

# Food & Beverage (Neutral/Update)

## War to drag down post-Covid recovery in 2022

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### 2021 overview

- The retail sector in Vietnam posted gloomy results in 2021, due to the impact of Covid-19, with the total operating profit of observed listed F&B companies falling by 2.3% YoY. Results were mixed among groups: Seafood exporters and cereal exporters saw outstanding profit growth, thanks to economic recoveries in overseas markets. In contrast, beverage makers and meat producers saw profits decline, due to domestic social distancing measures.

### 2022 outlook

- The Vietnamese government has eliminated all social distancing measures since the beginning of 2022, thanks to the Covid-19 vaccination rate reaching 76%. In addition, international tourists have been allowed to return to Vietnam since March 15, 2022. Based on these conditions, we expect domestic food and beverage consumption to recover to pre-Covid levels in 2022.
- However, the recovery of the food and beverage market will be hindered by high inflation resulting from the Russia-Ukraine war.
- We believe that the business results of listed F&B companies will continue to be differentiated in 2022. Seafood exporters and food exporters are still the two groups with the best profit growth prospects. The next most promising group is beverages (including alcoholic and non-alcoholic).

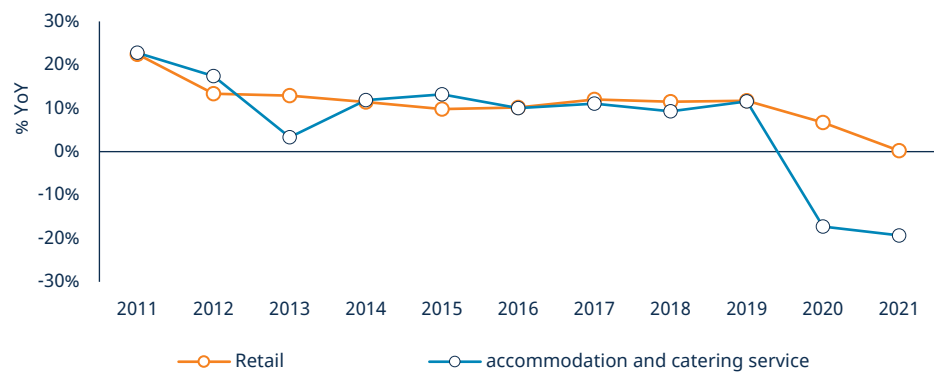
### Companies with high prospects

- Seafood exporters: VHC, IDI, ANV, ACL
- Cereal exporters: TAR, LTG
- Beverage: SAB
- Other: MCH, DBC

### Vietnam F&B producers experienced a gloomy 2021 under pressure of COVID-19

Vietnam's total retail sales value went sideways in 2021, with growth of 0.2% YoY (the lowest level of the past decade), due to the impact of the third and fourth waves of Covid-19. In addition, 2021 accommodation and catering service value fell 19.3% YoY, due to travel restrictions applied to prevent viral spread. 2021 was the worst year for the F&B business since Vietnam first opened up its economy.

**Figure 1. 2021 was a gloomy year for total retail sales in Vietnam**



Source: Vietnam General Statistical Office

Listed F&B producers posted mixed core profit results in 2021. Total revenue of 78 listed F&B producers was VND279,000bn (+5.6% YoY). However, the total gross profit of those companies increased only 1.1% YoY, due to lower gross margin, as prices of soft commodities soared. Moreover, the selling and administrative expenses of all companies increased, as the Covid-19 pandemic required additional spending on disinfecting measures, as well as promotions. Therefore, operating profit of observed listed F&B producers decreased 2.3% YoY in 2021, to VND33,935bn.

Meat-related companies and beverage producers were two groups that saw the biggest declines in core profit in 2021, at -27% and -29% YoY, respectively. Beverage makers (both alcoholic and non-alcoholic) suffered directly from the closure of on-premises channels in social distancing periods. Meanwhile, meat-related companies were impacted by historically high pork prices in 2020, which led to over-supply in 2021. There were some bright spots amid 2021's gray landscape: seafood exporters and cereal exporters enjoyed soaring operating profit, at 25.4% and 35% YoY, respectively, thanks to global post-Covid demand recovery.

