SEAFOOD

NAVIGATING A GRADUAL RECOVERY

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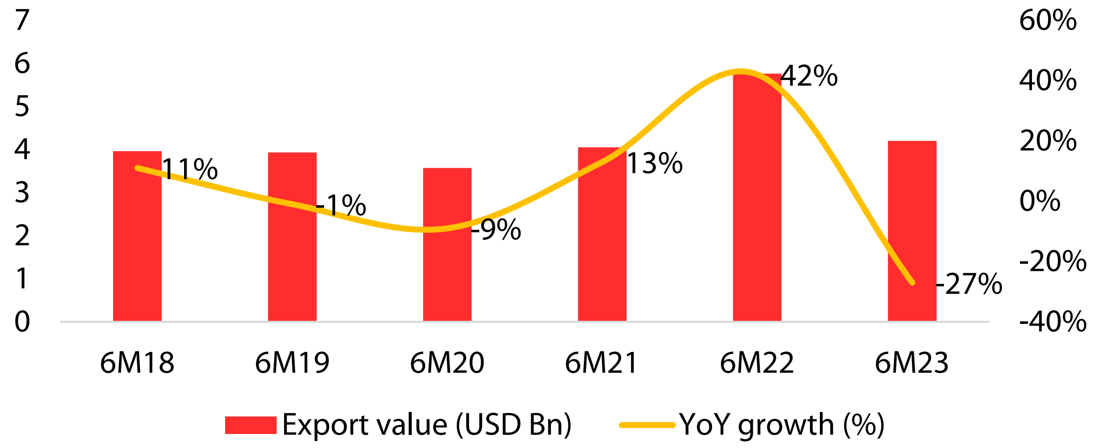
SEAFOOD INDUSTRY - NAVIGATING A GRADUAL RECOVERY

Investment Rating	Negative — Neutral (↑) — Positive
Overview	The seafood industry will gradually improve in 2H 2023, driven by increasing demand from importing countries. However, the rapid surge in share prices, based on expectations of export recovery, has not yet been fully supported by actual business results, leading to a limited upside potential for the stocks.
Highlights	**Slower-than-expected recovery** • The decline in seafood exports during the first half of the year was primarily due to the economic slowdown in importing countries, coupled with the high base level from the previous period. Among the affected markets, seafood exports to the US experienced the most significant impact in 1H 2023. • Contrary to the expectations of many investors, the recovery remained sluggish until the middle of 2023. **Brighter prospects in 2H 2023** • Expecting brighter export outlook in 2H 2023 as importing countries head into the festive season combined low inventory after a 3-quarter handling period, especially in the US market. • Global shrimp supply shortage from India and Ecuador will benefit Vietnam's shrimp export in 2H 2023. • Recovery speed varies among businesses, with larger enterprises set to accelerate faster in 2H 2023. • RongViet predicts Vietnam's seafood exports to reach USD 5 bn in 2H23, showing a slight 5% YoY decrease, but a 15% growth on the low base of 1H23.
Risks	Demand recovers slower than expected; Profit margins are affected by stagnant selling prices amid competitive pressure and rising raw material costs; Import prospects from China remain unpredictable.
Valuation	Most seafood companies in our coverage have a P/E forward 2023/24 that surpasses the 5-year average P/E. This is mainly due to investors' optimistic expectations regarding export recovery, despite the actual business results of these companies falling short of their anticipated performance. We recommend investors to reconsider the industry when there is a better discount available.
Recommendation	**VHC** (79,000 VND/share, ACCUMULATE), **FMC** (53,000 VND/share, ACCUMULATE)

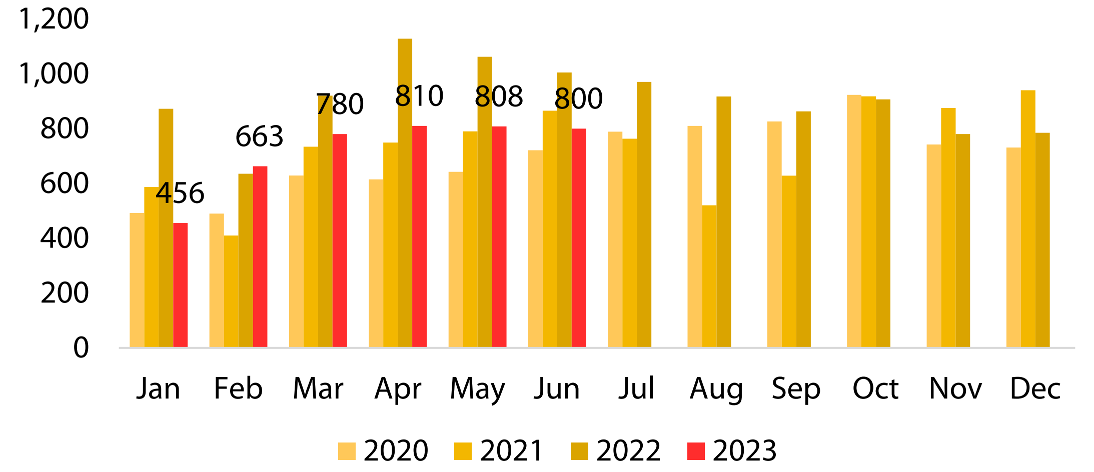
Seafood export value of 6M (USD Bn)



