Bich Chi Food Corporation (HNX: BCF)

Maintain high profitability due to a diversified product mix

Being one of the oldest flour factories in Dong Thap province, BCF has continuously invested to expand its capacity as well as diversify its product mix, becoming one of the leading companies in the food processing sector in the South. Currently, the company operates in food production and processing, food imports and exports with over 200 items in four main product groups: shrimp chips; mixed flour; noodles and vermicelli; and rice paper. More than 60% of BCF's revenue is contributed by exports to major markets including the US, the Europe, Japan and South Korea. The company's domestic customers are large supermarket chains such as Saigon Coop, Big C, Satra; traditional markets and consumption goods shops.

The diverse product mix and strong research and development capability help BCF's revenue stay at a satisfactory growth rate compared to many competitors in the food processing sector. As a result, BCF's profit margin and profitability ratio are always at a high level compared to peers. The trend of farmers shifting from food crops to fruit trees and aquaculture may adversely affect BCF's businesses related to traditional materials in the long term. However, we expect the diversification into other product groups (which bring higher profit) will compensate for this. In addition, a healthy financial situation with low and continuously declining leverage ratio along with abundant interest payment coverage is also a plus for the company.

In 2020, we believe that the company's average selling price may decrease due to fierce competition, especially the price of shrimp chips and mixed flour. Products of high added value such as organic products and ready-to-eat/drink products will, however, continue to maintain attractive margins. Raw material prices may decrease slightly, helping to reduce pressure on input costs. Revenue is expected to increase slightly by 9.3% to VND 580 billion while the gross profit margin drops to 26.3% from 27.3% in 2019. Profit after tax comes at VND 69 billion, up 5.6% YoY, equivalent to an EPS of VND 3,749.

Key financial ratios

Y/E Dec (VND Bn)	FY2017	FY2018	FY2019	FY2020F
Net revenue	454	490	530	580
%change	1.3%	7.8%	8.3%	9.3%
PAT	41	39	65	69
% change	-9.2%	-6.0%	67.2%	5.6%
Net margin (%)	9.1	7.9	12.2	11.8
ROA (%)	15.5	13.8	20.5	19.3
ROE (%)	23.7	20.9	29.2	26.1
EPS (VND)	3,119	2,223	3,592	3,749
Book value (VND)	13,455	10,351	12,394	14,611
Cash dividend (VND)	1,500	1,500	1,500	1,500
P/E (x)	N/A	N/A	N/A	N/A
P/BV (x)	N/A	N/A	N/A	N/A

Source: BCF, RongViet Securities

MONITOR

Stock Info	
Sector	Food & Beverage
Market Cap (VND Bn)	183.3
Share O/S (Mn)	18.3
Free Float (%)	37.1
52 weeks high	N/A
52 weeks low	N/A
Average trading volume (20 sessions)	N/A

Major shareholders (%)	
Pham Thanh Binh	14.2
Bui Van Sau	10.0
Nguyen Huong Lien	9.7
Nguyen Thi Ngoc Ha	7.1
Foreign ownership limit (%)	*0.0*

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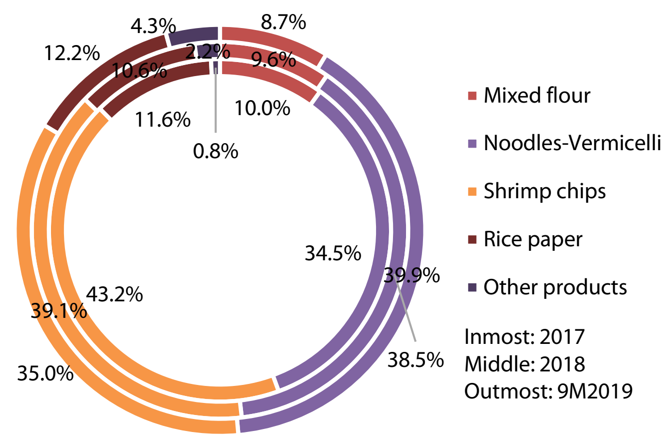
Noodles - vermicelli and shrimp chips are the two main products

The company's four main product groups include shrimp chips; mixed flour; noodles and vermicelli and rice paper. Noodles-vermicelli and shrimp chips contribute more than 75% of its annual revenue with the average for the period 2017-9T2019 at 37.6% and 39.1% respectively.

