

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 | |

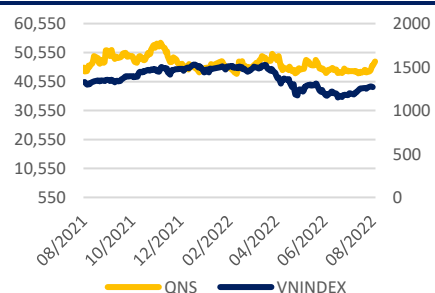
Equity Research Division :

Pham Thi Minh Chau
Chauptm@bsc.com.vn
Consumer and retail industry

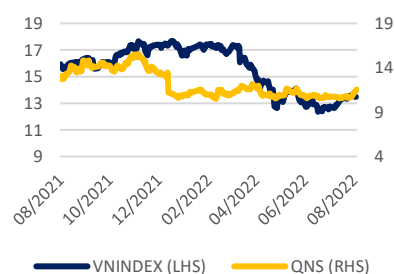
Technical Analyst:

Vu Viet Anh
Anhvv@bsc.com.vn
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.

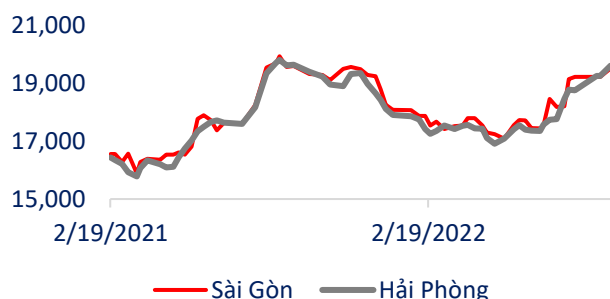
Decision 1514/QD-BCT dated August 1, 2022 applying measures to combat trade remedy evasion for a number of cane sugar products imported from five Asian countries including Cambodia, Indonesia, Laos, Malaysia and Myanmar. with a total tax rate of 47.64%, of which anti-dumping tax is 42.99% and anti-subsidy 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.

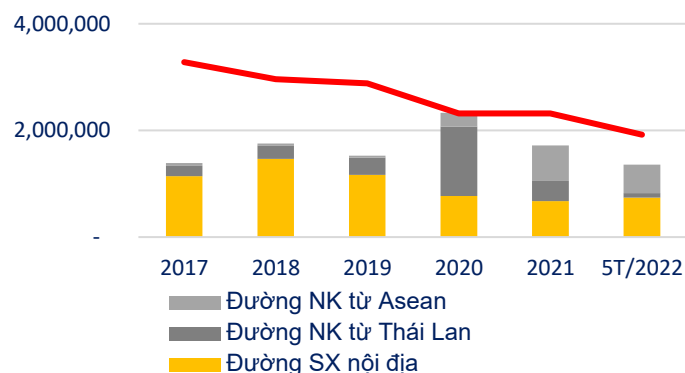
However, we also note that the domestic sugar industry may face risks, when implementing Decision 1514/QD-BTC will reduce the impact of ATIGA which may lead to increased supply from smuggled sugar, difficult to control

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 |
|-----|------|------|------|------|

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.

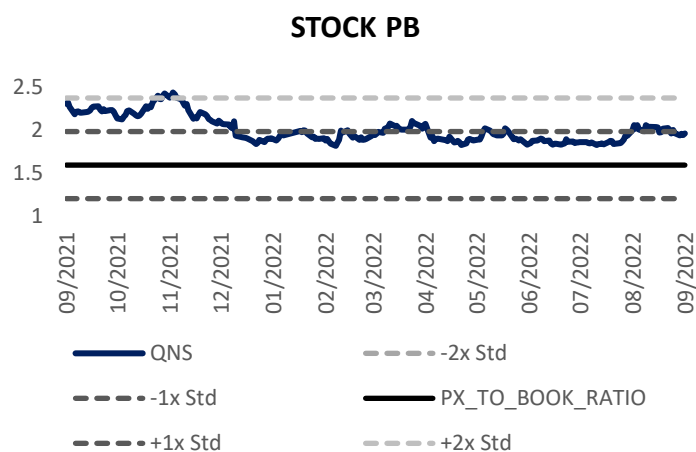
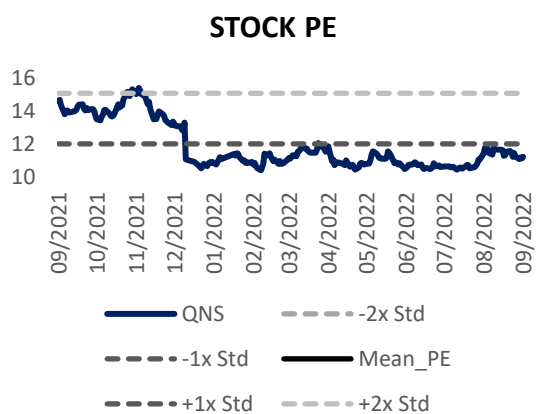
| DCF method | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---------------|-------|-------|-------|-------|
| Firm free cash flow (FCFF) | 1,184 | 1,395 | 1,553 | 1,673 | 1,803 |
| Total value of 5 year free cash flow discount | 1,140 | 1,219 | 1,233 | 1,206 | 1,181 |
| Last value | 17,865 | | | | |
| Final 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/debts | 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



