

Seafood

Once in a rare deal

2022F lofty demand continues to bolster seafood export

In 2022, we forecast that the seafood export value could reach USD9.2bn (+5.4% yoy). The shrimp export could earn +10% yoy and pangasius could grow +25% yoy to USD4bn and USD2bn in 2022f. We believe that the keys driving the positive result of the seafood industry include (1) demand revival in US and China markets following post-pandemic economic recovery (2) the tariff preferences in EVFTA promoting seafood import in the EU market, and (3) the arising chance to replace Russian supply amid the import bans on Russian fishery products.

A bode-well outlook for export in coming years

The global consumption demand for fishery volumes could increase in 2020-30F by a 2.3% CAGR. At the same time, captured fish suffers some constraints and could drop by 10% by 2030 which blows a tailwind for aquaculture fish. Recognizing the prospered outlook, the Vietnam government eyes reinforce its leadership and strengthen the processing industry which is specified in the master plan of strategy development for Vietnam with a vision toward 2045. The validity of tariffs in FTAs sharpens the Vietnam fishery's competitive edges and that bolsters export growth.

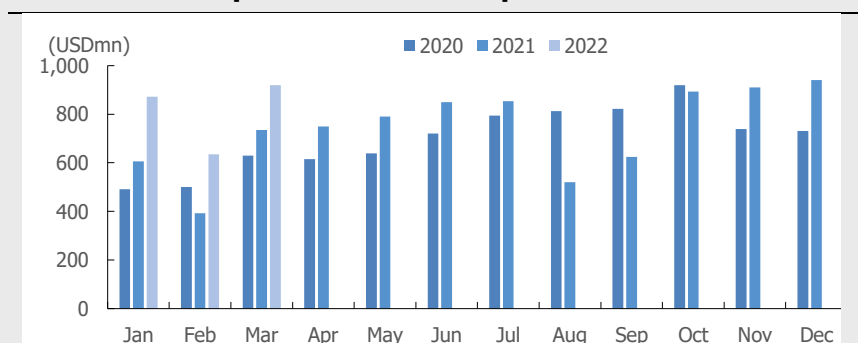
More integration is seen on the giant players

Listed exporters are drawn to source their main materials internally by aggressively investing in their own production lines in recent years. Especially, the pangasius exporters are more impulse to set up a self-sufficient system due to the strict reservation requirements of frozen pangasius to export globally. On the other hand, shrimp exporters have lower self-sufficiency in light of the huge capital outlay, costlier feedstock, and disease risk. Hence, pangasius producers could minimize the harm from abnormal raw material price rises.

Initiate sector; an Overweight over a 12-month horizon

We expect continued high export volume plus the fabulous selling prices especially for pangasius exporters to US and China markets. Our Overweight rating on Vietnam's seafood industry is based on the strong potential earnings growth for pangasius producers backed by the sustainable export demand. Hence, we like Vinhhoan (VHC) the most thanks to its solid exposure to the US market and sustained OPM since in-house materials could stamp out cost worries.

Brisk seafood export in 2020-22F despite the outbreak



Source: VASEP, KIS

Overweight

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What is the report about?

- Keys driving of positive seafood industry 2022F
- Vietnam seafood industry has keen relationship with US, EU and China markets
- Large seafood exporters boost on investing quality farming and closed system

I. Coverage projection and valuation

Table 1. Valuation of fishery exporters

Recommendation & TP			Earnings & Valuation										
Company			Sales (VND bn)	OP (VND bn)	NP (VND bn)	EPS (VND)	BPS (VND)	PE (x)	PB (x)	ROE (%)	EV/EBITDA (x)	DY (%)	
ANV	Recommendation	-	2018A	4,118	693	600	4,811	14,825	4.9	1.6	37.0	7.5	5.5
	TP (VND)	NA	2019A	4,481	805	704	5,542	18,769	3.6	1.1	33.3	5.6	5.1
	Price (Apr 14, VND)	41,000	2020A	3,439	243	202	1,591	18,359	15.2	1.3	8.6	4.1	7.5
	Mkt cap. (VND bn)	5,212	2021A	3,494	216	128	1,006	18,365	33.1	1.8	5.5	14.0	8.3
			2022F	5,650	804	572	4,272.0	-	9.6	-	19.6	16.5	6.0
FMC	Recommendation	-	2018A	3,807	217	180	4,133	15,622	5.2	1.4	29.0	6.2	6.4
	TP (VND)	NA	2019A	3,710	238	230	4,854	18,078	4.7	1.3	26.9	4.3	14.2
	Price (Apr 14, VND)	102,600	2020A	4,415	225	226	4,333	20,820	7.4	1.5	22.4	6.4	2.9
	Mkt cap. (VND bn)	18,668	2021A	5,199	265	267	3,907	27,252	13.3	1.9	18.7	9.2	3.6
			2022F	6,551	386	360	5,536.0	-	13.1	-	20.7	-	3.4
MPC	Recommendation	-	2018A	16,925	1,104	703	4,936	22,595	6.1	1.3	24.4	7.6	-
	TP (VND)	47,400	2019A	16,998	611	441	2,528	24,708	7.1	0.7	10.9	5.8	27.9
	Price (Apr 14, VND)	47,000	2020A	14,329	652	668	3,258	26,080	8.5	1.1	12.8	8.1	12.6
	Mkt cap. (VND bn)	9,399	2021A	13,578	715	642	3,058	26,789	13.8	1.6	11.6	12.2	4.7
			2022F	8,383	912	502	4,083.0	28,587.0	11.5	1.6	14.7	10.3	4.3

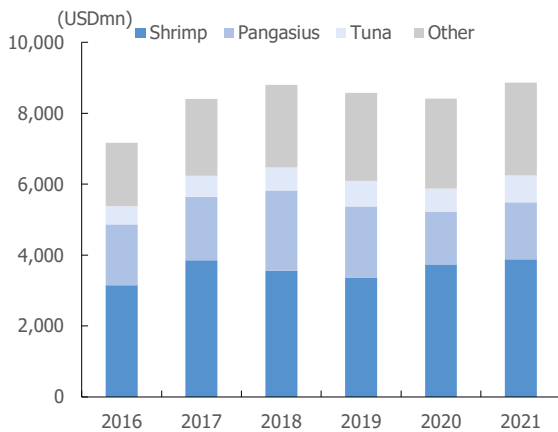
Source: Respective company data, Bloomberg

II. The headwinds is temporarily

1. COVID-19 soon forgotten

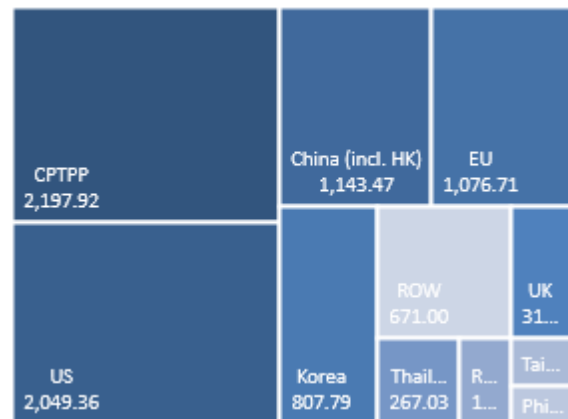
In 2021, despite the disruption of the domestic value chain of the seafood industry, the effective containment of pandemic, and high vaccination coverage in many markets revived the Vietnam fishery industry. The export turnover earned a USD8.9bn, +6% yoy, thanks to 1) re-opening the restaurant channel prompted importers to increase their stock, and 2) pent-up consumption demand is unmet in the potential markets.

Figure 1. Seafood export value +6% yoy in 2021



Source: VASEP, KISVN

Figure 2. US market is the largest export market



Source: VASEP, KISVN

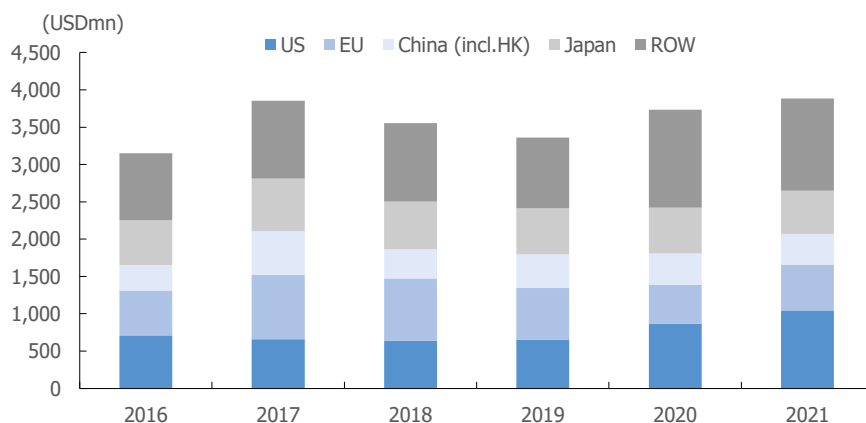
Shrimp increased by +4% yoy, assisted by the surge export in US market and EU markets in 2021. The largest market, US drove the total shrimp export to grow by +20% yoy to USD1,045mn, accounting for 27% of shrimp export value. EU market recorded USD613mn export value, +19% yoy. In particular, Holland, German and Belgium speeded up Vietnam shrimp export in EU market.

The spike in shrimp export value was driven by:

- The revival of US, and EU markets as well fast vaccination led to sharp increase in demand. Especially, the US, Canada, and EU was re-opening the restaurant channel, prompting importers to increase their stock.
- The pandemic in the main shrimp supplier countries as India and Indonesia slowed down the growth rate of shrimp export by 1% yoy despite high demand in US market. Therefore, Vietnam shrimp exporters gained some market share from main rivals in US and EU markets.

However, Japan, the second largest export market, reached USD578bn, -5% yoy since the serious spreading of pandemic lowered the demand in this market. Also, shrimp export to China sharply slipped by -22%yoy to USD412mn, due to 1) testing Covid-19 process caused the cancellation in entry and 2) the jump in shrimp domestic supply supported local consumption and therefore reducing rely on import from other country supplier.

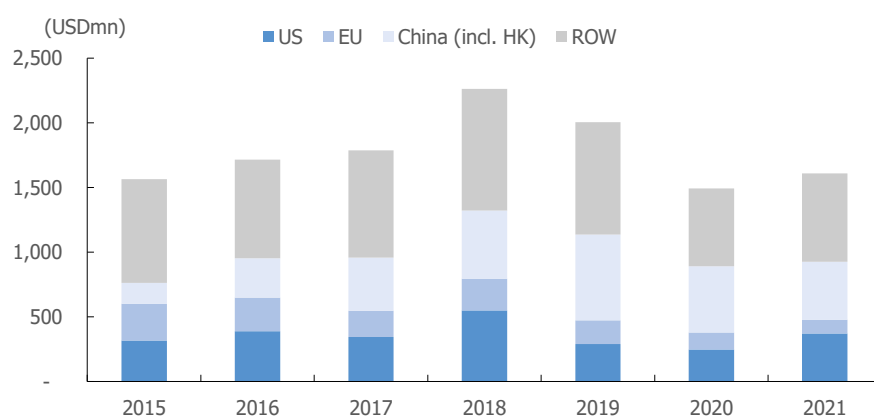
Figure 3. Shrimp export was resilient thanks to excellent recovery in US market



Source: VASEP

In 2021, pangasius recorded a growth rate of 8% yoy, backed by outstanding growth of US market. US market bolstered the total pangasius export to jump by +50% yoy (USD371mn) in 2021 and accounting for 23% of total pangasius value, since revival in US market pushes the volume to expand by 25% yoy and the rebound in pangasius average selling price of +18% yoy. Yet, export to China, the largest pangasius export market, decreases by -13% yoy in 2021 as the strictly testing Covid-19 process caused the cancellations in entry which compressed the volume by -29% yoy. The EU market also fell sharply by -30% yoy to USD44.4mn with export volume contraction by -22% yoy as the pangasius inventories were maintained abundant in 2019-2020.

Figure 4. Pangasius export jump was backed by the high demand in US market



Source: VASEP

2. 2022F strong demand continues to bolster export

In 2022f, we forecast that the seafood export value could reach USD9.2bn (+5.4% yoy). The shrimp export could accelerate by +10% yoy and pangasius export could expand by 25% yoy to USD4bn and USD2bn in 2022F. We believe that the keys driving the positive result of seafood industry includes:

High demand in US and China

Accordingly, the surge in US consumption could persist since (1) the economic keeps recover from Covid-19 (2) to control the potential high rise of inflation in 2022, they could impulse the essential seafood imports as pangasius and other whitefishes. We also expected that China might ease the “Zero-covid” policies that causing the bottleneck for import process in China market currently. Since then, after a year deceleration of pangasius and shrimp import, the lack of pangasius and shrimp inventory will be a key to drive seafood export surge in 2022.

The tariff preferences in FTAs promote seafood import in EU market

In 2022, the frozen shrimp and processed shrimp will be reduced to 2.5% and 18.7% tax from 5% and 22.5% tax in 2021, while frozen tuna and fillet tuna products will be reduced to 0% to 3.7% from 7.5% in 2021. This opportunity could support exporters expand market in EU.

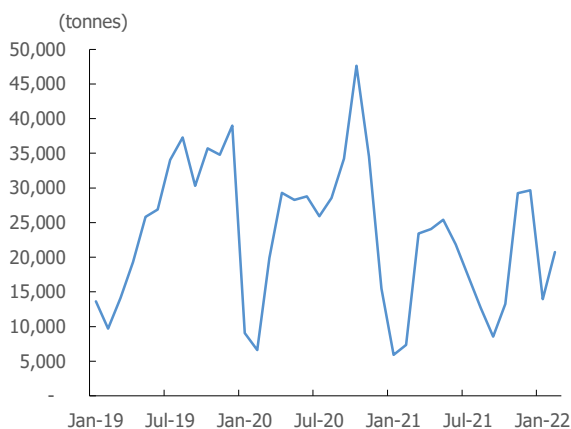
Benefit from reluctant Russia seafood export in many markets

For specific, in main market as US, imported directly Russian seafood is banned in 2022. Also, other Europe countries as UK implied 35% of imported Russian seafood products. It could make importers be afraid to buy Russian seafood products, even the indirect processed seafood imports from other countries having raw material from Russia having free tariff. Of which, Russia Pollock, accounting for 86% of total (directly or indirectly) imported in US market, could lose market and might benefit other substitute whitefishes, including pangasius.

