SAO TA FOODS JSC. (HSX: FMC)

Scaling up capacity and farming area to drive growth

- **Shrimp industry has plenty of room for growth over the years ahead.**
- **FMC has an advantage in deep-processed shrimp products which have large growth potential and high barriers to entry.**
- **Strong capacity and farming area expansion is expected to result in net profit CAGR growth of 15% in the next five years.**

Having 26 years in the shrimp industry with an experienced leadership team, FMC, not the largest company in the industry, has the most well-rounded competitive advantages in terms of product quality, farming efficiency, production management and market expansion potential. In FY2018, with the support of strategic shareholder - PAN Group, the company restructured its capital structure as well as reshaped business strategy. Expanding production scale, improving gross margin and flexibly varying business strategy based on industry backdrop are the ways that helped FMC's net profit grow at a CAGR of 24% in FY2016 – 2021, in spite of unpredictable factors from import tariffs and the COVID-19 pandemic.

The solid foundation will help the company to enlarge its business scale, by expanding two factories and a shrimp farm. The company is poised to reap benefits of the new expansion projects from 2023 onwards. As maximizing the effectiveness of these projects, FMC's shrimp export value could grow by 50% the current level, which we expect to see in FY2026. In the shrimp industry, due to constraints on input prices and competitive pressure from other shrimp-producing countries, we do not expect the industry in general, and FMC in particular, to have years of sudden growth because of temporary supply-demand dynamics. Instead, we expect sustainable growth, driven by raising farming productivity, enhancing product competitiveness, and utilizing tax benefits from trade agreements. Therefore, we view FMC as a long-term investment opportunity in a healthy-growing company with CAGR of 15% in profit in the period of FY2021-2026F.

Using the FCFF (40%) and P/E method (60%), we arrive at a **fair value of VND45,000/share**, implying an **expected return of 37%** (including cash dividend yield of 6%), based on the closing price on December 01st, 2022. We recommend to **BUY** the stock. Though we remain positive in long-term prospects, the shrimp industry's lackluster outlook could make 2023 net profit only increase in single digits, thereby making it difficult for the stock price to outperform. Therefore, investors can gradually accumulate, especially when the market price corrects deeply, to await a clear recovery signal from the demand side, thereby helping to maximize returns.

Key financials

(VND bn)	FY2020	FY2021	FY2022F	FY2023F
Net revenue	4,415	5,199	6,059	6,249
% YoY growth	*19%*	*17.8%*	16.5%	3.1%
NPAT-MI	226	267	323	356
% YoY growth	*-2%*	*18.1%*	21.0%	10.3%
Net margin (%)	*5.1%*	*5.1%*	5.3%	5.7%
ROA (%)	13.2%	9.9%	11.5%	11.9%
ROE (%)	20.9%	15.0%	17.4%	18.2%
EPS (VND)	4,607	4,080	4,933	5,444
BV (VND)	16,634	27,413	28,365	29,993
Cash dividend (VND)	2,000	2,000	2,000	2,000
P/E (x)	7.0	11.8	6.7	6.1
P/BV (x)	1.5	1.6	1.2	1.1

Source: FMC, RongViet Securities. Based on the closing price on 01/12/2022

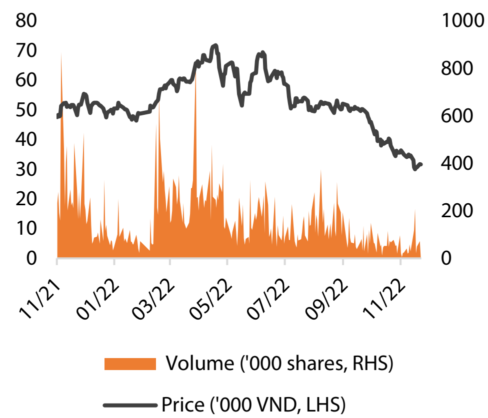
BUY 37%

Market price (VND)	34,300
Target price (VND)	45,000
Cash dividend (VND)*	2,000

(*) – Forecast for the next 12 months

Stock Info

Sector	F&B
Market Cap (VND Bn)	2,070
Current shares OS (Million)	65.4
Beta	0.98
Free Float (%)	31.8
52 weeks high	74,400
52 weeks low	28,600
Average trading volume (20 sessions)	100,387



Performance (%)

	3M	1Y	2Y
FMC	-36	-35	6
VN30 Index	-30	-42	-7
VN-Index	-28	-39	-10

Major shareholders (%)

PAN Group (HSX: PAN)	37.75
C.P Vietnam	24.90
Aquatex Ben Tre (HSX: ABT)	12.37
Foreigner investor room (%)	24.17

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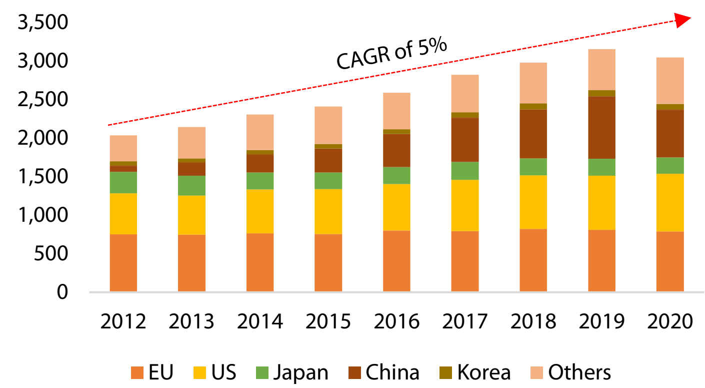
INVESTMENT THESIS

Vietnam's shrimp industry has plenty of room for growth in the next five years

Despite fierce competition, Vietnam positions itself as a pioneer in deeply processed shrimp products

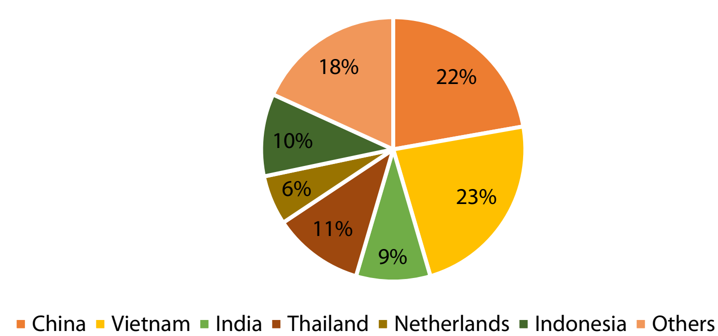
Global demand for shrimp is stable and has plenty of room for growing in the long term, driven by its good taste, high nutritions and suitability in many cultures. We see two key trends for shrimp products that may benefit Vietnam's shrimp exports: (1) The decline of capture fisheries has boosted global supply towards aquaculture production. Vietnam, which is known as one of the largest shrimp producer, will benefit from this increase; (2) Consumer's appetite has shifted to processed shrimp, esspecially in the US market, while Vietnam is considered as the largest processed shrimp exporter.

Figure 1: Global shrimp imports (thousand tons)



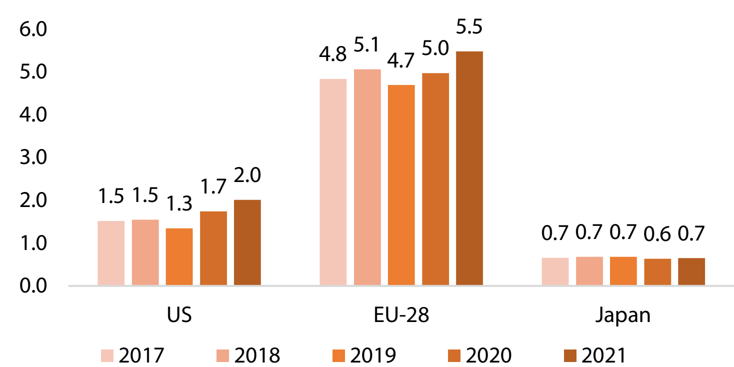
Source: ITC, Chinese Customs, RongViet Securities
** HS codes: 030617, 030616, 160521, 160529*

Figure 2: Market share of global processed shrimp export value in 2021 (%)



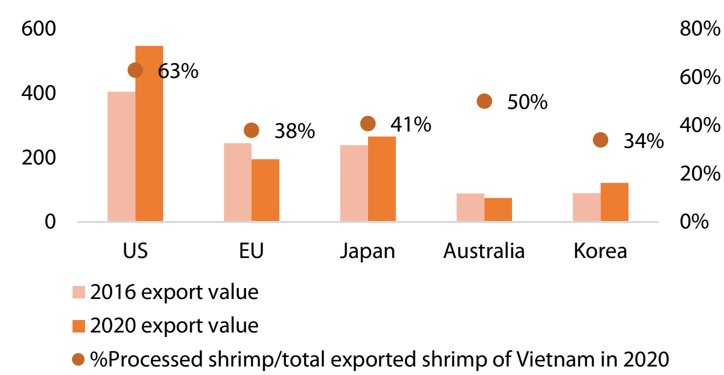
Source: Trademap, RongViet Securities
**HS codes: 160521 & 160529*

Figure 3: Processed shrimp imports in the US, the EU and Japan (USD Bn)



Source: Trademap, RongViet Securities

Figure 4: Vietnam's processed shrimp export value by market 2016 vs. 2020 (USD Mn)



Source: VASEP, RongViet Securities

In line with the increasingly high demand for shrimp, the global shrimp industry has witnessed strong competition amongs key players including India, Indonesia, Ecuador, Vietnam and Thailand over many years. The rise of India and Ecuador, mainly driven by low farming costs, has pressured Vietnam's shrimp industry. This, combined with the pre-FY2019 dumping tax of the US and the disruptions of COVID-19, leads to a CAGR of Vietnam's shrimp export value of only 4% in 2016 – 2021 period. The event of COVID-19 deemed to turn difficulty into opportunity for Vietnam's shrimp as demand for processed shrimp has become popular, which is believed to remain even after the pandemic. ***(Figure 5, 6, 7)***

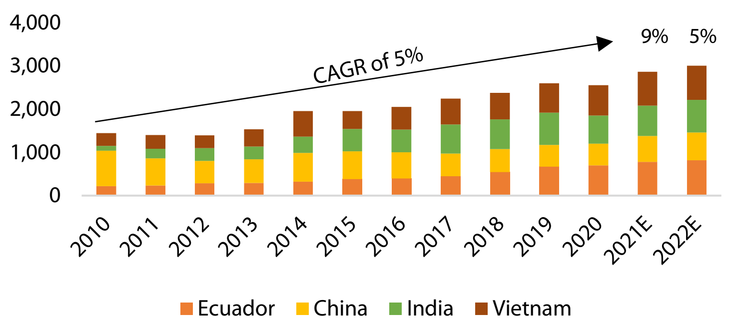
We believe that the next five years will be the new growth cycle for the shrimp industry. The driving forces for that include:

(1) ***Pioneering in processed shrimp:*** Despite the competition of India and Ecuador, Vietnam positions itself in the high-value segment, which is difficult for new players entering due to requirements of labor skills and products quality. Thus, the rapid growth of these two countries was supposed to come from increasing demand in combination with gaining market share from China, rather than entering the segment which Vietnam has pursued. In the coming time. EVFTA and UKFTA gradually brpught the export tax of value-added shrimp towards 0% and will continue bolstering Vietnam's competitiveness in this segment.