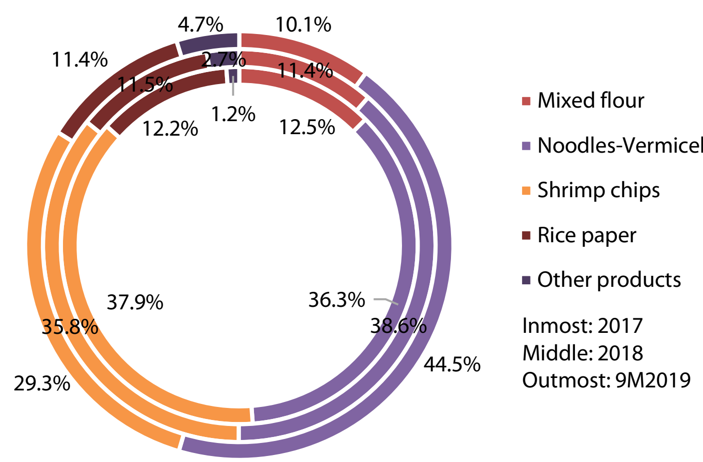
However, shrimp chips has the lowest gross profit margin among BCF's product groups, so the company has determined to focus its resources to develop the noodles-vermicelli as well as other groups. In 9M2019, shrimp chips contributed only 35% of revenue and 29.3% of gross profit (the ratios were 43.2% and 38%, respectively, in 2017).

Figure 1: Revenue structure by product



Source: BCF, Rong Viet Securities

Figure 2: Gross profit structure by product



Source: BCF, Rong Viet Securities

Increasing income by diversifying product mix. BCF is developing many instant products such as instant porridge, brown rice peanut candy, milk tea, matcha green tea, lemon tea, etc. Although this group accounts for a low proportion of total revenue, its sales have grown rapidly in the period of 2017 - 2019. Specifically, revenue in 2018 reached VND 10.6 billion, increasing 177.7% compared to that of 2017 (VND 3.81 billion), and net revenue in 9M2019 reached VND 16.4 billion, up 109.4% over the same period of 2018 (VND 7.8 billion). Its proportion in revenue increased rapidly from 0.8% in 2017 to 4.3% at the end of September 2019. This is also one of the company's most profitable product groups.

Table 1: Gross profit margin by product segments

Gross profit margin	2017	2018	2019
Mixed flour	29,4%	25,7%	29,7%
Noodles – Vermicelli	24,6%	21,8%	28,5%
Shrimp chips	20,5%	19,9%	21,4%
Rice paper	24,6%	23,6%	23,9%
Other products	32,3%	26,7%	28,4%

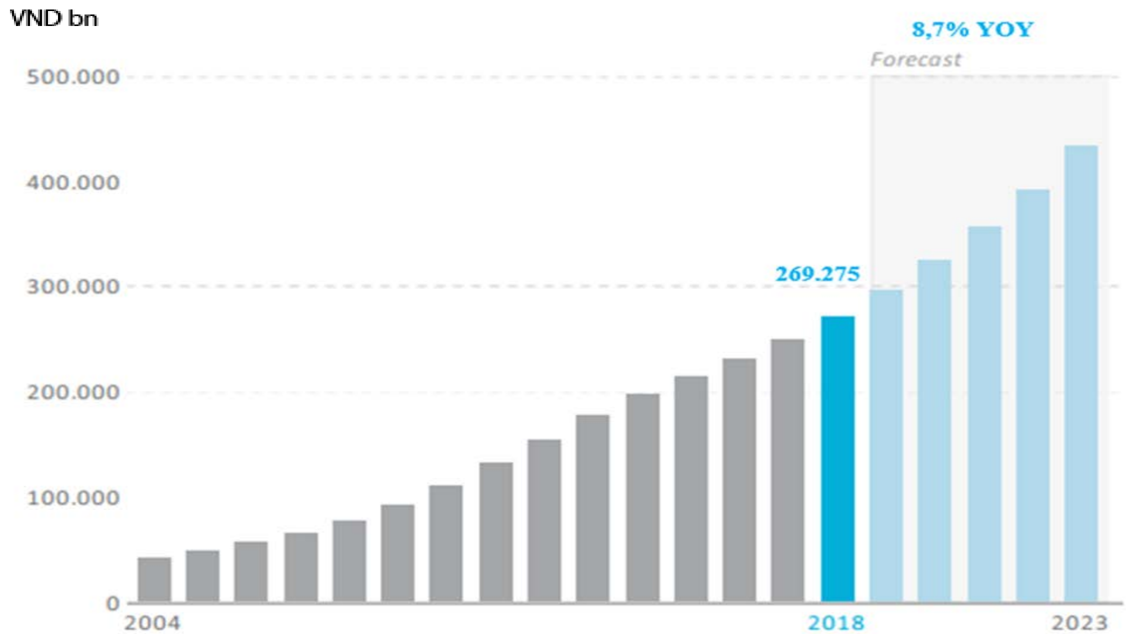
Source: BCF, Rong Viet Securities

In addition, the company intends to expand into the dried fruit business to take advantage of the local major materials supply (sweet potatoes and fruits) and to support the general performance when products made from rice are facing strong price competition. The company is looking for markets for dried fruit.

