June 14th, 2023

Shinhan Securities



Quang Ngai Sugar JSC (QNS VN)

[Vietnam / Food and beverages]

Bloomberg Ticker (QNS VN) | Reuters Ticker (QNS.HM)

BUY

Initiation Coverage

Target price (12 months)	**VND 55,700**
Current price (14/06/23)	VND 44,600
Upside/downside	25%

VNINDEX		1,117
P/E market (22F, x)		11.3
Market Cap (bn VND)		15,920
Outstanding shares (mn)		301
Free-Floating (mn)		235
52-Wk High/Low (VND)		49,800/31,200
90-day avg. trading volume (mn)		0.33
90-day avg. turnover (bn VND)		16
Foreign ownership (%)		n.a
Major shareholders (%)	Thanh Phat	16.0
	BOD and family	15.0

Performance	3M	6M	12M
Absolute (%)	17.4	24.6	-1.3
Relative to VN-Index (%)	9.9	18.2	7.8



Source: Bloomberg

The sweetness of sugar

Initiate coverage with BUY call and target price at VND 55,700

Quang Ngai Sugar Joint Stock Company (UpCOM: QNS) is the leading enterprise producing soy milk and the second largest producer of cane sugar in Vietnam. Based on FCFF and PE methods, we recommend buy QNS with a target price at VND 55,700. The revenue and NPAT of QNS will increase in the future because: (1) QNS keeps consolidating its leading position in the soymilk segment thanks to its high growth potential, improving gross profit margin; (2) Sugar segment's revenue grows thanks to improved volume and selling price; and (3) Solid financial strength, high dividend payout ratio.

The leading position in the brand soy milk segment

QNS is the dominant producer in the canned soy milk segment in Vietnam with a market share of 90%. High growth potential comes from changing habits of non-brand soy milk consumption group (accounting for 68%). Product diversification helps to meet the constantly changing needs of existing customers and attracting new customers. Therefore, we forecast a 3% per year growth in volume during 2023F - 2027F (higher than the industry forecast of 1%). In addition, with the composition of raw materials accounting for about 70% of unit cost, we forecast that gross profit margin of the nut milk segment will improve to 43% in the period of 2023F - 2027F thanks to the cooling of imported raw material prices and optimizing production.

Sugar revenue could increase thanks to the improvement on volume and selling price

We forecast sugar output from sugarcane in the crop year 2022/23 to reach 160 thousand tons (+47% YoY) thanks to favorable weather; sugar selling price will increase by 10% in 2023 thanks to (1) policy against evasion of trade remedies imposed a tax rate of 47.64% on Thailand sugar and (2) world sugar prices are at the highest level in the past 10 years.

Strong financial position, high dividend payout ratio

QNS's debt/equity ratio is 0.44x, equivalent to those of leading dairy companies but 66% lower than other sugar producers. Cash and cash equivalents reached more than VND 5,100 billion (accounting for 44% of total assets in the first quarter of 2023), and liquidity ratios have improved for years. In addition, the company has maintained a high dividend payout ratio of 60-86% in the recent year.

Risks: (1) Risk of increase in the price of imported soybeans; (2) Risk of diversification; (3) Risk of the impact of El Nino and La Nina on sugar production; (4) Risk of excise tax (SCT) for sugary soft drinks; (5) Complex situtation of smuggled sugar.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**8,255**	**9,825**	**10,854**	**11,924**	**13,144**
OP (bn VND)	1,359	1,707	1,816	1,994	2,152
NP (bn VND)	**1,286**	**1,583**	**1,716**	**1,852**	**1,997**
EPS (VND)	4,226	5,259	5,701	6,153	6,635
BPS (VND)	20,914	22,124	23,656	25,184	26,839
OPM	16.5	17.4	16.7	16.7	16.4
NPM	15.6	16.1	15.8	15.5	15.2
ROE	**17.2**	**20.0**	**20.3**	**20.6**	**20.8**
PER (x)	8.5	10.6	9.8	9.0	8.4
PBR (x)	1.4	2.5	2.4	2.2	2.1
EV/EBITDA (x)	5.3	7.3	6.9	6.4	6.0

Source: Company data, Shinhan Securities Vietnam

Open account [Analyst]

Trang Vo
(84-28) 6299-7751
trang.vo@shinhan.com

Ly Bui – Head of Research
(84-28) 6299-8029
ly.btt@shinhan.com

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Company background

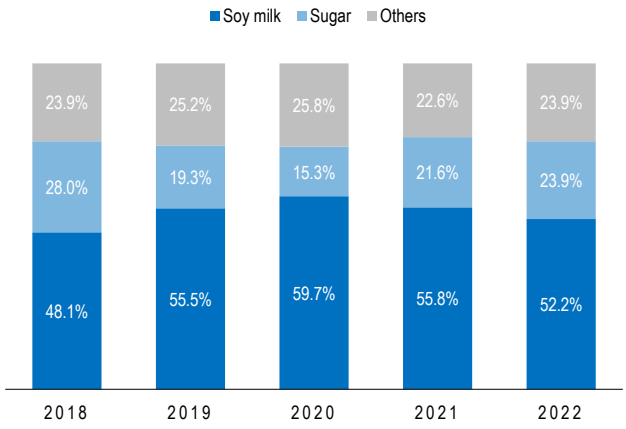
1. History of development

Quang Ngai Sugar Joint Stock Company (UpCOM: QNS), formerly known as Quang Ngai Sugar Company, was established in the 70s of the twentieth century. Initially, QNS mainly traded in raw sugar (Refined Standard - RS) and Alcohol. In 2005, the company changed its name to Quang Ngai Sugar Joint Stock Company and officially listed on the UpCOM Stock Exchange in 2016.

The company sells the food and beverage, including soy milk, sugar, beer, non-alcoholic beverages, confectionery and biomass electricity. QNS currently leads the canned soy milk segment with a market share of nearly 90% and is the second largest sugar cane producer in Vietnam.

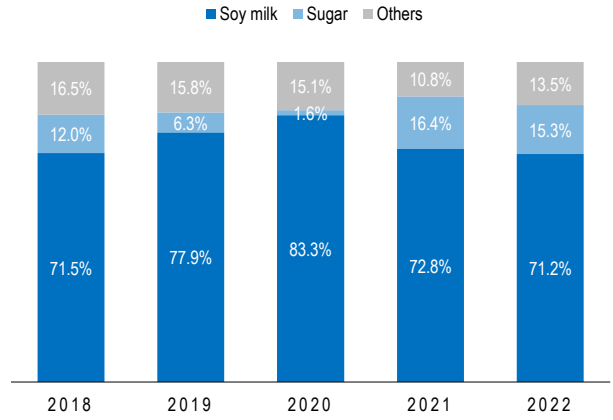
Soy milk is the key revenue contributor of QNS with two main products, Fami and Vinasoy. This segment contributes the highest proportion of revenue and gross profit to QNS with the proportion of 52% and 71% respectively. Besides, the sugar segment also contributes about 24% of revenue and 15% of gross profit for the company. QNS mainly produces sugar from cane (accounting for more than 80%) and refined sugar RE (Refined Extra - RE) (accounting for nearly 20%). Other segments including brewing, confectionery, and biomass power contribute 24% and 14%, respectively in revenue and profit.

