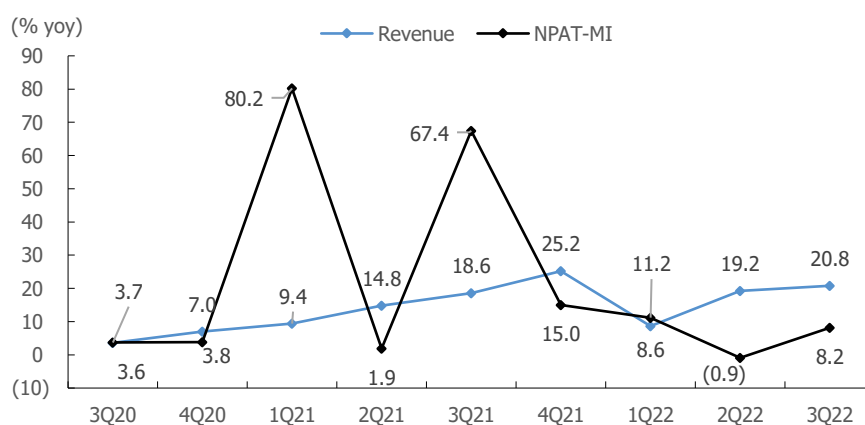
Table 3. 5 sugar producers' aggregated earnings

(VNDbn, %)

| | 3Q21 | 2Q22 | 3Q22 | YoY | QoQ |
|---------|-------|-------|-------|------|-------|
| Revenue | 6,883 | 8,312 | 8,741 | 20.8 | (4.9) |
| NP | 585 | 632 | 624 | 8.0 | 0.0 |

Source: Company data, KIS

The total revenue and earnings growth of 5 listed sugar companies on three bourses accelerated in 3Q22. The revenue growth rate in 3Q22 was 20.8% yoy compared to 19.2% yoy in 2Q22. Net profit growth accelerated to 8.2% yoy in 23Q22, better than the negative growth of -0.9% yoy seen in 2Q22. With a slower growth rate of profit, it raises concerns about other headwinds.

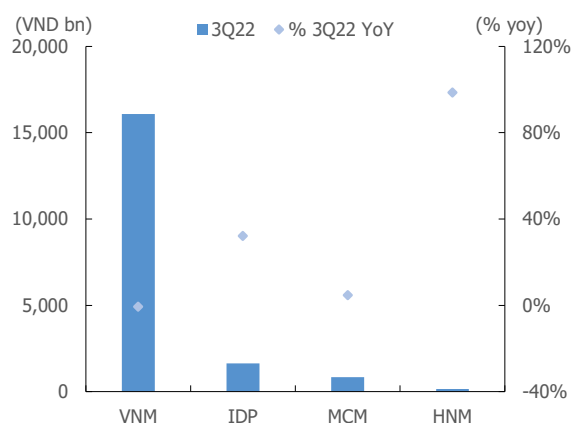
Figure 3. Solid revenue growth of listed sugar producers in 3Q22

Source: Company data, Fiinpro

APS was the greatest influence amid inflation

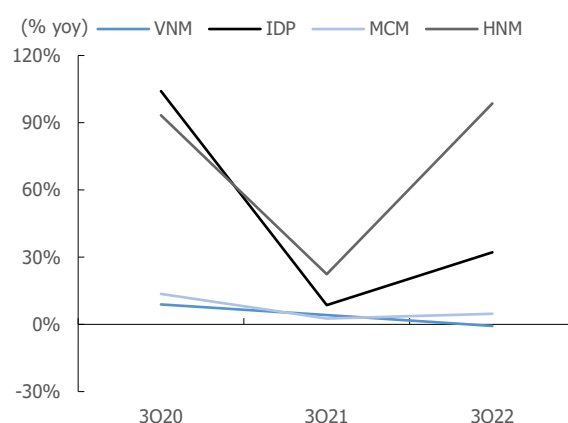
Breaking down milk aggregate revenue growth by a specific company, VNM topped the peers with revenue flat at VND16.1tn (-0.7% yoy) in 3Q22. IDP and MCM showed an outperformed revenue growth rate with 32.2% yoy and 4.7% yoy, respectively. Meanwhile, HNM is an outlier, recording sudden growth of 98.6% yoy. According to Kantar, dairy demand was still weak in 3Q22, dairy consumption volume was down 7% yoy in urban areas and was up 2% yoy in rural areas. The average selling price (ASP) boosted the topline growth of the milk sector, Kantar estimated that ASP increased by 4% yoy and 7% yoy in urban and rural areas, respectively, equivalent to an increase in ASP of VNM.

