

Seafood

On its upswing trends

Solid fundamental reaffirmed in 5M22

The seafood export swelled to USD4.5bn, +44.5% yoy in 5M22, equivalent to a USD0.915bn (+16% yoy, -13% mom) export sale in May. While we seek the embedded explanations for the sudden mom drop in May, we keep envisaging a brisk 2Q22F export growth in terms of qoq and yoy.

Specifically, pangasius exporters are pictured to ride on the tailwinds in 2Q22F, backed by (1) sanctions from the large importing markets imposed on Russian exporters could be a reward for Vietnam pangasius to gain more shares (2) The 6 newly- approved exporters by US DOC following positive result of the anti-dumping tax in POR 17 could ramp up their pangasius export to US markets in 2Q22F, including ANV (3) Shanghai's the removal of lockdown measures could ease the logistics crunch and that benefits ANV, IDI, and (4) the average selling price (ASP) of pangasius could sustain rally until 3Q22F. We estimate that the ASP shrimp export to largest market could cool down in US but sustain growth momentum in EU. Nonetheless, we recommend a conservative approach toward the escalation of food prices which could disrupt feedstock supply or harm the profitability.

We maintain **OUTWEIGHT** rating even the seafood stocks were up sharply in 1H22. We believe the rally is persisting through 3Q22F given clear earnings momentum backed by sound business conditions.

1Q22 stellar earnings growth came in with no surprise

The seafood export thrived to USD2.5bn (+46% yoy) in 1Q22, mainly driven by sales revival in all markets for all seafood categories. Hence, 24 listed seafood exporters recorded a VND16tn revenue (+47.5% yoy) and VND1,281bn NPAT (+2.4x yoy). 1Q22 seafood exporters' gross margin expanded to 16.1%, +5.5%p yoy and net margin widened to 8%, +4.5%p yoy, while SG&A/sales edged up 0.7%p yoy to 7.2%. Top shrimp exporters were hit the most with costlier freight rates. Their SG&A expenses lifted and shrink the net profit growth.

Fat gross margin of pangasius industry sustains

The rebound was uneven across the industry. Pangasius exporters (10 companies) perked up 1Q22 gross margin and net margin even shrimp exporters (5 companies) lag. Pangasius industry posted a 20.9% 1Q22 GM, higher than 1Q21 of 11.9%. The net margin also spiked to 13.0% from 4.6% in 1Q21. Restocking demand for pangasius remains abundant in the key importing partners and that shores up the ballooning ASP of pangasius products. Although raw materials cost is more and more expensive, pangasius exporters could offset it with a cost pass-through strategy.

**Overweight
(Maintain)**

Linh Pham

Linh.pt@kisvn.vn

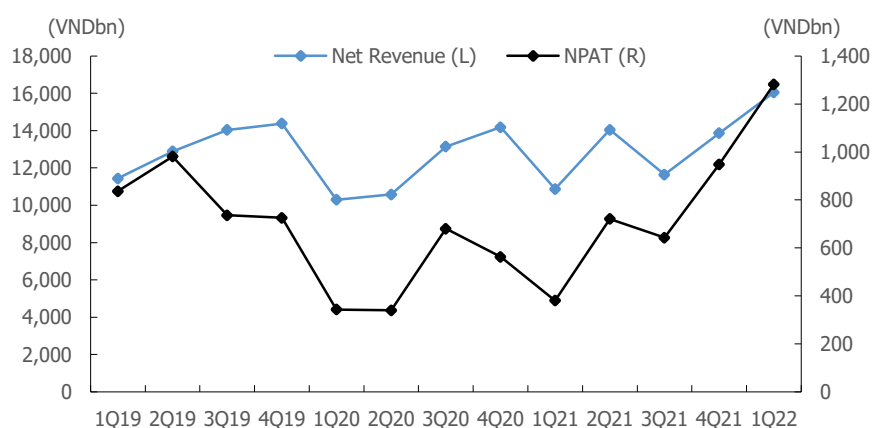
24 listed seafood exporters recorded a VND16tn revenue (+47.5% yoy) and VND1,281bn NPAT (+2.4x yoy). 1Q22 GPM expanded to 16.1%, +5.5%p yoy and net margin widened to 8%, +4.5%p yoy, while SG&A/revenue ratio edged up 0.7%p yoy to 7.2%. However, the rebound was uneven across industries. Pangasius exporters (10 companies) perked up in 1Q22 gross margin and net margin even shrimp exporters (5 companies) lag.

