

# Food & Beverage

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**Non-rated**

## Expected improved gross margins in 1Q23F

### Sugar and breweries led F&B's revenue growth in 4Q22

Total revenue growth of breweries sector slowed down from 84.0% yoy in 3Q22 to 15.1% yoy in 4Q22 due to a 3Q21 low base effect. The revenue grew up yoy and qoq due to the football tournament and the early Lunar new year holiday. The total revenue of 5 listed sugar companies on three bourses accelerated while earnings growth decelerated in 4Q22. The revenue growth rate in 4Q22 was 34.5% yoy compared to 20.8% yoy in 3Q22.

### Suppressed gross margin in 4Q22

The high prices of imported input raw materials affected continually the gross margins among F&B companies. The dairy sector's GM declined yoy and qoq in 4Q22, VNM's GM was suppressed by 3.7%p yoy and 0.7%p qoq to 38.8% in 4Q22. Meanwhile, the gross margin of the beer sector dropped by 2.8%p qoq and 0.7%p to 24.1% in 4Q22. The gross margin of SAB improved by 0.4p% yoy but it was suppressed strongly by 3.1%p qoq to 28.1% although aluminum/malt prices decreased by nearly 30% from their peaks. For sugar sector, 4Q22 GM of the sector was subdued significantly by 5.0%p qoq and 3.5%p yoy owing to a surge of input sugarcane prices.

### SG&A/Revenue jumped sharply in 4Q22

In 4Q22, net profit margin (NM) declined significantly qoq and yoy in all F&B sub-sectors. SG&A/Revenue of IDP surged sharply from 16.4% to 30.2% between 4Q21 and 4Q22, respectively, causing the NM to drop from 23.0% to 9.9%. In spite of an increase in revenue, beer producers got a negative net profit growth of 24.5% yoy in 4Q22. SAB posted negative net profit growth of -20.6% yoy due to SG&A/Revenue jumping sharply from 12.4% to 18.1% in 4Q21 and 4Q22, respectively.

### GM of F&B sector will expand in 1Q23F

The average monthly income of wage workers increased just slightly by 1.3% qoq to VND7.7mn (+26.2% yoy) in 4Q22, per GSO. Besides, the income of Vietnam workers was impacted by still sluggish export activities, thus we expect consumption of beer and dairy will continue to face the challenge in 1Q23F. However, we expect continuously the gross margins of listed dairy and beer companies to improve in 1Q23F due to enjoying cooling raw material prices. For sugar sector, we expect sales could grow up and improve gross margin due to higher selling prices.

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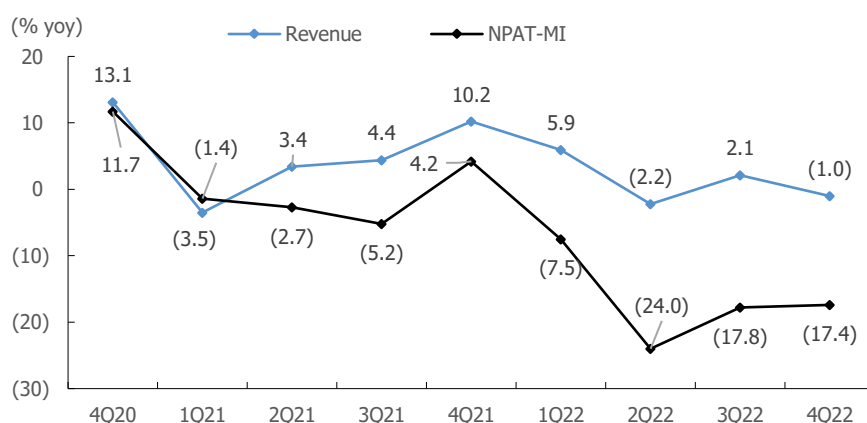
**Table 1. 4 milk producers' aggregated earnings**

(VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	17,811	18,682	17,639	(1.0)	(5.6)
NP	2,564	2,601	2,117	(17.4)	(18.6)

Source: Company data, KIS

Based on our data, the total revenue of the 4 listed dairy companies was flat yoy in 4Q22, and total revenue dropped slightly by 1.0% yoy in 4Q22 compared to a growth rate of 2.1% yoy in 3Q22. However, the earnings growth continued to decelerate -17.4% yoy in 4Q22 vs -17.8% yoy in 3Q22 because of the impact of high input prices and weak demand amid the inflation.

