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# HOW WILL SBT GROW IN THE SECOND HALF OF FISCAL YEAR 18-19?

**The world sugar industry is receiving advantage support.**
Positive signs appear more and more, showing the world sugar industry recovery in both aspects which are price increases and supply decreases that directly affect to world sugar industry

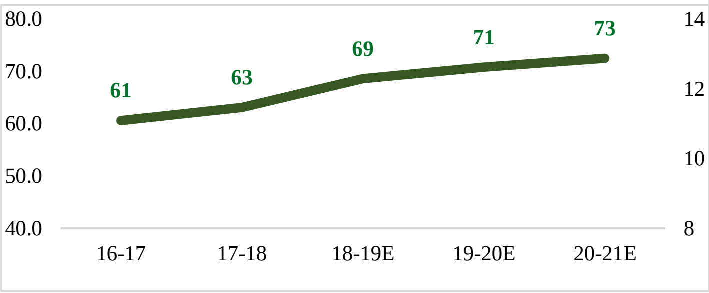
| No. | Main Element | Progress |
|---|---|---|
| 1 | Sugar price recovery | - Price of raw sugar futures in May 2019 closed on 20th February 2019 increased by 20% to 13.38 UScent/lb, recovering from the lowest price in the last 5 months<br>- The main reason is due to severe drought in Central of India, erratic rain in Central South of Brazil and the recovery of oil prices<br>- Sugar industry affected directly by the weather, the El Nino phenomenon is forecasted to be take place in 2019 that makes the increase of Sugar price. |
| 2 | Supply continued to decrease | - According to experts' forecast, Sugar output production of world leading sugar producing countries will decrease compared to the previous year<br>- Especially in Brazil - *the world's largest sugar producer and exporter* reduced 28% sugar output due to drought and conversion of sugarcane density to ethanol production. In the downtrend period of world sugar, Sugarcane used to produce ethanol is more profitable than sugar production<br>- *India - the second largest sugar producer and the fourth largest exporter in the world* reduced 6% export due to building sugar stockpiles, leading to reduce the export of sugar to the world market.<br>- *Thailand - the third largest sugar producer and the world's second largest exporter* reduced 8% after Thailand government decided to cut raw sugar exports and increase ethanol production from sugarcane. |
| 3 | Activities of hedge funds and commodity investment funds are more active | - Commodity speculative funds are increasing buying Sugar to boost consumption<br>- Commodity investment funds also returned to buy when prices fell sharply<br>- Operating from key funds in the commodity market will partly help improve Sugar prices. |

*Source: Nasdaq, Theice.com*

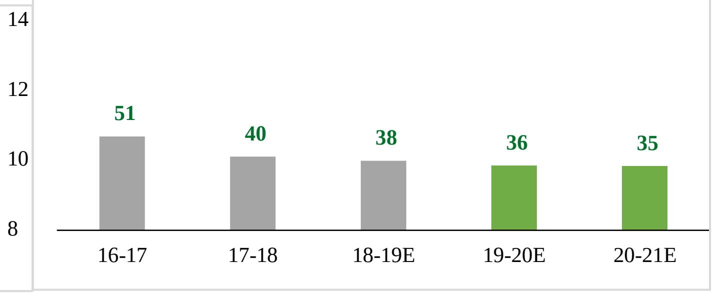
**ATIGA integration - How will SBT compete with Thailand sugar?**
In ASEAN, Thailand, Indonesia, Philippines and Vietnam are 4 major sugarcane producing countries; Thailand's Sugar industry scale is the largest not only regionally but also internationally. Therefore, it can be considered that Thailand is the biggest competitor of Vietnam Sugar enterprises in general and SBT in particularly after ATIGA takes effect. In recent years, competition between Thailand and Vietnamese sugar prices creates a big pressure for domestic sugar producers, this pressure will increase when ATIGA officially takes effect. However, Thailand government decided to reduce 500,000 tons of export raw sugar and considered the possibility of increasing ethanol production from sugarcane because the price of cassava tubers doubled that make the production of ethanol from cassava tubers become less competitive; The gap between the Vietnam and Thailand Sugar prices has narrowed.

As a No.1 position Sugar Company in Vietnam, SBT with has been very proactive for integration. Improving productivity is considered a prerequisite for fair competition with Thailand sugar. Specifically, in Fiscal year (FY) 18-19, SBT's average sugarcane yield will be improved to reach 69 tons/ ha, up 10% compared to 63 tons/ha of the previous FY. It is necessary to increase control and minimize costs in order to get the highest efficiency. Specifically, general administration expenses for FY 18-19 are expected to decrease by 10% over the same period.