Table 1. 1Q21 business result of 24 listed

	2021				2022	1Q22	
	1Q	2Q	3Q	4Q		1Q	QoQ
Revenue	10,875.3	14,044.4	11,647.0	13,862.1	16,046	15.8	47.5
NPAT	380.4	720.9	642.9	948.6	1,281.4	35.1	236.9

Source: Companies, Fiinpro

Figure 1. 1Q21 spectacular performance of 24 listed seafood exporters

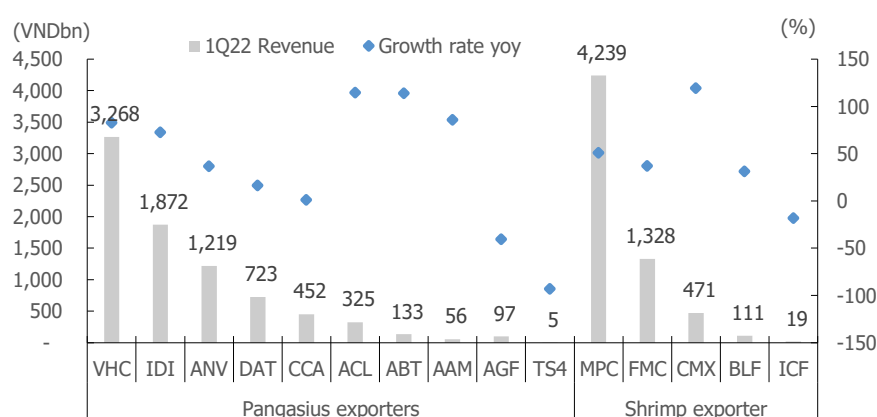


Source: Company data, Fiinpro

1. Export sales drove the upswing trend of 1Q22 revenue

The seafood industry exported a USD2.5bn (+46% yoy) in 1Q22, mainly driven by sales revival in all categories, with a USD947mn shrimp export sale (+43% yoy) and a USD653mn pangasius export value (+90% yoy). As a result, the revenue of listed shrimp exporters grew to VND6,167bn (+50% yoy) while listed pangasius swelled to VND8,150bn (+53% yoy).

Figure 2. Brisk 1Q21 revenue of big listed exporters



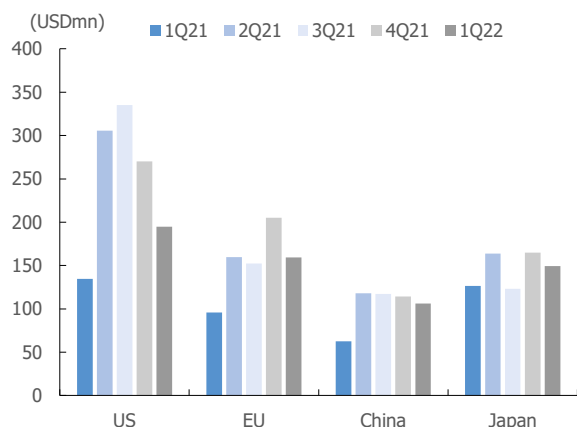
Source: Company data, KISVN

1.1 High volume spurred the 1Q22 shrimp revenue

In 1Q22, the biggest importers as US, EU, China, Korea, and Japan kept growing their purchases of shrimp products. Those nations contributed a 14% yoy volume and a 10% yoy in average selling price (ASP). US, the largest single market, maintained its robust consumption (USD195mn, +45% yoy) through channels like hotel, restaurant, and catering (HORECA) driven by a 14% yoy volume growth and a 18% yoy ASP rise. Furthermore, restocking signals appeared in EU markets to prepare for the typical peak season (late summer and early autumn). Vietnam shrimp export to EU was pegged at USD159mn (+66% yoy), equivalent to 19% yoy volume growth and +6% yoy ASP.

