

SUGAR INDUSTRY UPDATED REPORT

September 2020

DIVERGED AFTER ATIGA

“...After the official effectiveness of the ATIGA agreement, the amount of Thai sugar exported to Vietnam surged. Many Vietnamese sugar enterprises have to close due to their inability to compete with cheap Thai sugar. Vietnam’s sugar industry has strongly diverged...”

Ms. Duong Bich Ngoc
Equity Analyst
Email: ngocdb@fpts.com.vn
Tel: (8424) – 3773 7070
Ext: 4312

Approved by
Ms. Nguyen Thi Kim Chi
Deputy Director – Research Department



EXECUTIVE SUMMARY

GLOBAL SUGAR INDUSTRY

The global sugar industry is negatively affected by weather conditions and pandemic in 2019/20. By the end of the crop year, global sugar production reached 166.2 million tons (-7.5% yoy) due to dry weather in key sugarcane growing areas. World sugar prices reached an average of 0.27 USD/kg (+0.6% yoy) with periods of dramatic fluctuations. In early 2020, sugar prices fell sharply due to the indirect impact of the COVID-19 epidemic on ethanol biofuel prices (produced from molasses).

Global sugar price is forecast to be around 0.28 USD/kg in 2020/21 due to (1) Expected recovery in world sugar production thanks to favorable weather conditions and Brazil increases the proportion of sugarcane used to produce sugar instead of ethanol; (2) Sugar inventory is still at a high level after a record production period of 2017 - 2019; (3) The unpredictable situation of the COVID-19 affecting global sugar consumption and ethanol price. Though, sugar import activities of China (the second-largest sugar importer) may support world sugar prices after experiencing heavy flood from June to August 2020.

VIETNAMESE SUGAR INDUSTRY

Imported sugar surged after the effect of ATIGA put Vietnam's sugar industry under pressure. Domestic sugar price in 2020/21 is expected to fluctuate between 10,000 - 12,500 VND/kg. The selling activities of domestic enterprises endure difficulties due to the fierce competition with cheap imported sugar from Thailand. By the end of the 2019/20, Thai sugar exported to Vietnam reached more than 862 thousand tons, which was 12.1% higher than the domestically produced sugar cane output. Domestic sugar price improved slightly in crop year 2019/20 but show signs of decrease in 2020/21.

Export opportunities to China (in the short-term) and to the EU (in the long-term). China's import turnover of sugar from Vietnam in 07M2020 worth more than USD 69.3 million, nearly 64 times higher than that of 07M2019 since China has been increasing sugar import to stock up essential food under the double impact of the COVID-19 epidemic and floods. In addition, the EVFTA (EU - Vietnam) has officially come into effect from August 1, 2020, providing a duty-free export quota of 20,000 tons of sugar from Vietnam to the EU, creating opportunities for Vietnam's sugar industry, especially those with high-end products.

INVESTMENT RECOMMENDATION

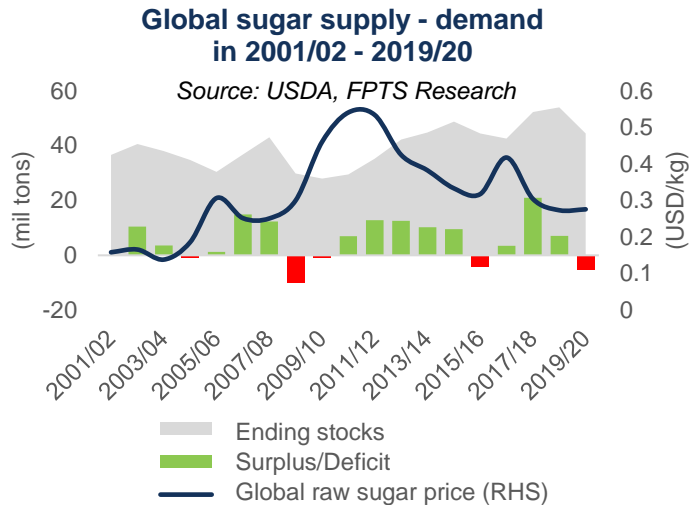
After the effectiveness of ATIGA, sugar enterprises in Vietnam have strongly diverged. Therefore, we issue a **NEUTRAL** recommendation for Vietnam's sugar industry. Investors can look for investment opportunities in firms that are able to compete on the cost of production (such as SLS) or have advantages in brands, distribution systems, and high value-added products (such as SBT and QNS).

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GLOSSARY OF TERMS AND ABBREVIATIONS

ATIGA	ASEAN Trade in Goods Agreement
CEPEA	Center for Advanced Studies on Applied Economics, University of São Paulo
ENSO	El Niño–Southern Oscillation
HFCS	High Fructose Corn Syrup
ISO	International Sugar Organization
NOAA	National Oceanic and Atmospheric Administration (U.S)
OCSB	Office of the Cane and Sugar in Thailand
OECD	Organisation for Economic Co-operation and Development
TCD	Tons cane/day (Sugarcane crushing capacity)
Thailand's MOC	Thailand's Ministry of Commerce
UNICA	Brazilian Sugarcane Industry Association
USDA	U.S. Department of Agriculture
VSSA	Vietnamese Sugar and Sugarcane Association
WTO	World Trade Organization
Crop year	In Vietnam, sugarcane crop starts in July and ends in June of the following year
Sugar yield on cane (kg/ton)	Number of kg sugar per 01 ton of crushed cane

A. GLOBAL SUGAR: Negative impacts from weather and pandemic
1. Crop year 2019/20: Smaller production, decreasing price
1.1. The El Nino negatively affected world sugar production


By the end of the 2019/20 crop, global sugar production reached 166.2 million tons (-7.5% yoy). The El Nino causing drought and dry weather in 2019 negatively impacted sugarcane production in key sugar-producing countries such as Thailand (-42.4% yoy) and India (-7,9% yoy).

The global sugar industry suffered a deficit of about 5.4 million tons (equivalent to ~3.2% of sugar demand in 2019/20) helping to reduce the pressure of high global sugar stock after the period of record-high production from 2017 to 2019.

Sugar production output in the top 05 key regions in the 2019/20 crop year (unit: million tons)

Source: USDA (May 2020), FPTs Research

	Production 2019/20	Proportion	%yoy	Explanation
Brazil	29.9	18.0%	+1.4%	- Sugarcane yield increased by 5.7% yoy due to favorable weather. However, the rate of sugarcane used in sugar production decreased from 35.9% (2018/19) to 35% in 2019/20. The output of crushed sugarcane increased slightly by 1.8% yoy.
India	28.9	17.4%	-15.7%	- Affected by El Nino, sugarcane area and yield decreased by 5.4% and 2.7% yoy.
EU27+UK	17.3	10.4%	-4.1%	- The area of sugar beet decreased by 5.2% yoy and is expected to continue to decline due to the impact of extreme weather (drought in the growing period, rain during harvesting period).
Thailand	8.3	5.0%	-43.4%	- Contributing to nearly 47% to the decrease of global production output. Sugarcane yield decreased by 42.1% yoy due to dry weather.
China	10.2	6.1%	-5.2%	- Beet sugar output increased by 6.1% yoy thanks to the continued expansion of raw material areas in Inner Mongolia. - Dry weather in sugarcane growing areas reduced sugarcane yield by slightly 0.5% yoy. Cane sugar production accounts for about 88% of sugar production in China.
WORLD	166.2	100%	-7.5%	

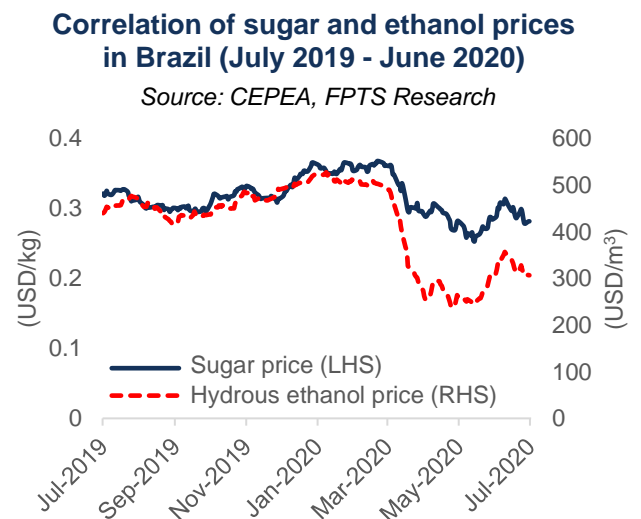
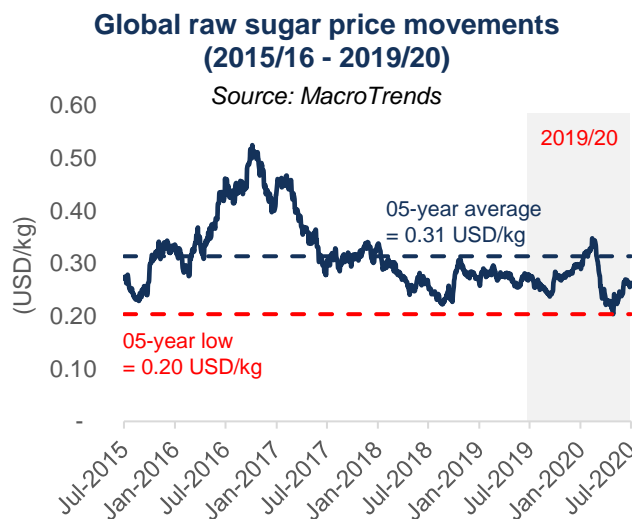
1.2. The COVID-19 epidemic caused the world sugar price to plunge

By the end of 2019/20, the world raw sugar price reached an average of 0.27 USD/kg (~12.24 Uscents/pound), experienced a slight increase of 0.6% yoy compared to the 2018/19 crop.

