

Seafood

Halted uptrend in 3Q22

3Q22 revenue soft landing after getting new peak

The seafood industry exported USD2.7bn (+31% yoy and -15.9% qoq) in 3Q22. Chiefly, the pangasius and shrimp export strongly surged by 87.9% yoy and 5.8% yoy, but both exports decreased by 30.3% qoq and 19.5% qoq, respectively. As a result, the revenue growth rate of listed pangasius leaped 68% yoy while shrimp exporters inched 6.5% yoy. Meanwhile, the listed pangasius and shrimp exporters' revenue recorded 14.2% qoq and 5.7% qoq export decreases, especially the top tiers, which slowed down quickly after a significant bullish in 2Q22.

Mixed gross margin of both industries in 3Q22

In 3Q22, listed shrimp exporters' GM slumped to 9.2% in 3Q22 (-5.9%p yoy) compared to the lower material cost in 3Q21, but improved qoq to post VND320bn NPAT (+3.2% yoy and -11.4% qoq). In other hand, 3Q22 listed pangasius exporters' GM swelled to 16.1%, higher than 3Q21 GM of 12.9% since the ASP (average selling price) growth outpaces input cost yoy and lower than 2Q22 GM of 23.4% as the ASP slump slightly qoq and VHC's GM dropped significantly by -6.8%p qoq, making VND733bn (+266% yoy and -47% qoq.)

Challenges inherent for shrimp exporters in 4Q22F

We considered that the shrimp export revenue keeps slowdown yoy and qoq in 4Q22F since 1) US market would occur glut inventory, driving the export volume retreat lower in 4Q22F, 2) continuing unfavorable weather for shrimp farming could shorten the material supply, and 3) inflation increase and currency depreciation in main markets as EU, Japan reduce purchase power of shrimp products down. Overall, we estimate that the aggregate GPM would stabilize qoq since the ASP keeps a high level in 4Q22F, outpacing the raw material price since top shrimp exporters would increase value-add products export with a better selling price.

Holiday season would perk up pangasius demand in 4Q22F

In our view, 4Q22F seafood export growth rate would be mixed of pangasius and shrimp exporters. Pangasius exporters' revenue could lift slightly yoy and qoq since 1) export to China bounce up since the import process eased from 3Q22, and 2) the export volume in 4Q22F could surge qoq to prepare for the holiday season in most markets. We expect that most exporters maintain a high net margin compared to 4Q21 and slightly reduce qoq since the average selling price higher yoy and stays lofty qoq.

Despite the upward trend of seafood exporters slowed down in 3Q22, we maintain an **OVERWEIGHT** rating since we believe that the seafood industry rally is persisting through 4Q22F backed by sound business conditions.

**Overweight
(Maintain)**

Linh Pham

linh.pt@kisvn.vn

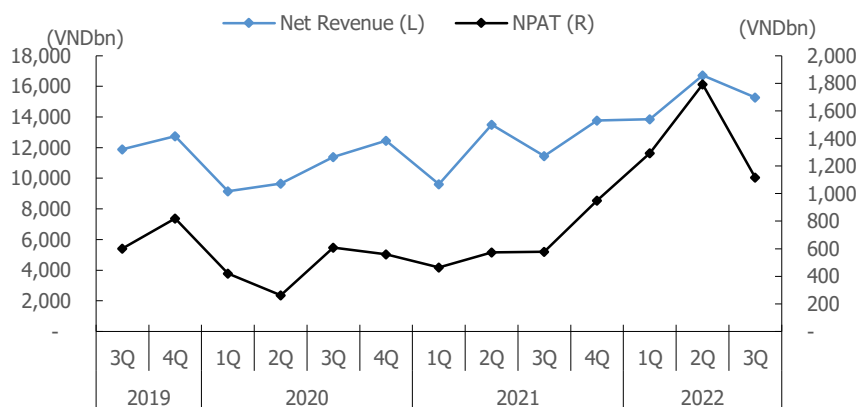
23 listed seafood exporters recorded a VND15,282bn revenue (+33.6% yoy) and VND2,197bn NPAT (+50.3% yoy). 3Q22 GPM and net margin posted 14.4% (+1.6%p yoy) and 7.3% (+2.3%p yoy). Yet, the results growth rate seems to cool down after 2Q22 heat, decreasing revenue and NPAT by 8.6% qoq and 37.7% qoq, respectively, mainly due to slowing down results of pangasius exporters compared to 2Q22 peak.