QNS's revenue structure



Source: Company data, Shinhan Securities Vietnam

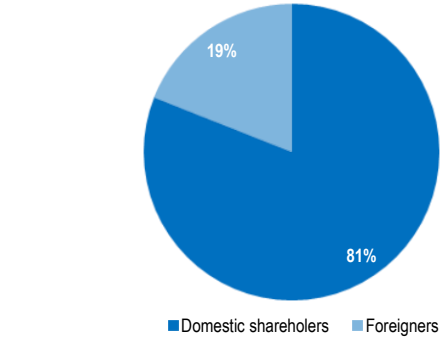
QNS's gross profit margin structure



Source: Company data, Shinhan Securities Vietnam

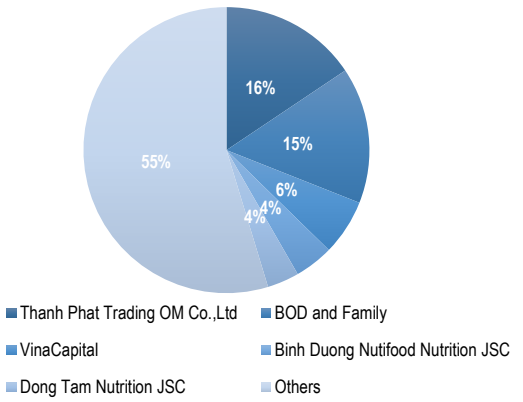
Foreign shareholders and domestic shareholders account for 19% and 81% of the ownership structure in QNS, respectively. In which, the largest shareholder is Thanh Phat Trading One Member Limited Liability Company with an ownership rate of 16%. This is a subsidiary in which QNS holds 100% ownership and voting rights.

QNS's domestic and foreign ownership at 10/02/2023



Source:Company data, Shinhan Securities Company

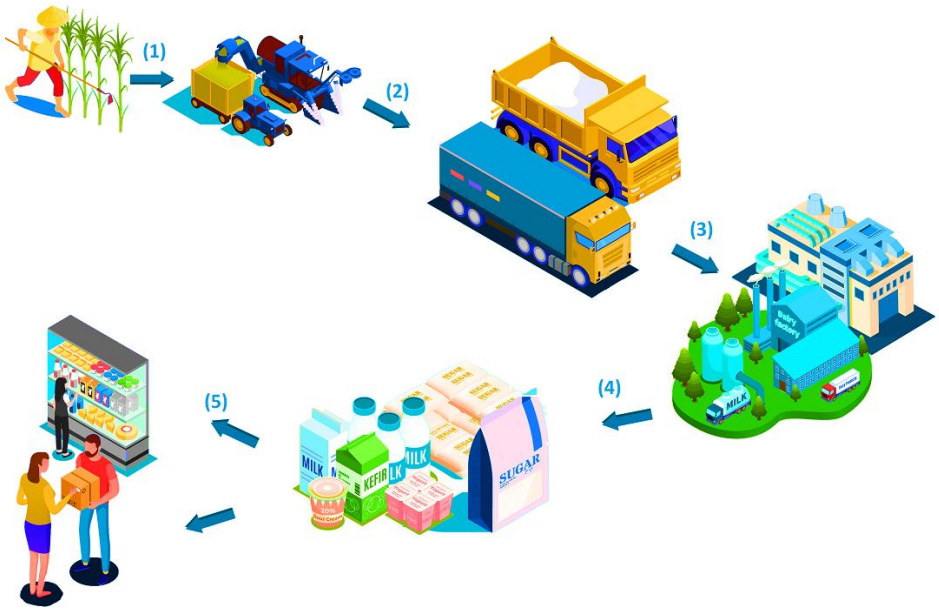
QNS's ownership structure at 10/02/2023



Source: Company data, Shinhan Securities Company

2. Soy milk and cane sugar industry value chain

Sugar value chain



Source: Company data, Shinhan Securities Vietnam

With the cane sugar segment, the company uses sugarcane, going through a series of processes to distribute cane sugar to consumers.

1. Raw sugarcane: QNS cooperates with farmers in An Khe - Gia Lai to grow sugarcane. The agricultural area in this region is large (87 thousand hectares), and productivity and conversion rate of sugarcane to sugar (Commercial Cane Sugar - CCS) are high. The material area for An Khe sugar factory in 2023 reaches 25,000 hectares (+14% YoY). QNS often transfers well-tested sugarcane to farmers who have signed cooperation contracts with QNS, which helps control yield and sugar.

2. Harvesting: The time to harvest and process sugar cane generally is from the quarter IV of the previous year to quarter II of the following year. The sugar industry usually has one crop for trading whole year.

3. Transporting to the sugar factory: After harvesting, the sugarcane will be transported to the sugar factory. Normally, sugarcane needs to be processed within 16 hours after harvest to ensure the quality of sugarcane. Therefore, sugar factories are often close to raw material areas and the size of raw material areas also affects the size of sugar mills.

4. Production: Sugarcane put into production goes through stages including preliminary processing - pressing water, filtering and refining sugar. In general, the sugar refining technique is uncomplicated, but sugar mills need to have a large capacity to gain economies of scale and improve price competitiveness. QNS's An Khe - Gia Lai sugar factory was invested with a capacity of up to 18,000 tons of sugarcane/day (TMN). This is the sugar factory with the largest capacity in Vietnam. Invested with modern equipment, An Khe sugar factory can optimize production and reduce loss in processing.

5. Distribution: Products are stored and distributed to consumers.

Soy milk value chain



Source: Company data, Shinhan Securities Vietnam

In the soy milk segment, QNS uses soybeans through a series of processes to deliver to consumers.

1. Soybean material: Company invests in material area in 4 regions, including the Central Region, the Central Highlands, the Red River Delta, and the Mekong Delta with an area of up to 9,000 hectares. With genetic resources of more than 1,500 units, the Board of Directors plans to create soybeans that are well adapted to climate change, contributing to the sustainability of domestic supply. In addition, the company also imports 40-60% of soybeans from other countries to serve the purpose of mixing and enhancing the flavor of soy milk.

2. Transportation: Soybeans are transported to the factories for production.

3. Production: Soybeans are transported to the factories of QNS for processing. QNS currently has 3 VINASOY factories located in Bac Ninh, Quang Ngai, and Binh Duong with a total installed capacity of up to 390 million liters of milk per year.

4. Distribution: Finished goods are delivered to consumers. Currently, QNS is focusing on traditional channels (General Trade – GT) and supermarkets with 150,000 points of sale and cooperating with 178 distributors. As a result, QNS can effectively bring products to consumers.

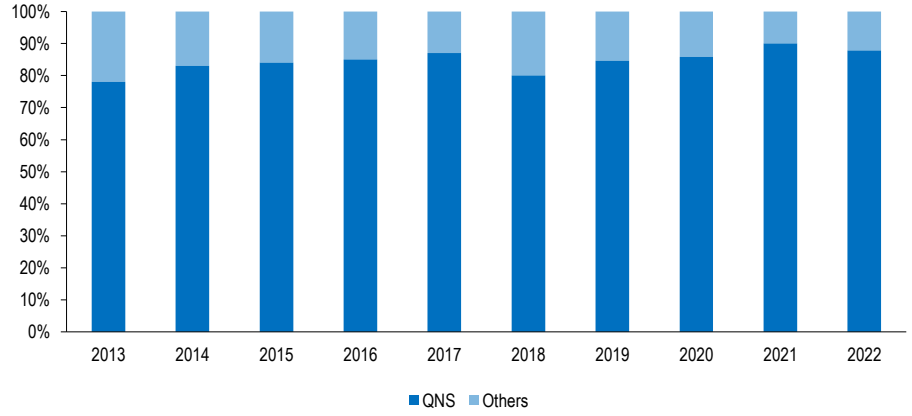
Investment theses & Catalyts

1. QNS continues to consolidate its leading position in the soy milk industry thanks to high growth potential and improved gross profit margin

1.1 Leading position in the soy milk industry and high growth potential

QNS is currently the leader in the branded soy milk in Vietnam with a market share of nearly 90% (according to Nielsen report), and is in the top 10 largest soy milk manufacturers in the world (according to Fortune Business Insights). The soy milk segment contributes the highest proportion of revenue and gross profit to QNS, at 52% and 71%, respectively.

