

Sector: **Sugar** (Latest Report: [Link](#))

Recommendation

BUY

Thanh Thanh Cong - Bien Hoa JSC (HSX: SBT) Sugar industry benefits from anti-dumping tax

Current price:	22,700	Date	26/03/2021	Shareholder Structure	
Previous target price	18,600	Outstanding Shares (Million)	617.16	Thanh Thanh Cong Inv. JSC	27.62%
New target price:	27,640	Market Cap (VND billion)	15,011	Dang Huynh Uc My	16.17%
Dividend yield	2.20%	Avg. 20D Trading vol (thousand)	3,003	Huynh Bich Ngoc	11.1%
Upside	+21.8%	% Foreign float	10.69%	Other	45.11%

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Target price: VND 31,420

Stop-loss price: VND 21,430

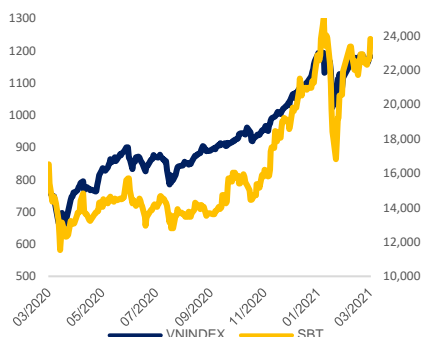
Valuation

- We recommend **BUY** SBT with a target price of **VND 27,640**, upside 21.8% compared to the price on March 24, 2021. BSC raised its target price due to improved business results thanks to **(1)** World sugar prices increased sharply in 1Q2021 +20-25% YoY; **(2)** Export of RE sugar to Europe and China increased sharply in Q4/2020 and Q1/2021; **(3)** Government anti-dumping and anti-subsidy taxes.

Forecast of business results

- We forecast SBT's FY2020/21 results will reach revenue and NPAT of **VND15,482 billion (+20.1% YoY)** and **VND457 billion (+25% YoY)** respectively, equivalent to fw EPS of VND712/share. – fw PE is 33.5x and fw PB is 1.9x.

Price comparison between SBT and VN index



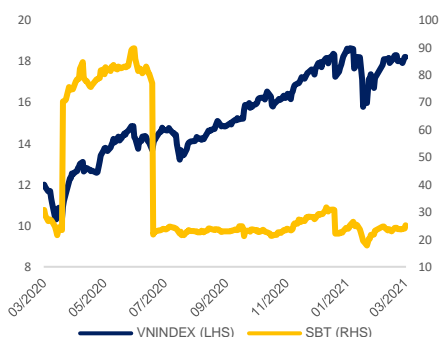
Investment Thesis

- SBT has the advantage in proactively sourcing input materials when it has a large raw material garden (a large area adjacent to high mechanization), along with owning GMC - an international commodity exchanger.
- Sugar export surplus for China and EU markets.
- Vietnam's sugar industry recovered thanks to anti-dumping and anti-subsidy taxes of the government.

Risks

- Khả năng cạnh tranh gay gắt từ đường giá rẻ Thái Lan khi hiệp định ATIFA có hiệu lực đầu năm 2020.

P/E comparison between SBT and VN index



Company Update (See next page for more detail):

- At the end of Q2 of FY2020/21, SBT achieved net revenue and profit after tax of VND 3,851 billion (+30% YoY) and VND 140 billion (+7.7 times YoY).
- For the sugar segment, Q2 revenue reached **VND3,748 billion (+34% YoY)** thanks to sugar consumption reaching **338 thousand tons (+32% YoY)** with the strategy **(1)** Focusing on boosting the domestic market share in the channel B2B and B2C consumer channels; **(2)** Expanding export markets in the EU by benefiting from EVFTA export tax incentives;

