

Sector Note

Food commodities

A mix bag in 2023

- We expect agricultural products and whole milk powder price to cool down in 2023F.
- However, we still see some commodity prices keep stay in high level such as sugar and rice.
- Our stock pick is BAF while LTG and SBT will be on our watchlist.



We expect the food commodities price index keep declining in 2023F

We see some key factor could favor food producers in 2023-2024 such as 1) overall weather condition will be more favorable for key agriculture products, 2) the transportation cost will decrease significantly when the global shipping supply has fully recover from 2021/22 disruption, and 3) fertilizer price will decrease significantly. Thus, we expect the food commodities price index to remain downward trend, with most key products will see 6.1%-6.7% yoy decrease in 2023 average price except for coconut oil and rice.

Meat and milk producers will improve gross margin thanks to lower input cost

We expect spot animal feed price will cool down gradually from 2Q23F, which will support meat producers' GM in the context of domestic live hog demand still weak. Meanwhile, we expect whole milk powder price to cool down in 2023F (-5.0% yoy) thanks to lower import demand from China and global dairy demand is likely to get weaker in the short term. Therefore, we expect these producers to enjoy gross margin rebound in FY23F thanks to material cost pressure ease.

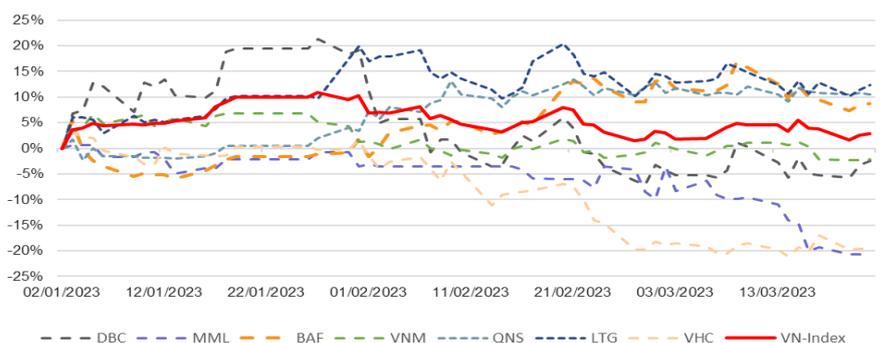
While sugar and rice will continue to enjoy high selling price

We believe domestic sugar price will remain high in 2023F thanks to the the anti-dumping tax while inventories of cheap imported sugar in 2022 also gradually decrease. Besides, Vietnam's rice export will benefit from 1) India rice exports continued restriction, 2) world demand for rice remain high, 3) Vietnam is focusing on producing high-quality rice to meet global consumption trends. Thus, we expect rice export price and domestic sugar price to surge 3.9%/4.0% yoy, promising another good year for rice and sugar producers.

Our stock pick is BAF while LTG and SBT will be on our watchlist.

BAF has long term growth potential thanks to expanding the herd capacity with new farms and distribution system through Siba Food supermarkets and Meat shops. The company will raise capital for its expansion plan through issuing VND600bn of private bonds to the International Finance Corporation (IFC) in 1Q23. Meanwhile, LTG and SBT will be on our watch list. Downside risks include 1) higher-than-expected agricultural products price, 2) lower-than-expected domestic consumption, and 3) unfavorable weather could affect domestic agricultural production.

Figure 1: Stock price movements of agribusiness under our coverage in 3M23



Source: VNDIRECTS RESEARCH, BLOOMBERG

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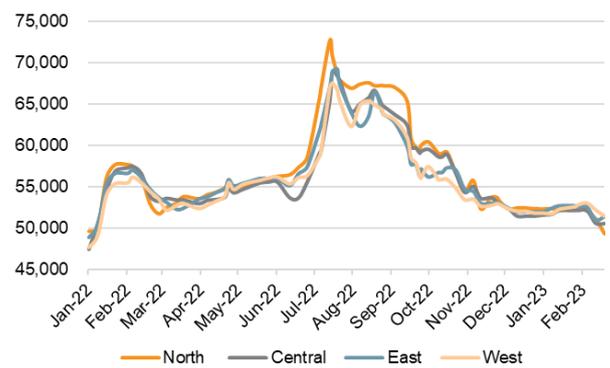
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Agribusiness snapshot

Domestic swine price decreased 6th month in a row (Unit: VND/kg)

We see some reason for the decline in swine recently as 1) domestic supply remains stable, 2) unemployment increases currently has affected people's income, leading to tightening spending, and 3) the recent outbreak of African swine fever (ASF) has caused farmers to sell off pigs in large quantities, causing an oversupply in the market. According to GSO, the total number of pig herd increased by 10.4% yoy in Jan 2023, meanwhile ASF was still in 10 provinces.



Source: VNDIRECT RESEARCH, ANOVA FEED

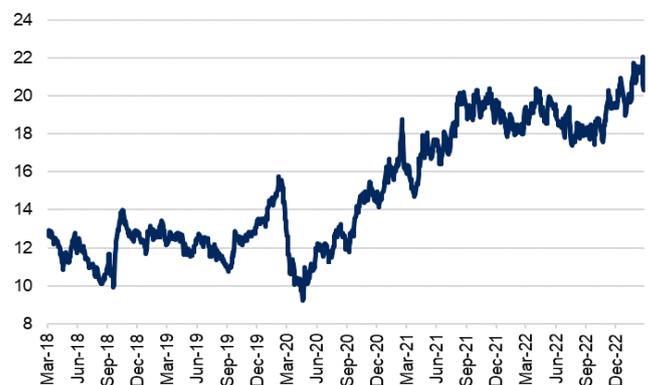
Whole milk powder price has cooled down (unit: US\$/T)

In 21 Mar 2023, whole milk powder (WMP) has cooled down by 29.8% yoy and 32.1% lower than the peak in Mar 2022. We expect whole milk powder price to decrease in 2023F thanks to 1) lower import demand in China and 2) global dairy demand is likely to get weaker in the short term while whole milk production is projected to be higher in 2023F thanks to favourable weather conditions.



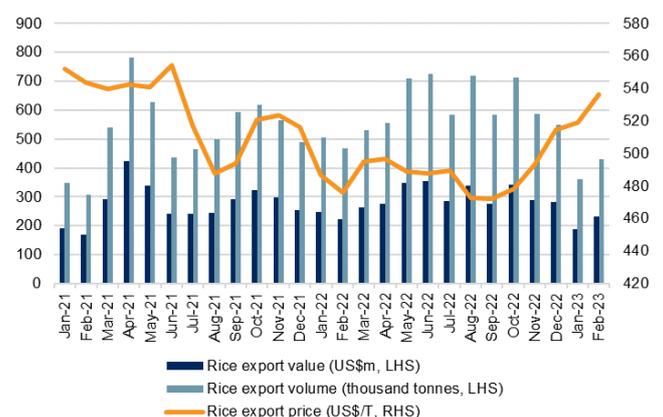
Source: VNDIRECT RESEARCH, GLOBAL DAIRY TRADE

Global sugar prices surge to near 6-year high on output fears (US\$/pound). We see a recent increase in global sugar prices due to 1) sugar supply outlook affected by unfavorable weather conditions in India (heavy rain) and 2) Brazilian sugarcane producers are expected to keep favoring ethanol production over sugar in the 2023-24F.



Source: VNDIRECT RESEARCH, TRADING ECONOMICS

Rice prices export continued to raise. In Feb 2023, Vietnam record rice export vale increased 3.2% yoy. In which export volume declined 8.3% yoy while export price increased 12.6% yoy. We expect rice export prices to keep increasing thanks to the high demand for food storage in the world.

