February 01st, 2024

Shinhan Securities



Sao Ta Foods JSC

[Vietnam / Fisheries]

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

BUY

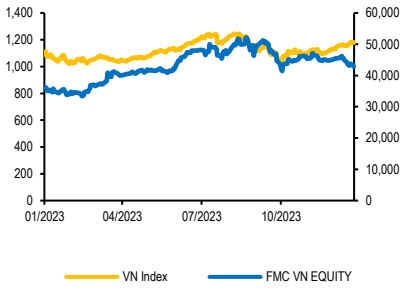
Update Report

Target price (12 months)	**52,500VND**
Current price (01/02/2024)	44,600 VND
Return (%)	17.7%

VNINDEX	1,171
Market P/E (x)	13.1
Market Cap (bn VND)	2,929
Outstanding shares (1mn)	65
Free float (1mn)	23
52-week high/low (VND)	53,500/34,200
90-day avg. trading volume (1mn)	0.05
90-day avg.turnover (bn VND)	2
Foreign ownership (%)	27.67

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

Performance	3M	6M	12M
Abs (%)	2.9	-7.2	17.8
Rel to VN-Index (%)	-10.3	-4.9	10.7



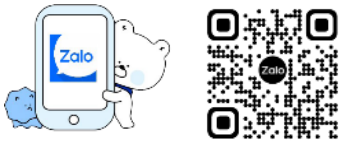
Source: Bloomberg

Diem Ngo

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

Ly Bui – Head of Research

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



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Recovery from 2H2024

Update recommendation BUY, target price at VND 52,500

Sao Ta Foods Corporation (HoSE: FMC) is one of the leading shrimp exporters in Vietnam, always maintaining its position in the top 5 largest shrimp exporters in the country. FMC currently owns 30% of raw shrimp and a farming area of 505ha. 2023 was a difficult year for the shrimp industry, however, FMC's business results only decreased by 10% (lower than the industry average of 20%). In 2024, the situation in the first half of the year may still be gloomy because the consumer market is still unstable, however we expect the situation to be better in the second half of the year, helping exports recover. Based on FCFF and PE methods, we update FMC's target price at 52,500 VND, maintaining our BUY recommendation with a return of 17.7%.

Update Sao Ta's business result in Q4/2023

In Q4/2023, the company's revenue reached VND 1,253 billion (+3.5% YoY) and the parent company's after-tax profit reached VND 82 billion (+6.5% YoY). In Q4, shrimp consumption reached 4,938 tons (+39% YoY) due to improved production from increased sales for the holiday season at the end of the year, but revenue only increased by 14% compared to the same period last year due to a sharp decrease in selling prices. For the whole year of 2023, Sao Ta recorded net revenue of VND 5,087 billion (-10.8% YoY) and profit after tax of VND 305 billion (-7.8% YoY). The business situation of the company in 2023 is as follows:

Shrimp product: In 2023, the company produced 21,198 tons of shrimp (+3.0% YoY) and sold 17,407 tons (-3.7% YoY). The bright spot came from the company's quick shift to the Japanese market to improve selling prices and reduce selling costs (-46% YoY), mainly due to lower shipping costs.

Agricultural product: The company produced 1,569 tons of finished products in 2023 and sold 1,366 tons (-24.2% YoY). This business segment contributes a steady 3-4% to total revenue and 10% to gross profit each year.

We forecast FMC's revenue in 2024 to reach VND 5,670 billion (+11.4% YoY) and profit after tax to reach VND 346 billion (+14.5% YoY) due to the expectation that the market will be better in the second half of the year when (1) inventory levels of importing countries decrease, (2) the US seafood trade embargo with Russia and China with Japan will indirectly create good opportunities for the Vietnamese seafood industry, and (3) inflation subsides, stimulating consumption demand to return.

