

30 Jul 2024

Sao Ta Foods (FMC)

Solid foundations overcome challenges

- Shrimp export volumes surged by +22.5% yoy in 2Q24
- Gross margin expanded thanks to lower shrimp raw costs
- Maintain HOLD rating for FMC

Facts: Shrimp export volumes drove revenue growth in 2Q24

In 2Q24, FMC released a VND1,243bn revenue (+20.7% yoy) of which revenue's shrimp products: +21.1% yoy (VND1,211bn) while revenue's agricultural products: -2.3% yoy (VND32bn). In particular:

- **Shrimp products (Figure 3):**
 - The export volume reached at 4,084 tonnes (+22.5% yoy) thanks to more vibrant restocking activities.
 - Whereas, average selling prices (ASPs) sit at USD10.8/kg (-3.2% yoy/ -4.7% qoq), due to (1) weak Yen currency weighed on Japanese consumer spending, and (2) intense competition to shrimp supply from Ecuador, Indian... in US and EU markets.
- **Agricultural products:** the volume sales inched down -1% yoy to 290 tonnes, while ASPs slumped to USD4/kg (-3.4% yoy) in our estimates.

Notably, 2Q24's gross margin (GM) posted to 11.3%, improving by +2.7%p yoy and +4.7%p qoq (Figure 4), thanks to high efficiency of self-sufficiency farming areas that decreasing shrimp material costs. Meanwhile, shrimp ASPs still edged down.

2Q24's SG&A/revenue surged to 6.4% (+5.2%p yoy, figure 5) due to (1) the upturn in shipping costs gradually impacted on FMC's business, and (2) FMC did not record the VND47.7bn anti-dumping tax refund item this quarter (excluding this item, FMC's core business still shows good growth). At the bottom line, NPAT-MI recorded to VND66.3bn (-3.1% yoy).

2Q24 revenue and NPAT-MI have fulfilled 98%/91% of our 2Q24 estimates in ["2H24F Seafood sector outlook"](#). And 6M24 revenue and NPAT-MI have fulfilled 46%/40% of our 2024 forecasts

Table 1. Quarterly earnings snapshot in 2Q24

(VND bn, %, %p)

	2Q23	3Q23	4Q23	1Q24	2Q24	QoQ	YoY
Sales	1,033	1,793	1,253	1,461	1,243	(15)	20
OP	77	88	89	57	84	46	9
OP margin (%)	7	5	7	4	7	0.03	0.01
EBT	77	88	89	57	84	46	9
NPAT-MI	68	82	82	50	66	33	(3)

Source: Company data, KISVN

12M rating **HOLD (Maintain)**

12M TP

Up/Downside

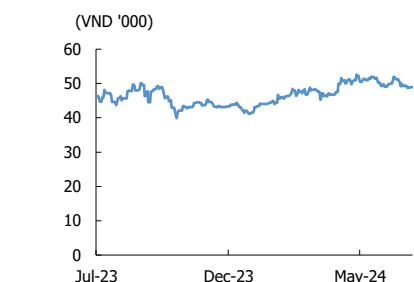
Stock Data

VNIIndex (30 Jul, pt)	1,247
Stock price (30 Jul, VND)	48,900
Market cap (USD mn)	126
Shares outstanding (mn)	65
52-Week high/low (VND)	52,600/39,886
6M avg. daily turnover (USD mn)	0.14
Free float / Foreign ownership (%)	22.9/31.6
Major shareholders (%)	
PAN Group	37.8
C.P Vietnam	24.9

Performance

	1M	6M	12M
Absolute	(0.3)	13.5	5.5
Relative	(0.6)	6.9	0.2

Stock price trend



Source: Bloomberg

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Pros & cons: Key growth catalyst could come from high self-sufficiency rate

In 3Q24F, we think FMC's business results could remain recovery thanks to two key drivers:

- *Shrimp export volume*: per BOD view, shrimp export volume could climb by +10~15% yoy in 2H24F thanks to the better outlook of consumption in key markets (Japan, US and EU);
- *Shrimp material costs*: Entering the main harvest season in 3Q24F, shrimp material volumes are likely to be high (with a farming success rate of 90%, per BOD), thereby increasing the self-sufficiency rate and lowering shrimp COGS.

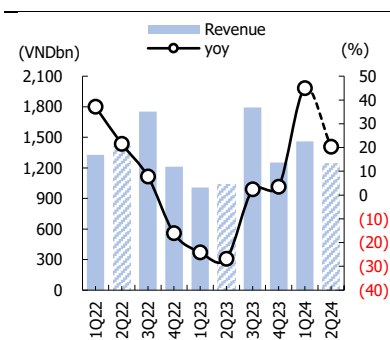
Although shrimp COGS could be lower in 3Q24F, we think FMC's 3Q24F GM is unlikely to swell significantly because shrimp ASPs are less of a catalyst for growth. This is attributed to:

- *Price competition pressures*. We still concern about the risks of fierce competition from Ecuadorian shrimps, especially in US and EU markets. As data showed, Ecuador's shrimp export volume reached a record high in April and May-24 and gaining more market shares in US and EU (Figure 6, 7).
- *The prolonged weakness of the Yen currency* in Japan could weigh on shrimp ASPs in this market for a while.

