

# Food & Beverage

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**Non-rated**

## **GMs could improve continually qoq in 2Q23F**

### **Breweries dragged down F&B's revenue growth in 1Q23**

The aggregated revenue of beer sector decreased by 10.4% yoy in 1Q23 after high growth in lasting quarters in 2022 due to a 2021 low base effect. The revenue went down yoy and qoq due to tighten alcohol testing in traffic and weak purchasing power amid an economic slowdown. In contrast, the aggregated revenue and net profit of 5 listed sugar producers on three bourses accelerated in 1Q23. The total revenue growth rate in 1Q23 was 41.2% yoy compared to 34.5% yoy in 4Q22.

### **Improved gross margins in 1Q23**

The cooling prices of imported input raw materials made the gross margins among F&B companies improve in 1Q23. The gross margin of SAB improved by 2.7p% qoq and 1.0%p yoy to 30.8% since aluminum/malt prices decreased by nearly 30% from their peaks. The dairy sector's GM stayed flat in 1Q23, VNM's GM was flat qoq at 38.8% in 1Q23 although falling volume, for the first time after several quarters of decline, but it dropped 1.7% yoy because VNM was still impacted by material input high prices hedging though the future global milk powder prices dropped strongly by over 35% from the peak in 2H22.

### **SG&A/Revenue increased yoy in 1Q23**

In 1Q23, net profit margin (NM) declined lightly yoy but it improved qoq in all F&B sub-sectors. In the dairy sector, NM of VNM dropped by 3.0%p yoy and expanded 0.9%p to 13.3% in 1Q23 because SG&A/Revenue decreased by 1.2%p qoq and increased 2.2%p yoy, and VNM post negative net profit growth of -18.0% yoy. Since the revenue of beer producers dropped sharply yoy in 1Q23, it got a negative net profit growth of 21.0% yoy. SAB posted negative net profit growth of -17.4% yoy and -7.3% qoq due to SG&A/Revenue jumping sharply yoy from 12.6% in 1Q22 to 16.8% in 1Q23

### **GM expected continually to improve qoq in 2Q23F**

The income of Vietnam workers was impacted negatively due to an economic slowdown, attributed in part to the tepid real estate and export sectors. Thus, we expect the consumption of beer and dairy will continue to face the challenge in the 2Q23F and wait for stimulus plans such as VAT tax reduction. However, we expect the gross margins of listed dairy and beer companies to improve continuously qoq in 2Q23F due to enjoying cooling raw material prices. For the sugar industry, we expect sales to grow up and gross margin to improve due to increased volume and relatively high selling sugar prices.

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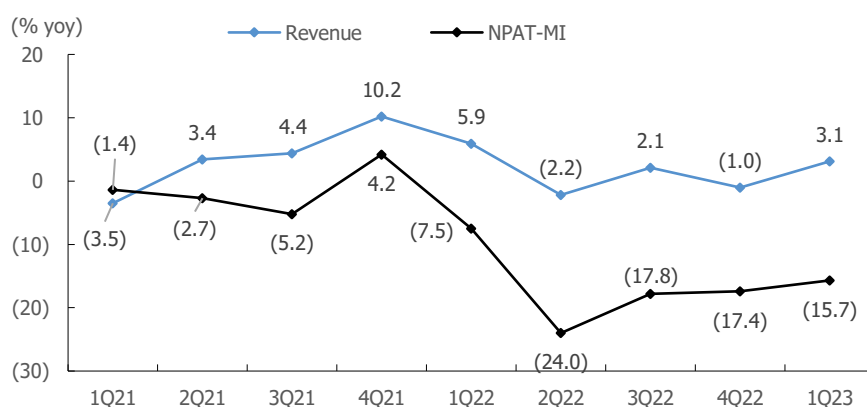
**Table 1. 4 Milk producers' aggregated earnings**

(VNDbn, %)

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	15,875	17,639	16,370	3.1	(7.2)
NP	2,593	2,117	2,187	(15.7)	3.3

Source: Company data, KIS

Based on our data, the total revenue of the 4 listed milk companies was flat yoy in 1Q23, and aggregated revenue increased slightly by 3.1% yoy in 1Q23 compared to a negative growth rate of -1.0% yoy in 4Q22. However, the earnings growth continued to decelerate -15.7% yoy in 1Q23 vs -17.4% yoy in 4Q22 and -17.8% in 3Q22 since the lingering impact of high input prices and weak demand amid the inflation and economic depression.

