November 3rd, 2023

Shinhan Securities



Sao Ta Foods JSC

[Vietnam / Fisheries]

Bloomberg Code (FMC VN) | Reuters Code (FMC.HM)

BUY

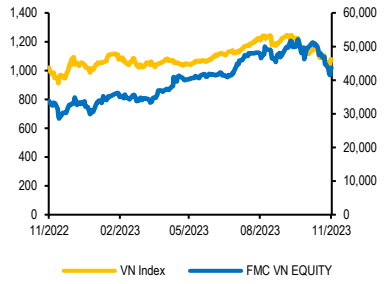
Update Report

Target price (12 months)	**65,800VND**
Current price (03/11/2023)	43,700 VND
Return (%)	50.6%

VNINDEX	1,077
Market P/E (x)	11.0
Market Cap (bn VND)	2,857
Outstanding shares (1mn)	65
Free float (1mn)	23
52-week high/low (VND)	53,500/28,600
90-day avg. trading volume (1mn)	0.07
90-day avg.turnover (bn VND)	3
Foreign ownership (%)	27.67

Major shareholders (%)	The PAN Group	37.75
	C.P. Vietnam Livestock Co., Ltd	24.90

Performance	3M	6M	12M
Abs (%)	-8.0	4.0	23.1
Rel to VN-Index (%)	3.1	1.4	17.5



Source: Bloomberg

Diem Ngo

(84-28) 6299-7759
diem.ndn@shinhan.com

Ly Bui – Head of Research

(84-28) 6299-8029
ly.btt@shinhan.com





Please click or scan

Light of recovery

Update recommendation BUY, target price at VND 65,800

Sao Ta Foods Joint Stock Company (HoSE: FMC) is one of the leading shrimp exporters in Vietnam while always maintaining its position in the top 5 largest shrimp exporters in Vietnam. FMC is now self-sufficient in 30% of raw materials in a farming area of 505ha. Based on the FCFF and EV/EBITDA methods, we update the target price of FMC at VND 65,800.

Update Sao Ta's business result in Q3/2023

In Q3/2023, Sao Ta recorded net revenue of VND 1,793 billion (+2% YoY) and profit before tax of VND 88 billion (+5% YoY). This is the quarter with the best business results of FMC from the beginning of the year until now when the export situation has shown signs of improvement since July. In conclusion, 9-month revenue reached VND 3,835 billion (-15% YoY) and profit before tax of VND 216 billion (-13% YoY). Due to the inflation situation, people have shifted to cheap products while shrimp of Vietnam has a higher selling price, so the number of orders decreases. Along with that, unfavorable weather conditions cause revenue and profits to decrease. The situation of the company's business segments in Q3/2023 is specifically as follows:

Shrimp product: Accumulated in 9M/2023, the company produced 16,060 tons of shrimp (-0.1% YoY), sold 12,469 tons (-14% YoY). Last year, the company quickly changed its structure to the Japanese market, thereby helping to reduce shipping costs due to the close geographical distance, helping to reduce costs. Currently, the Japanese market accounts for more than 40% of revenue, followed by the US market with 27%.

Agricultural product: Sao Ta produced 1,194 tons of finished products in 9 months (-34% YoY) and consumed 1,105 tons (-24% YoY). This business segment regularly contributes about 3-4% to total revenue and 10% to gross profit margin each year.

The company has issued a resolution to change the 2023 plan with revenue from VND 5,900 billion down to VND 4,870 billion (-21%) and profit before tax from VND 400 billion down to VND 300 billion (-33%). With this new plan, summarizing 9 months, Sao Ta achieved 79% of revenue target and 72% of profit before tax target. We keep FMC's 2023 revenue forecast at VND 5,037 billion (-12% YoY) and EBT at VND 328 billion (-13% YoY). In July, the company said there had been positive progress in consumption with an increase of 19% over the same period last year, along with that the company is also harvesting and continuing to raise shrimp for high-end orders in Q4/2023.