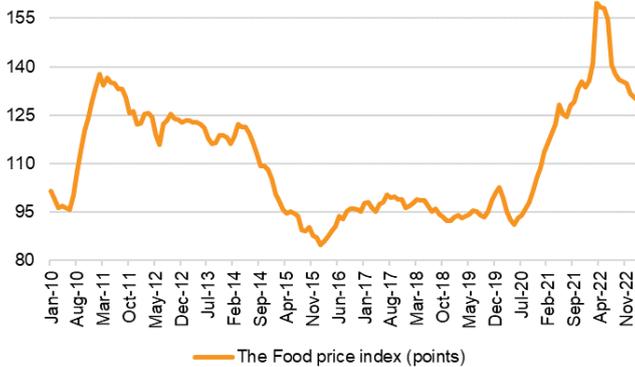


Source: VNDIRECT RESEARCH, FIINPRO

The global food commodities price index declines for 11th months in a row

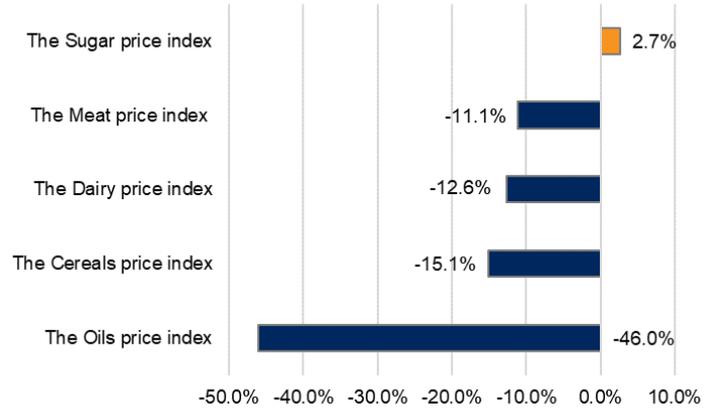
The FAO food commodities price index continued the downward trend in Feb

Figure 2: The food commodities price index declines for 11th months in a row



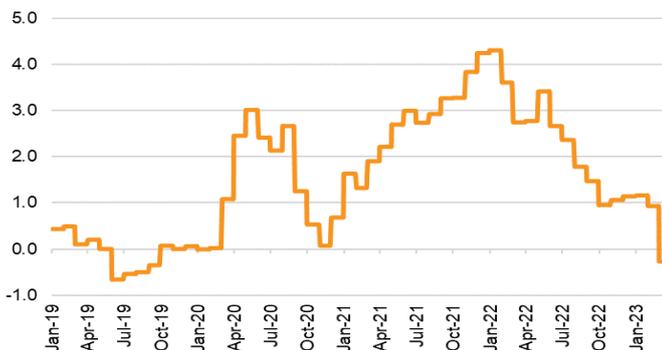
Source: VNDIRECT RESEARCH, FAO

Figure 3: The commodities price index's change in Feb 2023 compared to peak in 2Q22 (unit: points)



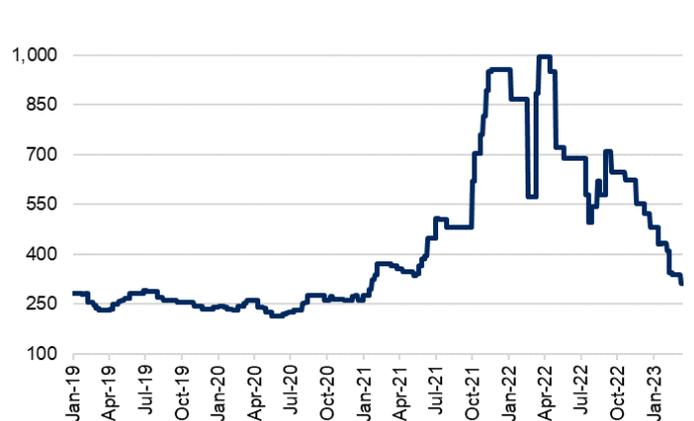
Source: VNDIRECT RESEARCH, FAO

Figure 4: Supply change pressure index (point) declined significantly from 2H22



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 5: Urea price (US\$/tonne) declined 68.6% from its peak in Apr 2022



Source: VNDIRECT RESEARCH, BLOOMBERG

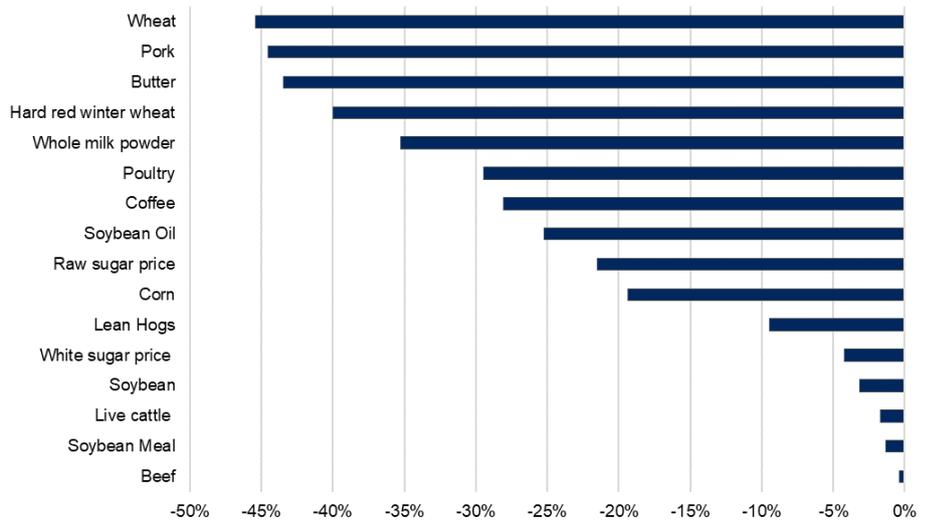
According to the Food and Agriculture Organization (FAO), the global food commodities price index decreased slightly by 0.6% mom in Feb and reached its lowest level since Oct 2021. Compared to the peak in Mar 2022, the food commodities price index declined by 18.7%, which we think comes from:

- The logistic disruption due to Covid-19 has gradually cooled down since 2Q22, resuming the supply chain and reduced transportation/key input cost for agriculture production.
- With Covid-19 under control, economies re-opened worldwide, the government relaxed their stockpiling and production policies, which were to ensure food security.
- Concerns about supply shortages caused by Russia - Ukraine conflict has subsided as other countries have increased production capacity to replace supplies from Ukraine and Russia.

- With global tightening policies, food demand from consumer and raw material demand for production started to lose momentum (which before came from economy reopening).

Most food commodities price see significant price correction from 2-year peak, except for sugar, beef and soybean meal. Cattle and beef products were outside last year's great rally of commodities, so this group of products also fell less than other products.

Figure 6: Most food commodities see significant correction from 2-year peak



Source: VNDIRECTS RESEARCH, BLOOMBERG

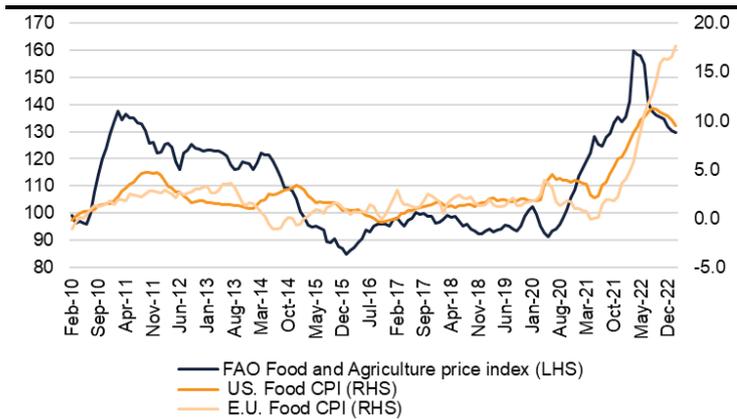
Key topic: When will food commodities prices decline implies in global CPI

Global food commodities price hike since early 2021 and peak out in 2Q22 was one of key factors that drive high inflation in many countries, as it contributes significantly in consumer price index (food contribute directly 14%/20% in U.S./EU consumer index basket). Food CPI (consumer price index) of U.S./E.U both record highest level in over 10 years. U.S food CPI growth has trended down since its 11.3% yoy peak in Aug 2022, however Feb 23's figure of 9.5% still far from comfort level. E.U food inflation, in other way, still on its ways to reach another new high in Feb 23 of 17.7%.