**Figure 1. Dairy producers' profits continued to drop in 1Q23**

Source: Company data, Fiinpro

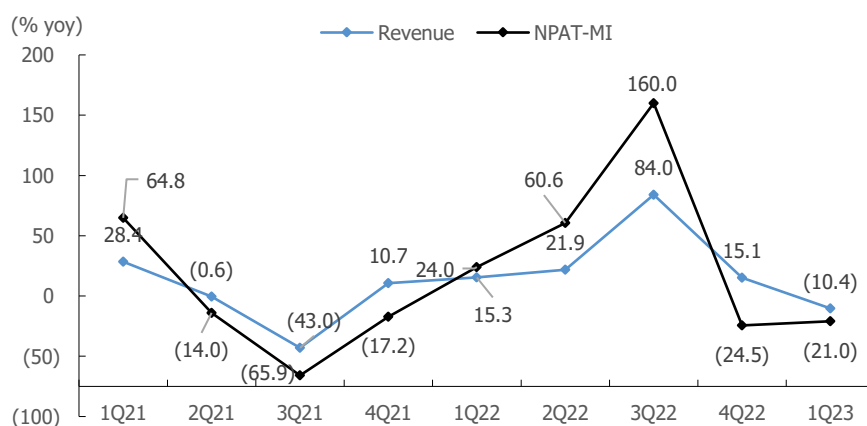
**Table 2. Brewery producers' earnings decrease in 1Q23**

(VNDbn, %)

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	10,214	15,088	9,148	(10.4)	(39.4)
NP	1,338	1,164	1,057	(21.0)	(9.2)

Source: Company data, KIS

The aggregated revenue and earnings growth of 14 listed beer companies decelerated in 1Q23. Aggregated revenue decreased by 10.4% yoy in 1Q23 after high growth in lasting quarters in 2022 due to a 2021 low base effect. The revenue went down yoy and qoq due to tighten alcohol testing in traffic and weak purchasing power amid an economic slowdown. Thus, net profit decreased by 21.0% yoy and 9.2 % qoq in 1Q23.

**Figure 2. Sluggish revenue and net profit of listed beer producers in 1Q23**

Source: Company data, Fiinpro

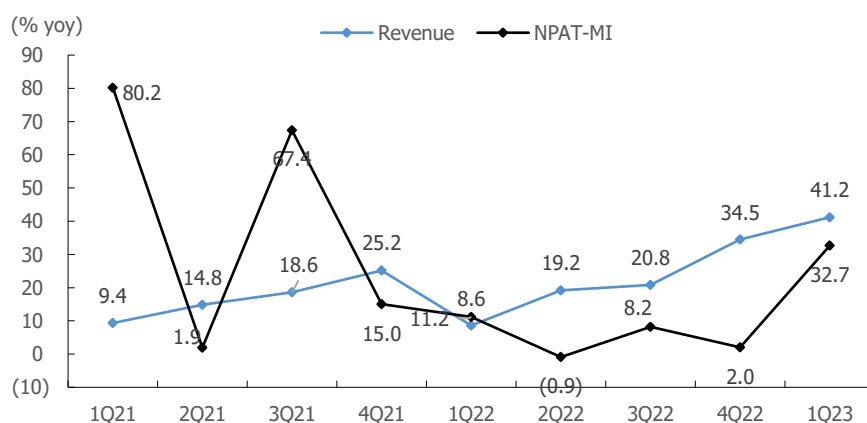
**Table 3. 5 Sugar producers' aggregated earnings** (VNDbn, %)

