RONG VIET SECURITIES

FISHERY INDUSTRY: Mixed effects from the US-China trade tensions

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Export slowing down amid the geopolitical uncertainties

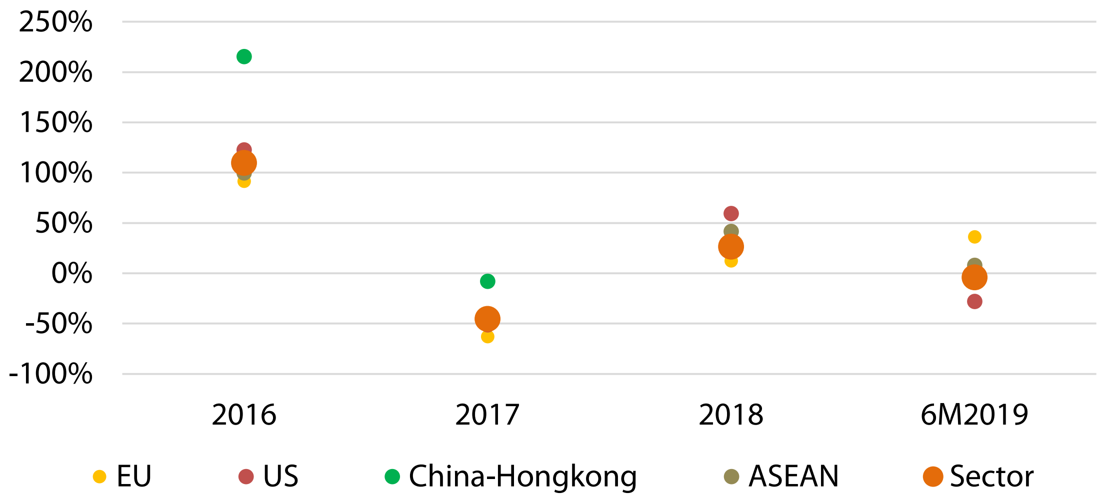
Trade tensions between the US and China hindered pangasius exports into these top markets

- Export value came at USD 962 mn, fell slightly 4% YoY, with export to the US tumbled 28% YoY, to China inched up 1% YoY and to the EU boomed 36% YoY.
- The situation could be attributed to that Chinese seafood were dumped into the US before the effective dates of new high tariff; the shortage of pelagic fish in the EU.
- Potential competition from cod and pollock in 2H if US importers pile up stocks of these fishes to avoid high tariffs before the effective date Dec 15, 2019.

Selling prices are under pressured due to weak global demand

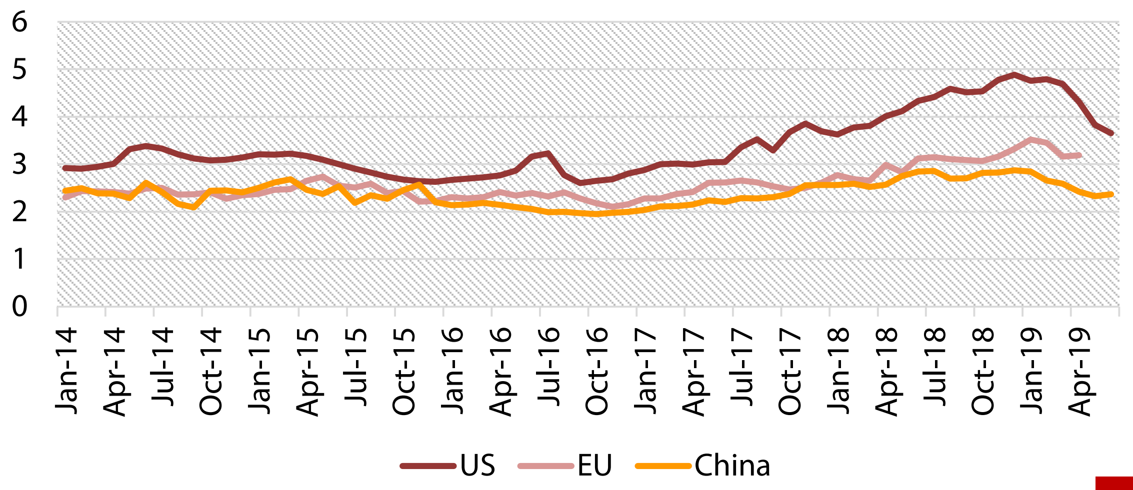
- Prices has risen dramatically in 2017 and 2018 due to the lack of pelagic fish, high demand in China and material fish shortages.
- Weak demand in major markets (the US and China) pushed selling prices down in 1H. Selling prices are likely to recover slightly in 2H, the main export season. However, export in 2019 would possibly not achieve the 2018's result.