In our view, Food CPI of E.U. lagged the US. Food CPI's decline:

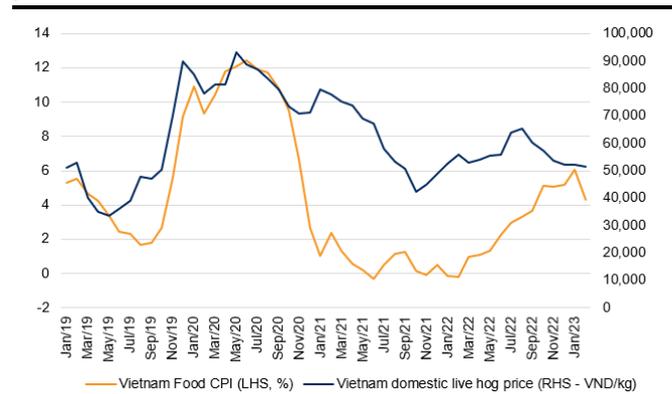
- 1Q22 was the high base in the US. inflation, while E.U. CPI started to surge later than in the Europe;
- While commodity prices in the US are gradually stabilizing, the Europe is still facing an energy/fertiliser crisis due to the Russia-Ukraine conflict, as Europe's agriculture industry heavily relies on Russia and Belarus's fertilisers,
- Disrupt transportation line from Ukraine and a major food supplier of Europe create shortage, which cannot be easily replaced by other countries' source.

Figure 7: The food commodities price index declines for 11th months in a row, easing pressure on global food CPI



Source: VNDIRECT RESEARCH, FAO

Figure 8: Vietnam's food CPI has the higher correlation with domestic live hog price rather than global food commodities prices



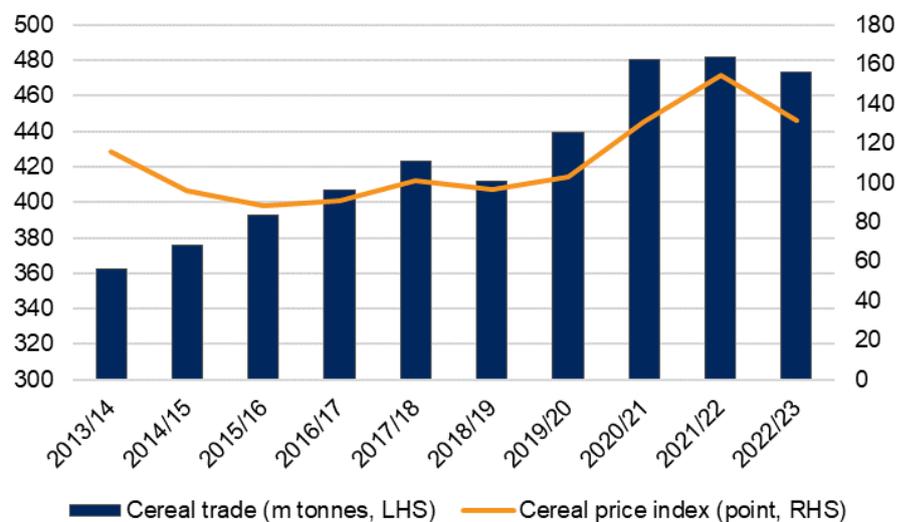
Source: VNDIRECT RESEARCH, GSO, ANOVA FEED

The food CPI implies food products to end-user, while the FAO's Food commodities price index measures the inputs material for production or raw food. Therefore, it will take time for the cooling down in FAO's Food commodities price index started to positively affect impact customer's spending. We observe that the food CPI often lagged behind the FAO food commodities price index by around 3-6 months. Thus, we expect the food CPI significant decline will started in late 1Q23 and 2Q23 in the US and Europe. However, which we concern is whether the food CPI drop fast enough to ease consumer's spending pressure or high level of interest rate worldwide will drive economics into recession.

Softer import demand, favorable weather and lower Brent oil price: all point to food commodities prices deceleration

According to FAO, global import demand (from food deficits countries) is expected to decrease 0.6% in 2023 thanks to 1) lower demand for reservation of governments and 2) improvement in crop yields in these countries.

Figure 9: Cereal trade volume (import demand globally)



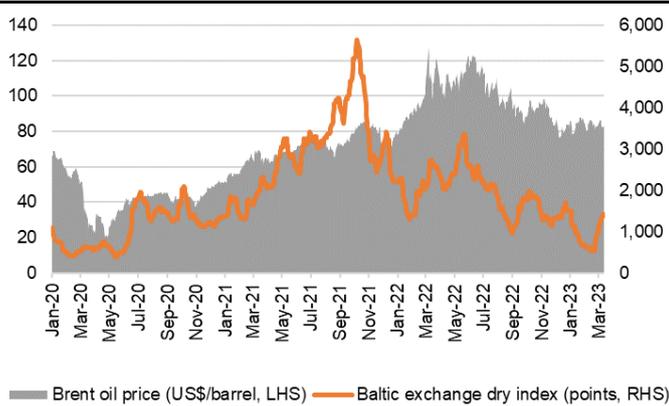
Source: VNDIRECTS RESEARCH, FAO

We also see key factor could favor food production in 2023-2024:

- FAO expect overall weather condition will be more favorable for key agriculture products, after record drought in Europe in 2022.

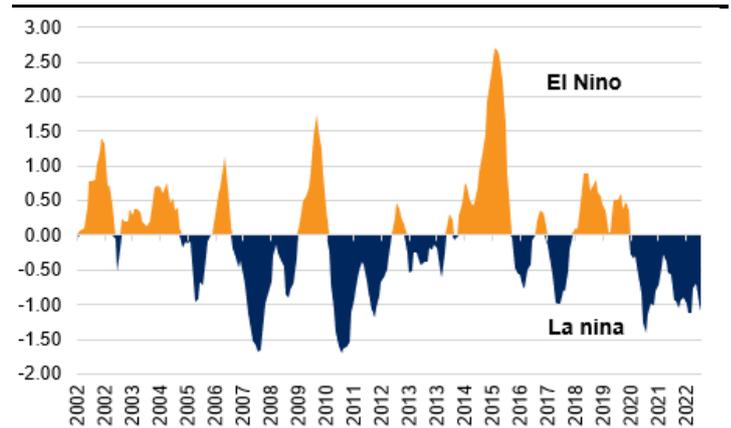
- The transportation cost will decrease significantly when the global shipping supply has fully recover from 2021/22 disruption, which in combination with weak demand due to global economy slowing down. In 3M23, average Baltic dry index (BDI) decrease 54% versus 2022 average level.
- With cooling down natural gas price, which is the main input for fertilizer production, we expect fertilizer price will decrease significantly in most of produce.

Figure 10: Freight rates fluctuate at 74.8% lower than peak in Oct 2021



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 11: La Nina will likely continue into early 2023



Source: VNDIRECT RESEARCH, WORLD BANK

Thus, we expect the food commodities price index to remain downward trend, with most key products will see 6.1%-6.7% yoy decrease in 2023 average price except for coconut oil and rice. We believe export policies in India and Pakistan which tighten global rice supply will support rice price to stay high in 2023F.

Figure 12: Commodity price's forecast in 2023-24F

Commodity	2020	2021	2022	2023	2024
Coffee (US\$/kg)	15.3%	35.8%	30.8%	-6.8%	-1.6%
Coconut oil (US\$/T)	37.2%	62.0%	1.5%	0.6%	0.1%
Palm oil (US\$/T)	25.1%	50.4%	12.7%	-17.6%	0.4%
Soybean meal (US\$/T)	13.5%	22.1%	14.3%	-1.8%	-0.2%
Soybean oil (US\$/T)	9.5%	65.3%	20.9%	-7.5%	-0.8%
Soybean (US\$/T)	10.3%	43.2%	16.6%	-4.4%	-1.4%
Corn (US\$/T)	-2.9%	57.6%	21.2%	-7.9%	-1.0%
Rice (US\$/T)	26.5%	-7.8%	-5.0%	0.0%	0.2%
Wheat (US\$/T)	10.0%	35.8%	36.5%	-4.7%	-1.2%
Sugar (US\$/kg)	0.0%	39.3%	2.6%	-5.0%	0.0%

Source: VNDIRECTS RESEARCH, WORLD BANK

However, we also monitor some factors could cause commodity prices to reverse to the upside:

- Prolonged and deeper conflict in Ukraine, which could again cause some supply chain disruption.
- The harvest crop in Europe, especially if strong drought happens again in 2023.
- Worse than expected drought in East Africa and conflict in West Africa could trigger food shortage in African countries.