	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	6,239	9,735	8,810	41.2	(9.5)
NP	448	641	595	32.8	(7.2)

Source: Company data, KIS

The aggregated revenue and net profit of 5 listed sugar producers on three bourses accelerated in 1Q23. The total revenue growth rate in 1Q23 was 41.2% yoy compared to 34.5% yoy in 4Q22. Net profit growth rate accelerated to 32.7% yoy in 1Q23, compared to the growth rate of 2.0% yoy seen in 4Q22. With a slower growth rate of profit, it raises concerns about other headwinds.

**Figure 3. Solid revenue and earnings growth of sugar producers in 1Q23**

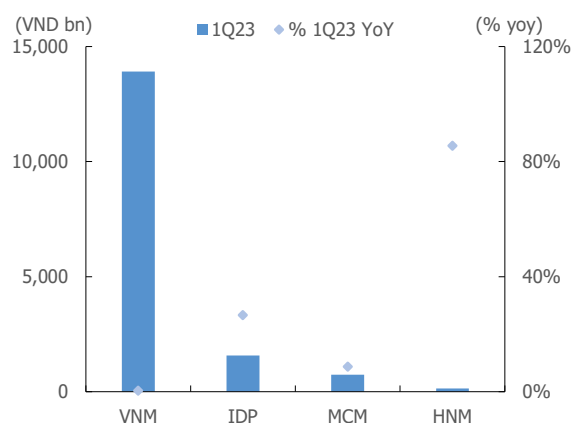


Source: Company data, Fiinpro

### Dropping volume was the biggest hit amid weak demand

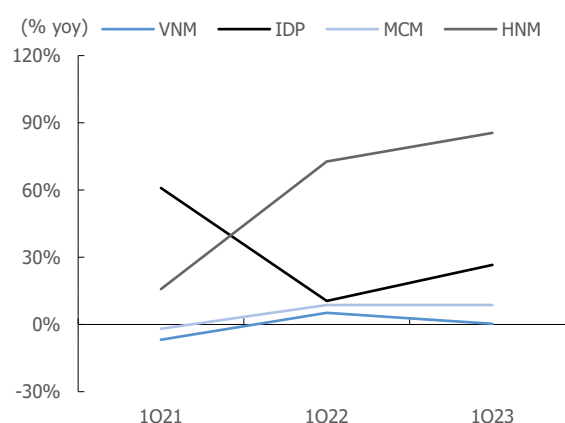
Breaking down milk aggregated revenue growth by a specific company, 3 out of 4 players got positive growth, but VNM, the top influencer, post a flat revenue of VND13.9tn (+0.3% yoy) in 1Q23. IDP and MCM witnessed a good performance with growth rates of 26.6% yoy and 8.7% yoy, respectively. Meanwhile, HNM continued to be an outlier with a growth rate of 85.1% yoy. According to AC Nielsen, the value growth of the dairy sector in Vietnam was just 3% yoy contributed mainly by increases in average selling price (ASP) conducted in 2022.