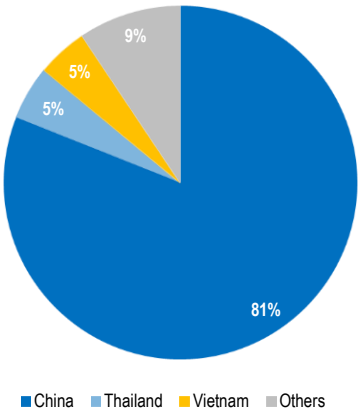
Market share



Source: Company data, Shinhan Securities Vietnam

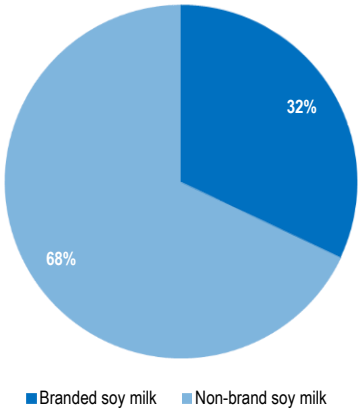
QNS still has great growth potential thanks to the shift of the non-brand soy milk consumption group. Vietnam is one of the largest soy milk-consuming countries in the world after China and Thailand according to the report of the United States Soybean Export Council (USSEC) in 2021. Consumption of soy milk unbranded (homemade, sold on the street, market) still accounts for a high proportion (68%). However, after the Covid-19 pandemic, Vietnamese consumers are more health-conscious and tend to seek and consume branded products. Therefore, we expect QNS, the No. 1 soy milk brand in Vietnam, to grow sustainably with this shift in consumption.

Percentage of world soy milk consumption (%)



Source: USSEC (2021), Shinhan Securities Vietnam

Consumption rate (%) of soy milk in Vietnam



Source: USSEC (2021), Shinhan Securities Vietnam

QNS continues to strengthen its position by launching new products. New products account for about 10-15% of QNS's revenue. In addition to the traditional soybean flavors, QNS also makes other flavors such as coffee, cheese, ginger tofu, etc. It not only satisfies the middle-aged consumers but also the youngsters. In 2022, QNS also launched the first plant-based yogurt in Vietnam. We expect constant innovation to meet the increasingly diverse needs of Vietnamese consumers, which contributes to the strength of QNS's leading position. Therefore, we forecast QNS nut milk consumption to grow at a compound rate of 3% from 2023F to 2027F, higher than the industry's forecasted growth rate as reported by Euromonitor (1%).

Soy milk products with black tea flavor



Source: Company data, Shinhan Securities Vietnam

Veyo plant yogurt

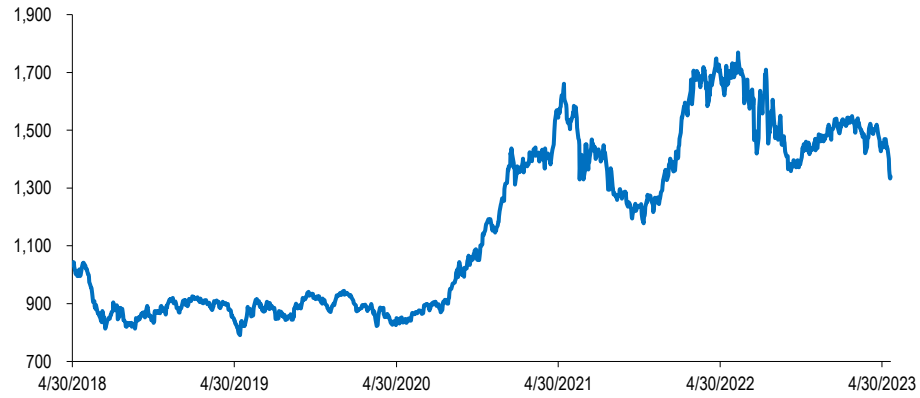


Source: Company data, Shinhan Securities Vietnam

1.2 Soy milk gross profit margin was improved thanks to the cooling of imported soybean prices

Raw materials account for about 70% of the unit cost of soy milk products. In addition to purchasing domestic soybeans, the company also imports 40-60% of soybeans for mixing purposes. With a bountiful crop in Brazil – one of the world's soybean capitals – and a slump in demand in China, we expect soybean prices to cool in 2023. Therefore, we forecast that the gross profit margin of the soy milk segment will improve from 40.3% in 2022 to 43% in 2023.

Changes in world soybean prices (USD/Bu)



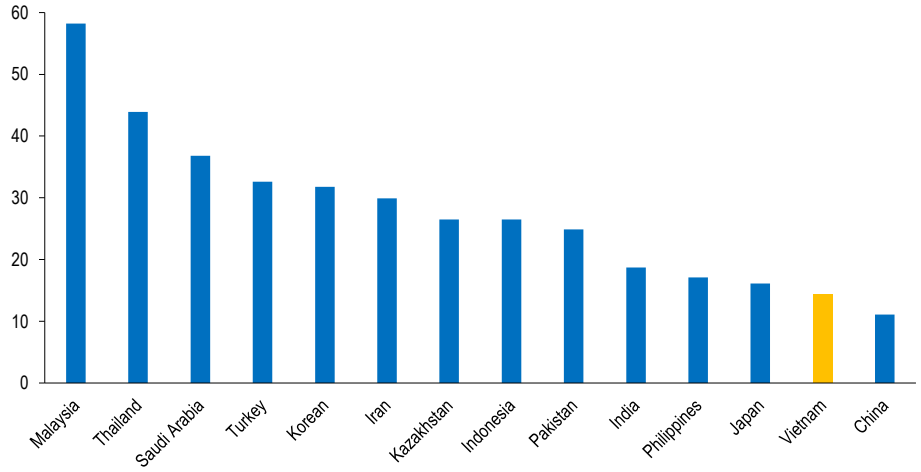
Source: Bloomberg, Shinhan Securities Company

2. Sugar revenue could increase thanks to the improvement on volume and selling price

2.1 Output growth thanks to favorable weather

According to the Vietnam Sugarcane Association (VSSA), sugar consumption in Vietnam is at 2.3-2.4 million tons/year. According to the report of OECD - FAO in 2021, Vietnam's sugar consumption per capita is relatively low compared to other Asian countries (14.4 kg/person) and estimates to reach 15.6 kg/person in 2030 (+8.3%). However, domestically produced sugar only meets about 30% of total demand and needed to import for making up the shortage. Therefore, this is an opportunity for company having large raw material areas.

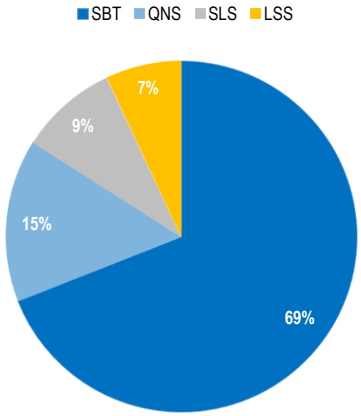
Estimated sugar consumption per capita (kg/person) in Asia (2018-2020)



Source: OECD – FAO (2021), Shinhan Securities Vietnam

The input material of sugar produced in Vietnam is sugarcane. Therefore, besides being affected by smuggled sugar, the sugar industry is also affected by weather and competition between sugarcane and other crops such as cassava. When entering the extreme phases of El Nino and La Nina (such as the crop year 2015/16), the output, yield, and Commercial Cane Sugar (CCS) in sugarcane decreased sharply, thereby, negatively affecting the industry. In addition, when the price of cassava increases, people switch to growing cassava, reducing sugarcane output for sugar factory. The crop year 2022/23 (starting from April 2022 and ending in March 2023) is a year with favorable weather for sugarcane.