Figure 1: Industry growth



Source: VASEP, Rong Viet Securities

Figure 2: Frozen fillet import prices (USD/kg)

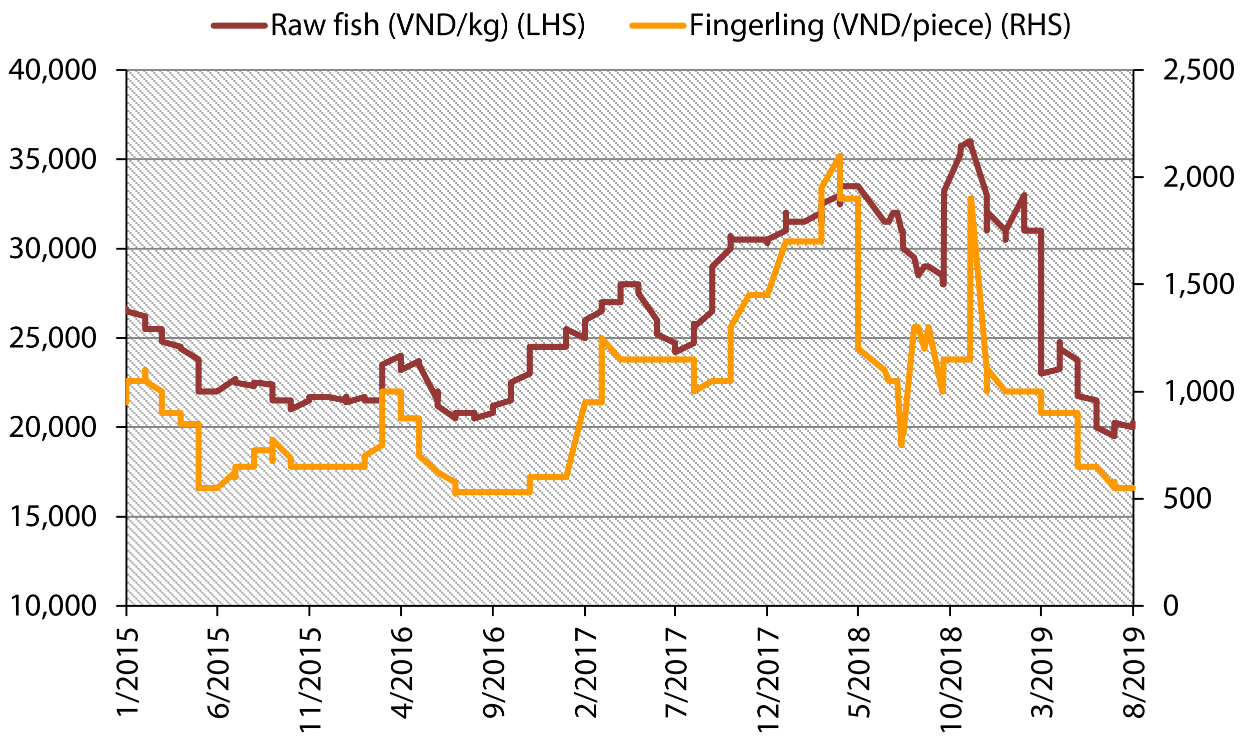


Source: International Trade Center (ITC), Rong Viet Securities

PANGASIUS SECTOR- REVIEW

Abundant material supply and low demand caused drastic falls in material prices

Figure 3: Market material fish and fingerling prices



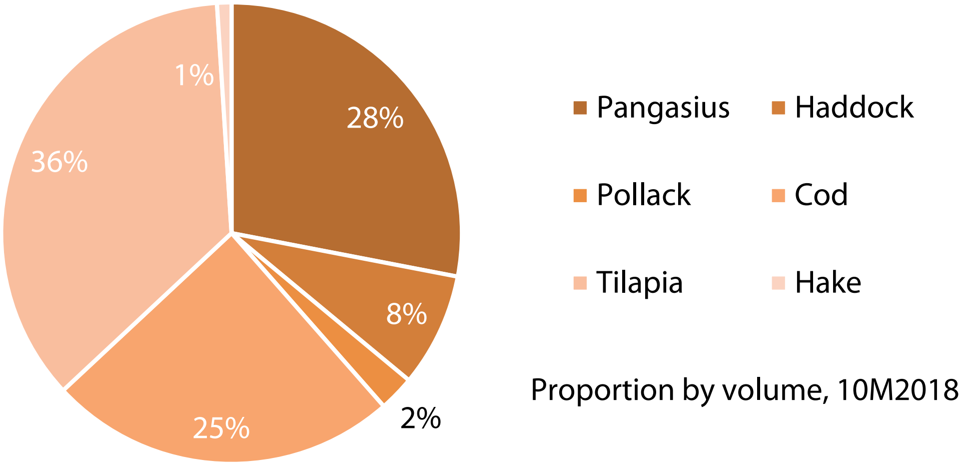
- Companies use mostly self-farmed fish and fish of associated farmers.
- Market material fish prices fell sharply in 1H, below production costs.
- Losses made farmers hesitate seeding new crop, causing plunges in fingerling prices.
- Lack of fish supply for processing will result to higher material fish prices in 2H.

