

Industry: Consumption

Recommendations **BUY**

Quang Ngai Sugar Joint Stock Company - (UPCOM:QNS) OPPORTUNITIES FROM SUGAR INDUSTRY

Current price:	46,500	Report writing date:	23/9/2022	Shareholder structure	
Previous target price	-	Outstanding Shares (Million)	357	Thanh Phat Trading One Member	15.6%
New target price:	56,800	Market capitalization (billion VND)	16,598	LLC	7.04%
Dividend yield	4.3%	Average liquidity for 6 months:	3,351,600	Vo Thanh Dang	7.02%
Potential for price increase	22%	Remaining foreign ownership	30.86%	DD Nutifood TP JSC and related legal entities	

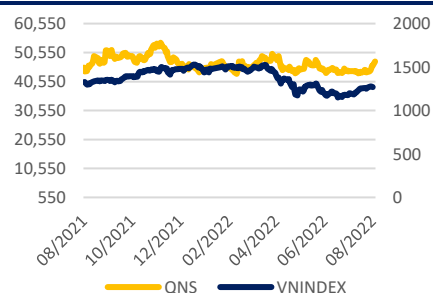
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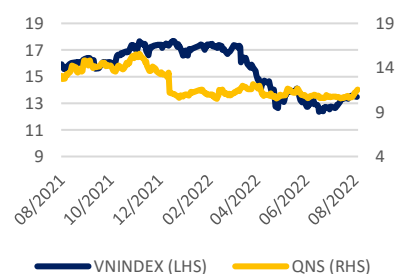
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Recommended price: VND
Stop Loss Price : VND

CP price comparison table and VN-Index



P/E and VN index comparison table



VIEWPOINT OF PRICE

We recommend a **BUY** with stock ticker QNS with a target price of **VND56,800 – Upside 22%** from the closing price on September 23, 2022, following the DCF method with WACC =10%. Based on **(1)** the positive outlook of the sugar industry; **(2)** material prices cooled down and **(3)** healthy financial structure.

FORECAST FORECAST OF INCOME STATEMENT

BSC expects QNS's revenue and net profit in 2022 to reach VND 8,147 billion (+11%YoY) and VND 1,352 billion (8%YoY), EPS FW = VND 3,637, P/E FW =12.8 times. Revenue growth was mainly driven by (1) revenue from sugar segment up 14%YoY; (2) revenue from soy milk segment up 9%YoY.

In 2023, DTT and NPAT will reach VND 8,950 billion (+10%YoY) and VND 1,527 billion (+13%YoY) respectively, mainly from (1) Sugar segment supported in both price and operating efficiency of the house. RE sugar machine increased from 8% CS (2022E) to 13% CS (2023F) (2) Gross profit margin of Soy milk segment improved from 39.7% to 41% thanks to the downtrend in raw material prices.

INVESTMENT THESIS

- Gross profit margin improved from 2H/2022 thanks to (1) domestic sugar price supported by Decision 1514/QD-BCT dated August 1st, 2022 and (2) soy milk segment: increased selling price in 1H/2022 and the price of raw materials tends to decrease.
- Healthy financial structure, stable dividend from 4%-5%/year.

Catalyst

- Domestic sugar prices are supported by Decision 1514/QD-BCT dated August 1, 2022, applying measures to combat trade remedies for some imported cane sugar products from 5 Asian countries.
- Strategic investors and BOM increase their ownership ratio.
- Potential comes from investment cooperation with large enterprises..

RISK

- Fluctuations in world sugar prices and smuggled sugar output increased after Decision 1514/QD-BCT.
- Price fluctuations of raw materials due to political instability in the world .

