

Sector note

19 Sep 2022

Rice production sector

Rice on the rise

- We expect that rice prices likely under upward pressure following supply compression and India new export policies.
- Vietnam is well-positioned to ride on the rice prices uptrend.
- LTG, PAN and TAR should be added into watchlist under this theme.

Rice prices soar as India restricts rice exports

On Sep 08, 2022, India banned the export of broken rice (accounting for 11% of total exports) and imposed a 20% tax on other varieties (except basmati and parboiled rice) (accounting for 18% of total exports). India exports rice to more than 150 countries and contributes about 36.7% global rice trade, thus any reduction in its shipments would increase upward pressure on rice prices.

Global rice supplies at risk as harsh weather hits top exporters

The recent harsh weather in top rice exporter countries in Asia, which accounts for about 90% of the world's rice output, is likely to curb the yields and definitely reduce the production volume this year. China, the world's largest rice consumer, has experienced severe draught across 7 provinces which might cut the country's rice production and is expected to lift rice imports to a record 6m tonnes in 2022/23. According to U.S. Department of Agriculture, global inventories have fallen to a 4-year low as the FY2022-23 stock-to-use ratio (inventory-to-consumption ratio) is forecasted at only 34.4% (compared to an average of 36.6% for the period of 2018-2022).

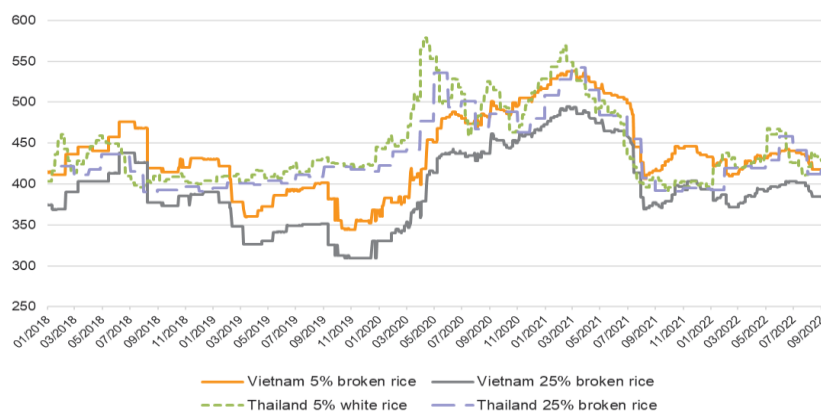
Vietnam is well-positioned to ride on the rice prices uptrend

Vietnam is the world third largest rice exporter, behind India and Thailand, with about 7.8% global trade; and the largest exporter to China with 24.5% market share. With higher duty, Indian rice price will become uncompetitive and likely prompt buyers to shift towards Thailand and Vietnam. Thailand Government is seeking for solutions to support its farmers in the context of hike input cost. In 2021, the total rice export value of Vietnam and Thailand accounted for 20.6% of total global trade.

Watchlist under this theme includes LTG, PAN, and TAR

We prefer LTG, PAN, and TAR as they are large exposure to rice export, and will likely benefit from the rice prices uptrend.

Figure 1: Rice price movement since January 2018 (US\$ per tonne)



Analyst(s):



Hung Vu Manh

hung.vumanh3@vndirect.com.vn

Source: VNDIRECT RESEARCH, BLOOMBERG

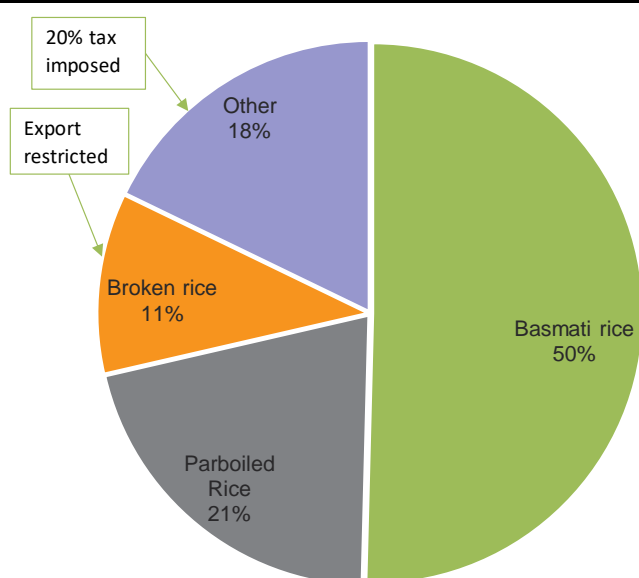
RICE ON THE RISE

Rice prices soar as India restricts rice exports

On Sep 08, 2022, India banned the export of broken rice (accounting for 11% of total exports) and imposed a 20% tax on other varieties (except basmati and parboiled rice) (accounting for 18% of total exports). India exports rice to more than 150 countries and contributes about 36.7% global rice trade, thus any reduction in its shipments would increase upward pressure on rice prices. When India banned exports in 2007, global prices shot to record highs of around US\$1,000 per tonne.