Figure 4. Tepid VNM revenue growth in 3Q22



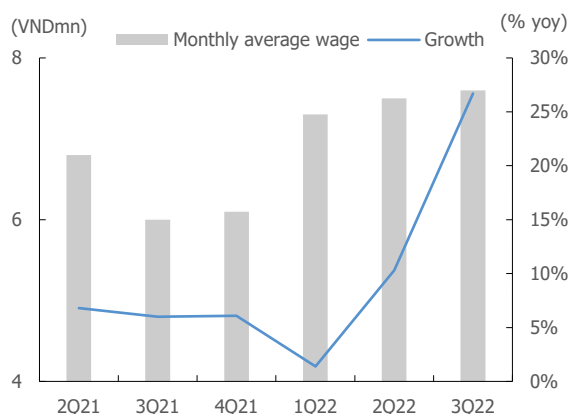
Source: Company data, Fiipro

Figure 5. HNM was an outlier



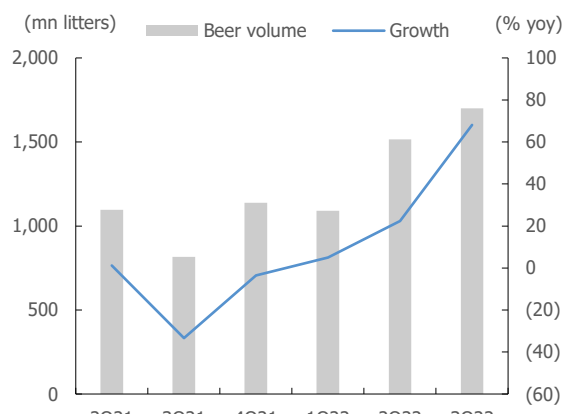
Source: Company data, Fiipro

Figure 6. Wage increased slightly QoQ in 3Q22



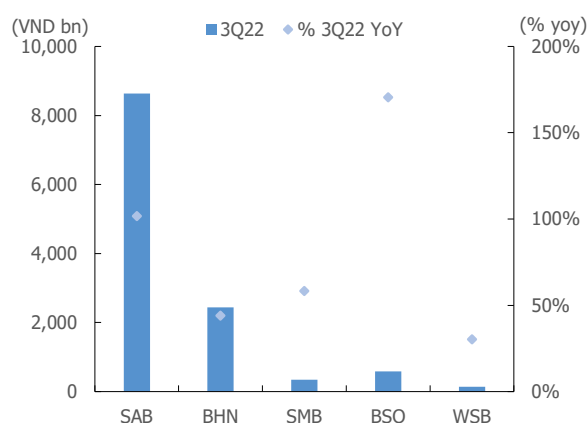
Source: GSO

Figure 7. Strong recovery in beer production

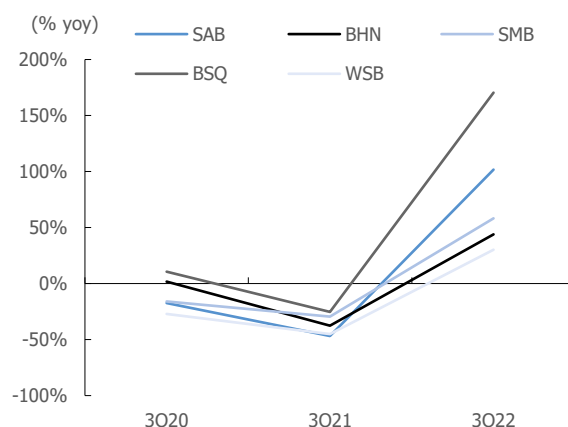


Source: GSO

SAB which the biggest beer company announced solid 3Q22 results with revenue of VND8,6tn (+101% yoy), and the sharp YoY earnings growth was because of a significant low base in 3Q21 when applying lockdown measures. However, 3Q22 revenue decreased slightly by 4.1% qoq due to a high base in Q2 which had Sea Game event, and an impressive strong consumption recovery after the full reopening of social activities. According to GSO, Vietnam’s beer production volume surged by 68% yoy to 1,700 mn liters. Besides, the sector’s revenue growth was supported by the higher ASP, such as SAB increased ASP by above 8% yoy amid inflation and strong recovery demand, in our view. Thus, we believe that both ASP and sales volume led to the revenue growth of the beer sector in 3Q22.