**Figure 4. Tepid VNM revenue growth in 1Q23**



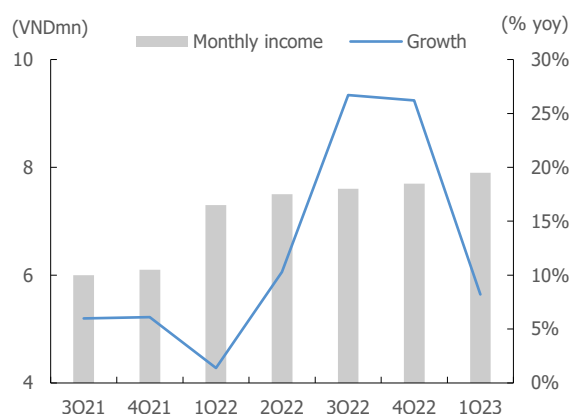
Source: Company data, Fiinpro

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



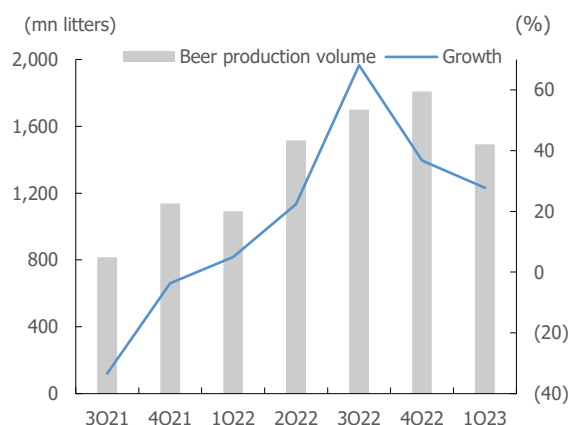
Source: Company data, Fiinpro

**Figure 6. Wage increased slightly QoQ in 1Q23**



Source: GSO, KIS VN

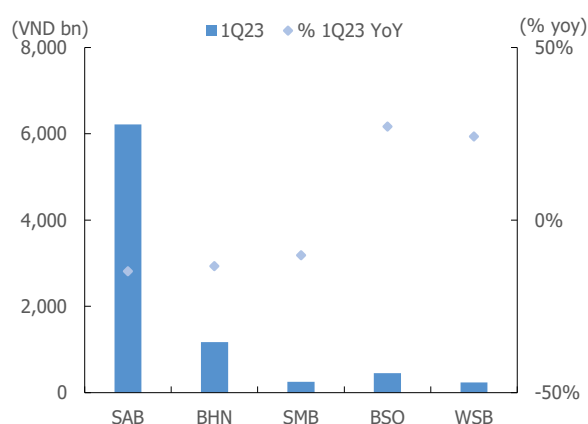
**Figure 7. Beer production volume decreased qoq**



Source: GSO, KIS VN

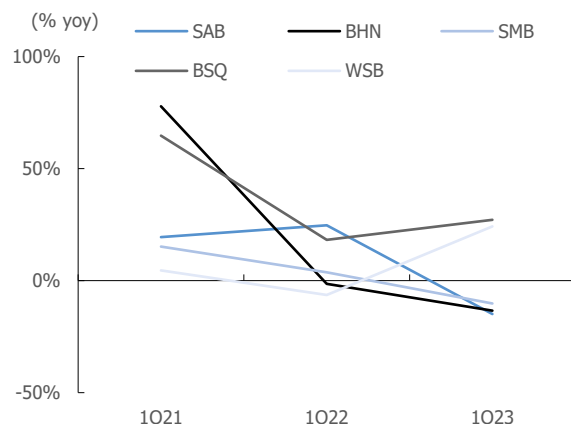
SAB topped its peers, posting gloomy revenue of VND6.2tn (-14.9% yoy, -38.0% qoq), a surprising number after a beautiful recovery in 2022 quarters. Per GSO, Vietnam’s beer production volume surged by 27.8% yoy to 1,493 mn liters but dropped 17.5% qoq. In our view, the sector’s revenue drop was contributed by low volume due to a sharp drop in demand. Per Heineken Vietnam with the largest market share, their net revenue declined in the low twenties, driven by lower premium volume.