**Target cane yield (Tons/Ha)**




**Cost of target cane (USD/Ton)**



Compared with Thailand, it is fair to consider that SBT's average sugar productivity over one ha of sugarcane is completely equivalent to one of the big sugarcane growers in the world - Thailand, while the Thailand average cost is overtaking SBT. Average sugar productivity per hectare of sugarcane of Tay Ninh Region farmers which SBT's main material area (MA) is at 6.87 tons/ha (based on the results of sugarcane crushing season 17-18). There is no big difference and quite close to the average sugar productivity of Thailand at 6.91 tons/ha. Considering the productivity of sugarcane crushing season 17-18, each hectare of sugarcane in Tay Ninh MA has productivity of up to 74 tons/ha, much higher than the level of 65 tons/ha in Thailand. Because of the low sugarcane quality, sugar productivity is only equivalent to Thailand. SBT has been supported farmers in applying technology and production, as well as providing appropriate sugarcane varieties to improve sugarcane quality. In terms of cost, in crop 17-18, Tay Ninh farmers invested VND 53.3 million per hectare of sugarcane. Meanwhile, Thailand's sugarcane costs are at 55.5 million/ha, due to higher land costs and higher costs for their sugarcane varieties.

However, in terms of factory purchase, SBT is having a difference with Thailand. In season 17-18, with the huge support from Government, Thai Sugar enterprises took advantage to buy sugarcane for about 780 Thai Baht/Ton per 10CCS, equivalent to the price of VND 583,000 per ton of sugarcane. However, in terms of factory purchase, SBT is having a difference with Thailand. In season 17-18, with the huge support from Government, Thai Sugar enterprises took advantage to buy sugarcane with 10CCS for about 780 Thai Baht/Ton, equivalent to the price of VND 583,000 per ton of sugarcane. Thus, if including transportation costs, sugarcane costs, Thailand only pay less than 830,000 VND/ton. Meanwhile in Tay Ninh region, with the seasonal price of 17-18 at VND 900,000 per ton for 10CCS sugarcane, the factory is paying VND967,000 per ton of sugarcane including transportation costs. SBT with the responsibility of accompanying farmers, still strives to keep sugarcane price for a good rate, while enhancing the support for high quality sugarcane breeds, suitable to the climate and land condition of each region.

Thus, it can be seen that in terms of productivity and cost, SBT has the ability to compete fairly with Thailand. In term of price, due to the support from the Government, Thailand sugar companies are selling lower sugar prices. However, when ATIGA comes into effect, Thai Sugar to Vietnam will be subject to 5% import tax rate, plus transportation and storage costs will lessen the price-advantage of Thai Sugar significantly. Therefore, if the amount of imported sugar into Vietnam is small, it will not be enough for Thai companies to offset the cost; on the contrary, if importing a large quantity of sugar, the problem of consumption output is a big problem for these enterprises because SBT exceeds 40% of sugar market share and continues to increase each fiscal year.

In recent years, SBT has constantly invested in R&D activities as well as developed technologies to reduce costs and increase competitiveness. As a country with 97 million people with a huge number of consumers who are still using sugar with "Three No: no brand, no label, no quality guarantee", SBT set out a mission to "Deliver clean sugar to every families' meals". In order to accomplish that, besides the Business channel B2B coring Multinational Companies - MNC and Small and Medium Enterprises - SME, SBT has promoted various new products serving the affordable consumer market with guaranteed quality based on the strength of available distribution channels.

From the beginning of fiscal year 18-19, in less than 9 months, SBT launched more than 26 new products to the market, including RE, RS, Yellow Sugar and Rock Sugar which were competitive in price and suitable packages for all customer channels. In particular, the introduction of products with packing specifications of 5 kg per bag and 12kg per bag in addition to previous packaging specifications (50 kg, 25 kg, 1kg, 500 gr), the Company has delivered variety of choices for customers, thereby gradually changing consumers' habits, orientating them to shift from using non-branded, poor quality, smuggled sugar ...which are rampant in the market toward SBT branded products manufactured under the qualified assurance process. In fact, the expansion of market share for the common segment besides the middle and high-end segments, which is SBT's advantage, has boosted sales volume, and accordingly has increased the Revenue (RV), the expected results will be clearly reflected in the second half of Fiscal year 18-19. Besides that, when this strategy goes along with expanding market share will help SBT remaining No. 1 position as well as generating a great competitive advantage for ATIGA in 2020.