Risk (1) Risk of unfavorable weather and macroeconomic conditions, (2) Risk of weak demand

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**5,702**	**5,037**	**5,409**	**5,797**	**6,226**
OP (bn VND)	307	294	342	375	421
NP (bn VND)	**321**	**298**	**349**	**382**	**427**
EPS (VND)	4,605	4,387	5,133	5,626	6,286
BPS (VND)	32,361	34,686	37,787	41,400	45,698
OPM	5.4	5.8	6.3	6.5	6.8
NPM	5.6	5.9	6.4	6.6	6.9
ROE	15.7	13.6	14.7	14.8	15.0
PER (x)	7.0	14.3	12.2	11.2	10.0
PBR (x)	1.0	1.8	1.7	1.5	1.4
EV/EBITDA (x)	9.2	10.0	9.0	8.5	8.7

Source: Company data, Shinhan Securities Vietnam

Shinhan Securities Vietnam Co., Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Analysts employed by Shinhan Securities Vietnam Co., Ltd. , or a non-US affiliate thereof, are not registered/qualified as research analysts with FINRA, may not be associated persons of the member and may not be subject to FINRA restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. For analyst certification and important disclosures, refer to the Compliance & Disclosure Notice at the end of this report.

Valuation and Recommendation

We use Discounted Cash Flow (DCF) and EV/EBITDA valuation methods to value FMC with 50%-50% weighted. We maintain our BUY recommendation with a target price of VND 65,800, upside 50.6%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**10.70**
Risk-free rate (%)	3.0
Equity risk premium (%)	9.57
Beta	0.94
Cost of debt (%)	4.6
Cost of equity (%)	12.0
Debt-to-equity ratio	0.17
Total debt (bn VND)	434

Source: Company data, Shinhan Securities Vietnam

DCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	536	471	361	475	423
Plus: After-tax interest expense	19	21	23	25	27
Plus: Depreciation & Amortization	144	143	135	82	79
Minus: Change in working capital	94	(20)	(157)	(35)	(129)
Minus: CapEx	(48)	-	-	-	-
Free Cash Flow to Firm (FCFF)	507	492	384	500	451
PV of FCF	507	444	313	368	299
Growth rate (%)	1%				
Present value of long-term value	3,071				
Enterprise value	4,494				
Minus: Debt	(434)				
Plus: Cash and cash equivalents	585				
Minus: Minority interest	(11)				
Owner's equity value	4,634				
Number of shares oustanding (million)	65.389				
Target price (VND)	**70,869**				

Source: Company Data, Shinhan Securities Vietnam

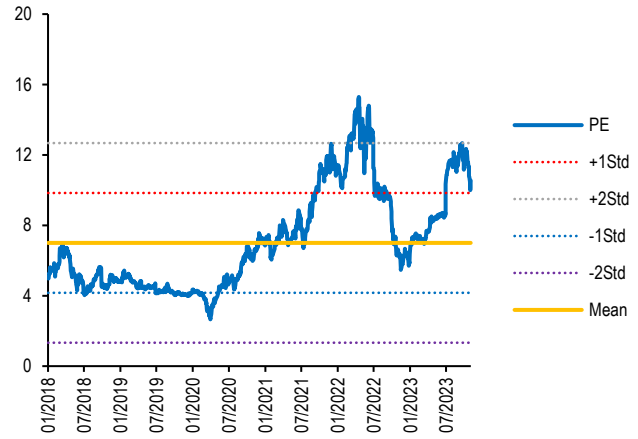
Based on the EV/EBITDA method, we collected data from companies in the same industry similar to FMC, plus FMC's 5 year average EV/EBITDA with a weight of 50%. We estimate FMC's target EV/EBITDA at 7.69x. With the 2024 forward EBITDA at VND 499 billion, FMC's target price is VND 60,760.

Peer valuation

Tickers	Company name	EV/EBITDA	Mkt Cap (bn VND)
MPC VN Equity	Minh Phu Seafood Corporation	6.74	7,319
ANV VN Equity	Nam Viet Corporation	10.94	4,846
ASM VN Equity	Sao Mai Group	7.80	3,094
VHC VN Equity	Vinh Hoan Corporation	7.69	10,599
IDI VN Equity	International Development & Investment	10.88	3,210
Mean	8.26		
5 yrs average of FMC	7.11		
Target EV/EBITDA	7.69		
EBITDA forward	499		
Enterprise value	3,833		
Minus: Debt	(434)		
Plus: Cash and cash equivalents	585		
Minus: Minority interest	(11)		
Owner's equity value	3,973		
Number of shares oustanding (million)	65.389		
Target price (VND)	**60,760**		