Sugar production from sugarcane in Vietnam from 4 big companies in the crop year 2021/22

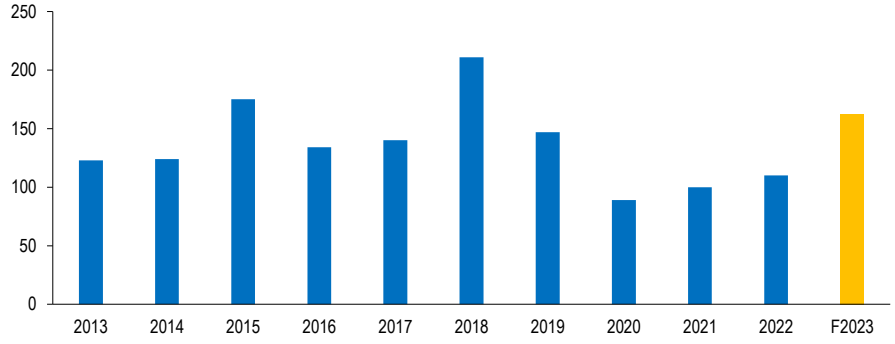


Source: Company data, Shinhan Securities Vietnam

QNS is ranked 2nd in producing sugar made from sugarcane in Vietnam. The investment in the material area at An Khe - Gia Lai contributes to maintaining its position of the enterprise because this is a large area, and productivity and sugar reserves in sugarcane are high. QNS is mainly associated with farmers producing sugarcane. Thanks to favorable weather from the end of last year to the beginning of 2023, QNS estimates that the amount of sugarcane material supplied to QNS's An Khe factory this year is about 25,000 hectares of sugarcane (+14%). We forecast the output to reach 1.68 million tons of sugarcane and produce 160 thousand tons of sugar (+47% YoY).

In addition, QNS was granted an import quota of 20 thousand tons of raw sugar for refining in 2022 and imported sugar from Australia in March 2023 with zero import tax. Thus, QNS's sugar production reached more than 180 thousand tons (+44% YoY) including produced cane sugar and imported raw sugar.

Sugar production from sugarcane of QNS (thousand tons)



Source: Company data, Shinhan Securities Vietnam

2.2 Domestic sugar prices surged due to trade remedies and world sugar prices at peak

Taxes against evasion of trade remedies

With the support policy from the Thai government, the cost of input materials off the Thai sugar industry is cheaper, and the selling price of cane sugar is more competitive compared to other countries in the region. After Vietnam implemented the ASEAN Trade in Goods Agreement (ATIGA) in 2020, imported sugar would be free from quotas and subjected to a tax rate of only 5%. Therefore, Thai sugar with competitive selling pr ice has been massively imported into Vietnam with an output of 3 times higher than in 2019, negatively impacting domestically produced cane sugar, which has high production costs and higher selling price.

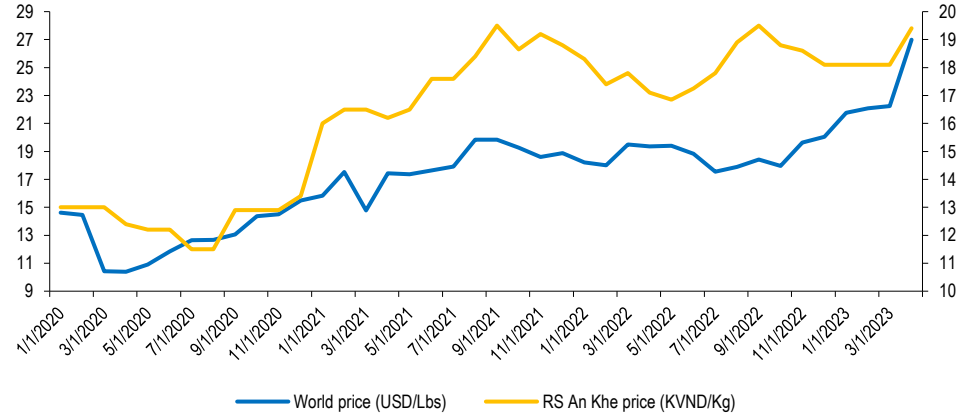
To improve the competitiveness of domestically produced cane sugar - a labor-intensive industry and secure the livings of millions of farmers, the Ministry of Industry and Trade imposed trade remedies against sugar products imported from Thailand (June 2021) and from five ASEAN countries that involve Thai cane sugar (August 2022) including Laos, Cambodia, Indonesia, Malaysia and Myanmar with tax rate at 47.64%.

After the imposition of the tax, the price of Thai sugar imported directly and from the 5 ASEAN countries increased sharply, creating a protecting shield for domestic sugar. Specifically, the price of Thai sugar before and after first anti-dumping policy increased from over 14,500 VND/kg to 17,700 VND/kg. Together with the solutions to deal with smuggled sugar of authority, we expect that the domestic sugar price will increase by 10% in 2023 and 2% per year for period 2024F-2027F.

Benefited from the increase of world sugar price

The world sugar price has currently been at peak for 10 years, reaching 26.9 USD/Lbs in April 2023 (+124% YoY) compared to 18 USD/Lbs in January 2023. The increase in world sugar prices came from a decrease in production and trading volume due to (1) adverse weather last year affecting India's sugar output and India's allowed export volume was only 6 million tons for the crop 2022/23 compared to 11.2 million tons in crop 2021/22; (2) High crude oil prices encourage sugar mills to switch to ethanol production, including factories in Brazil - the world's leading sugar producer.

Changes in world sugar prices and QNS's An Khe RS from 2020

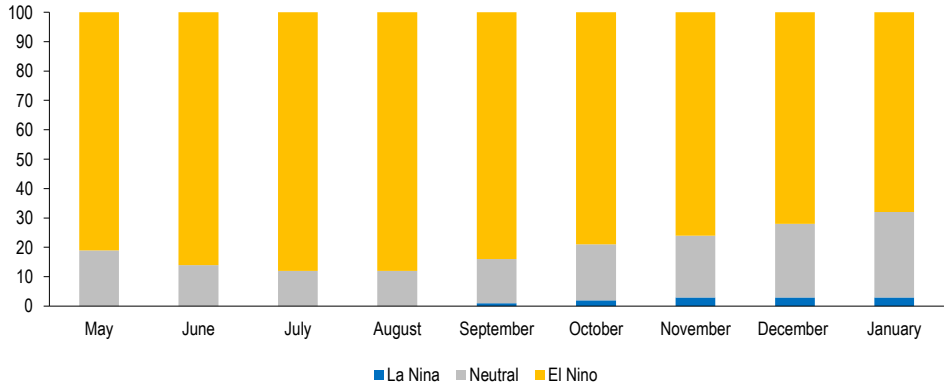


Source: Bloomberg, AgroMonitor .Shinhan Securities Company

Vietnam has to import more cane sugar to meet the domestic demand with the production-import structure estimated at 30:70. In addition to imports from 5 ASEAN countries and subject to a tax rate of up to 47.64%, companies that are granted import quotas such as QNS choose to import raw sugar from Australia with a import tax rate of zero. The import of sugar in the context of increasing prices, contributing to the higher price of domestically produced cane sugar. Specifically, the price of RS sugar at QNS's An Khe factory in May 2023 increased by 7.1% YTD and 13.5% YoY.

IRI ENSO forecasts that the world will enter the El Nino phase from mid-late 2023. The prolonged El Nino is expected to cause drought in India and heavy rain in Brazil - two largest sugarcane material regions of the world. We expect that the impact of this phenomenon in 2023-2024 will reduce sugar production for the year 2023/24 and continue to keep world sugar prices at a high level.