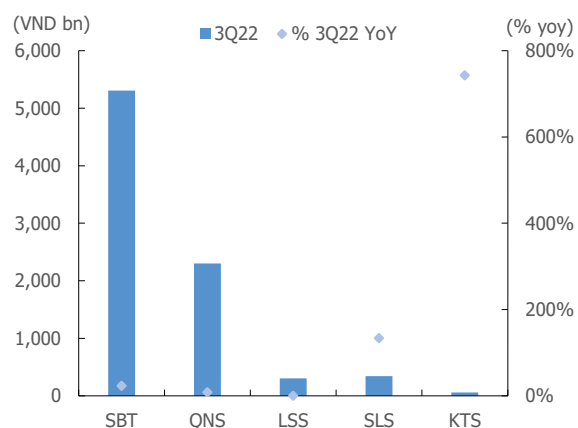
Figure 8. SAB led beer sector revenue in 3Q22

Source: Company data, Fiipro

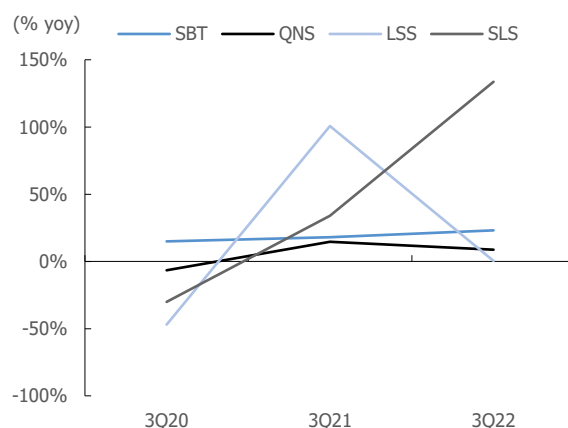
Figure 9. BSQ revenue growth is the highest in 3Q22

Source: Company data, Fiipro

The sugar selling prices were the largest tailwind of the sector, domestic sugar prices averaged VND18,900/kg in 3Q22 (+3.1% yoy), and went up strongly by 8% qoq due to officially applying nearly 48% of the tax rate against tax evasion with imported sugar cane from some Asian countries in August 2022. In 3Q22, the two biggest listed sugar producers, SBT and QNS posted revenue growth of 23.1% yoy and 8.7% yoy, respectively. In addition, small companies such as LSS and KTS recorded high revenue growth of 133% yoy and 743% yoy, respectively.

