RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

SEAFOOD

EXPORTS ARE ON THE REBOUND

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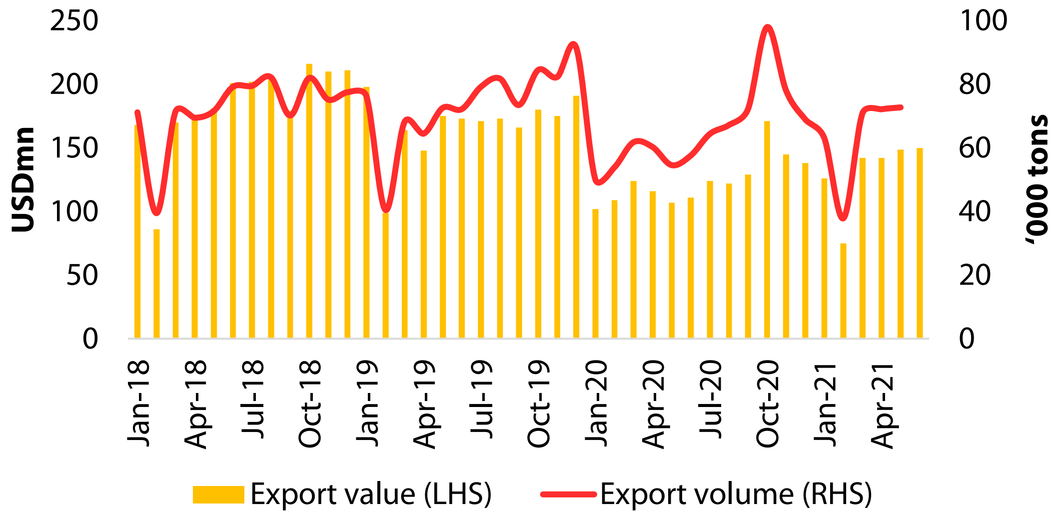
The US market led pangasius growth

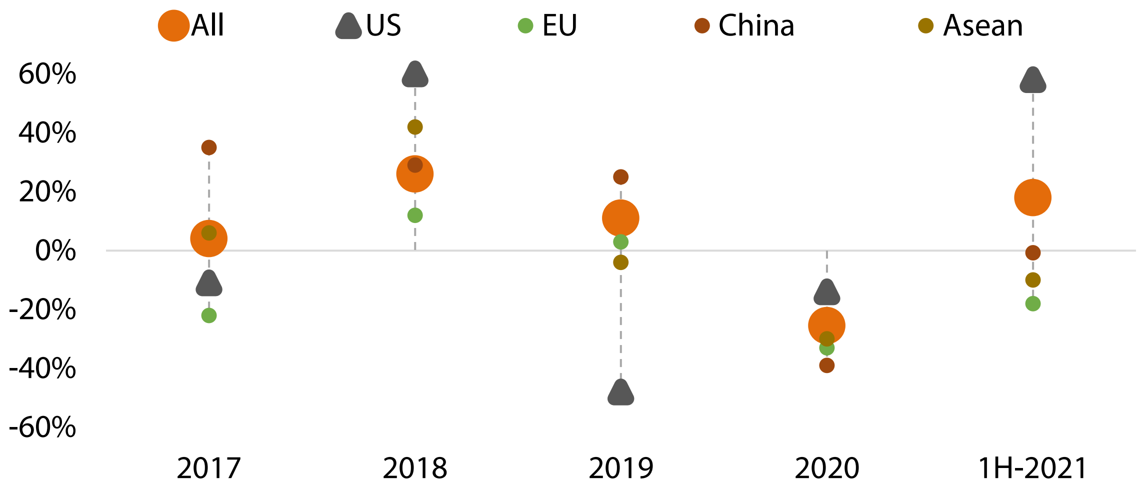
- In 1H-FY21, Vietnam's pangasius export value edged up 18% YoY to reach USD 788 Mn, driven by the US demand recovery of F&B services after the economic re-opening. Export volume returned to pre-COVID level, growing 19% YoY while ASP declined slightly 2% YoY, per MoIT.
- Export value to the US surged 58% YoY to reach USD 169 Mn in 1H-FY21. In contrast, the EU and China markets recorded 58 Mn USD (-18% YoY) and 207 Mn USD (-0.7% YoY), respectively. Exports to the EU plunged in 1H-FY21 as the result of low whitefish demand amid slow F&B service recovery (EU's whitefish imports in 1H-FY21 decreased 17% YoY). Exports to China faced stricter COVID-19-related controls and inspection requirements on frozen-food imports. Smaller markets (Mexico, Brazil, Thailand, Columbia, Russia) accounted for 2.5-4% each of Vietnam's pangasius export value but recorded double-digit growth in 1H-FY21.

Figure 1: Vietnam's pangasius export value and volume



Source: AgroMonitor, Rong Viet Securities

Figure 2: Vietnam's pangasius export value growth (YoY) by market

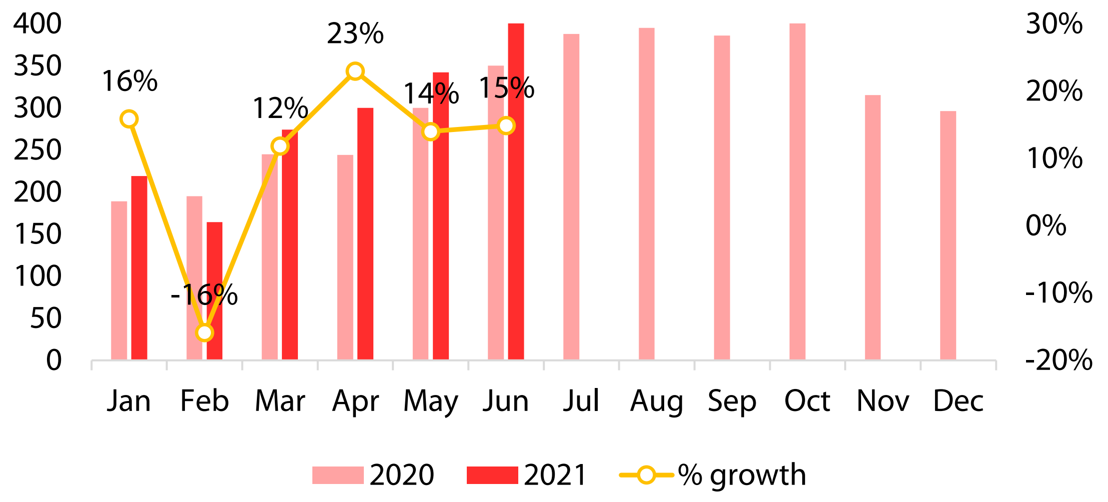


Source: VASEP, Rong Viet Securities

Shrimp exports remained in an upward trend

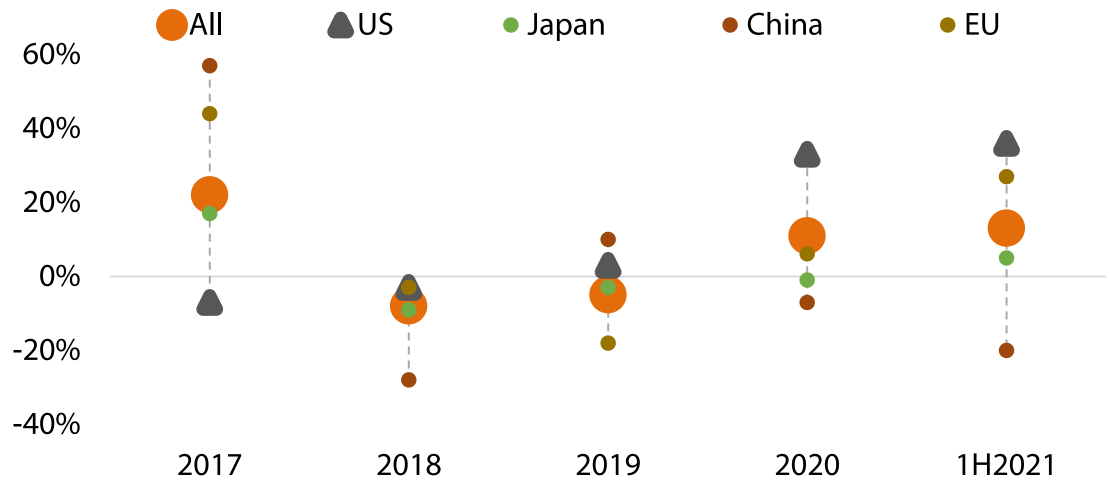
- Per VASEP, 1H-FY21 shrimp export value was USD 1.7 Bn, up 13% YoY.
- Exports to the US in 1H-FY21 rose 36% YoY to reach USD 440 Mn because of the resurgence in both retail and F&B services. EU and Japan markets also enjoyed positive growth, up 27% and 5% YoY, respectively. In contrast, exports to China witnessed a decline of 20% YoY due to strict COVID-19-related inspection requirements.