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

Year to Dec.	2023	2024F	2025F	2026F	2027F
Revenue (bn VND)	**5,087**	**5,670**	**6,325**	**7,052**	**7,721**
OP (bn VND)	292	339	405	466	528
NP (bn VND)	**302**	**346**	**411**	**467**	**533**
EPS (VND)	4,221	4,834	5,735	6,526	7,441
BPS (VND)	34,166	37,228	41,278	46,194	52,112
OPM	5.7	6.0	6.4	6.6	6.8
NPM	5.9	6.1	6.5	6.6	6.9
ROE	13.9	14.8	16.0	16.3	16.6
PER (x)	7.6	10.7	9.0	7.9	7.0
PBR (x)	0.9	1.4	1.3	1.1	1.0
EV/EBITDA (x)	9.2	7.0	6.2	5.7	5.6

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use Discounted Cash Flow (DCF) and PE valuation methods to value FMC with 50%-50% weighted. We maintain our BUY recommendation with a target price of VND 52,500, upside 17.7%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**9.5**
Risk-free rate (%)	2.5
Equity risk premium (%)	9.0
Beta	0.93
Cost of debt (%)	4.5
Cost of equity (%)	10.9
Debt-to-equity ratio	0.2
Total debt (bn VND)	824

Source: Company data, Shinhan Securities Vietnam

DCF valuation					
Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net profit	346	411	467	533	598
Plus: After-tax interest expense	27	35	43	44	50
Plus: Depreciation & Amortization	144	143	135	82	79
Minus: Change in working capital	(218)	79	(498)	102	(438)
Minus: CapEx	(48)	0	0	0	0
Free Cash Flow to Firm (FCFF)	**252**	**667**	**147**	**761**	**289**
PV of FCF	231	558	113	530	184
Growth rate (%)	0%				
Present value of long-term value	1,936				
Enterprise value	3,550				
Minus: Debt	(824)				
Plus: Cash and cash equivalents	766				
Minus: Minority interest	(26)				
Owner's equity value	3,466				
Number of shares oustanding (million)	65.389				
Target price (VND)	**53,002**				

Source: Company Data, Shinhan Securities Vietnam

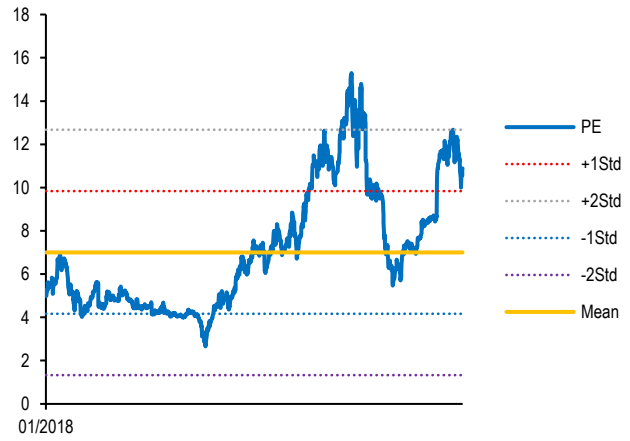
Based on the EV/EBITDA method, we collected data from companies in the same industry similar to FMC, plus FMC's 5 year average PE with a weight of 50%. We estimate FMC's target PE at 10.75x. With the 2024 forward EPS at VND 4,834, FMC's target price is VND 51,982.

Peer valuation

Tickers	Company name	PE	Mkt Cap (bn VND)
MPC VN Equity	Minh Phu Seafood Corporation	11.35	6,711
ANV VN Equity	Nam Viet Corporation	14.60	4,007
SEA VN Equity	Vietnam Seaproducts JSC	12.17	3,250
VHC VN Equity	Vinh Hoan Corporation	11.04	14,253
IDI VN Equity	International Development & Investment	12.60	2,607
Mean	11.82		
5 yrs average of FMC	9.69		
Target PE	10.75		
EPS forward	4,834		
Target price (VND)	**51,982**		

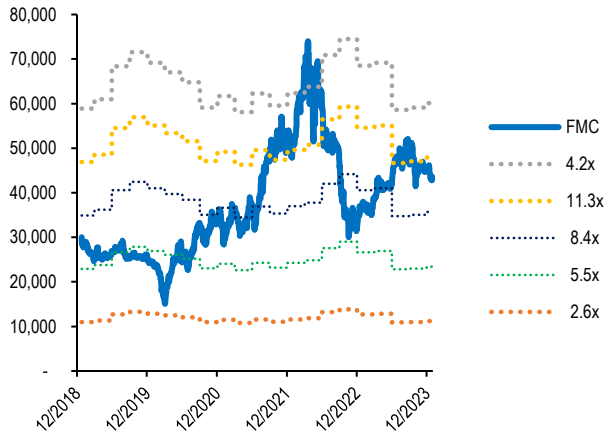
Source: Company Data, Shinhan Securities Vietnam