	2018/19	2019/20	Peer	VN-Index		2018/19	2019/20	2020/21	2021/22
P/E (x)	32.70	33.51	25.03	14.1	Net Sales	10,857	12,889	15,482	18,098
P/B (x)	1.47	1.90	1.13	1.9	Gross Profit	872	1,455	1,913	2,187
EV/EBITDA (x)	14.7	9.4	4.2	1.4	NPAT	259	364	457	533
ROS (%)	2.8%	2.9%	2.9%	13.6%	EPS	435	566	712	829
ROA (%)	2.1%	2.4%	5.4%	2.4%	EPS Growth	7.1%	10.9%	12.4%	12.1%
ROE (%)	5.4%	6.0%	12.7%	11.7%	Net Debt/ Equity	157.0%	107.4%	113.0%	110.7%

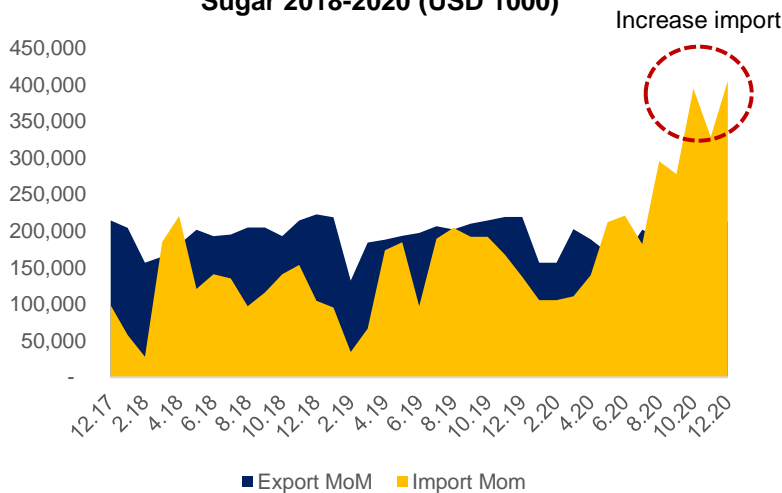
Investment Thesis in Sugar Industry in 2021

BSC assesses that the export prospect of Vietnam's sugar industry will be positive in 2021. We believe that there will be 3 main factors supporting Vietnam's sugar industry: **(1)** Vietnam increases sugar exports to the market. Europe and China in 2021; **(2)** The world sugar price is increasing strongly and is expected to remain high in 2021 due to the shortage of supply; **(3)** Anti-dumping tax from foreign imports and anti-subsidy.

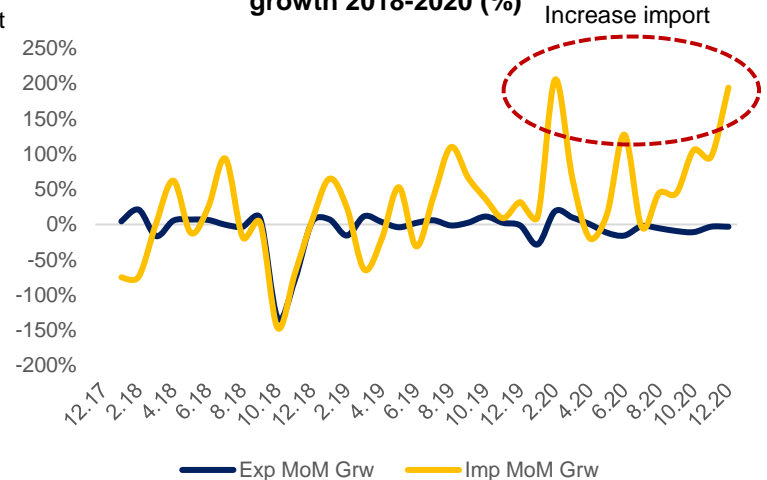
1. Vietnam sharply increases exports to the European and Chinese markets in 2021.

BSC believes that Vietnam can increase the value of sugar exports to the Chinese market in 2021. We believe that the shortage of China's sugar raw material area causes this country to increase its sugar imports from Vietnam. In 2020, China's sugar imports from Vietnam increased dramatically with a value of up to 106.3 million USD compared to 2019 only about 2.7 million USD.

Changes in import and export value of China
Sugar 2018-2020 (USD 1000)



Changes in China's sugar import and export
growth 2018-2020 (%)



Source: China Customs Statistics.

