Shinhan Securities

Before you invest, ask us!

Quang Ngai Sugar JSC.

10/7/2021

Ticker	**QNS**
RATING	**BUY**
Current price (VND)	**51,600**
Target price (VND)	**61,300**
Upside	**18.8%**

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COMPANY INFORMATION

Industry	Food Producers
Stock Exchange	UPCOM

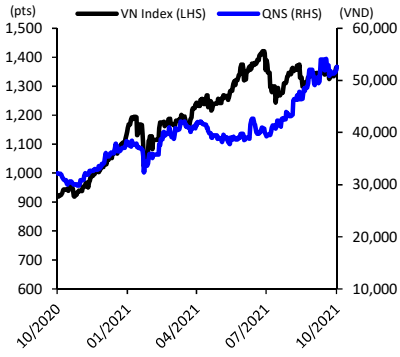
STOCK TRADING DATA

VN INDEX	1,366
Market Cap. (bn VND)	18,775
Outstanding Shares (1mn)	357
Free Floating Shares (1mn)	211
52-week High (VND)	55,200
52-week Low (VND)	31,000
Avg. Trading Volume (mn)	1.0
Avg. Reading T/O (bn VND)	40

QNS's PERFORMANCE VS VN INDEX

(%)	3M	6M	12M
Absoulute	32.5	21.5	54.3
Relative	34.1	11.5	5.7

STOCK PRICE PERFORMANCE



INVESTMENT THESIS

1. Business position

- QNS is the largest Vietnam soymilk producer (3 factories) with a market share of ~86% in 2020. Besides, the company is also the 3rd largest Vietnam sugar producer (2 factories) with market share ~12% in 2020.
- Customers: Over 99% of QNS's revenue comes from domestic consumers, mainly selling F&B products such as soymilk, sugar, candy, or mineral water. The company's products are distributed across Vietnam through traditional retail channel (163 distributors), modern retail channel (20 supermarket chains) and e-commerce.
- Competitors: Famous soymilk brands (eg: Vinamilk, Nutifood or Ecosoy) and sugar (eg: TTC or Lam Son); and import products.

2. Investment catalysts:

- Soymilk segment (takes 46% of 1H21 revenue) is expected to return to positive sales growth since 2021 (2020: -9.2%YoY), thanks to 1) consumption of branded soymilk in Vietnam is increasing (according to Kantar report); and 2) QNS enhances the advertising and promotion activities in domestic market as well as initially setting their foot in foreign markets (China and Japan) to boost revenue (3Q21 output increased by 15%YoY).

-Sugar segment (takes 21% of 1H21 revenue) rises sharply thanks to the strong increase in both of domestic sugar consumption and selling price. Firstly, Vietnam government has imposed anti-dumping (AD) tax on sugar imported from Thailand since Jun-21, together with investigated tax - avoidance on sugar imported from 5 ASEAN countries since Sept-21. These decisions drive the downward trend of imported sugar (Jul-21: -13.4%YoY). Secondly, the global sugar price is forecasted to keep the uptrend, combined with the restriction of imported sugar will keep the domestic sugar price at a high level in 2021-22 period.

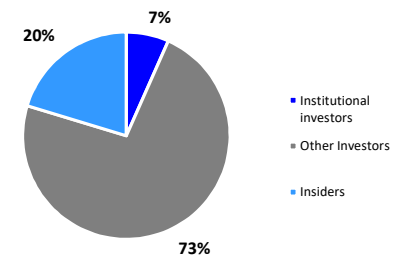
-Net profit is expected to show a double-digit growth in 2021-22 period after experiencing negative growth in 2020. To the first, QNS has the advantage of proactively managing costs based on its closed value chain that covers seeding - farm - production plant of 2 main businesses, including soymilk and sugarcane. Backed by this, supported by the stable operation of Vinasoy Bind Duong factory after 3 years of establishment, QNS maintains a stable gross margin of soymilk segment (~40%) against the risk of raw material price fluctuation as well as expanding the market share in southern Vietnam. Next, the sugar segment's gross margin is expected to improve strongly thanks to the high sugar price.

-Based on 1) the expectation of double-digit growth in 2021-22 earnings; and 2) 2022F P/E of 12.4x, we project 2022 target price of QNS'shares at VND61,300, resulting in a profit of +18.8% compared to a market price of VND51,600 on Oct 5th 2021.

3. Risks:

- The tax policies on the imported sugar is short term. In case sugar imports recover, domestic sugar prices could be decreased.
- Vietnam nut milk is low barriers to entry, leading to the risk of losing market share to the giant F&B competitors who may enter the soymilk segment (the business accounts for 75% of QNS's profit).
- Lower incomes due to Covid-19 may cause consumers to reduce spending on soymilk.