**Figure 1. Dairy producers' profit dropped in 4Q22**

Source: Company data, Fiinpro

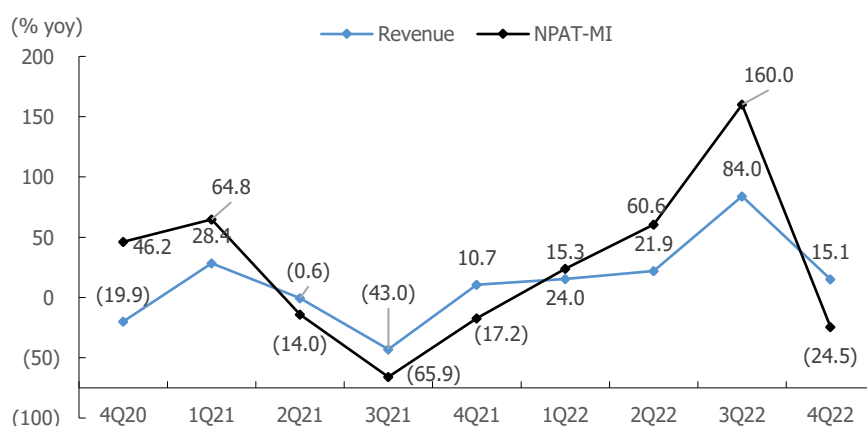
**Table 2. Brewery producers' earnings decrease**

(VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	13,104	13,685	15,088	15.1	10.3
NP	1,541	1,672	1,164	(24.5)	(30.4)

Source: Company data, KIS

The aggregated revenue and earnings growth of 14 listed brewery producers decelerated in 4Q22. Total revenue growth slowed from 84.0% yoy in 3Q22 to 15.1% yoy in 4Q22 due to a 3Q21 low base effect. The revenue grew up yoy and qoq due to the football tournament and the early Lunar new year. In contrast, net profit decreased by 24.5% yoy in 4Q22 after a strong recovery in 2Q-3Q22. The tepid net profit was caused by both high input prices and selling expenses.

**Figure 2. Sluggish net profit of listed beer producers in 4Q22**

Source: Company data, Fiinpro

**Table 3. 5 sugar producers' aggregated earnings**

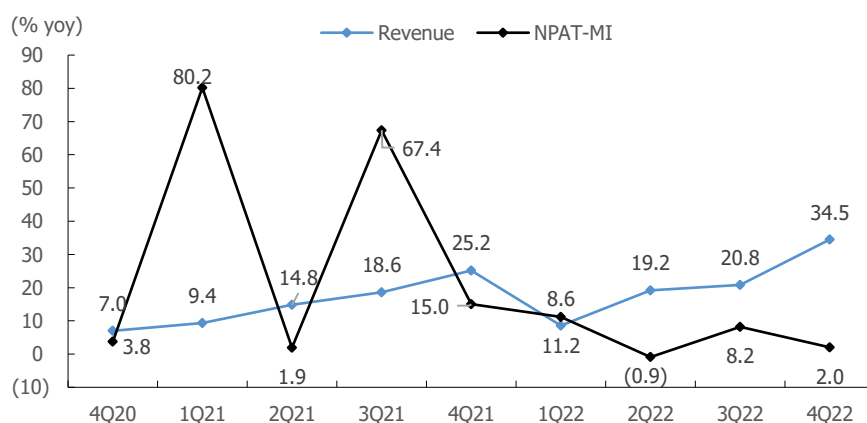
(VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	7,238	8,312	9,735	34.5	17.1
NP	629	632	641	1.9	1.4

Source: Company data, KIS

The total revenue of 5 listed sugar companies on three bourses accelerated in while earnings growth decelerated in 4Q22. The revenue growth rate in 4Q22 was 34.5% yoy compared to 20.8% yoy in 3Q22. Net profit growth decelerated to 2.0% yoy in 4Q22, compared to the growth rate of 8.2% yoy seen in 3Q22. With a slower growth rate of profit, it raises concerns about other headwinds.