The effect of cooling global food commodities price to Vietnam's agriculture business

Figure 13: Key agriculture price of Vietnam, under our monitoring

	Latest	% decrease from 2Y peak	1M	3M	6M	1Y
Key output price						
Live hog price (VND/kg)	51,400	-25.5%	-1.7%	-4.3%	-21.5%	-8.2%
Domestic sugar price (VND/kg)	18,750	-6.1%	-0.2%	-5.0%	4.2%	3.0%
Domestic rice price (VND/kg)	10,607	-2.0%	2.9%	2.9%	19.7%	19.4%
Export rice average price (VND/kg)	536	-3.2%	4.3%	8.7%	13.4%	12.6%
Key material import price						
Wheat (US\$/tonne)	372	-13.9%	-1.4%	-2.6%	-6.9%	-2.6%
Maize (US\$/tonne)	338	-12.0%	1.3%	2.4%	-6.9%	4.5%
Soybean (US\$/tonne)	717	-5.0%	5.8%	3.6%	-4.6%	14.5%
Whole milk powder (US\$/tonne)	3,297	-29.5%	-0.8%	-1.2%	-5.3%	-25.3%

(*) Import price calculate from Vietnam custom data (except Whole milk powder)

Source: VNDIRECTS RESEARCH, Vietnam Custom, Global dairy trading

In line with global price, wheat and milk powder started to decrease while maize and soybean recording short-term increase due to poor harvest in South America. Besides, domestic importers signs forward/future contracts, thus actual import price will be 3-6 months lagged compared with the food commodities price index movements.

In the other hands, sugar producers enjoy high prices thanks to anti-dumping policies effective from Aug 2022. Rice export benefits from high demand from China and Indonesia is actively buying to improve national reserves. Pork producers are still under difficult time with swine price is weak due to oversupply in 1Q23 and weak domestic demand.

Meat production: Swine price are expected to improve in 2H23F

Sluggish 2022 results due to double headwinds

Based on our estimate, aggregated revenue of listed meat producers plunged 24.3% yoy in FY22 and NP also declined 39.3% yoy.

Figure 14: FY22 earnings recap of meat production companies (unit: VNDbn)

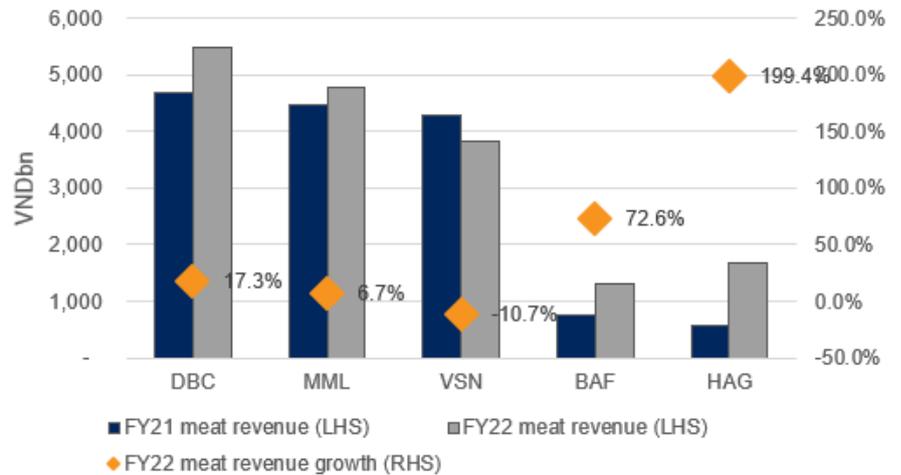
Ticker	Meat producers	2021 revenue	2022 revenue	Change (yoy)	2021 gross margin	2022 gross margin	Change (yoy)	2021 NP	2022 NP	Change (yoy)
DBC	Dabaco Group	10,813	12,269	13.5%	17.1%	9.6%	-7.6% pts	830	150	-81.9%
MML	Masan MeatLife Corporation	18,891	4,785	-74.7%	12.2%	7.2%	-5.0% pts	1,331	-145	From net profit to net loss
VSN	Vissan JSC	4,293	3,833	-10.7%	23.2%	23.8%	0.6% pts	148	138	-7.1%
BAF	BAF Viet Nam Agriculture JSC	10,434	7,047	-32.5%	4.7%	6.9%	2.2% pts	322	292	-9.2%
HAG	Hoang Anh Gia Lai JSC	2,097	5,081	142.3%	24.2%	22.9%	-1.2% pts	203	1,180	481.3%
NCG	Nova Consumer Group	3,504	4,880	39.3%	14.5%	10.5%	-4.0% pts	300	287	581.3%

Source: VNDIRECT RESEARCH, FIINPRO

In detail, FY22 pork revenue of these companies increase 15.7% yoy despite lower average swine price versus 2021. The increase comes mostly from capacity expansion of pork producers as they expected recovery demand after pandemic and low supply from individual famers after ASF pandemic 2019-2020. BAF and HAG, new comers in domestic pork market recorded significant growth thanks to mass expansion in 2021-2022 period with brands BAF, Bapi. However, 3F companies faced double headwinds in 2022 from 1) high feed material and 2) domestic demand was weaker than expected, the swine price

even lower than 2021 (-8.2% yoy). Thus, gross margin of meat producers narrowed by 4-7% pts yoy.

Figure 15: Pork/live hog revenue of meat producers

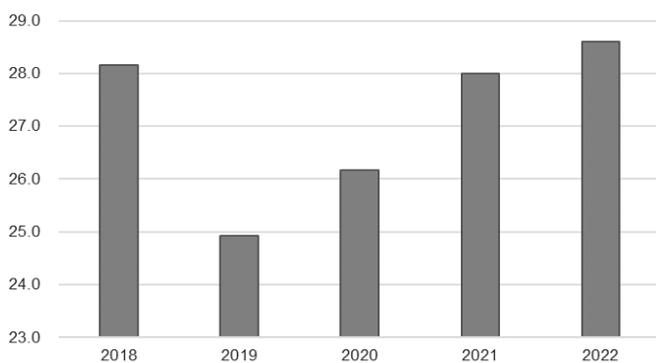


Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect meat producers to record better results from FY23F

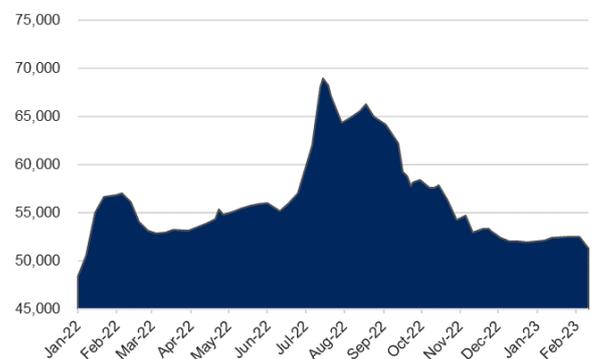
In base case, we expect swine prices are expected to rise 5% yoy to VND59,000/kg in 2023F, thanks to the recovery of China pork price when its economy re-opens, which can partly affect domestic price, and lower supply from farming households due to recent drop in swine prices. The average production cost of farmers is about VND55,000 to VND60,000/kg of live hog, thus we don't expect a massive re-herding of farmers in short-term, with current hog price level. With the domestic demand remain weak in 1H23 (due to softer disposal income) and lower material price, we don't see any catalyst could trigger a strong rally in swine prices, at least until 3Q23F. As a result, we expect listed meat producers' revenue to increase average by 3.6% yoy in FY23F.

Figure 16: The Vietnam total pig herd has returned to pre-ASF levels (unit: million heads)



Source: VNDIRECT RESEARCH, GSO

Figure 17: Swine prices decrease nearly flat in Feb 2023 (unit: VND/kg)



Source: VNDIRECT RESEARCH, ANOVA FEED

Meanwhile, we expect global agricultural product price will be more favourable for meat business in 2023F. In which, corn and soybean meal are forecasted to decline 7.9%/1.8% yoy in 2023F. As domestic feed prices have increased more slowly than global agricultural prices, we expect animal feed cost would cool down gradually from 2Q23F. Therefore, we expect meat producers' GM to improve in FY23F.