(2) ***Many free trade agreements facilitate Vietnam's shrimp to grow after the pandemic:*** Although CPTPP, EVFTA and UKFTA have come into effect, Vietnam has not taken full advantage of those yet partly due to COVID-19 and the high tax rate in the early years after coming into effect. We believed that these FTAs will increasingly play a crucial role in the next five years. In this context, beneficiaries will be processors who focus on value-added products and enhance shrimp farming technique to offer a competitive price.

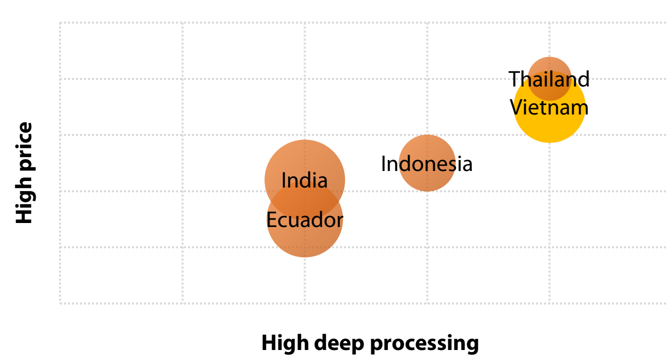
2023 will be a relatively tough year for the global economy in general and the shrimp industry in particular. The most obvious impact is that demand for shrimp will slow down, but should not fall sharply. However, we believe that this is a short-term and eventful factor that will not change the organic growth of the industry at all. This means that when the temporary difficulties pass and demand recovers, the shrimp industry will regain its inherent growth momentum. Unlike other export seafood products, demand for shrimp products is sustainable and has less alternatives. In the period of 2021-2022, while the sudden growth of pangasius exports replacing other white fish products is momentary and unsustainable, shrimp exports grew from taking advantage of processing to expand the market and become a sustainable long-term competitive advantage. That is the difference that makes us prefer the shrimp business model over other seafood exports.

Figure 5: Shrimp production of four largest countries in 2010-2022F (thousand tons)



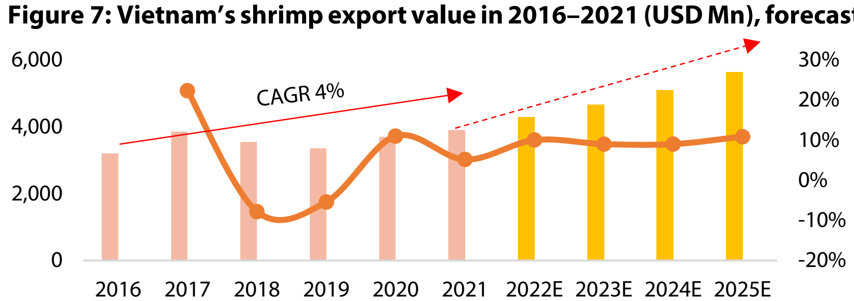
Source: GOAL, RongViet Securities

Figure 6: Industry positioning



Source: RongViet Securities. (*) Bubble size equals respective market share.

Figure 7: Vietnam's shrimp export value in 2016–2021 (USD Mn), forecasts for 2022– 2025F period



Key events:

2017: The EU imposed tax on Thai shrimp

2018: The US imposed tax on Vietnam' shrimp

2019: The US removed tax + CPTPP

2020: EVFTA came into effect

Source: VASEP, RongViet Securities

Japan is the key market for FMC in the years ahead

The US, Japan and the EU are the three main shrimp export markets for Vietnam, accounting for about 60% of the total export value. The growth of the shrimp industry in the past five years has been restrained by many headwinds from competition, anti-dumping tax and COVID-19. We expect that when these difficult factors pass, along with positive factors from FTAs and recovery in demand, it will open up a bright prospect for shrimp exports. VASEP also forecasts that shrimp export growth of three key markets, the US, EU and Japan, will grow at a CAGR of 8-10% each in the period of 2021 - 2025. These three markets are also FMC's key export markets, roughly accounting for 30% its total shrimp revenue.

- **The US market:** From August 2019 - when the US applied a 0% POR13 tax rate, Vietnamese shrimp gradually regained their position in this market. With high demand, we expect the US market to continue to record significant growth in the coming years. However, we believe that competition in this market is still fierce. The shrimp export market share to the US will be shared among many domestic shrimp processors. For FMC, we believe that although the US market has many advantages, it will not be the company's strategic market in the coming years. We expect the US market to remain below 30% of FMC's total shrimp export revenue and the company will focus on distribution to retail channels (such as Costco) with less competition and better profitability.
- **The EU market:** Exports to the EU tended to decelerate in 2018 mainly due to competition from Ecuador with lower-cost products. However, we believe that the EU market has great potential for shrimp exports on the back of EVFTA which came into effect in 2020. While tax of frozen shrimp (HS code: 030617) has been cut to 0% from GSP tax of 4.2%, processed shrimp (HS: 160521) will be reduced to 0% according to the 7-year roadmap, from the GSP level of 7%. Clearly, EVFTA will be the main growth driver for processed shrimp products in the long term, which is a strong product of Vietnam and especially FMC. The EU market usually contributes about 20-30% to FMC revenue, which is one of the three key markets of the company. ***(Table 1)***
- **Japanese market:** Shrimp consumption in the Japanese market is considered to be highly stable, but it is difficult to spike due to the characteristics of an aging population and slow economic growth. However, this stability also helps exporters to this market like FMC to stabilize their business results during periods of strong fluctuations in the shrimp industry. We believe that although the size of shrimp consumption in Japan is difficult to increase, Vietnam's exports to this market will still be positive in the next years driven by the advantages of the CPTPP and the concentration of deeply processed products to increase competitive advantage with other exporting countries. We expect Japan to be FMC's key market in the coming years with an average revenue contribution of 40%. In addition to the long-term loyal customer base, FMC can take advantage of the increased shrimp volume from capacity expansion to seek out more customers of foodservice channel. Shrimp products exported to Japan require meticulous processing techniques, which will bring higher selling prices and better profitability for FMC.

Table 1: Comparing shrimp imported tax of the EU among key five exporters

Product	Vietnam				India		Indonesia		Thailand	Ecuador	
	Basic tax	GSP	EVFTA	UKFTA	Basic tax	GSP	Basic tax	GSP	Basic tax	Basic tax	FTA
Frozen shrimp (PD, HOSO, HLSO, fresh)	12	4.2	0	0	12	4.2	12	4.2	12	12	0
Cold water shrimp	12	8.5	8.5 (down to 0% in 2025)	8 (down to 0% in 2025)	12	8.5	12	4.2	12	12	0
Breaded shrimp	20	7	7 (down to 0 in 2027)	7 (down to 0 in 2027)	20	7	20	7	20	20	0

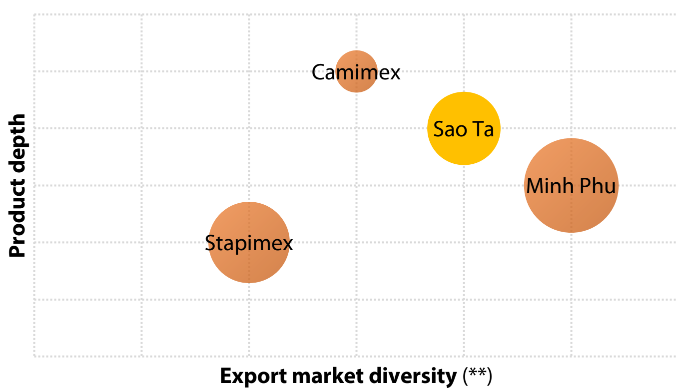
Source: AgroMonitor, RongViet Securities

Well-defined competive advantages and know-how to spur robust growth

FMC has strength in deeply processing products

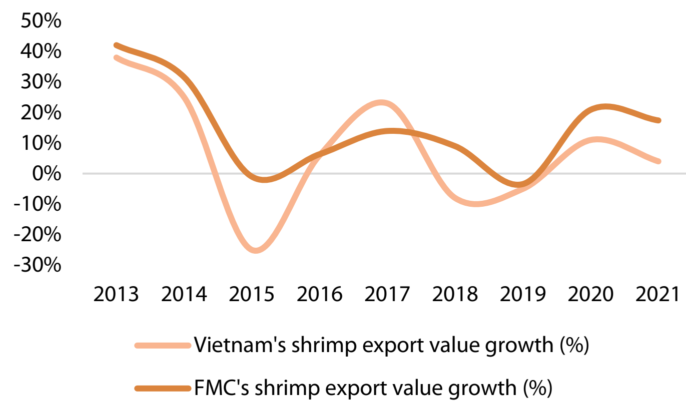
FMC's competitive advantages are the ability of deeply processed products. Value-added shrimp products, which currently account for roughly 30% total products, have a nearly double gross margin compared to fresh/frozen/simple-processed shrimp products, per the company. FMC has ample room for boosting these processed products, especially to the UK and Japan markets which have been the company's prime markets with less competition. Driven by the strategy of changing the product mix towards processed shrimp, we expect that FMC's gross margin can gradually improve in the years ahead. ***(Figure 8, 9)***

Figure 8: Shrimp industry's competitive positioning by leading players (*)



Source: RongViet Securities
(*) Bubble size equals respective export value
(**) Number of key export markets (>10% of revenue)

Figure 9: Comparison of export value growth between FMC and Vietnam



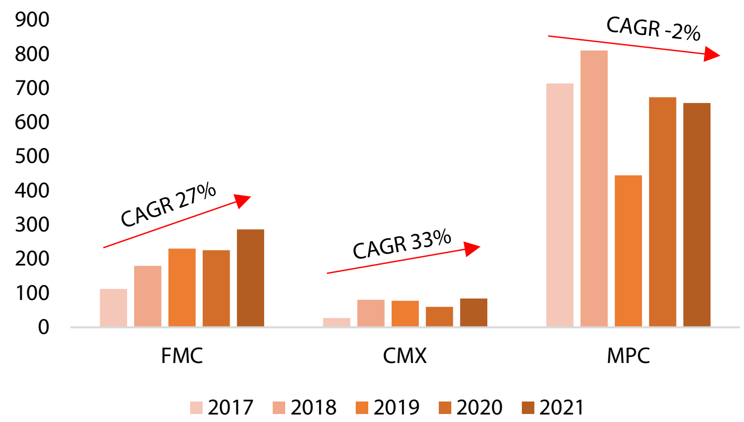
Source: VASEP, FMC, RongViet Securities

Solid output markets enable FMC to grow even in the downtrend of the industry

Going against the strong volatility of the shrimp industry, FMC recorded a revenue CAGR of 27% in the past five years due to flexible strategy in export markets. Particularly, FMC usually prioritizes exports to Japan, accounting for 30%-40% of its current export value, attributed to stable demand and long-standing customers. The US and EU markets are similar in terms of products, prices and are prone to fluctuations due to high competition. Hence, FMC is often flexible to switch output between these two markets if there is a decrease in demand in either market, thereby helping revenue and profit maintain steady growth over the years. ***(Figure 10, 11, 12)***