**Figure 3. Solid revenue growth of listed sugar producers in 4Q22**

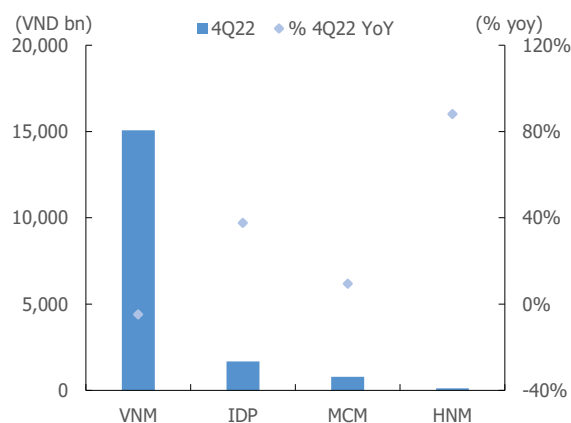


Source: Company data, Fiinpro

### APS was the greatest influence amid inflation

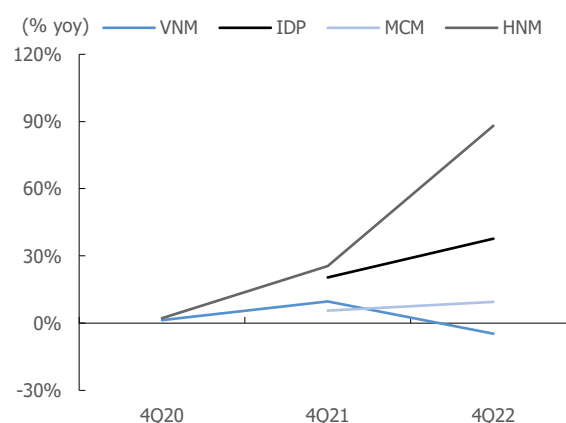
Breaking down milk aggregated revenue growth by a specific company, 3 out of 4 players got positive growth, but VNM, the top influencer, post a negative growth with revenue of VND15.1tn (-4.7% yoy) in 4Q22. IDP and MCM witnessed a good performance with growth rates of 37.7% yoy and 9.5% yoy, respectively. Whilst HNM continued to be an outlier with a growth rate of 88.1% yoy. According to NielsenIQ, the value growth of the dairy sector in Vietnam was 5% yoy contributed mainly by an increase in average selling price (ASP) because the volume was flat in 11M22. Thus, the average selling price (ASP) boosted the topline growth of the milk sector.

