

Horizon Securities

Research team

Phuong Le

Analyst

phuongle@horizonsecurities.com

Stock Profile/Statistics	25-Nov-09
Reuters Ticker	HVG.HM
Sector	Fisheries
VND/USD	17,750
Shares Outstanding	59,999,993
Market Capitalisation (VNDmln)	3,480,000
Foreign Room (%)	37.0%
Ownership Structure	%
BOM	38.0%
Employees	19.0%
Foreigners	12.0%
Others	31.0%

Company Note

Hung Vuong Corporation (HVG): Hung Vuong Corporation is the largest pangasius exporter in the world with total designed production capacity of 910 tons/day. Its four main business segments are: (1) Fish feed (2) Fish farming (3) Cold storage service (4) Pangasius fillet export

Key positives

- **Business is vertically integrated.** Hung Vuong is vertically integrated along upstream & downstream segments such as feedstock production, fish farming, cold storage and pangasius export.
- **Tax allowance.** Hung Vuong's effective tax rate is 8-9% compared to a normalized rate of 25% for other companies. Since the company's processing plants are located in the industrial zones, Hung Vuong is exempt from paying taxes in its first three profitable years and a 50% tax reduction in the seven subsequent years.

Some concerns remain

- **Food safety & hygiene issue.** Europe, US, and Japan have instilled stringent food safety and hygiene standards which may hinder catfish exports into the regions.
- **Lack of legal contracts with catfish farmers.** Farmers breach contracts when they can get a higher selling price while processing companies would reduce purchasing price from the farmers if there is a surplus in supply.
- **Anti-dumping tax issue.** US, Spain and Russia have imposed anti-dumping taxes on Vietnam pangasius products due to low selling price compared to other catfish products in the US.

Key drivers for pangasius growth on global market

Increased awareness of nutritional benefits from fish. Fish products have less fat and cholesterol than meat products and should benefit from a more health conscious world.

Low production costs and ideal farming conditions in the Mekong Delta

Pangasius can be cultivated continuously all year in the Mekong River because of its abundance in natural resources and good weather conditions. In addition, pangasius cultivation costs are 20-30% lower than other fish species, as a result, Vietnam pangasius products are more competitively priced than fishes from other countries.

Rising pangasius consumption in Eastern European & South American markets.

Eastern Europe (Russia, Ukraine, Belarus, ...) is a fast growing market that contributes 35% of Vietnam's pangasius exports. South America is also a potential market due to its large population. Vietnam's pangasius products are much cheaper than salmon, tuna and tilapia, and have a great chance to penetrate this market. Consequently, Brazil, Peru and Chile have been importing Vietnam's pangasius since the beginning of this year.

Some concerns remain

Food safety & hygiene issue

Europe, US, and Japan have instilled stringent food safety and hygiene standards which may hinder catfish exports into the regions. The root of the problem is related to lack of vertical integration in the value chain. Processing companies purchase raw fish materials from farmers and do not have direct control of input quality. In addition, there is lack of capital to invest in testing equipments, resulting in hazardous infections of final fish products. Because of hygiene and safety standard concerns, Russia suspended all Pangasius and dried seafood imports from Vietnam from December 2008 to May 2009.

Lack of legal contracts with catfish farmers.

Farmers breach contracts when they can get a higher selling price while processing companies would reduce purchasing price from the farmers if there is a surplus in supply.

Shortage of raw material

Many farmers in the Mekong Delta halted production in the beginning of 2009 because of oversupply and declining prices last year, resulting in as much as 30% of the ponds remaining idle.

Fierce competition amongst fisheries

Lacking pricing regulations, some big fish exporters have tried to corner the market and drive out competitors by lowering prices to an unprofitable level. Smaller companies have no choice but to lower quality standards in order to stay in business. This has brought a black-eye to the Vietnam fishing industry.

Anti-dumping tax issue

US, Spain and Russia have imposed anti-dumping taxes on Vietnam pangasius products due to low selling prices compared to other catfish products in the US.. Vietnam fisheries countered that low prices are due to good weather conditions and low labor costs.