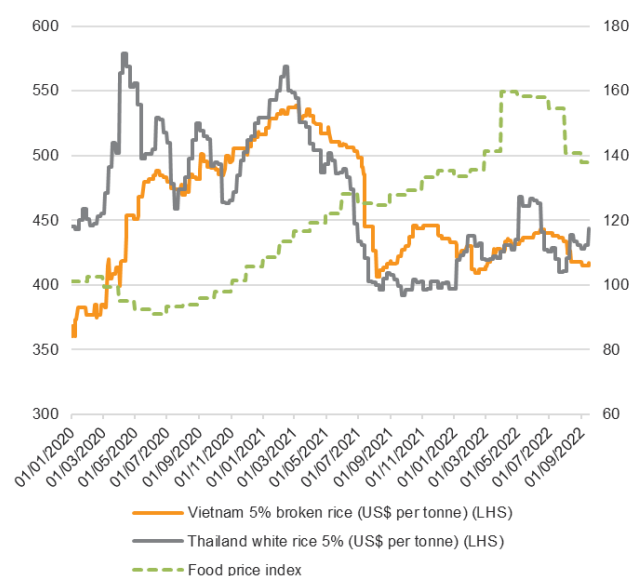
Since early-2021, rice prices corrected about 45% from its peak of ~US\$570/tonne in 6 months and then fluctuated in range of US\$390-US\$490 per tonne during from Sep-21 until now; despite the food prices hike. We observed that rice prices started head up following the India export ban.

Figure 2: India's composition of exported (%)



Source: VNDIRECT RESEARCH, INTERNATIONAL TRADE CENTRE

Figure 3: Vietnam and Thailand rice prices (US\$ per tonne)



Source: VNDIRECT RESEARCH, BLOOMBERG

Global rice supplies at risk as harsh weather hits top exporters

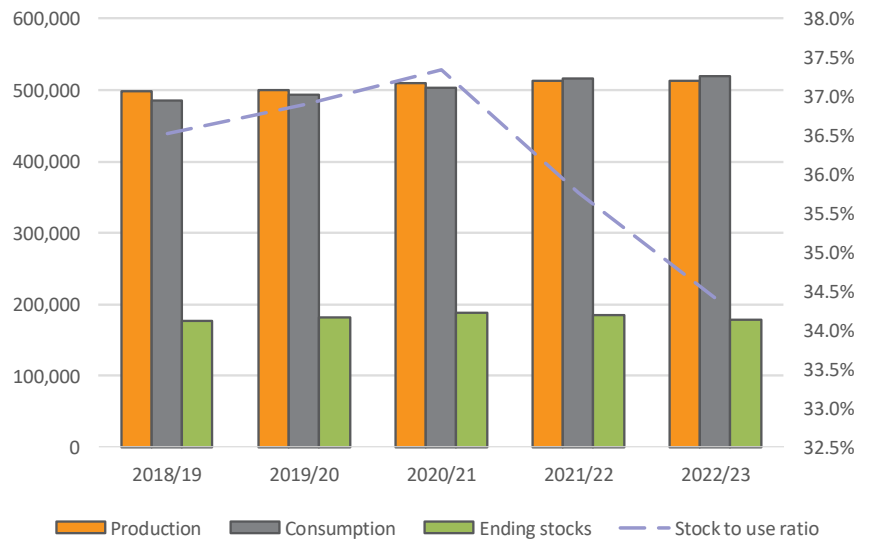
Outlier from other grains, rice has bucked the trend of rising food prices over the past two years regarding bumper crops and large inventories at exporters over the past two years. However, the recent harsh weather in top rice exporter countries in Asia, which accounts for about 90% of the world's rice output, is likely to change the price trajectory. Patchy rains in India, drought in China and flood in Bangladesh have curb the yields and definitely reduce the production this year.

China, the world's largest rice consumer, has experienced severe draught across 7 provinces, which might cut the country's rice production by 3-6% in 2022. According to U.S. Department of Agriculture, global inventories have fallen to a 4-year low as the FY2022-23 stock-to-use ratio (inventory-to-consumption ratio) is forecasted at only 34.4% (compared to an average of 36.6% for the period from 2018-2022).

On the other side, we see the demand is picking up. Due to the yield losses, China is expected to lift rice imports to a record 6m tonnes in 2022/23, according to the U.S. Department of Agriculture. Besides, we see the rising of protectionism in order to ensure food security since the recent geopolitical disputes. Food export bans have included wheat and sugar from India, palm oil

from Indonesia. Food import countries are trying to increase the stock inventory, eg Philippines. We believe rice maybe the next in line with upward pressure on prices.