Organic products - Strategy for the future

High demand for organic products will ensure stable long-term growth. Euromonitor International forecasts that global sales of packaged foods in the period of 2019-2023 will increase by an average CAGR of 8.7%/year.

Figure 3: Euromonitor's forecast of global sales of packaged food



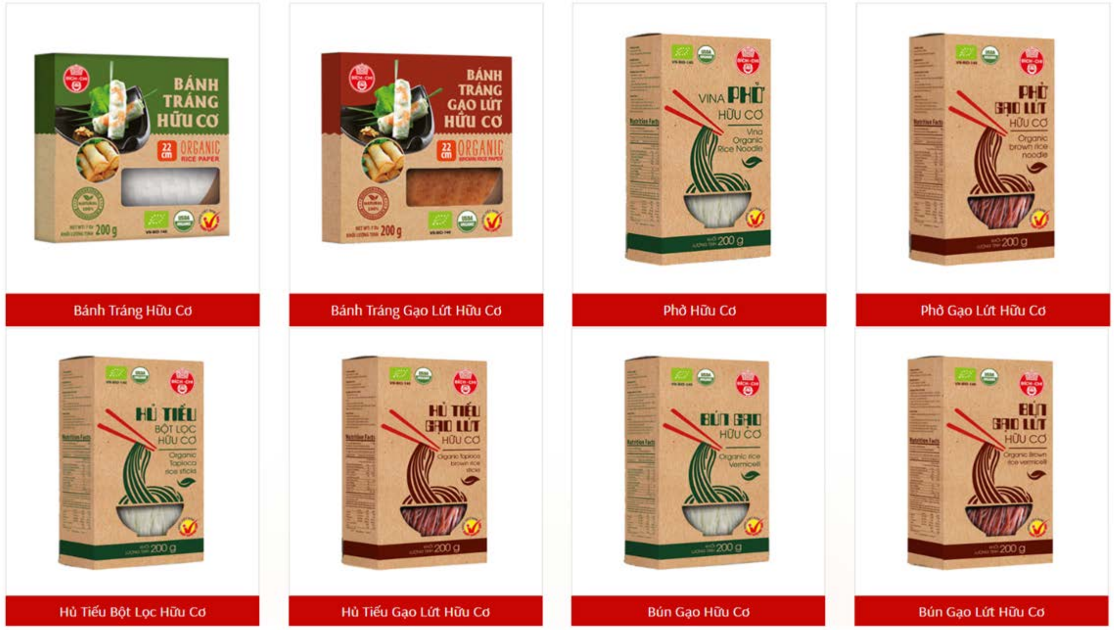
Source: Euromonitor International 2019

As of August 2019, Vietnam's population is more than 97.5 million, ranked 14th in the world with an average population growth rate of 1.1% / year. The middle class is expanding and is estimated to reach 45 million people by 2025. The middle class accounts for the highest proportion of spending for F&B, about 35% of the Vietnamese consumption. The domestic F&B industry with a solid basis will continue to maintain its growth momentum and become a lucrative market for many F&B companies in the near future. Therefore, besides the existing factories that are operating at full capacity, BCF is investing to build Bich Chi 2 with an expected capacity of 4,000 tons of noodles and vermicelli per year and 2,000 tons of rice paper per year. Bich Chi 2 is planned to go into operation in 1Q2022.

In addition, organic food is increasingly favored by consumers of high-income countries, mainly the US and the EU (90% of global organic food sales). Advanced farming methods without pesticides or chemicals ensure food hygiene and safety, prevent cancer as well as make no harm to the environment. As a result, organic food is quickly accepted and trusted in markets that require high quality. Global organic food sales have increased by an average CAGR of 10.2%/year between 2001-2016 and are expected to keep growing at double-digit in the near future (according to The World Organic Agriculture 2018 report by International Federation of Organic Agriculture Movements - IFOAM and Swiss Organic Agricultural Research Institute - FiBL). Therefore, we believe that BCF's organic product segment has solid opportunities in high-end markets and will be one of the main drivers for the company to increase profitability in the future.