Probability of La Nina, El Nino and neutral phenomena (%)

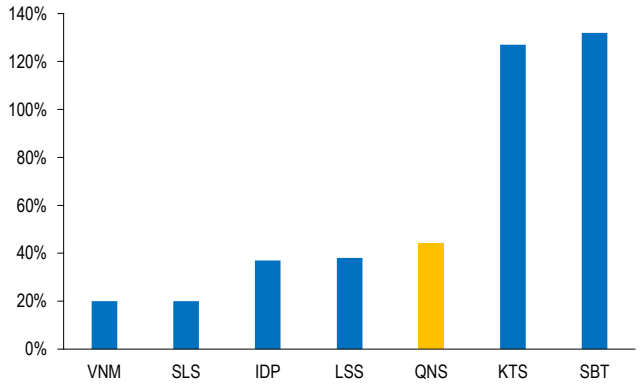


Source: Iri, Shinhan Securities Company

3. Strong financial position, maintaining stable dividend

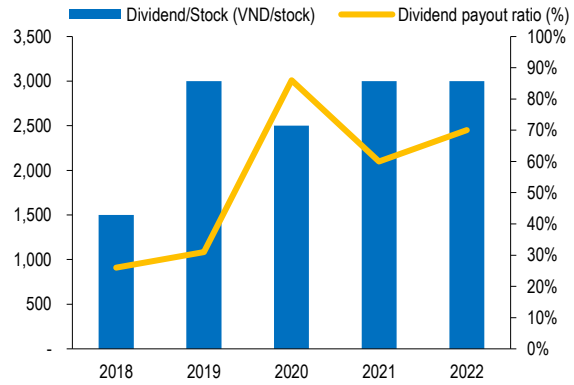
As a company in the food and beverage sector with milk and sugar as main products, QNS's debt-to-equity ratio is generally close to that of leading dairy companies like VNM and IDP, but lower than 66% compared to that of other companies producing and trading sugar like KTS and SBT.

Debt-to-equity structure of food and beverage enterprises



Source: Fiinpro, Shinhan Securities Company

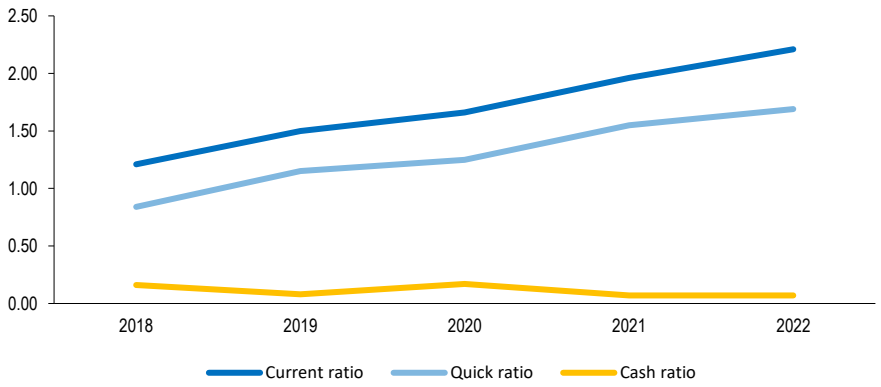
Cash dividend payment per share and dividend payout ratio



Source: Fiinpro, Shinhan Securities Company

QNS only has short-term bank debts, mainly financing working capital for business activities, and has paid off all long-term loans since 2018. With total cash, cash equivalents, and short-term financial investment reaching more than VND 5,100 billion (accounting for 44% of total assets as of March 31, 2023), the enterprise has abundant financial resources to finance projects to expand its business for the following years. Liquidity ratios have also improved over the years.

Liquidity ratios



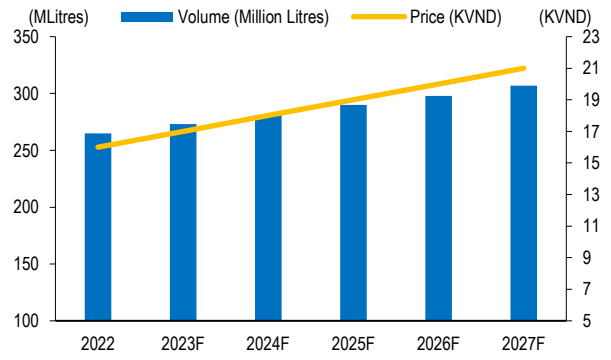
Source: Fiinpro, Shinhan Securities Company

In addition, the company maintains a regular dividend payment over the years at 2,500 VND to 3,000 VND/share, with a cash dividend payout ratio of 60-80% in the past 3 years after long-term debt obligations have been fulfilled. Currently, QNS has not invested in new projects, so we expect the company to continue to maintain this dividend level in the future.

Earning estimates

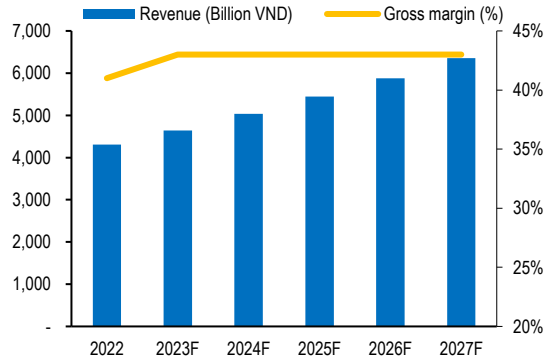
Based on the above arguments, we expect the sales of the plant-based milk segment to grow 7.8% YoY to VND 4,641 billion with a gross profit margin of 43% or VND 1,996 billion in 2023F. Specifically, the increase in selling price and volume due to the launch of new products and the cooling of imported soybean prices were the main drivers of revenue, recovering QNS's gross profit margin for this year. In the period of 2024F – 2027F, we conservatively forecast volume and price growth of 3% and 5%, respectively, as the competition in the dairy segment and gross profit margin will remain at 42% due to optimal production through seedling and technology.

Forecast volume and average selling price of plant-based milk



Source: Company data, Shinhan Securities Company

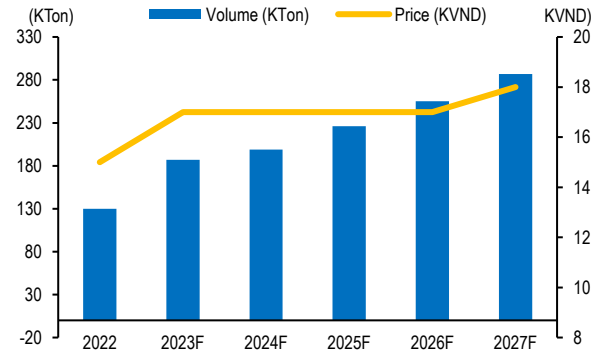
Forecast revenue and gross margin of plant-based milk



Source: Company data, Shinhan Securities Company

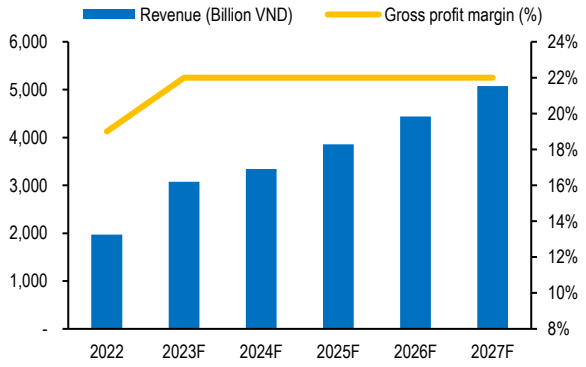
For the sugar segment, we forecast revenue to grow 56% YoY to VND 3,077 billion with selling price up 10% YoY and volume up 43% YoY in 2023F thanks to strong sugarcane output. Gross profit margin will be at 22% and remain unchanged from last year due to the offset in increasing selling price and increasing purchase price of raw sugar cane. We cautiously assess that revenue growth will only remain around 14-15% for the period of 2024F-2027F due to (1) the impact of climate change on sugarcane output, (2) complicated movements of imported sugar and (3) excise tax on sugary soft drinks if passed. Gross profit margin for the period 2024F-2027F will be at 22% by maintaining the price of sugarcane for farmers to maintain a stable raw material area.