Source: VASEP, RongViet Securities

Mexican tilapia is replacing Chinese tilapia to compete with Vietnamese pangasius in the US

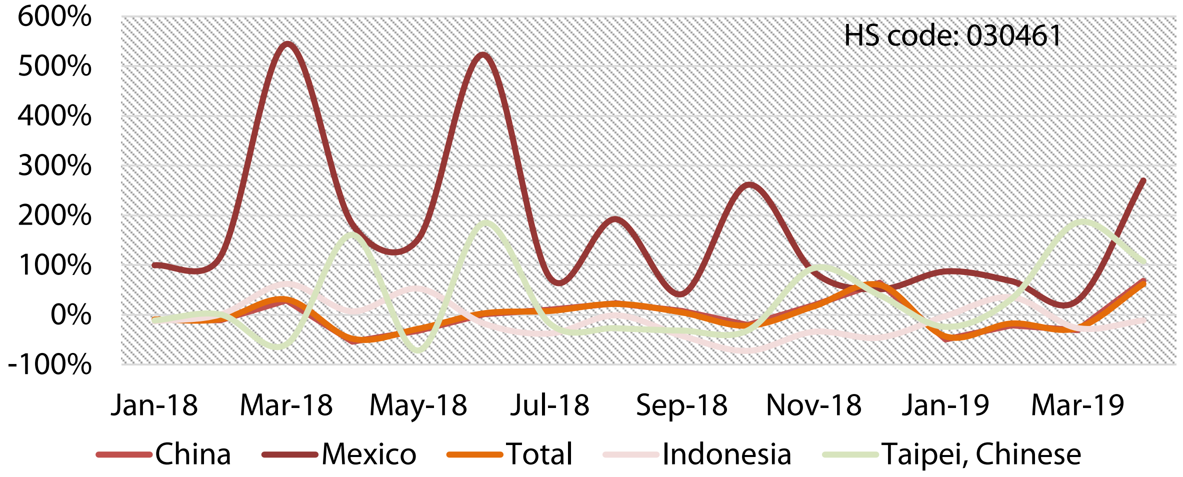
- While US tilapia import volume fluctuates over time, import from Mexico has continuously shown strong and positive growth since Jan 2018.
- Mexico is quickly gaining market share from China, thanks to its low prices and geographic position
- Vietnamese pangasius might not have much chance to fill the gap that could leave by Chinese tilapia as a result of the new high tariff.