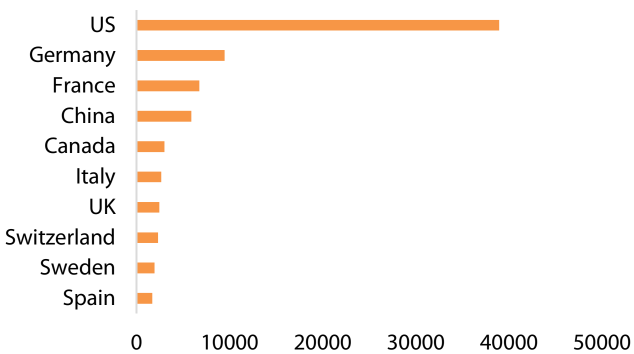
Therefore, to catch up with the trend of consuming organic food, Bich Chi has launched an organic product line which has NOP (USDA) and EU (Europe) organic certifications. The company also identified organic products as its forward strategy.

Figure 4: Some organic products of BCF



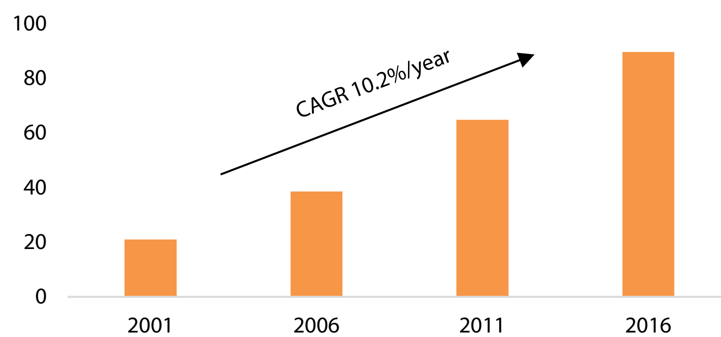
Source: BCF

Figure 5: 10 largest markets for organic food in 2016 (EUR mn)



Source: The World of Organic Agriculture, 2018

Figure 6: Global sales of organic food (USD mn)

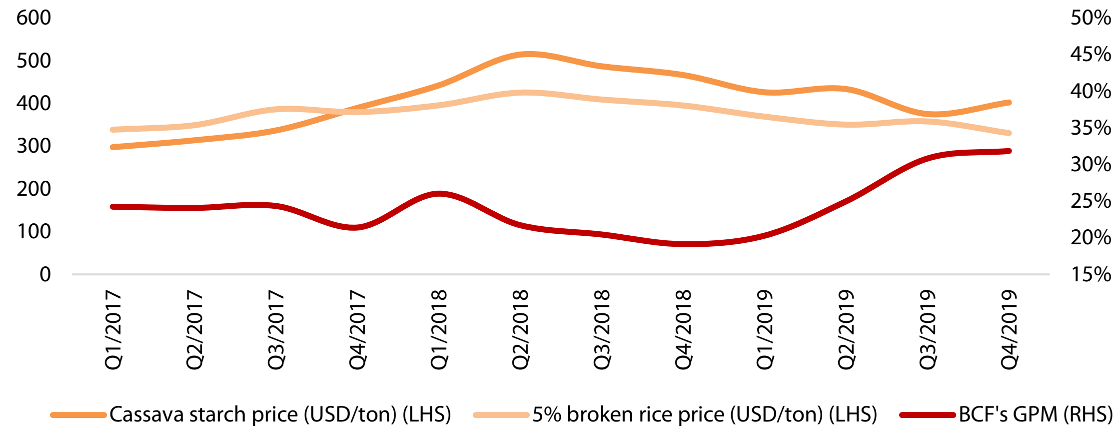


Source: The World of Organic Agriculture, 2018

Gross profit margin improved sharply for four consecutive quarters

In terms of input costs, raw material account for the largest proportion, ranging from 76% to 80% with cassava starch and rice as the main raw materials (cassava starch accounts for 52-60% while rice and rice flour accounts for 38-46% of the total). Therefore, fluctuations in prices of tapioca starch and rice have a great impact on the company's profits. In the past, volatility of the gross profit margin was quite closely correlated with fluctuations in raw material costs. However, from 2018 on, with the expansion of products with a high gross profit margin (instant food), BCF's profit margin has improved significantly (Figure 7).

