

22 Oct 2024

Sao Ta Foods (FMC)

12M rating **HOLD (Maintain)**

12M TP
Up/Downside

Absence of short-term growth impetus

- Shrimp export volumes surged by +32.3% yoy in 3Q24
- Selling expenses eroded FMC's NPAT-MI in 3Q24
- Maintain HOLD rating for FMC

Stock Data

VNIndex (22 Oct, pt)	1,271
Stock price (22 Oct, VND)	46,500
Market cap (USD mn)	120
Shares outstanding (mn)	65
52-Week high/low (VND)	52,600/39,886
6M avg. daily turnover (USD mn)	0.08
Free float / Foreign ownership (%)	22.9/31.1
Major shareholders (%)	
PAN Group	37.8
C.P Vietnam	24.9

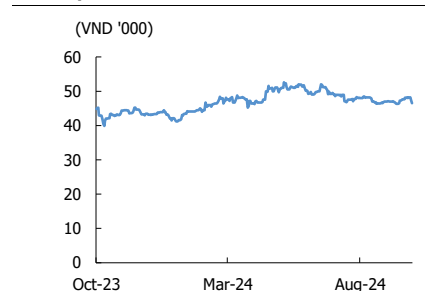
Facts: Shrimp volumes soared but earnings were offset by an increase in selling expenses

In 3Q24, FMC released a revenue of VND2,845bn (+58.6% yoy) of which shrimp products revenue: +60.1% yoy, posting to VND2,801bn while agricultural products revenue: +1% yoy (VND44bn). In particular:

Performance

	1M	6M	12M
Absolute	(1.1)	0.0	0.8
Relative	(1.2)	(8.2)	(16.3)

Stock price trend



Source: Bloomberg

- **Shrimp products (Figure 3):**
 - The shrimp volumes reached at 8,919 tonnes (+32.3% yoy) thanks to (1) Higher export demand in key markets, and (2) The shrimp production surged significantly in 3Q24 due to the ability to supply raw shrimp materials on a larger scale compared to other domestic companies, ensuring export orders.
 - Average selling prices (ASPs) sat at USD11.25/kg in 3Q24 (+8.7% yoy/ +4.4% qoq), per our estimate.
- **Agricultural products:** the volume sales inched up +4.22% yoy, to 417 tonnes, while ASPs slumped to USD3.75/kg (-3.06% yoy), per our estimates.

Notably, 3Q24's gross margin (GM) posted to 10.8% (+0.6%p yoy/ -0.49%p qoq, figure 4). Despite a good harvest and a slight improvement in shrimp ASPs, high demand in export volumes led FMC to increase its procurement of raw shrimp from outsources, which in turn raised the cost of raw materials per finished product. Per our estimate, 3Q24's costs of raw materials per finished product surged by 27% yoy.

3Q24's SG&A/revenue surged to 6.7% (+1.9%p yoy, figure 5) due to (1) the upturn in shipping cost, and (2) FMC recorded the VND23.2bn in countervailing duties (CVD) imposed by the US market in this quarter. At the bottom line, NPAT-MI recorded to VND79.6bn (-2.4% yoy/ +20.1% qoq).

Table 1. Quarterly earnings snapshot in 3Q24

(VND bn, %, %p)

	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ	YoY
Sales	1,793	1,253	1,461	1,243	2,845	1.29x	58.6
OP	88	89	57	84	91	8.3	3.7
OP margin (%)	5	7	4	7	3.2	(3.6)	(1.7)
EBT	88	89	57	84	91	8.5	3
NPAT-MI	82	82	50	66	80	20.1	(2.4)

Source: Company data, KISVN

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Pros & cons: Absence of growth impetus in 4Q24F

In 4Q24F, we think FMC's shrimp segment could have some positive signs:

- *Shrimp export volume*: We expect that shrimp export volume prospects could remain intact as in 3Q24, climbing by 20~30% yoy in 4Q24F, thanks to a revival in consumption.
- *Shrimp ASPs*: The recovery momentum may be moderate due to the continued pressure of global shrimp supply. At the same time, demand is only in the early stages of recovery. Therefore, we believe that more time will be needed to absorb the excess supply, and as a result, shrimp ASPs are likely to edge up slightly in key markets (Figure 6)

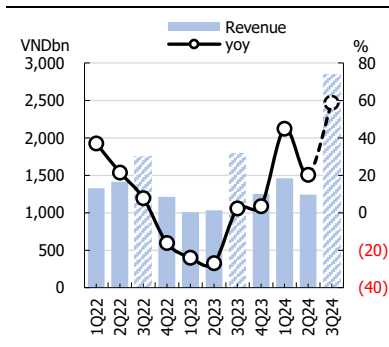
On the other hand, shrimp material costs could rise in 4Q24F due to the off-season in shrimp farming, which leads to a lower self-sufficient supply and increased reliance on outsourced shrimp. Therefore, 4Q24F's GM could face the risk of narrowing.

Besides, FMC could still be burdened by higher shipping costs (due to a higher proportion of CIF orders compared to FOB orders¹) and by paying 2.84% in preliminary countervailing duties (CVD) on total shrimp export turnover to US market. Therefore, 4Q24F's NPAT-MI of FMC may not show significant growth.