Average selling price could sharply rise

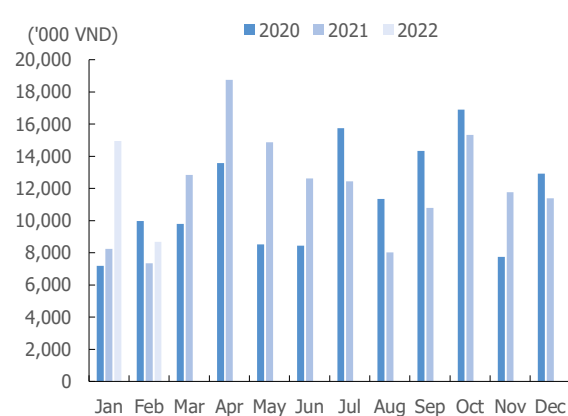
The 2021 uptrend ASP of pangasius continue to increase in 2M22 as +21% mom yoy since the raw pangasius supply shortage and high demand in main markets. We expect that ASP of pangasius keep at high level in 1H22 and +19% yoy to +25% yoy in 2022. Even the short supply of raw material also surges input price in 1H22, the large exporters has a large amount of inventory in lower input price level and the lower growth rate of input price compared to ASP at 17% yoy to 20% yoy.

Figure 5. Pangasius inventory might decrease as low importing in China market, 2021



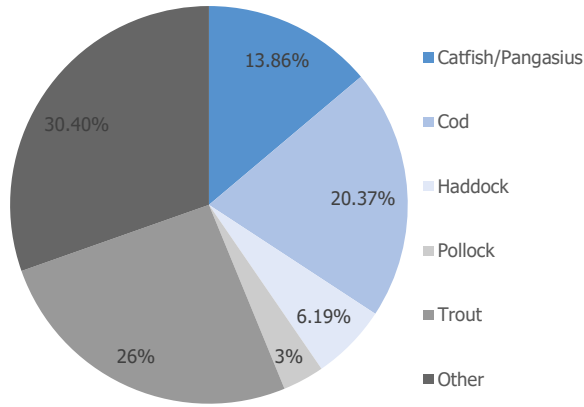
Source: Undercurrent Data

Figure 6. Tuna export value improved in EU market since effected EVFTA



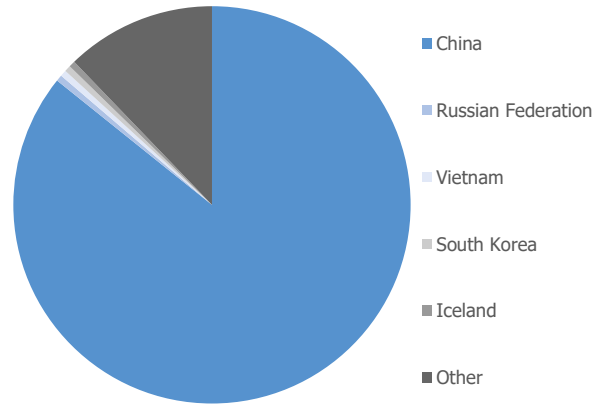
Source: VASEP, KISVN

Figure 7. Imported pollock products accounts about 3.3% of imported whitefish in US market



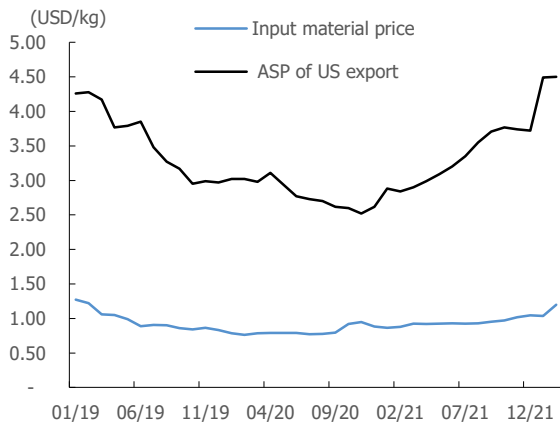
Source: NOAA, KISVN

Figure 8. Imported Chinese processed pollock mainly import raw pollock from Russia



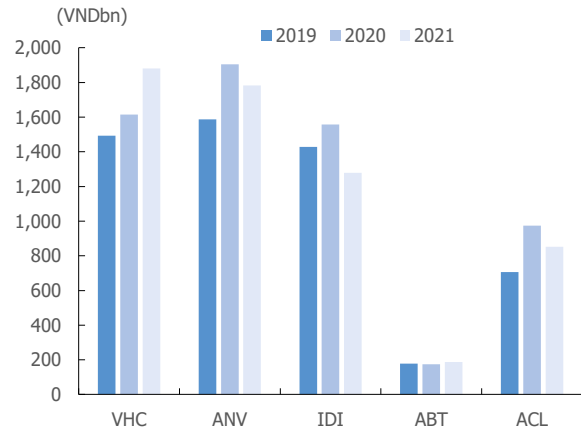
Source: NOAA, KISVN

Figure 9. ASP growth rate of pangasius would faster than growth rate of input price



Source: Undercurrent Data, KISVN

Figure 10. Listed pangasius exporters have large inventory in the end of 2021



Source: Company Data, KISVN

The Covid-19 and the current geopolitical instability of Russia-Ukraine caused chaos for global logistics

However, we considered the risks in 2022 as:

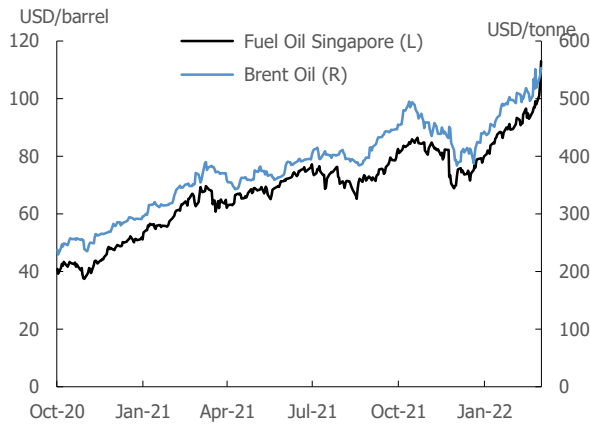
The unstable geopolitically conflict of Russia – Ukraine could rise up fuel price, as we expect to +50% yoy. It would increase or maintain high rate of freight cost, which might hurt the exporters with CIF products. Especially, for shrimp exporters, the logistic expense is hardly to transferred for ASP since ASP shrimp is higher than competitors as Ecuador, Indian and Indonesia.

Technical compliance to combat Illegal, Unreported and Unregulated Fishing (IUU) fishing

After 4 years of receiving yellow card warning to Vietnam for not cooperating and making enough efforts to combat IUU, directly decreased the quantity of seafood export to EU market by -3% CAGR from 2017-2021. In 2022, the government will boost the reasonable and effective solutions to quickly overcome the yellow card issue. By then, Vietnam could avoid the potential of receive the red card and enjoy tariff preferences, institutional change from EVFTA. If the implementation of recommendations does not change, it is difficult for the EC to remove the "yellow card" for Vietnamese seafood. Worse case may be assessed as uncooperative and will be applied "Red Card" measure. This means that Vietnam's seafood will be banned from exporting to the EU, causing a loss of about half a billion USD per year according to the Vietnamese

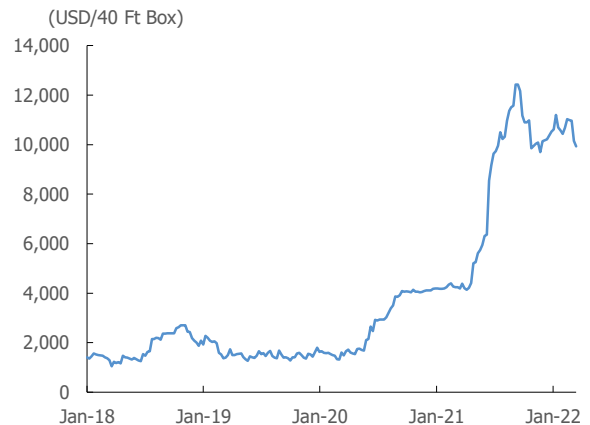
authorities. By then, not only EU, but so other markets may also apply similar measures.

Figure 11. Fuel oil increase sharply since the begin 2022



Source: Bloomberg, KISVN

Figure 12. Freight cost from Shanghai to LA have no signal to cool down



Source: Bloomberg, KISVN

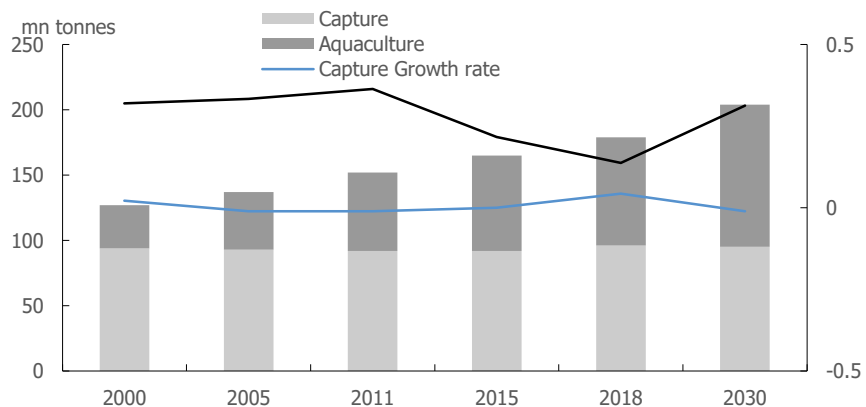
III. The potentials to speed up seafood in coming years

1. Sustained global demand for seafood consumption

High demand of consumption globally would increase fisheries volumes in 2020-2030.

According to The Food and Agriculture Organization (FAO) of United Nation, the global fish supply will increase by 32% in 2011-2030 to reach 204mn tonnes, equivalent to a +2.3% CAGR. At the same time, the Fish to 2030 represented that the captured fish is limited and reduce from 10% by 2030 and will be replace by aquaculture fish instead. Thereby, the aquaculture is forecasted to reach 109mn tonnes, increasing 32% compared to 2018 while capture reach 95mn tonnes, the same compared to 2018. Especially, the main products mainly driving the growth rate including tilapia, carp and pangasius and shrimp.

Figure 13. The world forecasted growth of capture and aquaculture in 2030

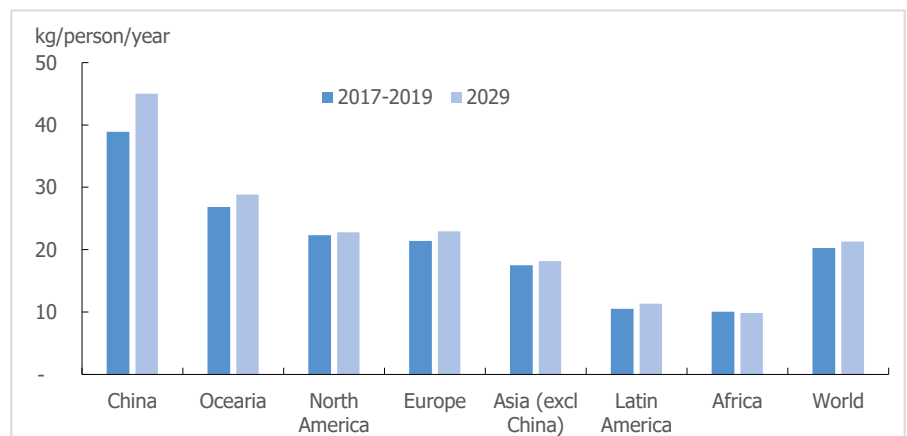


Source: FAO

The high consumption is promoted by the surges in income and population growth in markets.

Regarding World Bank (2021), the global population and the global GDP increase by 20.2% and 17.4% in 2010 – 2030, which is likely to spike the fish consumption level on average. Accordingly, the annual per capita fish consumption is projected to increase from 17.2kg to 18.2kg in 2010- 2030.

Figure 14. The world forecasted consumption growth of capture and aquaculture in 2017-2029



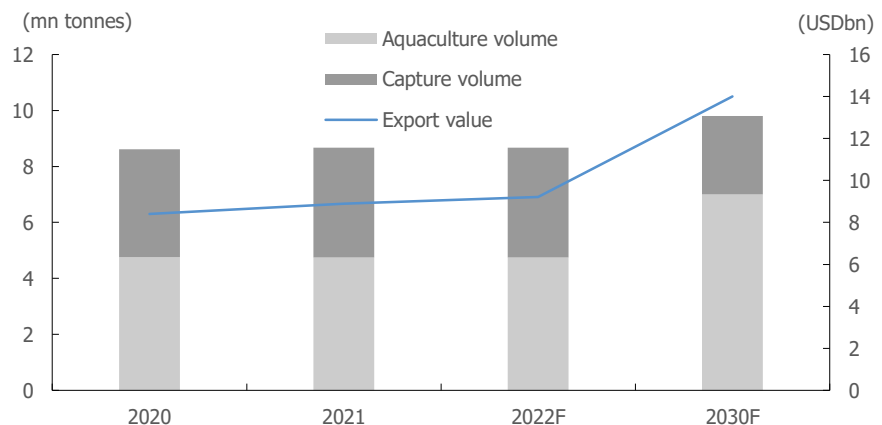
Source: FAO

2. Government vision to boost seafood as key sector

Recognizing the prospered potential growth of fishery consumption, Vietnam government eyes to maintain the leadership position in strategy development plan missioned till 2030.