**Figure 8. SAB dragged down beer sector revenue growth in 1Q23**



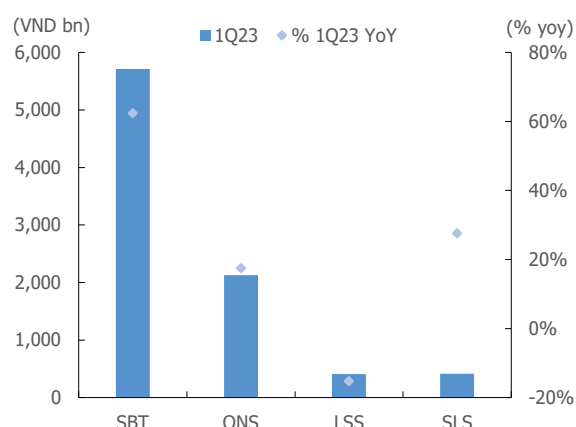
Source: Company data, Fiipro

**Figure 9. BSQ and WSB got high revenue growths in 1Q23**

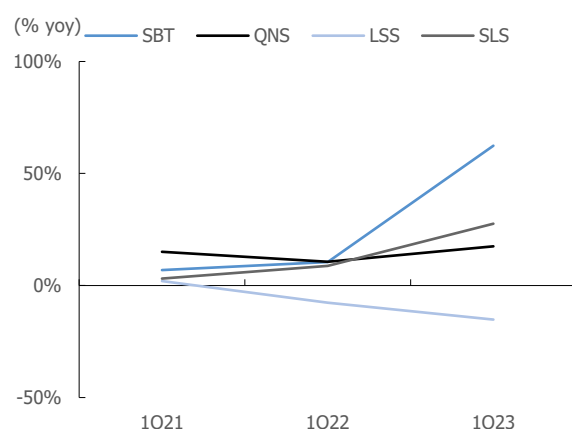


Source: Company data, Fiipro

The domestic sugar prices averaged VND18,900/kg, increased by 5.0% yoy after applying officially nearly 48% of the tax rate against tax evasion with imported sugar cane from some Asian countries since 3Q22, but decreased by 6.2% qoq. In 1Q23, the biggest listed sugar producer, SBT posted revenue growth of 62.4% yoy. Besides, QNS recorded revenue growth of 17.5% yoy, while the sugar segment got an impressive growth rate of 69.9% yoy, reached to VND702bn. Total sugar consumption of QNS went up sharply to 40,000 tonnes (+90% yoy) in 1Q23.