The agricultural raw material area was seriously affected by historical floods in 2020. The cause of China's sugar trade deficit is because the source of raw materials was greatly affected by floods in early July 2020, of which 3 Yunnan, Guangdong and Guangxi provinces account for 73-83% of China's total sugarcane production all affected by the historic flood.

Figure: Flood-affected provinces in China in 2020



Figure: Yunnan, Guangdong, Guangxi and Hainan are the provinces with the largest sugarcane growing areas in China

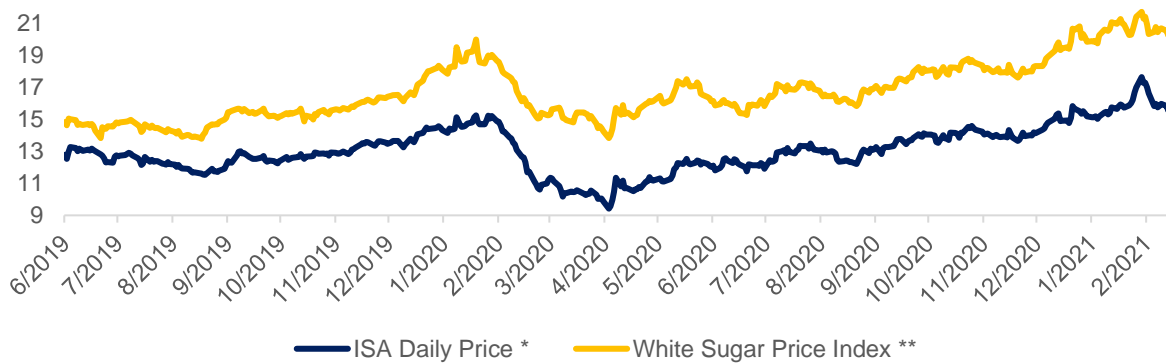


Source: Intechopen, Wikipedia.

ncrease exports to the EU market. On June 8, 2020, the National Assembly officially approved the EVFTA Agreement, which officially took effect from August 1, 2020, and committed to give preferential treatment to the import tax line of Sugar originating from Vietnam. This preferential policy creates conditions for Vietnamese Sugar producers to have the opportunity to expand their export activities to the EU market and also an opportunity for SBT because this is a market that favors clean sugar & organic sugar products is in line with the Company's strategic product lines. Since then, BSC believes that increasing exports of organic sugar will play a big role in SBT's profit growth.

2. World Sugar price increases sharply in early 2021.

World price of raw and white sugar (cents/lb)



Source: ISO Sugar.

The trend of world sugar prices continues to increase by 20-25% YoY in FY 2020/21. Currently, the world raw sugar and white sugar price indexes are trading at 15.64 cts/lb (+26.95% YoY) and 20.26 cts/lb (+25.3% YoY) respectively, mainly due to **(1)** The world has a deficit of 3.5 million tons of sugar, of which, according to ISO's forecast, world sugar production will be at 171.1 million tons compared to the current consumption level of 174.6 million tons; **(2)** Unfavorable weather in the previous year affected the world's largest sugarcane regions, Brazil, Thailand and India.

Thereby, BSC believes that the world sugar price will remain at a high level in 2021 due to the large shortage of world demand, especially the situation where China's raw material areas are lost in 2020, causing China to have a trade deficit with sugar.

3. Vietnam anti-dumping tax for imported sugar

The Ministry of Industry and Trade issued Decision No. 477/QD-BCT on the application of temporary anti-dumping ('CBPG') and anti-subsidy ('CTC') measures for cane sugar products from Thailand. The main reason is that imported sugar subsidized and dumped from Thailand increased sharply in 2020 with an output of 1.3 million tons (+330.4% YoY). Thereby, the Ministry of Industry and Trade decided to temporarily collect anti-dumping and anti-dumping tax on sugar from Thailand at 33.88% until the comprehensive impact assessment of the case is expected to Q2/2021.

BSC assesses that anti-dumping tax and anti-subsidy tax will help domestic sugar producers recover after suffering price competition from Thai sugar, thereby increasing production output and narrowing the sugar price gap between world and Vietnam.