Accordingly, the fishery products are expected to reach 9.8mn tonnes, contributed by 7mn tonnes of aquaculture production and 2.8mn tonnes of captured production. The export turnover aims to grow further to USD14bn in 2030 vs USD8.9bn in 2021. Even the volume CAGR is less than 1.5%, the exporting trade is much higher at 5.5%, almost flattish in 2011-2020. We are positive about this sustainable growth of volume given the fact that farming density is high. Resolution 50/2015 stipulates the main aquaculture species including black tiger shrimp, white leg shrimp and pangasius since 2019 and, Resolution 79/QĐ-TTg exploit development action plans in the shrimp industry to 2025.

Figure 15. The Vietnam government target by 2030F



Source: Resolution 1445/QĐ-TTg

It's a golden time for the government to switch to focus on a value-driven approach by raising the value per product

Since 2021, the Prime Minister issued Decision 1408/QĐ-TTg approving the development of the seafood processing industry over the next 10 years. In particular, a number of modern seafood processing corporations and enterprises, with deep integration of the global value chain and management level at a world-class standard. By then, the sustainable supply source will be surged by the farming facilities and the competitive shrimp aquaculture techniques.

3. Growth engine on export value is bolstered by FTAs

Till 2020, Vietnam had 14 effective Free Trading Agreements (FTAs with major partners including ASEAN (AFTA), China (by ACFTA), Korea (AKFTA and VKFTA), Australia and New Zealand (AANZFTA and CPTPP), Japan (VJEPA), Canada (CPTPP), EU (EVFTA) and UK (UKVFTA), etc., bringing the huge opportunities to speed up more export turnover and more competitive products. In 2020 (latest data), the seafood export turnover to countries having FTAs with Vietnam accounted up to 55% of shares. Of which, the total seafood exporters take advantage of tariff preferences under FTAs in 2020 accounting for 68%. We believe that the good advantage taken from the tariff reductions helps sharpen the Vietnam seafood's competitive edges in the foreign consumers' taste.

Table 2. Rate of taking advantage of FTA incentives

Partners	FTAs	Export turnover using preferential C/O		Export turnover		Rate of taking advantage of FTA incentives	
		2019	2020	2019	2020	2019	2020
ASEAN	AFTA	8.9	9.0	25.2	23.1	35.2	38.8
ASEAN, China	ACFTA	13.1	15.5	41.4	48.9	31.6	31.7
ASEAN, Korea	AKFTA VKFTA	9.8	10.0	19.7	19.1	49.8	52.1
ASEAN, Australia, New Zealand	AANZFTA	1.5	1.7	4.0	4.1	38.2	40.2
ASEAN, Japan	AJCEP VJEPA	7.8	7.3	20.4	19.3	38.1	37.9
Vietnam, Chile	VCFTA	0.6	0.7	0.9	1.0	67.7	65.5
Vietnam, India	AIFTA	4.3	3.7	6.7	5.2	65.1	70.0
Vietnam, Rusia, Belarus, Amenia, Kazakhstan, Kyrgyzstan	VN – EAEU FTA	0.8	0.9	2.7	3.1	31.0	29.6
Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan Singapore, Brunei, Malaysia	CPTPP	0.6	1.4	34.4	34.0	1.7	4.0
Vietnam EU	EVFTA		2.7		17.9		14.8
	Total	47.5	50.0	155.5	157.9	37.2	33.1

Source: MoIT, KISVN

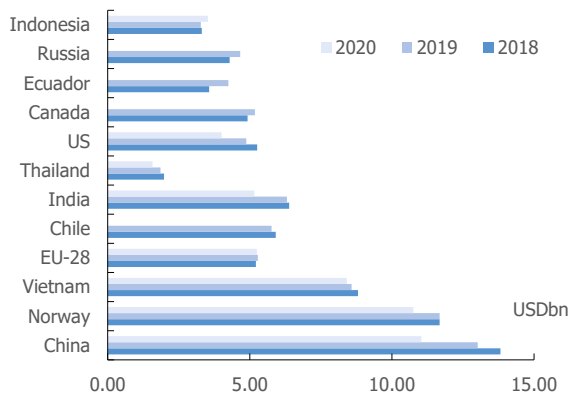
Making the most use of tax advantages of FTAs, the Vietnamese government is ramping up to expand the new generation FTAs such as the Regional Comprehensive Economic Partnership (RCEP), the EVFTA Agreement, and most recently signed UKVFTA between Vietnam and United Kingdom. These FTAs will be in no doubt to generate a new but huge consumption market for Vietnam's seafood export, contributing to enhancing the competitiveness of Vietnam.

IV. Firm footprint on seafood world map

1. The top three seafood exporting nations

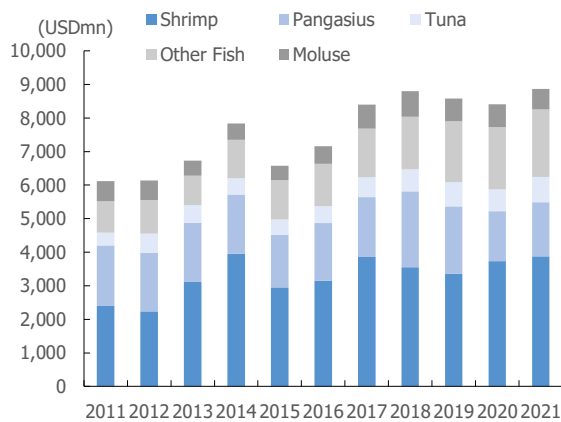
Vietnam's most important seafood product includes shrimp, pangasius, tuna and marine fish and 90% of them are going abroad. Excluding the intra-EU trade, Vietnam is the third largest exporter of fish and fishery products, lagging the China with USD20.8bn and Norway with USD11.9bn. In recent years, Vietnam sets a firm footprint the global seafood trade map with an average export turnover of USD8-9bn. The country has come a long way in its export industry, rising from annual seafood export value of USD6.1bn in 2011 to nearly USD8.9bn in 2021, equivalent to a 4% CAGR.

Figure 16. Vietnam leads export growth of fish and fishery products worldwide



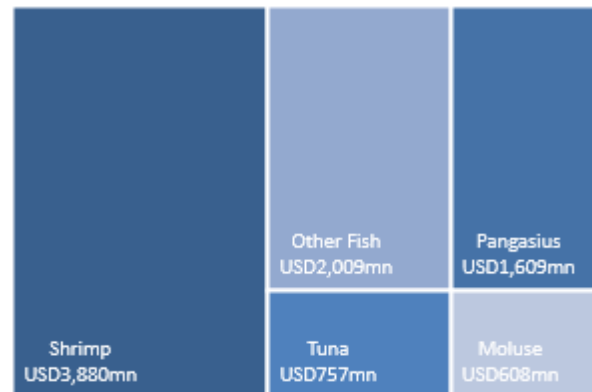
Source: Comtrade.un.org

Figure 18. 90% of Vietnam seafood is accepted worldwide, especially the shrimp and pangasius



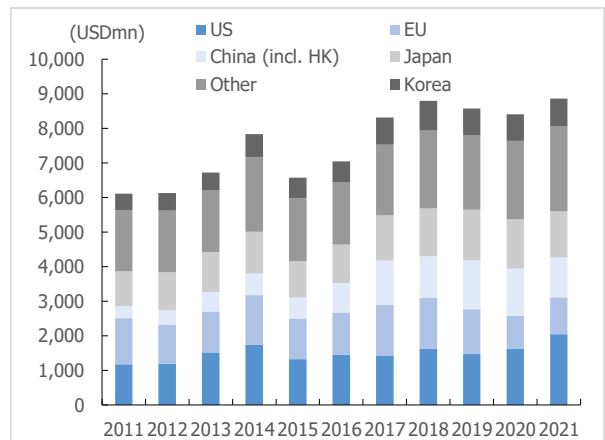
Source: VASEP

Figure 17. Vietnam seafood export products in 2021



Source: Comtrade.un.org

Figure 19. Vietnam sets up tightening relationship with importing partners in 2011-2021



Source: VASEP

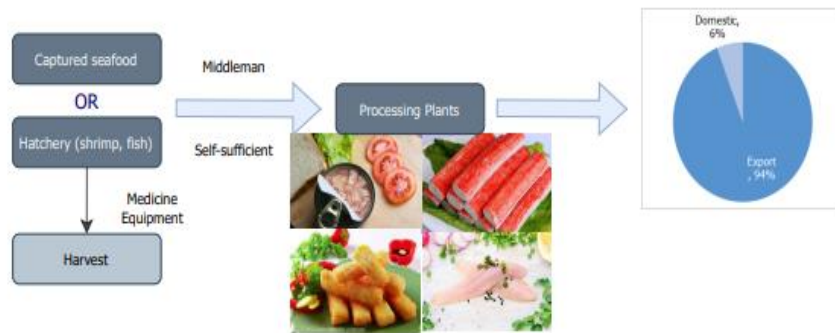
Nature advantages brings sustainable seafood sources.

Vietnam has a coastline spanning more than 3,000 kilometers – a fact which, unsurprisingly, contributes to its flourishing seafood exports. According to VASEP, The total yearly output pegged at 8.7mn tonnes in 2021 with 1% CAGR value in 1995-2020, contributed by 55% of aquaculture production (4.8mn tonnes) and 46% of captured fish (3.9mn tonnes)

Till 2020, the aquaculture area reached 1.3mn ha and 10,000,000 m3 of cage culture. However, the heart of seafood production lies in Vietnam’s Mekong Delta as the most important farming area, the home of nearly 80% of overall shrimp production and 90% of pangasius production. Besides production, Mekong Delta is also a vital processing hub and imports large volumes of head-on shell-on (HOSO) products from Ecuador and India that are processed into any different valued-added productions.

Mekong Delta remains an attractive source for seafood production thanks to many years of experience in production and processing, its excellent infrastructure between hatcheries, farms, and factories, high production outputs, skilled workforce.

Figure 20. The Vietnamese farm products in seafood industry

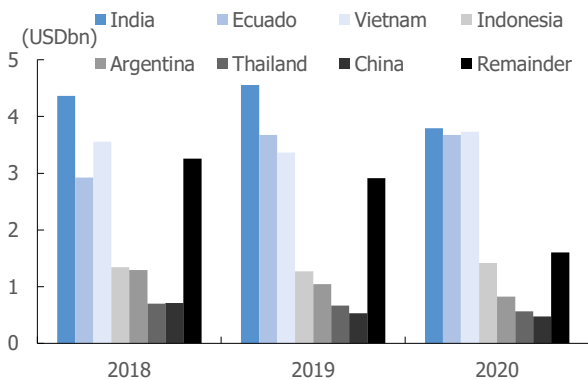


Source: KISVN

2. Vietnam maintain as top shrimp exporters for years

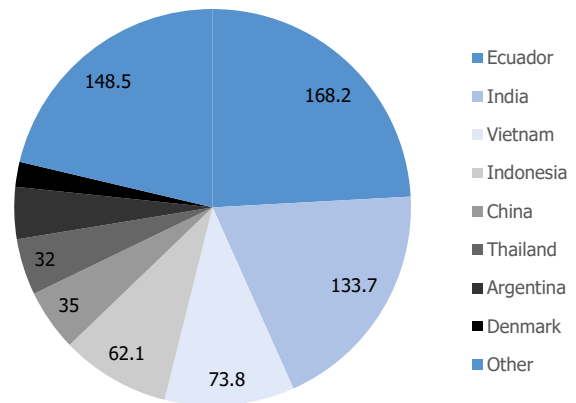
Vietnam is proud of the source of majority of internationally-traded many products. Among total seafood export value, shrimp is unarguably the most vital of the above thanks to its largest share of more than 44% in 2020 and the most stable export CAGR of 5% in 2011-2021. Vietnam shrimp farming industry generates billions of export dollar, made up about 11.8% market share (3M21 data) of shrimp exporting industry value in the world, and stated in top 3 of shrimp export industry in the world.

Figure 21. Vietnam is the top three powerful exporters of frozen seawater shrimps



Source: Comtrade.un.org

Figure 22. Vietnam placed top 3 of shrimp export by volume ('000 tonnes)



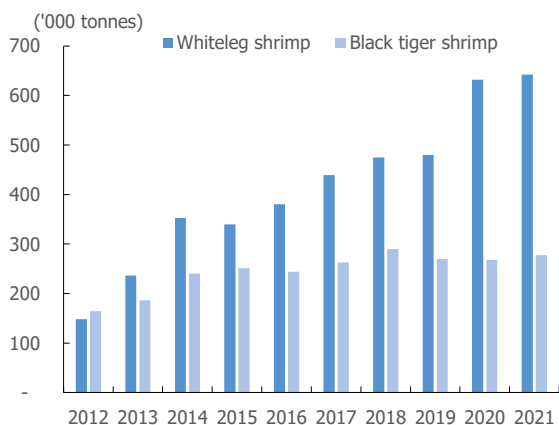
Source: FAO, KISVN

Whiteleg shrimp's economic value bases on the high density of harvest.

In Mekong Delta River, the shrimp farmed by the brackish water was popular with 600,000 ha farm area for black tiger shrimp and 80,000ha for whiteleg shrimp, concentrated in Ca Mau, Kien Giang, Soc Trang provinces.