Figure 4: US import of white fish by species



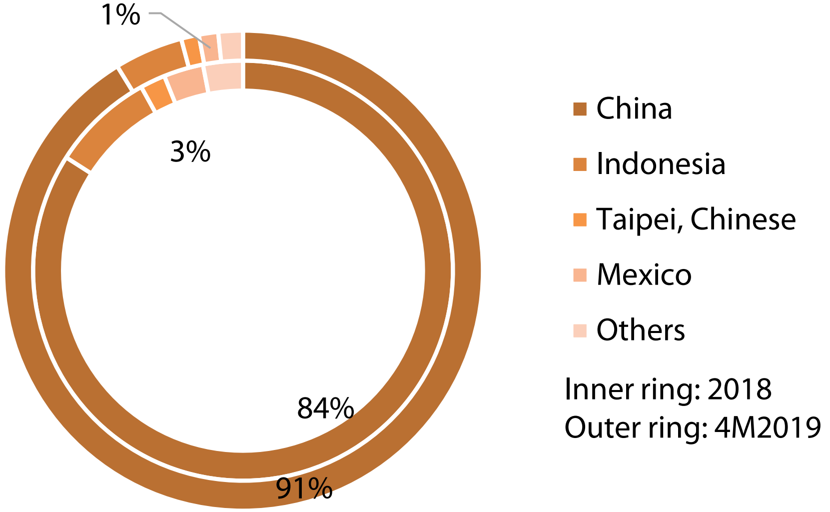
Source: ITC, RongViet Securities

Figure 5: Volume growth YoY of frozen tilapia fillet import by exporter



Source: ITC, RongViet Securities

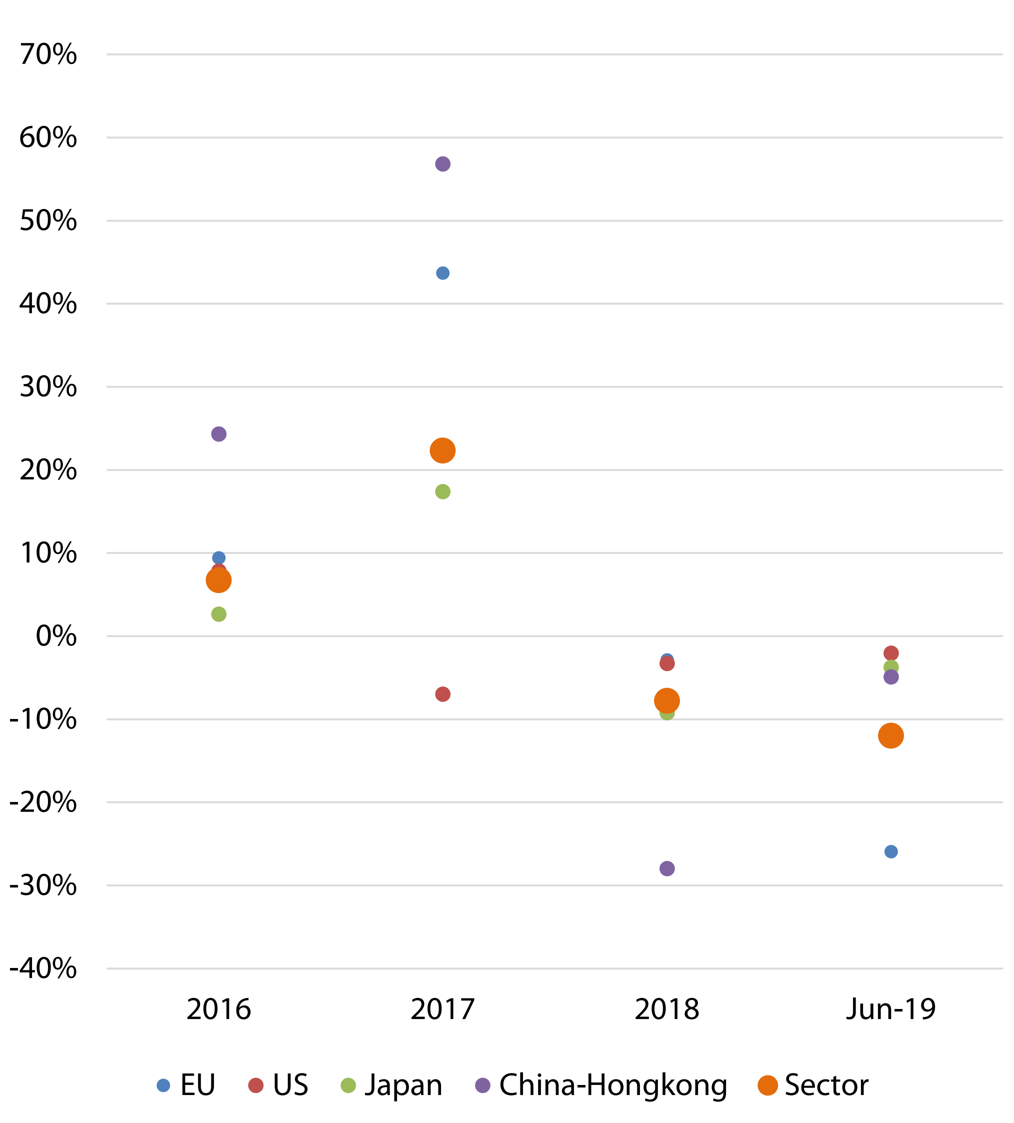
Figure 6: Market share of Mexican tilapia