PER of FMC



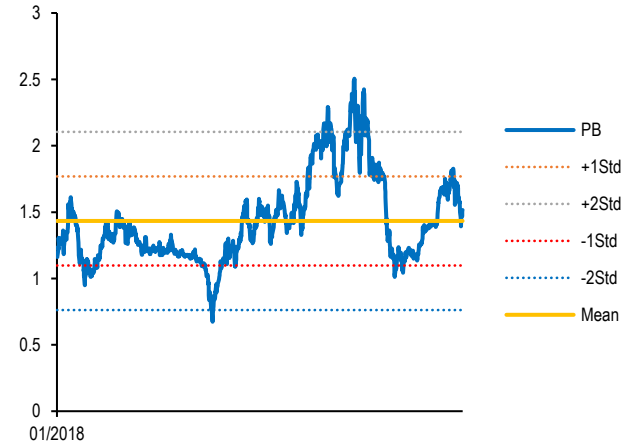
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PER band chart of FMC



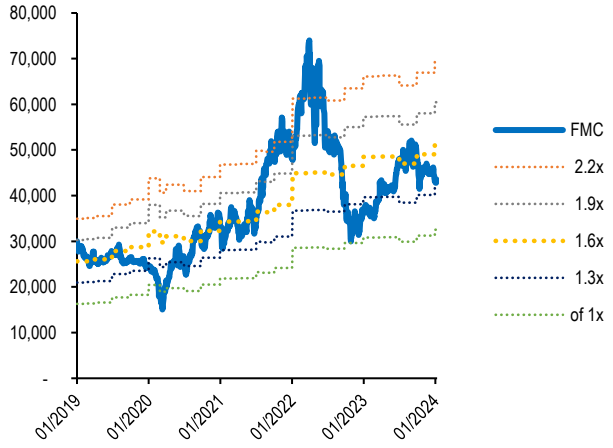
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR of FMC



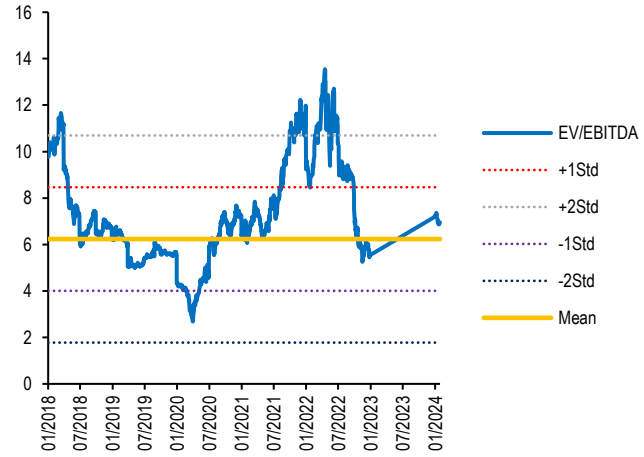
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

PBR band chart of FMC



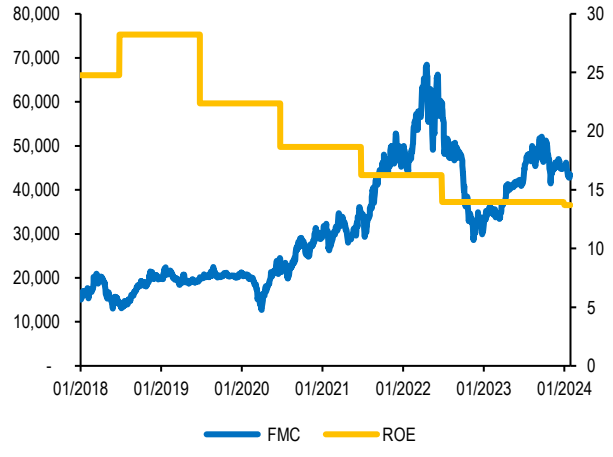
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