**Figure 2. Listed F&B producers posted mixed results in 2021**

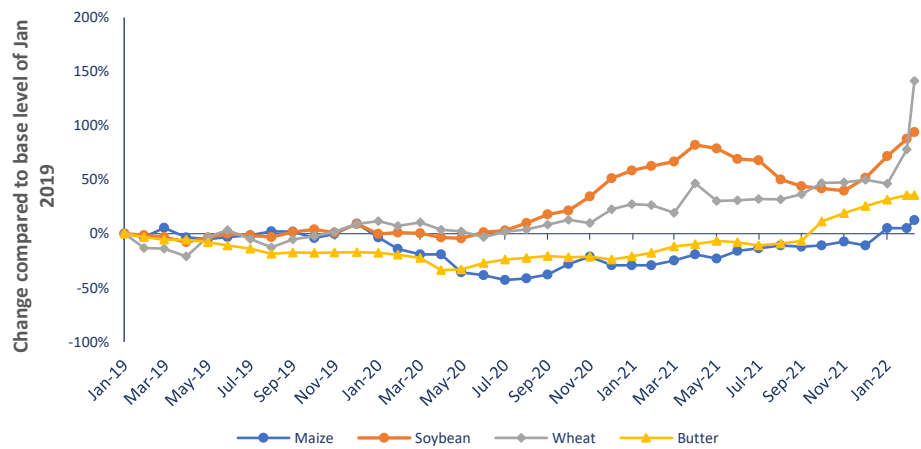
Product group	Net revenue			Operating profit		
	2021	2020	% YoY	2021	2020	% YoY
Dairy products	66,018	63,669	3.7%	12,784	12,795	-0.1%
Seafood producers & exporters	55,649	52,710	5.6%	3,156	2,332	35.3%
Meat value chain related	47,359	46,956	0.9%	2,597	3,555	-26.9%
Beverages (Alcoholic)	33,703	35,808	-5.9%	3,768	5,308	-29.0%
Sugar	26,990	23,087	16.9%	2,681	2,561	4.7%
Cereal producers and exporters	20,176	16,678	21.0%	1,020	814	25.4%
Packaged foods	15,531	13,904	11.7%	704	580	21.3%
Beverages (Non-alcoholic)	9,369	9,837	-4.8%	957	1,395	-31.4%
Other	2,047	1,985	3.2%	80	164	-51.5%
<b>Total</b>	<b>313,774</b>	<b>297,216</b>	<b>5.6%</b>	<b>33,934</b>	<b>34,747</b>	<b>-2.3%</b>

Source: FiinPro

**1Q22: Attempts at recovery amid Russia-Ukraine war**

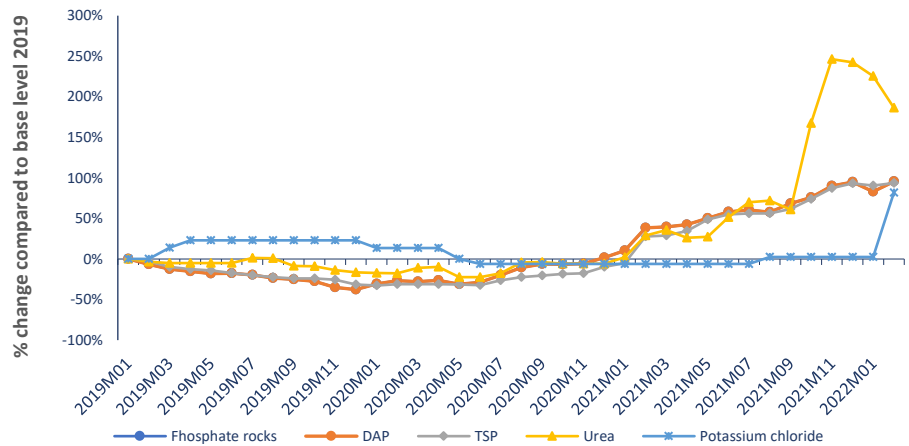
By March 24, 2022, Vietnam had achieved a two-dose vaccination rate of 79% and a three-dose rate of 46%, with the level for reaching herd immunity at 70%. Hence, Vietnam's economy has been fully opened, with domestic and international tourism restored to their pre-pandemic states, with minimal restrictions. However, the recovery of food and beverage consumption in Vietnam is likely to be slower than expected, due to the Russia-Ukraine war, following Russia's invasion of Ukraine in mid-February 2022. Russia and Ukraine together supplied 26% of global wheat exports. In addition, Russia is among the world's biggest producers of oil, gas, edible oil, fertilizer, fish, and steel. Thus, Vietnam, as well as the rest of the world, has been impacted by the war and the embargoes imposed on Russia by the US, UK, and EU. Prices of wheat, soybeans, butter, corn, and other basic food commodities have all skyrocketed to their highest levels in decades. In addition, record-high fertilizer prices have also pushed food prices in the short term to new highs.