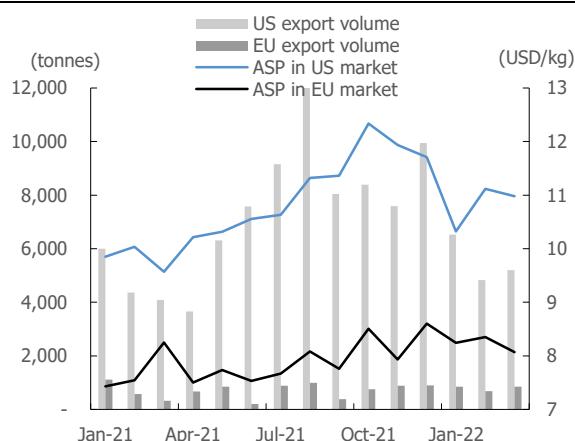
As such, listed shrimp companies reaped a robust 50% yoy revenue growth (VND6,167bn) in 1Q22. Notably, CMX whose EU exposure makes up 51% of total revenue top the industry growth with 119.4% yoy. MPC (largely focusing in US, EU, Korea, and Japan markets and FMC (US and Japan) also performed splendidly.

Figure 3. Shrimp export increased yoy in all markets



Source: VASEP, KISVN

Figure 4. Volume and ASP slightly surged yoy



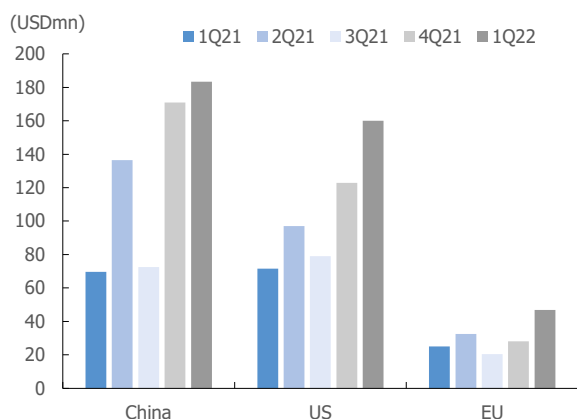
Source: VASEP, KISVN

1.2 ASP boosted 1Q22 pangasius revenue

Pangasius industry's robust growth in 1Q22 was seen evenly in all markets, with a USD653mn export value (+90% yoy) and 234,410 tonnes of volume (+34% yoy). Especially, the stellar demand amid the tight Vietnam supply shored the ASP relentlessly up by 50-60% yoy and 10-23% qoq in key markets. Notably, the sustained momentum of pangasius export to the US market since 2H21 has benefited from local whitefish volume drop. Furthermore, the rise of other food prices in the US also sharpens the competitiveness of pangasius regarding purchasing power parity.

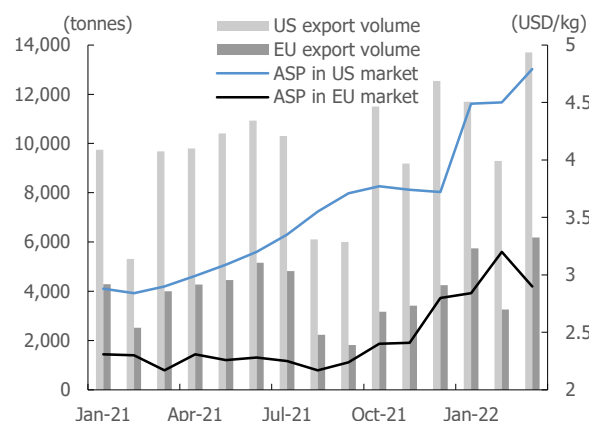
Consequently, listed pangasius exporters posted revenue growth of 53% yoy to VND8,150bn in 1Q22. Topline of VHC, the largest pangasius exporter, climbed by +82.7% yoy to VND3,268bn in 1Q21. Revenue of ANV and IDI revived to VND1,219bn (+72.7% yoy) and VND1,818bn (+36.5% yoy), respectively. Last but not least, small listed companies such as ABT, CCA, and AAM jumped with 144%/113.8%/85.9% yoy growth in the 1Q22 topline.