EV/EBITDA of FMC



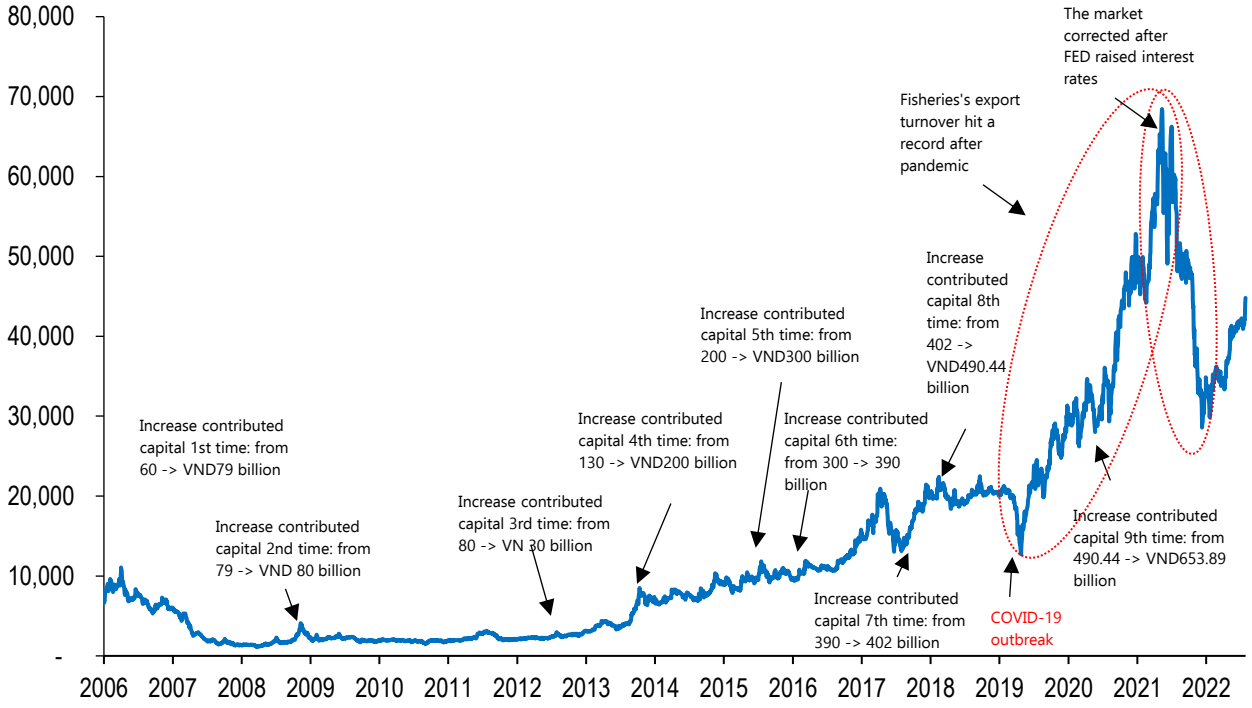
Source: Bloomberg, Company Data, Shinhan Securities Vietnam

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

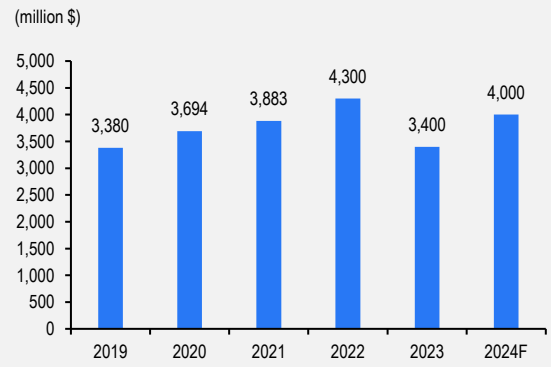
Company background

Overview of the shrimp industry

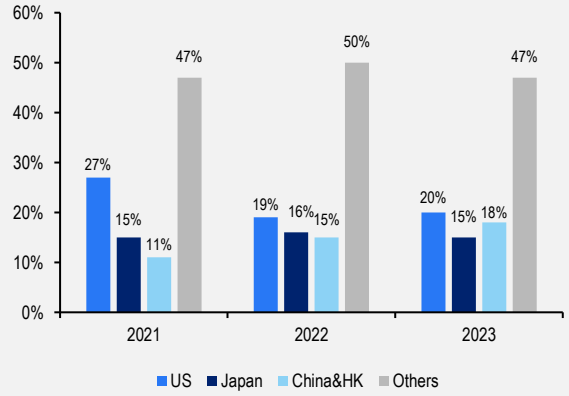
Shrimp is a key export commodity for Vietnam, accounting for 38% of the country's total seafood export revenue in 2023. The main types of shrimp exported are whiteleg shrimp and tiger shrimp. In 2023, the total value of shrimp exports is USD 3.4 billion (-22% YoY), Vietnam ranks 3rd in shrimp exports in the world thanks to high processing skills, so it has better selling prices despite the production cost is still high (100% higher than Ecuador and 30% higher than India).