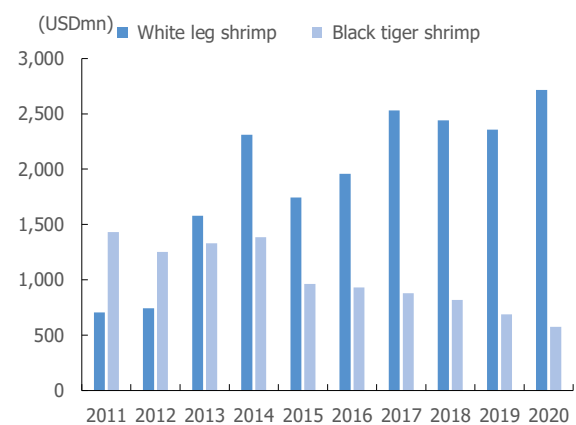
The farmed whiteleg shrimp area increases rapidly since the species introduced in 2004. Most farms apply intensive or super-intensive culture systems, which are relatively large scale and have a good infrastructure. The yield of productivity on average 11.7 tonnes/ha/cycle while black tiger shrimp has much lower productivity on average 0.-06 tonnes/ha/cycle (for intensive system), 0.8-1 tonnes/ha/cycle (for semi-intensive) and 2.4-6.5 tonnes/ha/cycle (for the intensive system). Thereby, the popularity of whiteleg shrimp for both supplier and consumers by their productivity and their cheaper price surging volume and value export by year, compared to black shrimp export. Since Vietnam pivots into intensive technology, which can give a great performance even with diseases, according to Robin McIntosh, executive vice president of Charoen Pokphand Foods. Thereby, the shrimp farming growth could be more sustainable compared to other competitors.

Figure 23. Whiteleg shrimp is key shrimp product harvest



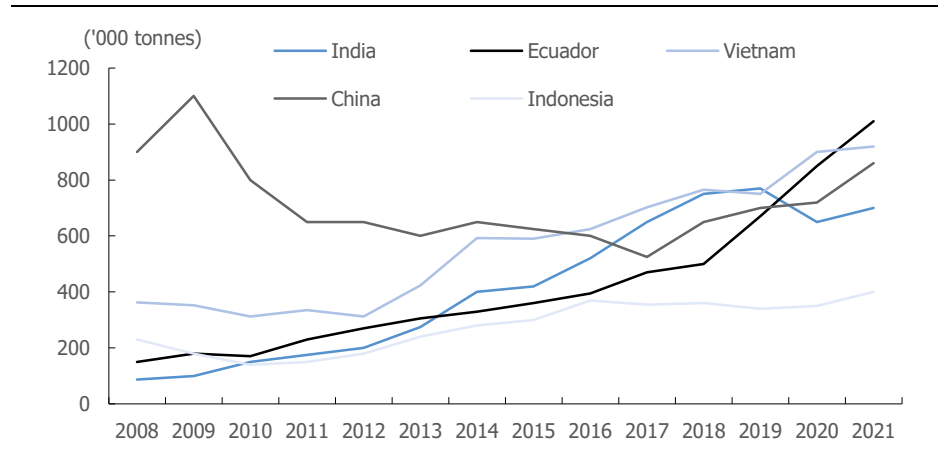
Source: VASEP, KIS

Figure 24. The total export value by shrimp species



Source: VASEP

Figure 25. Vietnam maintain the stable growth of farmed shrimp production



Source: VASEP, Undercurrent Data

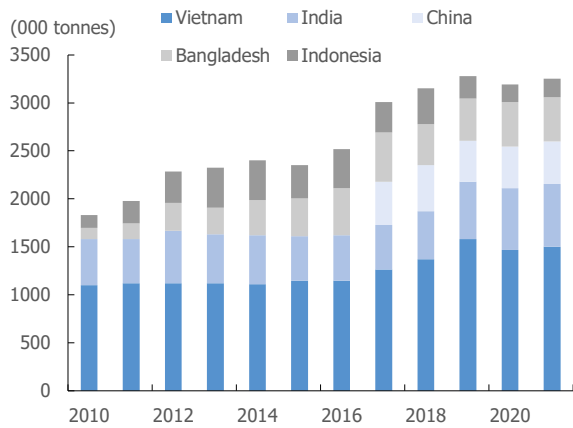
2. Pangasius production is on way to set reputation

Pangasius, known as “basa” and “river cobbler” in Europe, “catfish” in the US and “dory”, but cheap, boneless and versatile, this freshwater catfish has quietly become one of favorable consumed seafood species in many of nations. In a last five years, Vietnam maintains the top 1 pangasius producing in the world by accounting for 46% of volume. In 2021, pangasius accounts for 18% of Vietnam seafood export. Yet, pangasius export value was maintained of CAGR form 2015-2021, which mainly offset by the -1% CAGR of export value in EU market, while China market impressively increase pangasius import from Vietnam by +17% CAGR of export value.

The geographic is a huge gift for pangasius quality.

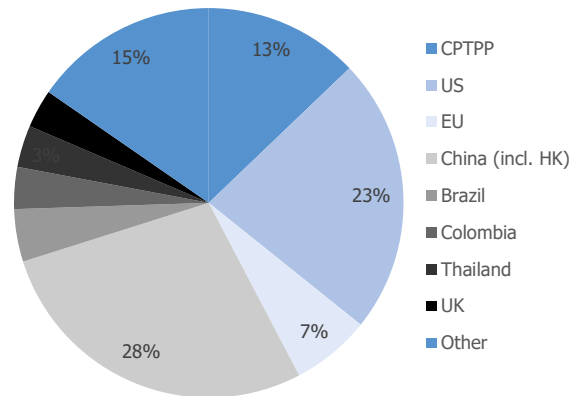
There is about 5,400ha used for farming pangasius, concentrated in Dong Thap, An Giang, Can Tho and Vinh Long, accounting for 75% of pangasius harvest as the upstream provinces of Hau and Tien rivers. The high levels of water exchange in these areas are supposed to ensure harvested fish possess white flesh, which makes pangasius meat position in the top of global white fish. Also, the experiment in aquaculture promotes the development of this sector, bringing a higher technique and higher profit margin compared to other countries. Pangasius in Vietnam farm could be stocked at very high densities as a short breeding cycle (6-9 months) and high level of survival at 80%. This yields approximately 250 tonnes of pangasius per harvest from 1 ha pond.

Figure 26. Vietnam account 46% of pangasius world harvest portion



Source: Comtrade.un.org

Figure 27. China market is the most favorable of pangasius export (2021 pangasius export value)



Source: FAO, KISVN

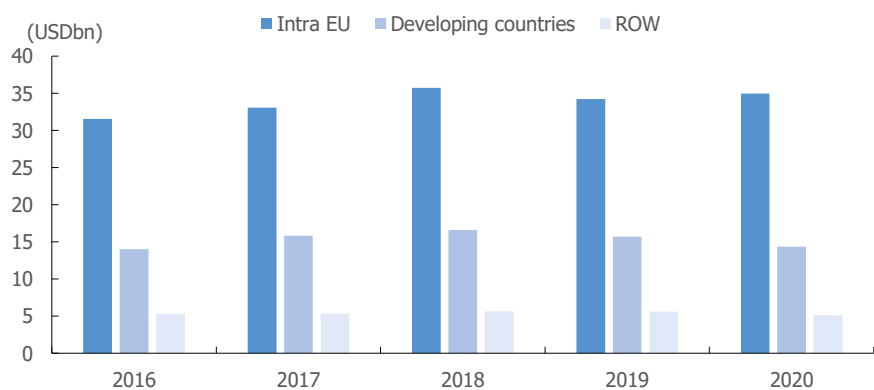
V. Giant export markets with ample room

1. EU market: EVFTA offers the most opportunities

1.1 The largest importer from developing countries

The European Union (EU) is the world's largest market for fishery and aquaculture products, with a total yearly value of extra-EU imports mounts around to USD22-19.8bn in 2018-2020. In 2020, Europe imported USD14.4bn of seafood from developing countries.

Figure 28. European imports remain stable despite pandemic



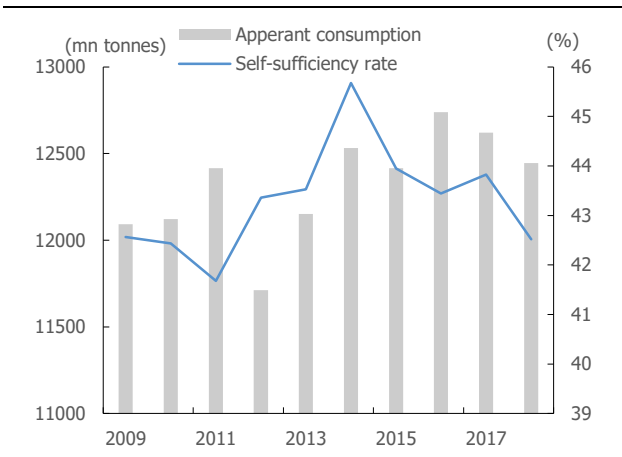
Source: eurostat

Reducing production amid rising demand push more on imports

The consumption of fish in the EU exceeded 24kg per capital in 2017. In terms of production, the EU-27 ranks sixth globally. The EU's self-sufficiency ratio of 43% in 2018, lower than 2017 of 45%. The decline was caused by the combined effect of the increased imports and decreased production of both aquaculture and fisheries. As the result, internal demand must be primarily met through imports, opening a huge opportunity for the developing countries or the rest of

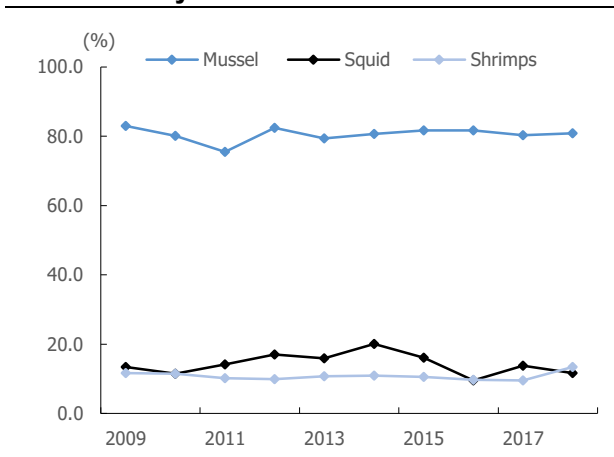
world. In the long term, self-sufficiency remained at almost the same level.

Figure 29. The EU self-sufficient rate fell by years



Source: Eurostat

Figure 30. Shrimp products are among the lowest self-sufficiency



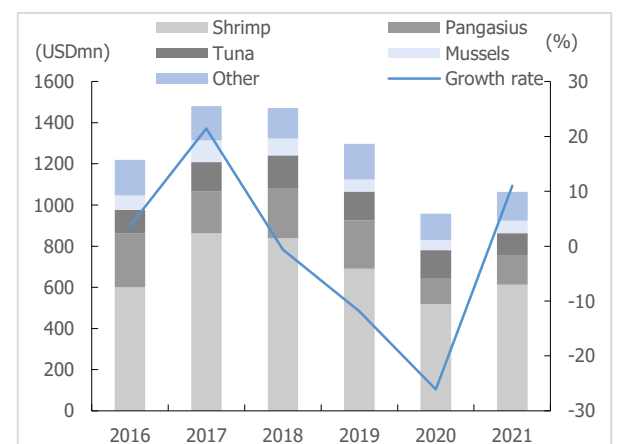
Source: Eurostat

1.2 Vietnam has been facing challenges in EU markets for years.

EU markets serve as one of the most importing partners of Vietnam seafood export turnover since 2000. Despite a potential consumption market of seafood, after peaking at USD1.4bn in 2017, Vietnam seafood exports to EU is trending downward since 1) the shrimp export value decreased 8% CAGR 2017-2021, and 2) the pangasius export value decelerated sharply by -15% CAGR 2017-2021.

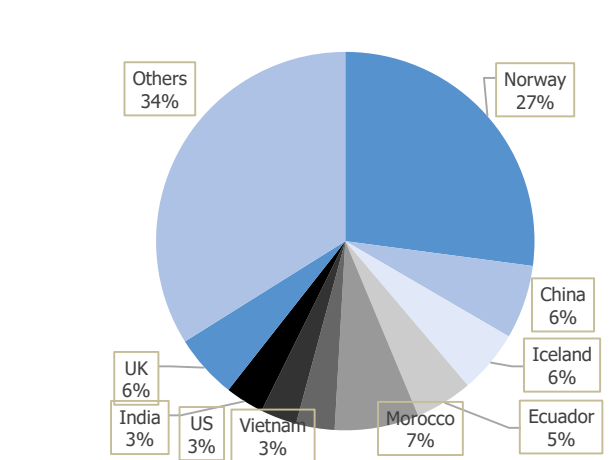
In 2019, the market share of Vietnam was around 3.3% of the total EU fishery import value. More than one-quarter of extra-EU imports originated from Norway. China was the second, but far behind, accounting for less than 10% of total, while Iceland, Ecuador, Morocco, Vietnam and the United States follow, each covering 5%. The European seafood market should not be mistaken for a single market but in fact it is made up of a diverse group of countries with separate and interrelated markets. Of which, Vietnam mainly import to German, Italy and Spain.

Figure 31. Vietnam has yet tapped into the EU-28 market since the exports keeps dropping



Source: VASEP

Figure 32. Vietnam could gain a higher market share since there's no dominant player except Norway



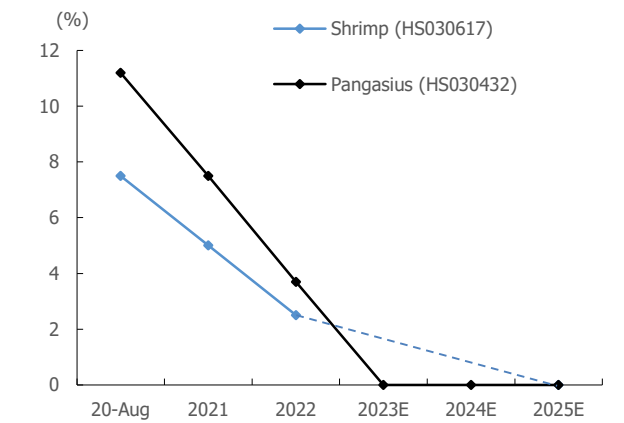
Source: Eurostat 6M21

1.3 The powerful advantages of reduced tariffs buoy Vietnam export

After years of negotiations, the European Union – Vietnam Free Trade Agreement (EVFTA) took effect on 1 August 2020. By then, EVFTA is the most comprehensive trade agreement the European Union has signed with a developing country in Asia and aims to liberalize tariff and non-tariff barriers for essential imports on both sides over ten years.