Figure 5. Pangasius was consumed strongly in main markets in 1Q22



Source: VASEP, KISVN

Figure 6. ASP of pangasius is on the rise

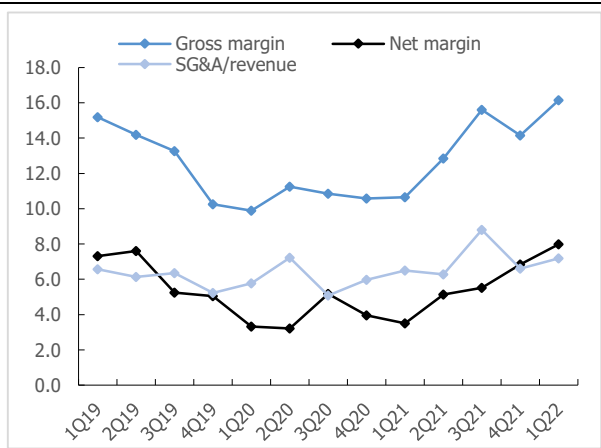


Source: VASEP, KISVN

2. Net margin peaked in last 3 years

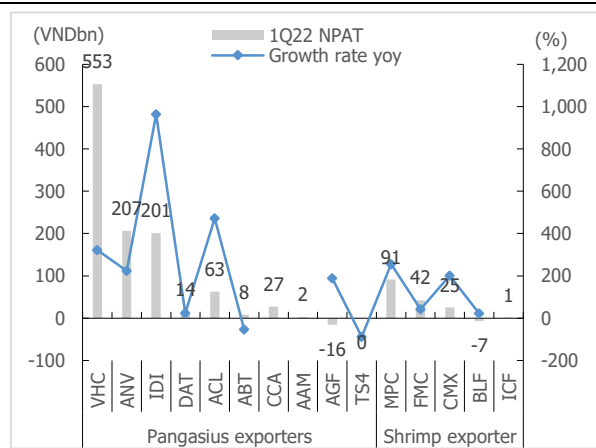
In 1Q22, the raw material prices increased significantly, hit by expensive aquafeed prices, heavy purchase costs, high wages, and costlier outsourcing. However, the seafood exporters could expand their gross margin (GM) thanks to an outpaced growth of ASP vs input prices. The 24 listed exporters' GM expanded to 16.1%, +5.5%p yoy in 1Q22, mainly contributed by 11.5% GM of shrimp exporters (+2.0%p yoy) and 20.9% GM of pangasius exporters (+8.9%p yoy) in 1Q22. GM supported the brisk growth of net margin to 8%, (+4.5%p yoy) in 1Q22. Overall, 1Q22 NPAT witnessed a robust growth by +2.4x yoy to VND1,281bn, assisted by the remarkable rise of 3.2x yoy to VND1,074bn from pangasius exporters.

Figure 7. GM expansion and SG&A expense stability boost net margin



Source: VASEP, KISVN

Figure 8. 1Q22 brisk NPAT growth was fueled by pangasius exporters

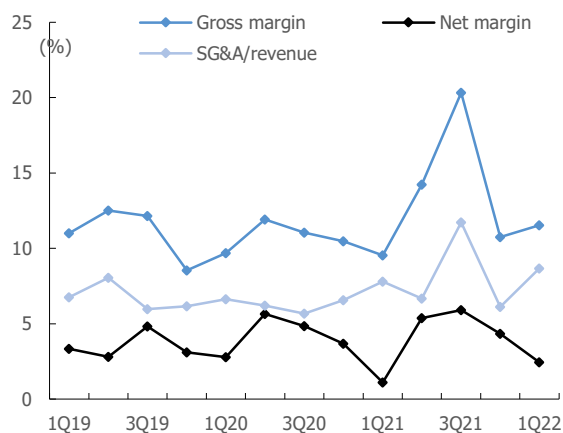


Source: VASEP, KISVN

2.1 Heavier burden of SG&A expense on shrimp's NPAT

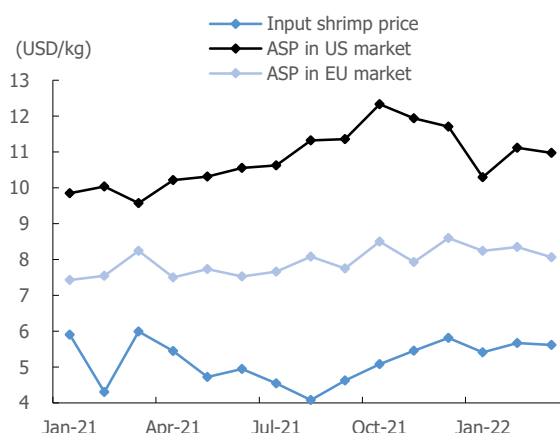
Top shrimp exporters' GM enhanced to 11.5% in 1Q22 (+2.0%p yoy) as the higher ASP (6-10% yoy) offset the input price growth (+3% yoy) respectively. However, their SG&A expenses kept surging due to their constraints in passing heavier freight rates to US and EU importers. 1Q22 SG&A/sale upped to 8.7% (+0.88%p yoy), driving net margin to inch 1%p yoy. 1Q22 aggregated NPAT totaled VND246bn (+1.6x yoy).