Figure 3: Vietnam's shrimp export value (USD Mn)



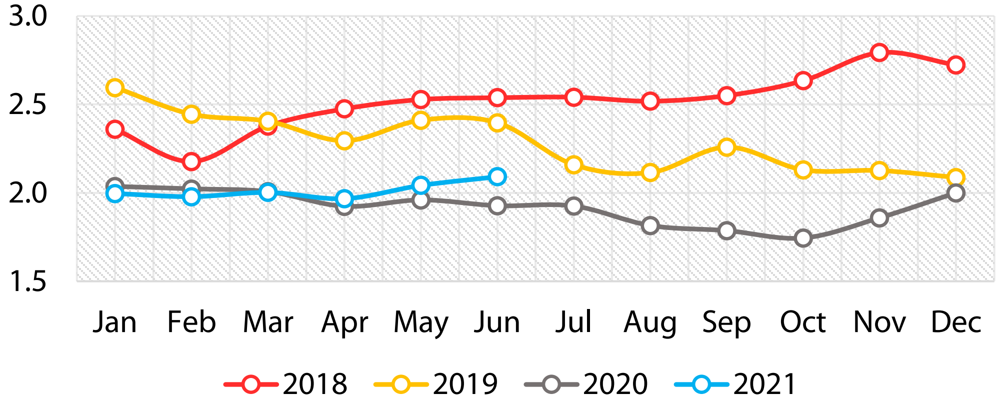
Source: VASEP, Rong Viet Securities

Figure 4: Vietnam's shrimp export value growth (YoY) by market



Source: VASEP, Rong Viet Securities

Figure 5: Vietnam's pangasius ASP (USD/kg)

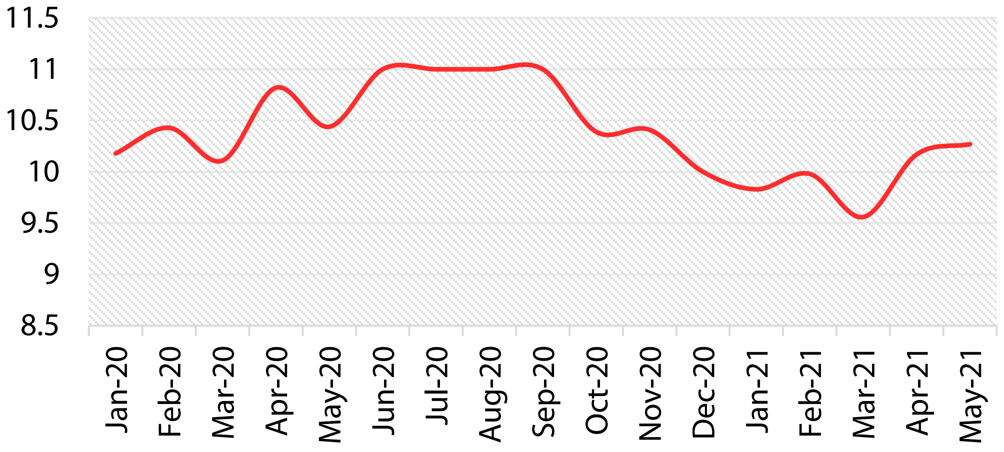


Source: AgroMonitor, Rong Viet Securities

Selling prices have been under pressure

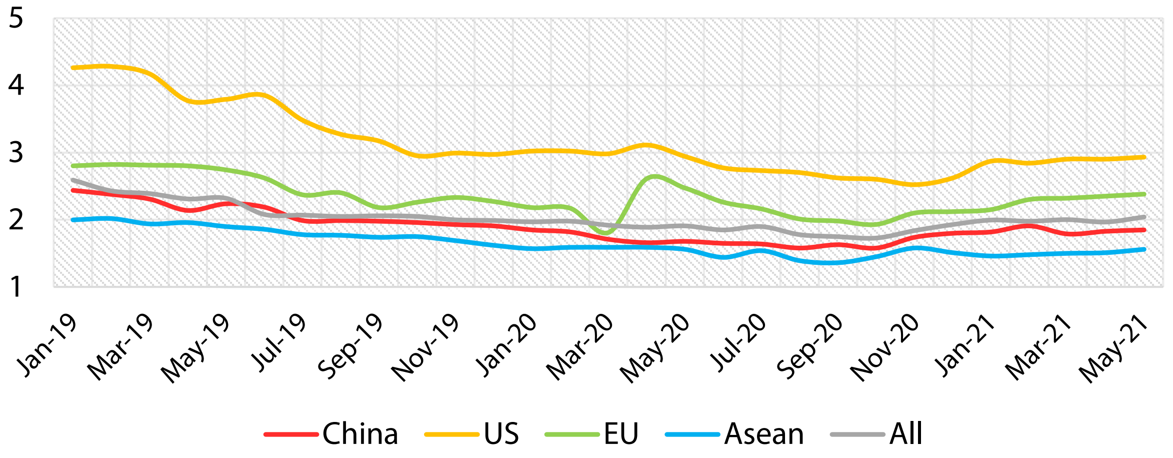
1H-FY21 pangasius average fillet selling prices (ASP) reached 2.0 USD/kg, inching up 2% YoY. Despite the strong rebound of export volume, ASP has not yet reached the pre-COVID level due to limited consumption expenditure. Similarly, shrimp ASP was also lower than the 2020 average owing to abundant shrimp supply in the Mekong Delta and low export prices to other countries.

Figure 6: Vietnam's shrimp ASP to the US (USD/kg)



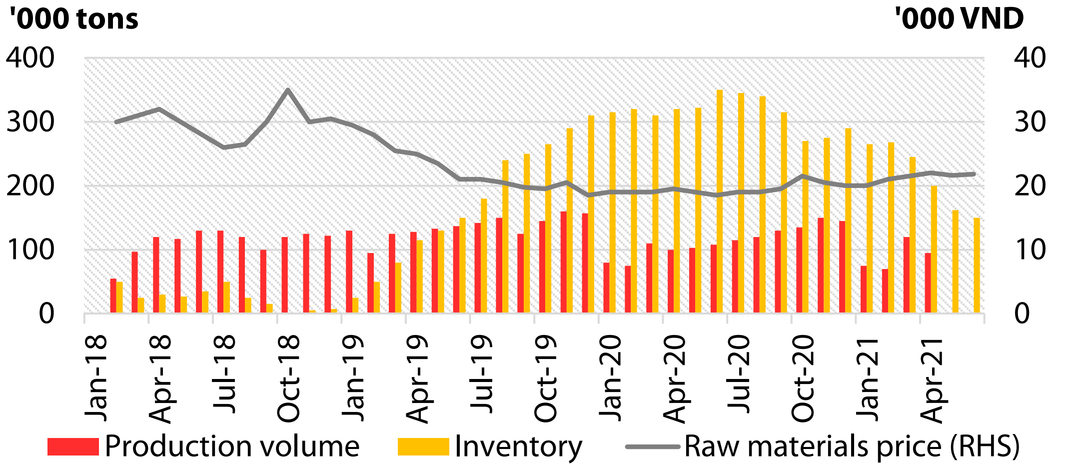
Source: Undercurrent News, Rong Viet Securities

Figure 7: Vietnam's pangasius ASP by market (USD/kg)



Source: ITC, Undercurrent News, Rong Viet Securities

Figure 8: Pangasius production volume, inventory and prices



Source: AgroMonitor, Rong Viet Securities

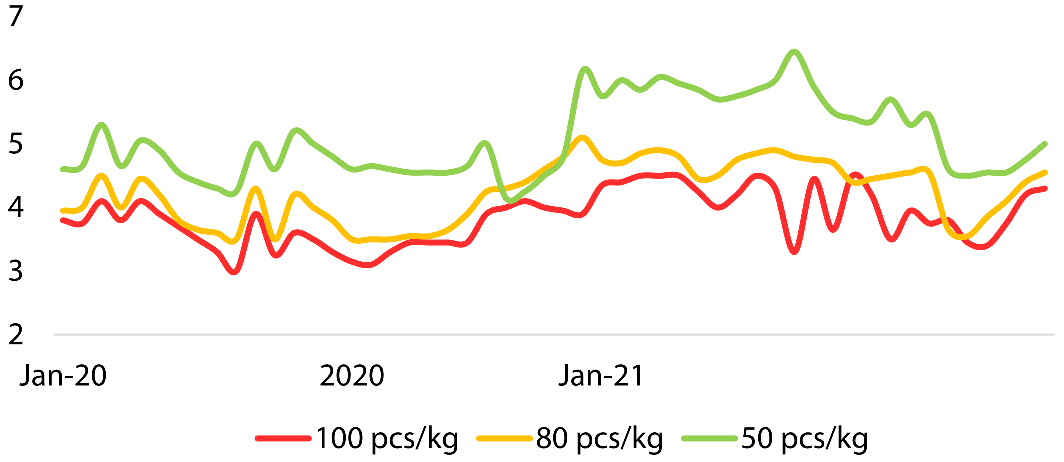
Raw pangasius materials prices to rise

- Vietnam's raw materials supply has grown slower than demand.
- Soaring feed prices due to rising commodity prices (soybeans, corn) continues to narrow affect farming areas, resulting in shrinking raw materials supply.