On Feb 2nd 2020, global raw sugar price recorded at USD 0.35/kg (~USD 15.78/pound), corresponding to an increase of +25.5% compared to the beginning of the crop year (July 2019) and +22% yoy compared to the same period in 2019 due to the expectation of smaller world sugar supply due to the impact of harsh weather. However, world sugar prices reversed and fell steeply in the next 2 months. By the end of April 2020, the global raw sugar price dropped to 0.20 USD/kg, the lowest level in the past 5 years, due to:

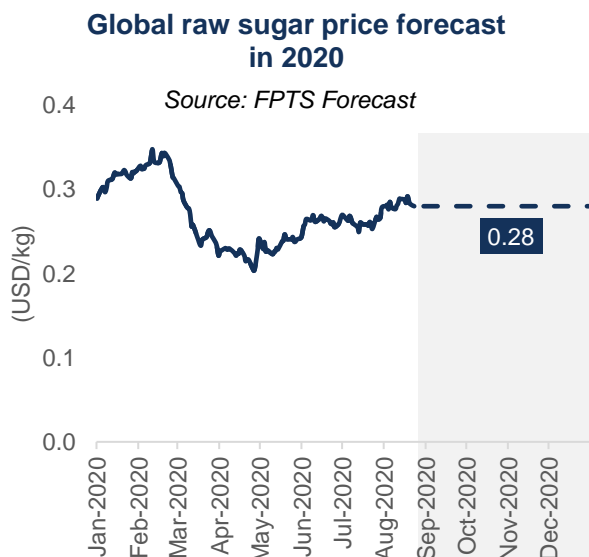
(i) The COVID-19 pandemic affects businesses that consume sugar. At the end of the 2019/20 crop, world sugar consumption decreased by 0.6% yoy. According to the USDA's prediction, sugar consumption will be hard to recover in 2020 if the epidemic is not controlled.

(ii) The price of bio-fuel ethanol (produced from sugar molasses) in Brazil decreased by more than 54% in April 2020 compared to the beginning of 2020, to USD 238.5/m³ according to the decline in global oil prices, causing Brazil (the #1 sugar producer in the world) is expected to increase the proportion of sugarcane used for sugar production instead of ethanol production in 2020/21.



[Details about the global sugar industry viewed at Sugar Industry Report July 2019](#)

2. Crop year 2020/21: World sugar price is expected to be around 0.28 USD/kg



As of August 24, 2020, the world raw sugar price reached 0.28 USD/kg (~13 Uscents/pound), rebounding +37.5% from the low price at April 2020 thanks to the recovery of crude oil price (travel demand has been increasing after countries loosen the lockdown). However, ISO forecasts that world sugar prices will find it difficult to continue its increasing momentum due to:

(i) World sugar output is expected to recover thanks to favorable weather in India and Thailand. Meanwhile, Brazil increases the proportion of sugarcane used to produce sugar (from 35% to 46%) ([details](#));

(ii) The unpredictable situation of COVID-19 affecting global sugar consumption and ethanol price;

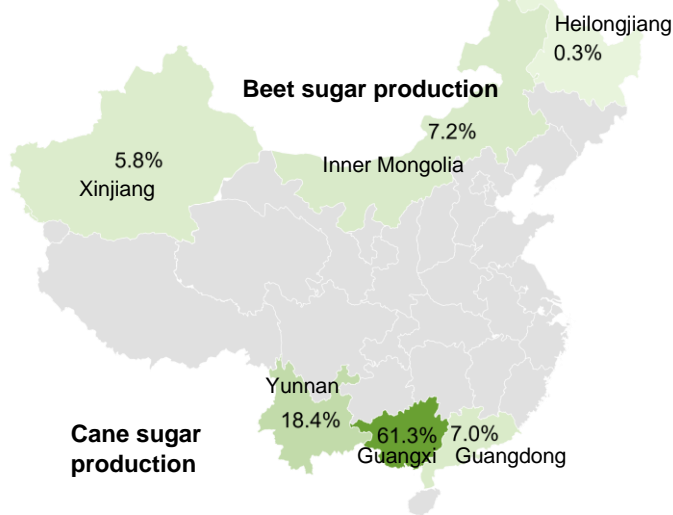
(iii) Global sugar inventories remain high.

However, according to our assessment, the world sugar price in the second half of 2020 is unlikely to fall below 0.28 USD/kg (+3.7% compared to the average price in 2019/20) due to China's sugar import activities (the world's #2 sugar importer) after the flood taking place from Jun - Aug 2020.

Floods in China could have a negative impact on the country's sugar-producing region and boost importing activities.

Share of China's sugar production by region (crop year 2019/20)

Source: USDA, FPTs Research



Provinces affected by flood in June – August 2020



Image source: Wikipedia

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From the beginning of June 2020, heavy rains and severe flood, which is the biggest flood since 1998 to present in China, have had a negative impact on the production, economy and society of the southern provinces of China (in the Yangtze delta area).

Among the flood-affected localities, Yunnan and Guangxi contribute about 80% of the country's sugar production in the 2019/20 crop year. Heavy rains in the period from June to August might seriously affect the growing area of sugarcane (planted in February - March; being harvested and crushed from November to April next year).

Till now, though China has not released statistics of the impact and damage of floods on agricultural production, the Chinese government has been importing essential goods to avoid short-term food crises caused by the double effects of the COVID-19 pandemic and floods. According to China Customs, in 07M2020, China's import value of some essential agricultural products has increased significantly over the same period such as cereals, rice (+35.2% yoy), sugar (+28.7% yoy), milk and dairy products (+15.4% yoy), soybeans (+12.8% yoy)...

China's sugar import turnover (2018 - 2020) (accumulated data)

Source: China Customs



B. VIETNAM SUGAR: Pressure from imported sugar, opportunities in export market
1. Sugar imported from Thailand surged after ATIGA

The 2019/20 crop was a difficult year for Vietnam's sugar industry. According to VSSA, nearly one-third of the sugar mills in Vietnam have to close. On May 5th, 2020, all 28 remaining sugar mills finished the crushing season with the cumulative output of 7.39 million tons of sugarcane (-39.4% yoy) and 769,169 tons of refined cane sugar (-34.3% yoy), the lowest level in the past 19 years due to unfavorable weather conditions and competitive pressure with imported sugar and sweeteners, including:

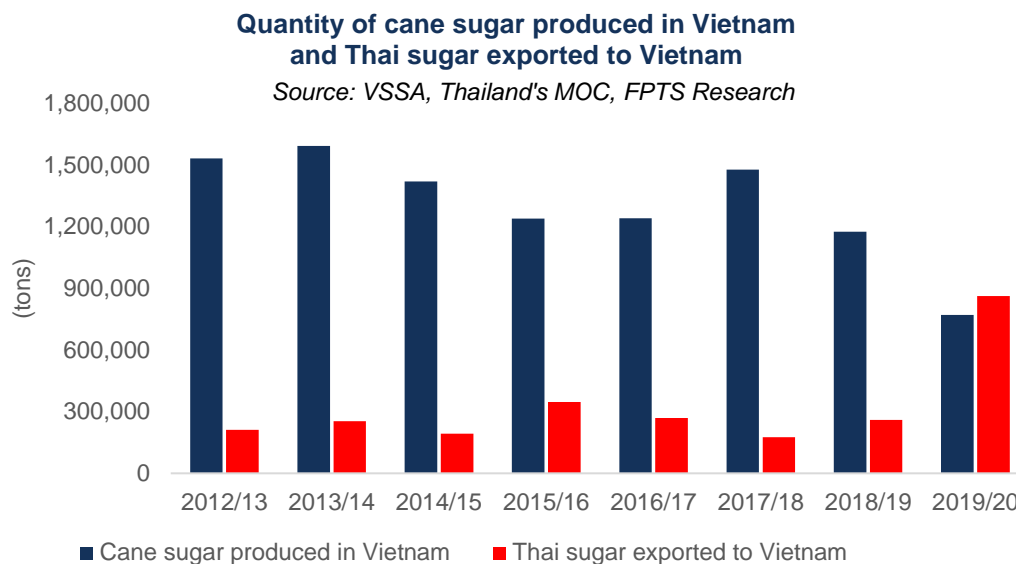
(i) Imported liquid sugar from China and Korea:

Liquid sugar products extracted from corn (HFCS, also known as chemical sugar) originating from Korea and China without import tariffs and quota continuously overflowed into Vietnam, creating competitive pressure for the domestic sugar industry. This type of sugar has a lower selling price of 10 - 15% compared to cane sugar with the sweetness is 1.2 - 1.5 times higher than cane sugar. According to the General Department of Vietnam Customs, the volume of liquid sugar imported into Vietnam in 2019 reached more than 190 thousand tons, up +26.7% over the same period and +31.7% compared to 2017.