Figure 9. Net margin was offset by the spike of SG&A expenses



Source: Company data, Fiinpro

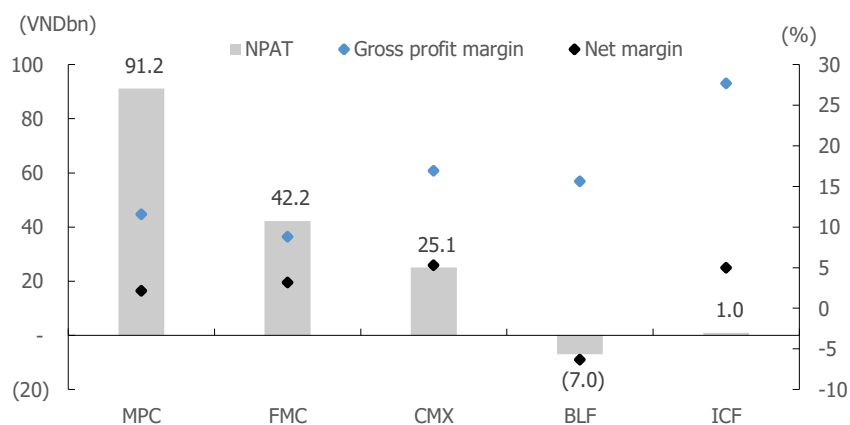
Figure 10. 1Q22 input price and ASP of shrimp products



Source: Company data, Fiinpro

Impressively, MPC's GM rose to 11.6%, from 8.8% in 1Q21. Yet, the SG&A expenses spiked 82.5% yoy, largely contributed by service costs and others (including logistic costs). MPC net margin edged to 2.2% (+1.2%p yoy), translating to a VND91.2bn NPAT (+255% yoy). CMX's GM top shrimp industry with 16.9% in 1Q22 (-5% p yoy). Yet, the reduction of SG&A expenses/sales to 9% (-2.1%p yoy) and gain of financial income grew CMX net margin to 5.3% (+1.5%p yoy). 1Q22 NPAT boomed to VND25.1bn (+201.6% yoy).

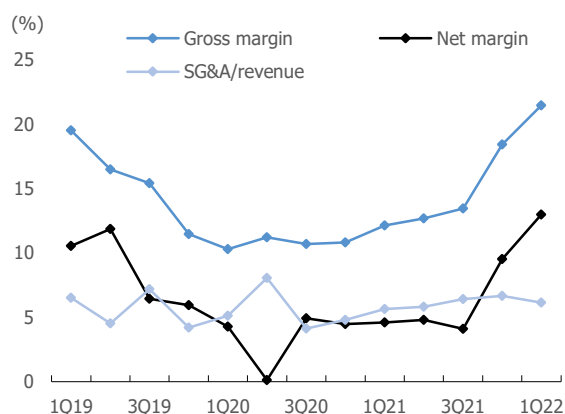
Figure 11. 1Q22 shrimp exporters' NPAT



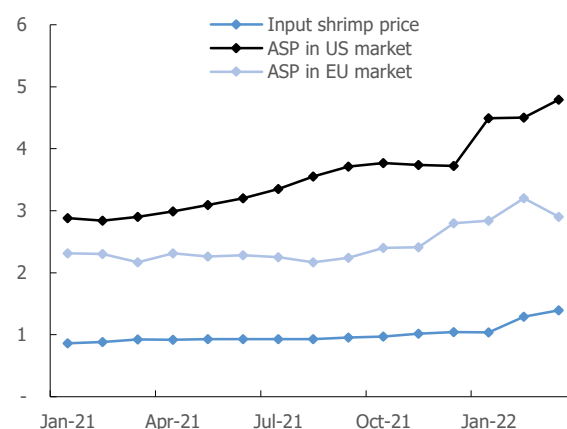
Source: Company data, Fiinpro

2.2 Fat GM accelerated pangasius exporters' net margin

1Q22 listed pangasius exporters' GM swelled to 20.9%, higher than 1Q21 GM of 11.9%. The raw material price growth of 25%-40% yoy dragged by the supply crunch could not outstrip the ASP hike (+50-60% yoy). Those securing internal raw material could ride on the tailwinds blown from ASP hikes.