	2021	2022F	2023F	Peer		2020	2021	2022F	2023F
P/E (x)	14	13	11	12.8	Turnover	6,490	7,335	8,147	8,950
P/B (x)	2.3	2.1	1.9	4.2	Gross profit	2,051	2,262	2,518	2,830
EV/EBITDA (x)	8.5	8.5	8.5	9.2	NPAT	1,053	1,254	1,352	1,527
ROA (%)	13%	12%	13%	8%	EPS	2,832	3,371	3,637	4,107

ROE (%) 18% 17% 17% 15%

EPS growth -18% 19% 8% 13%

UPDATE 1H/2022 business results

	Q2/2022	Q2/2021	%YoY	1H/2022	1H/2021	%YoY
Net Revenue	2,202	2,022	9%	4,015	3,661	10%
Gross profit	657	654	1%	1,141	1,041	10%
GPM	29.86%	32%		28.43%	28.44%	
Selling expenses	(175)	(172)	1%	(407)	(338)	21%
Management costs	(68)	(80)	-15%	(127)	(139)	-9%
SG&A/Rev	11.0%	12%		13.31%	13.027%	
Operating profit	415	402	3%	607	564	
Operating profit margin	19%	20%		15.11%	15.41%	
Financial income	47	32	47%	84	62.3	36%
Financial expenses	(25)	(18)	39%	(47)	(34)	35%
Other income, net	(0)	1	-131%	(1)	10	-106%
EBT	436	417	5%	644	602	7%
NPAT	365	361	1%	541	521	4%
NPAT margin	16.59%	17.83%		13.48%	14.24%	

Source *Fiinpro*

In 1H.2022, QNS recorded revenue = 4,015 billion VND (10% yoy) and EAT = 541 billion VND (+4% yoy) – completing 52% of the plan and 54% of the plan. In there: (1) Soymilk sales (+12%YoY) thanks to sales volume up 7% YoY and selling price up ~5%YoY. Gross margin of soy milk segment decreased by 1.9 percentage points YoY, as the increase in selling price was only enough to partially offset the increase in NVL (+25-28%YoY)

(2) Sugar revenue (-3%YoY) due to the quiet market caused the consumption volume to decrease by double digits, but the company believes that with a large inventory, QNS will be able to catch the opportunity of an event approved by the Ministry of Industry and Trade. decided to apply anti-circumvention measures to a number of cane sugar products imported from 5 Asian countries, reducing sugar import volume.

QNS's NPAT margin in 1H2022 decreased from 14.2% to 13.5% because Vinasoy Bac Ninh factory ended the tax incentive period

Sugar industry profit margin improved thanks to Decision 1514/QD-BCT.

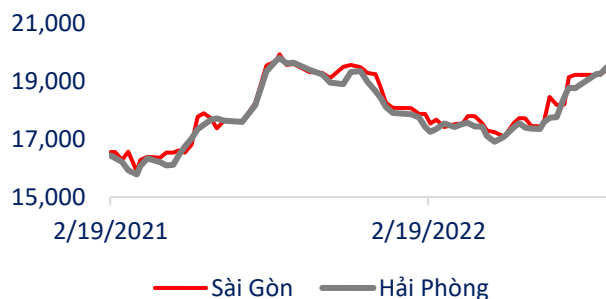
Decision 1514/QD-BCT dated August 1, 2022 applying measures to combat trade remedy evasion for a number of cane sugar products imported from five Asian countries including Cambodia, Indonesia, Laos, Malaysia and Myanmar. with a total tax rate of 47.64%, of which anti-dumping tax is 42.99% and anti-subsidy tax is 4.65% - Equivalent to the previous CPTG and CTC tax rates for sugar products from Thailand on June 16, 2021. This Decision will take effect after 7 days from the date of issuance until June 15, 2026, unless it is changed or extended according to other decisions of the Ministry of Industry and Trade.

We expect this event to have a positive impact on the domestic sugar industry in 2H/2022, in terms of both price and volume compared to the first half of 2022 due to the reduction of unfair competition from officially imported sugar and the increasing growth of the sugar industry. There will be a delay of 1-2 months in sugar prices due to the accumulation of inventories before the regulation is issued in June, July, 2022.