Logistics costs have been rising creating bottlenecks

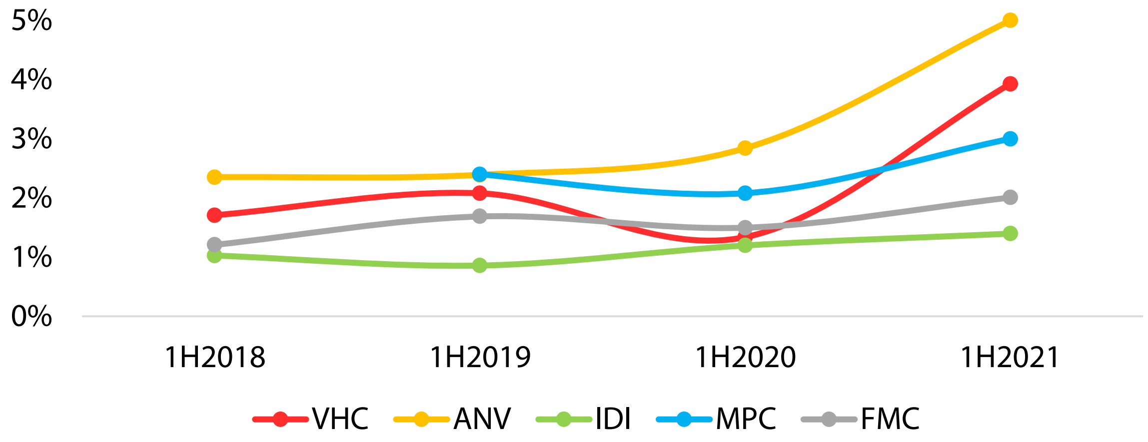
Per VASEP, Vietnam's seafood companies have suffered a 5-7 times increase in logistics costs, resulting in contracting net margin. Per AgroMonitor, Vietnam's seafood exporters to the US increased contracts under CFR terms (accounting for 75% of total exports) instead of mainly FOB as usual.

Figure 9: Shrimp materials prices (USD/kg)



Source: AgroMonitor, Rong Viet Securities

Figure 10: Logistics costs/revenue ratio of seafood companies



Source: Rong Viet Securities compiled

Table 1: Global whitefish price trend, March 2020 & 2021

Species	Source	Product	2020	2021	%change
Alaska Pollock	US	Frozen fillets	3.08	2.88	-7%
Atlantic Cod	Norway	Fresh Whole	3.69	3.08	-17%
Pacific Cod	Russia	Frozen Whole	2.22	2.22	0%
Tilapia	China	Frozen fillets	2.57	2.64	3%
Pangasius	Vietnam	Frozen fillets	1.58	1.65	4%

**All prices in EUR/kg*
Source: Kontali, NASF, Rong Viet Securities

Table 2: Export outlook in 2H-FY21 of seafood companies by market

	US	EU	China	Japan	ASEAN
VHC	X	X	X		
ANV		X	X		X
MPC	X	X		X	
FMC	X	X		X	

X: export revenue ≥ 10% company's revenue

Negative | Neutral | Positive

Source: Rong Viet Securities

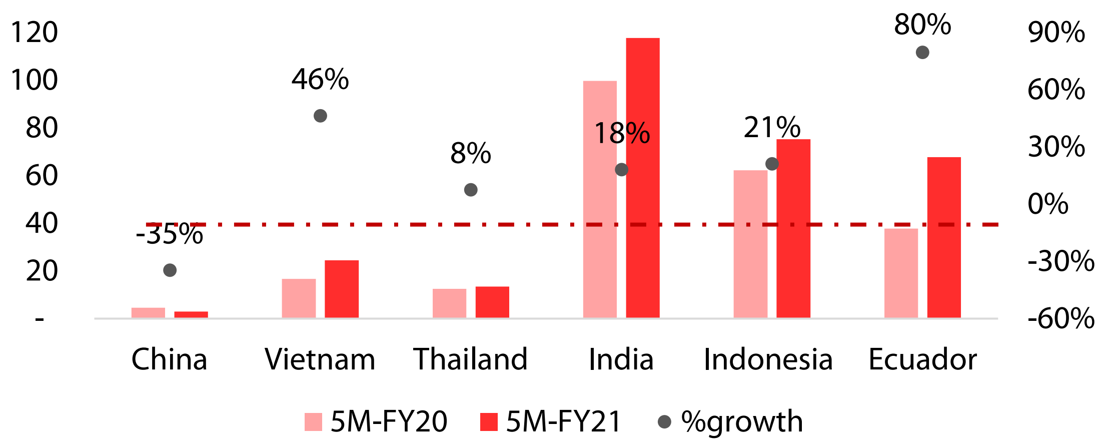
The US to remain the bright spot

- **US:** Although new COVID cases are rising and can slowdown the demand for outdoor dining, we maintain our view that this market will continue to lead seafood export growth in 2H-FY21 due to the successful vaccine rollout.
- **China:** Stricter COVID-19-related controls and inspection requirements on frozen-food imports will delay seafood exports. This issue will keep going in 2H-FY21 due to low vaccine coverage and new COVID outbreaks.
- **EU:** Low pangasius ASP as Vietnam's pangasius exports compete with many types of whitefish products whose prices have gone down. Per Kontali, 2021 whitefish production is expected to reach 13 Mn tons, up 4% YoY while EU's whitefish imports declined 17% YoY in 1H-FY21.

Vietnam lockdown to negatively impact production and domestic logistics

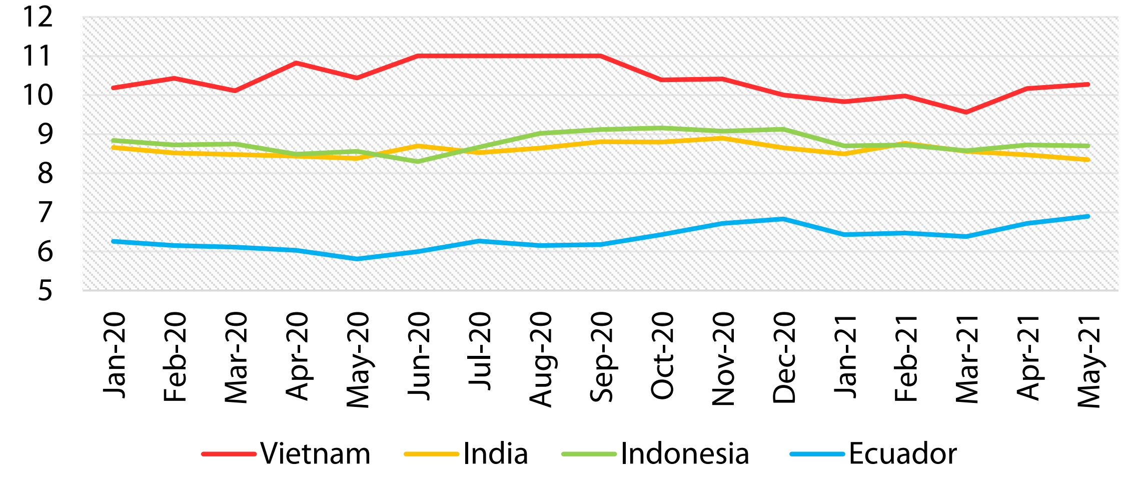
- COVID's resurgence in Vietnam has suspended many seafood factories.
- Domestic logistics have been tightened to control COVID, causing delays in shipments.