Source: VASEP, RongViet Securities

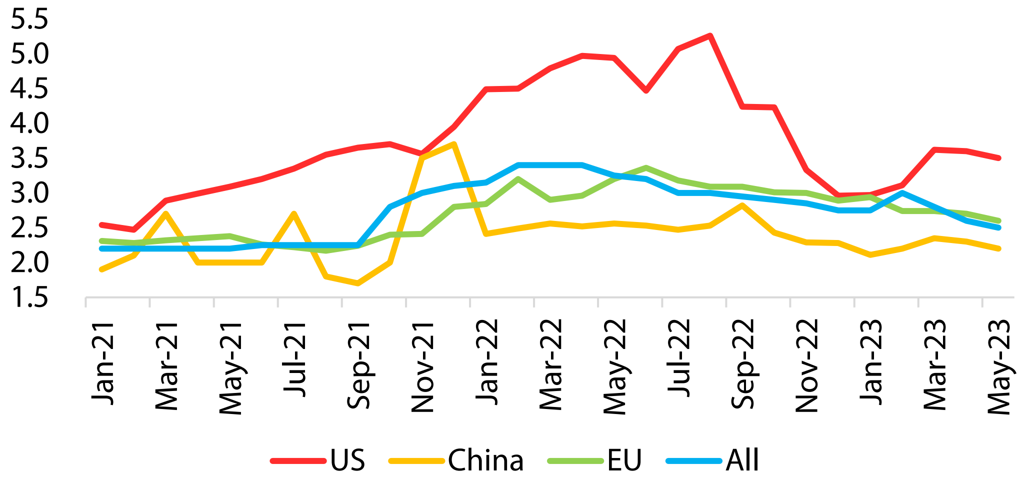
- Seafood exports in the first half of 2023 decreased sharply compared to the same period, but still equivalent to the level in the period of 2018-2021. Therefore, this sharp decline is mainly due to the sudden spike of the same period, while the demand for Vietnamese seafood is still relatively stable compared to other export products.
- From March to mid-2023, seafood export value was almost flat, contrary to consensus expectations.
- Export prices of most markets fell sharply, especially the US market.

Seafood export value by month (USD mn)



Source: VASEP, RongViet Securities

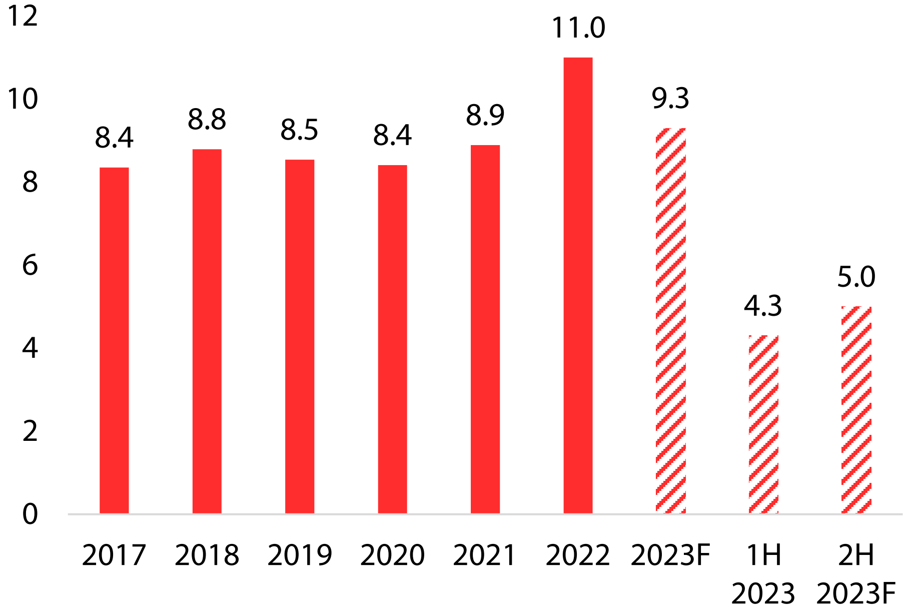
Pangasius export prices by markets (USD/kg)



Source: AgroMonitor, RongViet Securities

BRIGHTER SEAFOOD EXPORT OUTLOOK IN 2H 2023

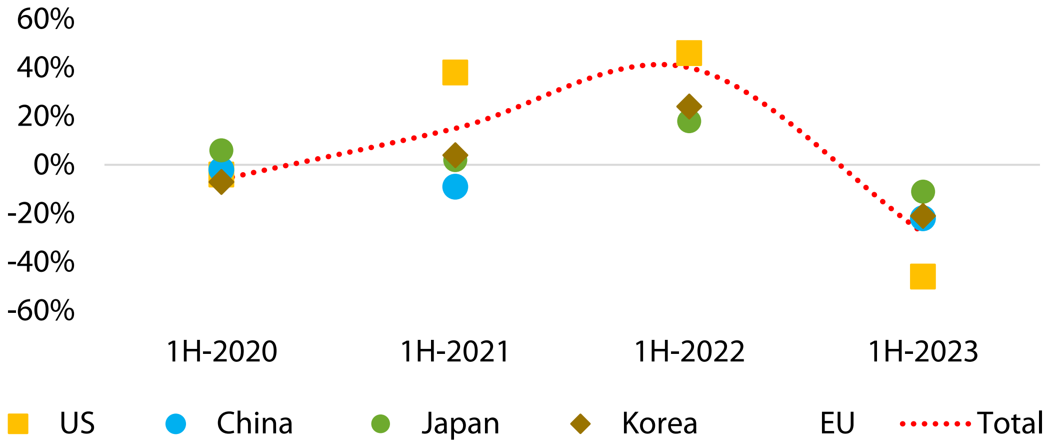
RongViet's seafood export value forecast (USD Bn)



Source: RongViet Securities

- **Low base in 2H 2022 helps YoY growth in 2H 2023 not be as pessimistic as that in 1H 2023**. The YoY reduction will gradually narrow in 2H 2023 on the low base YoY. MoM growth will also be seen in 2H 2023 as importing countries head into the festive season. We anticipate a clearer improvement in seafood exports from Q3, particularly from the US market.
- **Improving demand.** US retailers have resumed seafood imports after a 3-quarter inventory handling period to meet increasing demand during the year-end holidays. They have also lowered seafood prices to stimulate consumer demand.
- **Global shrimp supply shortage.** VASEP estimates empty ponds in India to range from 30% to 50%, and Ecuador's shrimp farming area has been affected by EI Nino, causing around 30% damage.
- **Recovery speed will vary among businesses.** Larger enterprises with market awareness and sufficient resources for production/storage of cost-effective raw materials are likely to accelerate faster in the second half of 2023.
- **Rong Viet predicts Vietnam's seafood exports to reach USD 5 bn in 2H 2023**, showing a slight 5% YoY decrease, but a 15% growth compared to the low of the first half of 2023. Therefore, we forecast Vietnam's seafood exports for the whole year 2023 to be about $9.3 billion, down approximately 15% compared to previous periods, lower than the Ministry of Agriculture's target of $10 billion. However, an unknown factor in our forecast is the potential demand recovery from the Chinese market.