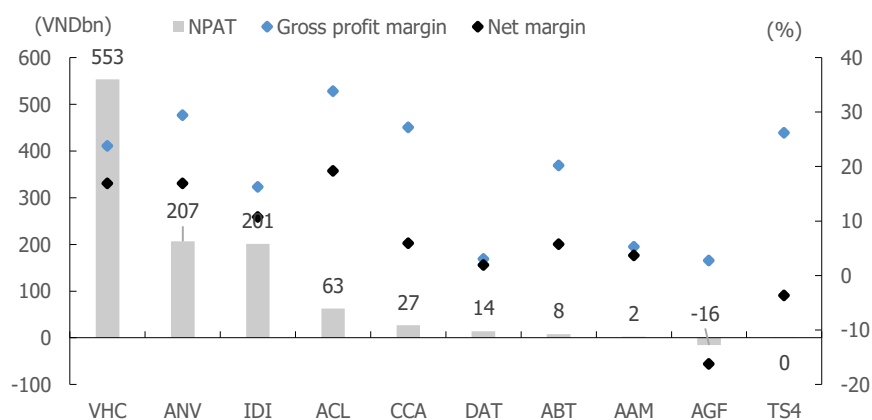
Figure 12. 1Q22 GPM pangasius exporters' uptrend

Source: Company data, Fiiipro

Figure 13. 1Q22 ASP spikes drove GPM's exporters

Source: Company data, Fiiipro

1Q22 SG&A/sales was pegged at 6.1%, 0.5%p yoy. The net margin boomed to 13.0% from 4.6% in 1Q21 and aggregated NPAT leaped to VND1,074bn (+325% yoy). Particularly, the top listed exporters such as VHC, ANV, and IDI have the upper hand to lower SG&A expense/sale yoy, which buoyed net margin up. In contrast, the net margin of smaller listed exporters such as DAT, ACL, ABT, CCA, and AAM was weighed down by rising high SG&A expenses.

Figure 14. 1Q22 pangasius exporters' NPAT

Source: Company data, KISVN

3. Pangasius drives the seafood industry boom in 2Q22F

The Russia-Ukraine conflict could be an opportunity for Vietnam pangasius exporters to gain more shares on large markets. This conflict makes Russian whitefish as pollock (contribute 90% of global pollock) and cod lose market in US, Korea, and EU markets. US banned Russian seafood imports into this market. In Feb, Korea announced trade restrictions with Russia, making a harsh dip of Russian seafood and whitefish (which contributed 75% of imported whitefish in 2021). While EU government does not inform officially the prohibition like their allies, seafood importers are actively switching to other substituting whitefish including pangasius.

The positive result of the anti-dumping tax in POR 17 of US DOC could ramp up pangasius export to the US market in 2H22F. In May, US DOC announced there are 3 companies to enjoy an anti-dumping tax of USD0/kg after an investigation of their factory's production conditions is met. We expected that ANV (1 out of 3 companies) could resume export to the US after years of suspension from August, 2022.

China might ease the import process soon. The process regards "Zero-covid" policies that causing the bottleneck for the import process in China market currently. In May, Shanghai customs officials (the city has the tightest policies as recording outbreaks) announced to simplify inspections of imported seafood products. Since then, after a year of deceleration of pangasius and shrimp import, the lack of pangasius and shrimp inventory will be a key driving seafood export kept surging in 2Q22.

We expected the pangasius ASP to keep rising in 3Q22F assisted by high demand of markets. In April, the ASP leaped 70% yoy. The raw material price still stays costlier, especially in US and EU preferred-size due to shortage supply of small-sized products. The input price was maintained at VND32,000/kg in Feb-Apr. However, we expected that pangasius exporters could offset with ASP hike in 2Q22.

Shrimp ASP might slightly ease in the US market. After booming orders from importers in 2021, restocking demand for shrimp peaked and that resulted in no room in freeze space. Hence, shrimp demand is predicted to be flattened in the next few months and the ASP could ease.

The Russia-Ukraine conflict disrupts the trade of global seafood, impacting the whole value-add chain. This stressful conflict and the sanctions of countries on Russia lead to a sharp increase in freight rates, petrol prices, and costs of aqua feed, which might erode the profit of exporters. Especially for shrimp exporters, the SG&A is expected to keep at a high level since the freight rate is surging and hardly transferred for ASP since ASP shrimp is higher than competitors.

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