Shrimp industry sets export target of 4 billion USD in 2024 (+18% YoY). According to VASEP, this year's shrimp exports have a lot of potential for development as global shrimp supply, especially from Ecuador, may decrease slightly this year. Shrimp consumption demand is expected to recover from the second half of the year when inflationary pressure subsides and inventory levels at importers decrease. This is an opportunity for shrimp prices to rebound. Overall, Vietnam's shrimp exports are forecast to recover and increase slightly in 2024. For Vietnam currently, increasing the survival rate is also one of the urgent issues for the development of the whole industry, because the survival rate in our country is much lower than the two leading countries when the rate is only 35%, while in Ecuador it is 90% and India is 60-70%.

Vietnam's shrimp export turnover



Vietnam's shrimp export turnover



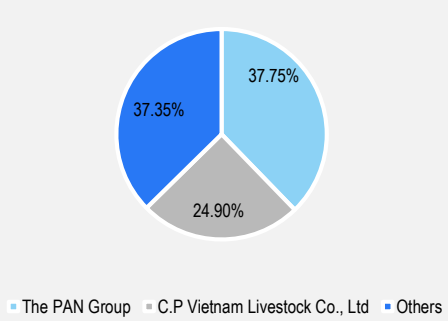
Source: VASEP, Shinhan Securities Vietnam

History of development

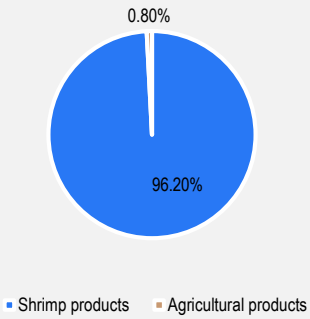
Sao Ta Foods Joint Stock Company was established in 1996 with the main business of processing frozen shrimp for export. Since its establishment until now, FMC has always maintained its position in top 5 shrimp exporters of Vietnam. The company's main export markets are the US, Japan, and Western Europe...

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	**2,989**	**3,344**	**3,388**	**3,847**	**4,329**
Current assets	1,877	2,132	2,275	2,824	3,414
Cash & equivalents	585	492	295	865	758
Short-term financial asset	11	274	283	443	564
Accounts receivable	280	280	488	398	523
Inventories	929	1,000	1,139	1,031	1,468
Non-current assets	1,112	1,212	1,113	1,023	914
Net fixed assets	419	848	752	609	474
Investment assets	7	188	446	79	79
Other long-term assets	175	99	248	285	282
Total liabilities	**873**	**1,110**	**953**	**1,148**	**1,308**
Current liabilities	863	1,100	942	1,136	1,294
Accounts payable	83	94	85	131	103
Short-term borrowings	515	824	613	760	917
Others	264	182	245	245	274
Non-current liabilities	10	10	11	12	14
Long-term borrowings	0	0	0	0	0
Other financial liabilities	10	10	11	12	14
Total shareholders' equity	**2,116**	**2,234**	**2,434**	**2,699**	**3,021**
Capital stock	654	654	654	654	654
Capital surplus	594	594	594	594	594
Other capital	0	0	0	0	0
Retained earnings	676	781	951	1,180	1,461
Non-controlling interest equity	192	205	235	271	312
*Total debt	515	824	613	760	917
*Net debt (cash)	(81)	58	(21)	(508)	(466)

