

Private Circulation Only

23/11/2011

Fishery

Impressive growth in top-line attributable from improved ASP and VND depreciation

Vietnam seafood export value record its high of USD4.35 bn (+24% y-o-y) in 9M11, of which shrimp contributed USD1.69 bn (+19% y-o-y) and pangasius (USD1.32 bn ~ + 29% y-o-y). This growth was mainly attributed from higher export price in most of export markets.

Profit margin not move in line with top-line due to surging material prices

Despite increasing export demand in 9M11, NPAT growth of almost companies were not in line, largely due to significant escalation of material price. In our view, i) the risks of narrowing pangasius farming area and outbreaks of shrimp diseases, ii) rising input costs and iii) higher export demand in the last months of year continue boosting material price and pressurize margins of fishery companies toward year-end.

Trend to expand to upstream segments in the value chain

We recognize that seafood exporters are no longer fully focus on processing and exporting but expanding toward farming, aquatic food supplying, breeding. The motivation of this trend are: i) meeting farming and producing certificates of importers, ii) improving ability to control costs for the purpose of getting better GPM while low degree of control over selling price.

Our view – NEUTRAL

Regardless of positive export result this year, we hold NEUTRAL view on fishery industry and anticipate consolidation trend in the upcoming time, specially small-sized companies amid the interest rate hike and increasing material price environment. We scaled down our coverage of fishery sector to three large-scale businesses with bigger market shares and competitive advantages to maintain their operation in difficult situation: Vinh Hoan (VHC), Hung Vuong (HVG) and Minh Phu (MPC).

NEUTRAL



Vietnam Equity Research

Le Thi Khanh An, ACCA
an.ltk@sbsc.com.vn

Nguyen Hoang Bich Ngoc
ngoc.nhb@sbsc.com.vn
 +84 (8) 62 686 868, ext: 8854

Exhibit 1: Financial Highlights

| Stock | Current Price | Market Cap | Rating | Target price | 9M11 NP | FY11 NP Estimates | PE | Volume | Relative performance | | |
|-------|---------------|------------|--------|--------------|----------|-------------------|-----|--------|----------------------|-----|------|
| | (VND) | (VND bn) | | (VND) | (VND bn) | (VND bn) | | 3M | 1M | 3M | YTD |
| MPC | 21,000 | 1,428 | SELL | 17,500 | 205 | 278 | 4.4 | 22,900 | -1% | -1% | -30% |
| VHC | 29,300 | 1,411 | BUY | 39,000 | 288 | 330 | 5.5 | 6,500 | -15% | -1% | -1% |
| HVG | 22,100 | 1,470 | BUY | 32,700 | 321 | 423 | 5.0 | 86,900 | 17% | 37% | -4% |

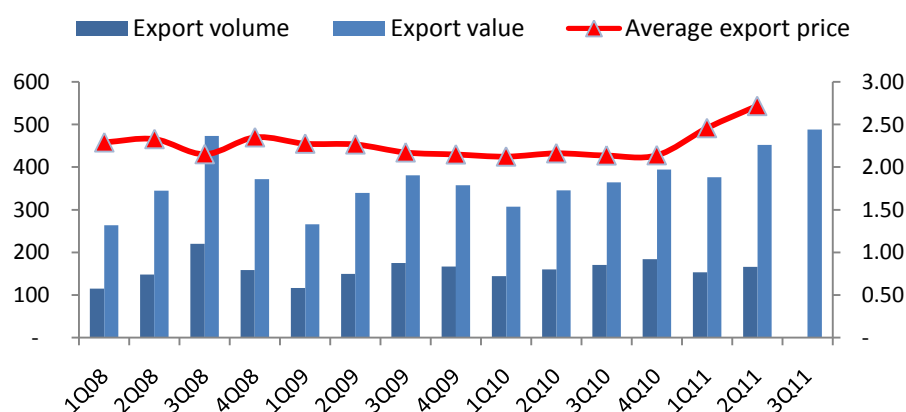
Source: SBS's research

Exports soar on rising average selling price (ASP) and VND depreciation

Vietnam seafood export value recorded USD4.35 bn (+24% y-o-y) in 9M11, of which frozen shrimp contributed USD1.69 bn (+19% y-o-y) and pangasius contributed USD1.32 bn (+29% y-o-y). This growth was mainly attributed from higher average export price which we assumed to be driven by: (i) the global inflation, (ii) rising demand for cheap products amid the uncertainty of global economy and (iii) surging material price. Pangasius export price increased about 21% y-o-y, having stayed at its high within last 3 years. Similarly, frozen shrimp export price recorded 15% increase y-o-y.