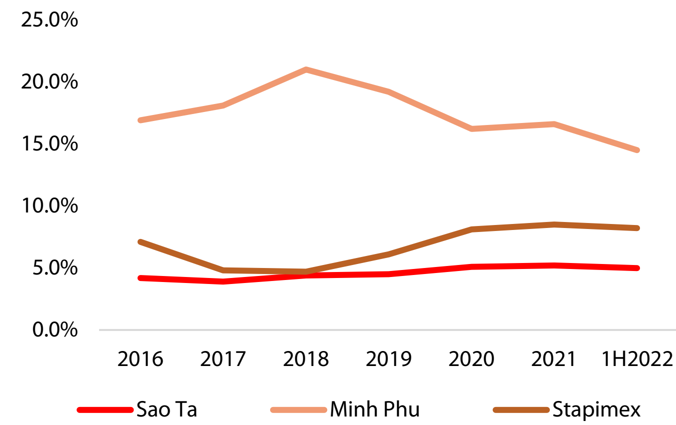
FMC is Vietnam's second-largest shrimp exporter to Japan which has high barriers to entry especially for high-end products due to strict food safety regulations and the requirements of processing techniques - giving FMC an advantage over other shrimp processors. Moreover, Japan is also the market with the highest selling price and profit margin. We believe that FMC's plan to increase the proportion of exports to the Japanese market is a wise strategy for sustainable profit growth in the coming years.

Figure 10: Comparison of shrimp companies' net profit (VND Bn)



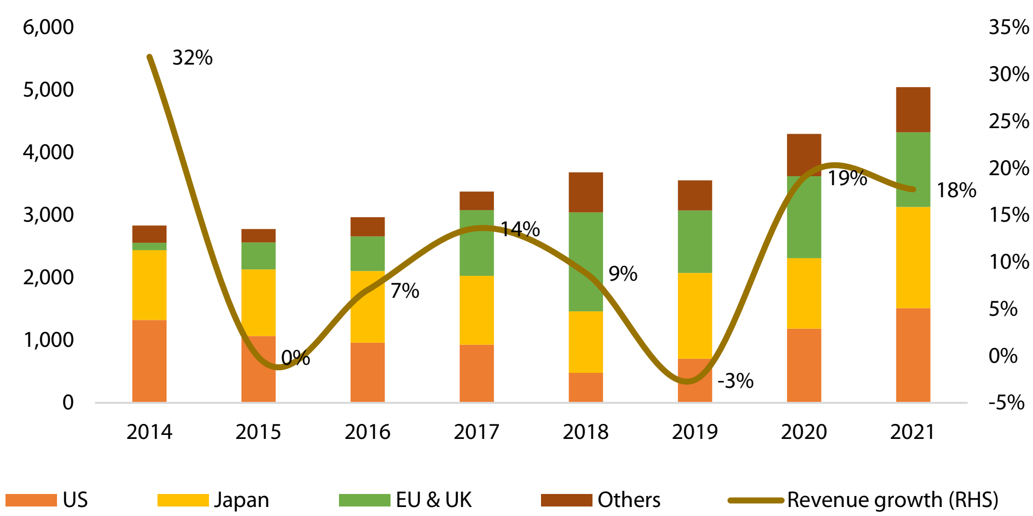
Source: FiinPro, RongViet Securities

Figure 11: Market share in shrimp exports by company



Source: VASEP, RongViet Securities

Figure 12: Revenue breakdown by market (VND Bn)



Source: FMC, RongViet Securities

Experienced leadership team and the support from strategic shareholders

In our view, the two most important factors should be found in the management team to make a company successful in the shrimp industry, which are the deep understanding of farming techniques and the ability to predict the supply-demand dynamics. Looking at FMC, we appreciate both of these factors thanks to the company's management team who have many years of experience and have been with the company since its establishment. This makes FMC to be one of the few companies with the best shrimp farming efficiency in Vietnam.

PAN Group and C.P. Vietnam have a strategic cooperation, committed to support FMC in expanding business strategies and taking advantage of the strengths of each party. Specifically, they will support FMC to improve the efficiency of shrimp farming, expand shrimp farms, diversify products and expand export markets. C.P. Vietnam, with its strengths in shrimp seed production and shrimp feed, will give priority to providing input materials (feed, shrimp seed) at a discount compared to the market price, helping to save farming costs for FMC.

Strong expansion plan to be growth driver from 2022 onwards

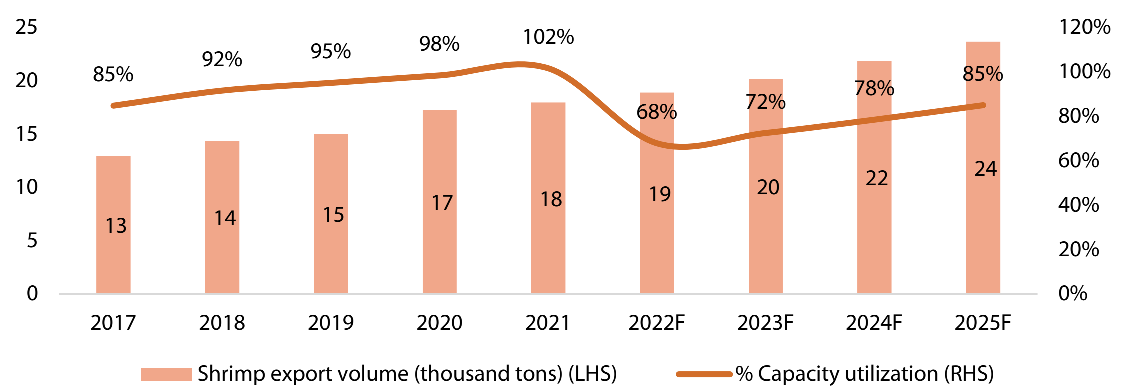
The company will complete the expansion of capacity and farming area in 2022 and will start operating these projects in 2023. We like FMC's strategy, through: (1) During the Covid pandemic, FMC quickly developed two new facilities. This was in response to the rising demand for shrimp. When the new plants are finished, the old factories' capacity will be at their maximum; (2) The plant expansion taking place concurrently with the extension of farmland to maintain a constant self-supplied material ratio, thereby sustaining the company's profit margin.

Capacity expansion is a must for growth

In 2022, **FMC increased its capacity through expanding two processing factories**, which are Tam An factory of 5,000 tons/year and Sao Ta factory of 15,000 tons/year. According to our estimates, FMC's old factories are now operating beyond their design capacity. Therefore, to maintain its growth momentum, FMC has no choice but to increase processing capacity. The plant's operation in 2022 is a necessary step to increase shrimp export orders. In addition to increasing orders from existing customers. FMC also actively seeks new customers through supermarket chains in the US and HORECA in Japan. We notice that FMC has begun hiring employees for the new factory, which is a good sign.

We expect Tam An factory could run at full capacity in FY2023 while the large one – Sao Ta factory will gradually increase the capacity by 5%/20% in FY2022/2023 then reach full capacity in FY2027. We note that a shrimp factory usually takes six months to test run and be verified to meet customer's standards, hence, Sao Ta factory will not be able to increase capacity strongly in the first year of operation. Accordingly, shrimp export volume can grow by 5%/7% YoY in FY2022/2023. **At the time of full capacity in FY2026, we expect that shrimp export volume will be 50% higher than the FY2021 level. *(Figure 13, Table 2)***

Figure 13: Shrimp export volume and capacity utilization rate (*)



Source: RongViet Securities.

(*) Capacity utilization rate = Total volume of finished products/Maximum volume

Table 2: Forecast of the utilization rate of the two new factories

	2022F	2023F	2024F	2025F	2026F
Utilization rate of Tam An factory (5,000 tons/year) (*)	50%	80%	100%	100%	100%
Utilization rate of Sao Ta factory (15,000 tons/year)	5%	20%	40%	60%	80%
Shrimp volume (%YoY growth)	5%	7%	8%	8%	9%
Vegetables volume (%YoY growth)	5%	10%	10%	5%	5%

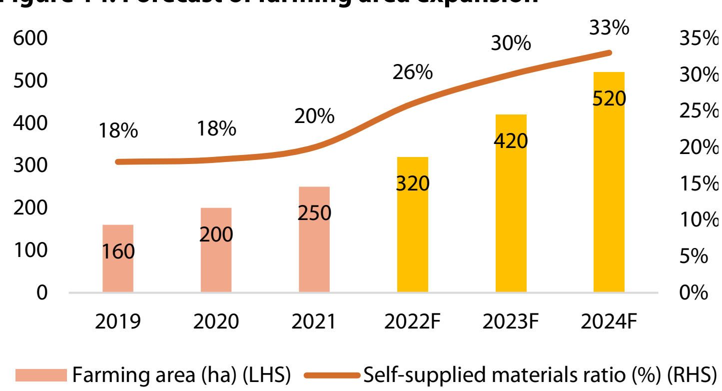
Source: RongViet Securities. (*) Assuming that 40% capacity (2,000 tons/year) of Tam An is shrimp products, the rest is vegetables.