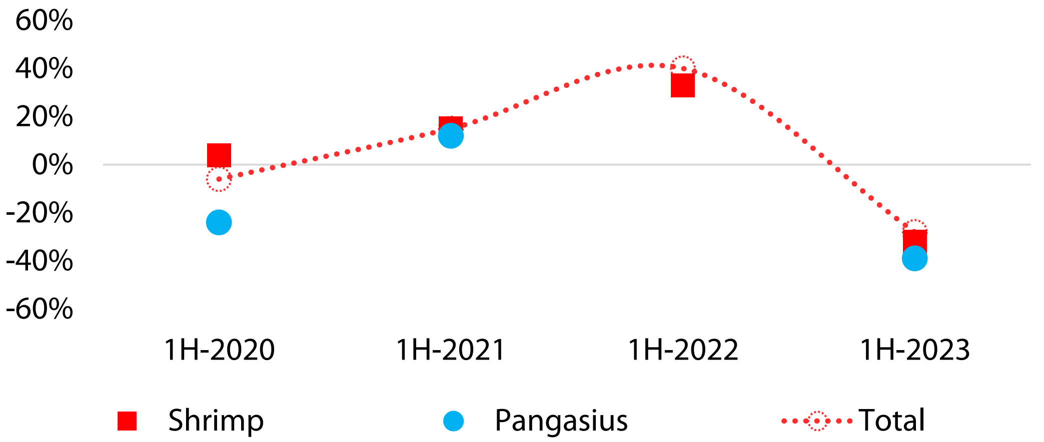
YoY growth of seafood export value by markets



Source: VASEP, RongViet Securities

- In 1H 2023, the US market saw the most significant drop due to high inventories and price competition with other seafood products. Despite this, we view that the US market still exhibits a robust demand for pangasius due to its affordability, making it appealing to consumers with limited income. Additionally, Vietnam's processed shrimp remains a popular item, driven by the growing trend of home-based food processing aimed at cost reduction.
- Looking ahead to 2H 2023, we anticipate a positive outlook for Vietnam's seafood exports to the US, as high inventory issues get resolved and lower seafood prices stimulate demand.

YoY growth of seafood export value by key products



Source: VASEP, RongViet Securities

US seafood retail sales growth by product (%)

Fresh seafood (YoY growth)	2019	2020	2021	2022	Q1 23	Q2 23	Jul 23	Value	Volume
Total fresh seafood	+4%	+26%	+4.2%	-8.1%	+0.2%	-2.3%	$483M	-4.8%	-2.0%
Salmon	+7%	+20%	+10%	+6.4%	+4.0%	-0.5%	$208M	-2.8%	-2.6%
Crab	+13%	+67%	-4%	-21.8%	+15.4%	+12.0%	$77M	+0.9%	+24.1%
Shrimp	-1%	+12%	+5%	-14.7%	-12.0%	-11.3%	$55M	-13.2%	-15.8%
Lobster	-3%	+57%	-2%	-17.7%	-7.3%	-9.8%	$23M	-12.6%	-5.1%
Catfish	+6%	+25%	-4%	-11.3%	+4.5%	-4.6%	$15M	-5.3%	-3.6%
Cod	0%	+7%	+4%	-3.8%	-14.8%	-14.7%	$13M	-14.6%	-13.5%

Source: IRI Worldwide, RongViet Securities

Assessing the outlook of raw material prices in 2H 2023

Factors	**Trend**		**Description**
	Pangasius	Shrimp	
Feed prices (1H 23)	↑	↑	Feed prices increased in Q1/23 before falling slightly in Q2/23.
Fingerling prices (1H 23)	↑	→	Fingerling prices at high levels in Q1/23.
New farming (1H 23)	→	↑	The new stocking production did not fluctuate much due to poor export prospects and high interest rates, putting pressure on farmers.
Inventory in ponds (now)	→	↓	Pangasius inventory is stable, while there is a shortage of raw shrimp due to weather affecting shrimp quality.
Conclusion: Raw material shortages may occur in 2H23, albeit not too serious, leading to moderate price hikes.			

Source: RongViet Securities

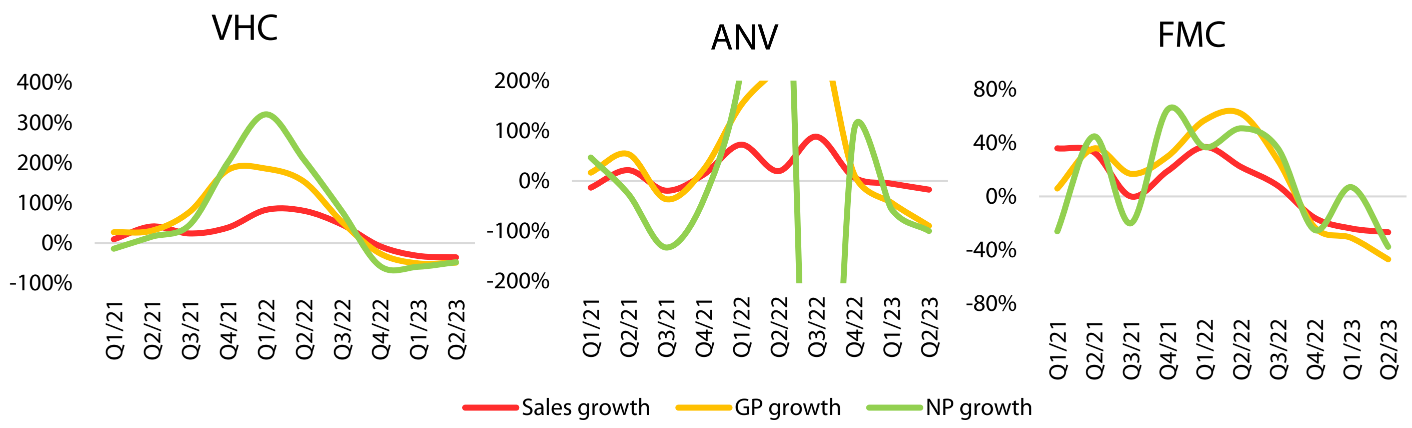
Assessing the outlook of export volume in 2H 2023

Factors	**Trend**		**Description**
	Pangasius	Shrimp	
Domestic supply	→	→	Take time to recover production
Competitors' supply	→	↓	Some countries reduce shrimp supply due to weather
Global demand	↑	↑	Import demand to rise following reduced inventory
Conclusion: Export volume is expected to improve compared to previous months.			