Source: Bloomberg

APPENDIX

| IS (Billions dong) | 2020 | 2021 | 2022 | 2023 | CF (Billions dong) | 2020 | 2021 | 2022 | 2023 |
|-----------------------|---------|---------|---------|---------|--|-------|---------|-------|-------|
| Net Revenue | 6,490 | 7,335 | 8,147 | 8,950 | (Loss)/EAT | 1,266 | 1,439 | 1,610 | 1,818 |
| Cost of goods sold | (4,438) | (5,073) | (5,628) | (6,120) | Depreciation and amortization | 471 | 474 | 460 | 452 |
| Gross profit | 2,051 | 2,262 | 2,518 | 2,830 | Change in working capital | (278) | (91) | (591) | (538) |
| Selling expenses | (654) | (694) | (811) | (891) | Other adjustments | (315) | (332) | (343) | (377) |
| Management costs | (234) | (253) | (256) | (281) | LCTT from business activities | 1,108 | 1,477 | 1,052 | 1,257 |
| Operating profit/loss | 1,163 | 1,316 | 1,451 | 1,658 | Money spent to buy fixed assets | (199) | (114) | (109) | (120) |
| Financial revenue | 142 | 143 | 198 | 200 | Other investment | 143 | (1,161) | - | - |
| Financial expenses | (72) | (66) | (86) | (87) | LCTT from Investment Council | (56) | (1,274) | (109) | (120) |
| Interest expenses | (71) | (66) | (86) | (87) | Dividend payment | (904) | (754) | (535) | (535) |
| Profit from CTLD/LK | - | - | - | - | Cash from net borrowing | 58 | 309 | 436 | (391) |
| Other profit/loss | 33 | 47 | 47 | 47 | Other revenue | (845) | (445) | (971) | (145) |
| Profit before tax | 1,266 | 1,439 | 1,610 | 1,818 | LCTT from Finance Council | (845) | (445) | (535) | (535) |
| Corporate income tax | (213) | (186) | (257) | (291) | Cash flow at the beginning of the period | 215 | 422 | 179 | 586 |
| Profit after tax | 1,053 | 1,254 | 1,352 | 1,527 | Money in the period | 207 | (242) | 407 | 601 |
| CTS | - | - | - | - | Cash flow at the end of the period | 422 | 180 | 586 | 1,187 |
| 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 | Ratio (%) | 2020 | 2021 | 2022 | 2023 |
|---------------------------|---------|---------|---------|---------|-----------------------|------|------|------|------|
| Cash and cash equivalents | 422 | 179 | 586 | 1,187 | Solvency | | | | |
| Short term investment | 2,639 | 3,923 | 4,478 | 4,272 | Short-term TT numbers | 1.66 | 1.96 | 2.16 | 2.74 |
| Short-term receivables | 264 | 386 | 424 | 637 | Fast TT number | 1.32 | 1.66 | 1.55 | 2.01 |
| Inventory | 844 | 816 | 1,407 | 1,790 | Capital structure | | | | |
| Other short-term TS | 19 | 19 | 21 | 23 | Amount of Debt/TTS | 0.19 | 0.21 | 0.22 | 0.18 |
| Short term TS | 4,188 | 5,323 | 6,916 | 7,910 | Debt/Equity | 0.26 | 0.29 | 0.31 | 0.23 |
| Remaining tangible TS | 3,807 | 4,285 | 3,716 | 3,144 | | | | | |
| Accumulated depreciation | (4,441) | (4,669) | (4,669) | (4,669) | | | | | |

| | | | | | | | | | |
|--------------------------------|-------|-------|--------|--------|---------------------------|--------|-------|-------|-------|
| 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).



BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84439352722
Fax: +84422200669

Ho Chi Minh Office

146 Nguyen Cong Tru St, 9th Floor District
1, HCMC
Tel: +84838218885
Fax: +84838218510

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