Table 1. 3Q22 business result of 23 listed seafood exporters

	2021				2022			3Q22	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	QoQ	YoY
Revenue	9,610	13,508	11,441	13,763	13,844	16,726	15,282	(8.6)	33.6
Gross profit	1,023	1,538	1,462	1,647	2,334	3,137	2,197	(30.0)	50.3
SG&A expenses	(546)	(742)	(758)	(885)	(890)	(1,081)	(899)	(16.8)	18.6
NPAT	464	574	579	950	1,292	1,793	1,117	(37.7)	92.9

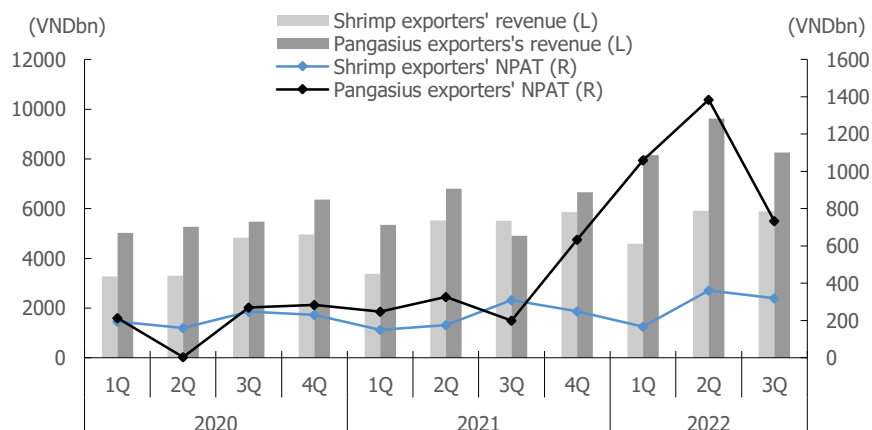
Source: Companies, KISVN

Figure 1. 3Q22 spectacular performance of 23 listed seafood exporters



Source: Company data, Fiinpro

Figure 2. Tumble pangasius exporters' NPAT dragged total 3Q22 results



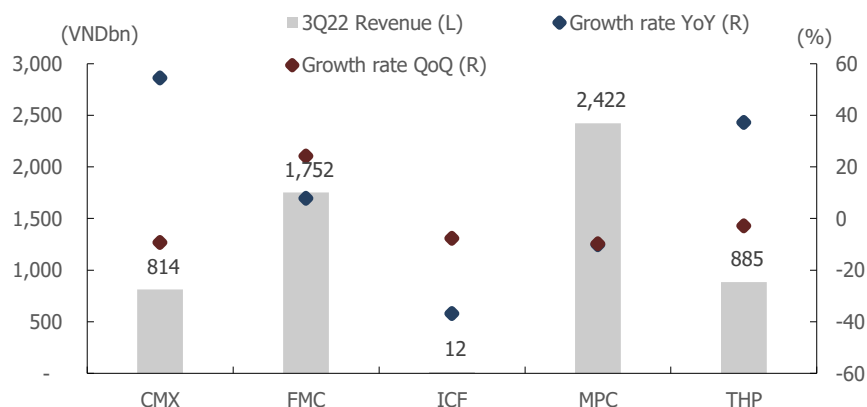
Source: Company data, Fiinpro

1. Shrimp exporters' revenue mixed under unfavorable factors

In 3Q22, shrimp export to large markets such as China, EU, and Japan increased strongly yoy since the 3Q21 low base but shrunk 36% qoq, 12% qoq, and 1% qoq, respectively. In particular, shrimp export to US, as the largest market, significantly dropped by 42% yoy and -32% qoq, driven by the sluggish export volume of -55% yoy and -36% qoq. Because the high inflation made hefty costs (of transportation and warehouses) for importers while high stockpiles remained, the purchasing power of shrimp products decreased gradually in US market. The soft export value to US market dragged the shrimp export down 20% qoq.