Forecast volume and price of sugar



Source: Company data, Shinhan Securities Company

Forecast revenue & gross profit margin of sugar



Source: Company data, Shinhan Securities Company

Forecast revenue and net profit of QNS (2022-2027F)

(Unit: VND billion)	2022A	2023F	2024F	2025F	2026F	2027F
Net Revenue	8,255	9,825	10,854	11,924	13,144	14,478
Plant-based milk	*4,305*	*4,641*	*5,033*	*5,444*	*5,877*	*6,359*
Sugar	*1,973*	*3,077*	*3,343*	*3,856*	*4,440*	*5,075*
*Trading**	*1,582*	*1,704*	*2,067*	*2,205*	*2,399*	*2,608*
Others	*395*	*403*	*411*	*419*	*428*	*436*
Gross profit	2,459	2,985	3,260	3,568	3,900	4,262
Operating profit	1,359	1,707	1,816	1,994	2,152	2,337
Net profit	1,286	1,583	1,716	1,852	1,997	2,163
Profit margin (%)						
Gross profit margin	29.8	30.4	30.0	29.9	29.7	29.4
Operating profit margin	16.5	17.4	16.7	16.7	16.4	16.1
Net profit margin	15.6	16.1	15.8	15.5	15.2	14.9
Growth (%YoY)						
Net Revenue	12.5	19.0	10.5	9.9	10.2	10.1
Operating profit	3.3	25.6	6.4	9.8	7.9	8.6
Net profit	2.6	23.0	8.4	7.9	7.8	8.3

Source: Company data, Shinhan Securities Company

(*) Tradind revenue is derived from subsidiary company Thanh Phat Trading One Member Limited Liability Company. This company mainly sells QNS products.

Recommendation and Valuation

Recommended Buy with target price VND 55,700

We offer an initial valuation for Quang Ngai Sugar JSC with a buy recommendation and a target price of VND 55,700 equivalent to a 25% upside compared to the current market price. From a long-term view, QNS is an investment that can be considered for the following reasons:

1) QNS continues to consolidate its leading position in the soy milk industry thanks to high growth potential and improved gross profit margin
2) Increase in price and output helps increase sugar sales
3) Strong financial position, high dividend payout ratio

Valuation method

We apply a combination of P/E and Discounted Cash Flow (DCF) valuation methods with the weights of 50% and 50%, respectively to value QNS. Based on the P/E method, we collect data from businesses in the same industry that are similar in size to QNS operating in the country and in the Asia-Pacific region. The average P/E of businesses in the statistics (except QNS) is at 11.0x. Combined with our forward EPS of VND 5,259 we expect a 12-month QNS price target of VND 57,849.

Peer valuation

Ticker	PE	Mkt Cap (USD mil)	EPS Growth (%)	ROA (%)	ROE (%)
BRCM IN Equity	14.27	22,395	(37.88)	5.73	10.03
KSL TB Equity	9.12	9,750	114.29	3.44	7.39
DCB IN Equity	8.74	8,215	(16.49)	6.56	9.88
HTC TB Equity	9.63	5,154	(18.80)	8.56	13.85
DSIL IN Equity	9.51	4,794	(32.40)	7.77	14.83
PWRT MK Equity	14.57	4,523	(8.54)	13.29	20.34
Mean	11.0				
EPS forward	5,259				
Target price	**57,849**				

Source: Bloomberg, Shinhan Securities Company

For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield at 3% as the risk-free rate. Beta is calculated based on the last 5 years' historical data of QNS and VNINDEX. Based on those assumptions, QNS's FCFF target price is valued at VND 53,510.

Weighted Average Cost of Capital (WACC)

WACC (%)	**11.7**
Risk-free rate (%)	3.0
Equity risk premium (%)	11.1
Beta	0.86
Debt cost (%)	4.0
The cost of equity(%)	12.6
Debt-to-equity ratio	0.12
Total debt (Billion VND)	1,896

Source: Company data, Shinhan Securities Company

FCF valuation

Unit: billion VND	2023F	2024F	2025F	2026F	2027F
Net profit	1,583	1,716	1,852	1,997	2,163
Plus: After-tax interest expense	71	79	94	105	118
Plus: Depreciation & Amortization	488	489	491	499	504
Minus: Change in working capital	62	117	136	126	111
Minus: CapEx	325	11	11	11	12
Free Cash Flow (FCF)	**1,756**	**2,156**	**2,290**	**2,464**	**2,662**
Discount rate	0.90	0.80	0.72	0.65	0.58
PV of FCF	1,580	1,725	1,649	1,602	1,544
Growth rate	2%				
Present value of long-term value	9,646				
Enterprise value	17,746				
Debt	1,896				
Cash and cash equivalents	203				
Number of shares outstanding (billion units)	0.301				
Target price (VND)	**53,510**				

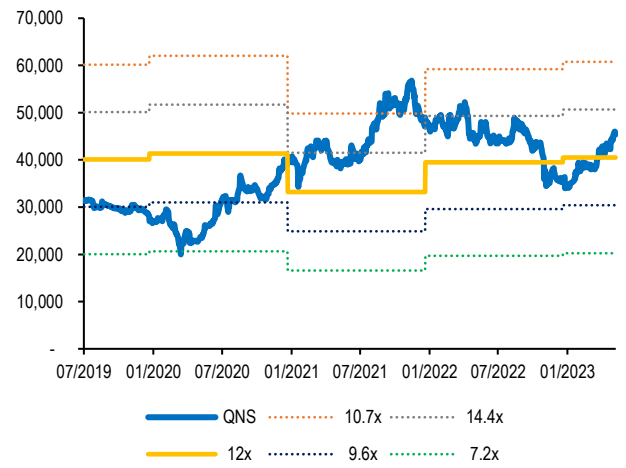
Source: Company data, Shinhan Securities Company

QNS's PER from 2017



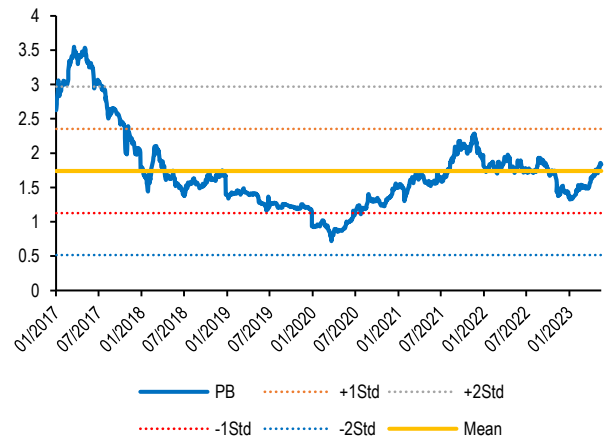
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of QNS



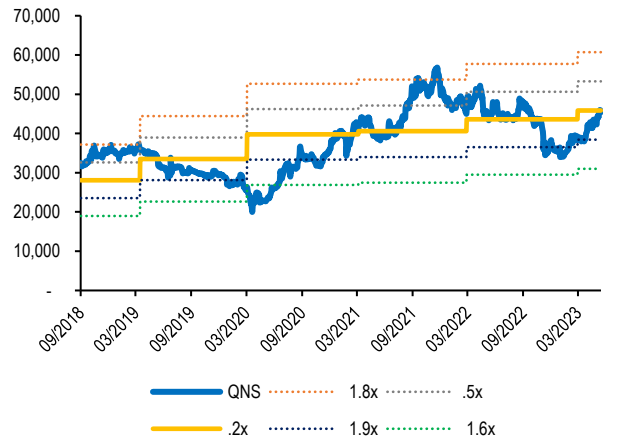
Source: Bloomberg, Company data, Shinhan Securities Vietnam