**Figure 4. Tepid VNM revenue growth in 4Q22**



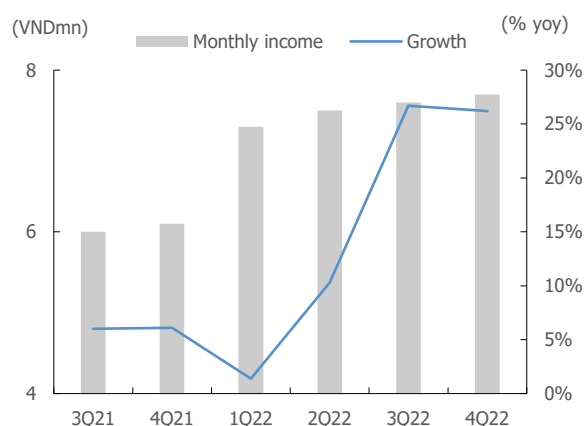
Source: Company data, Fiinpro

**Figure 5. HNM was still an outlier**



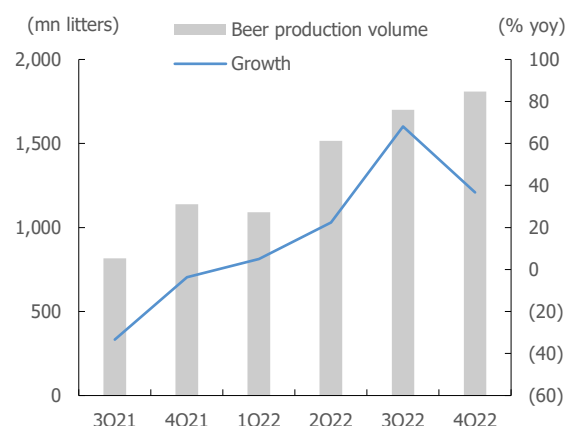
Source: Company data, Fiinpro

**Figure 6. Wage increased slightly QoQ in 4Q22**



Source: GSO, KIS VN

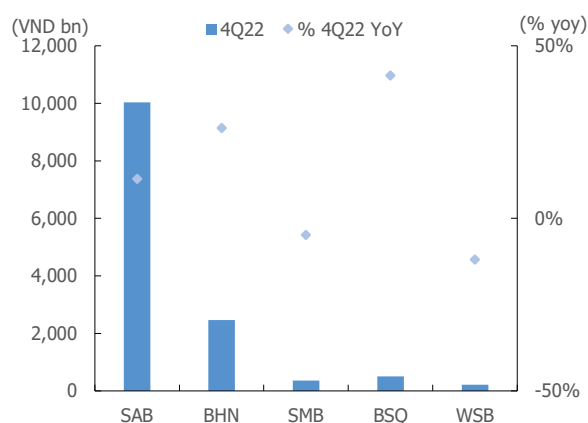
**Figure 7. Strong recovery in beer production**



Source: GSO, KIS VN

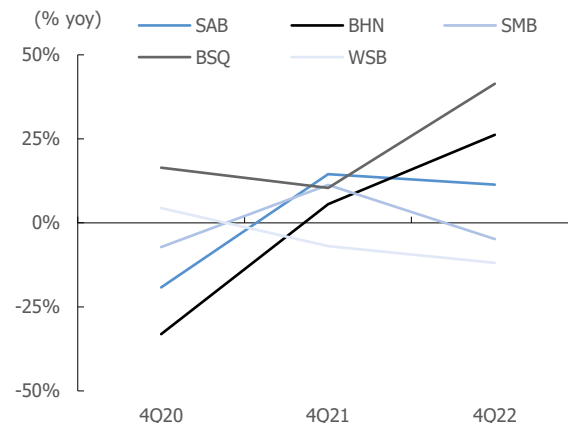
SAB topped its peers, posting solid revenue of VND10.0tn (+11.4% yoy), maintaining positive YoY growth in spite of a significantly high base effect in 4Q21 due to high demand after reacting to social activities. Per GSO, Vietnam's beer production volume surged by 36.7% yoy to 1,809 mn liters. In our view, the sector's revenue growth was supported by the higher ASP amid inflation and high demand due to football events such as AFF, World Cup, and the early Lunar new year holiday. Thus, we believe that both ASP and sales volume led to the revenue growth of the beer sector in 4Q22, similar to last quarters.

**Figure 8. SAB led beer sector revenue in 4Q22**



Source: Company data, Fiinpro

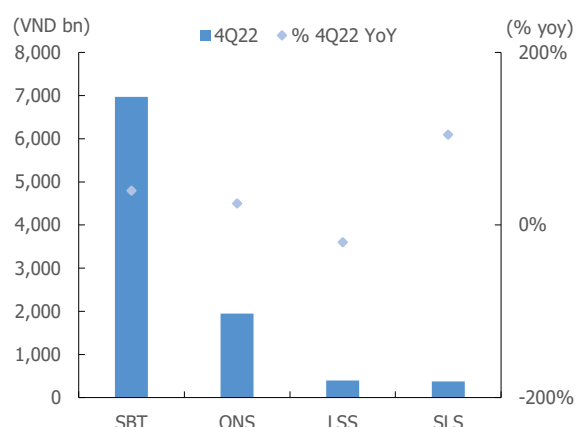
**Figure 9. BSQ revenue growth is the highest in 4Q22**