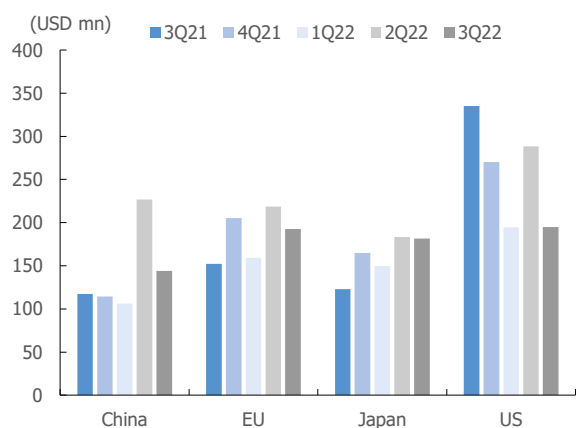
As such, the lower demand of US market slumped MPC's revenue growth rate by 10% yoy and 10% qoq to VND2,442bn. Meanwhile, FMC focus on the high demand of Japan market, lifting revenue by 7.8% yoy and 24.2% qoq to VND1,752bn.

Figure 3. Only FMC's topline qoq and yoy increased



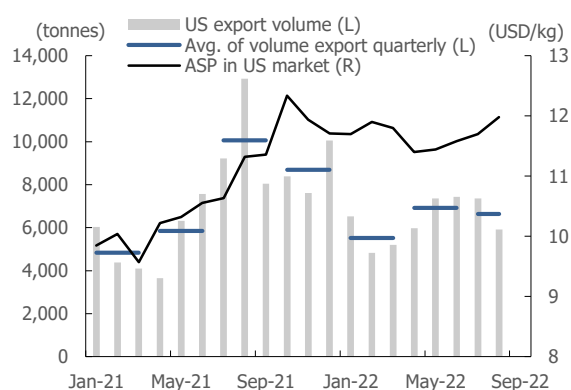
Source: Company data, KISVN

Figure 4. Export to US normalized in 3Q22 after staying bullish in 3Q22



Source: VASEP, KISVN

Figure 5. Export volume slumped to US market



Source: NOAA, KISVN

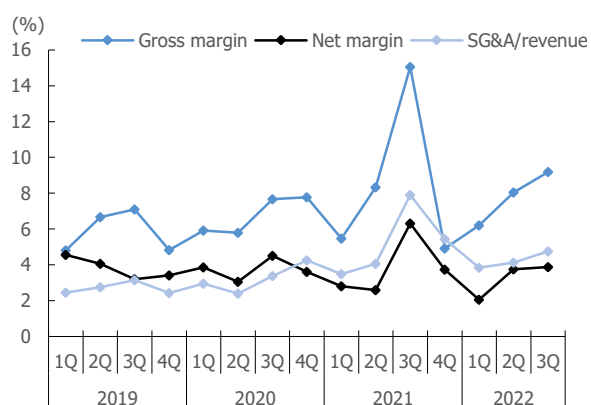
2. Top shrimp export flexed Japan ordered to get better GM in 3Q22

Listed shrimp exporters' GM slumped to 9.2% in 3Q22 (-5.9% p yoy) because of drastic material cost fall in 3Q21 (18.6% plunge compared to 3Q22 raw material cost), while lower freight rates to export markets led SG&A/revenue drop by -3.1%p yoy. Yet, the net margin still decreased 2.4%p yoy to 3.9% mainly backed by the GM reduction. Thereby, aggregated NPAT at VND320bn (+3.2% yoy).

Compared to 2Q22, amid tepid demand for shrimp in US, top listed shrimp exporters such as MPC and FMC accelerated export to Japan and other markets with hectic demand, better ASP, and lower freight rates. Their 3Q22 GM and net margin were only volatile slightly qoq.