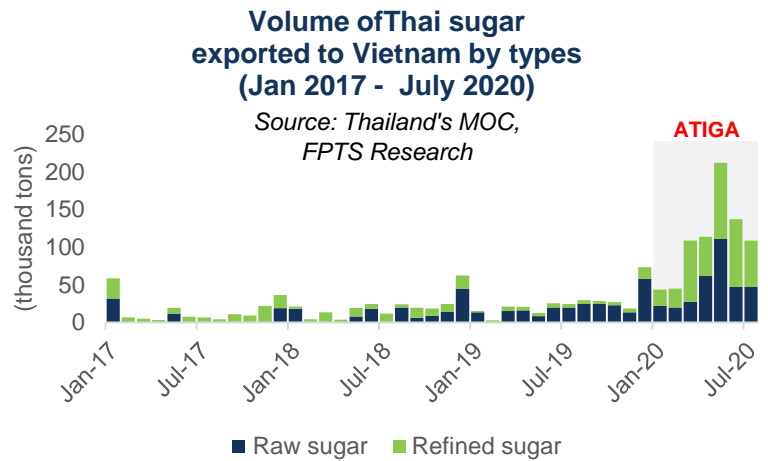
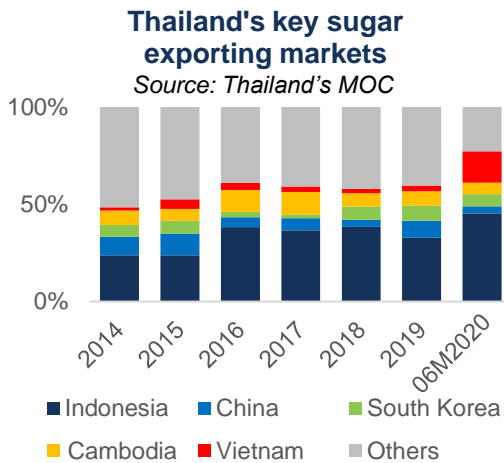
(ii) Imported cane sugar from Thailand:

On January 1st, 2020, the ASEAN Trade in Goods Agreement (ATIGA) officially came into effect in Vietnam, stipulating the elimination of all sugar import quotas from ASEAN countries (mainly sugar from Thailand), and the import tariff remains at 5%.

Thai sugar is the main competitor of Vietnam's sugar industry, and is the #4 producer, the #2 exporter in the global sugar market. Each year, the output of cheap smuggled sugar from Thailand to Vietnam is estimated to account for more than 30% of domestic demand for sugar, negatively affecting domestic sugar prices. From the crop year of 2019/20, Vietnam's sugar industry has faced fierce competition with cheap Thai sugar imported through official channels to Vietnam, in addition to smuggled sugar imported from this country.



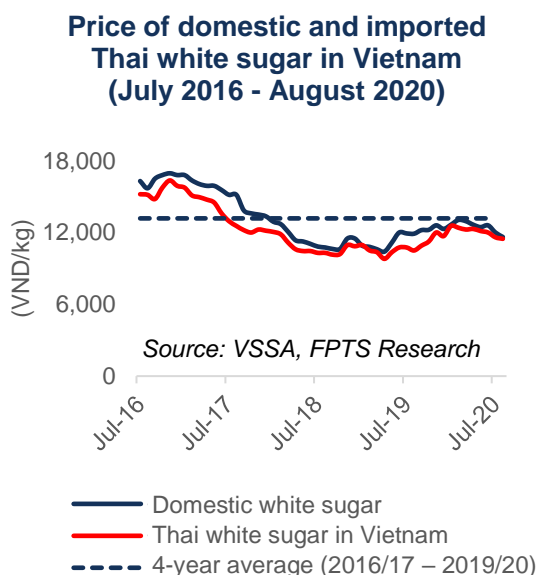
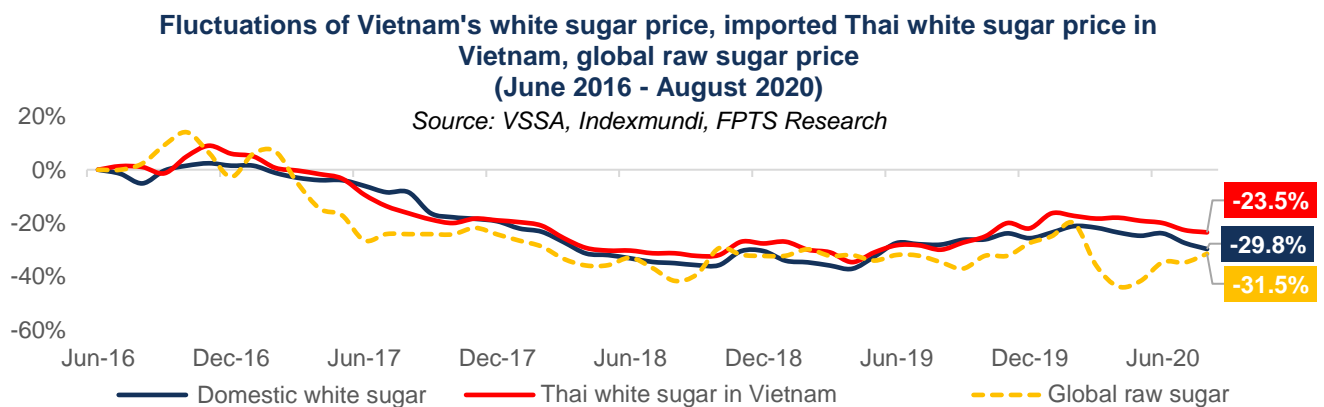
By the end of the 2019/20, Thai sugar exported to Vietnam reached more than 862 thousand tons (3.3 times higher than the 2018/19 crop year), 12.1% higher than domestic sugar cane output. In which, nearly 77% of this sugar output was exported to Vietnam in the period of 06 months after ATIGA in effect (January 1 - June 30, 2020). Vietnam becomes Thailand's second largest sugar export market in the first half of 2020, accounting for 16% of Thailand's sugar export volume (after Indonesia with ~42%). Previously, Vietnam was not a key export market for the Thai sugar industry.



After the effectiveness of ATIGA, refined sugar (including refined standard – white sugar and refined extra) accounts for about 66.4% of Thai sugar exported to Vietnam. According to VSSA, imported refined sugar serves the consumer segment (households, small businesses) and the industrial production of small and medium food and beverage manufacturers. Meanwhile, imported raw sugar is mainly consumed by domestic sugar mills, used for processing refined sugar, and consumed in the domestic market.

2. Domestic sugar prices slightly recovered in 2019/20, showing signs of decrease in 2020/21

According to our observations, the short-term fluctuations of Vietnam's sugar price strongly depend on the volatility of imported Thai sugar prices. In the crop year 2018/19, the price of smuggled sugar imported from Thailand into Vietnam fell as low as 9,800 VND/kg (April 2019), about 15% lower than the average domestic production cost of cane sugar. Vietnam's sugar industry has been affected significantly; many sugar companies recorded losses during this period.



In the 2019/20 crop, domestic white sugar prices improved, reaching an average of 12,458 VND/kg, an increase of 13.6% yoy compared to crop year 2018/19 thanks to the slight recovery of world sugar prices (Sep 2019 - Feb 2020) and increasing consumption demand on Tet holidays (Q4/2019, before ATIGA comes into effect), but still lower than the average sugar price in the period 2016/17 - 2019/20.