The expansion story is now different

In 2023F, BAF plans to build three new farms including a farm in Binh Phuoc (with a capacity of 6,250 piglets and 30,000 porkers) while the other two farms in Nghe An with a total capacity of 5,000 piglets and 90,000 porkers. In addition, the company also aim to expand distribution network through Siba supermarket and Meat shop system. Meanwhile, another new player – HAG also planned to build their own distribution system in 2022-23. However, in the recent shareholder meeting, HAG announced that they will increase the proportion of franchise stores to 80% instead of building their own stores due to insufficient capital. In the other hand, the two big players in the meat industry such as DBC and MML have not yet given specific expansion plans. Most businesses believe that the meat industry will face difficulties in 1H23F due to weak demand. We believe this also is the reason why 3F company are hesitant to expand production plan, except for new players who want to penetrate deeper into the meat industry such as BAF and HAG.

Figure 18: Some meat producers have business under 3F model

	Feed	Farm	Food	Brand store	Distribution system
	03 factories with total capacity of 460,000 tonnes/year	22 pig farm with total number of pig herds to 200,000 heads	01 Meat processing factories with a capacity of 240 pigs/hour	60 Siba Food stores and 300 Meat Shops	BAF's meat products are not available in other big supermarkets
	01 factory with a capacity of 600 tonnes/day + 05 banana powder drying lines	Total pig herd size is about 600,000 heads	Slaughter and meat production through third party with company supervision	Bapi Mart	HAG's meat products are not available in other big supermarkets
	Cooperation with De Heus – providing animal feed for MML	01 farm with a capacity of 250,000 heads	02 meat production and processing factories, with a total capacity of 280,000 tons/year	Meat Deli store system	MML's meat products are available in all Winmart supermarkets and big supermarkets
	09 factories with a total capacity of 1,500,000 tons/year	11 pig farm with total number of pig herds nearly to 1,000,000 heads	Slaughter and meat production through third party with company supervision	04 Dabaco supermarkets in Bac Ninh and a few number Dabaco stores in Hanoi	DBC pork is mainly distributed through traders
	10 animal feed factories	Mainly cooperate with farmer households	05 meat processing factories	CP Food store system	CP Food's products are widely available in most major supermarkets and retail stores nationwide
	Not focusing on producing animal feed yet	Mainly cooperate with farmer households	01 processing industry cluster and 01 factory	Vissan stores are mainly concentrated in the Southern provinces	100 distributors and more than 130,000 points of sale nationwide

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Sector risks include:

- Prolonged tensions between Russia and Ukraine affecting the shipping in the Black Sea may put upward pressure on global grain prices.
- The African Swine Fever outbreak could affect meat supply in 2023F.
- Consumer tighten up their purse strings will lead to weaker-than-expected meat demand.

Milk production: Lower milk powder price to ease input cost pressure

Mixed business results in FY22

Based on our estimate, aggregated revenue of listed milk producers increased slightly by 1.0% yoy in FY22 while NP declined 16.9% yoy. VNM was the main factor dragging the sector profit. Due to high whole milk powder price, VNM's gross margin declined significantly by 3.3% pts yoy in FY22F, leading to a 19.1% yoy decrease in net profit.

Figure 19: FY22 earnings recap of milk producer (unit: VNDbn)

Ticker	Milk producers	2021 revenue	2022 revenue	Change (yoy)	2021 gross margin	2022 gross margin	Change (yoy)	2021 NP	2022 NP	Change (yoy)
VNM	Viet Nam Dairy Products JSC	60,919	59,956	-1.6%	43.1%	39.9%	-3.3% pts	10,532	8,516	-19.1%
IDP	International Dairy Products JSC	4,827	6,086	26.1%	43.2%	38.8%	-4.3% pts	823	810	-1.5%
MCM	Seed Moc Chau Dairy Cattle Corporation	2,926	3,133	7.1%	30.7%	32.5%	1.8% pts	319	347	8.6%
HNM	Hanoimilk JSC	272	484	77.8%	28.8%	21.7%	-7.0% pts	17	37	121.1%

Source: VNDIRECT RESEARCH, FIIPRO

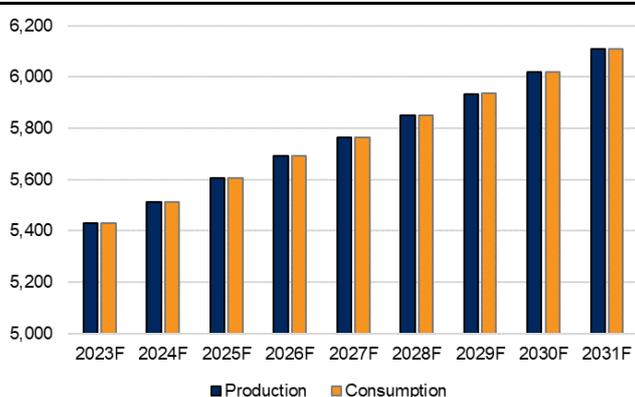
Milk producers' gross margin are likely to improve in FY23

According to VNM, dairy products are elastic goods (products that consumers will not buy in case selling price rise) as most Vietnamese consumers do not consider dairy products are an essential nutrition. As a result, demand for dairy products will weaken as mass consumers tighten their spending habits. We expect dairy demand to record single-digit growth (under 5% yoy) in 2023F. We forecast VNM's net revenue to increase 2.0%/3.8% in FY23/24F.

In addition, we expect whole milk powder price to cool down in 2023F thanks to:

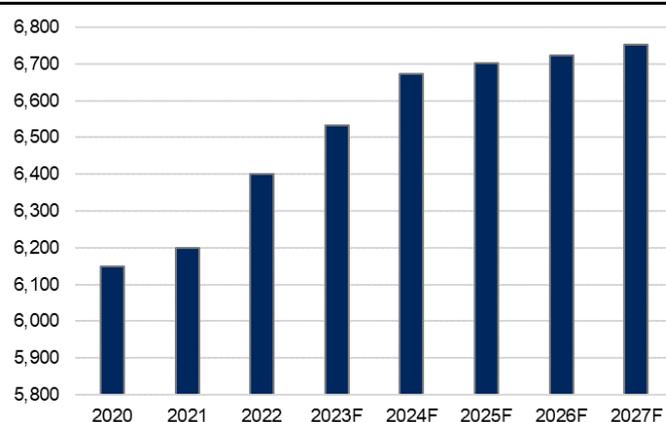
- Lower import demand from China – the biggest whole milk powder importer due to buoyant local supply and ample inventories. According to Rabobank, China's dairy imports in 1Q23F are expected to fall short of 1Q22 level as they continue to digest the stocks accumulated over the last year.
- Global dairy demand is likely to get weaker in the short term, with many economies experiencing broad-based food inflation. Meanwhile, whole milk production is projected to be higher in 2023F thanks to favourable weather conditions.

Figure 20: Whole milk powder production and consumption forecast in 2023-31F (Unit: kiloton)



Source: VNDIRECT RESEARCH, OECD

Figure 21: China's total dairy cows are forecasted to increase in 2023F (unit: thousand heads)



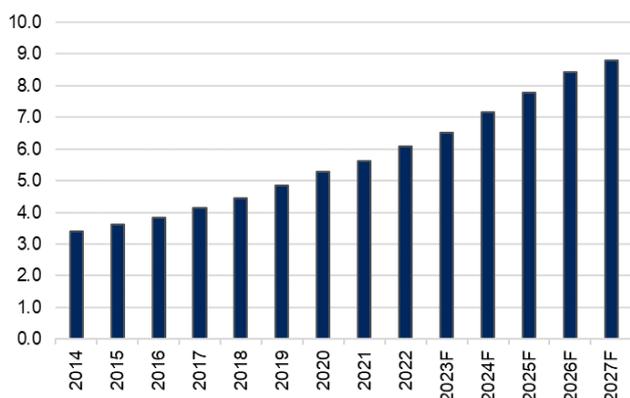
Source: VNDIRECT RESEARCH, STATISTA

Thus, we expect WMP price to keep falling and trading at 5.0% lower than 2022. Besides, we believe that the cooling of the US\$ recently is positive news for Vietnam as it eases the pressure on the VND exchange rate. Therefore, we expect milk producers to record a slightly increase in revenue while gross margin improves significantly thanks to lower input price. For VNM, we expect the company to start using low-cost inventories from mid 1Q23F. Therefore, GM may be improved yoy significantly from 3Q23F as 1H22 still enjoy lower input material than 1H23F. However, we also see a recent increase in global sugar prices could have negative effect on milk producers' GM.