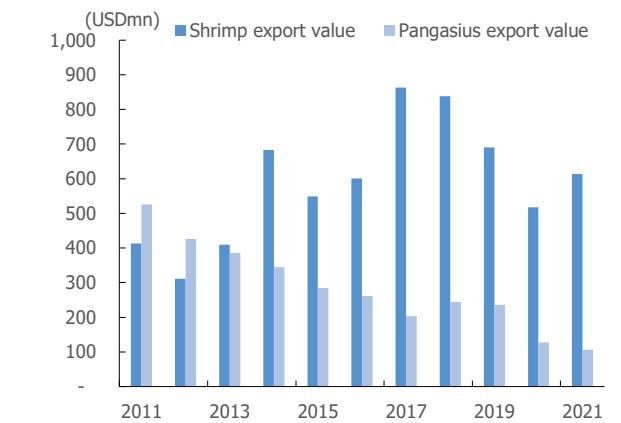
For the seafood trade, in particular, the EVFTA covers 220 products duty-free tariff rates immediately, including non-processed shrimps, pangasius, and tuna. Tuna canned products have a 0% tax quota of 11,500 tonnes. Frozen processed shrimp, pangasius, and tuna loin products will be fully liberalized in the next 5-7 years.

Figure 33. Pangasius and shrimp export supported by lower tariff



Source: MoIT, KISVN

Figure 34. Shrimp and pangasius export decelerated since 2017

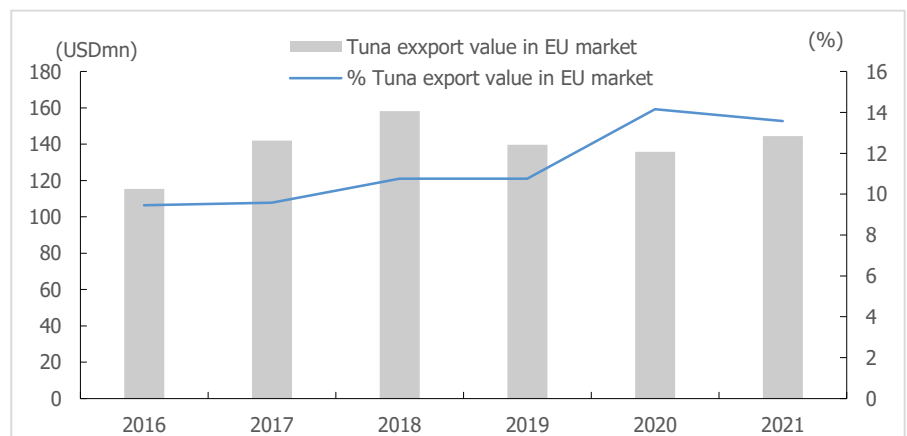


Source: VASEP

The tariff reduction attribution surged tuna export to the EU despite facing difficulties as exporting amid Covid-19 resurgence and the “yellow card” warning on IUU fishing.

Tuna recorded the strongly brisk to 6% yoy with USD144mn export value to EU market, gaining the 2nd largest export products to EU with 13.4% market share, passing over pangasius export with 10% in 2021. As the positive signals from tuna export, we expected that the tuna products will strengthen the advantage in EU market in 2022 and long-term prospects as the largest exporters of tuna as Thailand and China have not sign FTAs with EU.

Figure 35. Tuna export positively in 2021 assisted by agreement advantages

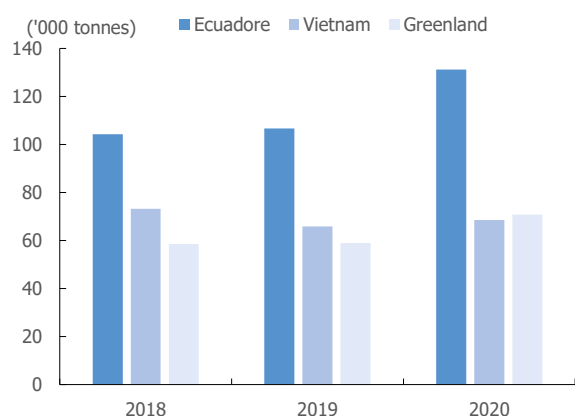


Source: eurostat

The tariff liberation brings fair chances for Vietnam shrimp in the keen competition in the future

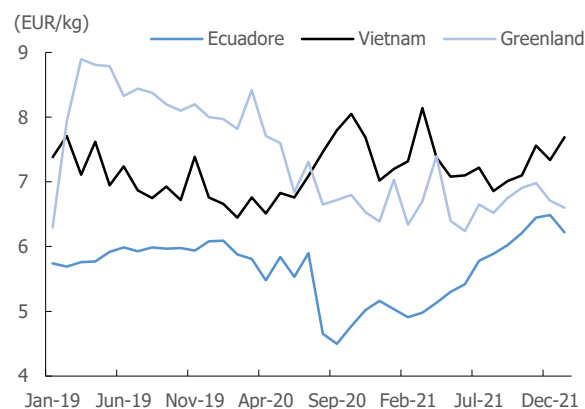
Shrimp products are maintained as the key product of EU import from Vietnam, accounting for more than 50% proportion of total export value to EU and 20% of total shrimp export of Vietnam. Yet, the shrimp export value to EU still recorded a decrease by years since the fall of shrimp price and the keen competition from giant players as Ecuador, Argentina and Morocco. Currently, Morocco and Ecuador were benefited by the duty-free tariff implementation to shrimp import in EU. With the EVFTA schedule path for the tariff of shrimp import as decrease to 0% in 3-5 years, there will be unclear affected EVFTA to Vietnam shrimp import in EU in near future but expected the positive outlook.

Figure 36. Ecuador is is largest shrimp export by years in EU



Source: FAO

Figure 37. The competitive selling price of imported shrimp in EU market

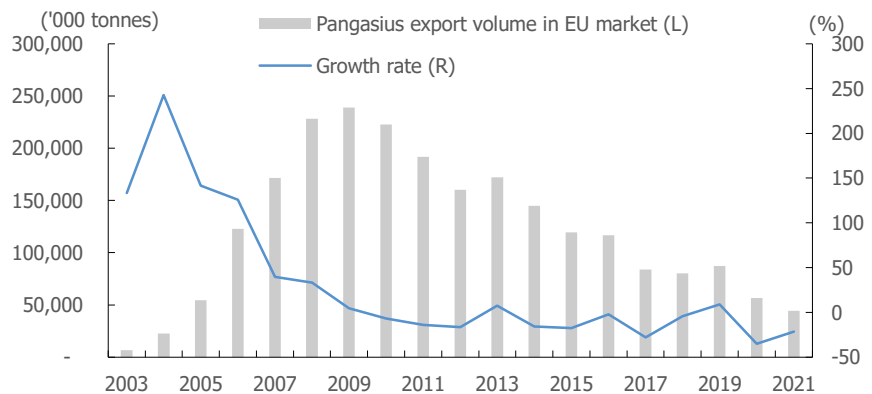


Source: Undercurrent Data

The high expectation for the pangasius reputation regaining in EU market after years.

From 2010-2017, Vietnamese pangasius received the negative impacts of social media and unfair claims a few times. In 2010, Vietnam pangasius was added into the red list of WWF, after that, it was removed from the red list of WWF and received the certification safety guarantee by WWF in 2011. In 2017, the pangasius again was claimed to involve unsafe aquaculture and environmental damages, then the claim was rejected by Aquaculture Stewardship Council (ASC). However, the damaged reputation of pangasius in EU slipped dramatically to the market share of pangasius. Thereby, EVFTA is an advantage for Vietnamese pangasius to gain the market shares as the reducing to 0% in next 2 years.

Figure 38. Pangasius export volume decelerated sharply since 2020 in EU market



Source: eurostat

Complying to EVFTA commitment to take fully advantage of tax reduction.

According to EVFTA, Vietnam seafood need to comply the strict rules of origin of products (Wholly obtained-WO) and increase the environmental requirement related to fishing as committed. Notably, the IUU combat commitment will affect directly Vietnam fisheries products and indirectly Vietnam aquaculture products.

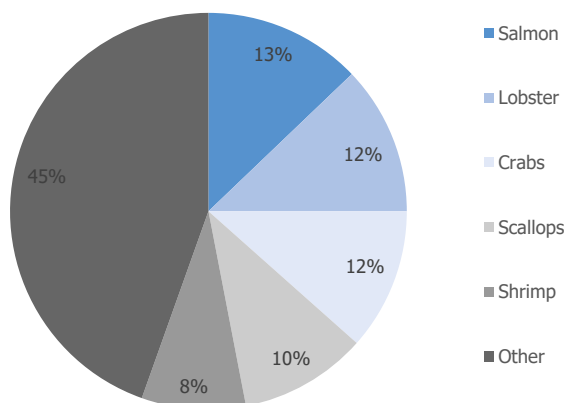
2. US: the lucrative market but uneasy to gain

2.1 The US aquaculture accounts only for 7% of volume annually

The US is at the forefront of the most important trends in the global seafood market. The US went from being the globe's fifth-largest fishing nation in 1990 to the fourth largest nation in 2020 with 4.7 million tonnes to as stable captured fisheries because of its geographic size with long coastlines. The US commercial fisherman was concentrated on high-value species.

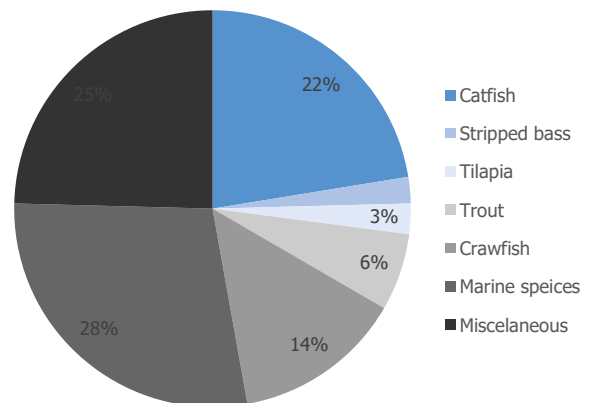
As the producer, the US did not take part in the aquaculture revolution since the tight regulations for environmental impacts, safety production, and the high regulatory costs. Accordingly, marine aquaculture mostly shellfish account for 20% of US production, while freshwater aquaculture mostly of catfish and trout, accounting for 70% of production.

Figure 39. The high value species account more than 50% of the US fisheries



Source:NOAA 2019, KISVN

Figure 40. Catfish/pangasius is most species farmed in US, 2018



Source: NOAA 2019, KISVN

2.2 The lucrative market for outside suppliers

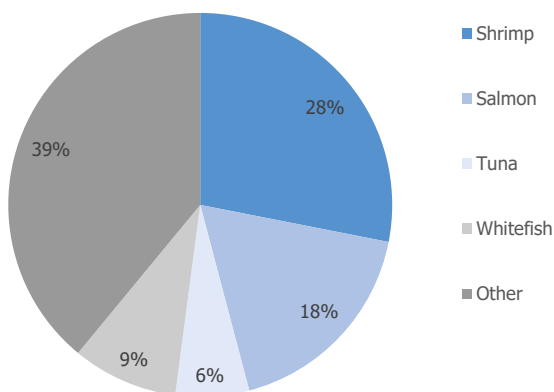
US seafood consumption strongly depends on import source

Under US law, the capture fisheries need to strictly assure that fish population stay above the certain level and keep harvest rate at level that allows the fish to produce its maximum sustainable yield by not overfishing. This target maintained the capture fisheries volume for years. The fact that aquaculture production is not significant in US and the unlikely to increase in landing wild-fish, thus any increase in consumption in US will be based on imports, accounting for 75% - 85% to supply for US consumption each year.

US consumption is dominated by five leading species

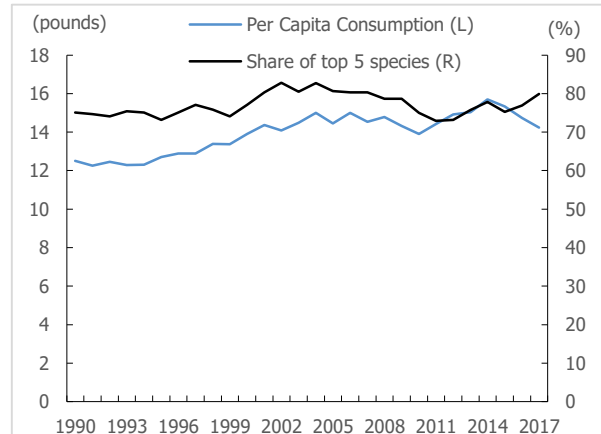
According to National Fisheries Institute, since 1990s, five leading species were canned tuna, cod, Alaska pollock, salmon and shrimp (wild fisheries) in US. Till 2017, the top five species significantly shift to aquaculture products including shrimp, salmon, canned tuna, catfish/pangasius and tilapia. Top 5 species share remained to donate the demand of US consumer for long time of period, made up 70% of total seafood consumption in 2017.

Figure 41. The top imported species values accounts for more than 50% in 2021



Source: NOAA, KIS

Figure 42. Per capita consumption of seafood and share of the top five species consumed, 1990-2017



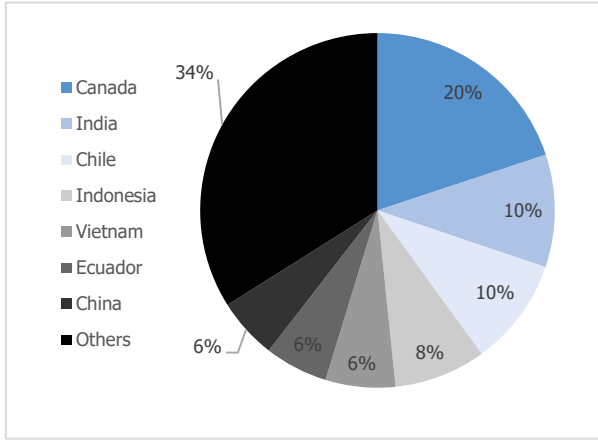
Source: National Fisheries Institution

2.3 But uneasy to gain market shares

The higher growth rate of seafood export by top suppliers than Vietnam's.