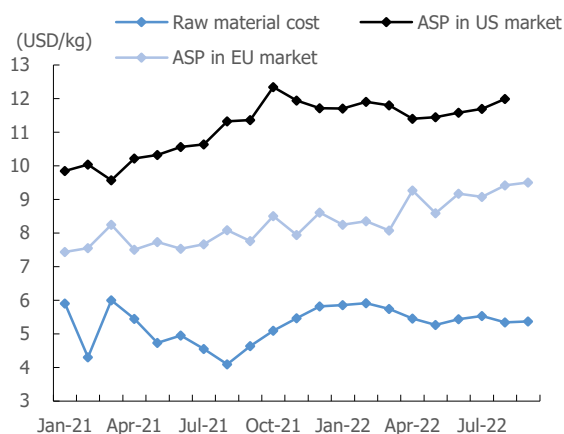
As such, MPC's (parent company) net margin topped the shrimp industry with 8.1% (-0.4% yoy and +0.8% qoq), recording VND197bn NPAT (-14.7% yoy and flatted qoq). Meanwhile, FMC and CMX reached 4.6% (+1% yoy and -4% qoq) and 4.2% (flatted yoy and 1% qoq) net margin, translating NPAT to VND80bn (+42.9% yoy and -32.2% qoq) and VND34bn (+61.9% yoy and -26.1% qoq).

Figure 6. 3Q22 gross margin was better than the norms



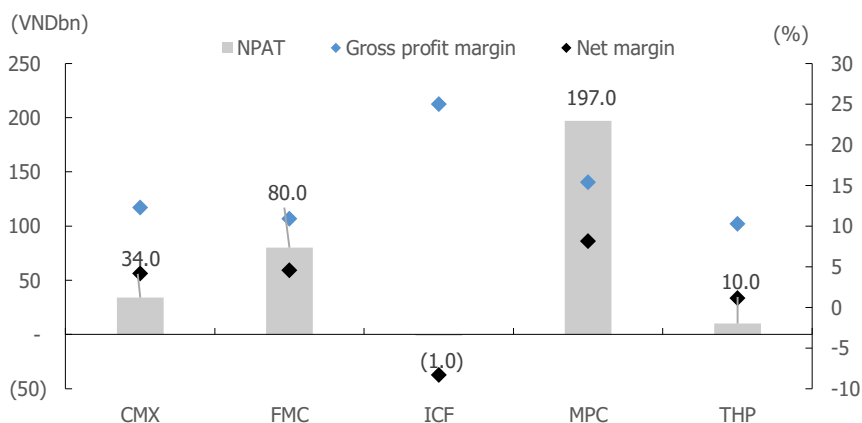
Source: Company data, Fiinpro

Figure 7. 3Q22 ASP increased while raw material cost stabilized qoq



Source: UndercurrentData, NOAA

Figure 8. Better MPC's GM as the accelerated export to Japan market



Source: Company data, KISVN

3. Stalling export since low demand of pangasius in 3Q22

Pangasius industry recorded USD538.5mn export value (+88% yoy and -30% qoq). Despite the robust growth 88% yoy assisted by +30% yoy ASP and +44% qoq, the export dropped 30% qoq since the demand slowed down after accelerated export in 1H22. Thereby, listed pangasius exporters revenue rose +68% yoy and -14.2% qoq.

Yet, even the demand of US market slowed down swiftly by -13% yoy and -50% qoq export volume, the US importers still accepted the high selling price at about USD4.8/kg (+40% yoy and flattened qoq). Therefore, the topline of VHC (US market contributing the largest revenue) reached VND3,261bn (+46% yoy and -23% qoq). ANV and IDI, which mainly focus on ASEAN and China markets, posted VND1,239bn (+89% yoy and -4% qoq) and VND1,964bn (+77% yoy and -18% qoq).