**Figure 10. SBT revenue growth far exceeded the sector in 1Q23**

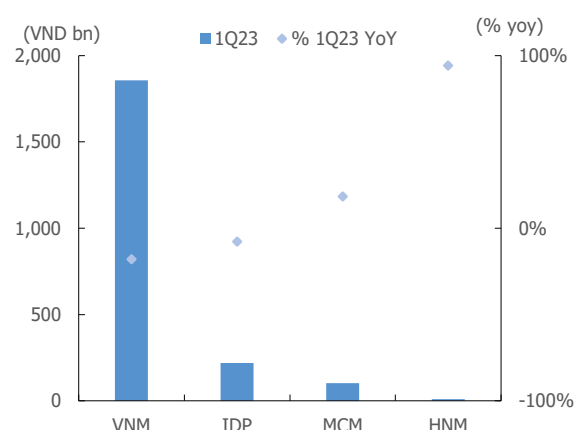
Source: Company data, Fiinpro

**Figure 11. LSS was an outlier in 1Q23**

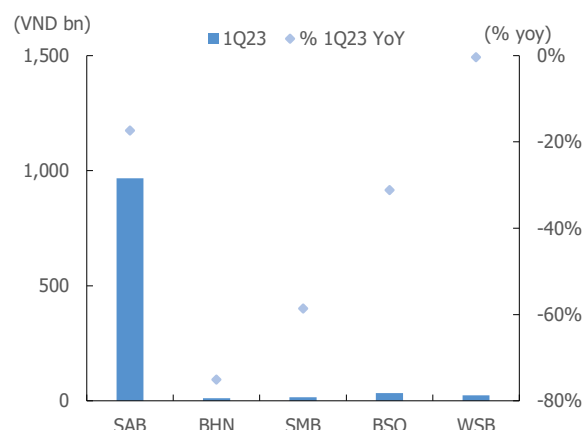
Source: Company data, Fiinpro

### Improved gross margins qoq in 1Q23

The cooling prices of imported input raw materials made the gross margins among F&B companies improve in 1Q23. The gross margin of SAB improved by 2.7p% qoq and 1.0%p yoy to 30.8% since aluminum/malt prices decreased by nearly 30% from their peaks. The dairy sector's GM stayed flat in 1Q23, VNM's GM was flat qoq at 38.8% in 1Q23 although falling volume, for the first time after several quarters of decline, but it dropped 1.7% yoy because VNM was still impacted by material input high prices hedging though the future global milk powder prices dropped strongly by over 35% from the peak in 2H22. For the sugar sector, the GM of SBT was subdued by 5.9%p yoy but improved by 3.1%p qoq owing to the volatility of input sugarcane prices. In contrast, the GM of QNS's sugar segment expanded by 11.1%p yoy to 22.4% in 1Q23.

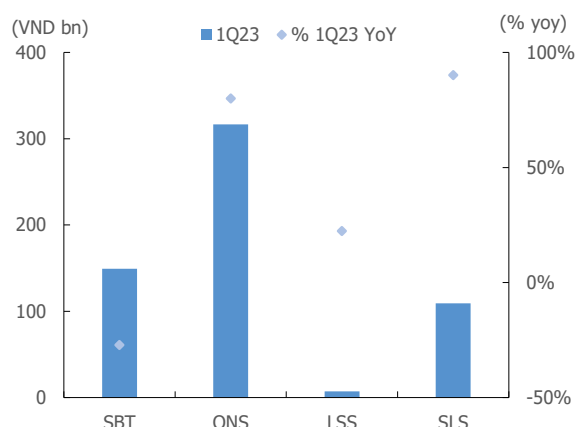
**Figure 12. HNM's 1Q23 net profit growth performed the best**