Q2 SBT Update Business Results FY2020/21

Unit: VND Billion	2Q1920	2Q2021	% YoY	Business plan	Update business results
Net Revenue	2,967	3,851	30%	14,385	<p>At the end of Q2 of FY 2020/21, SBT achieved net revenue and profit after tax of VND 3,851 billion (+30% YoY) and VND 140 billion (+7.7x YoY), of which the sugar segment accounted for a large proportion. at most 97%.</p> <p>For the sugar segment, Q2 net revenue reached VND 3,748 billion (+34% YoY), sugar consumption reached 338 thousand tons (+32% YoY) and the average sugar selling price in the district reached VND 11,08 million/ton (+2%) YoY. BSC assesses that SBT has been able to increase sugar consumption thanks to (1) Focusing on boosting domestic market share in B2B channel and B2C consumption channel; (2) Expanding the export market in the EU by benefiting from the EVFTA export tax incentives, and at the same time benefiting from the trade deficit from China.</p> <p>SBT's gross profit in Q2 FY2020/21 reached VND495 billion (+144% YoY), coming from the improvement of NPK reaching 12.7% y/y at 6.3%, thanks to (1) Selling price increased by 2%; (2) Promote the export of Organic and RE sugar products with higher profit margins than RS sugar to the EU and China markets.</p> <p>NPAT reached 140 billion (+7.7 times YoY) partly supported by the company that controlled selling and administrative expenses well with the ratio of SG&A/Net revenue reaching 6.9% over the same period of 9.4%.</p>
Sugar	2,793	3,748	34%		
Other	173	103	-41%		
Gross Profit	203	495	144%		
Sugar	176	477	171%		
Khác	27	18	-33%		
GPM	6.8%	12.8%			
Sugar	6.3%	12.7%			
Other	15.6%	17.7%			
Financial Revenue	404	143	-64%		
Financial Expenses	(254)	(225)	-11%		
Selling Expenses	(120)	(167)	39%		
G&A	(158)	(100)	-37%		
Net Other Income	4	6	59%		
PBT	73	171	133%	662	
Corporate tax	(57)	(31)	-45%		
NPAT	16	140	776%		
Sugar consumption (tons)	256,000	338,000	32%		
Average selling price of sugar (VND million/ton)	10.911	11.088	2%		

FORECAST OF BUSSINESS RESULTS

We forecast SBT's business results for FY 2020/21 will reach revenue and NPAT of VND 15,482 billion (+20.1% YoY) and VND 457 billion (+25% YoY), equivalent to fw EPS of VND 712/share – fw PE is 33.5x and fw PB is 1.9x. BSC assumes SBT's growth thanks to:

- (1) Forecasting sugar consumption at 1,245 million tons of sugar (+17% YoY) thanks to 2 main channels: B2B big business channel and expanding market share in B2C consumption channel.
- (2) Average selling price is VND 11.72 million dong/ton, up 3.3% compared to the previous year, export price will benefit from the increase in world sugar price, while domestic sugar price will remain flat.
- (3) Sugar segment's gross profit margin will remain at 12.7%, up 1.2% y/y thanks to (3.1) SBT actively coordinates the source of input materials at competitive prices through GMC - Trader international goods; (3.2) World sugar price increased sharply by 20-25% YoY; (3.3) Promote the export of Organic sugar with high gross margin to the EU.