Figure 4: World rice supply and demand from crop year 2018-19 to 2022-23 (unit: thousand tonnes)



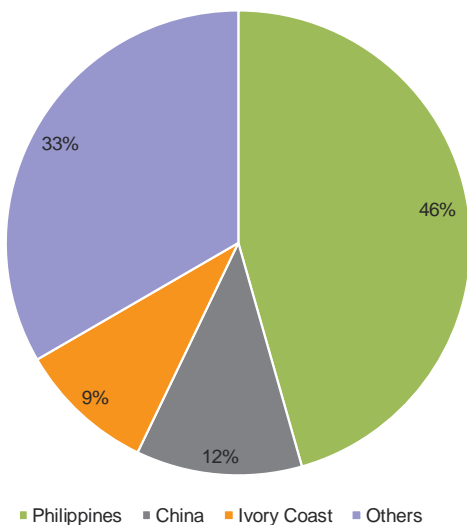
Source: VNDIRECT RESEARCH, USDA

Vietnam is well-positioned to ride on the rice prices uptrend

Vietnam is the world third largest rice exporter, behind India and Thailand, with about 7.8% global trade; and the largest exporter to China with 24.5% market share. With higher duty, Indian rice price will become uncompetitive and likely prompt buyers to shift towards Thailand and Vietnam.

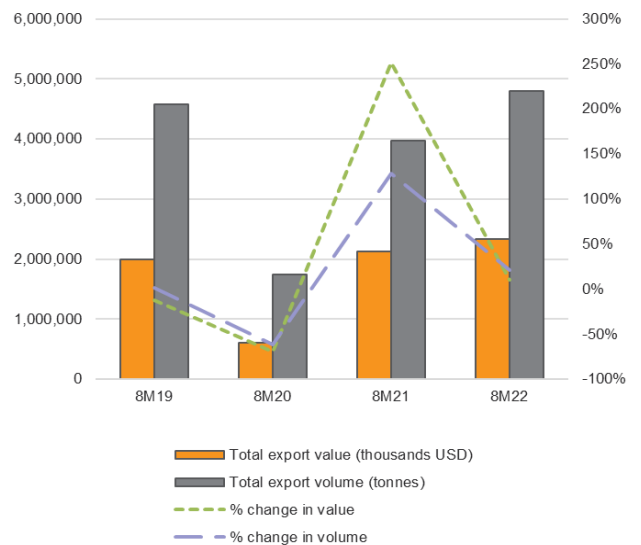
In 8M22, Vietnam’s rice export value and volume reached US\$2.3bn (+9.9% yoy), and 4.8m tonnes (+20.7% yoy), respectively. Philippines is Vietnam’s largest rice market (46%); following by China (12%) in 8M22.

Figure 5: Top rice export market of Vietnam in 8M22



Source: VNDIRECT RESEARCH, GDOC

Figure 6: Value of Vietnam's rice exports in 8M22



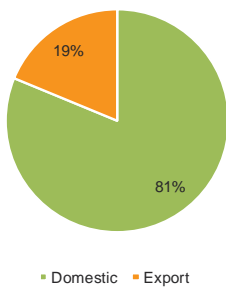
Source: VNDIRECT RESEARCH, GDOC

Thailand Government is seeking for solutions to support its farmers in the context of hike input cost. Specifically, Thai Agriculture Minister Chalermchai Sri-on said that while rice farmers were affected by the high production costs due to complicated developments such as the Covid-19 pandemic or the conflict between Russia and Ukraine, the price of rice on the global market had increased disproportionately. In 2021, the total rice export value of Vietnam and Thailand accounts for 20.6% of total global trade.

Investment ideas

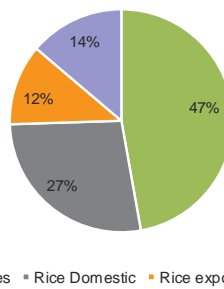
Three listed companies LTG, TAR, PAN with large exposure to rice export will likely benefit from the rice prices upturn.