Figure 9. Small listed pangasius exporters recovered from 3Q21 low base

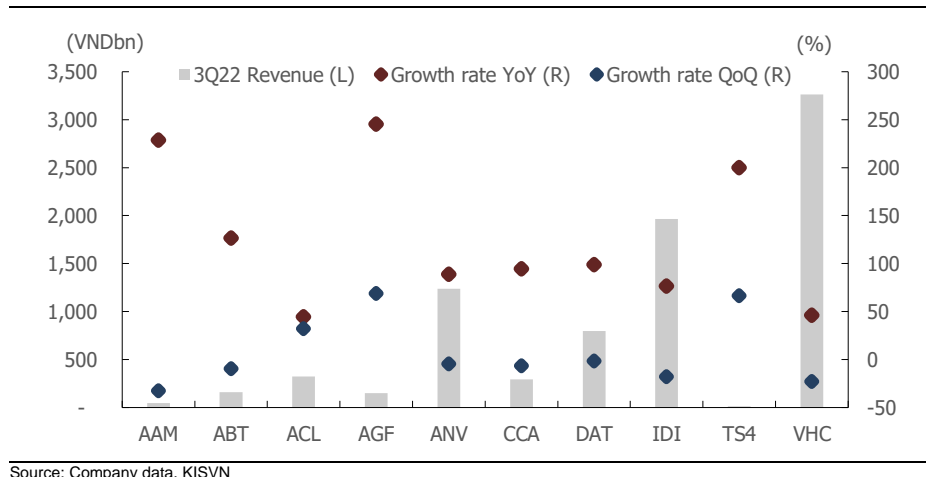


Figure 10. Export slowed down to 2 biggest markets in 3Q22

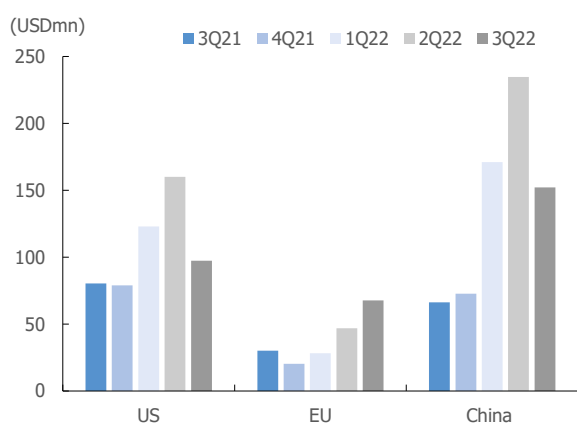
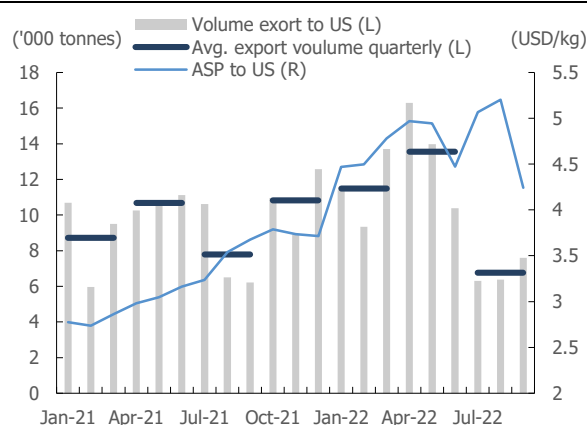