Sector risks include:

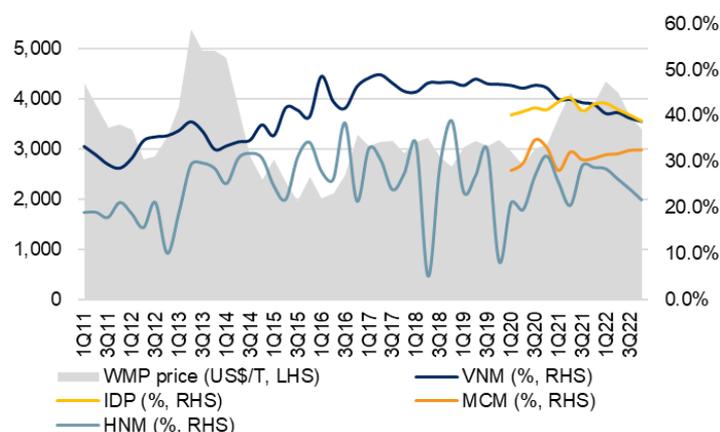
- Higher-than-expected material milk prices
- Higher-than-expected grain price which could affect on animal feed price and Weaker-than-expected domestic dairy demand

Figure 22: Vietnam's dairy revenue is projected to increase slightly in FY23F (unit: US\$bn)



Source: VNDIRECT RESEARCH, STATISTA

Figure 23: Average whole milk powder price and listed dairy company's gross profit margin (%) from 1Q11 to 4Q22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Sugar production: prices to stay high

2022 was a sweet year with sugar producers

Based on our estimate, aggregated revenue of listed sugar producers increased strongly by 21.4% yoy in FY22 while NP profit recorded lower growth level of 3.8% yoy. We see that both SBT and QNS' gross margin in FY22F were affected by higher import prices of raw sugar – using to produce RE sugar while other businesses mainly produced white sugar. In addition, interest expense increased by 47.3% yoy in FY22 in the high interest rate environment also push SBT's net profit down to 9.0% yoy.

Figure 24: FY22 earnings recap of listed sugar producers (unit: VNDbn)

Ticker	Sugar producers	2021 revenue	2022 revenue	Change (yoy)	2021 gross margin	2022 gross margin	Change (yoy)	2021 NP	2022 NP	Change (yoy)
QNS	Quang Ngai Sugar JSC	7,335	8,259	12.6%	30.8%	29.8%	-1.0% pts	1,254	1,285	2.5%
SBT	Thanh Thanh Cong - Bien Hoa JSC	16,659	21,298	27.9%	14.3%	11.3%	-3.0% pts	821	748	-9.0%
LSS	Lam Son Sugar JSC	2,138	1,944	-9.1%	9.1%	10.8%	1.7% pts	33	40	21.1%
SLS	Son La Sugar JSC.	857	1,255	46.5%	27.0%	27.9%	0.8% pts	191	309	62.1%
KTS	Kon Tum Sugar JSC	210	261	24.2%	10.7%	14.4%	3.7% pts	5	9	91.0%

Source: VNDIRECT RESEARCH, FIINPRO

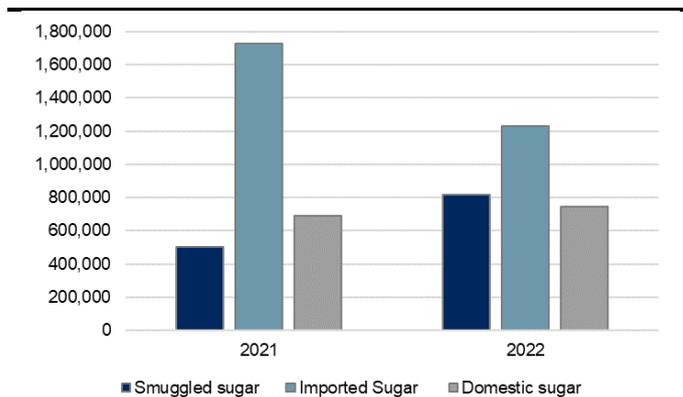
We expect sugar price to stay high in 2023F

According to Euromonitor, sugar demand is forecast to increase 1.7% yoy in 2023F. Meanwhile, processed sugarcane output will reach 8,764,277 tons (+16.5% svck) and sugar production will reach 870,930 tonnes (+16.6% svck) in 2023F, according to the Vietnam Sugarcane and Sugar Association (VSSA). We expect trade remedies will have a clear effect than in 2022, leading to lower import sugar while inventories of cheap imported sugar in 2022 gradually decrease. Thus, we believe imported sugar price in Vietnam will keep increasing in 2023F. However, imported sugar still accounts for about 70% of total supply, thus we believe that smuggled sugar will still put competitive pressure on domestic sugar.

We expect global sugar prices in 1H23F to be supported by 1) lower than expected sugar production in India 2) European production is affected by unfavorable weather (drought), and 3) Brazilian sugarcane producers are expected to keep favoring ethanol production over sugar due to recent increase in fuel price. We believe that the price of Vietnamese sugar will follow the trend of global sugar prices. However, we also see that Vietnam sugar is under competitive pressure from smuggled sugar thus domestic sugar price may increase slightly by 4.2% yoy in 1H23F to VND18,500/kg.

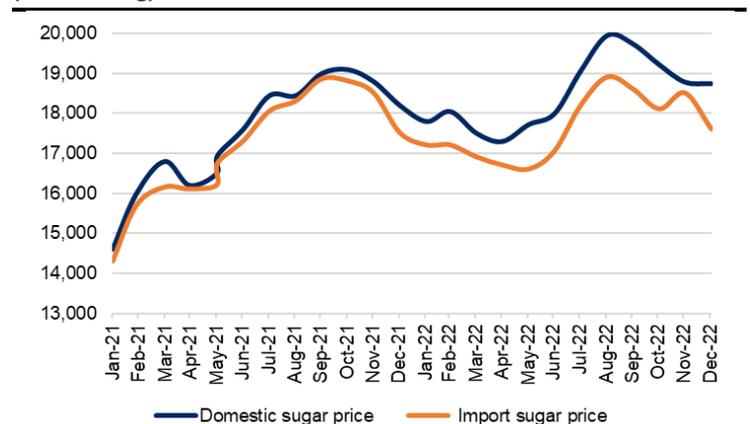
Besides, we believe that the price of sugarcane will be flat compared to 2022 to encourage farmers to keep growing sugarcane to increase domestic supply. In Feb 2023 many fires have occurred in Gia Lai due to the dry season causing damage to sugarcane volume and farmers' income. The Mekong Delta region also recorded a decrease in sugarcane area in recent years as farmers switched to grow more profitable fruit crops. Therefore, we believe companies which mainly use domestic sugarcane materials will benefit more from the sugar price uptrend such as SLS and LSS. Meanwhile, with some companies importing raw sugar for RE sugar production such as QNS or SBT, the remaining high raw sugar import price will partly offset the increasing sugar selling price in 2023F.

Figure 25: Vietnam total sugar supply in 2021-22



Source: VNDIRECT RESEARCH, VSSA

Figure 26: Imported sugar price still lower than domestic sugar price (unit: VND/kg)

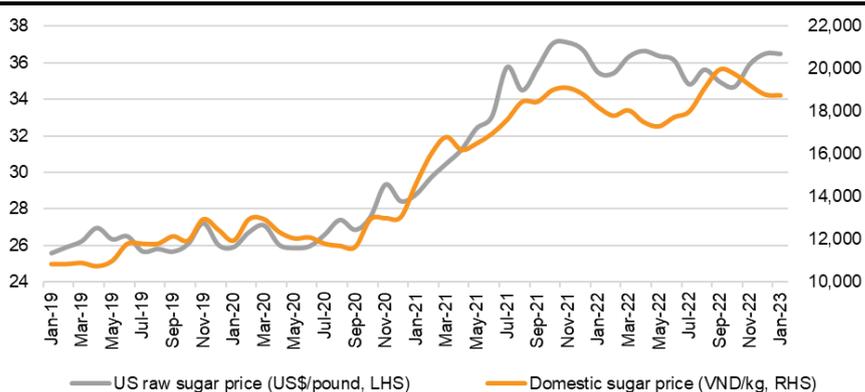


Source: VNDIRECT RESEARCH, VSSA

Sector risk:

- Smuggling and trade fraud that have not been completely controlled can create competitive pressure on prices with domestic sugar.
- Dry weather in many sugarcane areas can easily cause fires, affecting the quality and output of sugarcane.
- Lower price of sugarcane will cause farmers to reduce sugarcane area to switch to other more profitable crops.