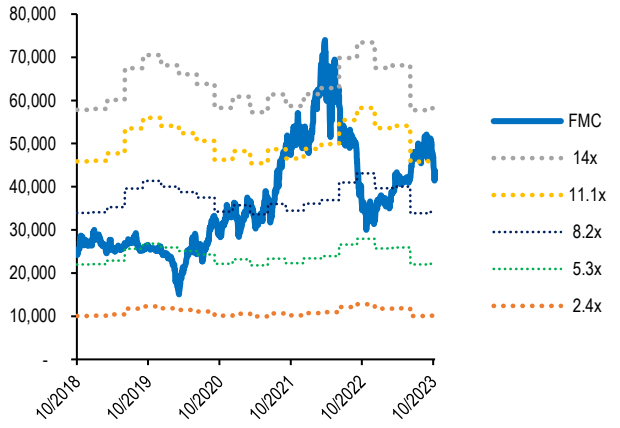
Source: Company Data, Shinhan Securities Vietnam

PER of FMC



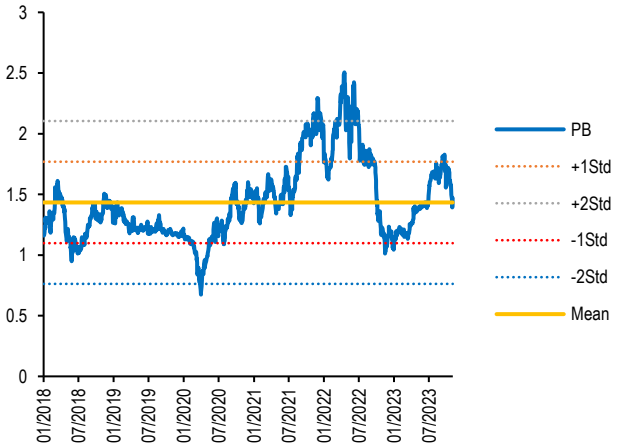
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PER band chart of FMC



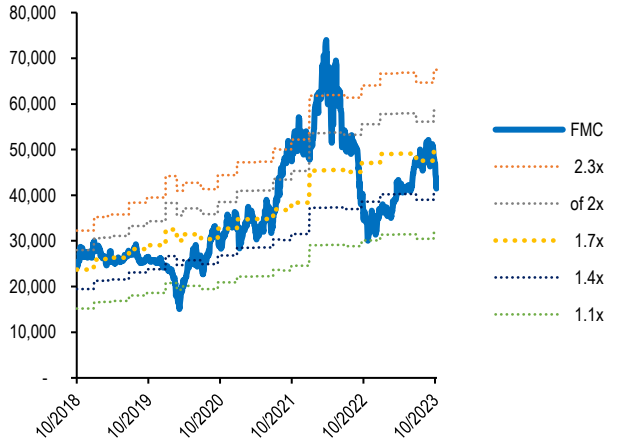
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR of FMC



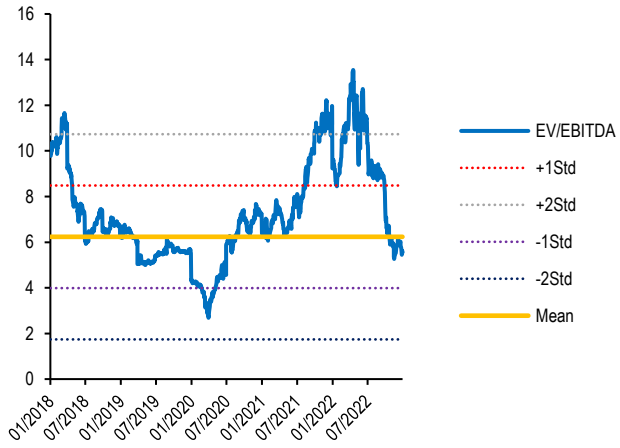
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR band chart of FMC



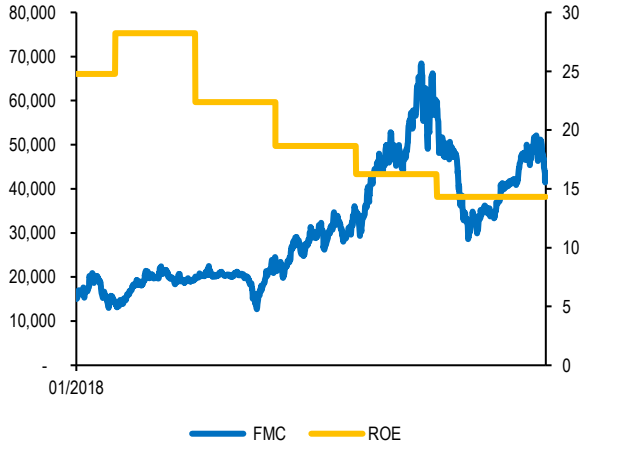
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