Source: ITC, RongViet Securities

Abundant supply continues to drive down selling prices

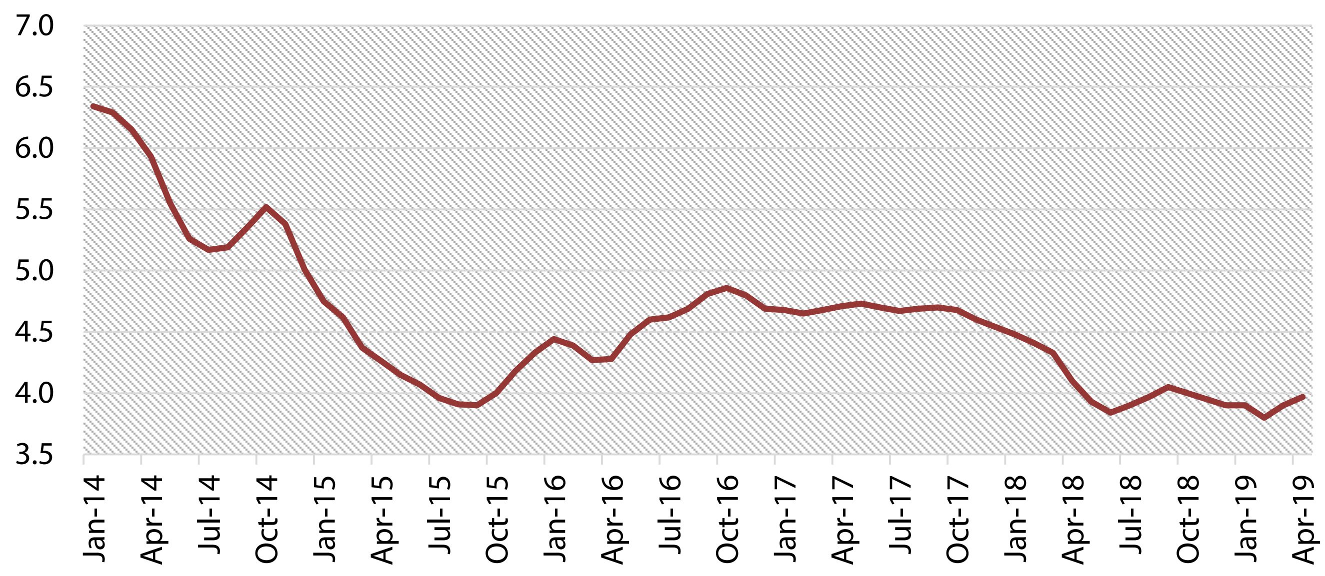
Figure 7: Sector export value growth



Source: VASEP, ITC, RongViet Securities

- Export value in 1H2019 reached USD 1.44 bn, 12% lower than 1H2018. Export to the EU tumbled 26% YoY, other major markets posted slight declines: the US (-2% YoY), Japan (-4% YoY) and China-Hongkong (-5%).
- India, Ecuador, Indonesia and Vietnam compete for market share by boosting production.
- Global export prices have been driven down to a record low level in the end of 2018 and 1H2019. Low prices in 1H has reduced seeding for new crop in 2H but prices are likely to rally modestly as warm weather is favorable for shrimp development.

Figure 8: Urner Barry shrimp price index (USD/lb)



Source: Wells Fargo, RongViet Securities

Low selling prices are likely to prolong

Innovative and technology advancements in shrimp aquaculture are driving large increase in productivity

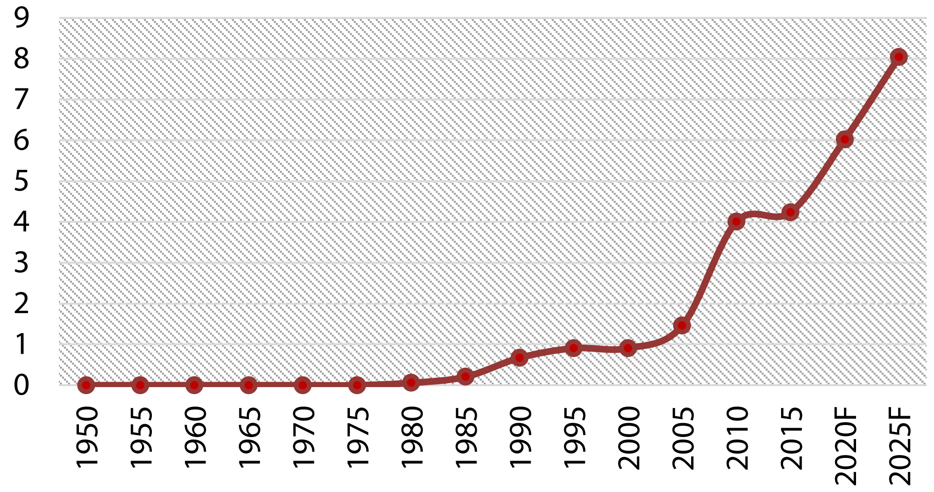
- Advancements of all stages: improved genetics of broodstock, live feed replacements for shrimp larvae in hatcheries, biosecurity and intensive farming systems management, especially in Ecuador and Mexico. The Global Aquaculture Alliance (GAA) estimates global farmed shrimp production could leap to 8 mn tons by 2025, a CAGR 8.5%/year from 4.5 mn tons of 2018, while FAO projects global demand for shrimp grows at 3.8%/year.

US-China trade tensions, the regulatory pressure on a large Southeast Asian shrimp processor and the intensified production in Ecuador are redirecting conventional shrimp trade flows

- Traditionally low price shrimp of India (the largest supplier of the US) are dumping (+14% YoY in 4M2019) in the US (the world's largets shrimp importer) when (1) the high US tariff has discouraged Chinese import of raw shrimp for re-processing before exporting to the US, and (2) Vietnam biggest shrimp processor (21% of Vietnam's shrimp export in 2018) has reduced their Indian shrimp import 82% in 4M2019.