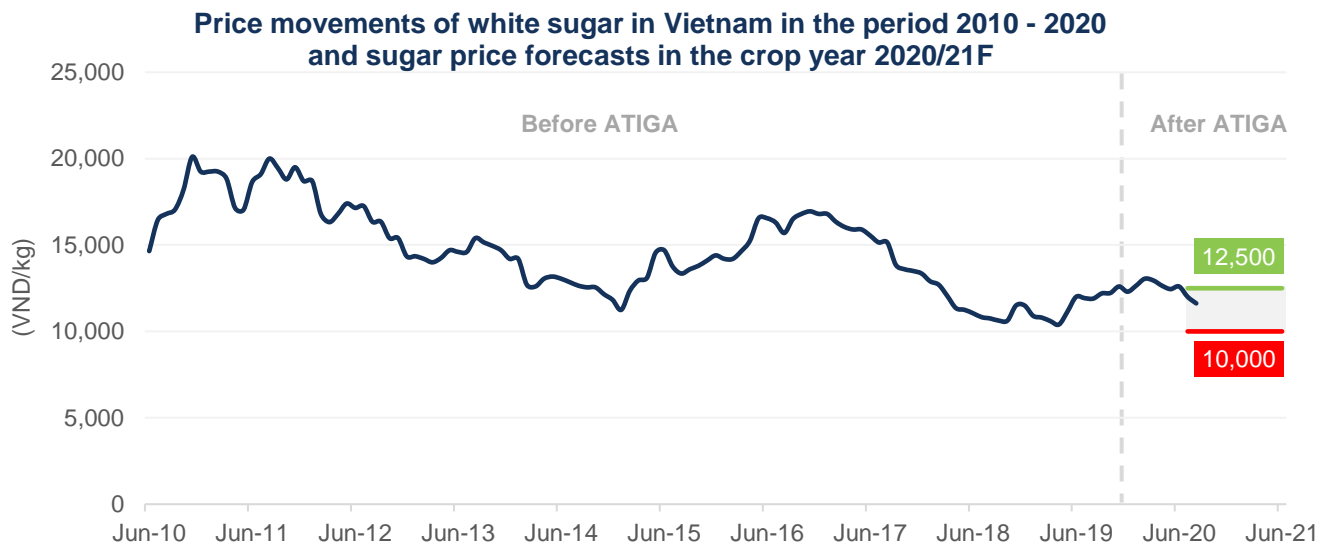
According to VSSA, from Q1/2020, the sugar demand for industrial uses in Vietnam has decreased notably because food and beverage manufacturers were longing for imported cheap sugar after ATIGA. Besides, due to the influence of social distancing under the impact of COVID-19 epidemic, direct consumption of households, small businesses (markets, school cafeterias, coffee shops...) also declined.

In the second half of 2020, domestic sugar consumption is expected to improve when the pandemic is quite under control, as well as food and beverage manufacturers begin to produce for national holidays (Mid-Autumn, Tet...). However, VSSA assessed that domestic sugar prices was showing signs of decrease in the 2020/21 crop year because sugar inventories remain high and cheap imported sugar continues to penetrate the market, especially when Thailand's sugar production is expected to rebound in 2020/21 (+56% yoy of production volume).

As of August 11, 2020, domestic white sugar prices reached an average of 11,625 VND/kg, down 2.3% compared to the same period in 2019 and down 10.9% from the highest level in February 2020 (which was at 13,050 VND/kg).

From the analysis of the global and domestic sugar industry, we estimate that the domestic white sugar price in the 2020/21 crop year would fluctuate from 10,000 to 12,500 VND/kg, due to:

- In the context that world sugar price is hard to increase sharply and pressure from cheap Thai sugar supplies, domestic sugar prices will be difficult to exceed 12,500 VND/kg in crop year 2020/21 (corresponding to the average price in crop year 2019/20).
- According to our observation, in the coming time, imported sugar will mainly be **Thai sugar imported through official channel** due to (i) Measures to restrict travel and strict inspection in the border areas due to the COVID-19 epidemic, Thai smuggled sugar will encounter more difficulties; (ii) The official import price of Thai sugar is still relatively low, not too different from smuggled sugar (according to VSSA's assessment). With barriers to transportation costs, import tariff, local advantages and distribution, the price of Thai sugar imported officially will hardly be lower than 10,000 VND/kg ([details](#)).



Source: FPTS Forecast and Estimate

3. Export opportunities to China and EU markets

3.1. China market: Short-term opportunity due to the impact of COVID-19 epidemic and floods

In the period 2011 - 2015, Vietnam's sugar export volume accounts for 1 - 3% of the total sugar produced. In which, the main market of Vietnam sugar is China with ~ 90% export proportion. Vietnam's sugar exported to China was mainly raw sugar and medium and low-quality white sugar, exported through interprovincial trade, and heavily dependent on border policies. Since 2017, Vietnam's sugar exports to China have been decreasing due to the tightened sugar import policy of China to protect their domestic sugar producers.

However, in 07M2020, under the impact of the COVID-19 epidemic and floods, China increased imports of sugar to stock up essential food (+28.7% yoy), including sugar from Vietnam. According to China Customs, the value of China's sugar import from Vietnam in 07M2020 worth more than USD 69.3 million (~230,000 tons), nearly 64 times higher than in 07M2019 and nearly 30 times higher than year 2019.

Therefore, this would be a great opportunity in the short term (2020) for Vietnamese sugar enterprises capable of exporting to China, especially sugar enterprises in the North, which are geographically close to the Chinese border.



3.2. EU market: Long-term opportunity for businesses producing high quality sugar

The Vietnam - EU Free Trade Agreement (EVFTA) has officially come into effect on August 1, 2020, providing export opportunities for Vietnam's sugar industry. The EVFTA stipulates tax exempt for 20,000 tons of all sugar types and 400 tons of special sugar (~3% of Vietnam's sugar production in 2019/20) exported from Vietnam to the EU. The out-of-quota export tariffs are still charged at rates of 339 EUR/ton of raw sugar and 419 EUR/ton of refined sugar.

According to the USDA forecast, the volume of imported sugar from the EU in the crop year 2020/21 would be roughly at 2.1 million tons (-8.7% yoy), equivalent to about 11.3% of the sugar consumption in the region. To achieve a competitive advantage in this market, agricultural products (including sugar) have to meet high quality and traceability requirements.

Besides, due to the high sugar consumption per capita in the EU (35 kg/person/year, higher than the global average - 22.6 kg/person/year), the demand for sugar in this market is aiming for high-end products such as organic sugar, diet sugar, nutritious sugar... These are products with high selling prices and profit margins of 35 - 40%.

Hence, we expect that the EU market will provide a great opportunity for businesses with a variety of sugar products that meet high quality standards.

C. LISTED COMPANIES UPDATES: Diverged after ATIGA
**Business results of listed sugar companies
(crop year 2019/20)**

Bil VND	Business results						Gross profit margin*		Net profit margin	
	Stock code	Revenue*	% yoy	Gross profit*	% yoy	Net profit	% yoy	2019/20	2018/19	2019/20
SBT	12.372,6	+26,2%	1.437,8	+66,5%	371,6	+38,4%	11,6%	8,8%	2,8%	3,1%
LSS	1.715,6	-2,5%	158,5	+14,0%	22,9	+170,3%	9,2%	7,9%	1,5%	0,4%
SLS	989,5	+22,1%	171,3	+46,6%	119,3	+88,7%	17,3%	14,4%	11,4%	7,2%
QNS	970,3	-54,3%	114,8	-32,0%	1.196,3	-0,4%	11,8%	7,9%	17,4%	14,8%
KTS	146,9	-55,0%	17,0	+18,8%	2,0	-56,2%	11,6%	4,4%	1,3%	1,4%

Source: Financial Statements, FPTS Research, *Revenue, GP, GPM include only sugar and molasses products

The 2019/20 crop year starts from July 1st 2019 to June 30th 2020

Due to the increase in domestic sugar prices in the 2019/20 (+13.6% yoy), listed sugar companies have achieved impressive growth in revenue and profit.

In which, 02 enterprises that are able to maintain their competitiveness in the context of cheap imported sugar penetrating the Vietnamese sugar market are SLS and SBT with revenue growth of +22.1% yoy and +26.2% yoy, respectively. SLS has the ability to compete in price thanks to low production costs (which is close to the cost of sugar produced in Thailand); meanwhile, SBT is able to compete in products by owning a diversified set of products, including high-end sugars that create high added value.