Farming area expansion to maintain gross margin

The key factor affecting the gross margin of the shrimp industry is the gap between selling price and raw material price. This means that if we only evaluate one of the two factors, selling price or raw material price, it will not accurately reflect the fluctuation of gross margin. For example, gross margin in 2019 improved strongly at 10.5% despite falling selling prices thanks to low raw material prices. Meanwhile, although the selling price increased sharply in the period of 2020 - 2022, the price of raw materials increased more, causing the gross margin to decrease to less than 10%. Selling price is a difficult factor to control because it depends on global supply and demand, as well as regulations of importing countries. Therefore, the best way to improve gross margin is to increase the self-supplied materials ratio and efficiency of shrimp farming. **FMC expanded 200 hectares of new farming area in July 2022 to bring the total to 520 hectares.** We expect the company to put into operation 100 hectares in 2023 and another 100 hectares in 2024. ***(Figure 14)***

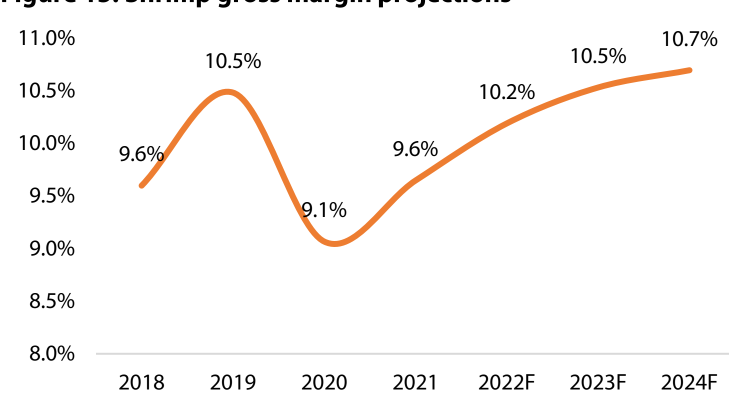
Theoretically, the company's self-supplied materials costs are about 15-25% lower than the purchase price of external raw materials. However, we believe that **the expansion of the farming area will help maintain the material self-sufficiency rate and stabilize the gross profit margin, instead of expecting a strong improvement in the gross margin**, because the scale of processing output also will increase accordingly. We therefore estimate that the self-supplied materials rate will only increase from about 26% in 2022 to 30% in 2023 and 33% in 2024. The gross margin will also increase slightly from 9.6% in 2021 to 10.2% in 2022F and 10.5% in 2023F, according to our projections. ***(Figure 14, 15)***

Figure 14: Forecast of farming area expansion



Source: RongViet Securities

Figure 15: Shrimp gross margin projections



Source: FMC, RongViet Securities

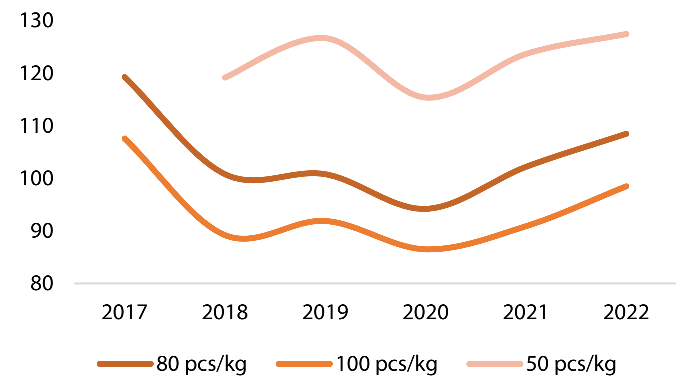
INVESTMENT RISKS

Unstable source of raw shrimp materials can cause gross margin fluctuations

The supply and demand of the market heavily influences the seafood business generally and shrimp export in particular. Since FMC only produces 20–30% of its own raw shrimp and purchases the rest from farmers, ***raw shrimp price fluctuations have a substantial impact on the company's cost of goods sold***. The cost of raw shrimp depends largely on the efficiency of shrimp farming, which depends not only on farming techniques but also on weather factors. FMC's farming area is mainly located in the Mekong Delta, which may be severely affected by climate change, such as saline intrusion. In addition, shrimp diseases such as white spot disease, hepatopancreatic necrosis also affect shrimp quality as well as raw material prices.

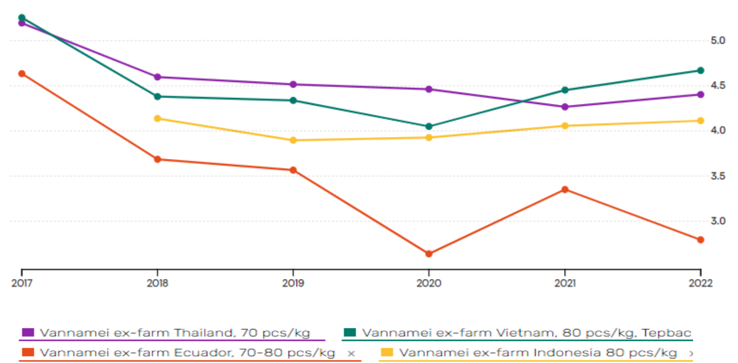
In addition, countries like India and Ecuador are fierce competitors due to their advantages in low materials costs. This also makes it difficult for Vietnamese shrimp companies to transfer the increase in input costs into selling prices, thereby affecting to the profit margin of shrimp companies like FMC in the context of rising raw material prices. The best solution to limit this risk is that the companies need to increase the self-supplied ratio by expanding new farming areas as well as shrimp farming efficiency. ***(Figure 16, 17)***

Figure 16: Vietnam shrimp raw material prices (VND/kg)



Source: Undercurrent News, RongViet Securities

Figure 17: Comparison of raw shrimp material prices of shrimp-producing countries (type of 80 pcs/kg) (USD/kg)



Source: Undercurrent News, RongViet Securities

In general, both raw material prices and export prices will likely be in a downtrend next year. We develop three scenarios for the impact of raw material prices on the shrimp gross margin in FY2023. In the base case, we expect raw material prices to decline by 4% YoY and shrimp export prices by 6% YoY, resulting in a 10.5% shrimp gross margin (+30 bps YoY). In the most positive scenario, we expect raw material price to decrease by 8% YoY while selling price only decrease by 2% YoY, gross margin will reach 14.0%. In the worst case scenario, we forecast that raw material prices will move sideways while selling prices drop sharply by 10% YoY, gross margin will be only 6.9%. ***(Table 3)***

Table 3: Sensitivity analysis of 2023F *shrimp gross margin* in relation to raw material prices growth and ASP growth, ceteris paribus

	Raw material prices growth				
ASP growth	**-8%**	**-6%**	**-4%**	**-2%**	**0%**
-10%	10.5%	9.6%	8.7%	7.8%	6.9%
-8%	11.4%	10.5%	9.6%	8.7%	7.8%
-6%	12.3%	11.4%	**10.5%**	9.6%	8.7%
-4%	13.2%	12.3%	11.4%	10.5%	9.6%
-2%	14.0%	13.2%	12.3%	11.4%	10.5%

Source: RongViet Securities

Regulations from importing countries

Adverse changes in import and tariff policies in importing countries Vietnam's shrimp exports can severely affect Vietnam's shrimp exports, such as anti-dumping duties. FMC is currently enjoying a 0% anti-dumping tax rate from the US market, but there is still a risk that the company will be taxed in the future, something that the Vietnamese shrimp industry once faced in 2018. Once an unexpectedly negative tariff policies happen, FMC's business results can be negatively affected, thereby harming to the stock price performance.

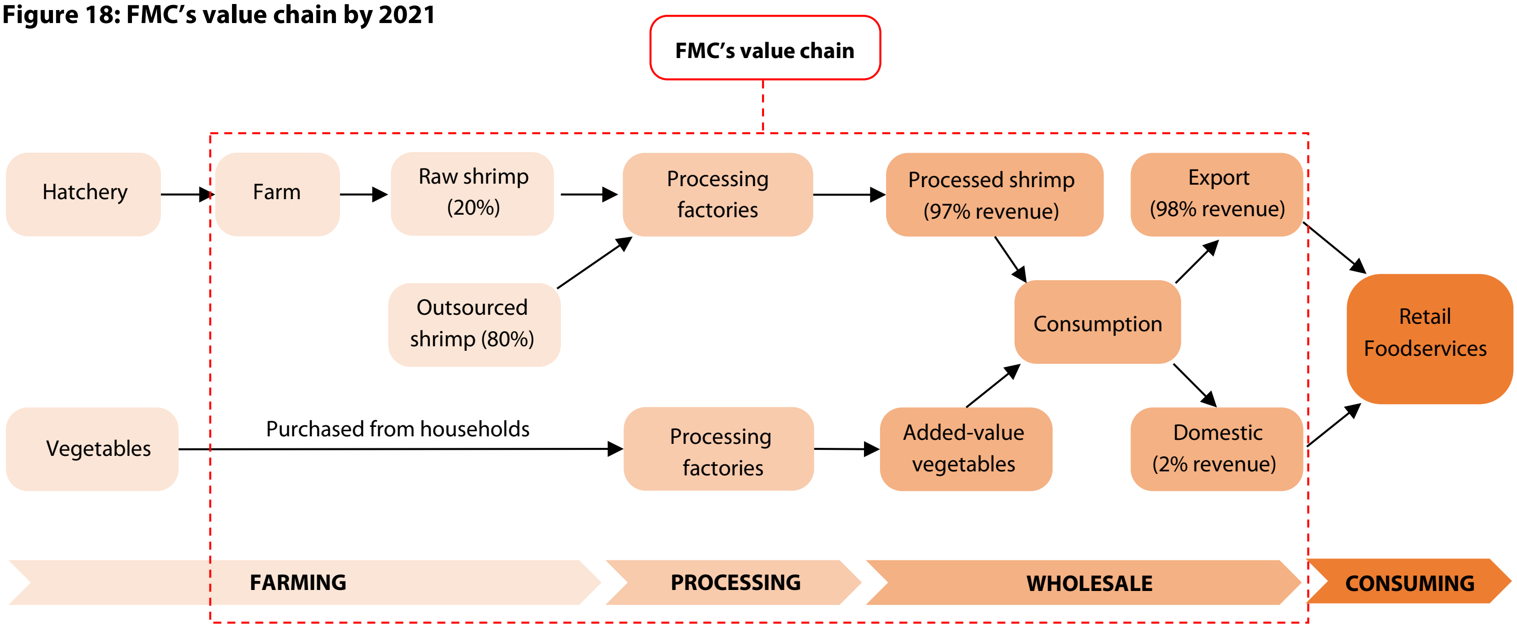
BUSINESS OVERVIEW

Having been 26 years in the shrimp industry, Sao Ta Foods JSC. (HSX: FMC) was established in 1996 and was transformed into a joint stock company in 2003. The company was listed on the HCM Stock Exchange in 2006 with the ticker FMC. The company is currently the 3rd largest shrimp exporter in Vietnam with a revenue of VND 5,204 billion in 2021, accounting for about 5% of Vietnam's shrimp exports share.

Business model

FMC's value chain currently focuses on three main phases: farming, processing and wholesale distribution. With the vertical integration, FMC can control the quality of the whole process to help the product meet international standards for food safety. FMC's shrimp farming areas, factories, and production processes have obtained international certificates such as HACCP, BAP, BRC, IFS, HALAL, ISO 14001.

Figure 18: FMC's value chain by 2021



Source: FMC, RongViet Securities

- **Farming:** FMC, currently owns 322 hectares of grow-out farming area. It is one of the few most effective shrimp farming companies in Vietnam attributed to managament's extensive experience and modern farming techniques. FMC's raw materials self-supply ratio, however, only accounts for 20-25% of required input shrimp volume. The rest is purchased from outside households, hence, input costs tend to fluctuate over the years. That is considered as the common bottleneck of the shrimp industry in Vietnam.
- **Processing:** FMC has a total of six processing factories in Soc Trang province: four are operating at full capacity, and two have just come into operation since 2022. The latter is expected to drive FMC's growth in the future. The full capacity is approximately 165 tonnes/day (or 41,000 tons/year), including 85 tonnes/day of old factories and 80 tonnes/day of new ones. The factories frequently run at full capacity in peak seasons (Mar-Jul and Sep-Nov) while roughly 70% capacity in down seasons.