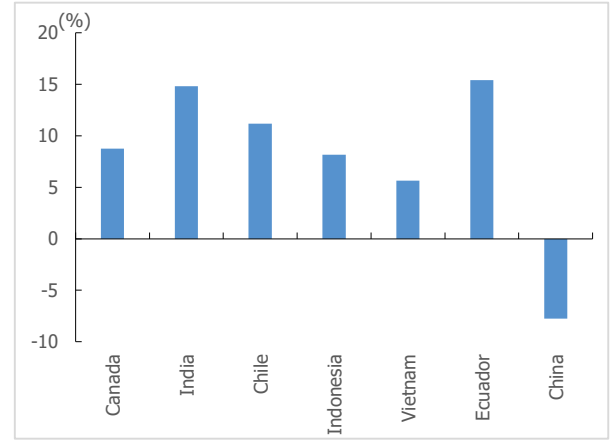
Vietnam is top 6 exporter in US seafood market with 6% of market share for 5 years. The value export maintains for 5 years (from 2015-2021), with 6% CAGR. Comparing the surge in growth rate of seafood import value to other competitors, especially to other developing countries as India (with 12.9% CAGR in 5 years), Indonesia (4.7%), Ecuador (2.5%) and Chile (9%), Vietnam stays at the low growth rate. This will make Vietnam fall behind other giants and, in a danger that being pushed ahead by another exporter such as Ecuador.

Figure 40. Vietnam ranked 6th in tough race for US suppliers



Source: NOAA, KISVN

Figure 41. 2016-2021 CAGR of export value

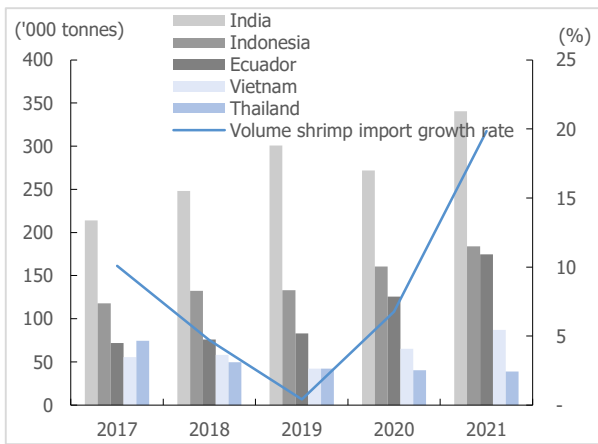


Source: NOAA, KISVN

Shrimp, was mainly supplied by Vietnam and other giant competitors

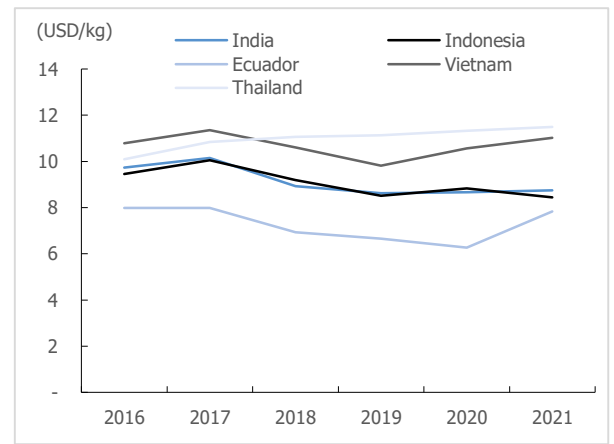
As the high demand of shrimp consumption, suppliers radically exploit the US market. Vietnam currently ranked 4 of shrimp import in US market, as Vietnam diversified the species on also aquaculture supply chain, and on countries export. While India is a world's top shrimp exporter in US shrimp market for a long time, exported 95% shrimp species out of total Indian export to US, also impressively surged of CAGR of shrimp value by 13% in 5 years. Indonesia with the ambitious goal to develop the shrimp aquaculture value-add chain in the long-term, also making this country has a sustainable supply source for US market. Ecuador also takes advantage of high demand, geography and concentration of 70% Ecuadorian import product in US is shrimp species. Also, the surge of shrimp export of Top 2 countries includes Indian (+13% of CAGR of value in 5 years), Indonesia (+5%) and Ecuador (+4%), making them barely to be pushed ahead by Vietnam as recording +1% CAGR of value in 5 years.

Figure 42. The shrimp industry is aggressively competitive for suppliers to



Source: NOAA, KISVN

Figure 43. Vietnam does not have competitive price compared to other players



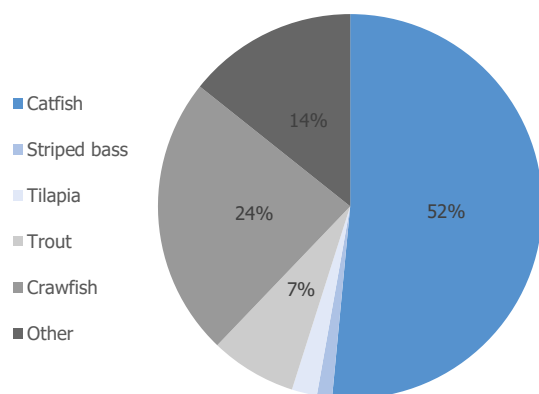
Source: NOAA, KISVN

As the high consumption products of the US, pangasius/catfish is top 3 of whitefish import, after Tilapia (Top 1) and Cod (Top 2). Vietnam dominated catfish import in US as accounting for 90% of catfish import into US under Pangasius name. Thereby, Vietnam is not under import competitors' pressure.

Yet, Vietnam pangasius faces the challenge of protectionism

As above, US aquaculture focus on catfish products as freshwater species. In particular, Vietnam pangasius was the most closely competitive with domestic catfish as same taste and same genre. In 2002, Vietnam pangasius was promoted to belong in catfish group. With low price advantage, pangasius speeded up to expand in traditional market in US. Therefore, Catfish Farmers Association of America (CFA) sued to not call pangasius as catfish. Meanwhile, pangasius without catfish brand kept growing the market share in US market. Under the tough competitive, CFA pressed the Department of Commerce (DOC) to impose anti-dumping tax on Vietnam pangasius. Therefore, DOC each year will review that whether certain procedures and exporters of pangasius at prices below normal value during the period of review (POR). The anti-dumping tax heavily impacted on the import activities and pangasius value-add chain. Influenced by the US anti-dumping tax investigation, Vietnam loosed the low-price advantage, also being caution to diversified products and other markets.

Figure 44. Domestic catfish is a key product to US farming, 2018

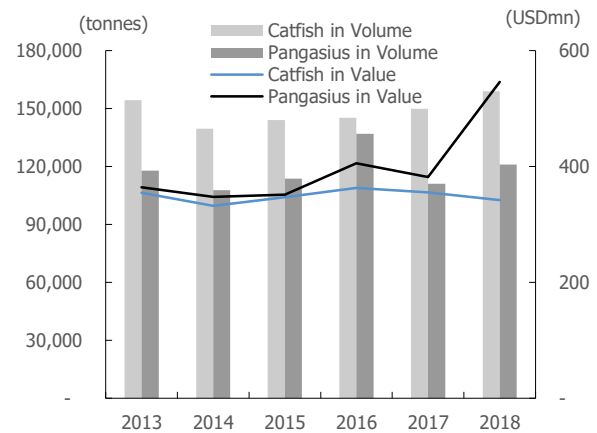


Source: National Fisheries Institution

Yet, Vietnam pangasius has persuaded the position in US market

Vietnam pangasius has persuaded the position in US market as the DOC review loosens 2 more exporters as 4 exporters at free anti-dumping tax. Accordingly, anti-dumping duty is at USD0/kg for Vinh Hoan (VHC), NAVICO (ANV), Van Duc Tien Giang (implied in 2022) and NTFS SEAFOOD (implied in 2022). While the nationwide level of anti-dumping tax reaches USD2.39/kg. As Vietnam pangasius exporters faced the uncertainty of anti-dumping tariff in the US for many years, more exporters to enjoy zero anti-dumping tax could impact positively to Vietnam pangasius industry.

Figure 45. Vietnam pangasius was competitive with US catfish in US market



Source: National Fisheries Institution

Table 3. Positive anti-dumping decision for pangasius exporters

(USD/kg)

Period of review	Reviewed Year	Imposed Year	Nationwide	VHC	Bien Dong	ANV	NTSF
POR 10	2012-2013	2015	2.39	0.00	0.19	0.97	0.97
POR 11	2013-2014	2016	2.39	0.00	0.19	0.69	0.69
POR 12	2014-2015	2017	2.39	0.00	0.19	0.69	0.69
POR 13	2015-2016	2018	2.39	0.00	0.19	0.69	3.87
POR 14	2016-2017	2019	2.39	0.00	0.19	0.69	1.37
POR 15	2017-2018	2020	2.39	0.00	0.19	0.69	0.15
POR 16	2018-2019	2021	2.39	0.00	0.19	0.00	0.15
POR 17	2019-2020	2022	2.39	0.00	2.39	0.00	0.00

Source: US DOC, KISVN

3. China: After haze of pandemic

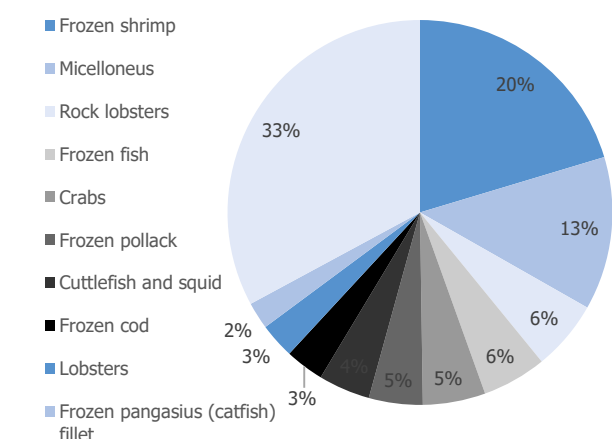
3.1 China became the second largest single-country importing seafood

China was the largest producer of wild caught and aquaculture, record 64.5 in volume in 2019, basically unchanged for years, serving 93% of self-sufficient and 7% of export. Of which, aquaculture mainly produce with 60% is farming freshwater and 40% is cultured ocean.

While being a largest production of seafood, China was a giant importer of seafood after EU, recording US\$12.7bn in 2020. Accordingly, Russia remains China's largest seafood supplier, followed by Ecuador, India, Canada, and Vietnam, all four of which gained substantial market shares in recent years.

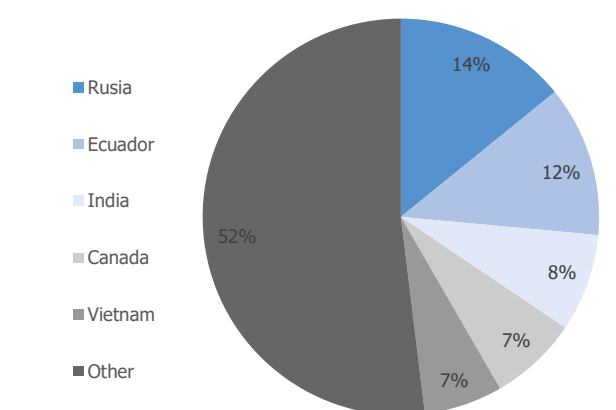
China is the world's leading shrimp importer. China imports shrimp from Ecuador, India, Argentina, Vietnam, Saudi Arabia, Thailand, and Canada. Especially, Covid-19 hit the hardest impact on China, led to the dramatic drop of seafood import by 20% yoy and remain cautiously import in 2021 since 1) China seriously tighten import by suspending any seafood load that tested positives for virus in packages 2) the outbreak in top biggest ports in China congest many containers for long time and 3) the congestion in container and comparative high import restricted or suspended seafood import from several Asian countries, including India.

Figure 46. Shrimp is most import seafood products, 2020



Source: Canada agriculture

Figure 47. Vietnam is top 5 suppliers in China seafood market



Source: Trade Data Monitor

3.2 The market is promising

Chinese seafood consumption has surged by 50% over the past decade, while demand for shrimp is estimated to have doubled between 2005 and 2015. In long-term, the massive population, rapid urbanization, and the Government's enforcement of environmental protection measures in the aquaculture industry are factors driving the increase of seafood import in China market.

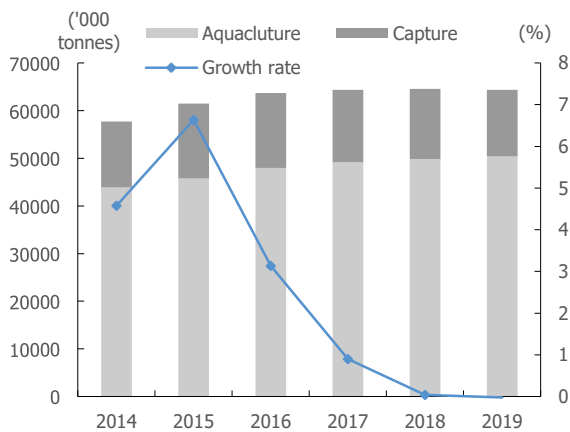
Rapid urbanization will encourage the consumer's seafood products.