QNS's PBR from 2017



Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of QNS



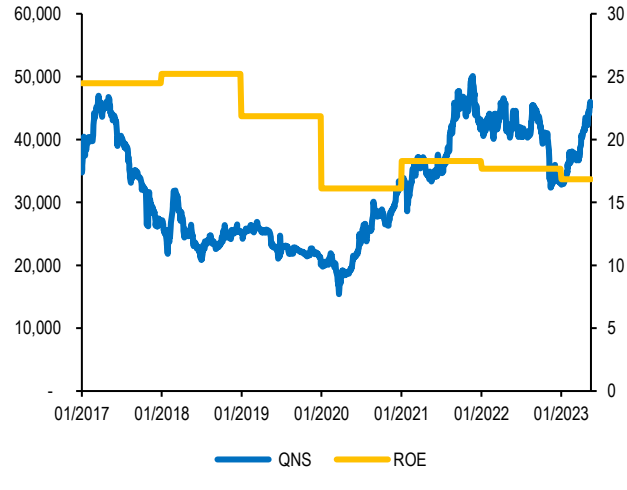
Source: Bloomberg, Company data, Shinhan Securities Vietnam

QNS' EV/EBITDA from 2017



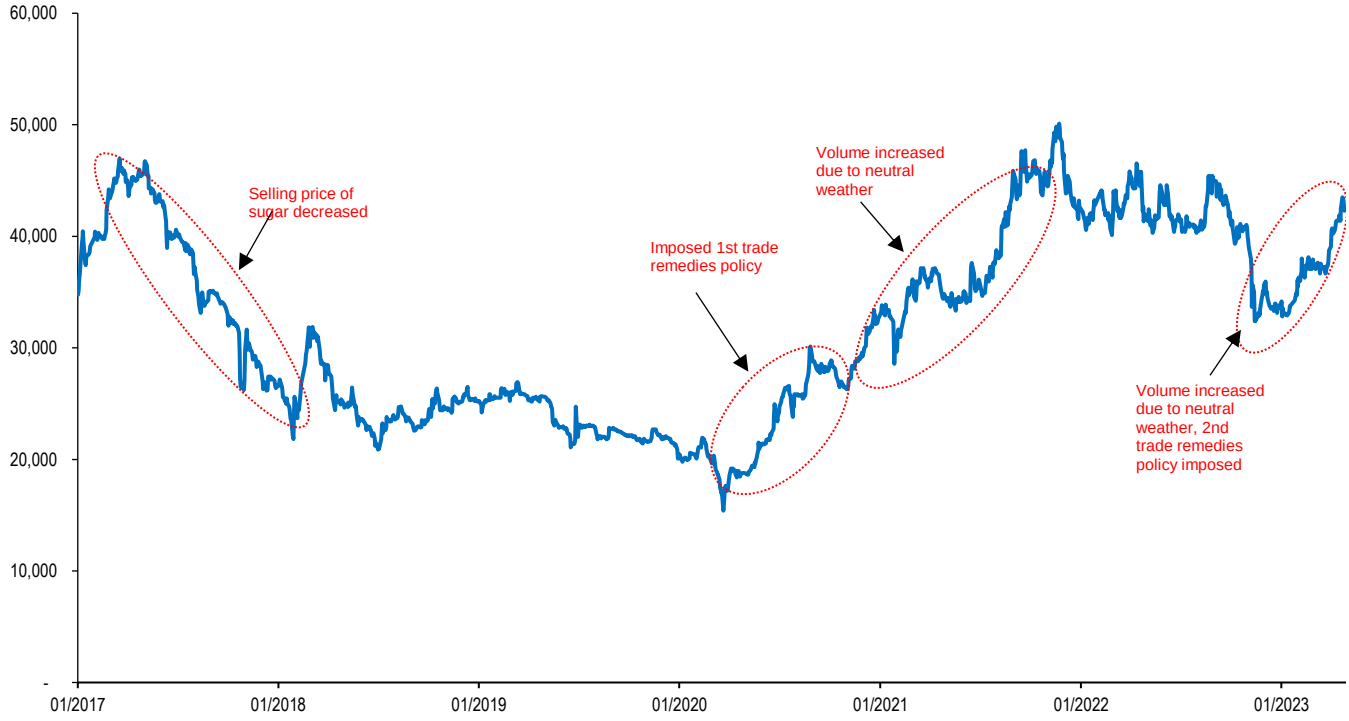
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of QNS and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events chart of QNS



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

The risk of the rising price of raw materials

QNS imports 40-60% soybeans from other countries such as Canada to improve product quality. In addition to weather, many factors affect world soybean prices such as exchange rate, fertilizer prices. Therefore, fluctuations in world soybean prices will affect QNS's gross profit margin.

Risk of business expansion

The habit of consuming phytonutrient products is still not high. According to Euromonitor, the main reason comes from biased thought that plant-based nutritional products do not have high nutrition like the traditional milk. Therefore, market expansion and production of plant-based products such as plant-based yogurt is potential but also pose certain risks for QNS when the market is still unfamiliar with this type of products.

Risk of impact of El Nino and La Nina on sugar volume

Sugarcane production is strongly affected by El Nino and La Nina, so the amount of sugar produced in years with two kinds of weather often decreases sharply. Specifically, in the 2015/16 crop year, QNS's sugar output was only 134 thousand tons compared to 175 thousand tons in the previous crop when affected by El Nino. However, these two types of extreme weather events are often difficult to predict in the long term. Mid-late 2023 is forecasted to be the year of El Nino, and therefore, it is likely that the output of the crop year 2023/24 will decrease due to the effect of this phenomenon.

Special consumption tax (SCT) risks for sugary soft drinks

Under the negative effects of sugar on health, the Ministry of Finance proposed to impose excise tax on sugary soft drinks in the draft Law on Special Consumption Tax. Specifically, except for a number of drinks that are not subject to tax such as milk; liquid food for nutritional purposes; natural mineral water, bottled water, vegetable juice, fruit and nectar (molasses) vegetables, fruits and cocoa products. Although there is no specific tax bracket, the imposition of excise tax on sugar-sweetened beverages, if approved, is expected to reduce consumption demand for sugar-containing beverages and negatively affect the revenue of the sugar industry in general and companies producing refined sugar in particular.

The complicated situation of smuggled sugar

Smuggled sugar is one of the large obstacles of Vietnam's sugar industry. The sugar produced only meets about 30% of domestic consumption demand and the tax rate for Thai sugar officially imported to Thailand is up to 47.64%, leading to an increase in the smuggling of sugar into Vietnam in the border area. Smuggled sugar at low prices restrains domestic sugar prices and negatively affects sugar producers. Therefore, the development of the sugar industry highly dependends on the ability to control smuggled sugar of the authorities.