**Figure 3. Soft commodity prices are currently much higher than the 2021 average**



Source: Bloomberg

**Figure 4. Fertilizer prices jumped to decade-highs in the wake of Russia's invasion of Ukraine**



Source: World Bank

### F&B producers are expected to post mixed results in terms of 2022 profits

There are three main factors that shape the business landscape of F&B companies in 2022, including: 1) increased demand as the economy is fully re-opened; 2) inflation; and 3) imbalance of global trade amid the impact of the Russia-Ukraine war. These factors will have different impacts on business groups, leading to a divergence in the 2022 profit picture of the F&B sector.

Figure 5. 2022 F&B operating profit trend - outlook

Product group	Revenue		Expenses		OP trend
	Impact	Strength	Impact	Strength	
Dairy product	Domestic demand recovery	+	Steep increase in global milk material price	--	-
Seafood exports	Strong increase in global demand outside Russia, thanks to both post-Covid recovery and supply shortages due to embargoes applied on Russia	++++	Increased fish and shrimp prices, due to inflation and higher export prices	-	+++
Meat value chain	Average pork and poultry prices are expected to continue to decline from high base in 2021. Volume is likely to increase as companies expand capacity.	0	Increased animal feed price due to higher soft commodity prices	--	--
Beverages (alcoholic and non-alcoholic)	Domestic demand is expected to rebound close to pre-COVID levels, as on-premises channel is fully opened and foreign tourists return.	++	Increased malt, aluminum, and plastic prices	-	+
Sugar	Selling price is expected to increase following crude oil trend. However, domestic production is likely to decline as sugar cane growing area shrinks.	++	Higher sugar cane prices and competition from illegally imported sugar from Thailand	-	+
Cereal exports	Increased export demand outside Russia, due to Russia-Ukraine war	+++	Fertilizer prices hit historical high	-	++
Packaged food	Increased domestic consumption as travel restrictions are eliminated	+	Prices of wheat, edible oil, chocolate, and plastic bags have all reached new highs, due to Russia-Ukraine war	--	-

Source: MAS Research

We believe seafood exporters and cereal exporters are two groups of companies that have the best chance to increase profits in 2022. Russia and Ukraine together account for 26% of global exports of wheat and 7% of global fish exports each year. The impact of the war between the two countries and embargoes on Russia is likely to increase import demand for these products in the rest of the world. Vietnam's seafood exporters and cereal importers will no doubt benefit from these circumstances, as Vietnam is the world's largest exporter of pangasius (a white meat fish that directly compete with pollock from Russia), as well as a major rice exporter (rice is considered an alternative cereal to wheat). Listed companies that belong to this category are:

- Vinh Hoan Corp (VHC VN)
- International Development & Investment Corporation (IDI VN)
- Nam Viet Corporation (ANV VN)
- Trung An Hi-Tech Farming JSC (TAR VN)
- Loc Troi Group JSC (LTG VN)