Figure 11. 3Q22 export volume shrunk below the norms to US market

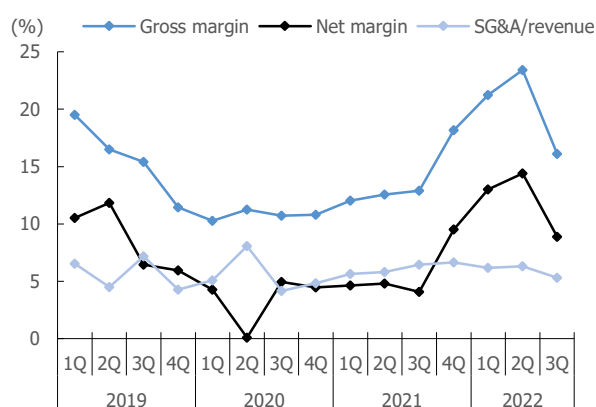


4. ASP decreased in most markets pulling pangasius exporters' GM down in 3Q22

3Q22 listed pangasius exporters' GM swelled to 16.1%, higher than 3Q21 GM of 12.9%. The raw material cost growth of about +30% yoy since the supply crunch while ASP rose from 32% yoy to 40% yoy. Yet, the demand seems to slow down in many markets, making the ASP slump slightly by 6% qoq compared to 2Q22 peak while the raw material stayed at a high level. Thus, GM dropped significantly by 7.32%p qoq. Consequently, the net margin posted to 8.9% (+4.8%p yoy and -5.5%p qoq), making VND733bn (+266% yoy and -47% qoq.)

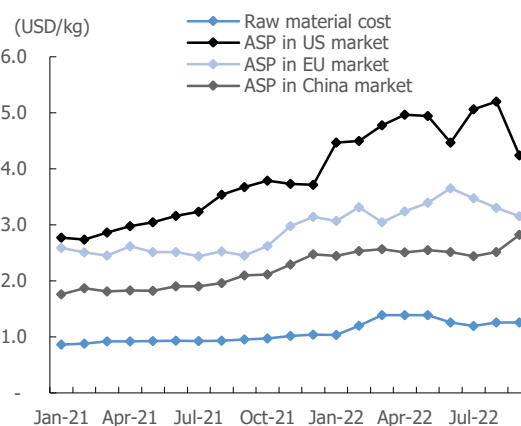
Chiefly, even though VHC benefited from an increase of ASP to US market by +36% yoy and +5% qoq, VHC' 3Q22 GM only reached 19% (+0.8%p yoy and -6.8%p qoq) due to the increase of inventory provision (VND214bn). Thus, VHC 3Q22 NPAT posted VND460bn (+79.5% yoy and -41.7% qoq). Other listed pangasius exporters' NPAT also recovered yoy from an extremely low base during the stagnant operating activity in social distance 3Q21 but levered off qoq.

Figure 12. 3Q22 GM dragged net margin down



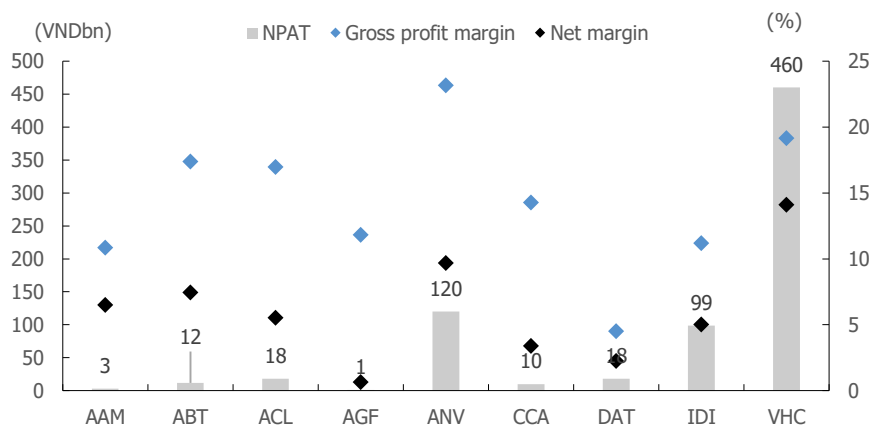
Source: Company data, Fiinpro

Figure 13. ASP trend kept high to export to US and EU



Source: Company data, Fiinpro

Figure 14. VHC kept better net margin since VHC export most to US market



Source: Company data, KISVN

5. Challenges inherent for shrimp exporters in 4Q22F

In our view, 4Q22F seafood export growth rate would be mixed of pangasius and shrimp exporters. Pangasius exporters' revenue could lift slightly yoy and qoq since 1) exports to China bounce up since the import process eased from 3Q22, and 2) the export volume in 4Q22F could surge qoq to prepare for the holiday season in most markets. We expect that most exporters maintain a high net margin compared to 4Q21 and slightly reduce qoq since the average selling price higher yoy and stays lofty qoq.

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