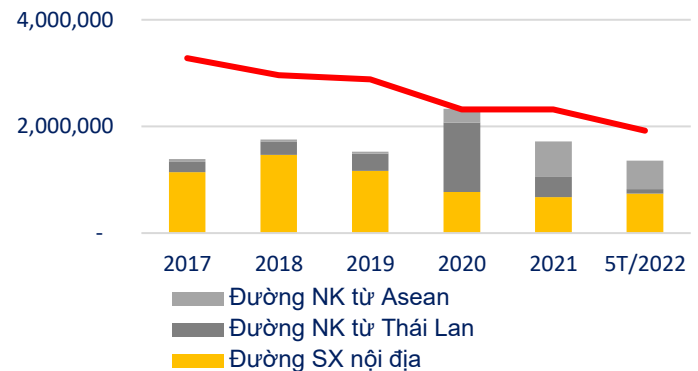
However, we also note that the domestic sugar industry may face risks, when implementing Decision 1514/QD-BTC will reduce the impact of ATIGA which may lead to increased supply from smuggled sugar, difficult to control

because (1) the domestic supply cannot meet the consumption demand due to limitations in production capacity of domestic enterprises and fragmented raw material areas, making domestic sugar production costs low. relatively high compared to other countries in the region (2) production costs of food industries using sugar increased, while purchasing power was affected by inflation, making small enterprises have a need to choose NVL with cheaper price,

Sugar price movement at Hai Phong port and Saigon port (VND/KG)



Sugar supply changes before and after application ATIGA and anti-dumping tax on Thai sugar



Source: Agromonitor, General Department of Customs

CƠ HỘI CHO NGÀNH ĐƯỜNG TRONG 2H/2022- 2023

	2020	2021	2022F	2023F
Rev Sugar	994	1,584	1,807	2,298
%YoY	-33%	59%	14%	27%
Rev Soy milk	3,875	4,091	4,451	4,806
%YoY	-9%	6%	9%	8%
Thanh Phat	1,053	1,178	1,212	1,248
%YoY	-38%	12%	3%	3%
Other	1,344	1,400	1,696	1,730
%YoY	-17%	4%	21%	2%
Net Rev	6,490	7,335	8,147	8,950
%YoY	-16%	13%	11%	10%
Gross profit	2,051	2,262	2,518	2,830
GPM	31.6%	30.8%	30.91%	31.62%
Selling expenses	(654)	(694)	(811)	(891)
Management costs	(234)	(253)	(256)	(281)
SG&A/Rev	13.7%	12.9%	13.1%	13.1%
EBIT	1,163	1,316	1,451	1,658
EBIT Margin	17.9%	17.9%	17.8%	18.5%
Financial income	142	143	198	200
Financial expenses	(72)	(66)	(86)	(87)
Other income, net	33	47	47	47
EBT	1,266	1,439	1,610	1,818
NPAT	1,053	1,254	1,352	1,527
NPAT margin	16.2%	17.1%	16.6%	17.1%
%YoY	-18%	19%	8%	13%
EPS	2,832	3,371	3,637	4,107

P/E	16.4	13.8	12.8	11.3
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Source: BSC research

BSC expects QNS's revenue and net profit in 2022 to reach VND 8,147 billion (+11%YoY) and VND 1,352 billion (8%YoY), EPS FW = VND 3,637, P/E FW =12.8 times– Higher than P/ E average 5 years 8 times. The driving force for revenue growth mainly comes from

(1) Sugar sales increased 14%YoY thanks to sales volume and supported prices when imported sugar volume is expected to decline after decision 1514/QD-BCT,

(2) Sales of soy milk segment increased by 9%YoY and gross profit margin of soy milk segment in 2H/2022 improved by ~30 basis points compared to 1H/2022 thanks to the downward trend of raw material prices in Q3/2022 (eg: Soybean).

However, the event that Vinasoy Bac Ninh factory ends the tax incentive period, the CIT is expected to increase from 13% (2021) to 16% (2022).

In 2023, DTT and NPAT will reach VND 8,950 billion (+10%YoY) and VND 1,527 billion (+13%YoY) respectively, mainly from (1) Sugar segment supported in both price and operating efficiency of the house. RE sugar machine increased from 8% CS (2022E) to 13% CS (2023F) (2) Gross profit margin of Soy milk segment improved from 39.7% to 41% thanks to the downtrend of raw materials prices.

Valuation

We recommend a **BUY** with stock ticker QNS with a **target price of VND56,800 – Upside 22%** from the closing price on September 23, 2022, following the DCF method with WACC =10%. Based on **(1)** the positive outlook of the sugar industry; **(2)** material prices cooled down and **(3)** a healthy financial structure, making the business less pressured on interest rates compared to peers in the context of high interest rates.