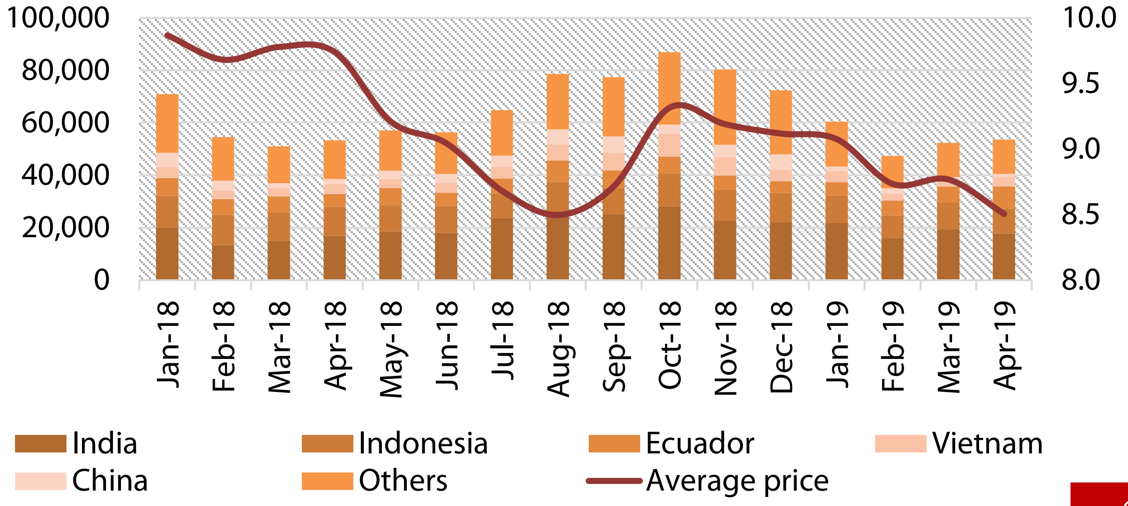
- Renminbi depreciation against US dollar could mean Chinese import demand may ease, canceling out the positive effect of shrimp tariff deduction from 5% to 2% and stringent "grey trade" control in China.

Figure 9: Global shrimp aquaculture evolution (mn tons)



Source: Global Aquaculture Alliance (GAA), RongViet Securities

Figure 10: US shrimp import (tons) and average price (USD/kg)



Source: ITC, RongViet Securities

Breaded shrimp in the US – Vietnam has shown signs of gaining market share from China's

Figure 11: Average importing prices of breaded shrimp in the US (USD/kg)

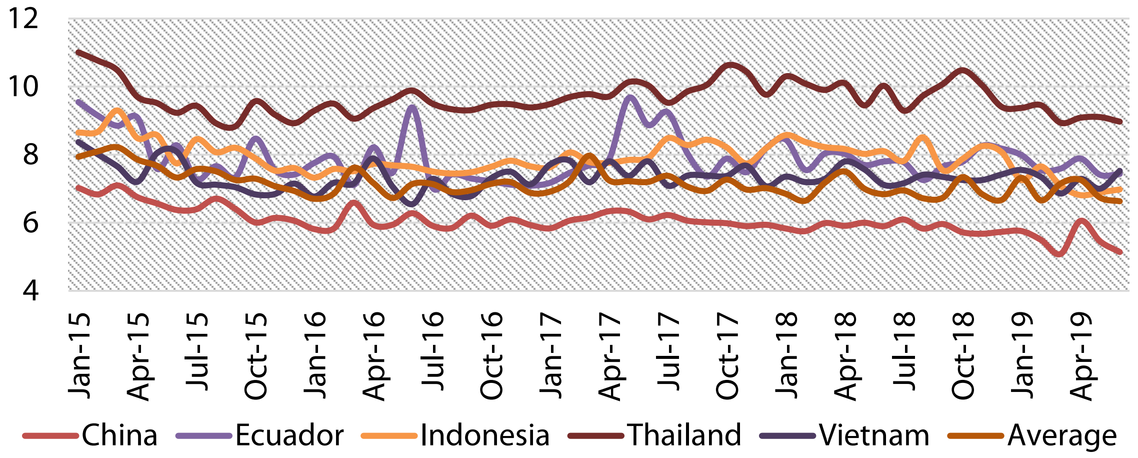
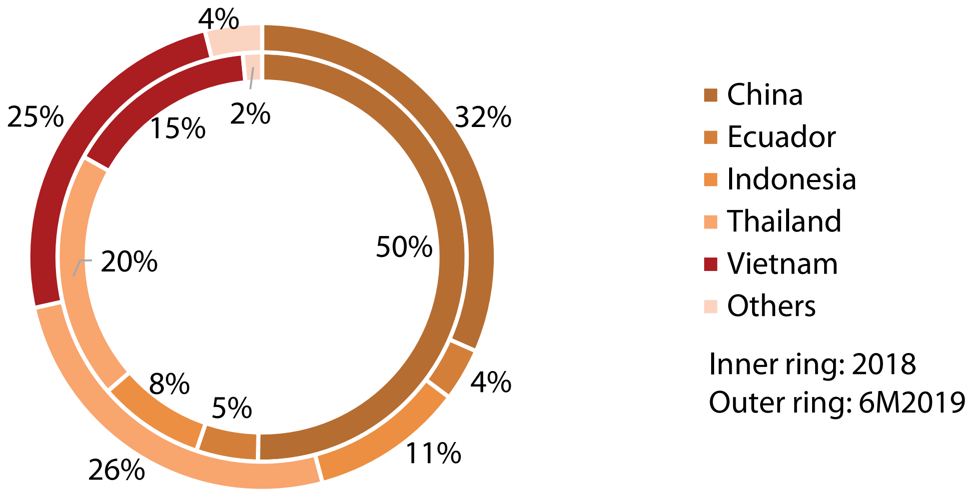