Table: Forecast of SBT business results 2020/21 – 2022/23

Unit: VND million	2018/19	2019/20	2020/21	2021/22	2022/23
Net revenue	10,856,612	12,888,683	15,562,313	18,097,598	21,071,631
%YoY	5.1%	18.7%	20.7%	16.9%	16.4%
Sugar	9,471,159	12,002,669	14,598,392	17,154,556	20,040,053
%YoY	8.9%	26.7%	21.6%	17.5%	16.8%
%W	87%	93%	94%	95%	95%
Molasses	301,549	311,465	342,611	375,296	409,073
%YoY	6.3%	3.3%	10.0%	9.5%	9.0%
%W	3%	2%	2%	2%	2%
Fertilizer	179,171	66,322	72,954	70,200	76,518
%YoY	-21.4%	-63.0%	10.0%	9.5%	9.0%
%W	2%	1%	0%	0%	0%
Electricity	180,874	167,045	207,175	227,737	249,197
%YoY	8.5%	-7.6%	24.0%	9.9%	9.4%
%W	2%	1%	1%	1%	1%
Other	723,860	341,181	341,181	269,809	296,790
%YoY	-20.5%	-52.9%	0.0%	0.0%	10.0%
%W	7%	3%	2%	1%	1%
Gross Profit	871,688	1,454,541	2,022,362	2,187,428	2,491,286
%GM	8%	11.29%	13.00%	12.09%	11.82%
Sugar	849,027	1,339,516	1,857,442	2,131,215	2,429,577
%GM	9.0%	11.16%	12.7%	12.42%	12.12%
Molasses	(13,691)	38,338	42,172	47,264	51,518
%GM	-5%	12%	12.3%	12.6%	12.6%
Fertilizer	9,038	9,647	10,611	(35,420)	(38,608)
%GM	5%	15%	14.5%	-50.5%	-50.5%
Electricity	8,910	15,244	60,341	1,243	1,361
%GM	5%	9%	29.1%	0.5%	0.5%
Other	18,403	51,796	51,796	43,127	47,439
%GM	3%	15%	15.2%	16.0%	16.0%
SG&A	(847,566)	(827,652)	(994,197)	(1,180,291)	(1,395,381)
SG&A/Net revenue	-7.8%	-6.4%	-6.4%	-6.5%	-6.6%
Operating Income	318,586	521,960	918,318	1,007,136	1,095,906
Net financial income	287,244	(123,664)	(280,710)	(251,534)	(194,909)
Financial revenue	1,110,636	730,202	553,074	595,215	635,384
Financial expenses	(823,393)	(853,866)	(833,784)	(846,748)	(830,292)
Net other income	103,197.10	-9,600.85	(11,533)	(23,336)	(36,758)
PBT	421,783	512,359	645,502	732,267	864,239
Corporate tax	(153,358)	(149,440)	(188,020)	(218,951)	(257,392)
NPAT	259,292	364,920	457,481	513,315	606,847
EPS	318	595	712	829	974

Source: SBT, BSC.

VALUATION

We recommend **BUY** SBT with a target price of **VND 27,640**, upside 21.8% compared to the price on March 24, 2021. BSC raised its target price due to improved business results thanks to **(1)** World sugar price increased sharply in 1Q2021 +15% YTD; **(2)** RE sugar exports to Europe and China increased sharply in Q4/2020 and Q1/2021; **(3)** Government anti-dumping and anti-subsidy taxes.

Valuation Method			
WACC		DCF (100%)	
Kd	7.9%	Terminal Value (VND billion)	25,360
Wd	43.1%	WACC	11.6%
Ke	15.6%	g	3.0%
We	56.9%	PV (Terminal Value)	16,760
Beta	0.69	PV(FCFF) 20/21-24/25F	5,946
CRP	10.0%	Total cash flow (VND billion)	22,706
ERP	14.7%	(Adjustments)	(5,647)
Rf	5.5%	Equity value (VND billion)	17,058
		Number of shares (million)	617.16
Target price:			27,640
Current price: 24/03/2021			22,700
Upside			21.8%
Dividend			2.2%

Source: BSC

DCF Method:

We value SBT based on DCF method with a target price of VND27,640/share, assuming $g=3\%$ and WACC of 11.6%.