As 1980, less than 20% of China population lived in cities but currently, more than 50% of population lives in urban areas and it is expected to 70% to be urbanites by 2030. Driven by higher disposal incomes, urban consumer has higher per capita consumption of seafood products as 14.8kg compared to rural consumer as 7.4kg in 2018

The domestic aquaculture seafood production growth slows considerably might surged the demand in seafood import

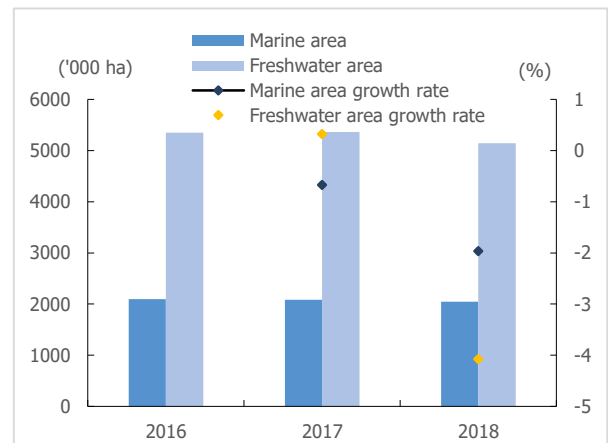
Since 2019, Chinese Government issued polices on environmental protection measures in the aquaculture industry, as Some Opinions for Pushing Forward the Accelerated "Green" (Healthy) Development of the Aquaculture Sector, the "Five Actions" for Green and Healthy Aquaculture. In particular, the government has enforced rules on cultivation of certain fish species that rely on feed, cages, and net pens and focused on environmental protection measures in the aquaculture industry. Thereby, freshwater aquaculture sites have been reduced significantly as the government has banned or limited aquaculture farming in reservoirs and large lakes. In addition, farmers are facing higher rental rates to use water resources (including ponds and ocean waters), which decreases profits and limits expansion abilities, according to Foreign Agriculture Services.

Figure 48. China's seafood production basically unchanged from 2018



Source: 2019 China Fisheries Statistic Yearbook

Figure 49. China's aquaculture area resources was contracted following Government policies

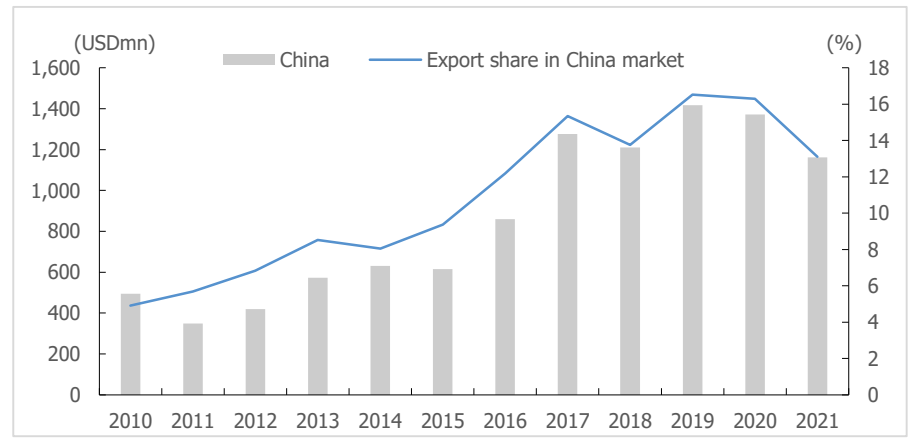


Source: China Agricultural Statistic Report

3.3 Vietnam have keen relationship on seafood export activities.

China seafood market is the 3rd largest importer from Vietnam, accounting for 13% of Vietnam seafood export in 2021 with USD1.16bn value export. Vietnam export value to China compound annual growth rate as -2% in 5 years since disrupted export activities and strict Chinese import policies amid Covid-19 complication from 2020. Yet, it is recorded the surged 8% CAGR value of pangasius export, accounting for the largest pangasius export share as 27% with USD450mn, assisted mainly by strengthening of smuggled seafood shipment to China since 2017 of China and Vietnam authorities.

Figure 50. China export value decreased % CAGR from 2017-2021

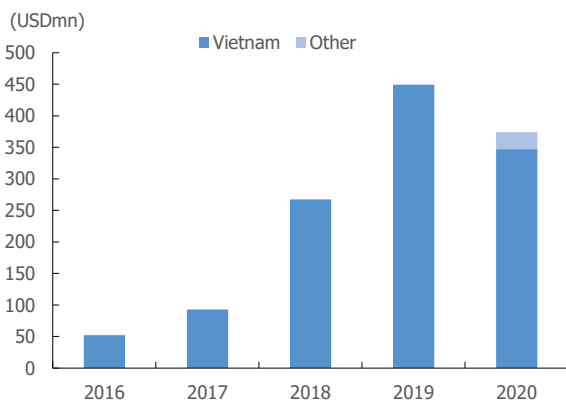


Source: VASEP, KISVN

Vietnam pangasius was one of favorite in China in few recent years

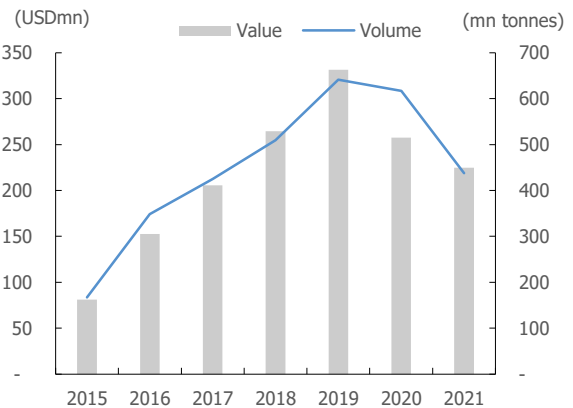
As a favorable freshwater aquaculture country, Chinese consumers quickly adapt to the taste of river fish taste of pangasius, that is popular hot port restaurants and fast-food outlets since pangasius has competitive price compared to other Chinese farmed freshwater fish. Moreover, the Chinese willing to pay suitable price for a product like Vietnam's pangasius which has been qualified gained the reputation in the picky market as EU and US. In 3 years, it is not only surged 30% CAGR value of pangasius export, but also expand distribution the pangasius import from the border region in southern China to additional big cities as Beijing, Shanghai and Dalian.

Figure 51. China imported more than 90% a top 10 product, frozen pangasius (catfish) from Vietnam



Source: Canada Agricultural Data, KISVN

Figure 52. Pangasius export to China export decrease affected by Covid-19



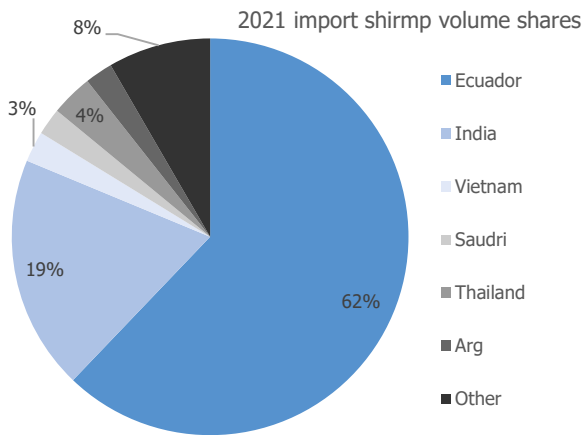
Source: VASEP, KISVN

Vietnam shrimp faces fierce competitions

Shrimp is always the most popular product at seafood exhibitions in China. As other key species of Vietnam aquaculture production, Vietnam exported USD412mn in 2021, accounting for 11% of total Vietnam's export shares, and Vietnam only ranked 6th of among the main shrimp suppliers to China with 3%. There are several suppliers joining in including Ecuador, India, Thailand and Argentina. The massive position of Ecuador and India driven partially by the Chinese's government's December 2017 decision to reduce tariffs on Ecuadorian and Indian shrimp to reduce illegal smuggling through Vietnam. In

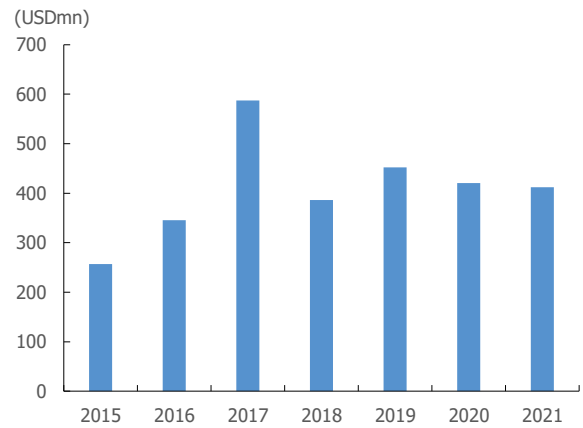
terms of import prices, on the Chinese market, the price of shrimp imports from Ecuador, India and Indonesia are always the most competitive. The average import price from Thailand is the highest, while Vietnam's shrimp is second.

Figure 53. Vietnamese shrimp have less advantages compared to other in China market, 2021



Source: Canada Agricultural Data, KISVN

Figure 54. Shrimp export value to China decrease affected by Covid-19



Source: VASEP, KISVN

Even consumption is promising; the trade barriers is possibly increase in short-term since Covid-19

Since Covid-19, China set trade barriers and has potential to raise the trade barriers. Thereby, the control of COVID-19 through border gates and import ports will be tightened. The Chinese government still has many policies to reduce the source of imported seafood (not only from Vietnam). Chinese consumers are also worried about catching the corona virus from imported seafood. Therefore, this country increased domestic seafood consumption, the price of many types of freshwater cultured fish products (carp, black carp, white carp, carp) so also increased by 34%, even up to 50-100%.

VI. Inherent risks still remain

The feed price rise unstably costing more for seafood input price.

Accordingly, feed price was costed by 80%-85% of raw material including soybean, corn, fishmeal, etc., playing the feed's raw materials a vital role for the stability of feed price. Yet, the Vietnamese feed's input was imported about 60% quantity each year (2020 data). Amid Covid-19, the import raw material price increases that driven the rise of feed price constantly. The feed price impact significantly on the price of seafood input price since accounting for 70% to 80% cost of farmed products.

Figure 55. Soybean (Global price Index) price surges



Source: Bloomberg, KISVN

Figure 56. Corn price surges



Source: Bloomberg, KISVN

Climate changes threats aquaculture farmer and fisherman

According to Germanwatch’s Global Climate Risk Index, Vietnam is in the top ten countries most affected by climate change. Especially, the industries reliance on natural resources for their livelihood, as aquaculture and fisheries suffer losses from natural disease, temperature increase, salt-water intrusion and water quality and availability. The climate changes will have long-term impacts on farming productivity and the quality while the ins and outs are uneasy to resolve.

Table 4. Summary of cimpacts to aquaculture farmers resulting from climate changes threats

System	Increased storm intesities	Increased temperatures and temperature anomalies	Rainfall anomolies and droughts	Dising water level
Hatcheries	- Damage to infrastructure - Electricity outages	- Increased disease occurrence	- Flooding	- Flooding
Sea cage	- Damaged infrastructure, especially vulnerable to typhoons - Lost fish stocks from ripped nets.	- Increased fish mortality - Reduced spawning and fertilization success - Increased prevalence and reduced predictability of disease	- Increased rainfall resulting in inland pollutant transferee and reduced salinity	- Increased inland pollutant transfer
Shrimp farm	- Damage to infrastructure. - Electricity outages stopping pumps and water oxygenation equipment . - Increased rainfall reducing the salinity of ponds.	- Increased prevalence and reduced predictability of disease. - Reduced ability to maintain consistent pond temp and salinity levels	- Large rainfalls reduce the salinity of shrimp ponds. - Droughts reduce ability to maintain consistent salinity level.	- Flooding results in damaged infrastructure and escaped stock. - Increased soil salinification from infitiation.

Source: Nha Trang University, KISVN

The bottleneck of the value-add chain

Family-run farms potentially cause unstable quality and volume of production in the value-add chain of seafood. As the small and medium family-run farms, the risks as 1) they are difficult to approach the new technology of aquaculture which they are mostly depending on their own experience of farming, 2) lack of capital to invest on equipment, lowing the efficiency in farming and 3) strongly affected by the volatile from other factors as fingerling quality and prices, aqua feed prices, weather changes, etc.

VII. More consolidation on the giant players

The seafood products were changed ownership several times before reaching processing factories.

1. Loosen seafood value add chain

Mekong Delta River has 805,800ha area of aquaculture, the supply chain supported by 1687 farms and thousands of family-run farms Delta River. Yet, the formal relationship between farmers and exporters are rare. The large-scale farmers who have has large volumes are easier to directly supply to exporters. Instead, the family-run farmer depends on middlemen positioned to harvest and sell the products for processors and exporters. Accordingly, the family-run farmers sell 93% for middlemen (contributed by selling 63% for traders and 24% for agents), whilst 7% of total products sell directly for processors and exporters. Yet the indirect market from farmers to exporters has caused issues for the value-add chain. This implicates issues such as food safety and traceability, which are crucial issues in international trade.

2. Closed system will be the key driven for listed exporters in coming years

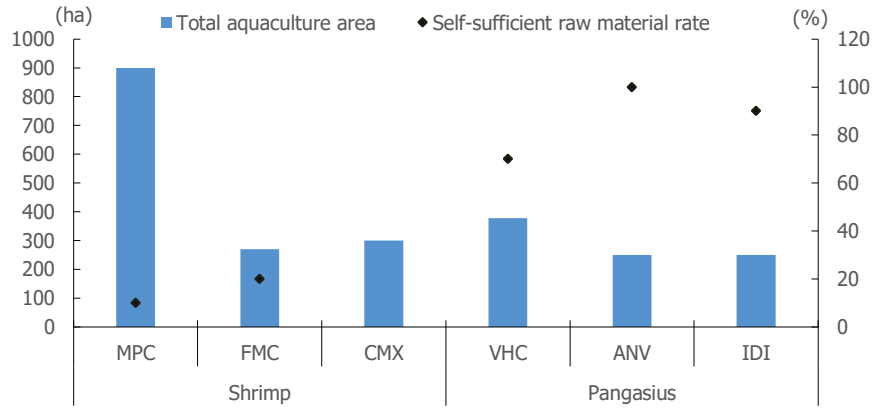
A closed system in the seafood chain is vital to 1) self-sufficiency as proactively raw materials sources as hatchery, feed, aquatic medicine, or harvest techniques, 2) well control of production process. In other words, the seafood exporters could improve productivities in harvests of raw material and increase production efficiency by consolidating closed system.

Playing a key role to sustainably developing, listed exporters are increasing their self-sufficient and invest on closed system in recent years.