Figure 7: Correlation between rice price, tapioca starch price and BCF's gross profit margin



Source: BCF, Ministry of Industry and Trade, Rong Viet Security

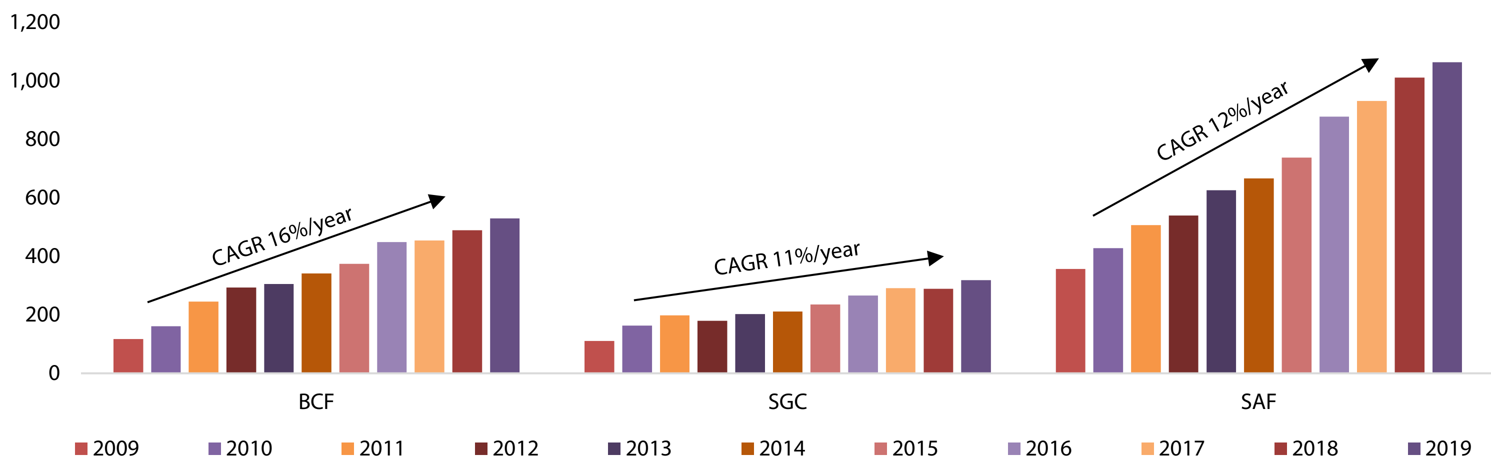
The price of inputs tends to increase when farmers in the region where BCF sources its products plan to reduce farming food crops and switch to fruit trees, vegetables, and aquaculture for export. This could be a disadvantage for BCF's business related to traditional materials in the long term.

Financial situation

Diverse product structure helps sales maintain a satisfactory growth

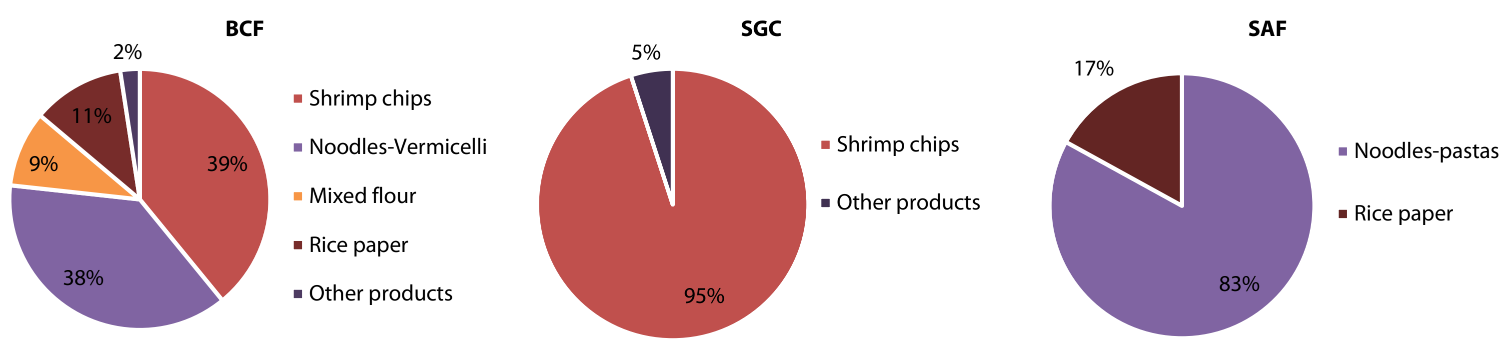
Compared to two major competitors in the made-from-flour food industry, Sa Giang (SGC) and Safoco (SAF), Bich Chi's revenue has grown steadily at a higher rate. BCF's annual growth rate is 16%/year compared to 11%/year and 12%/year for these two competitors. We believe that the diversified product structure, deep processing and the continuous launch of new products are the driving forces of BCF's sales growth in the past as well as in the future.