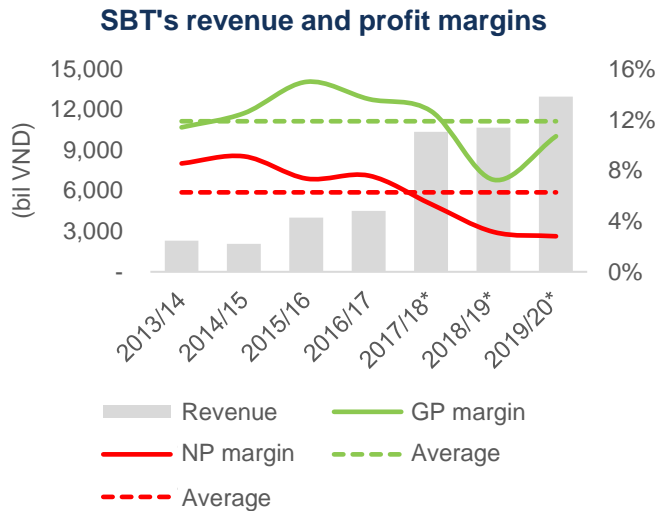
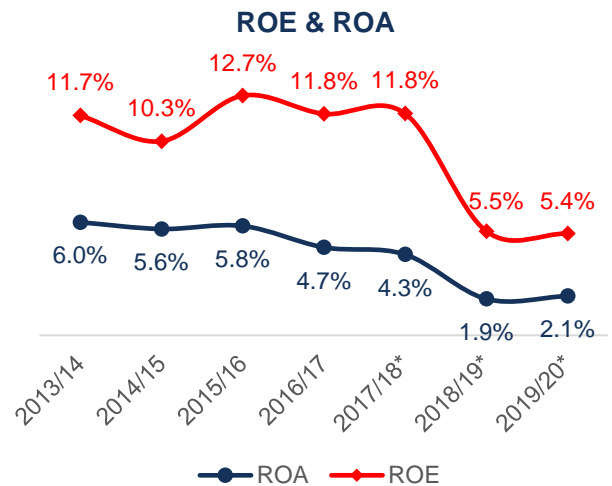
Though LSS also owns a diverse set of sugar products and has a large industrial customer base, the company lose market share in the consumption channel, revenue decreased slightly by 2.5% yoy. Thanks to a 13.6% increase in domestic sugar prices in the 2019/20 crop, the company's profits achieved positive growth, but the profit margin was still pretty low compared to peers in the industry.

For QNS, the company's sugarcane material area locating in the Central - Central Highlands region was negatively affected by the dry weather phenomenon in 2019 (-29% yoy), causing the sugar production of the enterprise to decline. Along with the double impact of imported sugar after ATIGA and COVID-19 epidemic reducing sugar consumption in the consumption channel, QNS's sugar revenue and gross profit decreased by 54.3% and 32% yoy, respectively. Meanwhile, the soymilk segment continued to be the main growth driver and contributed more than 80% to QNS's profit structure in the past crop year. As a result, QNS's net profit after tax only dropped slightly by 0.4% yoy.

KTS's revenue decreased by 55% yoy after trimming the revenue from the sugar trading segment with a low margin. In particular, the business results of the refined sugar decreased by 10.2% yoy because production activities were affected by unfavorable weather and competitive pressure after ATIGA. In return, KTS's gross profit margin improved.

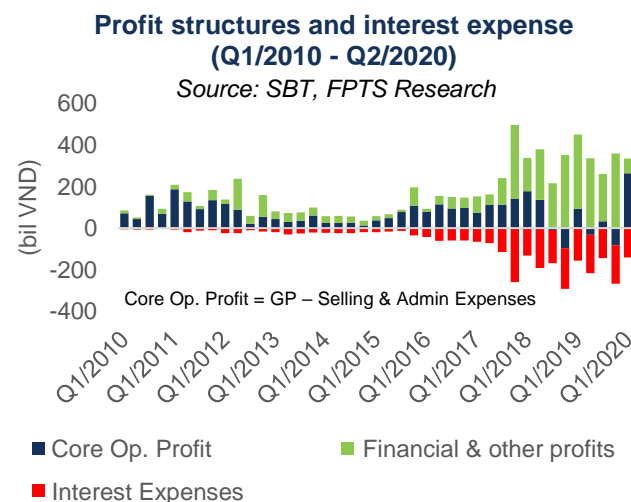
1. SBT – Continue to maintain the leading position and develop high-end products
Market Snapshot: Thanh Thanh Cong – Bien Hoa JSC (HSX: SBT) – September 4th 2020

Current Price (VND/share)	14,500	30-day Average Volume (shares)	3,277,087
52-week High (VND/share)	22,100	LTM EPS trailing (VND/share)	600.5
52-week Low (VND/share)	11,900	LTM P/E trailing (times)	24.1x

 Source: [EzSearch](#)

 Source: SBT, FPTs Research
 *After M&A Bien Hoa Sugar

 Source: SBT, FPTs Research
 *After M&A Bien Hoa Sugar

With the advantages of scale, ability to refine raw sugar, brand, and distribution system, SBT continues to maintain the leading position in Vietnam's sugar industry in the 2019/20 season with a revenue of more than 12.9 trillion VND (+21.6% yoy). Sugar production output reached more than 600 thousand tons (+12.2% yoy), with sugar produced from raw sugar accounting for ~60% of the product structure. Sales volume reached more than 01 million tons (+41% yoy), driven by the growth of sugar export and trade with the increases of +213% and +82% yoy, respectively.

In the context of fierce competition after ATIGA, thanks to high quality sugar products, SBT is less likely to compete in the industrial channel segment (familiar major customers with high requirements on quality of sugar). To improve competitiveness, SBT aims to develop high-end products, provides sweetener solutions, targets both domestic and export markets. Especially, after the EVFTA comes into effect, SBT can export high-end sugar products to the EU market when owning ~12,000 hectares of raw material areas in Laos (19% of SBT's sugarcane area) qualified for organic sugar production.

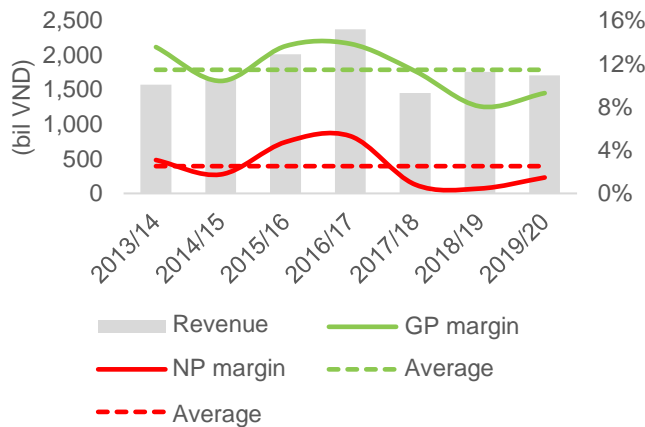


SBT has a relatively high proportion of debt/total capital (~46.4% in 2019/20) compared to other listed sugar companies (average of ~36.2%). The company mainly uses short-term loans to serve working capital needs.

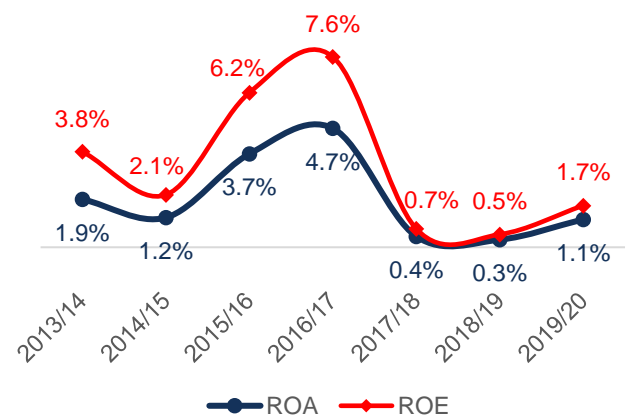
During the hardship time of sugar industry from Q3/2017 to Q4/2019 (sugar prices fell dramatically due to pressure from Thai smuggled sugar), financial activities were promoted by SBT (liquidation and divestment of fixed assets and investments) to deal with interest expense pressures. Thanks to that, SBT can maintain profitability during that period.