Figure 11: Shrimp export volume to the US by countries (thousand tons)



Source: NOAA, Undercurrent News, Rong Viet Securities

Figure 12: ASP to the US (USD/kg)



Source: NOAA, Undercurrent News, Rong Viet Securities

Benefiting from the difficulties of competitors

- US Department of Commerce (DOC) has announced preliminary anti-dumping tariff results that Indian shrimp will be taxed at a record-breaking level of 7.57%. This anti-dumping tariff will facilitate Vietnam's selling price competitiveness.
- India's shrimp supply has been dampened by COVID-19, opening up the opportunity for Vietnamese producers.

Selling prices to rise faster than shrimp raw materials prices

Per AgroMonitor, shrimp raw materials prices are expected to be flat due to abundant shrimp production. Given the supply shortage of Indian shrimps, we expect Vietnam's selling prices and producers' profit margin to rise in 2H-FY21.

Changing consumer behavior towards processed shrimp products

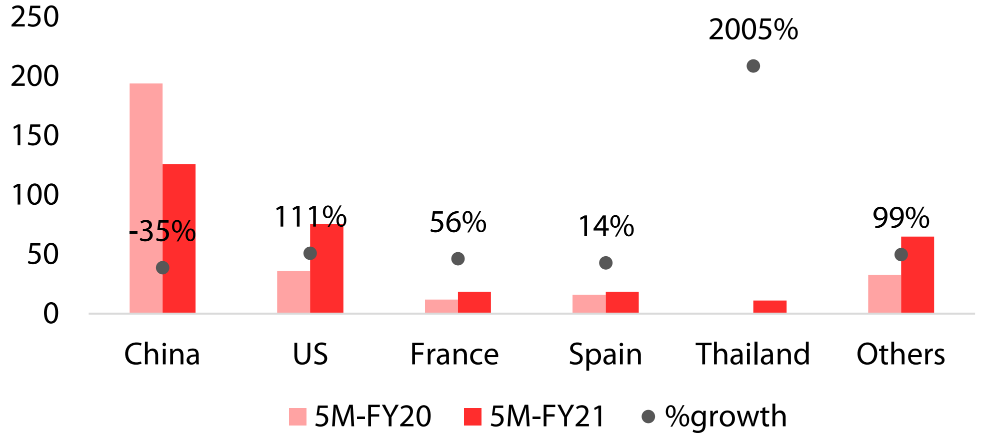
Per McKinsey, US and EU consumers tend to cook more at home since the pandemic, resulting in rising demand of packaged and processed food. Vietnam's processed shrimps are competitive, thereby benefiting this demand increase. *(Report: click here)*

Table 3: POR16 pangasius results

	POR 13	POR 14	POR 15	POR 16
VHC	0.00	0.00	0.00	0.00
ANV	2.39	2.39	2.39	0.00
Bien Dong	0.19	0.19	0.19	0.19
Van Duc Tien Giang	2.39	2.39	2.39	0.09
NTSF	3.87	1.37	0.15	0.15
Can Tho Seafood	2.39	2.39	0.15	0.15
Nationwide	2.39	2.39	2.39	2.39

Source: The Federal Register, Rong Viet Securities

Figure 13: Shrimp export volume of Ecuador (thousand tons)



Source: Camara Nacional de Acuacultura, VASEP, Rong Viet Securities

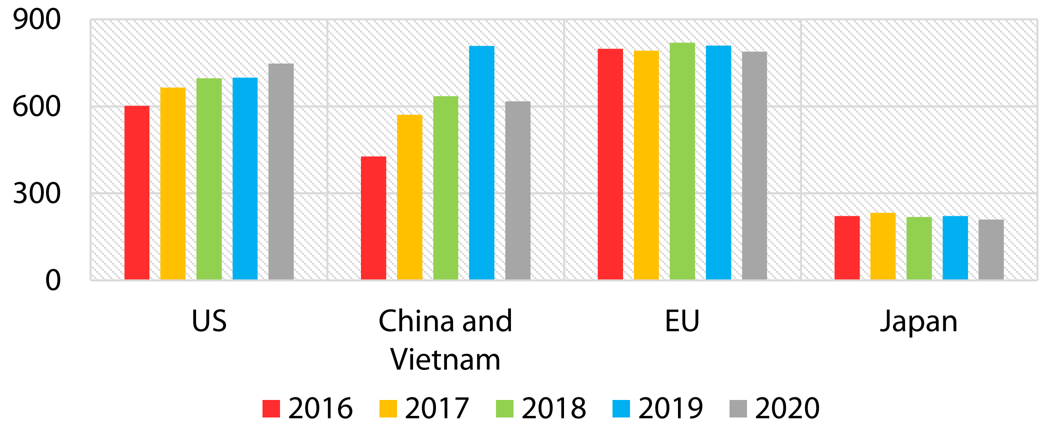
Pangasius: Anti-dumping duty to raise the competition among Vietnamese exporters

- As POR16 results, VHC and ANV are granted an anti-dumping duty of 0.00 USD/kg. In which, ANV's zero-tax duty is referenced from the mandatory respondent - VHC without direct individual examination. This is a large opportunity for ANV to re-enter the US market.
- If the next PORs continue to facilitate other Vietnamese exporters to enter the US market, VHC and Bien Dong's duopoly position (~90% market share) in the US market will be threatened.

Shrimp: Export growth is threatened by Ecuador's shrimp

- Due to the decline in export to China, Ecuador transfers to the US. In 5M-FY21, Ecuador's shrimp export volume to the US soared 111% YoY while export to China plunged 35% YoY.
- Ecuador started stepping into processed shrimp by exporting for value-added shrimp in Thailand. With low-priced advantage, reprocessing shrimp prices are even lower than Thailand's shrimp.

Figure 14: Shrimp imports (thousand tons)



Source: ITC, Chinese customs, Rong Viet Securities

Table 4: Investment projects of seafood companies

	Projects	Year	Purpose
ANV	Binh Phu pangasius farm	2021	Improve quality to export to EU and US
VHC	Expanding collagen & gelatin plant	2020	Aiming to become F&B - wellness firm
	Hi-tech agricultural-aquatic complex	2023	
MPC	Processing and value-added plants	2022	Increasing production capacity
	2-N-4 hi-tech shrimp farm		
FMC	Expand shrimp ponds to 370 ha	2021	30% self-supply ratio
	Construct new processing plant	2022	Increasing capacity

Source: Rong Viet Securities

Removing logistic cost bottlenecks, earnings of seafood companies will witness a turnaround

We expect logistics costs to cool down from 4Q-FY21 and thereby see stronger earnings in 2022.

Rosy shrimp consumption prospects in China and US markets

- **China:** Huge population, culinary history of eating seafood, declining domestic production are signs of Vietnam's export potential.
- **US:** Popularity of US foodservice, preference for processed and value-added shrimp products.

Ample room to benefit from EVFTA

- Tariffs of processed pangasius will be reduced from 7% to 0% within eight years. Tariffs of material shrimp will be reduced from 4.2% to 0% immediately.
- The benefits of material pangasius and processed shrimp may not be significant.