DCF method	2022	2023	2024	2025	2026
Firm free cash flow (FCFF)	1,184	1,395	1,553	1,673	1,803
Total value of 5 year free cash flow discount	1,140	1,219	1,233	1,206	1,181
Last value	17,865				
Final value discount	11,701				
Total discount value	17,680				
(-) In debt	(2,468)				
(+) Cash	5,064				
Total company value	20,276				
SLCP Circulating (million)	357				
Reasonable value	56,800			Rf	5.6%
Current Price	46,500			Beta	0.71
Upside	22%			Ke	12%
Recommendations	BUY			Kd	5%
Dividend rate	4.3%			WACC	10.1%
Industry P/E (Trailing)	12.8			g	0%

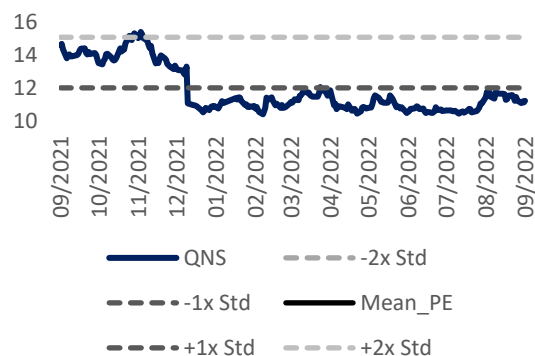
Source: BBG, BSC

Table: Summary of financial information of enterprises in the sugar industry and the dairy industry.

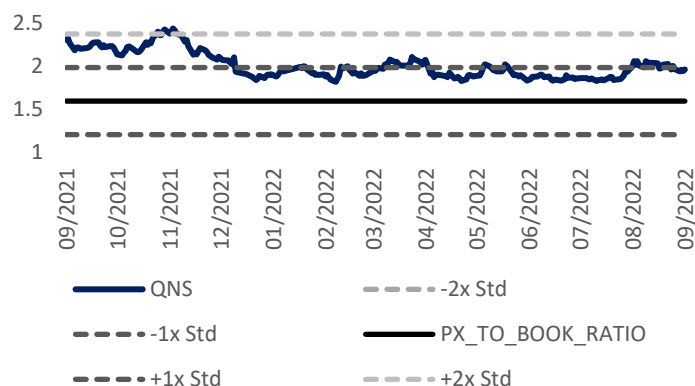
	Mã CK	Capitalization (Billion VND)	EBITDA/(Short-term debt+Loan interest)	Ratio of cash and equivalents/debt	P/E Trailing	P/B Trailing	P/S Trailing
	QNS	16,309	0.68	1.19	12.95	2.37	2.12
Industry median			0.33	0.15	11.00	1.61	1.16
Sugar industry	SBT	10,998	0.17	0.26	14.03	1.25	0.60
	SLS	1,494	0.49	0.03	7.96	1.97	1.72
	LSS	704	0.41	0.05	15.55	0.44	0.34
	KTS	90	0.22	0.02	11.20	0.53	0.51
	Industry median		1.47	1.16	13.57	5.23	2.17
Dairy industry	VNM	160,718	1.32	1.38	16.97	4.71	2.64
	IDP	8,842	1.62	0.93	10.17	5.75	1.69

Source: FiinPro

STOCK PE



STOCK PB



Source: Bloomberg

APPENDIX

IS (Billions dong)	2020	2021	2022	2023
Net Revenue	6,490	7,335	8,147	8,950
Cost of goods sold	(4,438)	(5,073)	(5,628)	(6,120)
Gross profit	2,051	2,262	2,518	2,830
Selling expenses	(654)	(694)	(811)	(891)
Management costs	(234)	(253)	(256)	(281)
Operating profit/loss	1,163	1,316	1,451	1,658
Financial revenue	142	143	198	200
Financial expenses	(72)	(66)	(86)	(87)
Interest expenses	(71)	(66)	(86)	(87)
Profit from CTLD/LK	-	-	-	-
Other profit/loss	33	47	47	47
Profit before tax	1,266	1,439	1,610	1,818
Corporate income tax	(213)	(186)	(257)	(291)
Profit after tax	1,053	1,254	1,352	1,527
CTS	-	-	-	-
NPAT - Owners	1,053	1,254	1,352	1,527
EBITDA	1,634	1,790	1,911	2,110
EPS	2,832	3,371	3,637	4,107