Figure 10. SBT and QNS led sugar sector revenue growth in 3Q22

Source: Company data, Fiipro

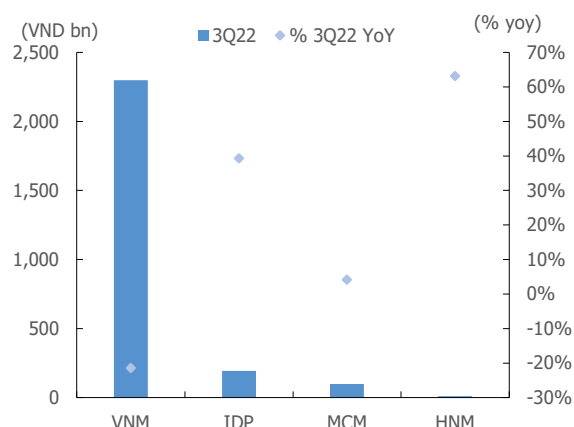
Figure 11. SLS was an outlier in 3Q22

Source: Company data, Fiipro

3Q22 divergent net margin of F&B companies

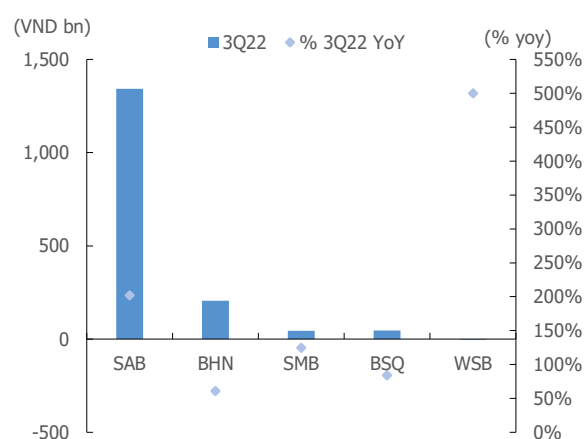
In 3Q22, net profit margin (NM) declined significantly in dairy companies, NM of VNM declined from 18.1% in 3Q21 to 14.3% as the biggest company, VNM recorded negative net profit growth of -21.4% yoy. In contrast, IDP and HNM got better performance with net profit growth of 39.3%, and 63.2% yoy, respectively. On the other hand, beer producers achieved brisk net profit growth of 160% yoy in 3Q22. SAB and BHN posted net profit growth of 202% yoy and 60.7% yoy, respectively in 3Q22. The net profit momentum of the sugar sector also accelerated in 3Q22. Net profit of SBT increased by 15.8% yoy, meanwhile, the net profit margin was suppressed slightly by 0.1%p yoy but expanded 1.3%p qoq to 4.4% in 3Q22.