Appendix: Financial Statements

Statement of financial position

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Total assets	**10,266**	**11,069**	**11,928**	**12,806**	**13,771**
Current assets	6,090	6,991	8,297	9,623	11,040
Cash & equivalents	203	501	779	1,353	1,936
Short-term financial asset	4,296	4,796	5,644	6,200	6,835
Accounts receivable	587	574	637	698	770
Inventories	844	816	947	1,081	1,194
Other short-term assets	160	304	290	291	305
Non-current assets	4,176	4,078	3,631	3,183	2,731
Net fixed assets	3,914	3,470	2,992	2,672	2,337
Investment assets	33	313	313	153	0
Other long-term assets	262	608	639	511	394
Total liabilities	**2,802**	**3,173**	**3,485**	**3,818**	**4,192**
Current liabilities	2,750	3,121	3,433	3,766	4,140
Accounts payable	479	590	651	715	789
Short-term borrowings	1,896	2,162	2,378	2,615	2,877
Others	375	369	404	436	474
Non-current liabilities	52	52	52	52	52
Long-term borrowings	0	0	0	0	0
Other financial liabilities	52	52	52	52	52
Total shareholders' equity	**7,465**	**7,896**	**8,443**	**8,988**	**9,579**
Capital stock	3,569	3,569	3,569	3,569	3,569
Capital surplus	354	354	354	354	354
Other capital	(159)	(123)	(88)	(52)	(16)
Retained earnings	3,701	4,096	4,608	5,117	5,672
Non-controlling interest equity	0	0	0	0	0
*Total debt	1,896	2,162	2,378	2,615	2,877
*Net debt (cash)	(2,603)	(3,135)	(4,045)	(4,938)	(5,894)

Statement of comprehensive income

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Revenue	**8,255**	**9,825**	**10,854**	**11,924**	**13,144**
Growth (%)	12.5	19.0	10.5	9.9	10.2
COGS	**(5,796)**	**(6,840)**	**(7,594)**	**(8,356)**	**(9,244)**
Gross profit	**2,459**	**2,985**	**3,260**	**3,568**	**3,900**
GPM (%)	29.8	30.4	30.0	29.9	29.7
SG&A	**(1,100)**	**(1,278)**	**(1,444)**	**(1,574)**	**(1,748)**
Operating profit	**1,359**	**1,707**	**1,816**	**1,994**	**2,152**
Growth (%)	3.3	25.6	6.4	9.8	7.9
OPM (%)	16.5	17.4	16.7	16.7	16.4
Non-operating profit	**146**	**155**	**179**	**185**	**197**
Financial income	191	196	230	252	278
Financial expense	(84)	(85)	(93)	(110)	(124)
In which: interest expenses	(83)	(84)	(93)	(110)	(124)
Net other non-operating profit	39	44	42	43	43
Pre-tax profit	**1,505**	**1,862**	**1,995**	**2,179**	**2,349**
Income tax	(219)	(279)	(279)	(327)	(352)
Net profit	**1,286**	**1,583**	**1,716**	**1,852**	**1,997**
Growth (%)	2.6	23.0	8.4	7.9	7.8
NPM (%)	15.6	16.1	15.8	15.5	15.2
Controlling interest	1,286	1,583	1,716	1,852	1,997
Non-controlling interest	0	0	0	0	0
EBIT	**1,588**	**1,946**	**2,088**	**2,289**	**2,473**
Growth (%)	5.5	22.5	7.3	9.6	8.0
EBIT Margin (%)	19.2	19.8	19.2	19.2	18.8
EBITDA	**2,078**	**2,434**	**2,577**	**2,780**	**2,972**
Growth (%)	5.0	17.1	5.9	7.9	6.9
EBITDA margin (%)	25.2	24.8	23.7	23.3	22.6

Statement of cash flow

Year to Dec. (bn VND)	2022	2023F	2024F	2025F	2026F
Cash flow from operations	**1,385**	**1,805**	**1,852**	**1,951**	**2,088**
Net profit	1,505	1,583	1,716	1,852	1,997
D&A expense	490	488	489	491	499
(Gain) from investing activities	(159)	(192)	(226)	(248)	(273)
Change in working capital	(276)	(62)	(117)	(136)	(126)
Others	(175)	(12)	(10)	(8)	(9)
Cash flow from investments	**(322)**	**(633)**	**(633)**	**(319)**	**(373)**
Change in fixed assets	(102)	(325)	(11)	(11)	(11)
Change in investment assets	(373)	(500)	(848)	(556)	(635)
Others	153	192	226	248	273
Cash flow from financing	**(1,041)**	**(874)**	**(941)**	**(1,058)**	**(1,132)**
Change in equity	-	-	-	-	-
Net borrowing	(136)	266	216	237	262
Dividends	(904)	(1,140)	(1,157)	(1,295)	(1,394)
Change in total cash	**22**	**298**	**278**	**574**	**583**
Beginning cash	179	203	501	779	1,353
Change in FX rates	2	-	-	-	-
Ending cash	203	501	779	1,353	1,936

Source: Company data, Shinhan Securities Vietnam

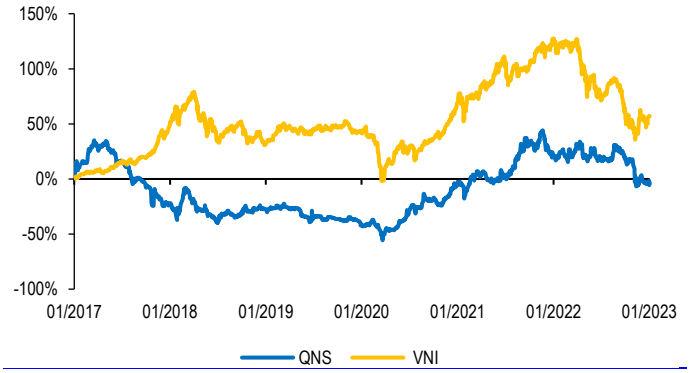
Key ratios

Year to Dec.	2022	2023F	2024F	2025F	2026F
EPS (VND)	4,226	5,259	5,701	6,153	6,635
BPS (VND)	20,914	22,124	23,656	25,184	26,839
DPS (VND)	3,014	3,800	3,857	4,317	4,647
PER (x)	8.5	10.6	9.8	9.0	8.4
PBR (x)	1.4	2.5	2.4	2.2	2.1
EV/EBITDA (x)	5.3	7.3	6.9	6.4	6.0
Dividend payout ratio (%)	70.3	72.0	67.4	69.9	69.8
Dividend yield (%)	2.7	2.0	1.9	2.1	2.2
Profitability					
EBITDA margin (%)	25.2	24.8	23.7	23.3	22.6
OPM (%)	16.5	17.4	16.7	16.7	16.4
NPM (%)	15.6	16.1	15.8	15.5	15.2
ROA (%)	12.5	14.3	14.4	14.5	14.5
ROE (%)	17.2	20.0	20.32	20.6	20.8
Stability					
Debt to equity ratio (%)	25.4	27.4	28.2	29.1	30.0
Net debt ratio (%)	(125.3)	(128.8)	(157.0)	(177.6)	(198.3)
Cash ratio (%)	163.6	169.7	187.1	200.6	211.9
Interest coverage ratio (x)	19.1	23.2	22.5	20.8	19.9
Activity (%)					
Working capital turnover (times)	25.9	28.0	29.4	29.4	29.3
Inventory turnover (days)	55.5	54.1	54.7	54.7	54.4
Receivable turnover (days)	21.5	21.6	20.4	20.4	20.4

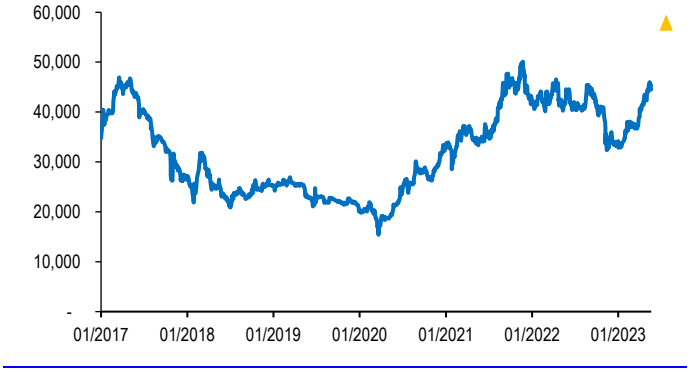
Source: Company data, Shinhan Securities Vietnam

Quang Ngai Sugar JSC (QNS VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
14/06/2023 (Initiation)	BUY	55,700	17.7	32.5/4.2

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