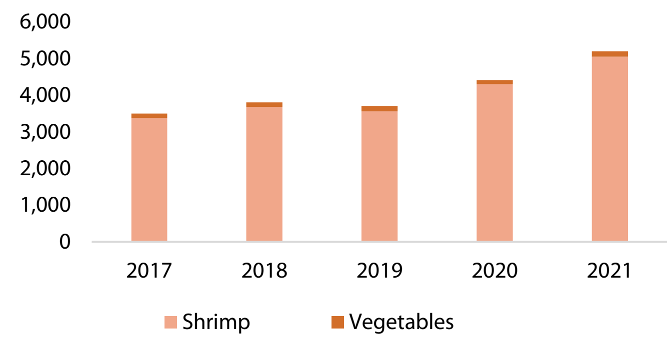
Table 4: FMC's factories

Factory	Capacity	Main products	Operation time
Nam An factory	50 tons/day	Block shrimp, Nobashi shrimp, IQF shrimp, breaded shrimp, Pre-fried shrimp	From inception
An San factory	10 tons/day	Mixed vegetables, Kakiage, etc.	2008
Sao Ta enterprise	15 tons/day	Block shrimp, IQF shrimp, Nobashi shrimp	2015
Tin An factory	10 tons/day	Breaded shrimp, Tempura, Pre-fried shrimp	2018
Sao Ta factory (new)	60 tons/day	Nobashi shrimp, frozen shrimp (fresh, cooked)	End 2022
Tam An factory	20 tons/day	Vegetables, Shrimp	Early 2022

Soure: FMC, RongViet Securities

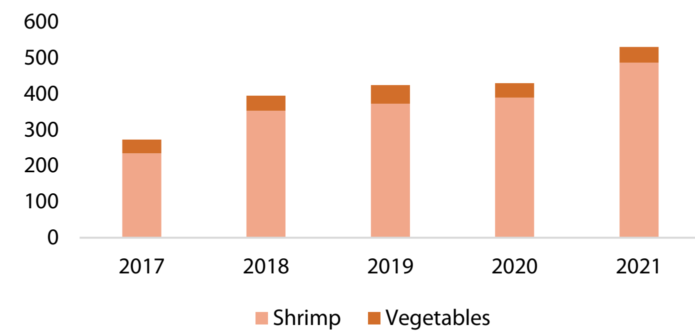
- **Wholesale:** FMC exports to three key markets that occupy roughly 90% of total revenue, including Japan, the US and the Europe. The shrimps products, then, are distributed to retail channel (eg. Supermarket) and foodservices (eg. Restaurants). The company has the well-established cooperation with more than 20 corporate customers, in which the largest customer attributes 20-30% FMC's export value. Domestic sales only account for 2% shrimp revenue due to the consumer trend less favoring frozen shrimp products.

Figure 19: Revenue breakdown by products (VND billion)



Source: FMC, RongViet Securities

Figure 20: Gross profit breakdown by products (VND billion)



Source: FMC, RongViet Securities

Business segments

Shrimp products: FMC's main export shrimp products are frozen processed shrimp including fresh IQF shrimp, block frozen shrimp and value added shrimp such as cooked shrimp, breaded shrimp, Tempura etc. Value-added products (cooked, breaded) account for roughly 60% total products, of which, breaded items attribute 20%.

Vegetables products: asmixed vegetables, kakiage, sweet potatoes, pumpkin. Since 2013, the company has expanded into vegetables products, which are mainly exported to Japan and contribute 3-4% of total revenue.

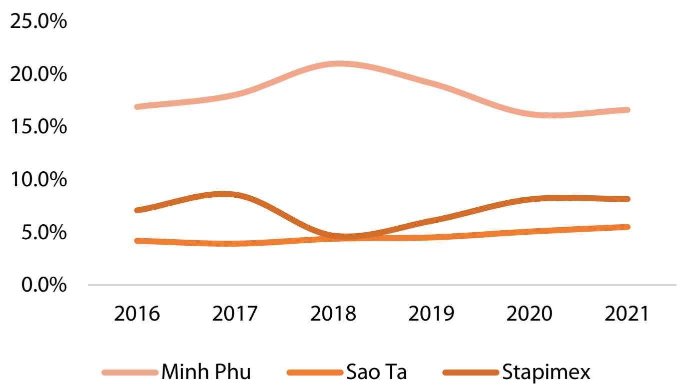
Figure 21: FMC's key products

Source: FMC, RongViet Securities

Company positioning

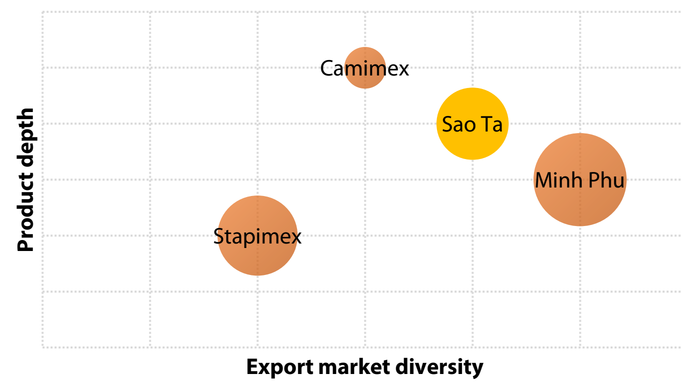
Since its operation, the company has always been one of the top 5 highest shrimp exporters in Vietnam. Currently, FMC's shrimp export market share in Vietnam is roughly 5%, following two giants of Minh Phu (UpCOM: MPC) and Stapimex. The company operates in the field of shrimp processing and exporting which is very fragmented with nearly 65% market share belonging to enterprises excluding top five.

Figure 22: Market share of large shrimp companies by year



Source: VASEP, RongViet Securities

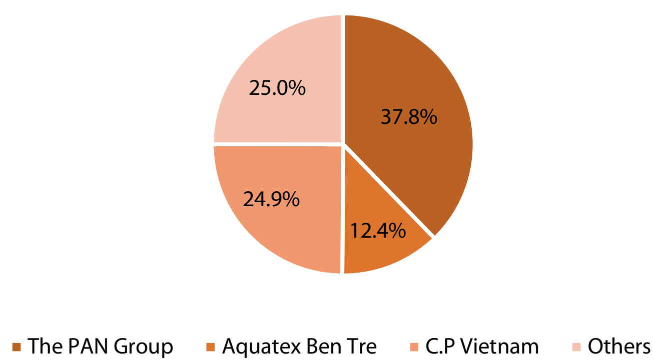
Figure 23: Shrimp industry's competitive positioning by leading players



Source: RongViet Securities. (*) Bubble size equals respective export value.

Shareholder structure

Figure 24: FMC's shareholder structure



Source: FiinPro, RongViet Securities

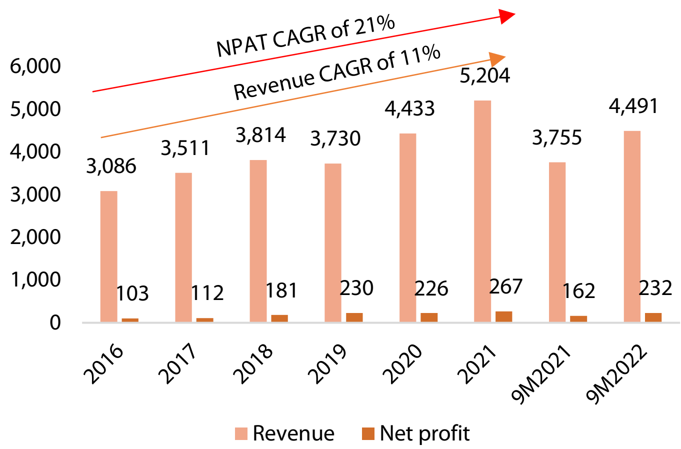
75% of shares are currently held by strategic shareholders who have extensive experience in the agricultural sector. The PAN Group (HOSE: PAN), Aquatex Ben Tre (HOSE: ABT) and C.P. Vietnam own 37.8%, 12.4% and 24.9% respectively. However, ABT is simultaneously the subsidiary of PAN, resulting in PAN's voting rights of 50.12%. In 2021, PAN transferred 13.4% ownership to C.P Vietnam. Both PAN and C.P, well-known companies specilizing in agricultural products, play the role as strategic shareholders. On the one hand, while PAN has strengths in management and strategy, C.P has the extensive experience in farming and distribution, both of which support FMC's future growth. On the other side, backed by the concentrated ownership structure, FMC shares has a low free float that can limit stock liquidity.

FINANCIAL ANALYSIS

Sustainable revenue and profit growth

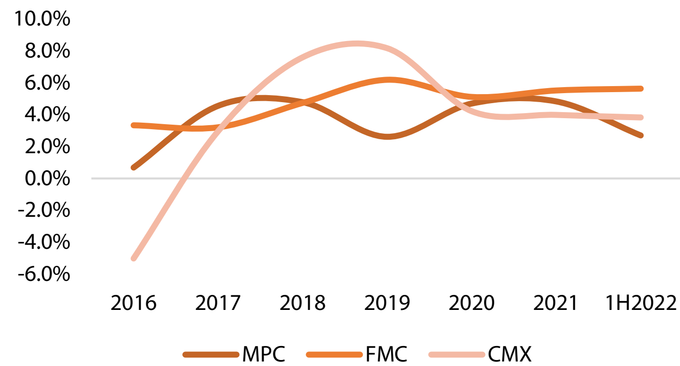
Despite fluctuations of the shrimp industry, FMC posted remarkable business results in FY2016 – 2021 period, performed by a revenue CAGR of 11% and a net profit CAGR of 21%. Even in the COVID-19 turbulence, whereas many seafood companies were hit hard by global disruptions and skyrocketing freight rates, FMC weathered the storm to achieve profit growth, thanks to taking advantage of high demand of retail distribution channel amid quarantines in the globe and improving the effectiveness of shrimp farming.