Figure 12. HNM's 3Q22 net profit growth performed the best



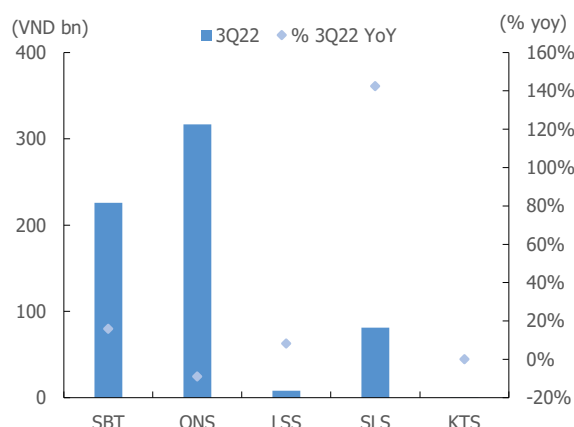
Source: Company data, Fiinpro

Figure 13. SAB led beer's net profit growth



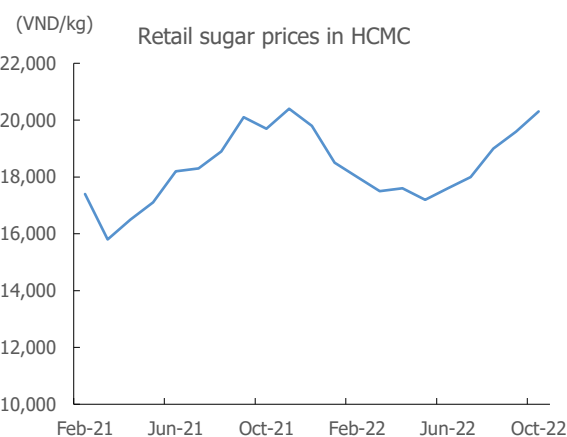
Source: Company data, Fiinpro

Figure 14. SLS net profit growth far exceeded the sugar industry in 3Q22



Source: Company data, Fiinpro

Figure 15. Retail sugar price rallied strongly in 3Q22

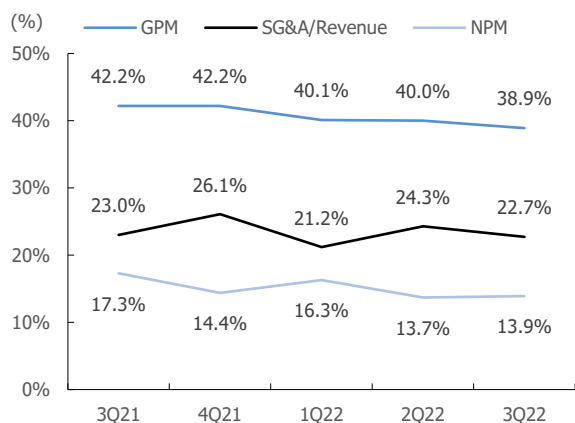


Source: AgroMonitor

Mixed 3Q22 gross margin in F&B producers

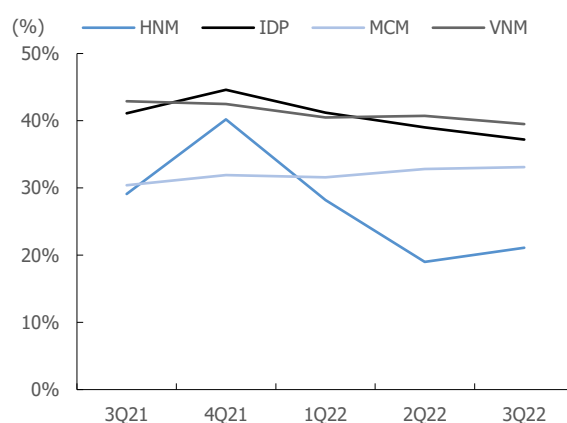
In 3Q22, the surging in imported input raw material prices affected differently on the gross margins among F&B producers. The milk sector's GM declined slightly in 3Q22 while VNM's GM was subdued by 3.4%p yoy and 1.2%p qoq to 39.5% in 3Q22 because VNM hedged material input prices at high prices although the future global milk powder prices slumped strongly by over 30% from the peak in 2Q22. In contrast, the gross margin of the beer sector expanded by 3.9%p qoq to 30% in 3Q22. The gross margin of SAB in 3Q22 improved by 4.5%p yoy but it was suppressed by 3.1%p qoq to 31.2% because SAB hedged material input prices for six to nine months with high prices although SAB continued to improve production efficiency in 3Q22. Meanwhile, 3Q22 GM of most sugar companies was subdued slightly YOY but expanded strongly QoQ in 3Q22 following the volatility of retail sugar prices. SBT and LSS expanded their GM by 3.1%p qoq and 2.9%p qoq, respectively, in 3Q22.