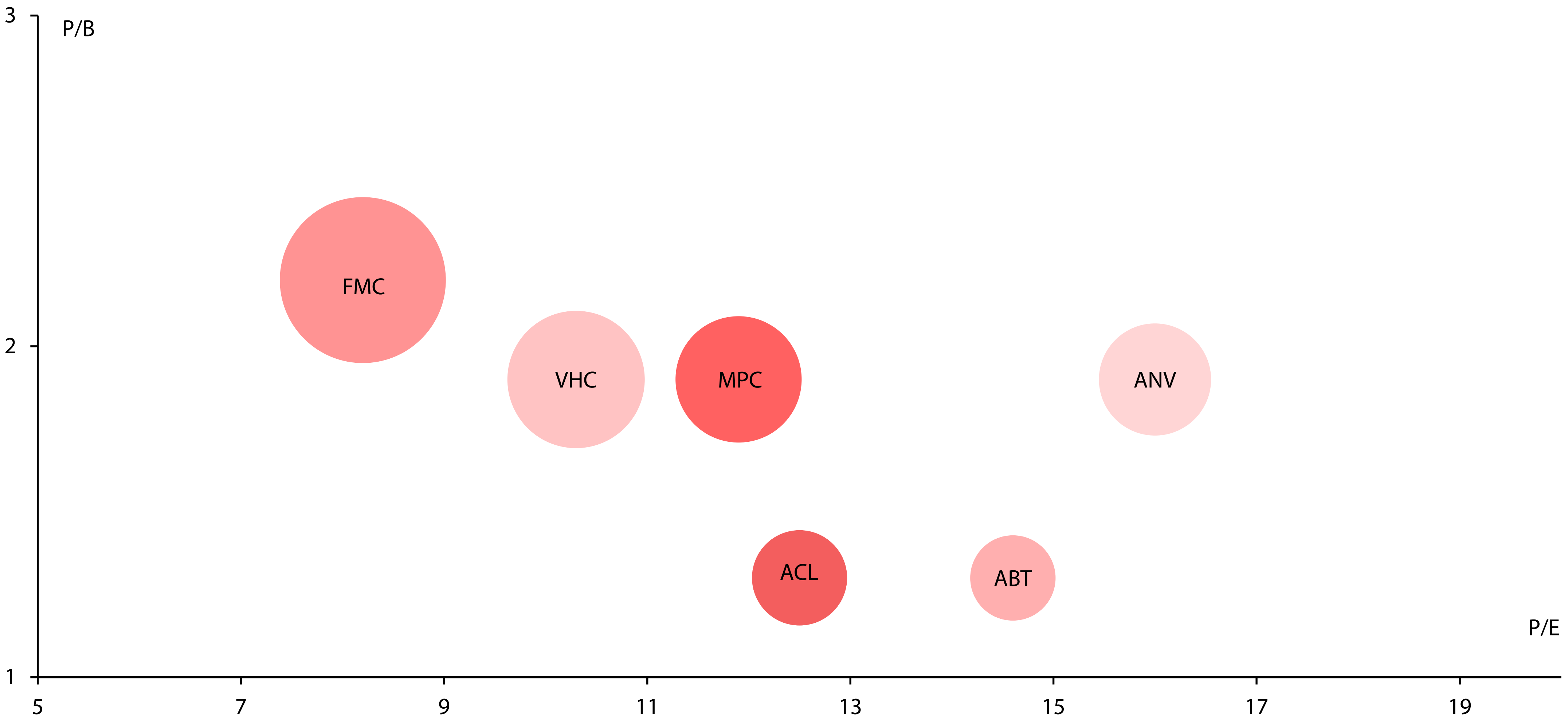
Accelerating investment projects post-pandemic creates opportunities

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
ACL	24.9	N/A	5.80	2.54	11.42	4.41	24.19	4.02	2.87	6.54	0.00	12.51	0.80
ANV	149.2	N/A	-16.10	-29.75	10.26	6.13	-49.77	6.07	4.49	8.98	3.70	16.04	1.42
FMC	94.1	40,500	35.26	-26.87	4.36	5.11	7.33	4.97	11.49	19.69	6.80	8.22	1.66
VHC	321.1	45,000	7.18	-8.20	12.10	10.57	-13.08	9.15	9.80	13.49	4.93	10.26	1.36
ABT	13.6	N/A	-5.56	124.12	5.03	7.55	-33.23	7.45	4.00	5.19	3.70	14.55	0.75

Source: Bloomberg, Rong Viet Securities. Share price as of 02 Aug 2021.

PE, PB AND ROE (TTM)

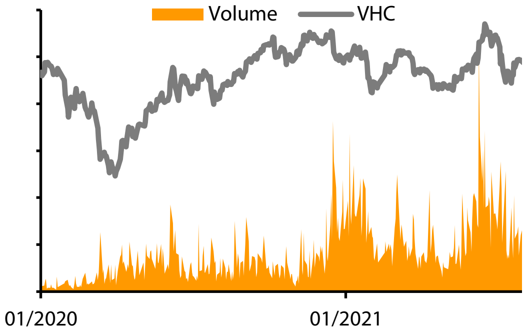


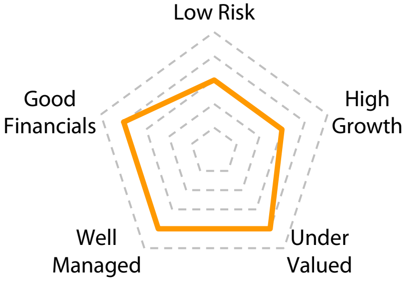
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

VHC – EARNINGS TO FACE COST HEADWINDS

HSX: VHC

<ACCUMULATE: 13%> <MP: 40,600> <TP: 45,000>





STOCK INFO

Sector	F&B
Market Cap ($ mn)	321
Current Shares O/S (mn shares)	182
3M Avg. Volume (K)	1,538
3M Avg. Trading Value (VND Bn)	64.1
Remaining foreign room (%)	77.6
52-week range ('000 VND)	35-47.5

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue	7,037	8,668	9,528
NPATMI	705	738	808
ROA (%)	9.8%	9.3%	10.3%
ROE (%)	13.6%	13.5%	14.8%
EPS (VND)	3,844	3,991	4,951
Book Value (VND)	28,225	29,236	33,618
Cash dividend (VND)	2,000	1,000	1,000
P/E (x) (*)	10.8	11.3	9.1
P/B (x) (*)	1.5	1.5	1.3

INVESTMENT RATIONALES

Pangasius exports are on the rebound

- Fillet export revenue rose 17% YoY in 1H-FY21 mainly driven by the demand recovery of US market after the economic re-opening. We expect a positive fillet revenue growth will continue in 2022-2023F period owing to fully entering into the new growth cycle of the pangasius industry. Apart from near-monopoly position in the US market, China market still has room for VHC to boost fillet revenue due to huge consumption potential and declining domestic production. We forecast fillet revenue will grow at a 6% CAGR in 2021F-2023F.

Logistics costs to slow down earnings recovery path

- Despite strong revenue recovery, 1H-FY21 NPAT only rose 4% YoY because of soaring logistic costs. We expect freight rates may peak in 4Q-FY21, then go down slightly in 1H-FY22 and return to normal in FY23 as successful vaccine rollout will help global trade become more balanced. Thus, we expect VHC's NPAT will bounce back in 2022F-2023F.
- Beside logistics costs, rising raw materials prices due to pangasius supply shortage and rising feed prices will also put pressure on 2021 profit margins. In FY2021, we estimate VHC's revenue at VND 8,668 Bn (or USD 377 Mn, +23% YoY) and NPAT at VND 738 Bn (or USD 32 Mn, +5% YoY).

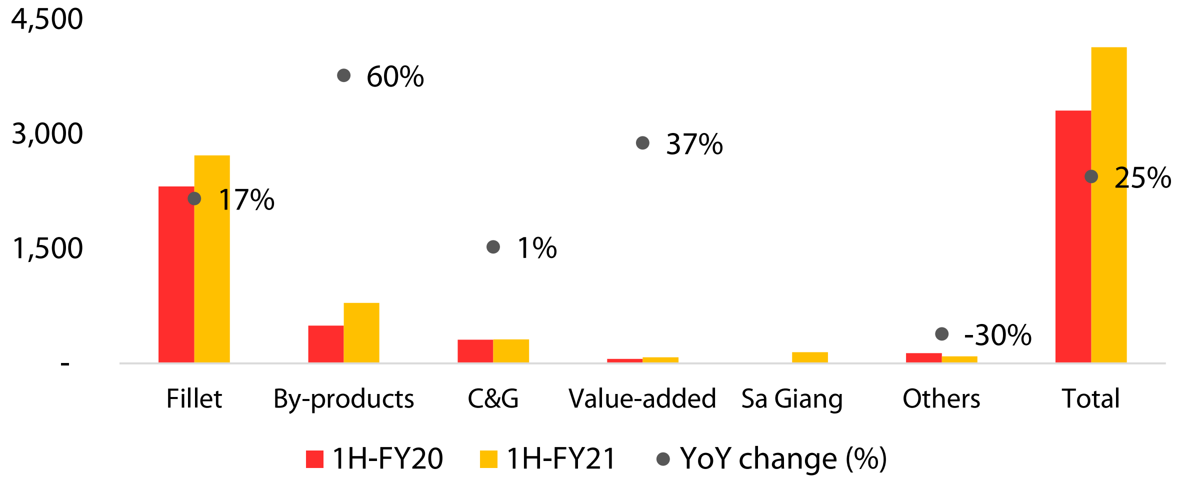
Collagen & gelatin and new business segments will be the growth drivers in the long term

- FY21 C&G profits could flatten due to weak demand and competition with cheaper products as bovine and porcine collagen in COVID-19. Despite these temporary disruptions, C&G's long-term prospect is still bright due to: (1) small market share, (2) shifting consumer preferences towards fish collagen, and (3) superior bioavailability to offer premium selling prices. As fillet segment has shown signs of saturation in US market, C&G and new segments (Sa Giang, fish feed, fruit, etc.) will stabilize and gradually increase profit margins in the long term.