Action: Maintain HOLD rating for FMC

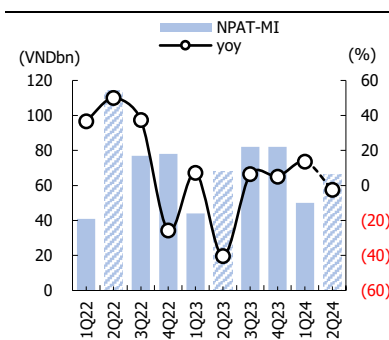
We maintain HOLD recommendation for FMC shares due to ongoing concerns about competitive pressures, which may impact shrimp ASPs for an extended period. In short-term view, based on the estimated 2024F NPAT, FMC's 1-year PER forward is trading at 9.6x, higher than the 5-year average. We think short-term valuation could reflect the recovery prospects.

Fig 1. Revenue soared +20.7% yoy



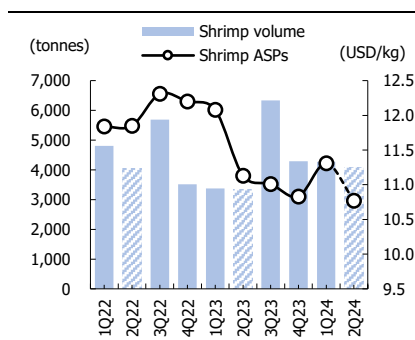
Source: Company data, KISVN

Fig 2. NPAT-MI edged down -3.1% yoy



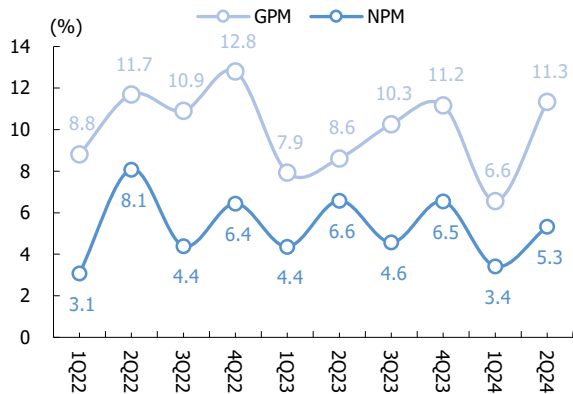
Source: Company data, KISVN

Fig 3. Shrimps ASPs were still weak



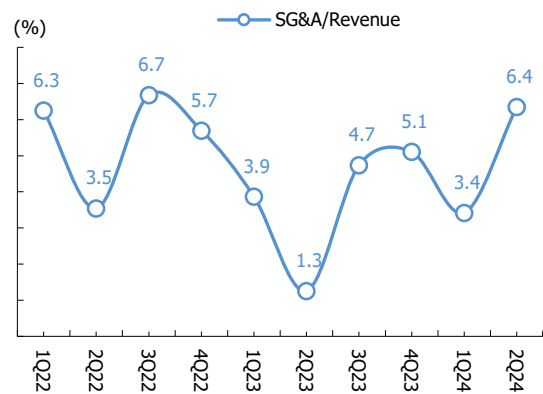
Source: Company data, KISVN

Figure 4. GM is expanded thanks to lower shrimp material costs



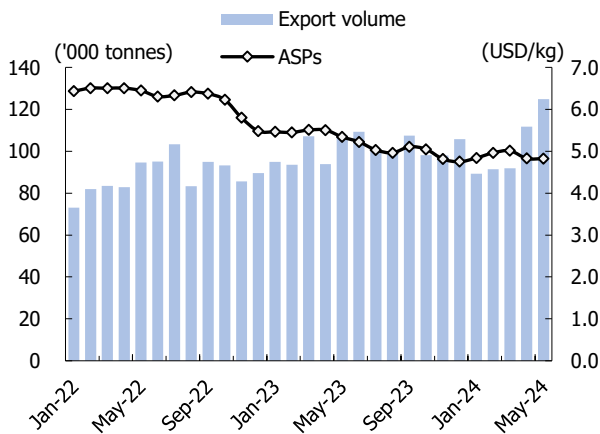
Source: Company data, KISVN

Figure 5. Selling expenses surged due to the absence of anti-dumping tax refund in 2Q24 and increase in shipping expenses



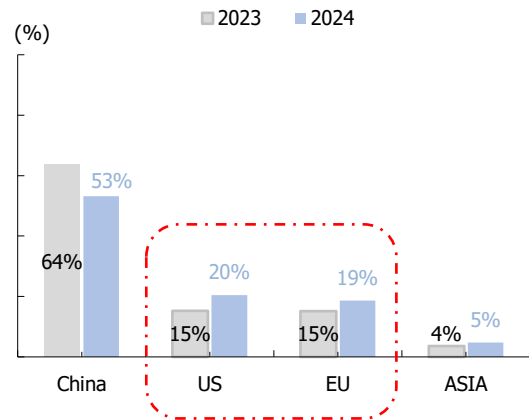
Source: Company data, KISVN

Figure 6. Ecuador shrimp supply soared in April and May-24



Source: CNA, KISVN

Figure 7... Market share expansion to US and EU markets



Source: CNA, KISVN

■ Company overview

Sao Ta Foods JSC was established in 1996 in Soc Trang Province. The company specialized in farming, processing, and exporting shrimp products. FMC has been top 3 shrimp exporters of Vietnam, accounting for 5% of shrimp market shares. The products are distributed in Japan, the US, EU, Korea and other.