EV/EBITDA of FMC



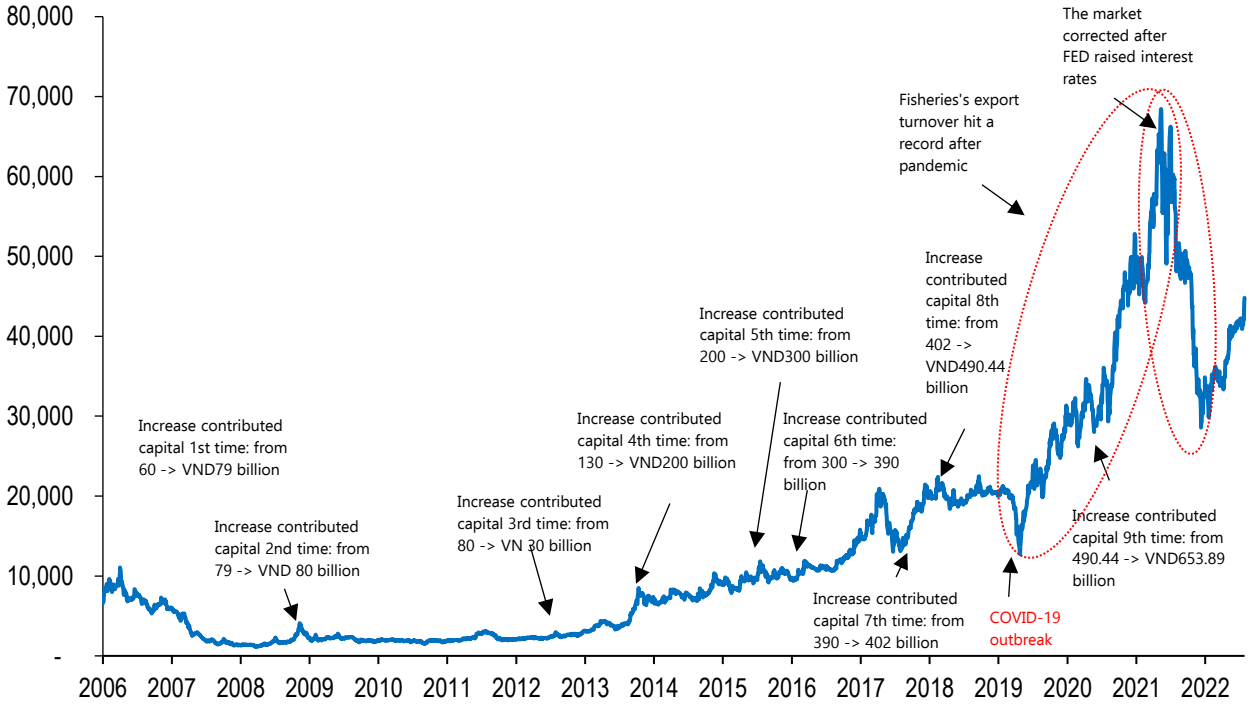
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Correlation between FMC's price and ROE



Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Key important events of FMC



Source: Bloomberg, Company data, Shinhan Securities Vietnam

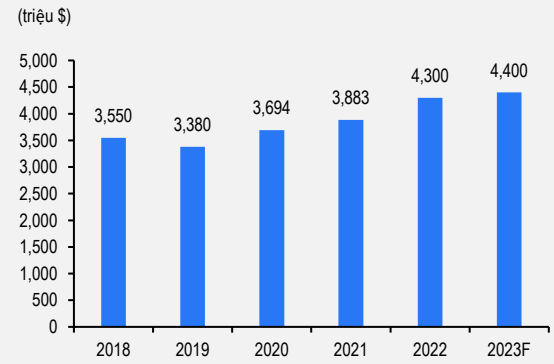
Company background

Overview of the shrimp industry

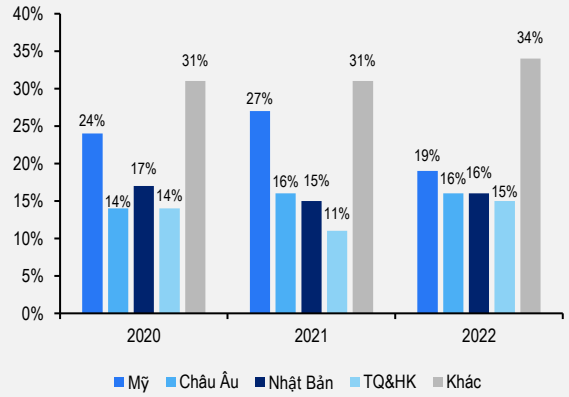
Shrimp is Vietnam's main export product, accounting for 39% of Vietnam's total fisheries export revenue in 2022. The main exported shrimps are vannamei and black tiger shrimp. In 2022, the whole country exported 745 thousand tons with a total value of USD 4.3 billion. Vietnam ranks third in shrimp exports worldwide, because our country has a higher production cost of 4.8-5.0 USD/ton, 100% higher than Ecuador and 30% higher than India, but we have higher processing skills than the top two countries.

2023 is forecasted to be a difficult year for the shrimp industry when the weather is unfavorable while facing competition from the two largest exporting countries, India and Ecuador, due to price competition. However, the whole industry is still optimistic when setting an export turnover target of USD 4.4 billion (+2% YoY). Indian shrimp production in 2023 is forecasted to decrease by 13% compared to 2022 due to unstable demand from consumer markets and inundated weather affecting shrimp survival rates. Due to low demand, Indonesia is also expected to reduce shrimp production by 4% in 2023. Currently, Indonesia is heavily dependent on the US market and is targeting the Chinese market. For Vietnam market, raising the feeding rate is one of the urgent issues for the development of the whole industry. The survival rate in our country is much lower than that of the two leading countries when it is only 35%, while this rate in Ecuador is 90% and India is 60-70%.

Vietnam's shrimp export turnover



Vietnam's shrimp export turnover



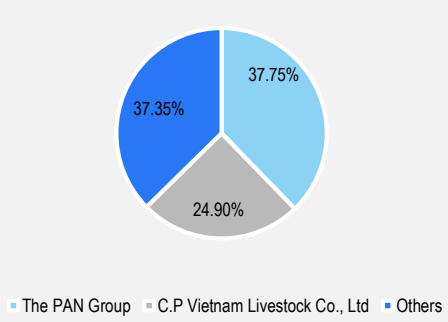
Source: VASEP, Shinhan Securities Vietnam

History of development

Sao Ta Foods Joint Stock Company was established in 1996 with the main business of processing frozen shrimp for export. Since its establishment until now, FMC has always maintained its position in top 5 shrimp exporters of Vietnam. The company's main export markets are the US, Japan, and Western Europe...

In 2006, Sao Ta was officially listed on the Ho Chi Minh City Stock Exchange under the ticker "FMC".

Shareholder's structure



Revenue structure by products



Source: Company data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	**2,700**	**2,989**	**2,994**	**3,295**	**3,550**
Current assets	2,150	1,877	2,069	2,468	2,863
Cash & equivalents	770	585	828	1,173	1,423
Short-term financial asset	25	11	30	38	46
Accounts receivable	377	280	301	322	349
Inventories	941	929	866	884	984
Non-current assets	550	1,112	925	827	688
Net fixed assets	263	419	699	557	421
Investment assets	105	7	188	446	68
Other long-term assets	50	175	99	248	157
Total liabilities	**723**	**873**	**726**	**824**	**843**
Current liabilities	713	863	716	814	832
Accounts payable	98	83	52	104	64
Short-term borrowings	415	515	434	462	507
Others	200	264	229	247	261
Non-current liabilities	10	10	10	10	11
Long-term borrowings	0	0	0	0	0
Other financial liabilities	10	10	10	10	11
Total shareholders' equity	**1,977**	**2,116**	**2,268**	**2,471**	**2,707**
Capital stock	654	654	654	654	654
Capital surplus	594	594	594	594	594
Other capital	0	0	0	0	0
Retained earnings	534	676	817	1,007	1,229
Non-controlling interest equity	195	192	203	216	231
*Total debt	415	515	434	462	507
*Net debt (cash)	(380)	(81)	(423)	(748)	(963)