Source: Company data, Fiinpro

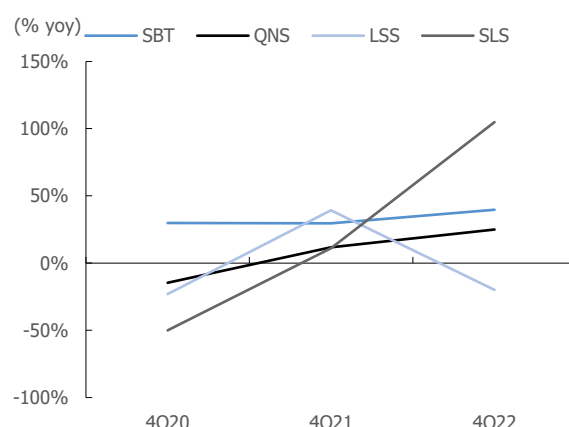
The sugar selling prices were an engine of the sector, domestic sugar prices averaged VND20,200/kg in 4Q22 (+1.0% yoy), and increased continuously significantly by 6.9% qoq after applying officially nearly 48% of the tax rate against tax evasion with imported sugar cane from some Asian countries since 3Q22. In 4Q22, the two biggest listed sugar producers, SBT and QNS posted revenue growth of 39.7% yoy and 25.0% yoy, respectively. SLS recorded impressive revenue growth of 104.9% yoy, while LSS got a negative growth rate of -19.9% yoy.

**Figure 10. SBT and QNS led sugar sector revenue growth in 4Q22**



Source: Company data, Fiipro

**Figure 11. SLS was an outlier in 4Q22**

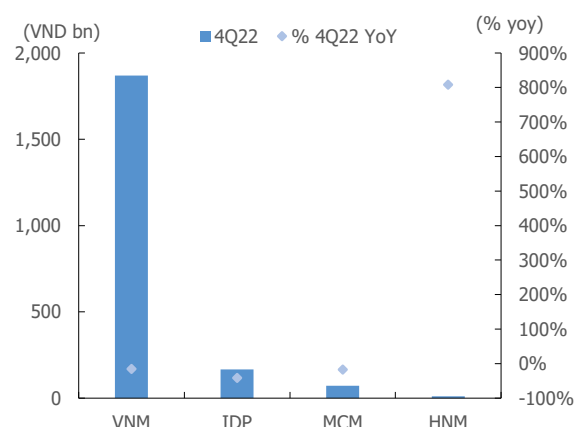


Source: Company data, Fiipro

### Suppressed gross margin in 4Q22

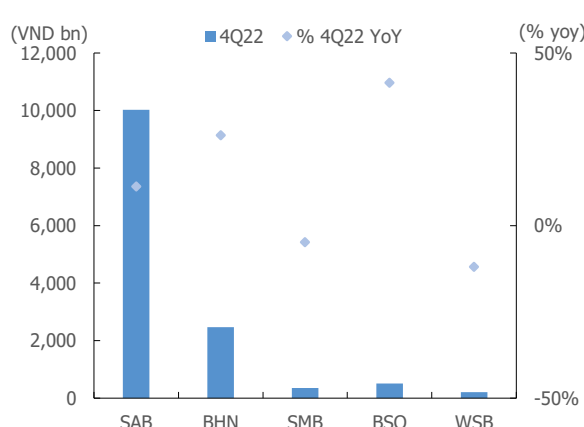
The high prices of imported input raw materials affected continually the gross margins among F&B companies. The dairy sector's GM declined yoy and qoq in 4Q22, VNM's GM was suppressed by 3.7%p yoy and 0.7%p qoq to 38.8% in 4Q22 because VNM was still impacted by material input high prices hedging although the future global milk powder prices dropped strongly by over 35% from the peak in 2Q22. Meanwhile, the gross margin of the beer sector dropped by 2.8%p qoq and 0.7%p to 24.1% in 4Q22. The gross margin of SAB improved by 0.4%p yoy but it was suppressed strongly by 3.1%p qoq to 28.1% although aluminum/malt prices decreased by nearly 30% from their peaks. For sugar sector, 4Q22 GM of the sector was subdued significantly by 5.0%p qoq and 3.5%p yoy owing to a surge of input sugarcane prices. SBT and QNS narrowed their GMs by 4.9%p yoy and 1.4%p yoy, respectively, in 4Q22.