2. LSS – Advantage of having large industrial customer base, start to diversify
Market Snapshot: Lam Son Sugar JSC (HSX: LSS) – September 4th 2020

Current Price (VND/share)	5,020	30-day Average Volume (shares)	45,774
52-week High (VND/share)	6,200	LTM EPS trailing (VND/share)	375.4
52-week Low (VND/share)	3,830	LTM P/E trailing (times)	13.4x

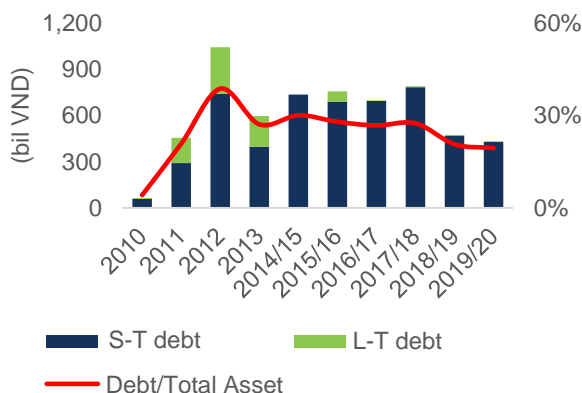
 Source: [EzSearch](#)
LSS's revenue and profit margins


Source: LSS, FPTS Research

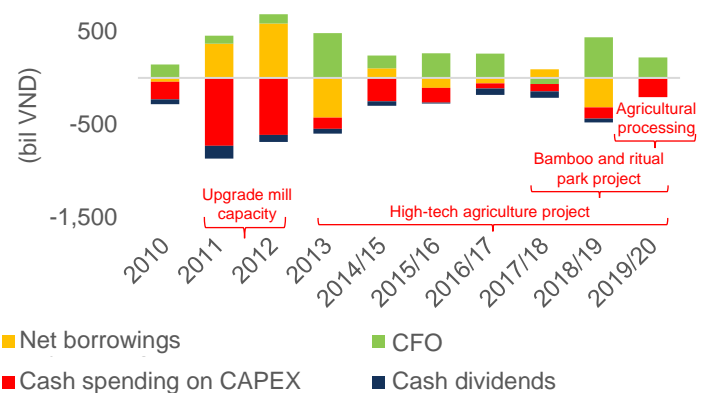
ROE & ROA


Source: LSS, FPTS Research

LSS is the largest refined extra sugar producer in the North. More than 80% of the company's products are consumed by major industrial customers, less likely to compete with other businesses and imported sugar. In the consumer sugar segment, LSS does not have the advantage of brand and distribution channel, so it is difficult for the firm to maintain market share. By the end of the 2019/20 crop, LSS's revenue reached more than VND 1,700 billion, a slight drop of 2.8% yoy due to competitive pressure with imported sugar and the impact of social distancing that caused sugar domestic consumption to fall.

Debt structures and debt/total asset ratio


Source: LSS, FPTS Research

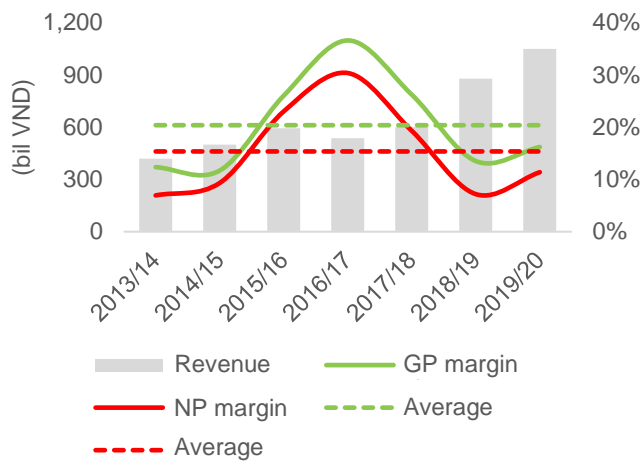
LSS's cash flows from operation, CAPEX and investments


Source: LSS, FPTS Research

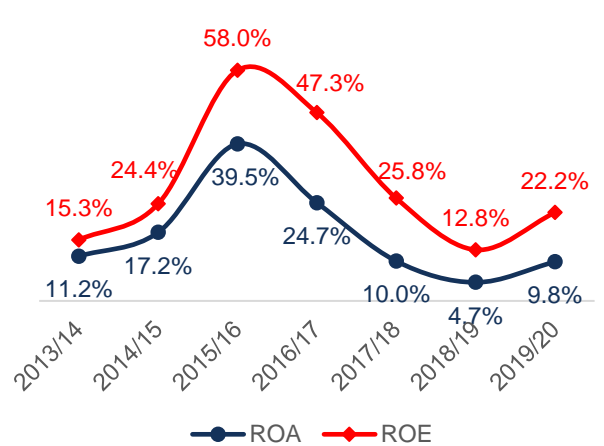
LSS's financial structure is quite safe with the debt/total asset ratio of 19.4% in the 2019/20 crop year, which is lower than the average of other listed sugar companies (36.2%). LSS mainly uses short-term loans to serve working capital needs. Long-term borrowings were mainly used in the period 2011 - 2012 when LSS implemented the project to increase the capacity of the sugar mill. In addition to the core business, LSS has invested in a number of projects outside of the core industry since 2013 and has not yet completed. These projects are currently ineffective, resulting in high business costs.

3. SLS – Advantage of low production costs, short-term opportunity to export sugar to China
Market Snapshot: Son La Sugar JSC (HNX: SLS) – September 4th 2020

Current Price (VND/share)	70,000	30-day Average Volume (shares)	9,554
52-week High (VND/share)	72,000	LTM EPS trailing (VND/share)	12,185.2
52-week Low (VND/share)	36,800	LTM P/E trailing (times)	5.7x

 Source: [EzSearch](#)
SLS's revenue and profit margins


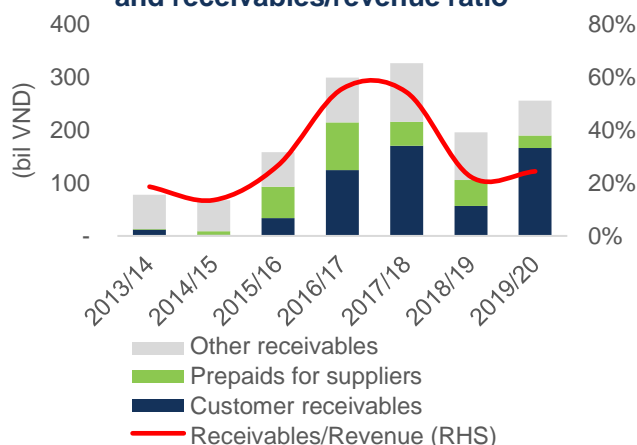
Source: SLS, FPTs Research

ROE & ROA


Source: SLS, FPTs Research

The sugar production cost of SLS is 26% lower than the industry average thanks to (i) low purchasing price of raw cane, (ii) favorable natural conditions for high cane's yield and sweetness, (iii) efficient production after upgrading production line from 2016/17. The average gross profit margin of SLS in the period of 2013 till now are about 20%, which is pretty high compared to other listed sugar companies (average of ~12%). In 2019/20, SLS's revenue reached a record high of more than VND 1,048 billion (+19.4% yoy), sales volume growth is estimated at +17.6% yoy.

Due to the high quality and low production cost of refined sugar, SLS is able to compete with imported sugar, especially for direct sugar consumption and small food and beverage manufacturers' industrial consumption. In addition, we expect that the company can take advantage of short-term opportunity to export sugar to China since the firm's factory located in the North, quite favorable in exporting sugar through interprovincial trade with China.

SLS's current receivables structures and receivables/revenue ratio


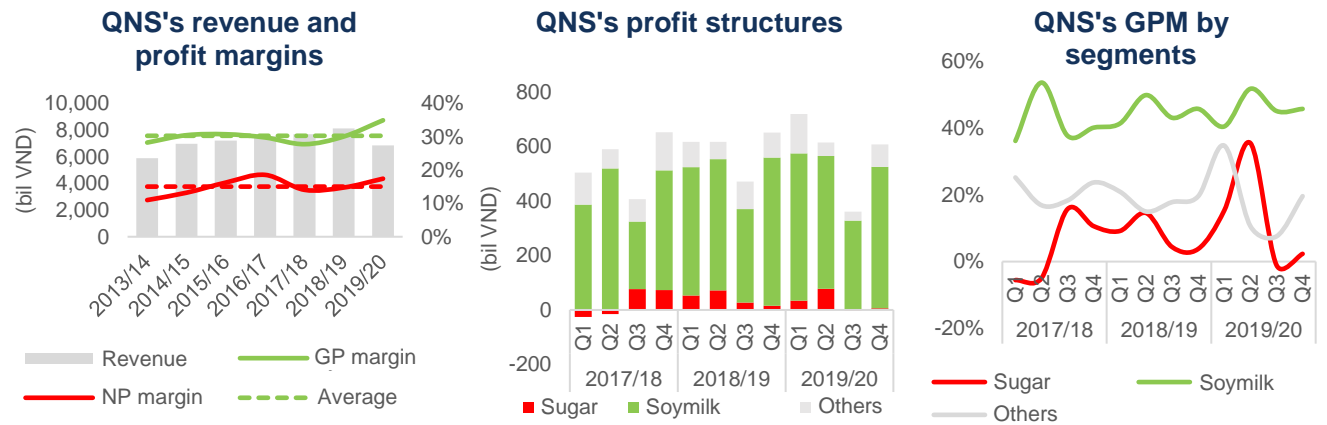
Source: SLS, FPTs Research

A high ratio of receivables/revenue increases the risk of SLS being appropriated capital from the firm's customers. It should be noted that these customers are sugar trading companies involving SLS's major shareholder.