Figure 25: Revenue and net profit in 2016 - 1H2022 (VND Bn)



Source: FMC, RongViet Securities

Figure 26: Comparison of net margin among peer group

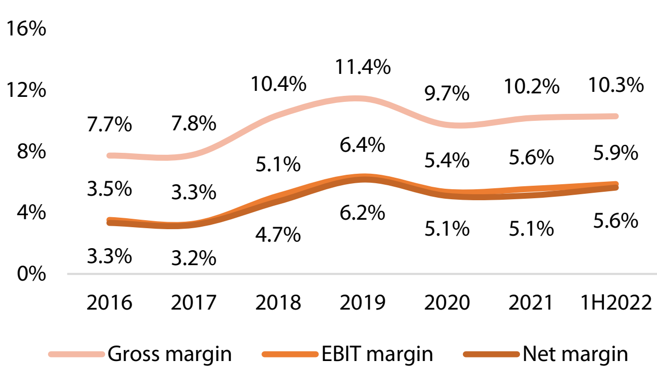


Source: FiinPro, RongViet Securities

Gross margin is thin but tends to improve

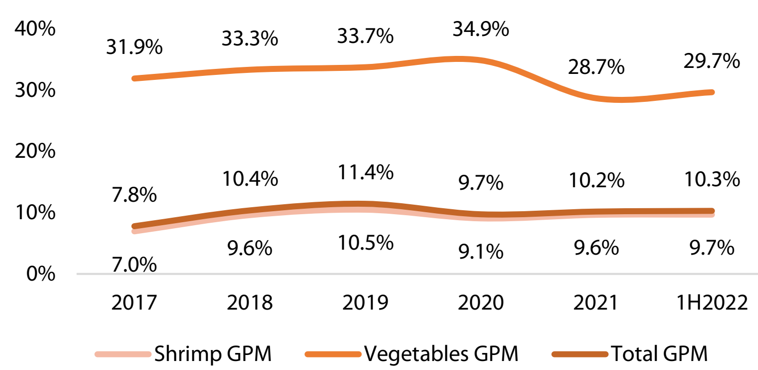
The shrimp export industry has a thin gross margin due to high input costs. The bottleneck of shrimp enterprises is that the rate of material autonomy is still low, so the gross margin of the shrimp industry also fluctuates strongly according to the selling price and the price of raw materials purchased from households. The positive point is that FMC's gross margin improves from 7.7% in 2016 to 10.3% in 2021 thanks to (1) increase in shrimp farming autonomy and efficiency, (2) increase in the proportion of deep-processed products with better gross margins, and (3) the agricultural products segment, which accounts for only 3% of sales, has a high gross profit margin of over 30%. The increase in the capacity of the agricultural product segment will also help the company's profit margin to gradually improve in the coming years.

Figure 27: FMC's gross margin, EBIT margin and net margin (%) in 2016 - 2021



Source: FMC, RongViet Securities

Figure 28: Gross margin by products (%)

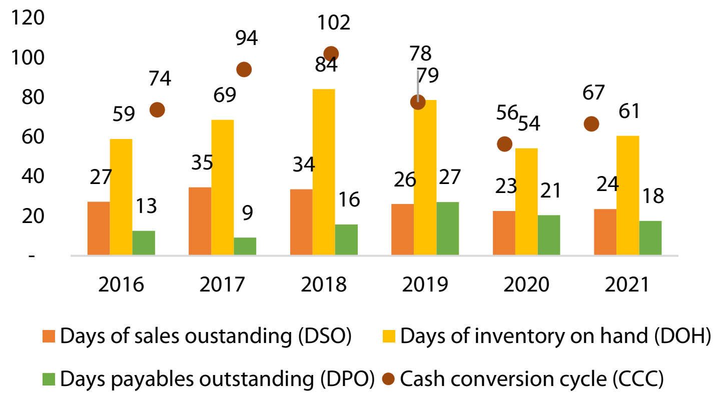


Source: FMC, RongViet Securities

Activity ratios have improved significantly since 2018

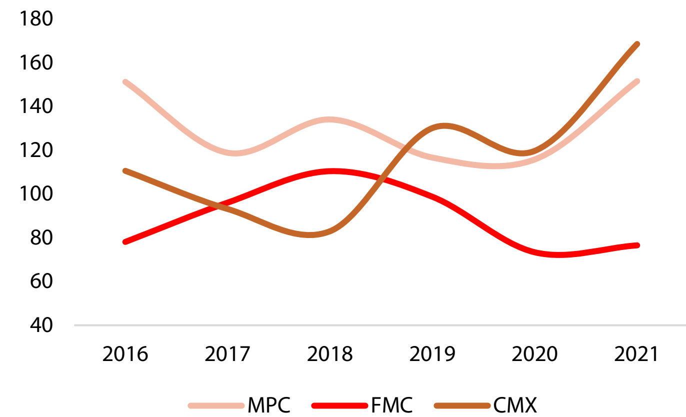
FMC's cash conversion cycle (CCC) tends to decrease markedly after 2018, from an average of 3 quarters to 2 quarters, while the peer group's ratio tends to increase. We believe that the participation of PAN has contributed to a strong improvement in FMC's activity ratios through the renegotiation of customer collection time and quick search for new customers. FMC's inventory is mainly in the form of finished products. The number of days in inventory tends to increase in years when the output consumption of the shrimp industry is difficult or taking advantage of low raw shrimp prices to stock up on cheap raw materials, such as the period 2017-2018.

Figure 29: Activity ratios of FMC in FY2016 – 2021 period (days)



Source: FMC, RongViet Securities

Figure 30: Cash conversion cycle of peer group (days)



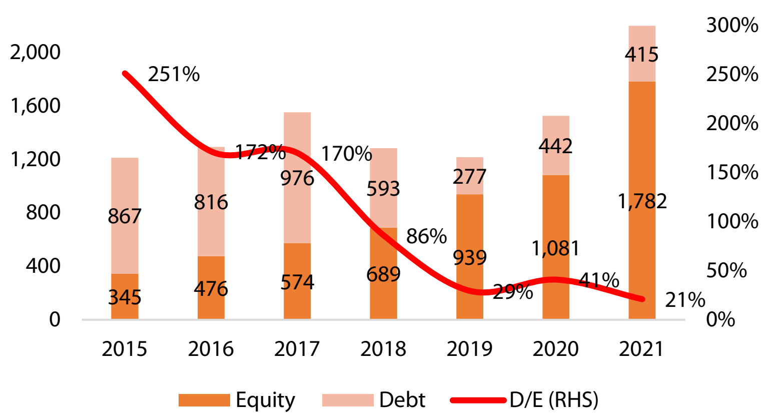
Source: FMC, RongViet Securities

Restructuring capital structure to achieve healthy financial structure

Since 2018, FMC has strongly restructured its capital structure by repaying loans and increasing share issuance. As a result, the D/E ratio dropped sharply from 250% in 2015 to only 21% in 2021. The company has not used long-term debt. The company's short-term debt mainly consists of accounts payable and short-term debt to finance working capital. This also helps interest expenses plunged strongly, thus, interest coverage ratio improved from 5.6x in FY2016 to 18.3x in FY2021.

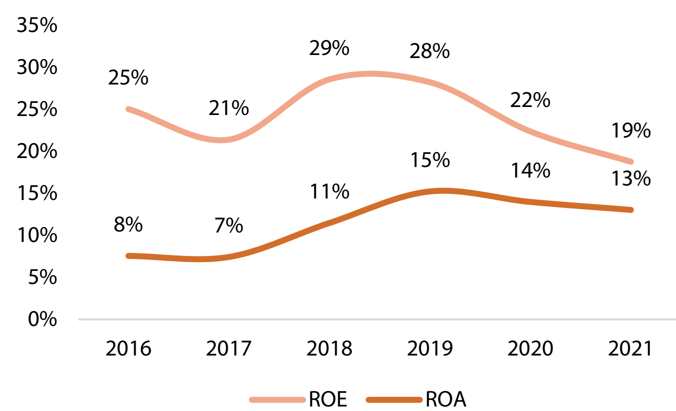
Due to increasing capital by issuing shares by 33% in 2021 to finance factory construction and expanding farming areas, the company's ROE tends to decrease in recent years. However, we believe that the company has made good use of the proceeds to quickly expand the scale of business in 2022 and start making profit contributions from 2023. At the same time, the company also no plans to issue further shares. Therefore, we expect the company's ROE to gradually improve in the coming years.

Figure 31: Debt, Equity (VND Bn) and D/E ratio (%)



Source: FMC, RongViet Securities

Figure 32: ROE & ROA (%)

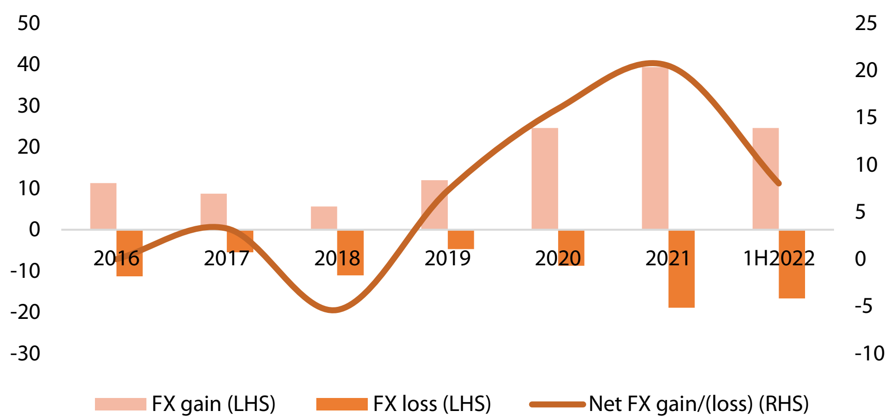


Source: Fiinpro, RongViet Securities

FX gains/losses is affected by USD

Most of FMC's receivables and borrowings are paid in USD. Due to the larger size of receivables than borrowings, FMC usually recognizes FX gains during USD appreciation periods, and vice versa. However, since all debts are short-term, the company can flexibly convert payment currencies in USD or VND to minimize FX losses. In 2022, we expect the company to record an net FX gain of VND19 billion.