Balance sheet

(VND bn)

FY-ending Dec.	2020A	2021A	2022A	2023A	2024F
Current assets	1,200	2,150	1,877	2,132	2,622
Cash & cash equivalents	278	770	585	492	857
Accounts & other receivables	314	377	280	280	350
Inventory	608	941	929	1,000	1,068
Non-current assets	315	1,381	1,292	1,640	1,765
Fixed assets	314	263	419	848	774
Investment assets	1	-	-	-	-
Others	197	287	693	364	312
Total assets	1,711	2,700	2,989	3,344	3,707
Advances from customers	0	6	21	3	3
Unearned revenue	114	-	-	-	-
Trade payables	51	98	83	94	103
Others	23	195	244	179	228
ST debt & due bonds	442	415	515	824	798
LT debt & bonds	0	-	-	-	-
Total liabilities	630	723	873	1,110	1,144
Controlling interest	1,081	1,782	1,924	2,029	2,329
Capital stock	681	654	654	654	654
Capital surplus	191	594	594	594	594
Other reserves	0	0	0	(0)	(0)
Retained earnings	400	534	676	781	1,082
Minority interest	0	195	192	205	234
Shareholders' equity	1,081	1,977	2,116	2,234	2,563

Income Statement

(VND bn)

FY-ending Dec.	2020A	2021A	2022A	2023A	2024F
Sales	4,415	5,199	5,702	5,087	5,938
COGS	(3,986)	(4,670)	(5,074)	(4,594)	(5,323)
Gross profit	430	529	628	493	615
SG&A expenses	(204)	(264)	(321)	(201)	(345)
Operating profit	225	265	307	292	269
Operating profit (Adj.)	225	265	307	292	269
Financial income	33	54	91	73	83
Interest income	10	12	13	34	29
Financial expenses	(23)	(33)	(74)	(61)	19
Interest expenses	(14)	(14)	(17)	(28)	34
Other non-operating profit	0	3	5	1	(1)
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	237	289	328	305	333
Income taxes	(11)	(2)	(9)	(2)	4
Net profit	226	287	322	302	329
Net profit (Adj.)	226	267	309	276	300
Net profit of controlling interest	226	267	308	276	300
Exceptional items	0	0	0	0	0
EBITDA	307	387	493	487	548

Cash flow

(VND bn)

FY-ending Dec.	2020A	2021A	2022A	2023A	2024F
C/F from operations	42	178	436	197	399
Net profit	226	289	329	305	333
Dep'n & Amort'n	81	83	89	154	181
Net incr. in W/C	(265)	372	422	467	450
C/F from investing	(61)	(233)	(515)	(455)	(79)
Capex	(70)	(277)	(438)	(212)	(177)
Incr. in investment	9	45	(78)	(243)	98
C/F from financing	42	555	(101)	163	(26)
Incr. in equity	(0)	682	(0)	-	-
Incr. in debt	165	-	-	306	(26)
Dividends	(123)	(98)	(142)	(143)	-
C/F from others	0	0	(3)	1	-
Increase in cash	24	501	(183)	(93)	294

Key financial data

FY-ending Dec.	2020A	2021A	2022A	2023A	2024F
Per-share data (VND, adj.)					
EPS	4,007	4,042	4,703	4,221	4,594
BPS	22,044	27,252	29,400	31,024	35,619
DPS	2,000	2,000	2,000	2,000	-
Growth (%)					
Sales growth	19.0	17.8	9.7	(10.8)	16.7
OP growth	(5.1)	17.5	15.8	(4.8)	(7.8)
NP growth (Adj)	(1.7)	27.1	11.3	(5.4)	8.8
EPS growth (Adj)	(13.8)	0.9	16.3	(10.3)	8.9
EBITDA growth	(3.5)	15.7	11.8	(3.7)	(7.8)
Profitability (%)					
OP margin (Adj)	5.1	5.1	5.4	5.7	4.5
NP margin (Adj)	5.1	5.5	5.6	5.9	5.5
EBITDA margin	6.9	6.8	7.0	7.5	4.5
ROA	13.2	9.9	10.3	8.3	9.3
ROE	20.9	15.0	16.0	13.6	13.8
Dividend yield	5.2	5.2	6.2	5.4	-
Dividend payout ratio	43.4	36.4	31.6	47.4	-
Stability					
Net debt (VND bn)	164.7	(184.8)	111.2	263.5	(58)
Net debt/equity (%)	15.2	(10.4)	5.8	13.0	(2)
Valuation (x)					
PE	10.9	10.8	9.3	8.0	9.6
PB	2.0	1.6	1.5	1.4	1.4
EV/EBITDA	6.8	5.9	5.2	5.4	12.6

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