Figure: SBT's free cash flow in 2020/21 – 2024/25

SBT - DCF Method					
	2020/21	2021/22	2022/23	2023/24	2024/25
Net Revenue	15,604	18,228	21,218	24,492	28,004
EBITDA	1,452	1,585	1,728	1,843	1,962
NPAT	536	625	732	846	992
(+) Depreciation	429	463	507	507	493
(-) Change Working Capital	238	234	216	(211)	719
(-) CAPEX	(377)	(440)	(512)	(591)	(508)
FCFF	1,294	1,353	1,403	991	2,118
PV (FCFF)	1,195	1,281	1,220	772	1,479

Figure: Sensitivity of stock prices to g and WACC

		13.1%	12.6%	12.1%	11.6%	11.1%	10.6%	10.1%
g	1.5%	19,350	20,530	21,830	23,270	24,870	26,650	28,650
	2.0%	20,300	21,580	23,000	24,580	26,330	28,310	30,530
	2.5%	21,330	22,730	24,290	26,020	27,970	30,170	32,660
	3.0%	22,470	24,010	25,720	27,640	29,810	32,270	35,100
	3.5%	23,730	25,420	27,320	29,460	31,890	34,680	37,900
	4.0%	25,120	27,000	29,110	31,510	34,260	37,440	41,160
	4.5%	26,680	28,770	31,140	33,850	36,990	40,660	45,000

Figure: SBT PE TTM (x)

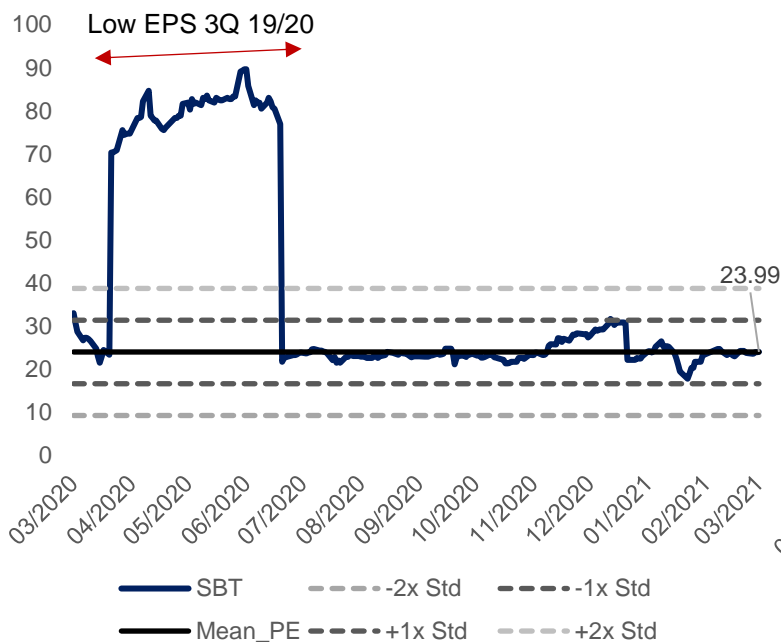


Figure: SBT PB TTM (x)

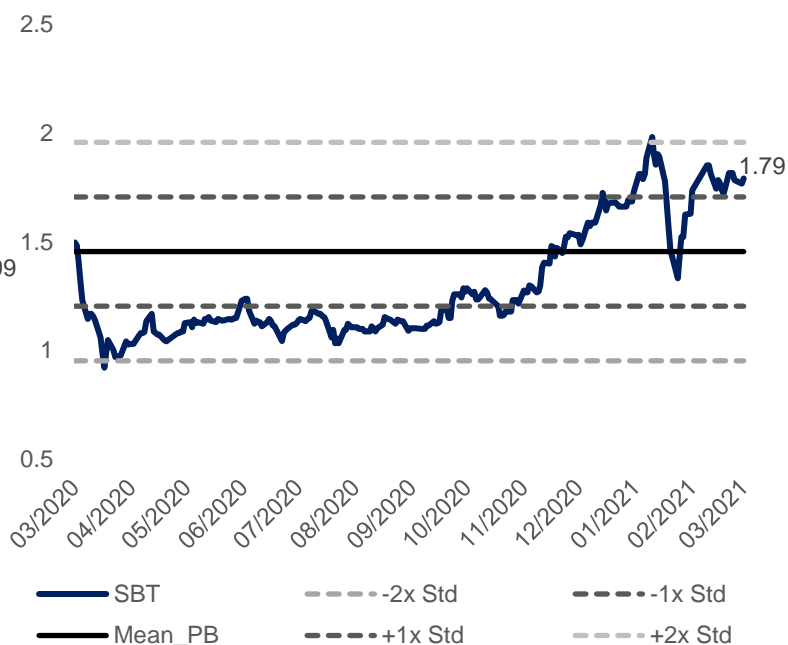
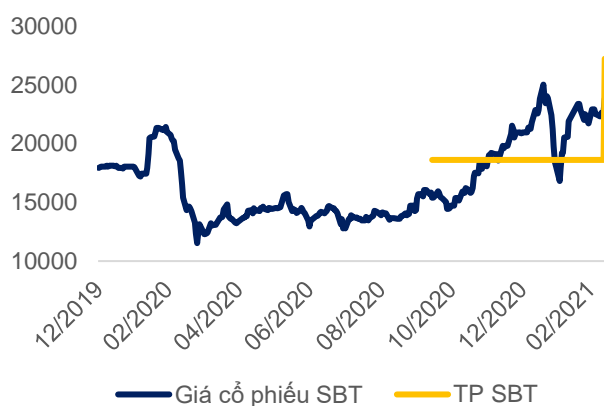