In the period of 2017 - 2019, the whole sugar industry endured difficulties in selling due to fierce competition with smuggled sugar from Thailand, which significantly affected SLS and other sugar trading companies. By the end of the 2019/20 crop, the ratio of receivables/revenue of SLS is ~24%.

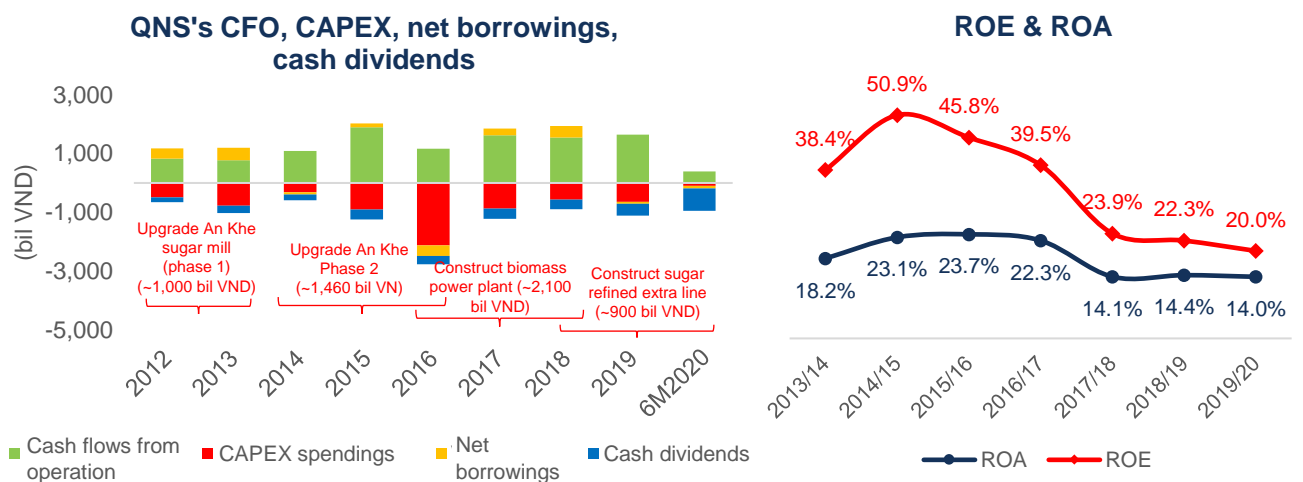
4. QNS – Soymilk continues to be the driving force for growth, while sugar-electricity is inefficient
Market Snapshot: Quang Ngai Sugar JSC (UPCoM: QNS) – September 4th 2020

Current Price (VND/share)	34,600	30-day Average Volume (shares)	768,245
52-week High (VND/share)	36,770	LTM EPS trailing (VND/share)	3,351.6
52-week Low (VND/share)	20,000	LTM P/E trailing (times)	10.3x

 Source: [EzSearch](#)


Source: QNS, FPTS Research

QNS is one of the largest foods and beverage manufacturers in Vietnam, the leader in soymilk production and the second largest sugar producer in Vietnam. QNS's soymilk and confectionery segment uses sugar as an input material in the production process, supporting the output of the sugar segment during periods of deep decline in sugar prices. The soymilk segment accounts for a large proportion in the revenue and profit structure of QNS. Therefore, QNS's gross margin is less affected by sugar price fluctuations domestically and internationally, but mainly depends on soybean price movements.



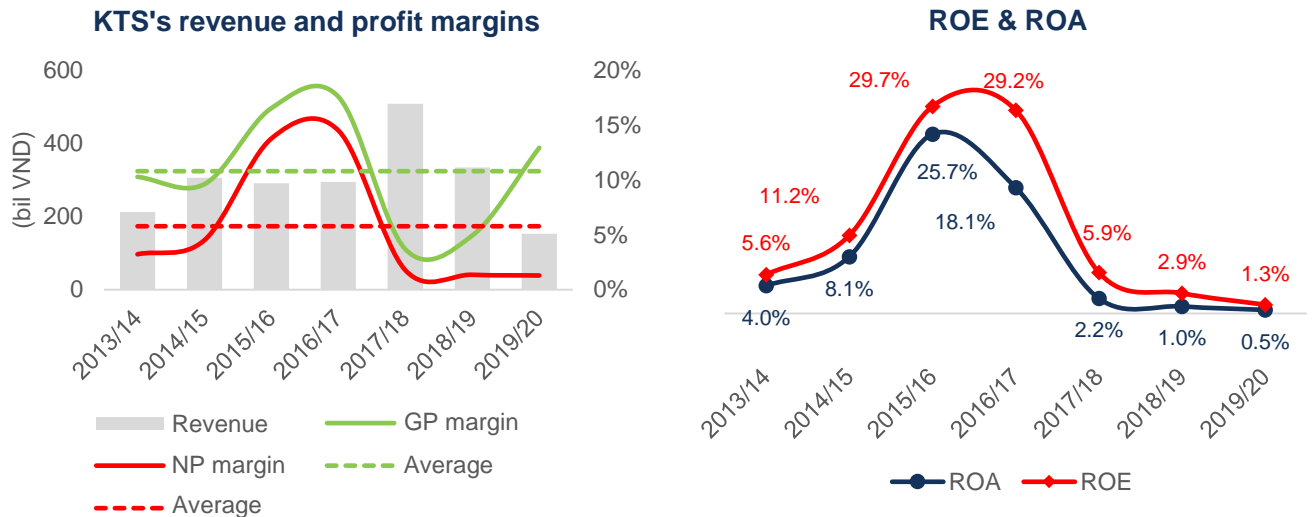
Source: QNS, FPTS Research

Source: QNS, FPTS Research

In the period 2012 - 2019, the accumulated CAPEX of QNS worth more than VND 6,500 billion, of which more than 70% of the total investment capital were projects in the sugar - electricity segment. Capital to finance these projects mainly comes from CFO and small use of debt. However, assets in the sugar - electricity segment (~42% of total assets) only make a modest contribution to the company's profit structure (~5%). As of Q2/2020, QNS's investments are basically completed and the enterprise has no plans for other projects. Hence, we expect QNS's profitability to improve in 2020 as (i) Soymilk segment is expected to keep growing; (ii) Favorable weather in 2020 helps improving sugarcane and biomass power production; (iii) Co-generation biomass electricity price increases by more than 20% from April 2020.

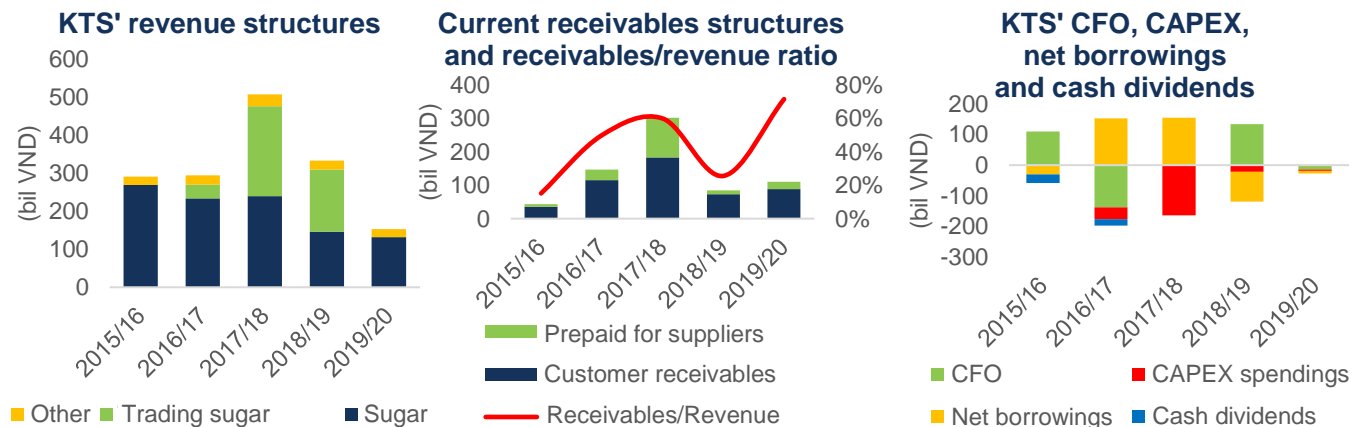
5. KTS – Reduce the proportion of sugar trading, risk of capital appropriation
Market Snapshot: Kon Tum Sugar JSC (HNX: KTS) – September 04th 2020

Current Price (VND/share)	11,000	30-day Average Volume (shares)	478
52-week High (VND/share)	14,400	LTM EPS trailing (VND/share)	391.0
52-week Low (VND/share)	6,800	LTM P/E trailing (times)	28.1x

 Source: [EzSearch](#)


Source: KTS, FPTs Research

By the end of crop year 2019/20, KTS's revenue reached VND 153.2 billion (-54% yoy), mainly due to the reduction in revenue from sugar trading activities (with an extremely low margin, around 1%). In addition, due to the drop of domestic sugar prices in the period of 2017 - 2019, KTS's business activities was struggling. In 2018, the firm use loans to finance the project of upgrading production line, causing interest expenses to soar in the 2018/19 and 2019/20, negatively affecting the profitability of the business.