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**5,199**	**5,702**	**5,037**	**5,409**	**5,797**
Growth (%)	17.8	9.7	(11.7)	7.4	7.2
COGS	**(4,670)**	**(5,076)**	**(4,503)**	**(4,808)**	**(5,141)**
Gross profit	**529**	**626**	**534**	**601**	**656**
GPM (%)	10.2	11.0	10.6	11.1	11.3
SG&A	**(264)**	**(319)**	**(241)**	**(258)**	**(280)**
Operating profit	**265**	**307**	**294**	**342**	**375**
Growth (%)	17.5	15.8	(4.3)	16.6	9.7
OPM (%)	5.1	5.4	5.8	6.3	6.5
Non-operating profit	**24**	**22**	**11**	**14**	**15**
Financial income	54	71	45	53	60
Financial expense	(33)	(54)	(36)	(42)	(49)
In which: interest expenses	(14)	(17)	(20)	(21)	(24)
Net other non-operating profit	3	5	2	3	3
Pre-tax profit	**289**	**328**	**304**	**356**	**390**
Income tax	(2)	(7)	(6)	(7)	(8)
Net profit	**287**	**321**	**298**	**349**	**382**
Growth (%)	27.1	11.8	(7.2)	17.0	9.6
NPM (%)	5.5	5.6	5.9	6.4	6.6
Controlling interest	267	309	287	336	368
Non-controlling interest	20	12	11	13	14
EBIT	**303**	**346**	**324**	**377**	**414**
Growth (%)	21.1	13.9	(6.3)	16.5	9.7
EBIT Margin (%)	5.8	6.1	6.4	7.0	7.1
EBITDA	**387**	**467**	**468**	**520**	**549**
Growth (%)	18.1	20.7	0.3	11.1	5.7
EBITDA margin (%)	7.4	8.2	9.3	9.6	9.5

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**155**	**417**	**536**	**471**	**361**
Net profit	287	321	298	349	382
Depreciation expense	83	121	144	143	135
(Gain) from investing activities		-	-	-	-
Change in working capital	(215)	(25)	94	(20)	(157)
Others	-	-	-	-	-
Cash flow from investments	**(211)**	**(557)**	**(67)**	**(8)**	**(9)**
Change in fixed assets	(15)	(313)	(425)	-	-
Change in investment assets	(15)	14	(19)	(8)	(9)
Others	(181)	(257)	377	-	-
Cash flow from financing	**557**	**(41)**	**(227)**	**(118)**	**(102)**
Change in equity	682	(0)	-	-	-
Net borrowing	(28)	101	(81)	28	44
Dividends	(98)	(142)	(146)	(146)	(146)
Change in total cash	**501**	**(181)**	**242**	**345**	**250**
Beginning cash	268	770	585	828	1,173
Change in FX rates	0	(3)	-	-	-
Ending cash	770	585	828	1,173	1,423