Figure 12: US breaded shrimp import



Source: NMFS, RongViet Securities

- Chinese breaded shrimp imported into the US have been subject to a 10% tariff since Sep 24, 2018. The tariff has been raised to 25% since May 10, 2019.
- Among breaded shrimp suppliers in the US market, China's product is the most desirable and cheapest. The average selling price of Chinese breaded shrimp is the lowest among suppliers.
- However, due to the high tariff, US importers are finding alternatives to replace Chinese suppliers.
- Vietnam is seen as the potential beneficiary because it can offer breaded shrimp at the price that is second lowest after China's.
- In fact, Vietnam's market share in 1H2019 has expanded the most prominently among China's competitors, from 15% to 25%.

Industry comparables (TTM)

Ticker	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Capex/Sales (%)	Return on Invested Capital	Return on Assets	Return on Equity
VHC	9.9	67.9	21.7	20.0	100.8	18.6	7.7	30.2	29.4	43.7
ANV	35.0	124.5	21.6	19.8	174.2	17.3	10.5	23.3	21.5	43.9
FMC	1.2	41.2	8.3	6.6	50.9	5.7	2.0	16.6	13.9	32.2
MPC	8.0	17.0	7.5	6.5	10.1	4.1	1.1	11.7	7.5	24.4

Source: Bloomberg, RongViet Securities

VHC – AFFECTED IN SHORT-TERM BY US-CHINA TRADE TENSIONS

INVESTMENT RATIONALES

- **Low demand in short-term due to trade tension**
  - Input prices reduce due to abundant supply of material fish
  - Low demand in the US due to Chinese seafood inventory
  - Gross profit margin 18.4% (2018: 22%)
- **Fingerling project improves product quality and reduce costs**
  - High technology and experience learned from Norway: lower mortality rate, less/no use of antibiotics
- **Stronger competitive advantage in China via Alibaba**
  - Higher efficiency: cutting rental fees for selling booths, advertising costs; contact directly with customers.
  - Supporting e-commerce policies of Chinese government: 0% import tax and 70% of common VAT and consumption tax rates
- **Processing capacity expansion**
  - Fillet capacity: 1,100 tons/day by end 2019, 1,250 tons/day by end 2020 (880 tons/ day end 2018)
  - Collagen-gelatin capacity: 3,500 tons/year by year end (2,000 tons/year end 2018)

RISKS TO OUR CALL

- Demand may fall more strongly than expected, which results to lower export volume and selling prices
- Volatility of exchange rates