Source: Company data, Fiinpro

**Figure 13. BHN dragged beer's net profit down**

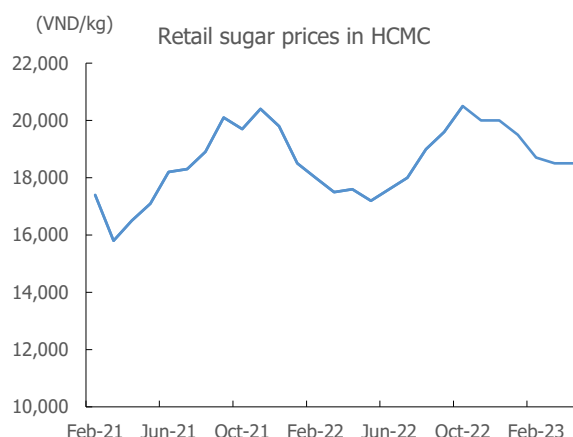
Source: Company data, Fiinpro

**Figure 14. QNS and SLS led the net profit growth of sugar industry in 1Q23**



Source: Company data, Fiinpro

**Figure 15. Cooling retail sugar prices in 1Q23**

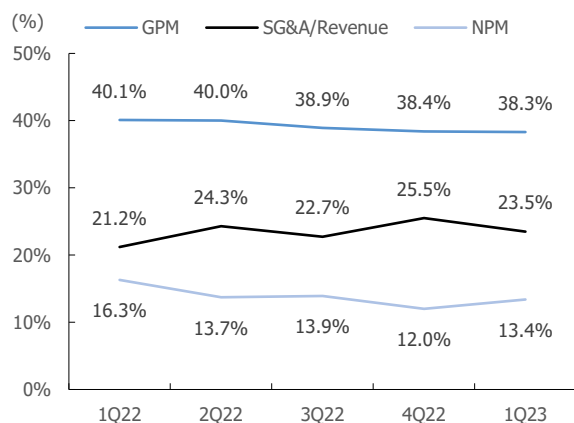


Source: AgroMonitor

### SG&A/Revenue went up yoy in 1Q23

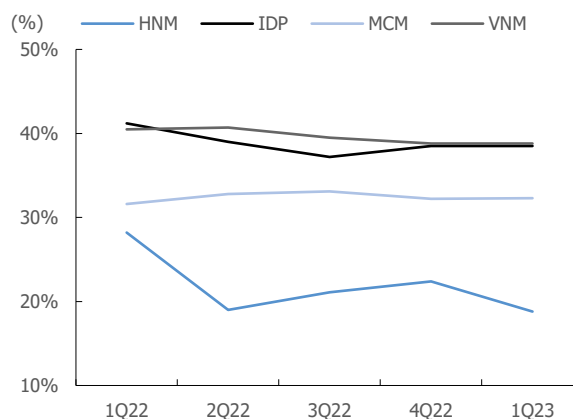
In 1Q23, net profit margin (NM) declined lightly yoy but it improved qoq in all F&B sub-sectors. In the dairy sector, NM of VNM dropped by 3.0%p yoy and expanded 0.9%p to 13.3% in 1Q23 because SG&A/Revenue decreased by 1.2%p qoq and increased 2.2%p yoy, and VNM post negative net profit growth of -18.0% yoy. Since the revenue of beer producers dropped sharply yoy in 1Q23, it got a negative net profit growth of 21.0% yoy. SAB posted negative net profit growth of -17.4% yoy and -7.3% qoq due to SG&A/Revenue jumping sharply yoy from 12.6% in 1Q22 to 16.8% in 1Q23.