Source: Company data, Shinhan Securities Vietnam

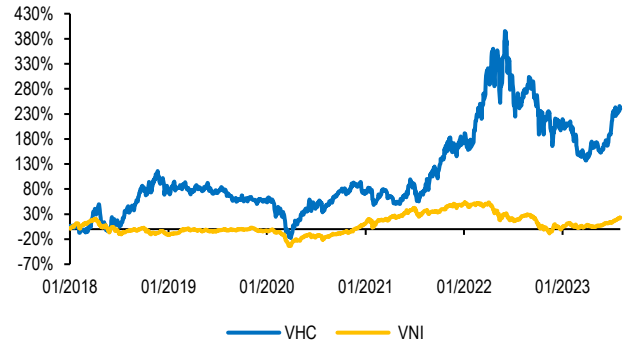
Key ratios

Năm	2021	2022	2023F	2024F	2025F
EPS (VND)	4,677	4,605	4,387	5,133	5,626
BPS (VND)	30,231	32,361	34,686	37,787	41,400
DPS (VND)	1,500	2,170	2,232	2,232	2,232
PER (x)	10.8	7.0	15.3	13.1	11.9
PBR (x)	1.7	1.0	1.9	1.8	1.6
EV/EBITDA (x)	7.2	9.2	9.6	8.6	8.2
Dividend payout ratio (%)	34.2	44.2	49.0	41.9	38.2
Dividend yield (%)	3.0	6.7	3.3	3.3	3.3
Profitability					
EBITDA margin (%)	7.4	8.2	9.3	9.6	9.5
OPM (%)	5.1	5.4	5.8	6.3	6.5
NPM (%)	5.5	5.6	5.9	6.4	6.6
ROA (%)	13.0	11.3	10.0	11.1	11.2
ROE (%)	18.8	15.7	13.6	14.7	14.8
Stability					
Debt to equity ratio (%)	21.0	24.4	19.2	18.7	18.7
Net debt ratio (%)	(98.2)	(17.3)	(90.4)	(143.9)	(175.3)
Cash ratio (%)	111.4	69.1	119.9	148.8	176.6
Interest coverage ratio (x)	21.0	20.0	16.6	17.8	17.5
Activity (%)					
Working capital turnover (days)	53	85	102	111	126
Inventory turnover (days)	61	67	73	66	66
Receivable turnover (days)	24	21	21	21	21

Source: Company data, Shinhan Securities Vietnam

Sao Ta Foods JSC (FMC VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%)	
			Average	Max/Min
12/07/2023 (Initation)	HOLD	49,900	21.4	-15.1/66.3
03/11/2023 (Update)	BUY	65,800	-10.7	-36.5/21.6

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

Compliance & Disclosure Notice

Analyst Certification

- The following analysts hereby certify that their views about the companies and securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Diem Ngo

Important Disclosures & Disclaimers

- As of the date of publication, Shinhan Securities Vietnam Co., Ltd. does not beneficially own 1% or more of any class of common equity securities of the following companies mentioned in this report: Sao Ta Foods JSC Corporation
- Shinhan Securities Vietnam Co., Ltd. or one of its affiliates, and/or their respective officers, directors, or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities of the companies mentioned in this report.
- As of the date of publication, research analysts responsible for this report and members of their households do not have any financial interest in the debt or equity securities of the companies mentioned in this report.
- Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of Shinhan Securities Vietnam Co., Ltd. including profits derived from investment banking. The analysts responsible for this report may also receive compensation based upon, among other factors, the overall profitability of sales and trading businesses relating to the class of securities or financial instruments for which such analysts are responsible.
- All opinions and estimates regarding the companies and their securities are accurate representations of the research analysts' judgments and may differ from actual results.
- This report is intended to provide information to assist investment decisions only, and should not be used or construed as an offer or a solicitation of an offer to buy or sell any securities. The information herein has been obtained from sources deemed reliable, but such information has not been independently verified and no guarantee, representation, or warranty, expressed or implied, is made as to its accuracy, completeness, or correctness. Shinhan Securities Vietnam Co., Ltd. makes the best effort but does not guarantee the accuracy, completeness, or correctness of information and opinions translated into English from original Vietnamese language materials. Shinhan Securities Vietnam Co., Ltd. accepts no liability whatsoever for any direct, indirect, and/or consequential loss arising from any use of this material or its contents. Stock selection and final investment decisions should be made at the investor's own and sole discretion.
- This report is distributed to our customers only, and any unauthorized use, duplication, or redistribution of this report is strictly prohibited.
- Investing in any Vietnamese securities or related financial instruments discussed in this research report may present certain risks. The securities of Vietnamese issuers may not be registered with, or be subject to the regulations of, the US Securities and Exchange Commission. Information on Vietnamese securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the US. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in currencies other than the Vietnamese won is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Distribution

- United States: This report is distributed in the US by Shinhan Investment America, Inc., a member of FINRA/SIPC, and is only intended for major US institutional investors as defined in Rule 15a-6(a)(2) of the US Securities Exchange Act of 1934. All US persons that receive this document by their acceptance thereof represent and warrant that they are major US institutional investors and have not received this report under any express or implied understanding that they will direct commission income to Shinhan Securities Vietnam Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any US recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Shinhan Investment America, Inc., which accepts responsibility for the contents of this report in the US. The securities described herein may not have been registered under the US Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the US or to US persons unless they have been registered or are in compliance with an exemption from registration requirements.
- All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Shinhan Securities Vietnam Co., Ltd. or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Shinhan Securities Vietnam Co., Ltd. and its affiliates to any registration or licensing requirement within such jurisdiction.



Shinhan Investment Network

SEOUL
Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

NEW YORK
Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

Hong Kong
Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

Indonesia
PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599

Shanghai
Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

Ho Chi Minh
Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

Ha Noi
Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District, Hanoi, Vietnam.
Tel : (84-8) 6299-8000