BUY +20%

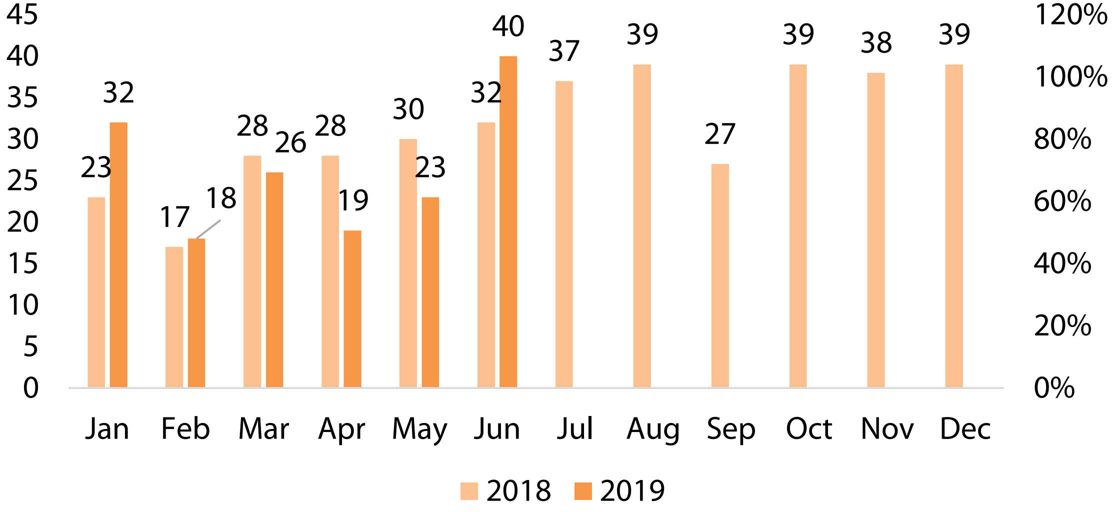
CMP (VND)	**85,300**
Target price (VND)	**102,600**
Cash dividend in 12 months	-

STOCK INFO	
Sector	F&B
Market Cap ($ mn)	7,882
Current Shares O/S (mn shares)	92.4
3M Avg. Volume (K)	176.0
3M Avg. Trading Value (VND Bn)	21.3
Foreign Ownership (%)	64.8
State Ownership (%)	-

FORECAST	2017A	2018A	2019F	2020F
Revenue	**8,152**	**9,271.3**	**9,702**	**10,737**
Growth (%)	0.0	13.7	4.6	10.7
NPATMI	**605**	**1,442**	**1,236**	**1,174**
Growth (%)	6.9	138.5	-14.3	-5.0
ROA (%)	12.0	22.9	16.3	13.4
ROE (%)	20.5	35.9	24.7	19.7
EPS (VND)	6,433	15,489	13,265	12,601
Book Value (VND)	31,883	43,452	54,233	64,350
Cash dividend (VND)	2,000	2,000	2,000	0
P/E (x)	8.3	6.1	6.4	6.7
P/B (x)	1.7	2.2	1.6	1.3

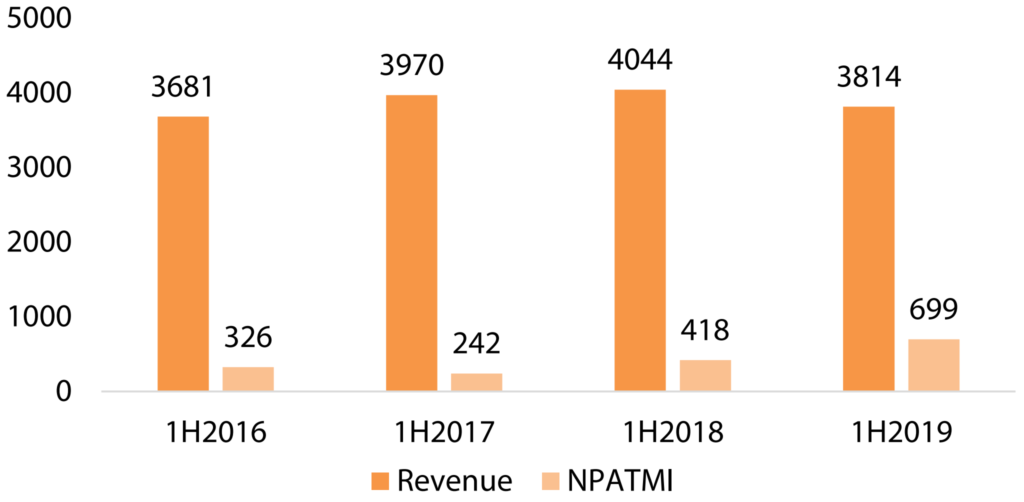
VHC – Affected in short-term by US-China trade tensions

Figure 13: Export value (USD mn)



Source: VHC

Figure 14: 1H 2019 revenue and NPATMI (VND bn)



Source: VHC, Rong Viet Securities

1H: High selling prices of contracts closed at end 2018 and the divestment from Van Duc Tien Giang gave a surge in profits amid the slight fall in pangasius export value

- 1H2019 pangasius export value posted USD 158 mn (+0% YoY), revenue came at VND 3,814 bn (-6% YoY); NPATMI of VND 699 bn (+67% YoY).
- Gross profit margin 22% (1H2018: 18%)

2H: export volume and selling prices to recover in peak export season of the year

- Selling prices will recover from the low level of June but remain significantly lower YoY
- Material prices rally following rising demand

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