Figure 27: US raw sugar price and Vietnam's sugar price from Jan 2019 to Feb 2023



Source: VNDIRECTS RESEARCH, BLOOMBERG, VSSA

Rice production: Export rice price is likely favorable for rice producers

Negative net profit growth despite higher rice export price

In 2022, rice exports recovered after the impact of the COVID-19 epidemic. Accordingly, Vietnam exported 7.1m tonnes (+14% yoy) of rice with value of US\$3.52bn (+6.7% yoy), according to the General Department of Customs. Based on our estimate, aggregated revenue of listed rice producers increased by 8.5% yoy in FY22F. However, we also see almost the companies recorded gross margin decline due to the rising input cost pressure such as fertilizer prices and increased paddy purchasing prices. As the results, FY22 aggregated net profit decreased by 27.9% yoy, in which TAR and AGM with higher interest expenses were the main factor dragging the sector profit. In FY22, TAR and AGM's interest expenses increased by 23% yoy/258% yoy respectively to VND89bn/VND50.5bn, much higher than financial revenue of VND11.3bn/VND6.2bn.

Figure 28: FY22 earnings recap of listed sugar producers (unit: VNDbn)

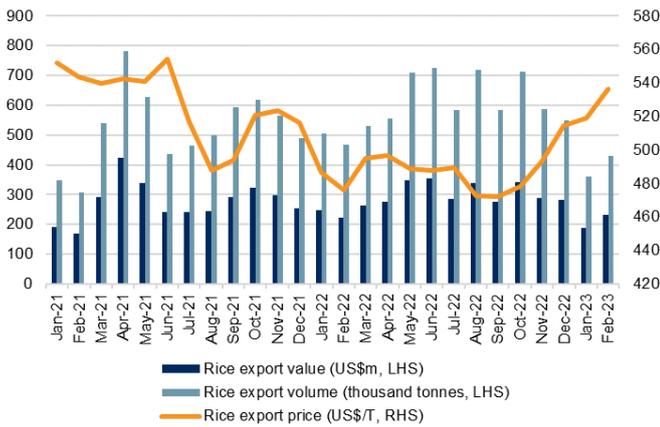
Ticker	Rice producers	2021 revenue	2022 revenue	Change (yoy)	2021 gross margin	2022 gross margin	Change (yoy)	2021 NP	2022 NP	Change (yoy)
LTG	Loc Troi Group JSC	10,224	11,691	14.3%	19.2%	18.4%	-0.8% pts	418	413	-1.1%
NSC	Vietnam National Seed Group JSC	1,929	1,895	-1.8%	32.2%	33.4%	1.2% pts	219	220	0.2%
TAR	Trung An Hi-Tech Farming JSC	3,120	3,798	21.7%	9.3%	7.3%	-1.9% pts	89	63	-29.0%
AGM	An Giang Import - Export Company	3,925	3,454	-12.0%	6.0%	5.3%	-0.6% pts	45	-140	From net profit to net loss

Source: VNDIRECT RESEARCH, FIINPRO

Rice export still shows positive signs in 2023F

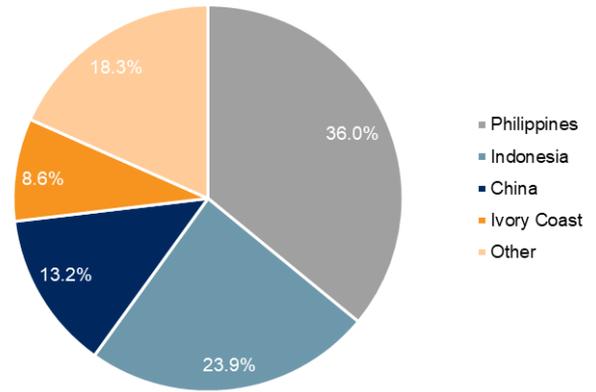
We believe that the world demand for rice will remain high in 2023F due to political and economic uncertainties along with the unresolved conflict between Russia and Ukraine, pushing up the demand for food reserves. In addition, climate change is still affecting rice supply in many countries, especially such as the Philippines (storms and floods) or China (drought). In 2023F, due to the impact of drought, China's rice production is forecast to decrease by more than 3m tonnes compared to 2022, to about 145.5m tonnes. This is an opportunity for rice exporting countries, including Vietnam.

Figure 29: Vietnam recorded an 3.2% yoy increase of rice export value in Feb 2023



Source: VNDIRECT RESEARCH, FIINPRO

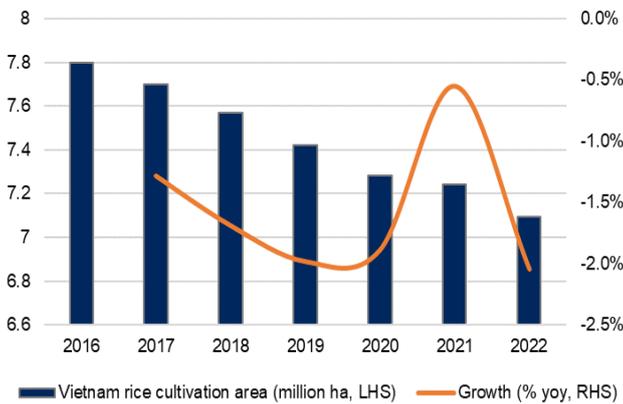
Figure 30: Philippines was still Vietnam's largest rice importer



Source: VNDIRECT RESEARCH, GSO

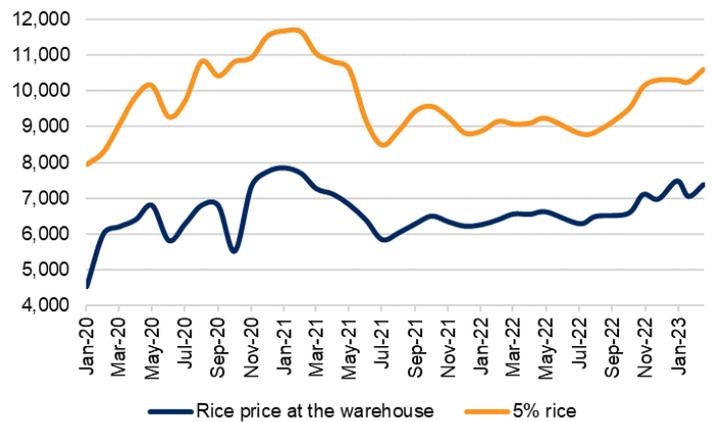
We expect rice export prices to keep raising in 2023F on the back of 1) increasing the demand for food reserves in many countries, 2) India has not planned to lift the ban on broken rice exports and cut tariffs 20% for white rice exports in 2023F yet as they are still trying to curb the rise in domestic rice prices, 3) Vietnam is focusing on producing high-quality rice to meet global consumption trends, and 4) many rice cultivation areas have switched to other more profitable crops, which could lead to a decrease in rice production in 2023F.

Figure 31: Rice cultivation area has narrowed in 2022



Source: VNDIRECT RESEARCH, GSO

Figure 32: Domestic rice prices maintain upward trend in 2M23 (unit: VND/kg)



Source: VNDIRECT RESEARCH, VFA

However, we also see that Vietnamese rice will face competitive pressure with Thailand's rice in 2023F. According to the Association of Thai Rice Exporters, Thailand's rice exports to the Philippines are expected to increase double in 2023F as Vietnam is facing constraints on rice export capacity. According to the Ministry of Agriculture and Rural Development, agricultural land used for the 2022-2023F crop in Vietnam has decreased by 3% from the previous crop, creating the risk of a 1% drop in rice production to 27m tons in 2023F. By contrast, Thailand is anticipating a major harvest this year. In the 2022-2023F crop year, Thailand is expected to produce about 20.2m tons of rice, increasing from 19m tons in the previous crop year.

Sector risks include:

- Assume that India's cancellation of the rice export ban will put competitive pressure on Vietnamese rice and reduce export prices.
- Diversification of crop varieties and saltwater intrusion may affect the rice cultivation area.
- High fertilizer prices affect farmers' incomes, which also can lead to a decrease in the rice cultivation area as they switch to other profitable crops.

Our stock pick is BAF while LTG will be on our watchlist.