Figure 33: FMC's FX gain/loss and net gain/(loss) (VND Bn)

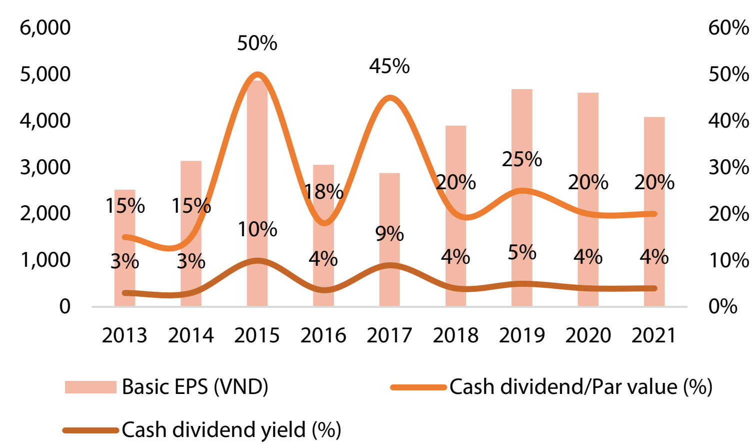


Source: FMC, RongViet Securities

Stable dividend policy

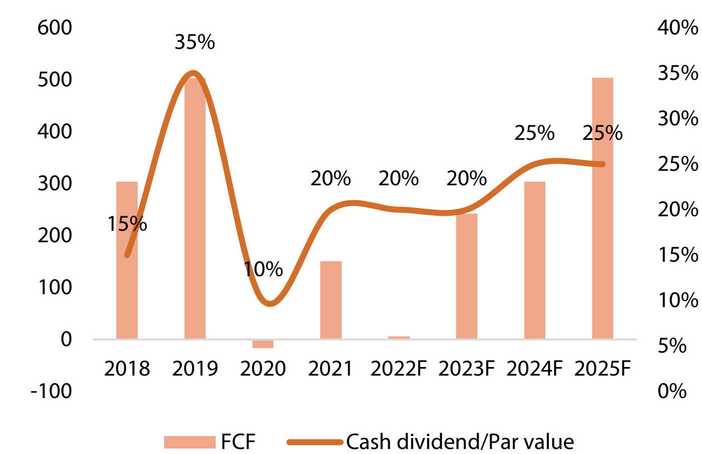
Before 2018, FMC's cash dividend policy tended to base upon business result on the yearly basis. Specificially, FMC paid 15 – 20% cash dividend in normal years and suddenly 45 – 50% in years of outstanding business results. However, from 2018 onwards, we realize that FMC has been inclined towards using stable dividend policy, frequently 20% - 25% cash dividend per year.

Figure 34: FMC's cash dividend yield (%) and Basic EPS (VND)



Source: FMC, RongViet Securities

Figure 35: FCF (VND Bn) and Cash dividend/par value (%)



Source: RongViet Securities

FORECAST AND VALUATION

Forecast

2022 revenue and NPAT-MI are projected to be VND 6,059 Bn (or USD 253 Mn, +17% YoY) and VND 323 Bn (or USD 13.5 Mn, +21% YoY), respectively. Key assumptions are:

- In 2022, driven by the recovering demand for shrimp products after COVID-19, we expect FMC's shrimp export volume and average selling prices (ASP) to grow by 5% and 7% YoY.
- Gross margin may grow by 50 bps to reach 10.7% in FY2022.
- We anticipate that the company can have a net FX gain of VND 19 Bn in FY2022 resulting from the USD appreciation.

2023 business results could only grow at single digit under the pressure from demand side

In 2023, demand of Vietnam's main shrimp consuming markets is expected to slow down as the global economy is volatile. Inflation has not shown signs of cooling down, and inventories of goods are expected to weaken. Shrimp is considered a high-end protein, so consumption has slowed down as consumers in many parts of the world limit spending to cope with record-high inflation. Besides, the fact that the local currencies of the EU, UK, Japan and South Korea have continuously depreciated against the USD, which has also reduced purchasing power in these key markets. However, as mentioned aboved, we expect that Vietnam's shrimp exports may slow down, but it's unlikely to drop sharply as demand for processed Vietnamese shrimp is generally stable. Vietnam's processed shrimp products may be slow to consume but difficult to be replaced by other shrimp products.

For FMC, **in FY2023, we project that revenue and NPAT-MI to reach VND 6,249 Bn (or USD 260 Mn, +3% YoY) and VND 356 Bn (or USD 15 Mn, +10% YoY) respectively, based on our assumptions as below:**

- **We expect the company's shrimp export volume to increase by 7% in FY2023**, lower than FMC's original plan of 20% level due to the above negative impacts. This increase in output is driven by an increase in output customers for the new factory that we cautiously forecast will operate at only 20% of capacity in FY2023. The company can increase orders from new customers, such as Costco in the US, and increased orders from existing Japanese customer - Kyokuyo.
- **Shrimp selling prices will be likely to fall in 2023F, but little impact on net profit margin.** In FY2023, we forecast FMC's ASP to drop by 6% YoY due to cooling-down logistics costs and decreasing materials prices. In FY2021-2022, the average selling price increased amid sky-high transportation costs and global food shortage, but selling expenses also increased correspondingly due to high freight costs. As a result, the increase in selling prices had little real impact on the bottom line in this period. Accordingly, even though selling prices are likely to fall in FY2023, we expect raw material prices to fall at the same time, partly due to an increase in self-supplied rate, to help shrimp gross margin improve by 30 bps to 10.5%. ***(Figure 37, Table 5)***
- Selling costs/sales possibly will decrease by 30 bps due to lower freight rates.
- Net margin will increase by 28 bps to 5.7% in 2023.

NPAT is expected to grow at a CAGR of 15% in FY2021 – 2026F period

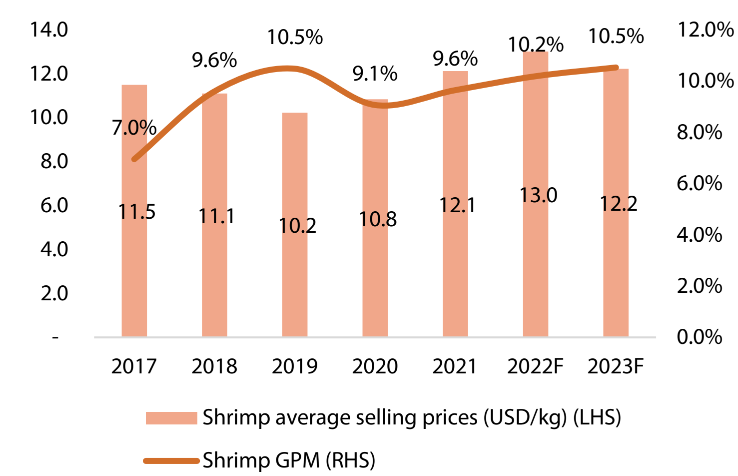
We believe that the negative impact of the global economy on the shrimp industry and FMC in FY2023 are only temporary, reflecting the slow utilization of new factory capacity and the possibility of only a slight increase in profit. When the external factors disappears, which we expect from FY2024, the company's internal resources will be ready for a tremendous growth. Once the global economy recovers and shrimp demand bounces back, we expect FMC to have the potential to rapidly increase capacity and find customers with the help of PAN Group and C.P. Vietnam. That will also be the time when the advantages of EVFTA come into full play. Given the gross margin improvement and cooling-down logistics costs, we expect that net profit growth will be higher than revenue growth in the years ahead. Consequently, we forecast FMC's **revenue and NPAT-MI to grow at a CAGR of 9% and 15% in FY2021 – 2026F period.** ***(Figure 37)***

Table 5: Revenue forecast

	2019	2020	2021	2022F	2023F	2024F
SHRIMP						
Volume (tons)	14,998	17,241	17,941	18,882	20,178	21,848
% yoy growth	*5%*	*15%*	*4%*	*5%*	*7%*	*8%*
ASP (USD/kg)	10.2	10.8	12.1	13.0	12.2	12.1
% yoy growth	*-8%*	*6%*	*12%*	*7%*	*-6%*	*-1%*
Revenue (VND Bn)	**3,557**	**4,300**	**5,048**	**5,899**	**6,071**	**6,498**
Shrimp GPM (%)	*10.5%*	*9.1%*	*9.6%*	*10.2%*	*10.5%*	*10.7%*
VEGETABLES						
Volume (tons)	1,691	1,201	1,592	1,672	1,839	2,023
ASP (VND/kg)	90,302	96,053	94,786	95,734	96,692	97,659
Revenue (VND Bn)	**153**	**115**	**151**	**160**	**178**	**198**
Vegetable GPM (%)	*34%*	*35%*	*29%*	*30%*	*33%*	*33%*
Total revenue (VND Bn)	**3,710**	**4,415**	**5,199**	**6,059**	**6,249**	**6,696**
%yoy growth	*-3%*	*19%*	*18%*	*17%*	*3%*	*7%*
Blended GPM (%)	***11.4%***	***9.7%***	***10.2%***	***10.7%***	***11.2%***	***11.4%***

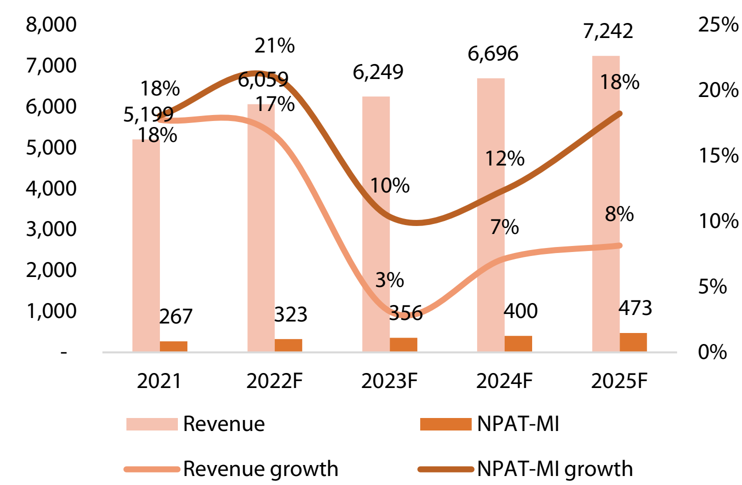
Source: RongViet Securities

Figure 36: Shrimp average selling prices (USD/kg) and GPM (%)



Source: RongViet Securities

Figure 37: Revenue and NPAT forecast (VND Bn)



Source: RongViet Securities

Table 6: Sensitivity analysis of 2023F *shrimp export value growth* in relation to volume and ASP growth, ceteris paribus

ASP growth \ Volume growth	-9%	1%	11%	16%	21%
-17%	-24%	-16%	-8%	-4%	1%
-12%	-20%	-11%	-2%	2%	7%
-7%	-15%	-6%	**3%**	8%	13%
-2%	-11%	-1%	9%	14%	19%
3%	-6%	4%	14%	20%	25%

Source: RongViet Securities

Table 7: Sensitivity analysis of 2023F *net profit growth* in relation to revenue growth and gross margin, ceteris paribus

Gross margin \ Revenue growth	-7%	-2%	3%	8%	13%
10.2%	-16%	-11%	-7%	-3%	2%
10.7%	-8%	-3%	2%	7%	12%
11.2%	0%	6%	11%	16%	21%
11.7%	8%	14%	20%	25%	31%
12.2%	16%	23%	29%	35%	41%

Source: RongViet Securities

Valuation

We use a combination of FCFF and P/E to derive a one-year target price of FMC. For the FCFF method, we applied a WACC of 13.4% and terminal growth rate of 2.3%. For the P/E method, we apply a 2022 target P/E of 8.0x, which is 30% lower than the average five-year P/E to reflect the short-term headwinds in FY2023. We arrive at a **fair value of 45,000 VND/share**, plus a cash dividend of 2,000 VND/share expected for 2022. This is **equivalent to an expected return of 37%**, based on the closing price on December 01st, 2022.