SHAREHOLDER STRUCTURE



FINANCIAL INFORMATION

	2018	2019	2020	2021F	2022F
Sales (bn VND)	**8,031**	**7,681**	**6,490**	**7,734**	**8,637**
OP (bn VND)	1,357	1,457	1,163	1,347	1,614
Operating profit margin	16.9	19.0	17.9	17.4	18.7
NP(1bn VND)	**1,240**	**1,290**	**1,049**	**1,265**	**1,509**
Net profit margin	15.4	16.8	16.2	16.4	17.5
BPS(VND)	18,111	21,466	21,915	26,112	31,119
PER(x)	8.3	6.3	11.3	15.0	12.6
PBR(x)	1.9	1.3	1.8	2.4	2.0
ROE(%)	25.1	21.8	15.9	16.1	16.1
EPS (VND)	4,182	4,306	3,450	4,155	4,956

(*) Database information provided by Bloomberg

[FLASHNOTE]

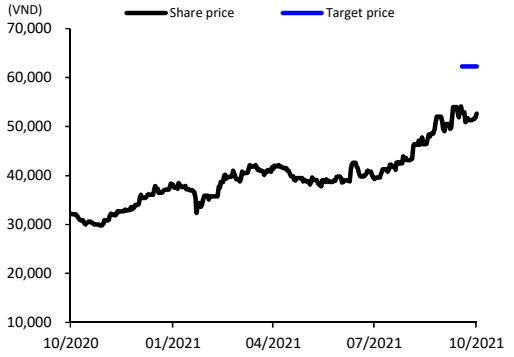
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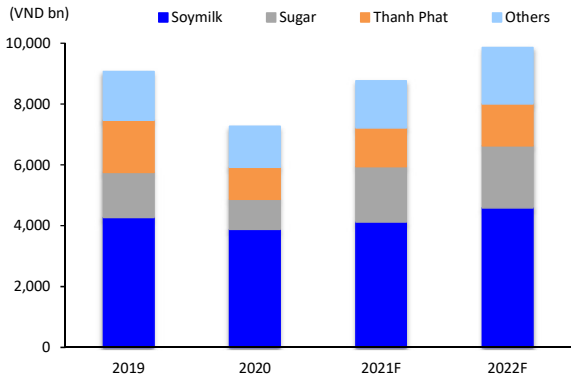
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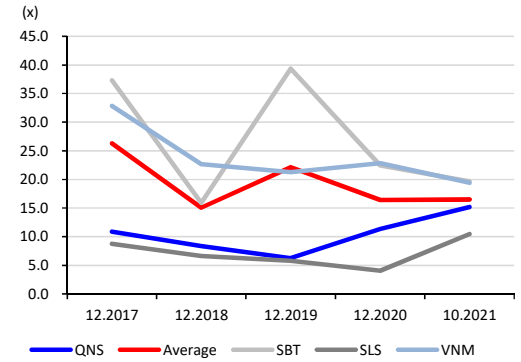
Recommendation History



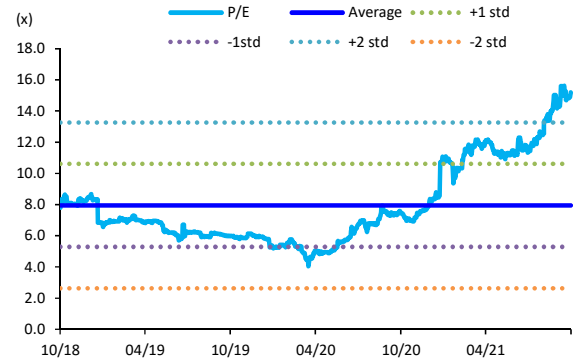
Revenue from core business (bnVND)



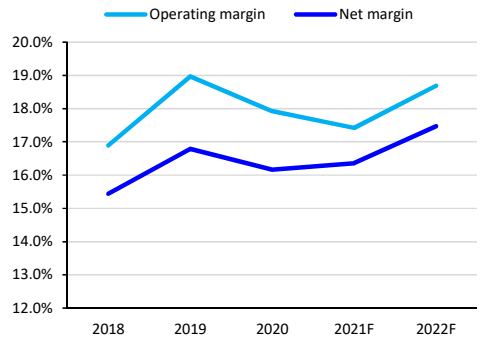
Relative valuation peers' PE



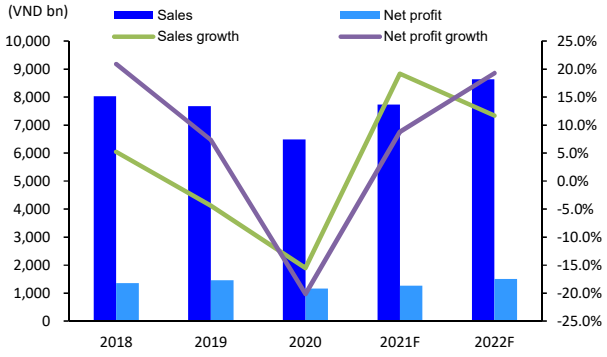
Average P/E 3 years of QNS



Operating and net margin over the years



Revenue - profit over the years



(*) Database information provided by Bloomberg



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