Source: RongViet Securities

- **In 2H2023, raw material prices are anticipated to rise.** The high farming costs experienced in 1H 2023 hindered the expansion of new farming areas, and adverse weather conditions negatively impacted the availability of raw materials.
- **Export volume is expected to gradually improve in 2H 2023**, driven by import recovery in the US and EU markets, while the Chinese market remains uncertain. Nevertheless, we note that US and EU agricultural authorities continue to impose strict controls on seafood imports, and demand remains relatively unsettled. Consequently, the recovery of seafood exports is expected to be gradual rather than sudden, unlike last year.
- **Selling prices are projected to rise slightly.** With a moderate increase in raw material prices, and retailers reducing output prices to stimulate consumer demand, we forecast that Vietnam's seafood export prices will have little incentive to increase sharply.

Financial performance of seafood companies (YoY growth)



Source: FiinPro, Rong Viet Securities

2H2023 export outlook of pangasius companies by market

	US	EU-UK	China	ASEAN	Japan
VHC	X	X	X		
ANV		X	X	X	
IDI		X	X		
FMC	X	X			X

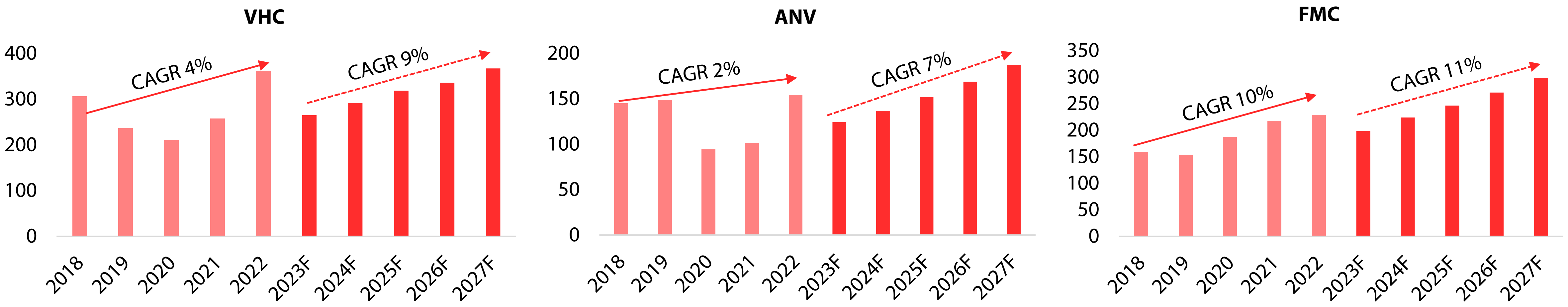
X: export revenue ≥ 10% company's revenue

Negative Neutral Positive

Source: Rong Viet Securities

- In the latter half of 2023, companies exporting heavily to the US, like VHC and FMC, will experience a robust recovery, while those exporting to Japan can maintain stability. However, exporting to China remains neutral as internal challenges, such as high unemployment and sluggish economy, keep purchasing power subdued.
- For seafood companies, Q2/2023 will likely be the lowest point in year-on-year NPAT growth. An improvement in quarterly profits is expected in 2H2023 due to the gradual recovery in seafood exports. The reduction in freight costs in 1H2023 has helped limit profit downward. This trend is expected to continue supporting bottom line throughout 2H2023.
- Despite some progress in 2H2023, overall growth for the year is expected to be negative, except for businesses that significantly cut costs and recover quickly (e.g., FMC). However, the outlook for 2024 appears brighter, with faster export recovery and a strong return of imports from the Chinese market.

Seafood export value forecast by companies in our coverage (USD mn)



Source: Rong Viet Securities

- The fishery industry typically operates in cycles lasting 3-5 years. Currently, we believe the industry is in a trough and entering a new cycle. During this period, our preferred approach for long-term holding is to invest in stocks with a P/E ratio below the 5-year average.
- However, we have observed that the stock price in 1H 2023 has surged due to investors' expectations of export recovery, without fully reflecting the actual business results of the companies so far. As a result, despite the industry's potential for recovery in the second half of the year, the current stock price has not adequately accounted for profit momentum. We recommend investors to reconsider the industry when there is a better discount available.

Financial performance forecast

	Sales growth (%)		NPAT growth (%)		P/E fwd (x)		Avg 5Y P/E (x)
	2023F	2024F	2023F	2024F	2023F	2024F	
VHC	-19.7	9.7	-39.5	25.6	11.3	9.0	7.6
FMC	-14.0	17.5	0.1	23.7	10.3	8.4	7.1