The pangasius exporters are more impulse to self-sufficient system since the strict requirement of frozen pangasius product export globally and the lower risk of investment. Currently, as the top position in pangasius exporters, Vinh Hoan Corp (VHC VN, BUY) has the most closed system extension including breeding farm, fish farm, feed farm, fish processors, other value add chain factories and maintain 70% of self-sufficient. In 2022, VHC intended to invest VND1,530bn to upgrade the system as feed farm building, fish farm expansion, processing factory renovation. Navico (ANV VN, Non-rated) also reached 100% self-sufficient with closed system as including breeding farm, fish farm, feed farm, fish processors.

On the other hand, shrimp exporters have lower self-sufficient since the high capacity expenses, high input costs and high shrimp disease risk. Minh Phu Corp (MPC VN, Non-rated) as one of the largest shrimp exporters has breeding farm, aquaculture farm (900ha) and ecological farm (320ha) as closed system but self-sufficient reaches 10% as the low efficient in farming. In 2022, MPC will unlock 57,000 tonnes from the process factories. Sao Ta JSC (FMC VN, Non-rated) has breeding farm and aquaculture farm (270ha) with 30% self-supplying. Currently, FMC is constructing 2 process factories with VND400bn investment, to increase 20,000 tonnes of shrimp products.

Figure 57. Pangasius exporters have higher rate of raw material self-sufficient



Source: Company data, FiinPro, KISVN

VIII. Conclusion and rating

Barring a steeper-than-expected increase in selling price for 2022F, global demand will help absorb a still sizeable volume of the seafood export of Vietnam. Despite of the enormous opportunities for growth from consumption revival, the rewards are selectively granted. While the shrimp growth is almost peak, the pangasius industry still reaps the fruit from untapped markets. The US and China are currently the key markets for most leading, listed developers like VHC, ANV, and FMC. Therefore, slow consumption in those two markets will definitely impact their export targets.

We rate the sector OVERWEIGHT to reflect the tailwinds of the favorable changes in exporting markets which will shore up sales volumes as well as producers' margins. However, we still stay conservative that demand remains vulnerable and, therefore, expect only qualified players are able to gain the share. Hence, we prefer listed exporters who have sizable exposure to US and China markets that have already established firm footprints and are accelerating to penetrate in 2022F-23F.

Stock picks – we are still bullish on VHC and laud ANV's strategic pivot into the US markets, placing it on our watch list.

We like exporters that meet the following key criteria:

- 1) With material exposure to US market as this importer is performing the most fabulous among partners
- 2) About to launch in EU markets, or have a high likelihood of tapping into in 2022F-23F;
- 3) Buffered by a healthy internal sources of materials to counter the risk of costlier feedstock and healthy financial position (low leverage, strong liquidity) as discussed in our initiation report.

Based on the above criteria, Vinhhoan (VHC VN, BUY, TP: VND121,500) is our top pick and we place Nam Viet (ANV VN, Not rated) on our watch list for 2022.

Vinhhoan (VHC VN, BUY, VND121,500): The company is among the leading pangasius exporters, with the US as a key market, will likely benefit from a positive substitution effect and demand revival. As a result, we expect to see

pangasius fillet sales volumes and sales prices continue to rise in the coming months. This leads us to project stellar growth of sales and profits in 2022F-23F. Nam Viet (ANV VN, Not rated): The company has a fabulous track record of pangasius export in prime markets including Russia, Europe, China, and Australia. Its outstanding execution management are able to secure their self-providing breeding area to reduce cost. VHC is also praised to have a solid brand name in the exporting markets.

Vinh Hoan Corp

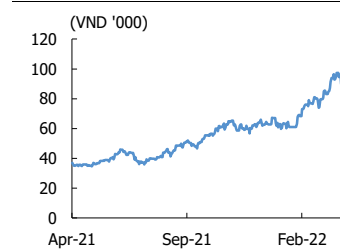
BUY (Maintain), TP VND121,500

		Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
		Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
Stock price (14 Apr, VND)	102,600	2019A	7,867	1,132	1,178	6,155	(61.5)	1,298	16.8	15.1	3.9	24.2	0.0
Market cap (USD mn)	815	2020A	7,037	683	722	3,971	(35.5)	883	26.2	22.2	3.6	14.0	2.0
Shares outstanding (mn)	182	2021A	9,054	1,196	1,130	6,163	55.2	1,482	17.1	13.8	3.3	19.4	2.0
52W High/Low (VND)	102,600/34,683	2022F	13,486	1,953	1,654	7,517	22.0	2,305	13.6	8.6	2.7	23.5	2.0
6M avg. daily turnover (USD mn)	3.50	2023F	16,382	2,410	2,081	9,458	25.8	2,831	10.8	6.9	2.2	24.0	2.0
Free float (%)	50.3												
Foreign ownership (%)	25.3												
Major shareholders (%)													
Truong Thi Le Khanh	43.16												
Mitsubishi Corp	6.50												

Performance

	1M	6M	12M
Absolute	27.3	85.5	176.7
Relative	25.5	79.3	158.1

Stock price trend



Gripping chances of pangasius favorable trend

2022F topline stays positive: 3M22 business result overtook expectation as the revenue stayed brisked at VND3,032bn (+75% yoy), assisted by high demand of all market as exporting +127% yoy in US market, +33% yoy in EU market, +46% yoy in China market for all products. In 2022, we expect Vinh Hoan's total revenue to reach VND13,486bn (+48.9% yoy), mainly thanks to +50.3% yoy revenue growth rate of the pangasius fillet product to VND8,963bn. Besides, C&G products and (SGC) contribution are positively forecasted +38% yoy and +53% yoy respectively.

Fillet export strongly growth +50.3% yoy in 2022F: We estimate that related-pangasius products revenue surges will be driven by ASP by +25% yoy and volume export +14% yoy in 2022F. We expected that the momentum high consumption in many markets would ramp-up related-pangasius export. Also, VHC could benefit substitution of import ban of Russian whitefish in US markets and others. Also, China market could revive in 2022F as Covid-19 impacts dragged down the pangasius volume export in 2020 and 2021. We assume that the low level of inventory in markets need to be recovered for high consumption of China market.

Gross margin will improve despite input price increase: We forecast VHC's gross margin (excluding inventory provisions) would slightly increase +1%p yoy, reaching 20% in 2022F, mainly supported by (1) the improvement GM of +2%p yoy of fillet pangasius to 18% (2) larger fat-margin revenue contribution of collagen, geletin and Sa Giang products. In 2022, the raw material is estimated to increase steeply, reaching all time high price since 2018. Yet, we expect that the pangasius ASP increase +25% yoy while input price growth reach lower at +21% yoy, prompting higher GPM of pangasius fillet and related-pangasius products.

2022F NPAT to rise +46.4% yoy driven by lower SG&A to sales: We keep our view that VHC could improve the SG&A to sales from 6.1% to 5.2% in 2022F. Despite the fluctuation of freight cost, we believe that VHC hold power of bargain to increase most FOB order as in 2021, and transfer the logistic cost to customers. Overall, we estimate 2022 NPAT reach VND1,654bn (+46.4% yoy), implying a VND7,517 EPS. We reinstate coverage of VHC with BUY and a TP of VND121,500 derived by applying a 4-year DCF (WACC 10.3%, CoE 11.3%, terminal growth rate 4.5%). In terms of PE valuation, the TP equals 14.3x the 2022F-23F EPS average, 43% higher than 1-year backward median PE of 10.9x. We believe VHC deserve to trade at a premium backed by secular improvements of 2022F-23F earnings, healthy balance sheet, iconic exporter in many markets.

Table 6. Cost of equity

Item	%
Beta (x)	1.06
Risk free rate (%)	3
Equity risk premium (%)	7.80
Cost of equity (%)	11.30

Source: KIS

Table 7. WACC calculation

Item	%
Cost of debt (%)	3.95
Target debt to capital (%)	13.77
Tax rate (%)	3.41
WACC (%)	10.37

Source: KIS

FCFF	2022F	2023F	2024F	2025F	2026F
EBITDA	2,305	2,831	3,118	3,412	3,736
EBIT	1,953	2,410	2,622	2,835	3,071
Tax rate (%)	13.77	13.77	13.77	13.77	13.77
EBIAT (NOPAT)	1,684	2,078	2,261	2,444	2,648
Free cash flow	(123)	754	1,259	1,476	1,637
PV of FCF	(123)	683	1,033	1,098	1,103
PV of Terminal Value	18,783				
Enterprise value	22,578				
Net debt	464				
Equity Value	22,114				
Shares Outstanding, Million	181.946				
Target price (VND)	121,500				

Company overview & Glossary

Vinh Hoan Corporation was established in 1997 in Dong Thap Province. The company specialized in farming, processing and exporting related-pangasius products, Collagen & Gelatin products. Since 2010, VHC has been the leading company in pangaius industry, accounting for 14% of industry shares. The products are available in well-known retail chain and distributing in leading food service companies globally.

Balance sheet

(VND bn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Current assets (Adj.)	4,415	4,228	5,242	6,595	8,011
Cash & cash equivalent	1,580	1,457	1,523	1,500	1,822
Accounts & other receivables	1,422	1,273	1,929	2,440	2,964
Inventory	1,414	1,498	1,790	2,655	3,224
Non-current assets (Adj.)	1,879	2,237	2,932	3,803	4,346
Fixed Asset	1,551	1,887	2,329	3,244	3,830
Investment assets	329	350	602	559	516
Others	318	727	561	561	561
Total assets	6,612	7,192	8,734	10,960	12,918
Advances from customers	0	1	2	3	4
Unearned revenue	534	436	545	823	1,028
Trade payables	282	326	337	500	607
Others	52	94	79	83	88
ST debt & bond	866	1,106	1,723	1,851	2,069
LT debt & bond	0	69	168	634	450
Total liabilities	1,735	2,032	2,854	3,894	4,245
Controlling interest	4,875	5,157	5,777	6,977	8,600
Capital stock	1,834	1,834	1,834	2,198	2,198
Capital surplus	224	224	224	224	224
Other Reserves	(114)	(114)	(114)	(0)	(0)
Retained earnings	2,932	3,214	3,833	4,556	6,179
Minority interest	2	4	105	92	76
Shareholders' equity	4,877	5,161	5,882	7,069	8,676

Cash flow

(VND bn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
C/F from operations	1,489	420	640	1,058	1,705
Net profit	1,178	722	1,130	1,654	2,081
Depreciation	165	201	285	352	421
Net incr. in W/C	146	(502)	(775)	(949)	(797)
C/F from investing	(743)	(311)	(856)	(1,224)	(963)
Capex	(361)	(604)	(605)	(1,224)	(963)
Incr. in investment	(383)	293	(251)	0	0
C/F from financing	(703)	(55)	421	157	(403)
Incr. in equity	(114)	0	63	0	0
Incr. in debt	(403)	309	717	593	34
Dividends	(185)	(364)	(359)	(437)	(437)
C/F from others	884	(177)	(139)	(13)	(16)
Increase in cash	927	(123)	66	(23)	322
C/F from operations	1,489	420	640	1,058	1,705
Net profit	1,178	722	1,130	1,654	2,081
Depreciation	165	201	285	352	421
Net incr. in W/C	146	(502)	(775)	(949)	(797)

Income statement

(VND bn)

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
Net sales	7,867	7,037	9,054	13,486	16,382
COGS	6,334	6,036	7,302	10,832	13,153
Gross profit	1,533	1,001	1,752	2,654	3,229
SG&A expenses	401	318	556	701	819
Operating profit	1,132	683	1,196	1,953	2,410
Financial income	87	58	137	251	233
Interest income	76	97	72	90	119
Financial expenses	90	107	107	140	127
Interest expenses	60	38	35	98	109
Other non-operating profit	1	(18)	(2)	(2)	(2)
Gains (Losses) in associates, subsidiaries and JV	14	0	(0)	0	0
Earnings before tax	1,308	809	1,290	1,888	2,376
Income taxes	130	86	178	260	327
Net profit	1,178	722	1,130	1,654	2,081
Net profit of controlling interest	1,178	722	1,121	1,641	2,065
Other comprehensive profit	0	0	(0)	(0)	(0)
Total comprehensive profit	1,178	722	1,130	1,654	2,081
Total comprehensive profit of controlling interest	1,178	722	1,121	1,641	2,065
EBITDA	1,298	883	1,482	2,305	2,831

Key financial data

FY-ending Dec.	2019A	2020A	2021A	2022F	2023F
per share data (VND, adj.)					
EPS	6,155	3,971	6,163	7,517	9,458
BPS	26,580	28,187	31,472	38,347	47,269
DPS	0	2,000	2,000	2,000	2,000
Growth (%)					
Sales growth	(15.1)	(10.5)	28.7	48.9	21.5
OP growth	(32.8)	(39.7)	75.2	63.3	23.4
NP growth	(20.9)	(38.7)	55.2	46.4	25.8
EPS growth	(61.5)	(35.5)	55.2	22.0	25.8
EBITDA growth	(29.5)	(31.9)	67.7	55.6	22.8
Profitability (%)					
OP margin	14.4	9.7	13.2	14.5	14.7
NP margin	15.0	10.3	12.4	12.2	12.6
EBITDA margin	16.5	12.6	16.4	17.1	17.3
ROA	17.8	10.0	12.8	15.0	16.0
ROE (excl MI)	24.2	14.0	19.4	23.5	24.0
Dividend yield	0.0	2.0	2.0	2.0	2.0
Dividend payout ratio	15.7	50.4	32.0	26.6	21.1
Stability					
Net debt (VND bn)	(711.6)	(289.0)	463.5	1066.5	761.9
Net debt/equity (%)	(14.6)	(5.6)	8.0	15.3	8.9
Valuation (X)					
PE	16.8	26.2	17.1	13.6	10.8
PB	3.9	3.6	3.3	2.7	2.2
EV/EBITDA	15.1	22.2	13.8	8.6	6.9

Note: Based on K-IFRS (consolidated)

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