BS (Billions dong)	2020	2021	2022	2023
Cash and cash equivalents	422	179	586	1,187
Short term investment	2,639	3,923	4,478	4,272
Short-term receivables	264	386	424	637
Inventory	844	816	1,407	1,790
Other short-term TS	19	19	21	23
Short term TS	4,188	5,323	6,916	7,910
Remaining tangible TS	3,807	4,285	3,716	3,144
Accumulated depreciation	(4,441)	(4,669)	(4,669)	(4,669)

CF (Billions dong)	2020	2021	2022	2023
(Loss)/EAT	1,266	1,439	1,610	1,818
Depreciation and amortization	471	474	460	452
Change in working capital	(278)	(91)	(591)	(538)
Other adjustments	(315)	(332)	(343)	(377)
LCTT from business activities	1,108	1,477	1,052	1,257
Money spent to buy fixed assets	(199)	(114)	(109)	(120)
Other investment	143	(1,161)	-	-
LCTT from Investment Council	(56)	(1,274)	(109)	(120)
Dividend payment	(904)	(754)	(535)	(535)
Cash from net borrowing	58	309	436	(391)
Other revenue	(845)	(445)	(971)	(145)
LCTT from Finance Council	(845)	(445)	(535)	(535)
Cash flow at the beginning of the period	215	422	179	586
Money in the period	207	(242)	407	601
Cash flow at the end of the period	422	180	586	1,187

Ratio (%)	2020	2021	2022	2023
Solvency				
Short-term TT numbers	1.66	1.96	2.16	2.74
Fast TT number	1.32	1.66	1.55	2.01
Capital structure				
Amount of Debt/TTS	0.19	0.21	0.22	0.18
Debt/Equity	0.26	0.29	0.31	0.23

Long-term unfinished TS	928	47	265	504	Operational capacity				
Long-term phone	-	-	-	-	Number of HTK . days	47.2	40.4	63.4	73.4
Other long-term TS	227	220	220	220	Number of days receivable	14.8	19.1	19.1	26.1
Long-term TS	4,963	4,552	4,201	3,868	Number of days to pay	31.5	26.2	24.2	24.2
Total TS	9,150	9,876	11,117	11,778	CCC	30.5	33.3	58.3	75.3
Liabilities must pay	383	364	373	405	Profit rate				
Short-term loans	1,723	2,032	2,468	2,077	Gross profit	31.6%	30.8%	30.9%	31.6%
Other short-term debt	342	243	274	301	Profit after tax	16.2%	17.1%	16.6%	17.1%
Total current liabilities	2,517	2,710	3,199	2,883	ROE	15.9%	17.7%	17.1%	17.2%
Long-term loans	-	-	-	-	ROA	11.5%	12.8%	12.2%	13.0%
Other long-term debt	20	20	20	20	Valuation				
Total Long-term Debt	20	20	20	20	PE	16.14	13.55	12.57	11.13
Total liabilities	2,538	2,730	3,219	2,904	PB	2.47	2.30	2.07	1.84
Capital	3,569	3,569	3,569	3,569	Growth				
Surplus equity	353	353	353	353	GDP growth	-15.5%	13.0%	11.1%	9.9%
Undistributed profit	2,910	3,368	4,172	5,148	EBIT Growth	17.9%	17.9%	17.8%	18.5%
Other equity	-	-	-	-	EBT growth	-17.9%	13.6%	11.8%	12.9%
The contents of a presentation	-	-	-	-	EPS growth	-18.5%	19.0%	7.9%	12.9%
Total Equity	6,605	7,095	7,898	8,875					
Total capital	9,143	9,825	11,117	11,778					
Number of shares outstanding	357	357	357	357					

Source: Bloomberg, BSC

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).



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