**Figure 16. Dairy sector NMs improved qoq in 1Q23**



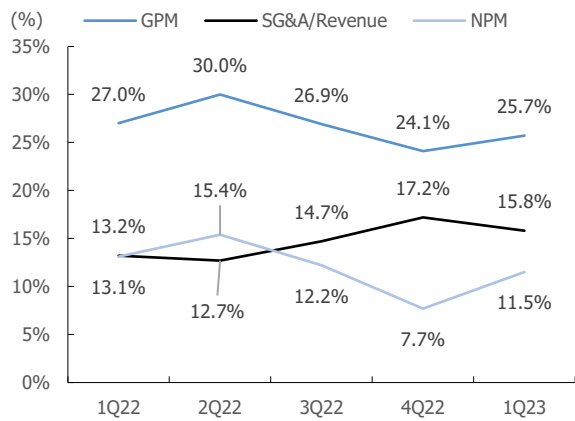
Source: Company data, Fiinpro

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



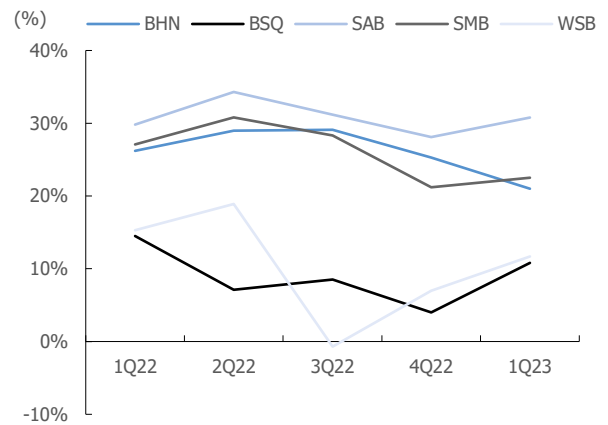
Source: Company data, Fiinpro

**Figure 18. SG&A/Revenue of the brewery sector expanded significantly yoy in 1Q23**



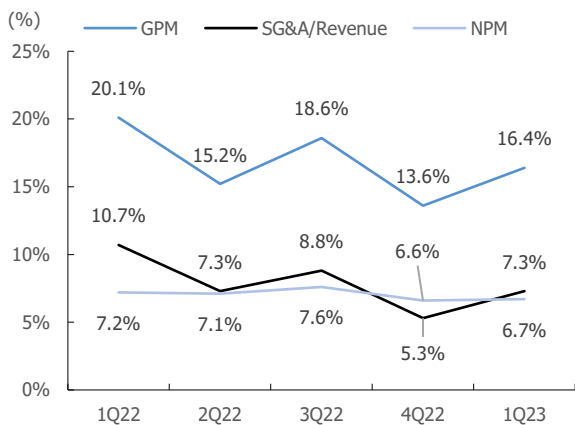
Source: Company data, Fiinpro

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



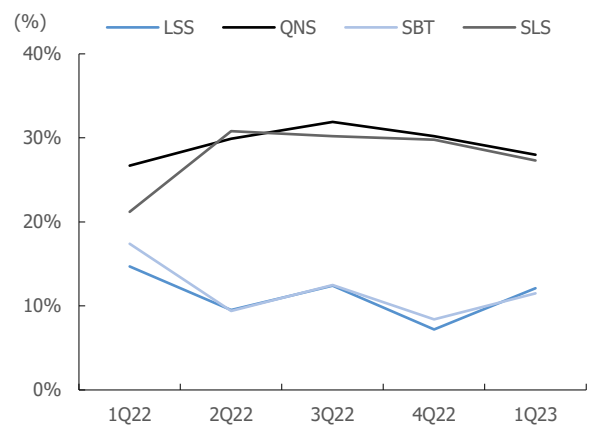
Source: Company data, Fiinpro

**Figure 20. The sugar GM expanded qoq in 1Q23**



Source: Company data, Fiinpro

**Figure 21. QNS and SLS's GM still stayed healthy in 1Q23**

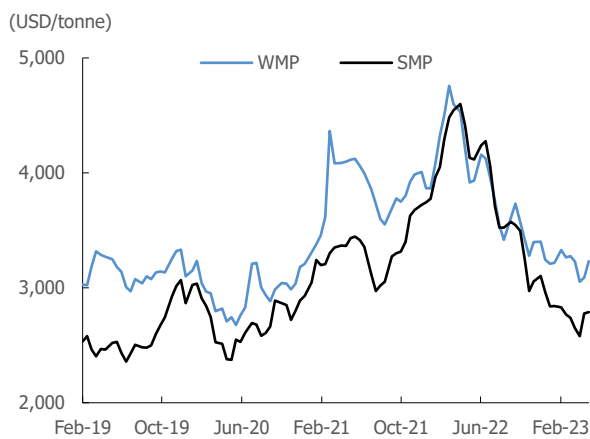


Source: Company data, Fiinpro

### F&B GM expected continually to improve qoq in 2Q23F

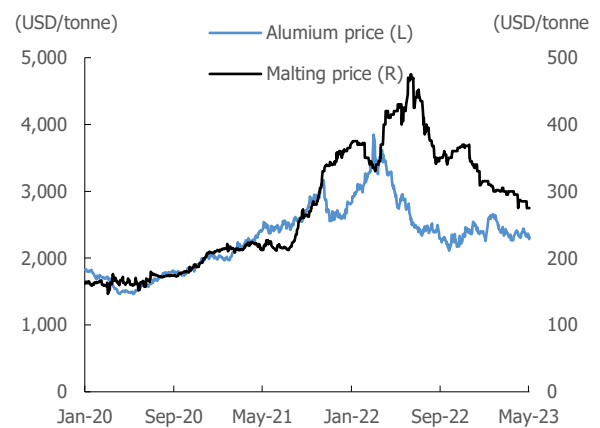
The income of Vietnam workers was impacted negatively due to an economic slowdown, attributed in part to the tepid real estate and export sectors. The average monthly income of wage workers increased just slightly by 2.3% qoq to VND7.9mn (+8.2% yoy) in 1Q23, per GSO. Thus, we expect the consumption of beer and dairy will continue to face the challenge in the 2Q23F and wait for stimulus plans such as VAT tax reduction. However, we expect the gross margins of listed dairy and beer companies to improve continuously qoq in 2Q23F due to enjoying cooling raw material prices. For the sugar industry, we expect sales to grow up and gross margin to improve due to increased volume and relatively high selling sugar prices.

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



Source: Bloomberg, KISVN

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



Source: Bloomberg, KISVN



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