BAF has long term growth potential thanks to expanding the herd capacity with new farms and distribution system through Siba Food supermarkets and Meat shops. The company will raise capital for its expansion plan through issuing VND600bn of private bonds to the International Finance Corporation (IFC) in 1Q23. Meanwhile, LTG and SBT will be on our watch list.

Figure 33: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	 BAF	27,200	ADD	<p>1) BAF has long-term growth potential thanks to expanding the herd capacity with new farms and distribution system through Siba Food supermarkets and Meat shops. We expect GM to improve 1.5% pts in FY23F as 3F business segment keep increasing its contribution to BAF's gross profit with GM much higher than agricultural trading segment.</p> <p>2) The company is able to raise capital for its expansion plan through issuing VND600bn of private bonds to the International Finance Corporation (IFC) in 1Q23. Besides, BAF still maintain healthy balance sheet with low leverage of 0.6x in FY23F, which allows the company to downplay the risks of high interest rates in FY23F.</p> <p>3) BAF is trading at P/E of 7.4x, which is lower than regional peer with MML's P/E of 11.7x, DBC's P/E of 22.1x, and CP Thailand's P/E of 12.9x. Thus, we believe the current valuation is compelling for a potential stock like BAF.</p>
2	DBC	15,900	Hold	<p>1) Swine price is expected to increase in 2023F while input cost for animal feed is forecasted to be lower together will impact positively to the company's GM. We expect DBC to enjoy 1.5% pts yoy in gross margin's expansion.</p> <p>2) DBC's total debt reached VND7,740bn (+225.3% yoy) in FY22, equal to D/E of 1.0x (vs 0.7x in FY21). We believe DBC's net financial income in FY23-24F will be affected due to higher financial expense as the results of rising in interest rate.</p>
3	VNM	82,000	Hold	<p>1) We expect dairy demand to record single-digit growth (under 5% yoy) in 2023F as consumers to tighten up their purse strings. Thus, we forecast VNM to record revenue growth of 2.0%/3.8% yoy in FY23-24F, still higher than the average of the past three years.</p> <p>2) We expect whole milk powder price in 2023F to keep falling and trading at 5.0% lower than 2022. Thus, the company will enjoy a 2.0% pts yoy increase in gross margin.</p> <p>3) On 8 Mar, VNM has kicked off the construction of a cool beef farming and processing complex with a total investment capital of VND3,000bn in phase 1. The complex includes a cattle farm with a total scale of 10,000 heads and a processing factory with designed capacity of 10,000 tonnes/year. The project is expected to come into operation in 2024F. We expect the cool beef project to become an driving force for VNM's revenue growth in the coming years after remaining flat in the last 5 years.</p>

4	LTG	N/a	Non-rate	<p>1) LTG is the market leader in pesticides, plant varieties and branded rice. The shifting to organic and bio products will create a driving force for the pesticide segment's growth as the company has focused on developing organic products before.</p> <p>2) The impact from ending the distribution contract with Syngenta has been reflected in the FY22 business results. We expect LTG to regain stable revenue growth in FY23F.</p> <p>3) The food segment will benefit from 1) increasing rice import demand in Vietnam's main export markets such as the Philippines and China, 2) rice price tends to increase in both the domestic and export markets, and 3) domestic consumers tend to switch to branded rice products.</p>
5	SBT	N/a	Non-rate	<p>1) SBT is the market leader among sugar producers with 46% market share.</p> <p>2) We see SBT can take advantage of the sugar price upward trend and expand the GM as the company has the largest scale in sugarcane materials which is well positioned to capture the increasing demand for domestic sugar. In 2021-25, the company plans to focus on expanding the raw materials area in Australia up to 20,000ha. In crop year 2022-23, SBT expect to put 5,000ha into exploitation for sugarcane cultivation.</p> <p>3) However, we also found that the company is highly leveraged with a D/E of 1.1x in the last three year. Besides, its ability to pay interest expenses is not really strong with a two-year interest coverage ratio only reached 1.2-1.4x. Therefore, we believe that SBT may continue to be under pressure in the high interest rate environment in FY23.</p>

Figure 34: Peer comparison

Company	Ticker	Target		Recom.	Mkt cap	P/E (x)		P/B (x)		3 years	ROE (%)		ROA (%)		
		Price	price			US\$m	TTM	FY23F	TTM	FY23F	EPS	TTM	FY23F	TTM	FY23F
		LC\$	LC\$								CAGR (%)				
Vietnam listed meat producers															
BAF Viet Nam Agriculture JSC	BAF VN	20,000	27,200	ADD	122	10	9	2	1	63	18	16	6	6	
Masan MeatLife Corporation	MML VN	36,000	N/a	N/a	502	N/a	N/a	2	N/a	N/a	(3)	N/a	(1)	N/a	
Dabaco Group	DBC VN	13,900	15,900	HOLD	143	22	7	1	N/a	79	3	10	1	N/a	
Vissan JSC	VSN VN	N/a	N/a	N/a	83	25	N/a	2	N/a	(11)	6	N/a	6	N/a	
Vietnam Livestock Corporation JSC	VLC VN	14,800	N/a	N/a	109	32	N/a	1	N/a	30	3	N/a	2	N/a	
Hoang Anh Gia Lai JSC	HAG VN	7,360	N/a	N/a	291	6	N/a	1	N/a	N/a	25	N/a	6	N/a	
<i>Average</i>						19	8	1	1	40	9	13	3	6	
<i>Median</i>						22	8	1	1	46	5	13	4	6	
Vietnam listed sugar producers															
Quang Ngai Sugar JSC	QNS VN	40,100	N/a	N/a	610	9	9	2	1	1	17	18	13	15	
Thanh Thanh Cong - Bien Hoa JSC	SBT VN	14,150	N/a	N/a	406	15	14	1	1	39	7	N/a	3	8	
Lam Son Sugar JSC	LSS VN	7,110	N/a	N/a	23	14	N/a	0	N/a	84	2	N/a	2	N/a	
Son La Sugar JSC	SLS VN	149,000	N/a	N/a	62	5	N/a	2	N/a	47	42	N/a	27	N/a	
Kon Tum Sugar JSC	KTS VN	N/a	N/a	N/a	3	9	N/a	0	N/a	54	6	N/a	2	N/a	
<i>Average</i>						10	11	1	1	45	15	18	9	12	
<i>Median</i>						9	11	1	1	47	7	18	3	12	
Regional listed rice producers															
Trung An Hi-Tech Farming JSC	TAR VN	12,700	N/a	N/a	42	15	N/a	1	N/a	(1)	7	N/a	3	N/a	
Loc Troi Group JSC	LTG VN	27,000	N/a	N/a	93	6	7	1	1	8	11	12	5	4	
Heilongjiang Agriculture Co Ltd	600598 CH	13	N/a	N/a	3,466	20	19	3	3	(3)	18	18	14	N/a	
Shandong Denghai Seeds Co Ltd	002041 CH	19	N/a	N/a	2,373	73	56	5	5	100	7	9	5	7	
FGV Holdings Bhd	FGV MK	1	N/a	N/a	1,229	4	9	1	1	N/a	23	11	7	4	
<i>Average</i>						24	23	2	2	26	13	12	7	5	
<i>Median</i>						15	14	1	2	3	11	11	5	4	
Regional listed dairy producers															
Bright Dairy & Food Co Ltd	600597 CH	11	N/a	N/a	2,119	41	22	2	2	(9)	5	8	2	3	
China Mengniu Dairy Co Ltd	2319 HK	33	N/a	N/a	16,414	20	20	3	3	21	16	15	6	6	
Inner Mongolia Yili Industrial Group Co Ltd	600887 CH	29	N/a	N/a	27,146	21	20	4	4	11	21	18	8	9	
MEIJI Holdings Co Ltd	2269 JP	3,150	N/a	N/a	7,043	12	15	1	1	13	12	9	7	5	
A2 Milk Co Ltd	151 HK	5.07	N/a	N/a	7,675	14	14	4	3	8	26	23	13	12	
Vietnam Dairy Products JSC	VNM VN	75,000	82,000	HOLD	6,675	21	18	5	5	(7)	24	30	17	20	
<i>Average</i>						23	19	2	2	9	13	12	6	6	
<i>Median</i>						21	20	2	2	12	14	12	6	6	

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 30 Mar 2023)

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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