Figure 8: Revenue of Bich Chi, Sa Giang and Safoco (VND bn)



Source: BCF, SGC, SAF, Rong Viet Securities

Figure 9: BCF's product mix is more diversified than SGC and SAF



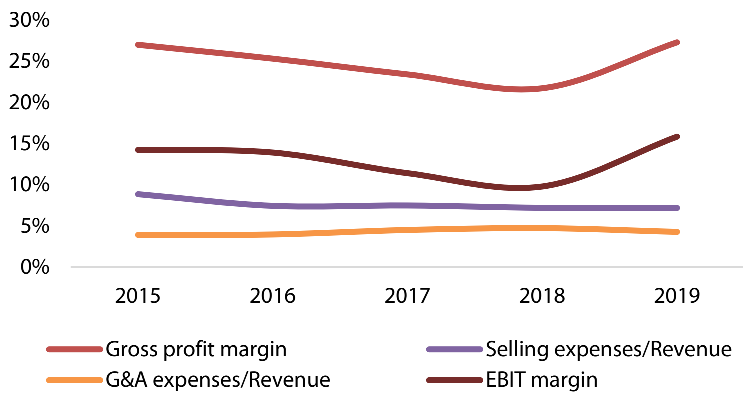
Source: BCF, SGC, SAF, Rong Viet Securities

Profitability is high compared to the processed food industry

Selling expenses and administrative expenses are well controlled, accounting for 11-12% of revenue and stable over time. Compared to other listed companies, BCF's profitability is only behind MCH because MCH has the seasoning segment as its key product line with high profit margin. BCF's profitability from operating activities is mainly influenced by raw material costs.

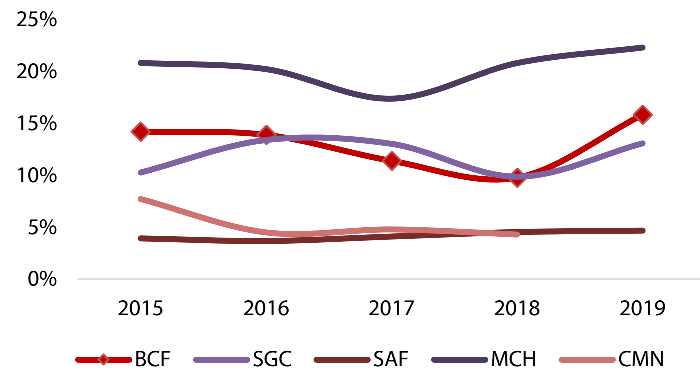
Profit margin improved in 2019 due to lower raw material prices after a sharp increase in 2018. Prices of rice and cassava starch, the two main ingredients of BCF, have decreased by 5-15% and 20-25% in in 2019, while increasing by 15-20% and 35-40% in 2018. The gross profit margin, as a result, has improved sharply to 27% from 22% in 2018.