The Company

Hung Vuong Corporation is world's largest pangasius exporter with total designed production capacity of 910 tons/day. Four main business segments of Hung Vuong Corporation are: (1) Fish feed (2) Fish farming (3) Cold storage service (4) Pangasius fillet export

Figure 1. Sales breakdown 2008

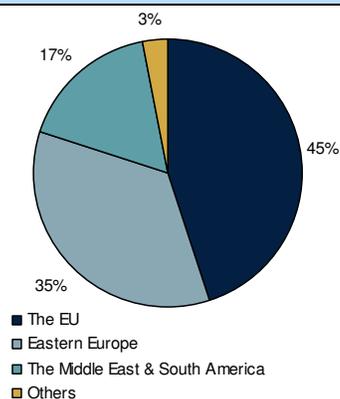
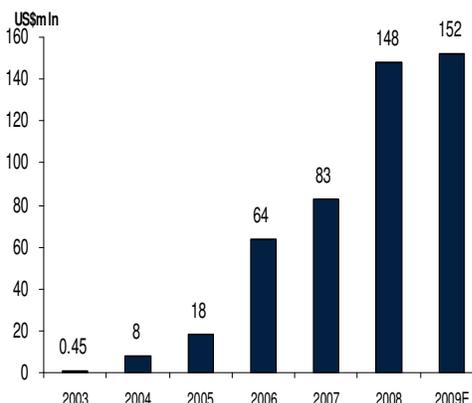


Figure 2. Export value 2003 – 2009E



Source: Company data

Business lines

Fish feed

Hung Vuong has two affiliated companies, Hung Vuong Tay Nam and Viet Thang, with a total output capacity of 420,000 tons per annum, or 25% market share in the Mekong Delta region. With this affiliation, Hung Vuong is able to gain a competitive advantage over other rivals by controlling production costs and improving quality of raw fish material input.

Figure 3. Hung Vuong's fish feed

	HV-Tay Nam	Viet Thang
HVG's stake	24.5%	18.2%
No of plants	1	3
Capacity (tons/day)	300	1,000
Utilization	90%	90%
Sales distribution to HVG (%)	80%	25%

Source: Company data

Fish farming

Hung Vuong has a 48% stake in Hung Vuong – Mien Tay (HVMT) fishing farm company. HVMT has a farm area of 150 hectares and produces an annual output of 80,000 ton of raw fish. This business segment ensures that Hung Vuong has sufficient raw fish material inputs while other exporters experience a shortage in raw materials.

Cold storage service

Hung Vuong currently has two warehouses with total capacity of 42,000 tons for cold storage services. The company is planning to build one additional warehouse to increase its storage capacity to 102,000 tons and it is expected to put into operation in 2011. Storage costs generally make up a high portion of the total cost structure.

Figure 4. Hung Vuong's cold storage service

	Started in 07	Started Nov08	Start in 2011	
	Warehouse 1	Warehouse 2	Warehouse 3	Total
HVG's stake	100%	100%	100%	
Capacity (tons)	12,000	30,000	60,000	102,000
Utilization	100%	90%	N/A	93%
Sales distribution to HVG (%)	100%	0%	N/A	25%

Source: Company data

Pangasius fillet export

Hung Vuong currently is the largest pangasius exporter in the world. For the first nine months of 2009, Hung Vuong's pangasius exports has reached total value of US\$101mln accounting for 10.3% of the total market shares.