RISKS TO OUR CALL

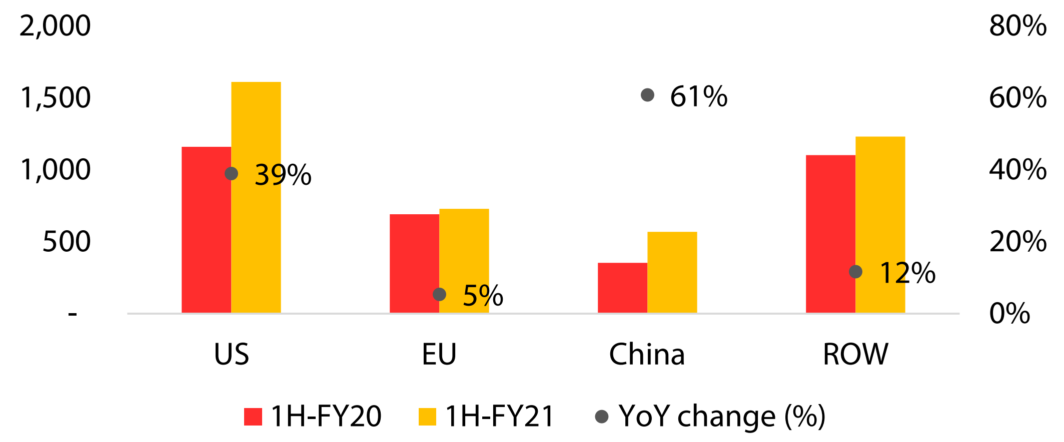
- COVID-19 resurgence may negatively affect on production and exports.

Figure 1: 1H-FY21 revenue breakdown by segment (VND bn)



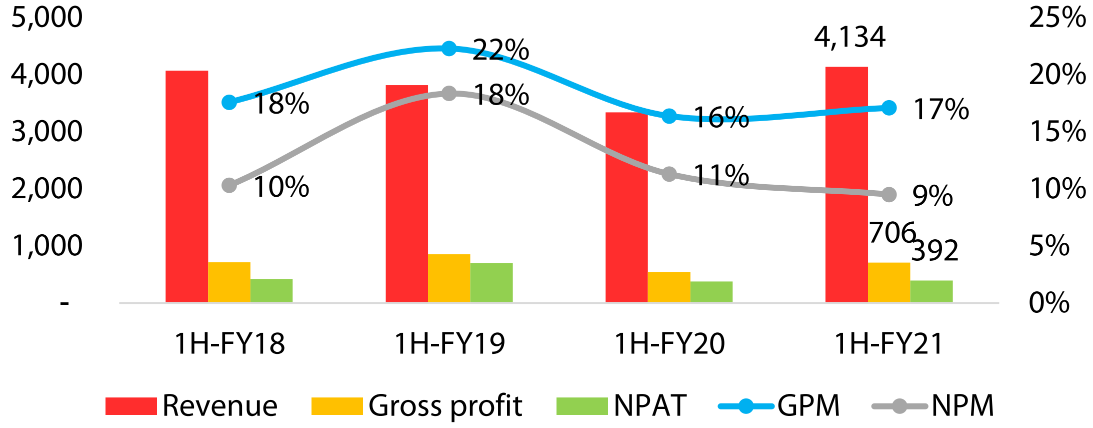
Source: VHC, Rong Viet Securities

Figure 2: 1H-FY21 revenue breakdown by market (VND bn)



Source: VHC, Rong Viet Securities

Figure 3: 1H-FY21 Revenue and NPAT (VND bn)



Source: VHC, Rong Viet Securities

Fillet revenue and by products led revenue growth

- Fillet revenue escalated 17% YoY to reach VND 2,718 Bn (or USD 118 Mn). Export volume rose 25% while ASP declined 7% at 2.9 USD/kg.
- By products revenue surged 60% YoY. In contrast, C&G revenue flattened due to fierce competition.

Soaring logistics costs put pressure on profit margin

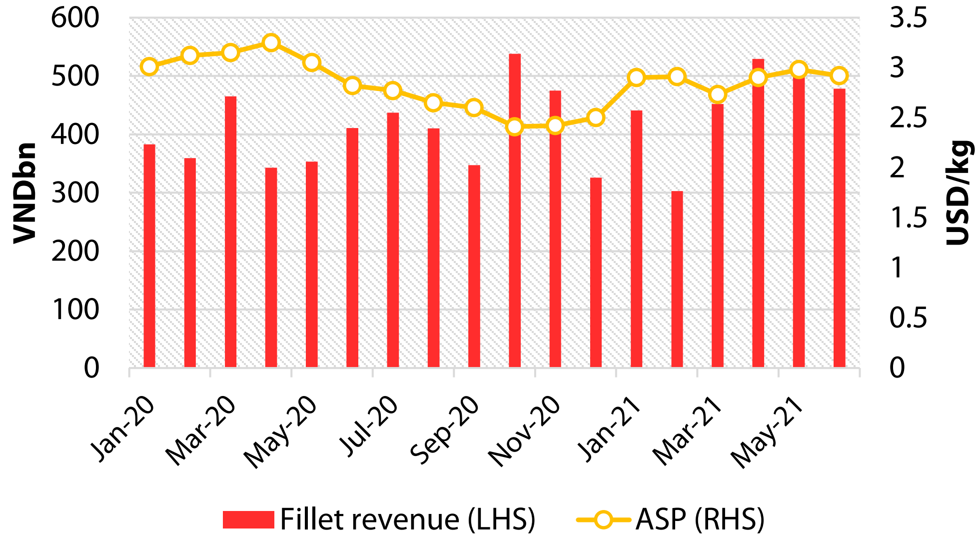
- Logistics costs surged 208% YoY. Logistics costs/revenue was 3.9%.
- 1H-FY21 NPAT only rose 4% YoY to reach VND 392 Bn (or USD 17 Mn).

Table 1: 2H-FY21 business forecast

	VNDbn	USDmn	+/- (hoh)	+/- (yoy)
Revenue	4,537	197	10%	21%
Gross profit	651	28	-8%	43%
EBIT	374	16	-10%	30%
NPAT	346	15	-12%	5%

Source: Rong Viet Securities

Figure 4: VHC's monthly fillet revenue and ASP

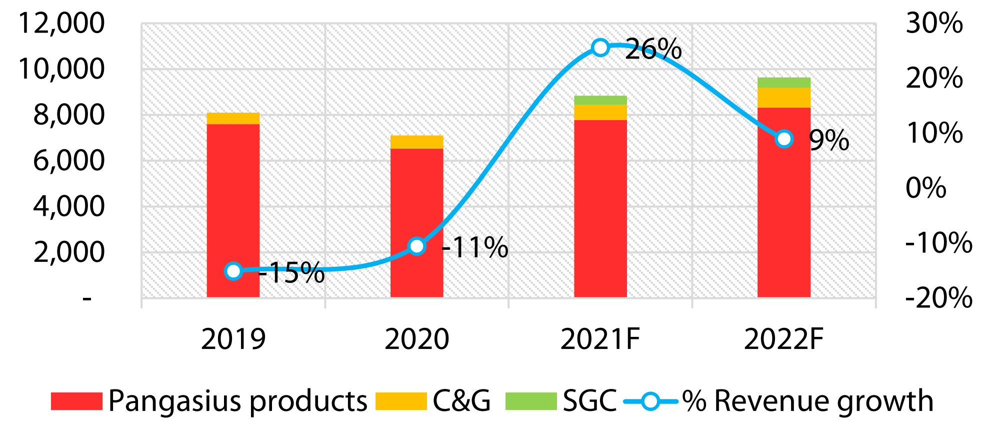


Source: VHC, AgroMonitor, Rong Viet Securities

Key assumptions of 2H-FY21 forecast:

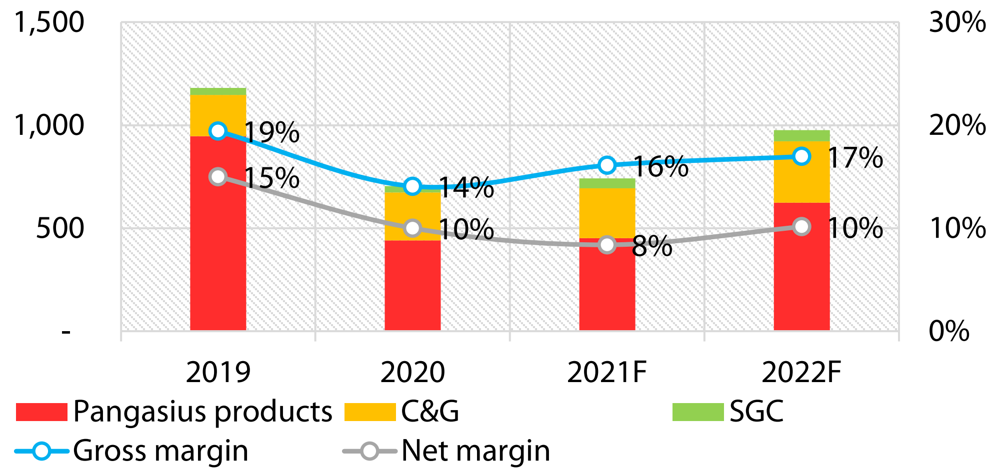
- Fillet export volume and ASP in 2H-FY21 rise 3% YoY and 19% YoY, respectively, leading to 22% YoY lift in fillet revenue. We concern that social distancing in Vietnam delaying a part of export orders could hurt 3Q-FY21 revenue. Moreover, mask mandate returning to some states in the US could slow down the demand of outdoor dining.
- 2H-FY21 C&G revenue at VND 361 bn, up 33% YoY and 16% HoH.
- SGC will contribute VND 220 Bn (or USD 10 Mn) in revenue.
- 2H-FY20 financial income included VND 59 Bn (or USD 2.6 Mn) income from trading securities, which will be no longer recorded in 2H-FY21.
- GPM in 2H-FY21 will be 14.4% (-272bps HoH and +218bps YoY) due to rising raw materials costs.
- Selling costs to soar 83% YoY due to rising logistic costs. NPM in 2H-FY21 at 7.6%, contracting 188bps HoH and 116bps YoY.

Figure 5: Revenue forecast (VND bn)



Source: Rong Viet Securities

Figure 6: Profitability and NPAT forecast (VND bn)



Source: Rong Viet Securities

Fillet export revenue to bounce back

- In FY21, we estimate revenue at VND 8,836 Bn (or USD 384 Mn, +26% YoY) and NPAT at VND 742 Bn (or USD 32 Mn, +5% YoY). Fillet revenue to rise 20% YoY, resulting from a 12% YoY jump in export volume and a 6% YoY rise in ASP.
- We estimate export revenue to the US to increase 13% YoY in 2H-FY21 and 23% YoY in FY-21. Export revenue to EU and China is expected to rise 7% YoY and 15% YoY in FY21.

C&G to face weak demand and competition with bovine and porcine collagen amid COVID-19

- We expect VHC could boost gelatin revenue in 2H-FY21, backed by increasing food demand in social distancing period while collagen could face a decline in selling prices. In FY21, we expect C&G revenue and NPAT to rise 16% YoY and 4% YoY, contributing 8% and 33% to the company's revenue and NPAT, respectively.

Profit margins under pressure of cost headwinds

- Raw materials prices could rise in 2H-FY21 due to declining raw materials inventory and soaring feed price. We forecast selling expenses to rise 114% YoY due to soaring logistic costs and container shortage.
- We project GPM and NPM in FY21 to reach 15.7% and 8.5%, up 143bps YoY and down 150bps YoY, respectively.

Table 2: Valuation summary

Method	Weight	Valuation (VND/share)
FCFF	50%	47,500
SoTP	50%	42,500
Total	**100%**	**45,000**
2021F P/E at target price		11.3x
2022F P/E at target price		9.1x

Source: Rong Viet Securities

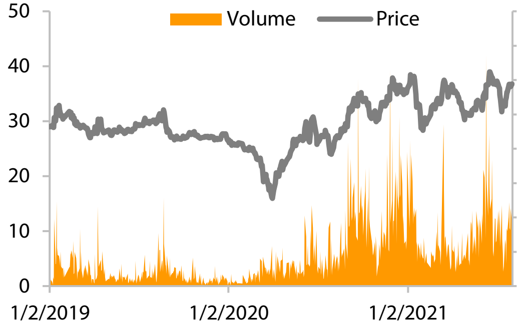
Table 3: SOTP Valuation

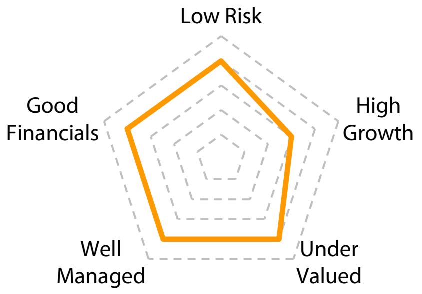
SOTP	Method	VND/share
Pangasius	P/E @ 8x	22,377
Collagen & Gelatin	P/E @ 12x	17,548
SGC (ownership: 76.72%)	P/E @ 12x	2,538
Valuation		**42,500**

Source: Rong Viet Securities

- VHC's FY2021 will see bottlenecks for an income recovery as soaring costs to offset positive revenue growth.
- Beyond FY2021, we believe VHC's earnings will bounce back strongly due to: (1) cooling-down logistics costs after COVID-19 under control, (2) higher and stable GPM on the back of cost-cutting projects, and (3) brighter long-term perspective of collagen & gelatin segment.
- Using the valuation mix of FCFF and SoTP methods, we arrive at the fair value of VHC share at VND 45,000 combined with expected cash dividend of VND 1,000, implying 13% total return from the closing price on Aug 02nd, 2021. We recommend an **ACCUMULATE** rating for VHC share in one-year investment horizon.

<ACCUMULATE: +15%> **<MP: 36,800>** **<TP: 40,500>**





STOCK INFO

Sector	F&B
Market Cap ($ mn)	94
Current Shares O/S (mn shares)	59
3M Avg. Volume (K)	458
3M Avg. Trading Value (VND Bn)	15.6
Remaining foreign room (%)	41.6
52-week range ('000 VND)	24.3-36.8

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue	4,415	4,678	5,197
NPATMI	226	212	252
ROA (%)	13.2%	9.1%	10.4%
ROE (%)	20.9%	15.1%	17.8%
EPS (VND)	4,607	3,582	4,269
Book Value (VND)	22,223	19,139	19,397
Cash dividend (VND)	2,500	2,000	2,000
P/E (x) (*)	7.0	11.3	9.5
P/B (x) (*)	1.5	1.7	1.7

INVESTMENT RATIONALES

Shrimp export revenue has recovered but COVID-19 resurgence to create challenges

- Shrimp demand remains bright outlook in both retail and HORECA channels while supply shortage in India and Indonesia will bolster Vietnam's shrimp exports. In 1H-FY21, FMC's export revenue rose 34% YoY to reach VND 2,134 Bn (~USD 87 Mn), driven by demand increase in the US and Japan market.
- However, COVID-19 resurgence will negatively affect in 2H-FY21 business results: 1) operating at 30-40% normal capacity in social distancing, 2) disruptions in logistic activities and 3) rising operating costs. For 2021, we forecast revenue to reach VND 4,678 Bn (or USD 203 Mn, +6% YoY) and NPAT of VND 212 Bn (or USD 9 Mn, -6% YoY).

New projects to drive long-term growth

- FMC is expanding two processing factories (Sao Ta and Tam An), increasing total capacity by 70%. In addition, the company plans to increase farming areas by 37% in 2022F. We believe these projects will bolster FMC to take advantage of EVFTA and gradually improve profit margins in the long run.

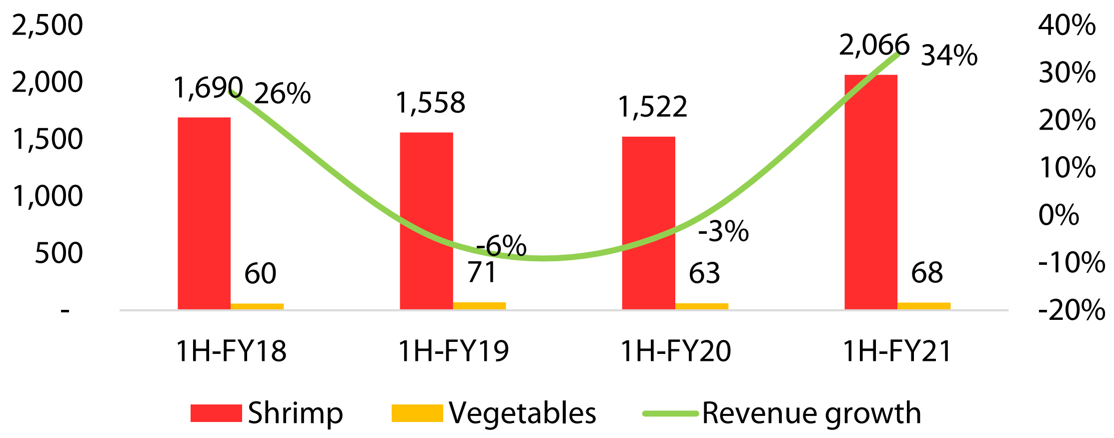
Robust financials and governance with PAN Group's participation

- PAN Group's participation since 2018, currently owns 51% of the shares, has proven its role in supporting financial management, corporate governance, customer network, business strategy, etc.