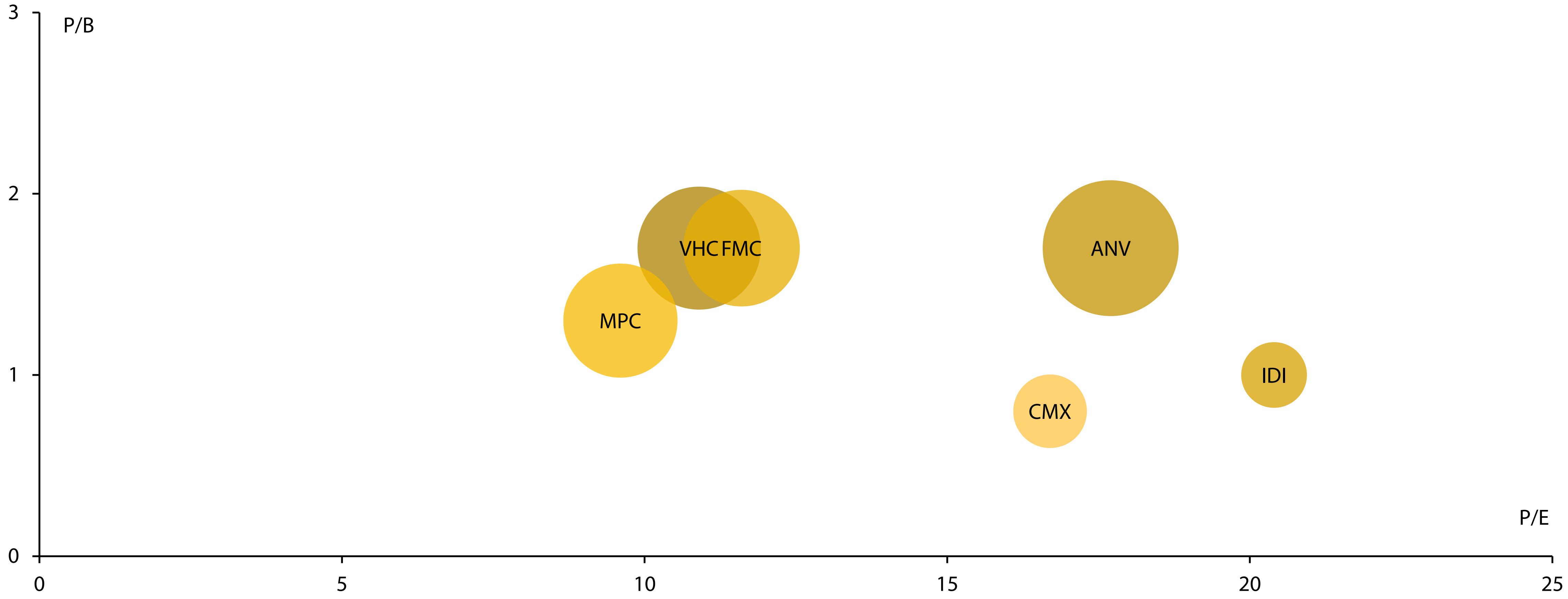
Source: Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap. ($mn)	Target price (VND)	Closing price (07/31/2022	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2023 's Profitability		P/E		P/B	
						2022A	2023F	2024F	2022A	2023F	2024F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
VHC	584	77,500	75,500	2,000	67.5	46.1	-24.8	16.2	70.8	-32.5	23.3	11.7	15.8	10.4	7.4	1.6	1.8
ANV	208	N.R	37,050	N.A	45.2	40.1	n.a	n.a	418.5	n.a	n.a	9.3	4.9	17.8	12.6	1.7	1.5
IDI	135	N.R	14,100	N.A	48.3	38.7	n.a	n.a	290.5	n.a	n.a	4.7	1.9	20.7	10.9	1.0	0.7
FMC	133	53,000	48,200	2,000	19.2	9.7	-14.0	17.5	12.8	-0.8	28.9	11.2	15.5	10.3	7.6	1.6	1.5
MPC	316	N.R	18,700	N.A	11.3	21.0	n.a	n.a	28.0	n.a	n.a	14.2	8.1	9.5	9.7	1.3	1.3
CMX	47	N.R	10,900	N.A	36.9	38.5	n.a	n.a	1.4	n.a	n.a	5.9	2.5	16.5	8.5	1.0	1.3

Source: Bloomberg, RongViet Securities. Data was updated as of 07 31th ,2023.
**For covered stocks: ROE, ROA, P/B, and P/E are estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

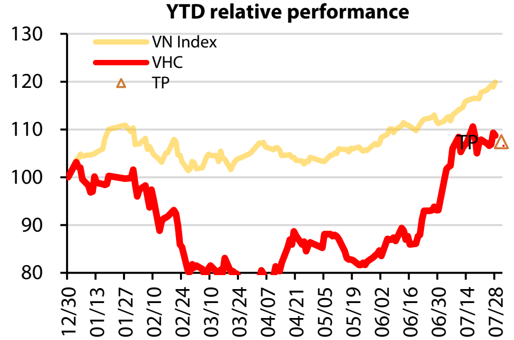


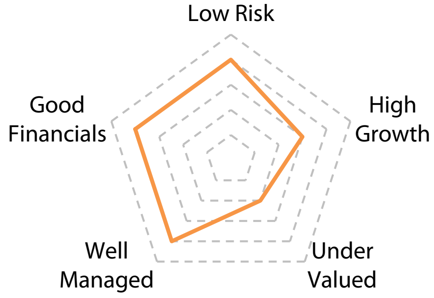
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 31 Jul 2023.

BRIGHTER OUTLOOK IN 2H 2023 DRIVEN BY THE RECOVERY OF THE US MARKET

HSX: VHC

ACCUMULATE: +7% **MP: 75,500** **TP: 79,000**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	589
Current Shares O/S (mn shares)	183
3M Avg. Volume (K)	723
3M Avg. Trading Value (VND Bn)	48
Remaining foreign room (%)	67.3
52-week range ('000 VND)	53.3 – 94.2

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	13,239	9,956	11,565
NPATMI (VND bn)	1,977	1,334	1,645
ROA (%)	17.1	11.7	12.9
ROE (%)	25.7	15.8	17.0
EPS (VND)	10,815	7,275	8,973
Book Value (VND)	41,968	46,023	52,708
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	6.5	10.2	8.2
P/B (x)	1.7	1.6	1.4

INVESTMENT RATIONALES

Leading position shields the company's results amid global macro headwinds

- In 1H 2023, VHC achieved VND 4,970 bn (USD 211 mn) in revenue and VND 631 bn in NPAT-MI (USD 27 mn), down 35% and 53% YoY on the high base last year. However, Q2/23 bottom line showed a notable QoQ improvement, with VND 2,723 bn (USD 116 mn) in net revenue (down 35% YoY and up 23% QoQ) and NPAT-MI of VND 412 bn (USD 17 mn) (down nearly 48% YoY but up 88% QoQ).
- The encouraging profit recovery in Q2 was mainly attributed to the improvement of selling prices in the US market, helping Q2 gross margin to reach 20.6% versus 17.2% in Q1. We believe that VHC's leading position in exporting pangasius allows the company to maintain orders and a more stable selling price than other companies in the same industry.
- A recovery is expected in 2H 2023, driven by the increase of orders from the US after several quarters of inventory handling and higher demand for pangasius products in festive season. For FY2023, we forecast net revenue and NPAT-MI to reach VND 9.9 tn (USD 423 mn) and VND 1.3 tn (USD 57 mn), down by 25% and 33% YoY, respectively. In FY2024, we also expect a stronger recovery of pangasius demand in China and lower farming costs due to declining feed prices, resulting in a 16% and 23% YoY increase in net revenue and net profit in FY2024, respectively.