Figure 7: TAR's FY21 revenue structure



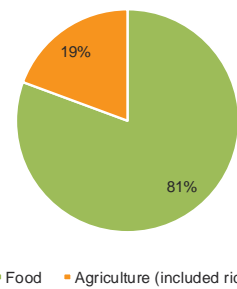
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 8: LTG's FY21 revenue structure



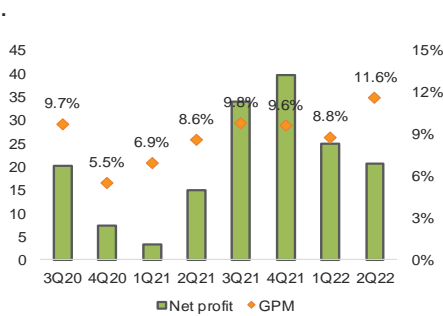
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 9: PAN's FY21 revenue structure



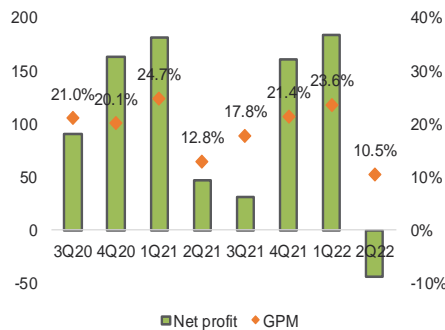
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 10: TAR's GM and NP in 3Q20-2Q22



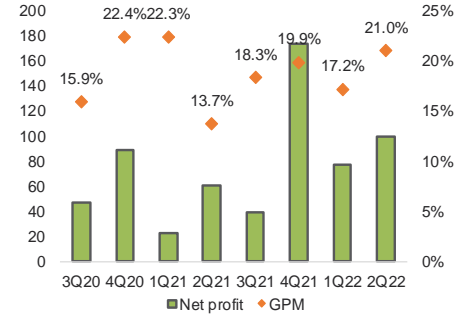
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 11: LTG's GM and NP in 3Q20-2Q22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 12: PAN's GM and NP in 3Q20-2Q22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 13: Potential impact on some rice listed companies in Vietnam

| Related stocks | Potential impact | Specific implications for the companies |
|----------------|---|---|
| LTG |  | We believe that LTG will benefit directly from rice exports thanks to being one of the rice distributors to both key markets at this time, Europe and China. With the development orientation focusing on the food segment, the revenue proportion of the rice segment will reach 39% in 2021 (2020: 28%) and 57% in 6M22. Although the segment's gross margin is low (2-3%), we think this will be improved by higher export rice prices. We expect the increase in export rice output will lead to contracts with farmers and expansion of raw material areas. Thereby, it will boost the revenue of LTG's crop protection Chemical segment (CPC) as well as the seed segment of LTG. |
| TAR |  | We believe TAR will benefit from China's reduced output and India's export restrictions due to drought. Rice trading is TAR's main business, with exports accounting for nearly 15% of total revenue. In which, China is the main rice export market of this enterprise with a proportion of up to 27% of export revenue. Therefore, we expect that China will increase rice imports from Vietnam, which will be the driving force for TAR to increase export volume. Moreover, an increase in export rice prices is expected to help improve gross profit margin in this market, which is considered to have a low profit margin compared to the European market. |
| PAN |  | We believe PAN will benefit directly from Europe's reduced production and India's export restrictions due to drought. Currently, the agricultural segment has become one of PAN's key industries, contributing 22% to total revenue and 39% to total gross profit. The decline in European rice production will be a factor helping to boost rice exports volume. In addition, the increase in export price of rice is expected to help increase the gross profit margin of the rice segment. |

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 14: Peer comparison

| Rice production | Bloomberg code | Share price (VND) | EPS (VND) | BVPS (VND) | Market cap (US\$m) | 3-year EPS CAGR (%) | P/E (x) | | P/B (x) | | ROE (%) | | ROA (%) | |
|------------------------------|----------------|-------------------|-----------|------------|--------------------|---------------------|---------|-------|---------|-------|---------|-------|---------|-------|
| | | | | | | | TTM | FY22F | TTM | FY22F | 2021 | FY22F | 2021 | FY22F |
| Loc Troi Group JSC | LTG VN Equity | 37,300 | 4,406 | 37,189 | 127 | 1.6 | 8.4 | 9.2 | 1.0 | 0.9 | 12.3 | 12.3 | 5.7 | 4.4 |
| Trung An Hi-Tech Farming JSC | TAR VN Equity | 26,800 | 1,920 | 14,025 | 81 | 35.7 | 11.9 | N/a | 1.7 | N/a | 13.5 | N/a | 5.1 | N/a |
| Pan Group JSC/The | PAN VN Equity | 26,400 | 1,418 | 19,755 | 234 | 0.3 | 14.4 | N/a | 1.3 | N/a | 9.8 | N/a | 3.0 | N/a |
| Average | | | | | 147.2 | 12.6 | 11.5 | N/a | 1.3 | N/a | 11.8 | N/a | 4.6 | N/a |

Source: VNDIRECT RESEARCH, COMPANY REPORTS (Data as at 16 Sep 2022)

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

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.

Hien Tran Khanh – Research Director

Email: hien.trankhanh@vndirect.com.vn

Hung Vu Manh – Analyst

Email: hung.vumanh3@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>