**Figure 12. HNM's 4Q22 net profit growth performed the best**



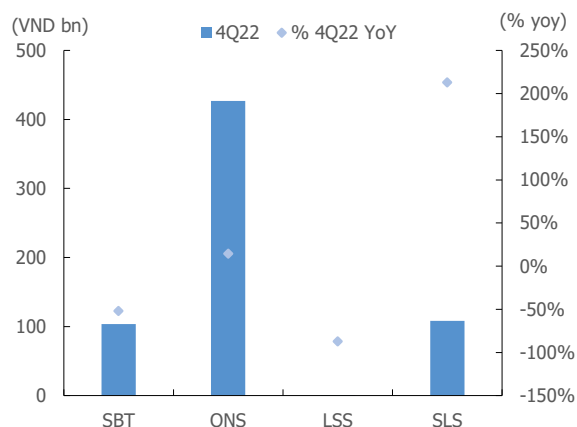
Source: Company data, Fiipro

**Figure 13. SAB led beer's net profit growth**



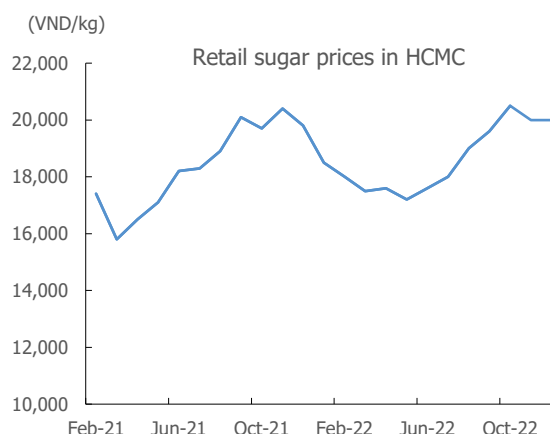
Source: Company data, Fiipro

**Figure 14. SLS's net profit growth far exceeded the sugar industry in 4Q22**



Source: Company data, Fiinpro

**Figure 15. High retail sugar prices in 4Q22**

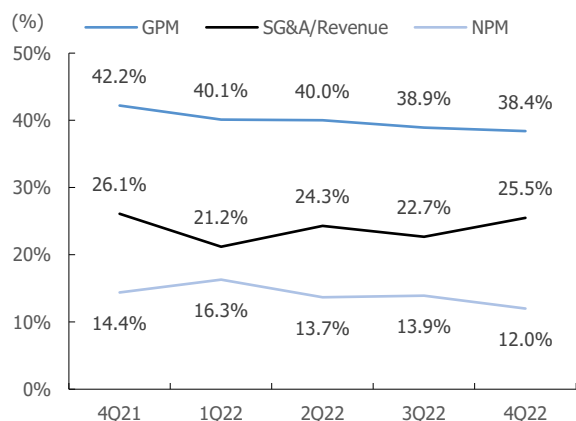


Source: AgroMonitor

### SG&A/Revenue jumped sharply in 4Q22

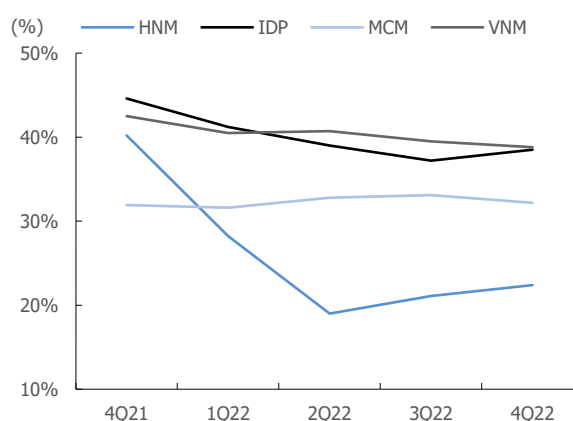
In 4Q22, net profit margin (NM) declined significantly qoq and yoy in all F&B sub-sectors. In dairy sector, NM of VNM dropped from 13.9% in 4Q21 to 12.4% although SG&A/Revenue also decreased by 2.0%p yoy, VNM post negative net profit growth of -14.9% yoy. In contrast, SG&A/Revenue of IDP surged sharply from 16.4% to 30.2% between 4Q21 and 4Q22, respectively, causing the NM to drop from 23.0% to 9.9%. In spite of an increase in revenue, beer producers got a negative net profit growth of 24.5% yoy in 4Q22. SAB posted negative net profit growth of -20.6% yoy due to SG&A/Revenue jumping sharply from 12.4% to 18.1% in 4Q21 and 4Q22, respectively.