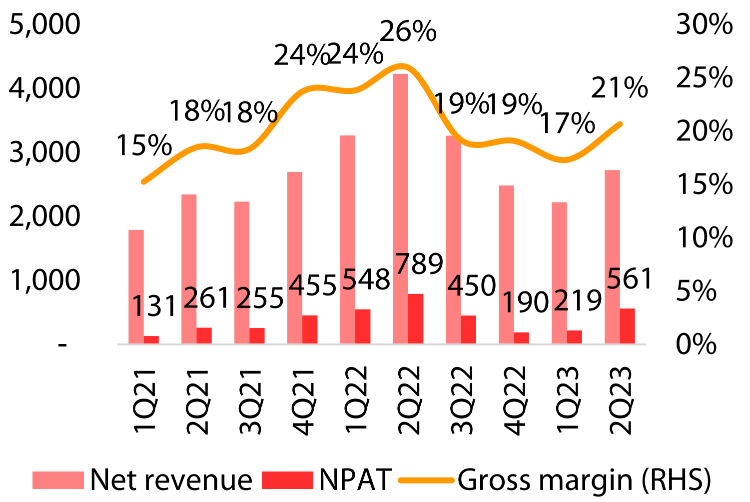
Aiming to complete the value chain and expand agricultural product line

- VHC completed the project of a fish hatchery and a feed factory in 2023, promising to help reduce production costs in the following years.
- Thanh Ngoc fruit processing factory starts commercialization in 2023, albeit low profit contribution, but will help the company gradually expand into segments with better and more stable profit margins.

RISKS TO OUR CALL

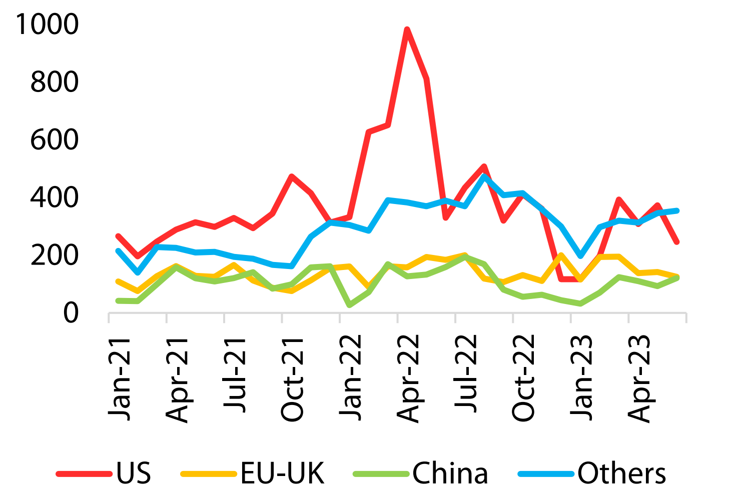
- Slower-than-expected export recovery due to persistently weak demand.

Earnings to recover in Q2/2023 (VND Bn)



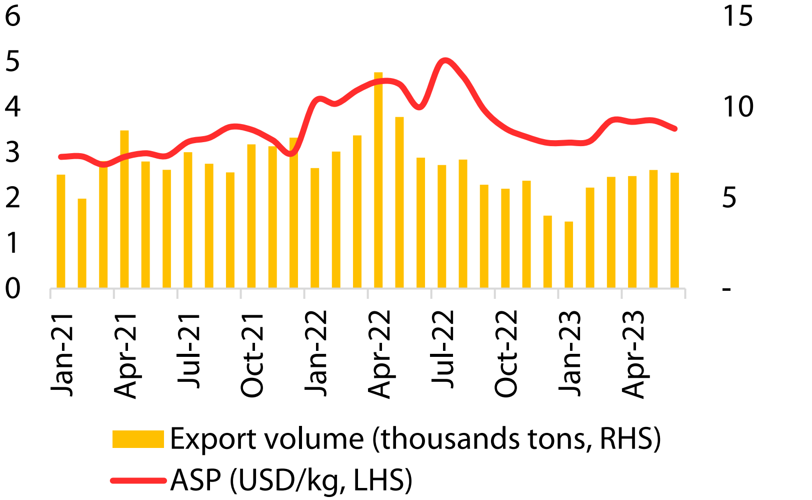
Source: VHC, RongViet Securities

US sales drops from high base (VND Bn)



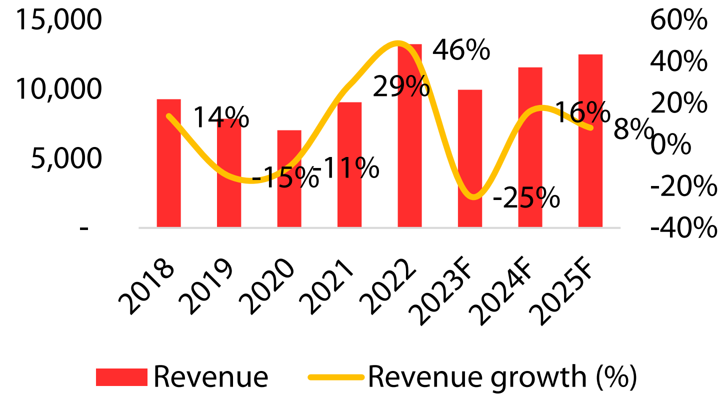
Source: RongViet Securities

Export volume and export price to recover slightly



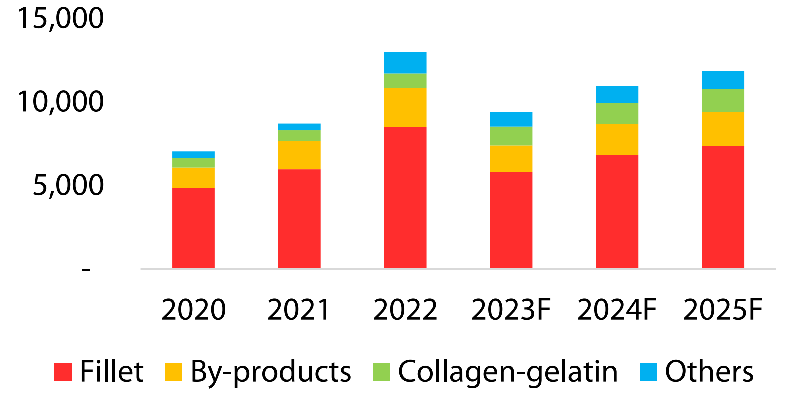
Source: Agromonitor, RongViet Securities