Action: Maintain HOLD rating for FMC

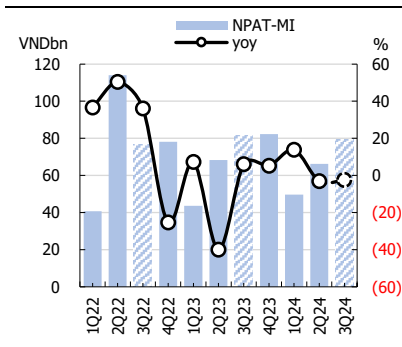
We maintain **HOLD recommendation** for FMC shares due to ongoing concerns about competitive pressures, which may impact shrimp ASPs for an extended period. In short-term view, the higher shipping costs and CVD that may erode FMC's earnings. Therefore, we think valuation of FMC has a less catalyst for improvement.

Fig 1. Revenue soared +58.6% yoy



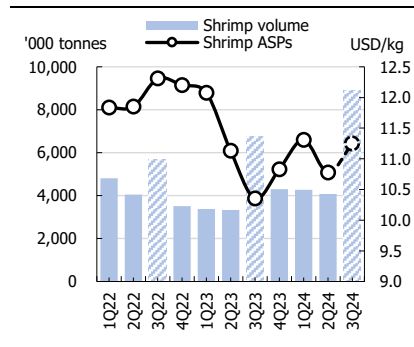
Source: Company data, KISVN

Fig 2. NPAT-MI edged down -2.4% yoy



Source: Company data, KISVN

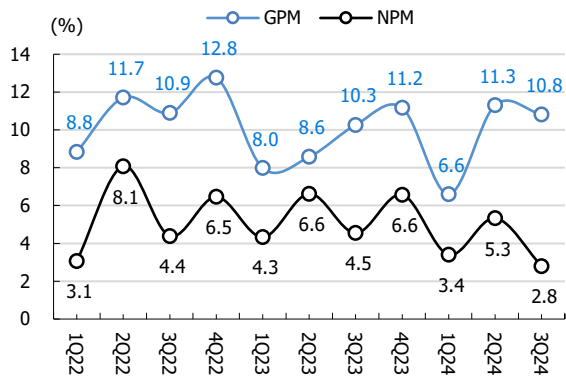
Fig 3. Shrimps volumes and ASPs rebounded in 3Q24



Source: Company data, KISVN

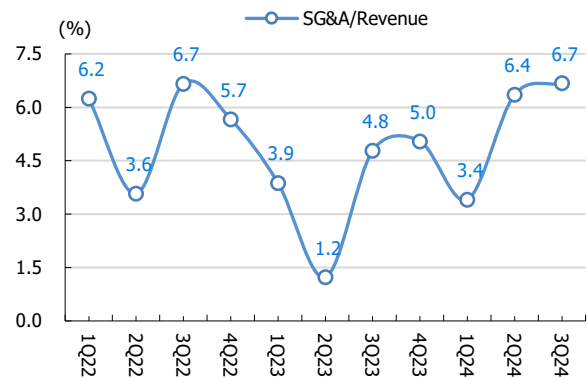
¹ CIF – Cost, Insurance & Freight: Sellers cover the costs;
FOB – Free on Board: Buyers cover the costs.

Figure 4. NPM steeply plummeted due to higher selling expenses in 3Q24



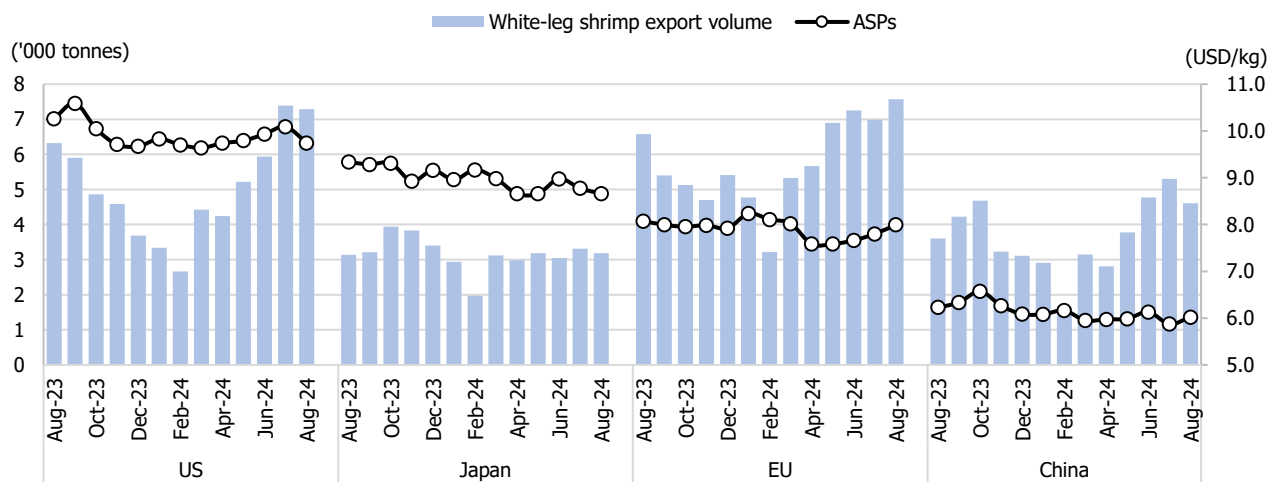
Source: Company data, KISVN

Figure 5. SG&A/revenue climbed to 6.7% in 3Q24



Source: Company data, KISVN

Figure 6. The trend of Vietnamese Vannamei shrimp ASPs and export volume in 8M24



Source: Agromonitor, KISVN estimate

■ 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

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

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

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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