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**5,702**	**5,087**	**5,670**	**6,325**	**7,052**
Growth (%)	9.7	(10.8)	11.4	11.6	11.5
COGS	**(5,076)**	**(4,594)**	**(5,070)**	**(5,630)**	**(6,263)**
Gross profit	**626**	**493**	**599**	**696**	**789**
GPM (%)	11.0	9.7	10.6	11.0	11.2
SG&A	**(319)**	**(201)**	**(260)**	**(290)**	**(323)**
Operating profit	**307**	**292**	**339**	**405**	**466**
Growth (%)	15.8	(4.8)	16.1	19.5	14.9
OPM (%)	5.4	5.7	6.0	6.4	6.6
Non-operating profit	**22**	**12**	**12**	**11**	**8**
Financial income	71	73	63	77	88
Financial expense	(54)	(61)	(54)	(69)	(83)
In which: interest expenses	(17)	(28)	(28)	(35)	(43)
Net other non-operating profit	5	1	2	3	3
Pre-tax profit	**328**	**305**	**351**	**417**	**474**
Income tax	(7)	(2)	(5)	(6)	(7)
Net profit	**321**	**302**	**346**	**411**	**467**
Growth (%)	11.8	(5.8)	14.5	18.6	13.8
NPM (%)	5.6	5.9	6.1	6.5	6.6
Controlling interest	309	276	316	375	427
Non-controlling interest	12	26	30	36	41
EBIT	**346**	**333**	**379**	**452**	**517**
Growth (%)	13.9	(3.7)	13.8	19.2	14.5
EBIT Margin (%)	6.1	6.5	6.7	7.1	7.3
EBITDA	**418**	**426**	**495**	**559**	**610**
Growth (%)	12.3	1.9	16.4	12.9	9.0
EBITDA margin (%)	7.3	8.4	8.7	8.8	8.6

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**385**	**229**	**273**	**632**	**104**
Net profit	321	302	346	411	467
Depreciation expense	89	121	144	143	135
(Gain) from investing activities		-	-	-	-
Change in working capital	(25)	(194)	(218)	79	(498)
Others	-	-	-	-	-
Cash flow from investments	**(525)**	**(490)**	**(57)**	**(159)**	**(121)**
Change in fixed assets	(281)	(594)	(48)	-	-
Change in investment assets	14	(263)	(9)	(159)	(121)
Others	(257)	367	-	-	-
Cash flow from financing	**(41)**	**166**	**(357)**	**1**	**11**
Change in equity	(0)	-	-	-	-
Net borrowing	101	309	(211)	147	157
Dividends	(142)	(143)	(146)	(146)	(146)
Change in total cash	(181)	(95)	(142)	474	(6)
Beginning cash	770	585	492	350	825
Change in FX rates	(3)	1	-	-	-
Ending cash	585	492	350	825	819

Source: Company data, Shinhan Securities Vietnam

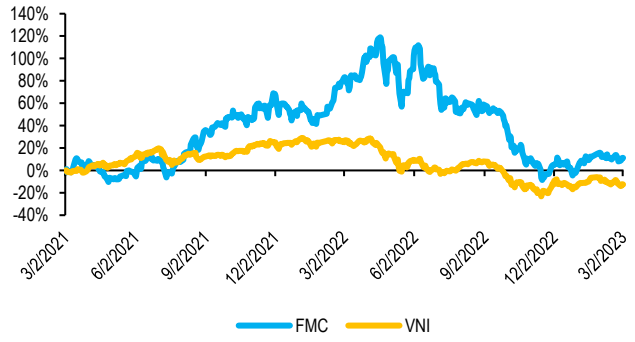
Key ratios

Năm	2021	2022	2023F	2024F	2025F
EPS (VND)	4,605	4,221	4,834	5,735	6,526
BPS (VND)	32,361	34,166	37,228	41,278	46,194
DPS (VND)	2,170	2,182	2,232	2,232	2,232
PER (x)	11.0	7.6	11.4	9.6	8.4
PBR (x)	1.6	0.9	1.5	1.3	1.2
EV/EBITDA (x)	7.2	9.2	7.8	6.9	6.4
Dividend payout ratio (%)	44.2	47.2	42.2	35.5	31.2
Dividend yield (%)	4.3	6.8	4.1	4.1	4.1
Profitability					
EBITDA margin (%)	7.3	8.4	8.7	8.8	8.6
OPM (%)	5.4	5.7	6.0	6.4	6.6
NPM (%)	5.6	5.9	6.1	6.5	6.6
ROA (%)	11.3	9.5	10.3	11.4	11.4
ROE (%)	15.7	13.9	14.8	16.0	16.3
Stability					
Debt to equity ratio (%)	24.4	36.9	25.2	28.2	30.4
Net debt ratio (%)	(19.4)	13.7	(4.2)	(90.8)	(76.4)
Cash ratio (%)	69.1	69.6	67.3	111.6	106.9
Interest coverage ratio (x)	20.0	11.8	13.7	12.9	12.0
Activity (%)					
Working capital turnover (days)	74	76	93	94	106
Inventory turnover (days)	67	77	75	70	72
Receivable turnover (days)	21	20	25	26	24

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
01/02/2024 (Update)	BUY	52,500	20.5	0.8/50.0

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

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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