**Figure 16. NP of the dairy sector dropped in 4Q22**



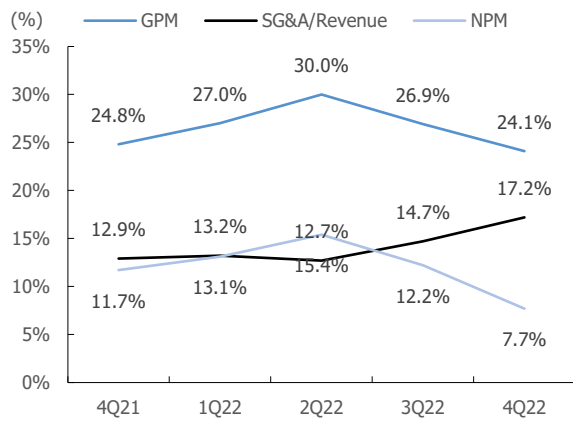
Source: Company data, Fiinpro

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



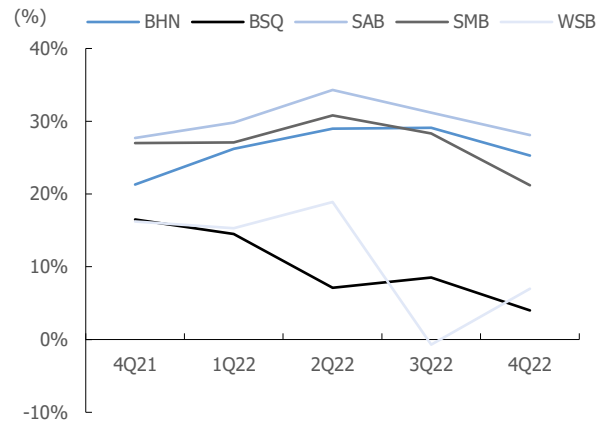
Source: Company data, Fiinpro

**Figure 18. SG&A/Revenue of the brewery sector expanded significantly in 4Q22**



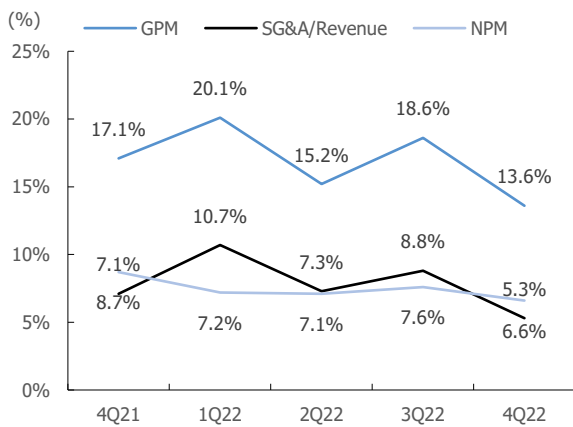
Source: Company data, Fiinpro

**Figure 19. SAB's GM far exceeded the sector**



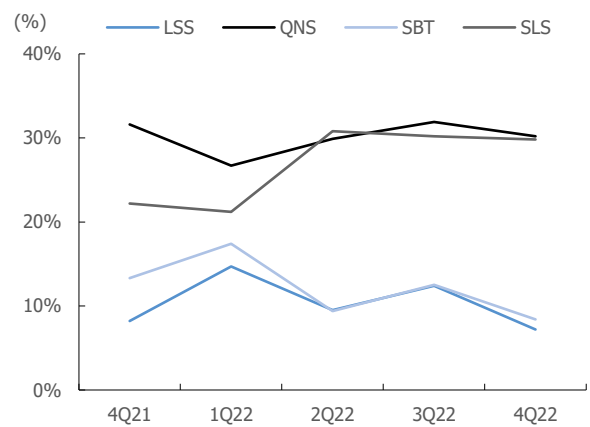
Source: Company data, Fiinpro

**Figure 20. GM of the sugar sector dropped in 4Q22**



Source: Company data, Fiinpro

**Figure 21. QNS's GM still stayed healthy in 4Q22**

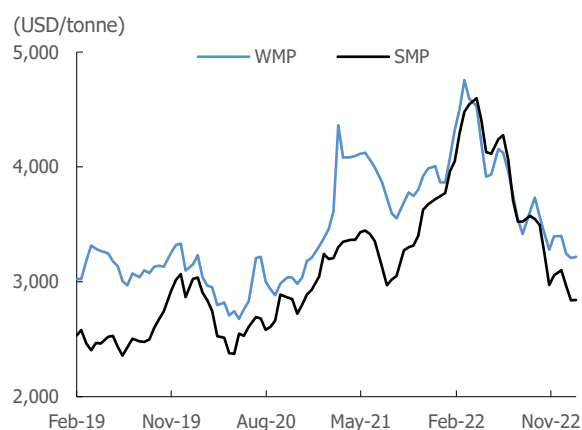


Source: Company data, Fiinpro

## GM of F&B sector expected to expand in 1Q23F

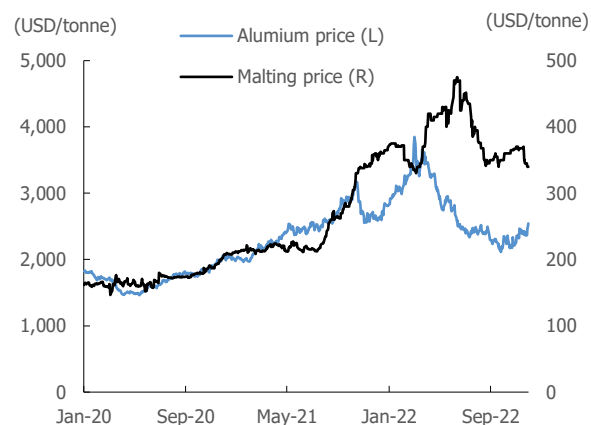
The average monthly income of wage workers increased just slightly by 1.3% qoq to VND7.7mn (+26.2% yoy) in 4Q22, per GSO. Besides, the income of Vietnam workers was impacted by still sluggish export activities, thus we expect consumption of beer and dairy will continue to face the challenge in 1Q23F. However, we expect continuously the gross margins of listed dairy and beer companies to improve in 1Q23F due to enjoying cooling raw material prices. For sugar sector, we expect sales could grow up and improve gross margin due to higher selling prices.

**Figure 22. Future milk prices cooled down already**



Source: Bloomberg, KISVN

**Figure 23. Beer's raw materials prices dropped**



Source: Bloomberg, KISVN



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