RISKS TO OUR CALL

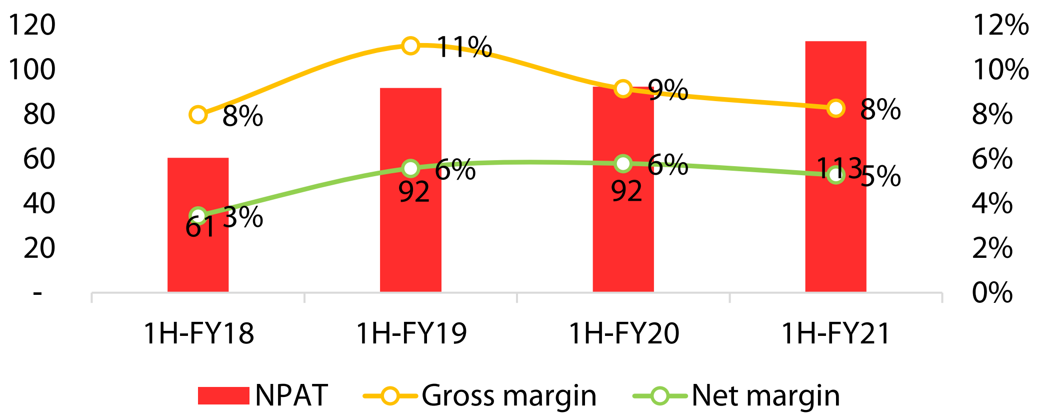
Extending COVID-19 resurgence will negatively affected on productions.

Figure 1: 1H-FY21 revenue breakdown (VND bn)



Source: FMC, Rong Viet Securities

Figure 2: NPAT (VND bn) and Profitability

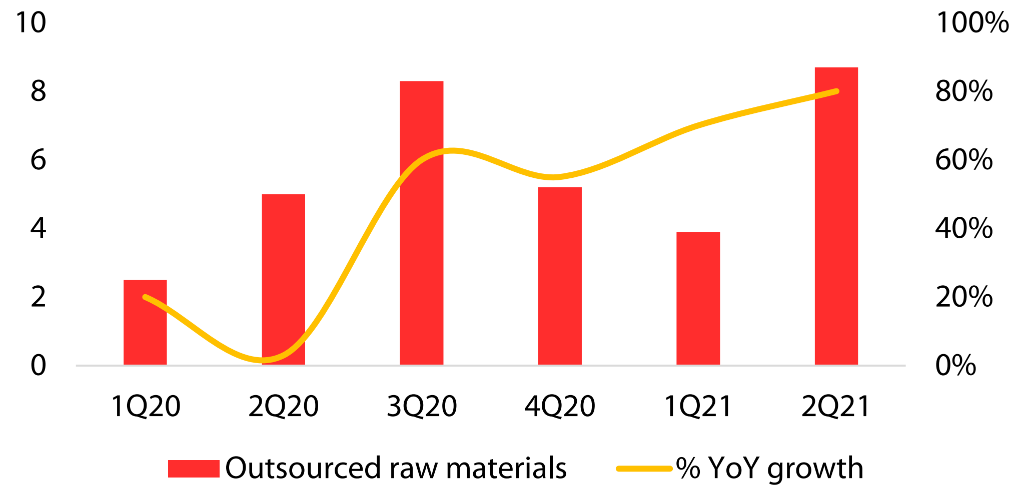


Source: FMC, Rong Viet Securities

1H-FY21: Revenue recovered strongly due to rising shrimp demand

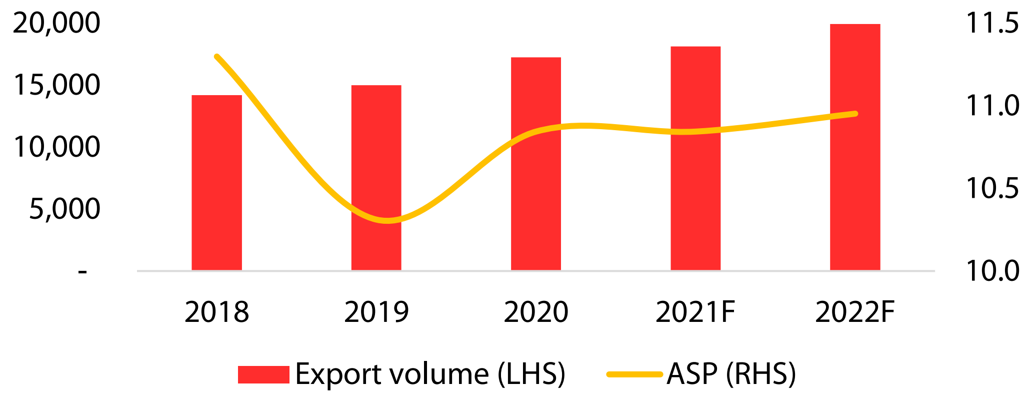
- Export revenue in 1H-FY21 reached VND 2,134 Bn (~USD 87 Mn, +34% YoY), driven by demand increase in the US and Japan market. Shrimp export volume rose 26% YoY while ASP recover slightly.
- NPAT rose 23% YoY to reach VND 113 Bn (~USD 5 Mn). GPM and NPM was 8.3% and 5.3%, contracting 87bps and 51bps YoY, respectively. Due to rising shrimp exports, FMC increased purchasing raw materials with higher prices than FMC's shrimp. Moreover, rising logistics costs (+29% YoY) also put pressure on profits.

Figure 3: Outsourced raw shrimp materials



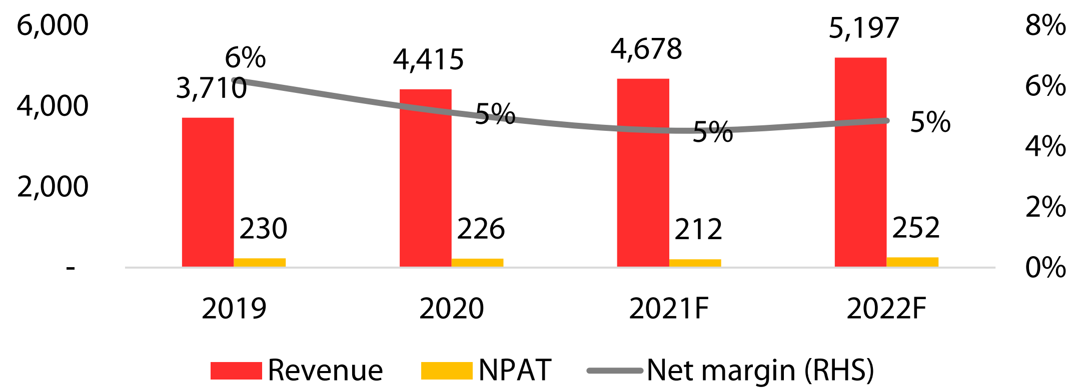
Source: FMC, Rong Viet Securities

Figure 4: Export volume (tons) and ASP (USD/kg) forecast



Source: FMC, Rong Viet Securities

Figure 5: Revenue and NPAT forecast (VND bn)



Source: FMC, Rong Viet Securities

2H-FY21: Demand to remain bright but COVID-19 resurgence to disrupt operations

- We expect shrimp demand in retail channel to remain high while HORECA channel to recover in the US and EU. Moreover, shrimp supply shortage in India and Indonesia due to COVID-19 will also bolster Vietnam's shrimp exports. However, COVID-19 resurgence will negatively affect: 1) operating at 30-40% normal capacity in social distancing, 2) disruptions in logistic activities and 3) rising operating costs.
- In 2H-FY21, we forecast revenue of VND 2,544 Bn (or USD 110 Mn, -11% YoY) and NPAT of VND 99 Bn (or USD 4 Mn, -26% YoY). For 2021, we forecast revenue to reach VND 4,678 Bn (or USD 203 Mn, +6% YoY) and NPAT of VND 212 Bn (or USD 9 Mn, -6% YoY). We expect export volume to rise 5% YoY while ASP will stay flat in FY21.

New projects will pave way for long-term growth

FMC is expanding two processing factories (Sao Ta and Tam An), increasing total capacity by 70% in 2022F. In addition, the company also plans to expand 100 hectares of farming areas in 2022F. We believe these projects will bolster FMC to take advantage of EVFTA and gradually improve profit margins in the long run. We project revenue and NPAT will grow at a CAGR of 8% and 14%, respectively in 2020-2025F.

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