

Flash note

20th Aug 2020

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1H.2020 performance update

2Q.2020 business results: witnessed a slight recover in soymilk, which contributed 78.9% of gross profit

QNS announced Q2.2020 results, stating a decrease of 12.0% yoy in revenue to VND1,824.9 billion and a decline of 12.4% yoy in profit to 320.5 billion.

Soymilk registered the highest amount revenue, slightly falling by 6.0% yoy while other segments like sugar and beer plunged by 34.9% yoy for the former and by 34.7% for the latter.

We saw a moderate improvement in GPM which was 33.3% in comparison with 31.4% in previous first half.

Accumulated in 1H.2020, for consolidated results, QNS recorded net sales of VND3,249.5 billion (- 20.2%,) and net income decreased by 16.5% yoy to VND632.1 billion

- **Soymilk:** Despite increase in market share, revenue fell by 6.0%, attributable to the drop of 8.8% yoy in sale volume.

According to Nielsen, by the end of July 2020, the market share of QNS rose to 86.8%, increasing by 0.4 bps, which showed that QNS was performing better than overall industry under the difficult circumstance. Because QNS has not made any changes in unit price since the last 4% adjustment in 2019 July, the increase in average selling price resulted from the product mix shifting towards high-end products. Regarding sale volume, all of product lines decreased in line with the industry, except for Fami Go (5% total sale volume) suffering from the negative impact of pandemic because they are mainly distributed by convenient stores chains.

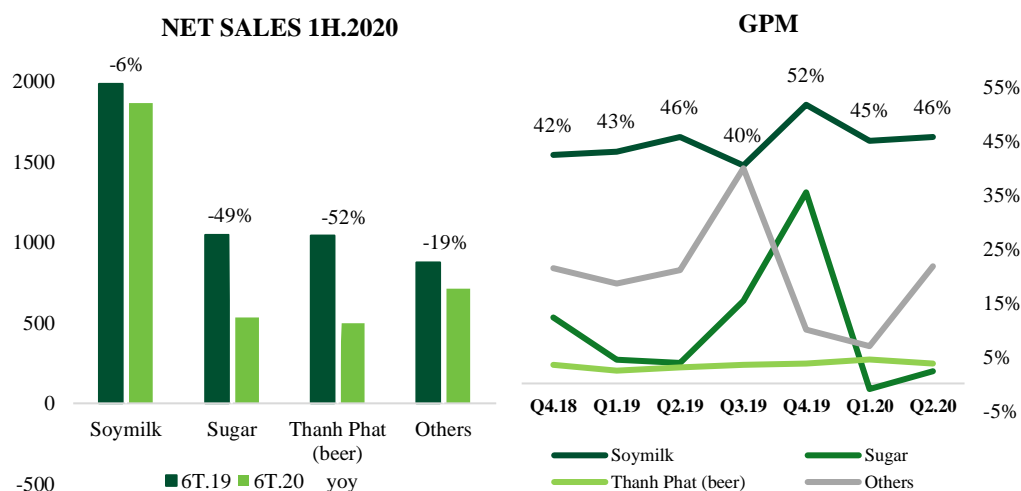
Its gross margin continued to remain high (45.4% compared to 44.6% in 1H2019).

Export soymilk: export volume remained meager as QNS is penetrating to new markets. Currently, QNS is planning to infiltrate into China and Japan, targeting middle and high-end segment in these nations. QNS has their products design changed to suitable for Chinese consumers. Also, QNS cooperates with 6 major e-commerce channels (accounting for 80% of soymilk volume of modern trade channel) such as JD.com, Taobao, Tmall... The next step is to penetrate 3-4 large supermarket chains. In Japan, QNS is introducing products to Vietnamese community and has some good feedbacks. Although QNS is pricing their products at the same level as in Vietnam, the tariff may double the amount that consumers have to pay for each unit.

- **Sugar:** net sales plummeted by 49.1% yoy to VND532.5 billion while gross margin decreased to 0.6% (4.1% in 1H.2019). The decline in sugar proceed was mostly caused by unexpected bad weather significantly reducing sugarcane yield. In 2020 QNS plan to test RE sugar production line with small quantity. From 2021, RE sugar, which mostly consumed by food and beverages manufacturers, will be sold to major industrial customers. However, there have been no specific plan for sale volume in the upcoming years.

The Refine-Extra sugar: the RE sugar production line is currently produced from raw sugar imported directly from Thailand (25,000 tons) and internal-produced sugar (4,000 tons). QNS expected in 2020, total sale volume may reach 28-30,000 tons

- **Biomass energy:** recorded net revenue of VND 88 billion, of which ~ 25% for internal use and 75% of electricity sold to EVN. From April 25, 2020, the power price as determined by the Government has increased to 7.03 cents/kWh for co-generation projects and 8.47 cents/kWh for non-cogeneration (the former price was 5.8 cents/kWh). QNS's Biomass plant can operate for the whole year, with 6 months using bagasse and 6 months using other raw materials such as wood, sawdust from neighboring forestry units.



Source: QNS, VCBS compiled

2020 OUTLOOK

Soymilk: Vinasoy's goal is to expand the soymilk segment, attracting more consumers, not to gain market share from the unbranded soymilk segment. In the remaining 6 months of 2020 when the second wave of Covid-19 rises again in Vietnam, being rampant in the Central region such as Da Nang, Hoi An and Quang Nam provinces we do not expect a moderate recover as in second quarter. This view is also support by QNS's announcement to not promote any selling campaigns . . We are of the opinion that soymilk segment may witness a sharp bounce in next year after the pandemic ends.

RE sugar: This is an opportunity for QNS to capture the country's shortage. The positive point is that the ATIGA agreement allows QNS to import cheap raw sugar from Thailand to process RE refined sugar at higher prices. From 2021 onwards, the company expects RE output will increase and begins to contribute more to company results. In addition, we believe that when the weather conditions get better because the El Nino cycle tends to end, it can support the increase in sugarcane production again in the near future, lowering the pressure of input shortage and optimizing the utilization rate of sugar mills.

Biomass energy: This segment will benefit from the higher electricity price (+21% yoy), effective from April 25, 2020. However, the meager absolute profit generated from this power plant may contribute inconsiderable to the total income of QNS.

In summary, we believe that 2020 is the bottom of QNS's profit with all many challenges taking place simultaneously, including (1) Covid-19's impact on consumption of soymilk, (2) unfavorable weather reducing sugarcane output and (3) the new RE factory's capacity is not utilized yet while ATIGA taking effect from 1st Jan 2020. Meanwhile, the prospect for next year is not really clear when the weather and epidemic variables are quite unpredictable and the possibility of the Ministry of Industry and Trade imposing a safeguard tax on RE sugar products remains open. Therefore, we maintain a **HOLD** recommendation with a target price of **VND31,849/share** for QNS shares.

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