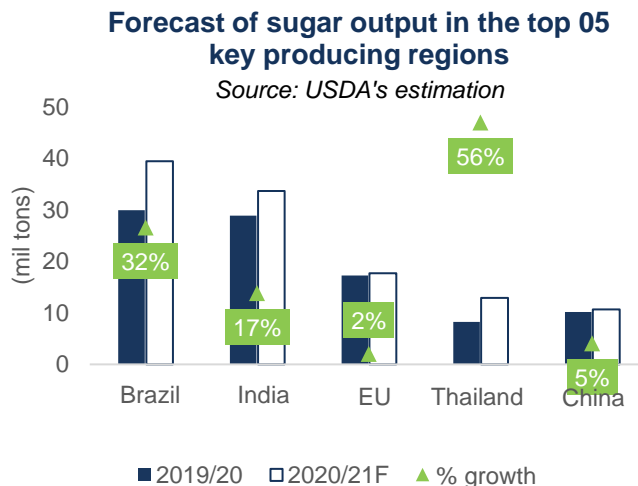
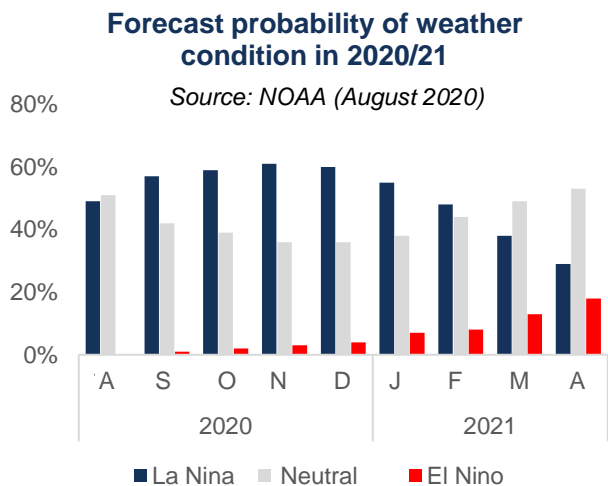


Source: KTS, FPTs Research

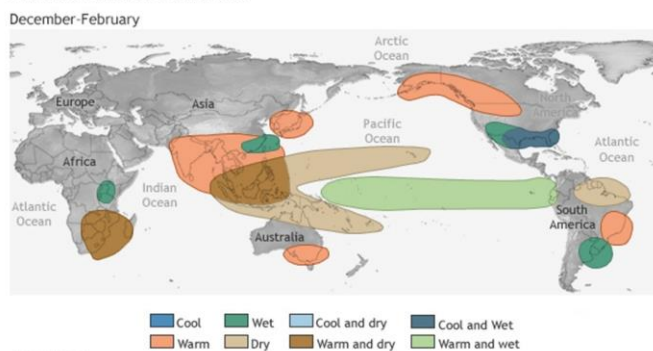
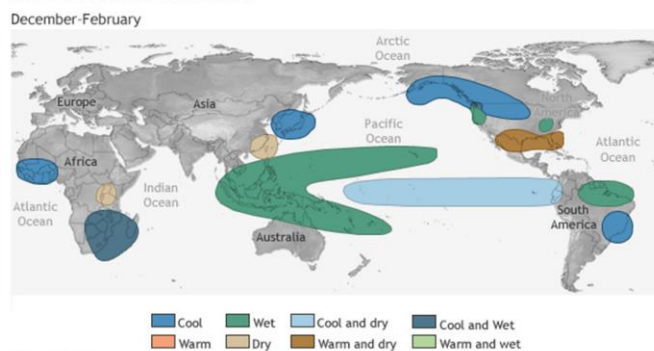
KTS started to trade sugar in the 2016/17, with suppliers and customers are sugar manufacturers and trading enterprises related to major shareholder. The receivables/revenue ratio of KTS has been high for many years, causing the business to bear the risk of capital appropriation. This is also the reason why the cash flow of the business is negatively affected. The firm's cash flow from operating activities in the 2019/20 is negative VND 14.3 billion.

D. APPENDICES
APPENDIX 01: Forecast of world sugar production in crop year 2020/21

According to the USDA forecast, sugar production in the 2020/21 is estimated at 188 million tons (+13.1% yoy) thanks to more favorable weather conditions increasing sugar output in most regions of the world. La Nina weather phenomenon shows signs of happening in the second half of 2020, causing rain in dry sugarcane growing areas in Asia. However, if La Nina occurs at high intensity, it will cause prolonged heavy rains in sugarcane and beet growing areas and may negatively affect the yield and sugar content of the raw crops. Moreover, USDA's projection excludes the impact of floods in China during the June - August 2020.



Top 5 sugar producing regions in the world are expected to produce 114.5 million tons of sugar (+21.2% yoy) in crop year 2020/21, contributing over 60% of sugar produced globally. Brazil is expected to contribute about 21% to the world sugar supply (18% higher than in 2019/20) as Brazil will increase the rate of sugarcane used for sugar production (from 35% to 46%) because of the sharp drop in ethanol price.

Impacts of El Nino and La Nina on climate in different regions
EL NIÑO CLIMATE IMPACTS

LA NIÑA CLIMATE IMPACTS


Source: NOAA, FPTs Research

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APPENDIX 02: Estimated selling price of official Thai sugar imported into Vietnam

Domestic sugar prices depend strongly on price of imported sugar from Thailand. After the ATIGA comes into effect, domestic sugar enterprises must compete with Thai sugar mainly in consumer segments (B2C channel) and small F&B customers (SME channel) because sugar imported from Thailand has not yet met the high requirements of large-scale F&B customers (MNC channel: Pepsi, Coca Cola...).

According to our estimates, the production cost of white sugar in Thailand is at an average of 8,400 VND/kg since the buying price of raw sugarcane in this country is subsidized by the Thai Government and fixed at an average level of 630,000 - 650,000 VND/ton. The FOB export price of Thailand's white sugar in 2019/20 is at an average of 11 baht/kg (~8,100 VND/kg - according to USDA). Currently, Thailand's export prices are low (almost equivalent to their production cost), in order to compete in the global export market.

Average production cost of white sugar in 2019/20

	Vietnam	Thailand
Sugarcane price (VND/ton)	900,000	650,000
Efficiency (kg sugar/01 ton of sugarcane)	104	110.5
Cost of sugarcane/ 01 kg of sugar	8,650	5,882
Cost of white sugar production (VND/kg)	12,300	8,400

Estimated minimum selling price of official Thai sugar in Vietnam

Costs	VND/kg
Production cost	8,400
Shipping cost	1,500 - 2,000
Local and distribution advantages	400 - 1,000
Tariff (5%)	400
Estimated Thai sugar selling price in Vietnam	10,500

Source: VSSA, OCSB, FPTs Research and Estimate

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By the time of publishing the report, FPT S holds 31 shares of SBT, 0 share of QNS, 39 shares of LSS, 221 shares of SLS, 80 shares of KTS, the analyst and the approver do not hold any share of the subject companies.

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**FPT Securities Joint Stock Company
Head Office**

No. 52 Lac Long Quan St, Bui Ward,
Tay Ho District, Hanoi, Vietnam
Tel: (84.24) 3 773 7070 / 271 7171
Fax: (84.24) 3 773 9058

**FPT Securities Joint Stock Company
Ho Chi Minh City Office**

3rd Floor, Ben Thanh Times Square,
136-138 Le Thi Hong Gam St, D1,
Ho Chi Minh City, Vietnam.
Tel: (84.28) 6 290 8686
Fax: (84.28) 6 291 0607

**FPT Securities Joint Stock Company
Da Nang City Office**

3rd Floor, Trang Tien Building,
No. 130 Dong Da St, Hai Chau District,
Da Nang City, Vietnam
Tel: (84.23) 6 3553 666
Fax: (84.23) 6 3553 888