We employ a 40/60 mix of DCF and P/E methods to value FMC. In our view, a biased mix towards the latter is reasonable given the company's cyclical characteristics that is primarily driven by its shrimp volitility of both input and output, which is vulnerable to external factors. Specifically, although we have a positive view on the company's long-term growth outlook which is buoyed by capacity expansion and export market potential, we find uncertainties in the short-term growth, especially 2023, affected by global economic downturn. This rationale leads us to a higher fair value estimate by the DCF method than our P/E one, which we attribute to the former's ability to better capture the company's long-term earnings growth.

Table 8: Valuation summary

Method	Valuation	Weight	Contribution
FCFF (WACC: 13.4%, g: 2.3%)	53,575	40%	21,400
P/E (2022 target of 8.0x)	39,465	60%	23,600
Target price		**100%**	**45,000**
		2022F P/E at target price	**9.1x**
		2023F P/E at target price	**8.3x**

Source: RongViet Securities

Table 9: Discounted cash flow

FCFF	2022F	2023F	2024F	2025F	2026F
Net income	323	356	400	473	534
+ D&A	94	108	121	130	140
+ Interest*(1-t)	17	29	26	28	30
-Financial income	78	51	23	27	36
Change in working capital	139	88	87	108	118
- CAPEX	300	150	150	50	50
FCFF	**-83**	**203**	**287**	**446**	**500**

Source: RongViet Securities

Table 10: FCFF valuation

WACC (%)		FCFF	VND Bn
Beta	1.0	Cumulative Present Value of FCFF	914
Risk-free rate	5.0%	PV of Terminal Value	2,755
Equity risk premium	10.0%	(+) Cash and Cash Equivalents	303
Cost of equity	15.0%	(-) Debt	469
After tax cost of debt	6.8%	**Implied Equity Value**	**3,503**
D/E	25%	Number of shares (million)	65
WACC	**13.4%**	**Price per share (VND)**	**53,575**

Source: RongViet Securities

Table 10: Peer group comparison

	Market cap (USD Mn)	ROE (%)	ROA (%)	TTM revenue growth (%)	TTM EPS growth (%)	GPM (%)	NPM (%)	EV/EBITDA (x)	TTM P/E (x)	5-year average P/E (x)
ANV	90	23	12	43	283	27	13	4.0	3.6	19.6
VHC	507	33	22	62	76	23	17	4.7	5.6	9.7
MPC	268	12	7	-5	-6	14	5	9.9	10.5	9.1
IDI	73	20	8	22	920	15	8	4.8	2.9	16.1
CMX	25	9	4	63	-36	14	3	6.3	6.2	12.6
FMC	**82**	**21**	**11**	**20**	**26**	**11**	**6**	**5.4**	**5.9**	**11.9**
AVERAGE	**174**	**20**	**11**	**34**	**196**	**17**	**9**	**5.8**	**5.8**	**13.1**
MEDIAN	**86**	**20**	**10**	**33**	**26**	**14**	**7**	**5.1**	**5.7**	**12.2**

Source: Bloomberg, RongViet Securities

Market price as of Nov 22nd, 2022 | TTM: trailing-twelve-months data base on Q3-FY22 FS and three consecutive quarters before

Unit: VND bn

PL	2020A	2021A	2022F	2023F
Revenue	**4,415**	**5,199**	**6,059**	**6,249**
COGS	3,986	4,670	5,410	5,551
Gross profit	**430**	**529**	**649**	**698**
Selling expenses	147	197	242	231
G&A expenses	58	67	85	87
Financial income	33	54	78	51
Financial expense	23	33	52	47
Other income/loss	0	3	3	3
Gain/(loss) from joint ventures	0	0	0	0
PBT	**237**	**289**	**351**	**387**
Tax expense	11	2	11	12
Minority interests	0	20	18	19
PAT	**226**	**267**	**323**	**356**
EBIT	225	265	322	379
EBITDA	302	348	416	487

Unit: %

FINANCIAL RATIOS	2020A	2021A	2022F	2023F
Growth (%)				
Revenue	19.0	17.8	16.5	3.1
EBITDA	-0.8	15.1	19.5	17.1
EBIT	-5.1	17.5	21.6	17.8
PAT	-1.7	18.1	21.0	10.3
Total assets	12.5	57.2	4.7	6.2
Total equity	15.2	64.8	4.1	5.7
Profitability (%)				
Gross margin	9.7	10.2	10.7	11.2
EBITDA margin	6.8	6.7	6.9	7.8
EBIT margin	5.1	5.1	5.3	6.1
Net margin	5.1	5.1	5.3	5.7
ROA	13.2	9.9	11.5	11.9
ROCE	20.4	13.3	15.5	17.2
ROE	20.9	15.0	17.4	18.2
Efficiency (x)				
Receivables turnover	14.5	14.1	15.1	15.1
Inventories turnover	6.6	5.0	5.3	5.0
Payables turnover	24.2	16.3	20.2	20.2
Liquidity (x)				
Current	2.0	3.1	2.4	2.3
Quick	1.0	1.7	1.0	0.9
Finance Structure (%)				
Total debt/equity	40.9	23.3	26.0	27.9
ST debt/equity	40.9	23.3	26.0	27.9
LT debt/equity	0.0	0.0	0.0	0.0

Unit: VND bn

BS	2020A	2021A	2022F	2023F
Cash and cash equivalents	268	770	303	250
Short-term investments	10	25	285	372
Accounts receivable	305	368	401	413
Inventories	608	941	1,028	1,110
Other current assets (inc. non-trade	30	38	31	31
Property, plant & equipment	314	450	656	698
Acquired intangible assets (inc. Goodwill)	1	1	0	0
Long term investments	0	0	0	0
Other non-current assets	175	98	115	118
Total assets	**1,711**	**2,691**	**2,818**	**2,993**
Accounts payable	165	287	268	275
Short-term borrowings	442	415	469	511
Long-term borrowings	0	0	0	0
Other non-current liabilities	10	10	12	12
Bonus and Welfare fund	13	2	2	2
Technology-science development fund	0	0	0	0
Total liabilities	**630**	**714**	**751**	**800**
Common stock and APIC	681	1,248	1,248	1,248
Treasury stock	0	0	0	0
Retained earnings / accumulated deficit	400	534	607	714
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	0	0	0	0
Total equity	**1,081**	**1,782**	**1,855**	**1,961**
Minority interest	0	20	38	57

Unit: VND bn

CF	2020A	2021A	2022F	2023F
Profit before tax	**237**	**289**	**351**	**387**
-Depreciation	19	81	94	108
-Adjustments	65	3	0	0
+/- Working capital	-276	-186	-142	-100
Net Operating CFs	**44**	**186**	**303**	**395**
+/- Fixed Asset	-58	-35	-300	-150
+/- Deposit, equity investment	-4	-205	-16	-4
Interest, dividend, cash profit received	0	0	0	0
Net Investing CFs	**-63**	**-240**	**-316**	**-154**
+/- Capital	0	163	0	0
+/- Debt	166	-28	54	42
Dividend paid & other	-123	419	-251	-250
Net Financing CFs	**43**	**555**	**-197**	**-208**
Beginning cash & equivalents	**244**	**268**	**769**	**303**
+/- cash & equivalents	24	501	-210	34
Ending cash & equivalents	**268**	**769**	**303**	**250**

Company Report

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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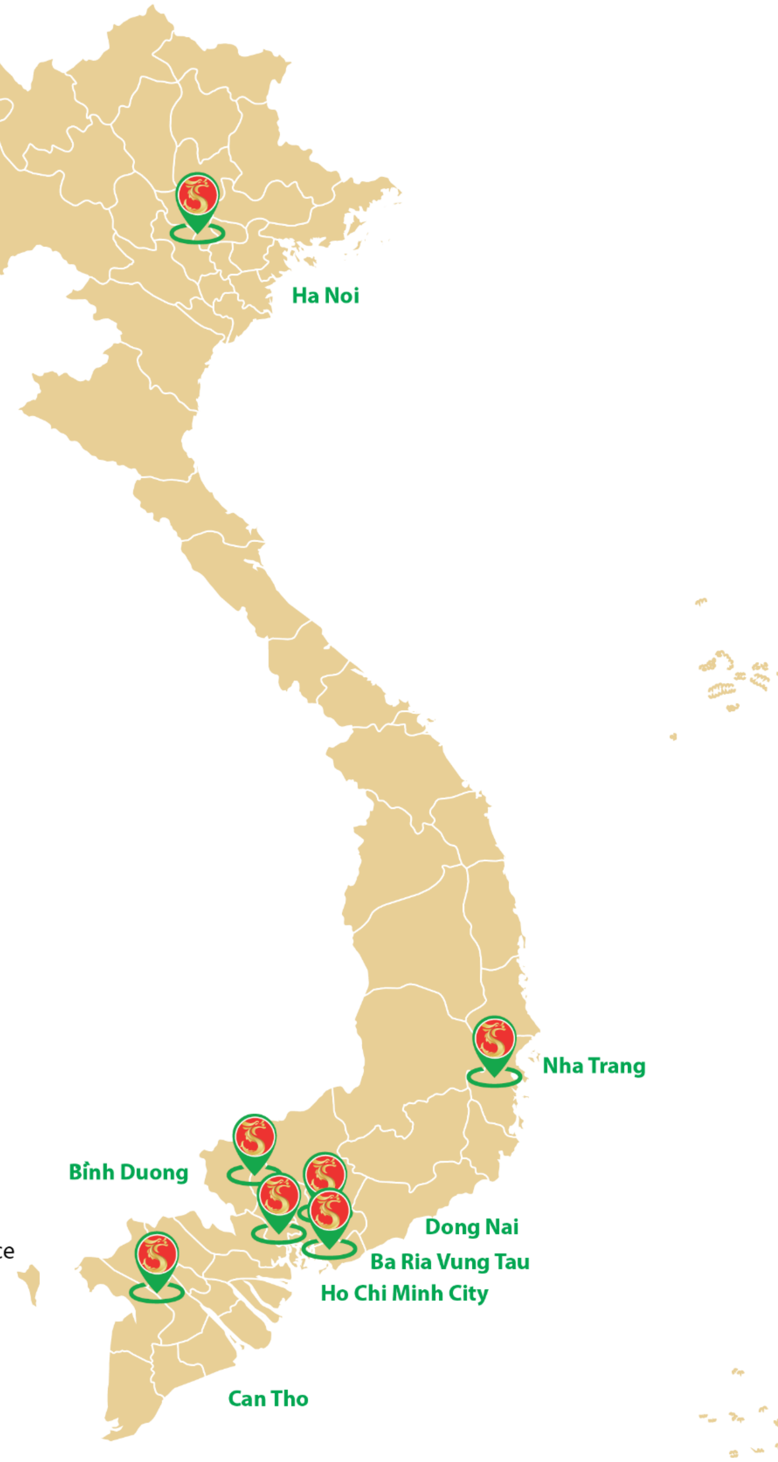

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