Figure 5. Hung Vuong's processing plants

	Hung Vuong	HV-Vinh Long	An Lac	HV-Chau A	HV-Sadec	HV-Chau Au (*)	Total
HVG's stake	100%	90%	90%	90%	70%	70%	
No. of plants	2	2	1	1	1	1	8
Designed capacity (tons/day)	300	200	100	150	160	500	1,410
Avg capacity (tons/day)	200	150	80	100	100	400	1,030
Annual capacity (tons/day)	60,000	45,000	25,000	30,000	30,000	120,000	310,000
Utilization	67%	75%	80%	67%	63%	80%	73%

Source: Company data

(*) New factory is to be put into use in Nov 2009

Financial Highlights

Income statement (VNDmln)

FY ended, 31 December	2007A	2008A	9M2009
Net Sales	1,527,542	2,984,866	2,278,242
COGS	(1,239,443)	(2,264,624)	(1,833,635)
Gross Profit	288,099	720,242	444,607
Selling, G&A expense	(93,954)	(297,512)	(158,563)
EBITDA	208,675	463,440	326,754
EBIT	194,145	422,730	286,044
Interest Expense	(21,214)	(58,231)	(63,199)
Financial Income	6,084	52,080	83,810
Net Income	193,922	164,116	268,697
Adjusted Net Income	174,433	350,068	198,831

Balance sheet (VNDmln)

FY ended, 31 December	2007A	2008A	9M2009
Cash and cash equivalents	248,089	79,989	179,205
Account receivables	712,205	1,455,252	2,014,814
Inventories	217,718	433,179	714,806
Current assets	1,203,183	2,085,121	3,034,064
Long-term receivables	--	--	--
Fixed assets	189,283	426,497	488,213
Long-term investments	169,224	199,299	187,168
Other long-term assets	1,649	4,929	6,866
Non current assets	360,156	630,725	682,247
Total assets	1,563,339	2,715,846	3,716,311
Account payable	102,580	175,770	197,228
Accrued liabilities	3,023	10,457	1,669
Current liabilities	361,528	1,160,284	1,893,895
Long-term loan & debt	--	--	--
Other long-term liabilities	577	19,814	59,277
Non current liabilities	577	19,814	59,277
Total debts	231,068	(1,234,319)	(826,671)
Total liabilities	362,105	1,180,098	1,953,172
Minority Interest	6,980	31,857	44,074
Shareholders' funds	1,194,254	1,503,891	1,719,065

Cash flow (VNDmln)

FY ended, 31 December	2007A	2008A	9M2009
Pretax income	192,420	178,547	N/A
Pretax income after adjustment	226,075	514,044	N/A
Net CF from operating activities	(426,977)	(391,069)	N/A
Net CF from investing activities	(301,514)	(605,054)	N/A
Net CF from financing activities	976,580	828,024	N/A
Net increase(decrease) in cash	248,089	(168,099)	N/A
Cash at beginning of year	--	248,089	N/A
Cash at end of year	248,089	79,990	N/A

Disclaimer

This report has been issued by the Horizon Securities Corporation (“HRS”) with the instructional contributions of Horizon Capital whose employees are specified in the publication. This report is for information of its institutional and professional customers; and it is not intended for review of and should not be distributed for retail customers in Vietnam.

This report is and should not be construed as an offer to sell or a solicitation of an offer to purchase or subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. Investors are advised make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular circumstances such as their financial situation, investment objectives and other considerations.

In preparing this report, we have relied upon and assumed the accuracy and completeness of all information available from public and other sources which we believe to be reliable, but which we have not independently verified. HRS makes no express or implied guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information.

Opinions, estimates, and projections expressed are current opinions of the authors as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.

HRS and its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, companies mentioned herein. Further, HRS and its affiliates, and/or their officers, directors and employees involved in the preparation or issuance of this report may, from time to time, have long or short positions in, and buy or sell, the securities, or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives in a manner that may be consistent or inconsistent with this report and opinions expressed therein. As a result, investors should be aware that HRS and its affiliates and/or their officers, directors and employees may have a conflict of interest that could affect this report.

This report shall not be copied, reproduced, distributed (in whole or in part) or disclosed by recipients to any other person without the express permission of HRS in writing.

 **Horizon Securities**
A Member of Horizon Capital Group

194 Nguyen Cong Tru Street, 5th Floor
District 1, Ho Chi Minh City
Vietnam

Tel: +848 3914 7027 Fax: +848 3914 7020
Email: info@horizonsecurities.com