Figure 10: Well-controlled selling and G&A expenses



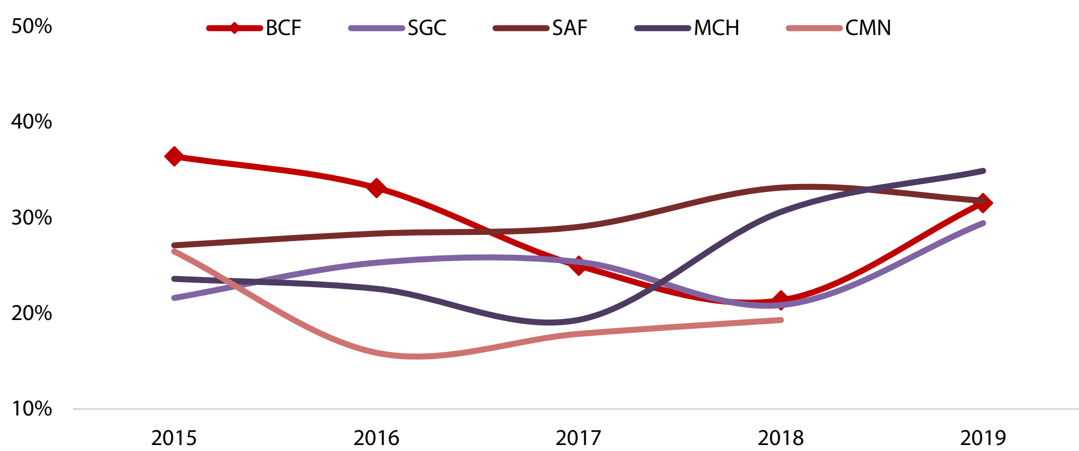
Source: BCF, Rong Viet Securities

Figure 11: EBIT margin is high



Source: Companies' financial reports, Rong Viet Securities

Figure 12: ROE of BCF compared with other companies



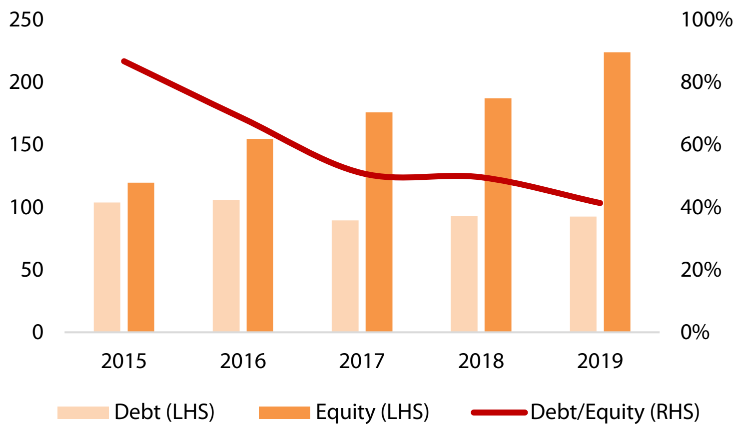
Source: Companies' financial reports, Rong Viet Securities

Return on equity recovered in 2019 reached 32%, close to the 35% of MCH. ROE tends to fluctuate more than operating profit margin especially in 2016 and 2017 because the company mainly retained profits to increase its charter capital and pay low cash dividends. The payout ratio (cash dividend to profit after tax) decreased to 22% in 2016 and 48% in 2017, lower than the usual level of over 55%.

Healthy capital structure and high interest coverage

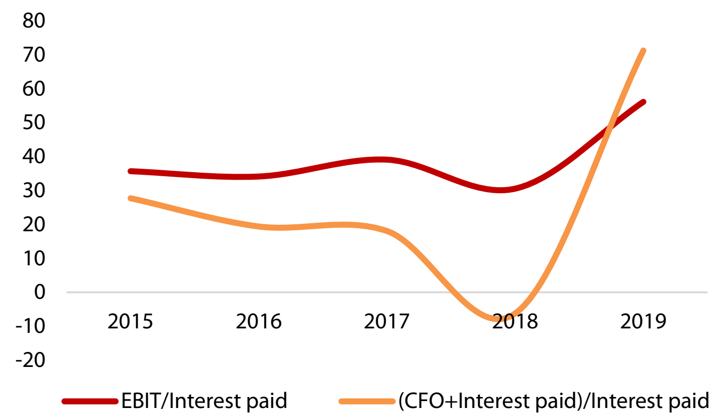
The company only borrows short-term debt to finance working capital needs and use no long-term debt. The leverage ratio (Debt / Equity) is 41% in 2019 and has continuously decreased over years. Except for 2018, business activities for many years have proved effective when profit and cash flow can abundantly cover interests on borrowings.

Figure 13: Financial leverage (VND billion)



Source: BCF, Rong Viet Securities

Figure 14: Interest coverage

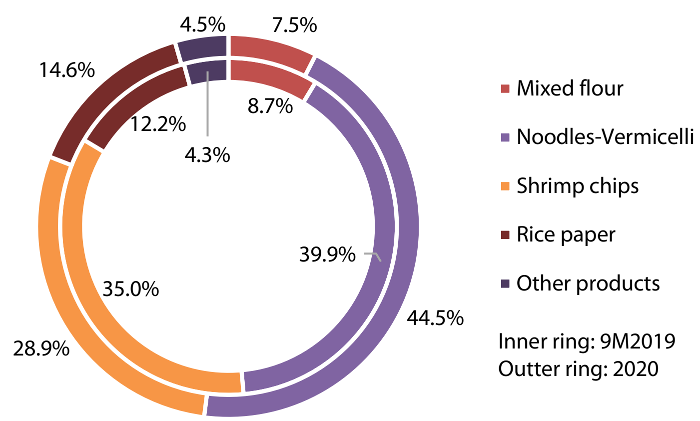


Source: BCF, Rong Viet Securities

2020 outlook

Total consumption in 2020 is likely to increase slightly in the context of high competition. We expect that BCF will increase the proportion of organic noodles-vermicelli, organic rice paper and instant products with better profit than the remaining products. Flour and shrimp chips will continue to be under pressure in terms of selling prices. The share of noodles- vermicelli, rice paper and ready-to-eat products will expand while that of shrimp chips and mixed flour will decline.

Figure 15: Forecast of product mix for 2020



Source: Rong Viet Securities

The pressure on material costs may be reduced slightly due to:

(1) Many rice producing and exporting countries (such as Thailand) are suffering from a fall in rice production volume due to drought, causing global supply shortages. Many free trade agreements (Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Vietnam-Europe Free Trade Agreement (EVFTA)) coming into force this year will boost the demand for rice in many markets. The COVID-19 epidemic is causing a rise in the need of rice stocking. These factors are likely to increase prices of export and domestic rice.