**SBT is ready for spectacular breakthroughs in the second half of Fiscal year**

***Increasing output - Expanding market share***

In the first 6 months of the Fiscal year, due to the negative influences of lower selling price and high cost resulted of using inventory sugar with raw materials less competitive although the consumption volume increases over the same period, reaches nearly 50% of the yearly plan but Profit (PF) has not recorded a relative reasonable growth. However, when the volume of inventory sugar at high price has all consumed, and new sugar production with cheap sugarcane cost will help to improve profitability and growth for the second half of the Fiscal year.

Up to now, even 3rd Quarter has not passed, besides 362,000 tons of Sugar sold and recorded in Revenue within first 6 months, the Company has executed nearly 300,000 tons of Sugar preparing to be handed over along with other valuable orders, thanks to the success in diversifying the types of sugar products and targeting all customers, and additionally focusing strongly on MNC and SME ones, the potential mass segment will be left to further exploited. The estimated sugar output of whole year Fiscal year 18-19 will increase by 33% over the same period.

With the criterion "Profit is temporary, market share is eternal", SBT has clearly shown the current orientation of focusing on market share, thereby creating a fair competition for countries within the region as integration takes effect. This strategy has initially generated positive results when SBT's market share has grown rapidly in recent years, especially in the export sector. Within 5 months, from October 2018, the Company has increased from 7 markets to 17 markets including China, Myanmar, Kenya, USA, Bulgaria, Czech, France, Italy, Korea, Singapore, Philippines, Indonesia, Cambodia, Sri Lanka, Samoa, Nauru, Tahiti.

It can be seen that China is the top of export markets in terms of priority criteria since it is the largest sugar import market in the world with stable demand of 17 million tons per year, while domestic production is only about 10 million. Thus, this deficit of 7 million tons will be offset by imported sugar. SBT is one of the featured names that quickly brought Vietnamese Sugar products to the Chinese market. In fact, the introduction of sugar products into the billion-people market initially had good results, the Company expects to export to this market in Fiscal year 18-19 will exceed about 45% of the total export volume. At the beginning of February 2019, the Company exported Organic Sugar, one of the most advanced sugar types in Vietnam market, which uniquely SBT can produce, to two new markets - France and Italy. In March 2019, the Company continued to export Rock Sugar to another new market - Indonesia and is actively continuing to negotiate for increasing orders in these markets. SBT is still the only company currently able to bring Vietnam Sugar to all markets around the world.

***Business prospects for Quarter 3 and 4***

SBT has high expectations for the last 6 months business results when sugar output will be the sugar of the new crop with low cost of sugarcane input. In addition, the Company will continue to focus on high value-added products such as Organic Sugar, Rock Sugar, Yellow Sugar and Brown Sugar in which the price of Organic Sugar is 3-4 times higher than regular Sugar and Profit margins of these Sugar types are completely positive. From the above supportive factors, the Company estimates that the gross profit margin of Q3 and Q4 will be significantly improved compared to the first 6 months of that period, ranging from 15% -17% compared to 5 % of the first 6 months of the Fiscal year.

The adjustment of biomass electricity price from 5.8 cents/kwh to 7.5 cents/kwh is expected to be approved in Q2 2019, which will help SBT to record large profit from selling electricity to EVN. SBT currently owns 4 plants from bagasse-biomass fuel, possibly selling electricity to the national grid including TTCS (37 MW), TTCS Gia Lai (35 MW), Bien Hoa-Ninh Hoa (30 MW) and TTC Attapeu (30 MW). The total installed capacity of these thermo-electric centers reaches 132 MW, equivalent to the amount of electricity sold to the grid annually, approximately 170 million KWh. It is expected that when the electricity price is raised to 7.5 cent/kwh, the electricity business will be generating more than VND 60 billion of stable revenue each year for SBT.

In order to fully exploit the value chain of sugarcane, SBT is a company with full advantages to deploy including large land bank and raw materials area, the Company is in the process of negotiating with one of the biggest multinational corporation in the world to effectively develop by products as well as invest in a chain of agricultural products, increasing a significant source of revenue for SBT from the end of Fiscal year 18-19. With a series of actual actions, SBT will complete EBT of Fiscal year 18-19 at the modest level of 80% and up to 90%. This is a remarkable breakthrough for Vietnam Sugar because in the first 6 months of the year, SBT has gone slower than yearly plan but SBT's belief in Fiscal year 18-19 will be a firm stepping stone for a brighter Fiscal year 19-20.

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