Beverage is the second group that we expect good profit improve in 2022. Beverage consumption, especially alcoholic drinks, will recover drastically in 2022 from the low base of 2021. There is a high chance that beer consumption will recover close to pre-COVID levels, as all restrictions to contain the pandemic have been lifted and foreign tourists are allowed to return to Vietnam with minimum requirements from March 15, 2022. However, the profit growth of beverage producers will not be as strong as their revenue growth, due to increasing prices of materials, such as malt, sugar, aluminum, and plastic. Beverage producers in this group include:

- Saigon Beer – Alcohol – Beverage Corporation (SAB VN)

We also find some other significant companies that do not belong to the above group, but

still have good opportunities to increase profit growth, thanks to special competitive advantages, such as:

- **Masan Consumer Holdings (MCH VN):** MCH produces premium fish sauce, instant noodles, processed meat, beverages (both alcoholic and non-alcoholic), and home-care products. In recent years, the remarkable growth rate of MCH's revenue (2017–2021 CAGR: 20.4%) and net profit (2017–2021 CAGR: 26.4%) had mostly come from expanding the company's premium portfolio by leveling up the quality of each product, or launching new products that meet the demands of modern emerging middle-income Vietnamese. Thus, MCH in 2021 has the second-largest gross profit (VND11,790bn) and the fifth-highest gross margin among listed F&B companies (42.5%, vs. listed F&B average of 23.2% in 2021). We believe MCH will be able to continue its strong growth in 2022, thanks to new and innovative product launches and a recovery in the consumption of beverages and home-care products. In addition, MCH is expected to maintain its high gross margin, as the lower margins of the instant-noodle segment will be offset by the increased gross margins of beverages and home-care products.
- **Dabaco Group (DBC VN):** DBC is the ninth-largest listed F&B producer in Vietnam in terms of 2021 revenue, at VND10,812bn. DBC has four traditional revenue sources, including animal feed, animal breeding, real-estate development, and trading. In 2022, DBC targets revenue growth of 25%, thanks to its plan of expanding its animal breeding business and launching a new animal vaccine business. DBC successfully developed a vaccine for Africa Swine Flu in pigs in late-2021 and plans to release the vaccine in 2022. Africa Swine Flu wiped out 15% of the pig herds in China and Vietnam in 2019, and is currently incurable. DBC's vaccine has strong potential, given that Vietnam will need roughly 40mn doses of such a vaccine each year. We thus view DBC as a company that we should keep an eye on in 2022 and beyond.

Figure 7. F&B companies' 2021 results and 2022 guidelines (to be updated)

Stock code	2021 actual						2022 guideline			
	Revenue	% YoY	Operating profit	%YoY	NPAT	% YoY	Revenue	% YoY	NPAT	% YoY
<b>VHC</b>	9,054	28.7%	1,196	72.0%	1,110	54.3%	N/A	N/A	N/A	N/A
<b>IDI</b>	5,719	-10.2%	300	8.7%	143	33.8%	N/A	N/A	N/A	N/A
<b>ANV</b>	3,494	1.6%	216	-11.1%	128	-36.8%	N/A	N/A	N/A	N/A
<b>TAR</b>	3,120	15.0%	167	5.4%	101	20.9%	N/A	N/A	N/A	N/A
<b>LTG</b>	10,224	36.2%	747	19.1%	422	14.4%	N/a	N/A	N/A	N/A
<b>SAB</b>	26,374	-5.7%	3,510	-28.9%	3,929	-20.4%	N/A	N/A	N/A	N/A
<b>MCH</b>	27,774	19.0%	5,938	19.9%	5,526	20.2%	34,000 ~40,000	18%~39%	N/A	N/A
<b>DBC</b>	10,813	7.9	1,103	-40.0%	830	-40.8%	N/a	+25%	918	+10.6%

Source: FiinPro, company reports

# Appendix 1

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Buy	Expected 12-month performance: +20% or greater
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Overweight	Expected to outperform the market over 12 months
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