Revenue is expected to improve in FY2024, following demand recovery (VND bn)



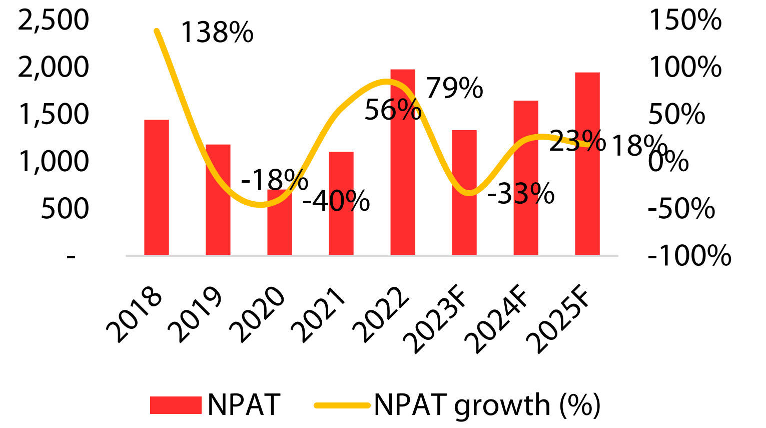
Source: RongViet Securities

C&G is increasingly contributing to consolidated revenue (VND bn)



Source: RongViet Securities

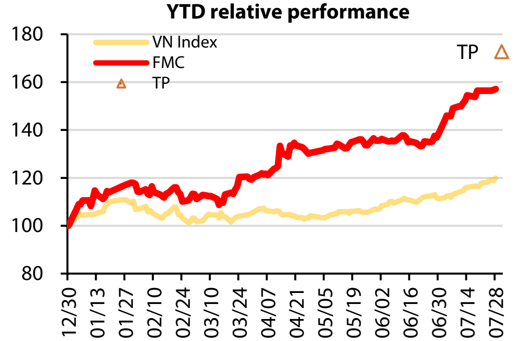
NPAT to improve faster driven by selling price recovery and lower material costs (VND bn)

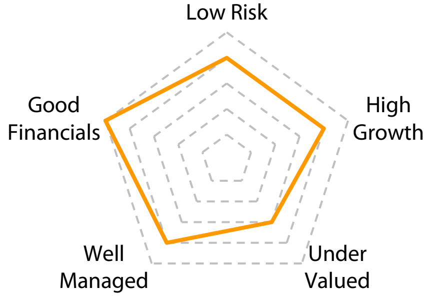


Source: RongViet Securities

NOTABLE EXPORT RECOVERY IN 2H 2023

ACCUMULATE: +10% **MP: 48,000** **TP: 53,000**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	133
Current Shares O/S (mn shares)	65
3M Avg. Volume (K)	58
3M Avg. Trading Value (VND Bn)	3
Remaining foreign room (%)	19.2
52-week range ('000 VND)	28.6 – 53.5

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	5,702	4,904	5,764
NPATMI (VND bn)	308	305	393
ROA (%)	10.3	11.2%	13.4%
ROE (%)	16.0	15.5%	19.1%
EPS (VND)	4,703	4,625	5,943
Book Value (VND)	29,400	30,209	31,383
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	6.8	10.4	8.1
P/B (x)	1.0	1.6	1.5

INVESTMENT RATIONALES

Export orders to recover in 2H 2023, signaling in June sales rebound

- In 1H 2023, both net revenue and NPAT dropped 26% YoY. Shrimp export volume and export price declined by 18% and 11% YoY respectively. Gross margin drop was offset by the narrow of logistics costs. However, revenue in June was up significantly from earlier months and equal to that of the same period last year.
- We expect that export outlook will be more positive in 2H 2023, driven by(1) a demand recovery from the US and EU markets, particularly to prepare for festive seasons; (2) a supply shortage from India and Ecuador due to bad weather, which has created an export opportunity for Vietnam. FY2023 net revenue and NPAT-MI are forecasted to reach VND 4,900 bn (or USD 208 mn, down by 14% YoY) and VND 305 bn (or USD 13 mn, down by 1% YoY), respectively.

Anticipating a strong growth in FY2024 following synergistic impact of new farming area and factories

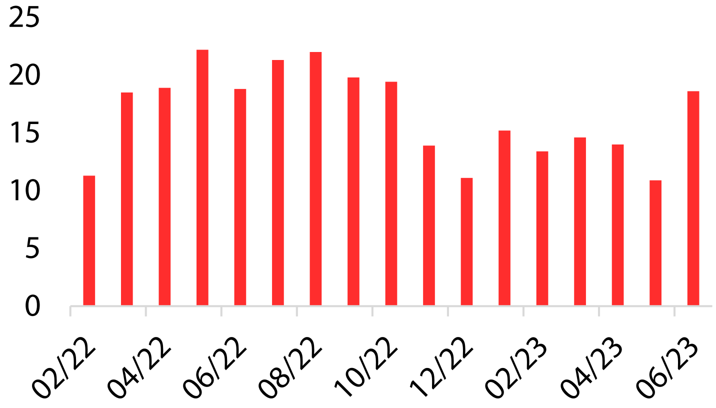
- The new factory is currently at 50% capacity and the new farming area is expected to start harvesting from Q4/2023.
- We expect strong growth in FY2024, building on the low base of 2023, driven by both demand recovery and an increase in farming areas which would reduce input costs. For FY2024, we forecast net revenue and NPAT-MI to reach VND 5,764 bn (or USD 245 mn, an increase of 18% YoY) and VND 393 bn (or USD 17 mn, up by 29% YoY), respectively.