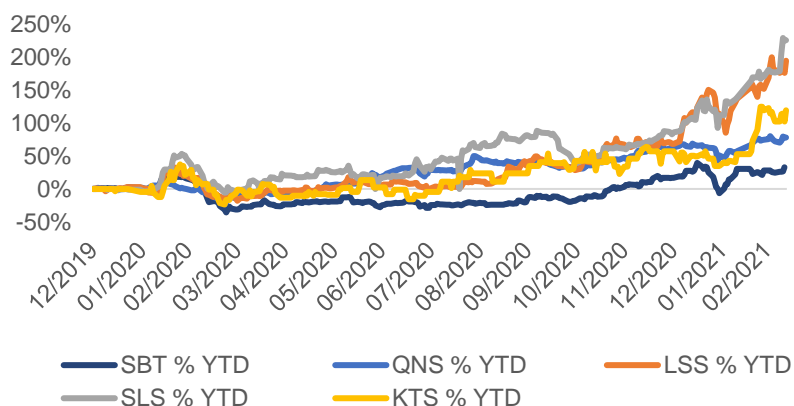
Table: Comparison of stocks in Vietnam's sugar industry

Company	Stock code	Market Cap (VND billion)	Revenue (VND billion)	NPAT (VND billion)	D/E (%)	P/E (x)	P/B (x)	NPAT margin (%)	ROA (%)	ROE (%)
QUANG NGAI SUGAR JSC	QNS VN	15,241	6,490	1,049	9.61	12.3	1.9	16.02	42.17	62.45
LAM SON SUGAR JSC	LSS VN	965	1,695	16	75.31	63.0	0.6	0.92	6.93	17.39
SON LA SUGAR JSC	SLS VN	1,352	1,048	120	-	10.8	2.5	11.41	3.22	3.78
KON TUM SUGAR JSC	KTS VN	108	153	2	3.00	34.4	0.7	1.29	5.83	6.81
THANH THANH CONG-BIEN HOA JS SBT VN		14,627	12,889	372	57.85	25.1	1.9	2.9%	5.42	12.71
	Mean	4,417	2,347	297	21.98	30.1	1.4	7.41	14.54	22.61
	Median	1,158	1,372	68	6.31	23.3	1.3	6.35	6.38	12.10

SBT Target price (VND/share)



Growth in sugar stocks 2020-2021



Source: Bloomberg.

Appendix

IS (VND billion)	2018/19	2019/20	2020/21	2021/22
Net revenue	10,857	12,889	15,562	18,179
COGS	(9,985)	(11,434)	(13,540)	(15,871)
Gross profit	872	1,455	2,022	2,307
Selling expenses	(400)	(446)	(539)	(647)
G&A	(447)	(382)	(461)	(538)
Operating income	24	627	1,023	1,122
Financial income	1,111	730	553	597
Financial expenses	(823)	(854)	(827)	(833)
Interest expenses	(705)	(686)	(659)	(665)
Gain/loss from affiliates	7	19	19	19
Other gain/loss	103	(10)	(12)	(23)
Profit before tax	422	513	757	882
Corporate tax payment	(162)	(149)	(220)	(257)
Profit after tax	259	364	536	625
Minority interest	9	(1)	(2)	(2)
NPATMI	269	362	534	622
EBITDA	319	1,034	1,452	1,585
EPS	435	566	822	958