(2) US-China tensions, the COVID 19 epidemic and competition from Laos and Cambodia are likely to reduce exports and indirectly drag down cassava starch prices in 2020.

Selling expenses and general and administrative expenses will be maintained at 2019 levels.

For the whole year, revenue is expected to reach VND 580 billion, up 9.3% compared to 2019. Gross profit margin may slightly decrease to 26.3% from 27.3% in 2019 due to the average selling price dropping at a higher rate than the reduction in the cost of materials. Profit after tax is forecasted to reach VND 69 billion, up 5.6% compared to 2018, equivalent to an EPS of VND 3,749/share.

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019	FY2020F
Revenue	**454**	**490**	**530**	**580**
COGS	348	383	386	427
Gross profit	**106**	**106**	**145**	**152**
Selling Expense	34	35	38	41
G&A Expense	20	23	23	25
Finance Income	3	3	3	3
Finance Expense	2	3	2	2
Other profits	-1	1	-3	0
PBT	**52**	**49**	**82**	**87**
Prov. of Tax	11	10	17	18
Minority's Interest	0	0	0	0
PAT to Equity S/H	**41**	**39**	**65**	**69**
EBIT	52	48	84	86
EBITDA	71	67	104	105

FINANCIAL RATIO	FY2017	FY2018	FY2019	FY2020F
Growth (%)				
Revenue	1.3	7.8	8.3	9.3
Operating Income	-10.7	-5.9	55.4	0.6
EBITDA	-17.0	-7.5	75.3	2.7
PAT	-9.2	-6.0	67.2	5.6
Total Assets	1.8	5.6	13.0	12.1
Equity	13.8	6.5	19.7	17.9
Profitability (%)				
Gross margin	23.4	21.7	27.3	26.3
EBITDA margin	15.7	13.7	19.6	18.1
EBIT margin	11.4	9.8	15.8	14.9
Net margin	9.1	7.9	12.2	11.8
ROA	15.5	13.8	20.5	19.3
ROE	23.7	20.9	29.2	26.1
Efficiency				(times)
Receivable Turnover	7.1	7.3	8.5	8.2
Inventory Turnover	5.7	5.1	5.7	5.6
Payable Turnover	9.7	10.3	6.9	8.3
Liquidity				(times)
Current	2.0	2.2	2.6	3.0
Quick	1.3	1.3	1.8	2.1
Finance Structure (%)				
Total Debt/Equity	28.5	27.2	14.4	13.9
Current Debt/Equity	28.5	27.2	14.4	13.9
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019	FY2020F
Cash and cash equivalents	22	28	57	37
Short-term investments	23	16	39	78
Accounts receivable	64	67	62	71
Inventories	61	75	68	76
Other current assets	2	4	3	3
Property, plant & equipment	92	88	85	88
Acquired intangible assets	0	0	0	0
Long-term investments	0	0	0	0
Other non-current assets	1	2	1	1
Total assets	**266**	**280**	**317**	**355**
Accounts payable	36	37	56	52
Short-term borrowings	50	51	32	36
Long-term borrowings	0	0	0	0
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	4	5	5	5
Technology-science, dev. fund	0	0	0	0
Total liabilities	**90**	**93**	**93**	**93**
Common stock and APIC	131	171	183	183
Treasury stock (enter as -)	0	0	0	0
Retained earnings	21	13	38	77
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	22	1	1	2
Total equity	**174**	**186**	**222**	**262**
Minority Interest	0	0	0	0

CASH FLOW	FY2017	FY2018	FY2019	FY2020F
Profit before tax	52	49	82	87
Depreciation	19	18	20	19
Adjustments	0	1	0	0
Changes in Working capital	-49	-79	3	-40
Net Operating CFs	**23**	**-11**	**105**	**66**
Changes in Fixed Asset	-8	-12	-12	-22
Changes in Deposit, equity investment	0	5	-28	0
Interest, dividend, cash profit received	0	0	0	0
Net Investing CFs	**-7**	**-7**	**-39**	**-22**
Changes in Capital	30	41	12	0
Changes in Debt	-26	1	-19	5
Dividend paid & other	-15	-18	-30	-28
Net Financing CFs	**-11**	**24**	**-37**	**-23**
Beginning cash & equivalents	**18**	**22**	**28**	**57**
Changes in cash & equivalents	4	6	29	-20
Ending cash & equivalents	**22**	**28**	**57**	**37**

Brief Note

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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