RISKS TO OUR CALL

- Slower-than-expected export recovery due to persistently weak demand.
- Shrimp farming efficiency of 2H 2023 is higher/lower than planned.

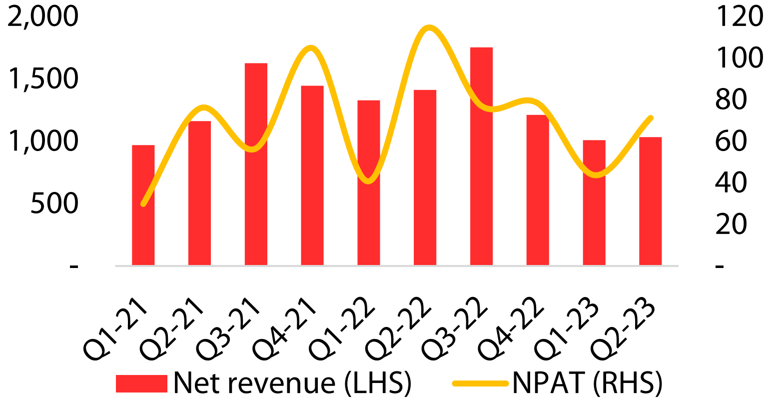
NOTABLE EXPORT RECOVERY IN 2H 2023

Jun-23 sales showed sign of recovery (USD mn)



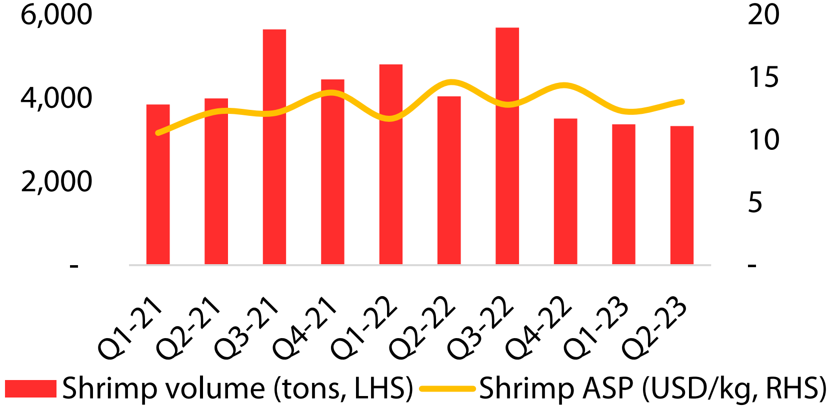
Source: FMC, RongViet Securities

1H2023 results were weak stemming from low demand (VND Bn)



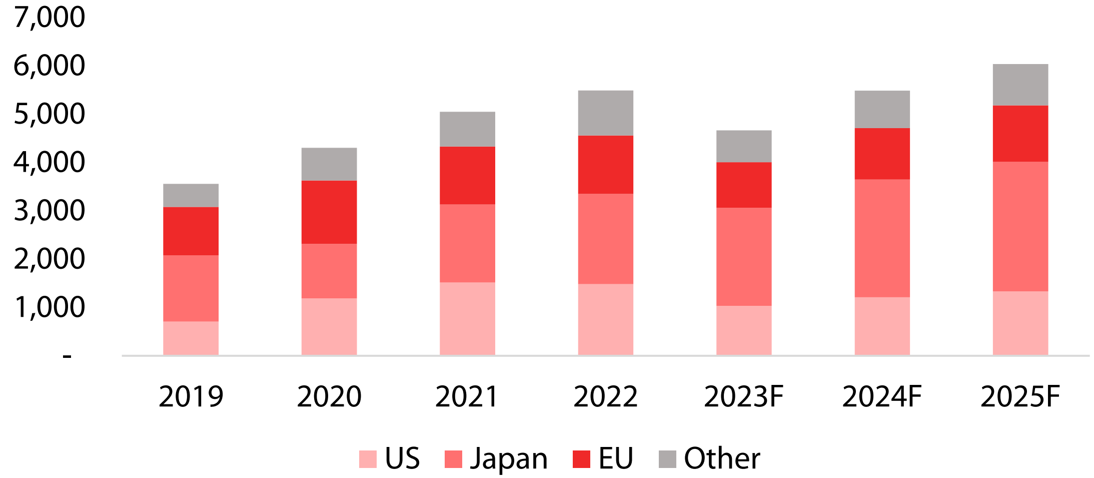
Source: FMC, RongViet Securities

Export volume was low while selling prices remained stable



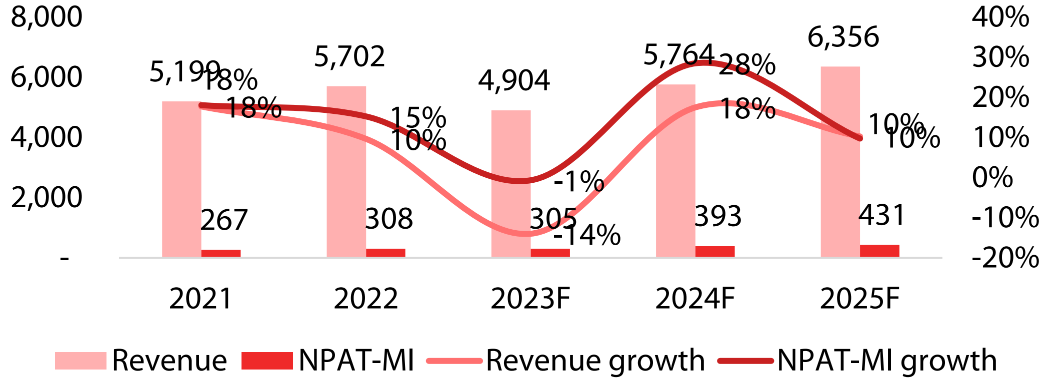
Source: FMC, RongViet Securities

Japan is increasingly contributing into total revenue (VND bn)



Source: RongViet Securities

New factory and new farming area to boost revenue and NPAT in the coming years (VND bn)



Source: RongViet Securities

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