CF (VND billion)	2018/19	2019/20	2020/21	2021/22
Profit after tax	422	513	757	882
Depreciation	492	465	429	463
Change in NWC	1,876	(81)	238	234
Other adjustments	(905)	(941)	(698)	(707)
CF from operating activities	1,436	99	1,159	1,271
Fixed assets investment	(1,304)	(303)	(377)	(440)
Other investment	1,863	(409)	(389)	265
CF from investing activities	559	(712)	(765)	(176)
Dividend paid	(193)	(214)	(432)	(432)
Cash from net borrowing	13,659	14,093	238	(187)
Other revenue	(28)	1,752	88	-
CF from financing activities	(1,315)	608	(106)	(619)
Beginning cash balance	325	1,005	1,000	1,287
Cash in year	680	(5)	287	477
Ending cash balance	1,005	1,000	1,287	1,764

BS (VND billion)	2018/19	2019/20	2020/21	2021/22
Cash & cash equivalent	1,005	1,000	1,287	1,764
Short term investment	768	899	1,514	1,514
Account receivables	5,036	5,447	6,199	6,242
Inventory	2,781	2,529	2,199	2,319
Other current assets	204	155	203	237
Total current assets	9,794	10,031	11,402	12,077
Tangible assets	4,135	4,180	4,046	3,976
Depreciation	(4,323)	(4,730)	(4,864)	(4,934)
Long term incomplete assets	679	342	423	470
Long term investment	125	1,246	1,246	1,246
Other non-current assets	1,490	1,464	1,464	1,464
Total non-current assets	6,949	8,260	8,214	8,191
Total Assets	16,743	18,291	19,616	20,268
Account payables	504	585	1,064	1,247
Short-term debt	7,284	6,990	6,250	6,188
Other short-term debt	1,029	1,103	1,332	1,580
Current liabilities	8,966	9,142	9,341	9,856
Long-term debt	1,849	1,221	2,198	2,176
Other long-term debt	110	285	285	285
Non-current liabilities	1,958	1,506	2,483	2,461
Total Liabilities	10,924	10,648	11,824	12,316
Paid-in capital	5,867	6,084	6,172	6,172
Capital surplus	6,243	6,713	6,713	6,713
Retained earnings	181	282	516	860
Other equity	125	17	(141)	(326)
Minority interest	48	162	162	162
Shareholder's equity	5,819	7,642	7,792	7,952
Total Resources	16,743	18,291	19,616	20,268
Number of shares outstanding (million)	1,181	587	608	617

Ratios (%)	2018/19	2019/20	2020/21	2021/22
Liquidity ratios				
Current ratio	1.1	1.1	1.2	1.2
Quick ratio	0.8	0.8	1.0	1.0
Solvency ratios				
Debt/ Total assets	0.5	0.4	0.4	0.4
Debt/ Equity	1.6	1.1	1.1	1.1
Efficiency ratios				
Days of inventories	93.3	71.4	51.4	46.4
Days of receivables	168.9	153.8	145.0	125.0
Days of payables	18.4	18.7	28.7	28.7
CCC	243.7	206.6	167.8	142.8
Profitability ratios				
Gross profit margin	8.0%	11.3%	13.0%	12.7%
PBT margin	2.5%	2.8%	3.4%	3.4%
ROE	4.0%	5.4%	6.9%	7.9%
ROA	1.5%	2.1%	2.8%	3.1%
Valuation				
PE	44.1	32.7	27.6	23.7
PB	1.9	1.5	1.8	1.8
Growth				
Net revenue growth	5%	19%	21%	17%
EBIT growth	-96%	2488%	63%	10%
PBT growth	-38%	22%	47%	16%
EPS growth	-1%	30%	45%	16%

Source: BSC Research.

Disclosure

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