Figure 16. NP of the dairy sector dropped in 3Q22



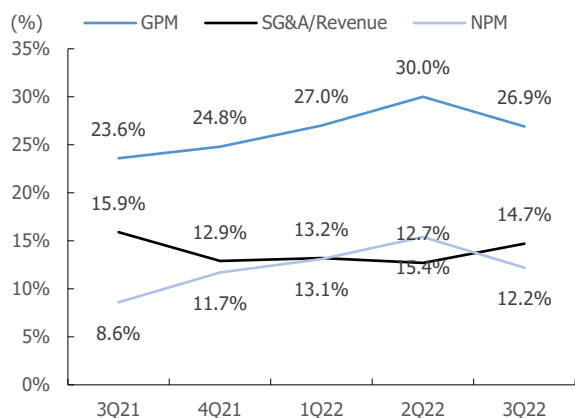
Source: Company data, Fiipro

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



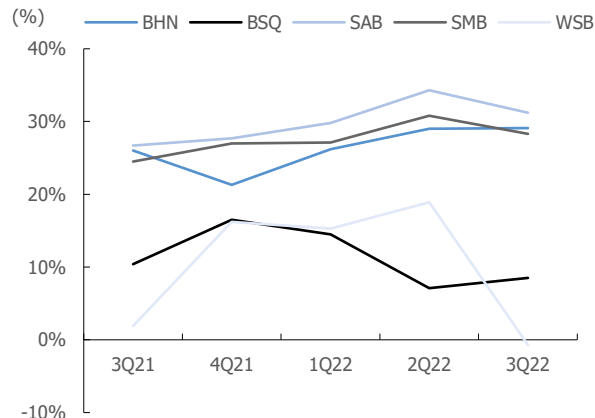
Source: Company data, Fiipro

Figure 18. GM of the brewery sector expanded yoy in 3Q22



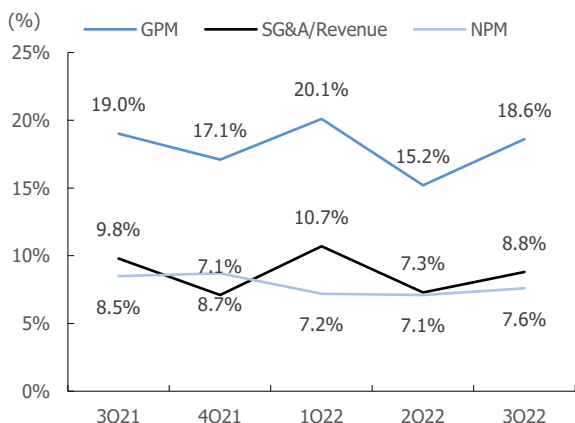
Source: Company data, Fiipro

Figure 19. SAB' GM far exceeded the sector



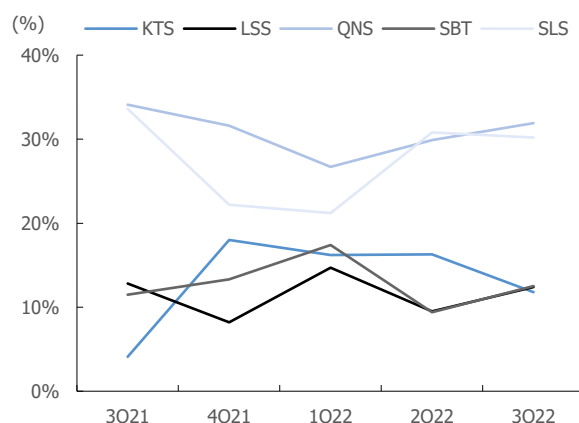
Source: Company data, Fiipro

Figure 20. GM of the sugar sector expanded in 3Q22



Source: Company data, Fiipro

Figure 21. QNS's GM still stayed healthy in 3Q22

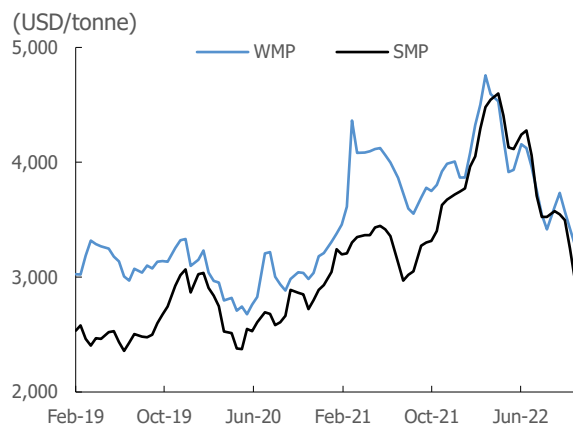


Source: Company data, Fiipro

GM of F&B sector will expand in 4Q22F

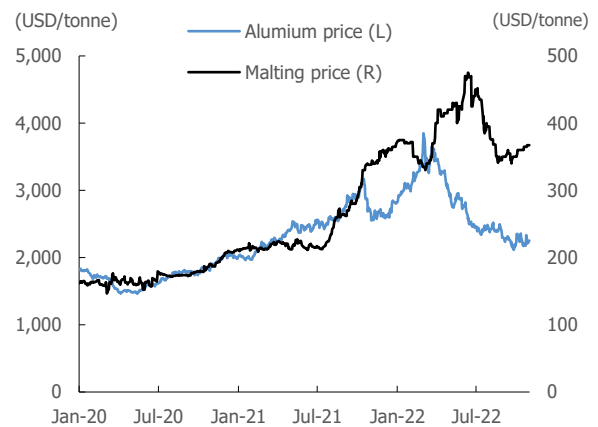
We expect the F&B consumption continue to face the challenge of inflation pressure in 4Q22F and income growth QoQ to slow down. The average monthly income of wage workers increased just slightly by 1.3% qoq to VND7.6mn (+26.7% yoy) in 3Q22, per GSO. However, the F&B revenue could stay solid driven by the ASP hike. Furthermore, their earnings could remain resilient due to improving gross margins. We expect the gross margins of listed dairy and beer companies will expand in 4Q22F due to a bigger gain from cooling raw material prices. Besides, the sugar sector GM also could improve continuously due to better selling prices after officially applying the tax rate against tax evasion with imported sugar cane from some Asian countries in 3Q22.

Figure 22. Global milk prices are cooling down



Source: Bloomberg

Figure 23. Easing of beer's raw materials prices



Source: Bloomberg

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