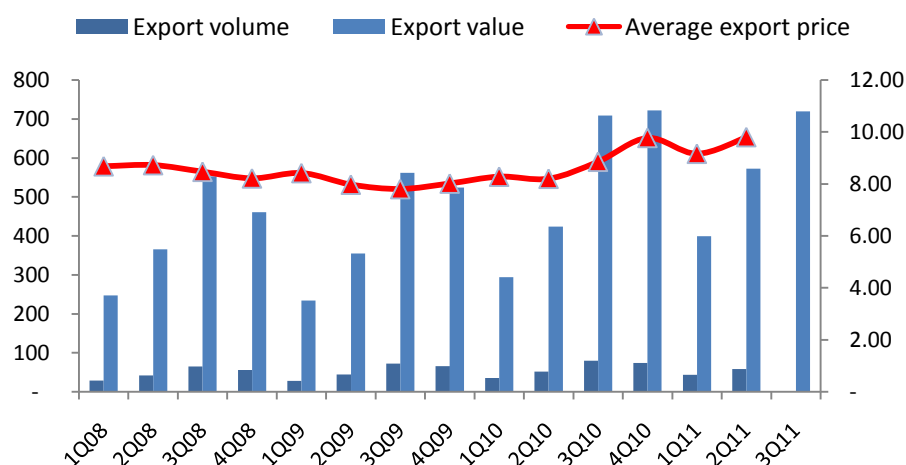
In addition, an about 11% depreciation of VND against USD YTD boosted seafood processors and exporter reporting sterling growth in top-line.

Exhibit 2: Pangasius Exports



Source: VASEP, SBS

Exhibit 3: Frozen Shrimp Exports



Source: VASEP, SBS

Positive indicators from export market demand

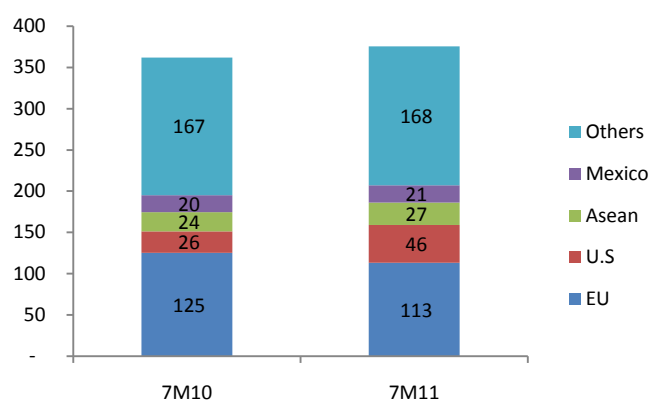
With sound results from 9M11, Vietnam Association of Seafood Exporters & Producers (VASEP) optimistically forecasts Vietnam could reach seafood export value of VND5.5 bn in 2011.

Pangasius export market: EU still key but big growth seen at US market. Export value is expected to be over USD1.5 bn in 2011 – VASEP estimated.

US market: US catfish area has decreased gradually since 2008, leading to the shortage supply of domestic catfish. In 2011, the area continues reducing by 39% y-o-y, the output processing lessened by 32% consequently. Thus, import volume raised by 41% to meet consumption demand according to the statistics figure up to 7M11. Experts assumed that not many farmers will be able to expand their area due to input cost likely to incessantly increase. Hence, we can expect higher demand for Vietnam seafood from US market although antidumping-tax and possibly new local catfish protection rules are main risks in this market.

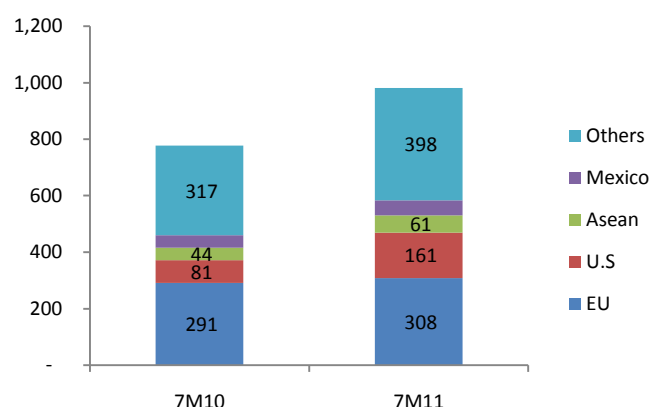
EU market: After slight decline from the beginning of FY11, the demand for imported pangasius now shows sign of recovery since Aug 2011 due to stocking demand for festive season towards year-end.

Exhibit 4: Pangasius Export Volume (thousand tons)



Source: VASEP

Exhibit 5: Pangasius Export Value (USD m)



Source: VASEP

Shrimp export market: reduced volume to Japan, biggest market due to the strict requirements of its food safety standards, yet VASEP anticipates over USD2.1 bn of export results in 2011, exceeding last year record.

Japan market: In contrary to strong growth of shrimp import in almost market, 7M11 Vietnam shrimp export volume to Japan decreased by 15% y-o-y. The decline is resulted from disacters at the end of March 2011 and finding of antibiotic residues exceeding permitted levels, specially Enrofloxacin (5M11 – no warning, Jun – 6 shipment, July – 3 shipments, Aug – 7 shipment, beginning of Sep – 4 shipments). Such findings affect negatively Vietnam seafood's credibility and reduce competitiveness in this market. VASEP suggested Directorate of Fishery prohibit use of Enrofloxacin in shrimp farming. Besides, NAFIQAD and VASEP has proposed the Food Safety Commission of Japan to review its permitted antibiotic levels as they are 10 times higher than the other markets.

US market: Vietnam exporters are facing the stronger competition from Indian rivals. Since the early of FY11, many Asia biggest shrimp suppliers such as Vietnam, Thailand, China suffered disasters and diseases, while Indian has good vannamei harvest with expanding area. Stable supply and competitive selling price has nearly doubled its market share in US from 3.4% to 6.8%, directly vying in large-sized shrimp segment with Vietnam.

Exhibit 6: Frozen Shrimp Export Volume (thousand tons)

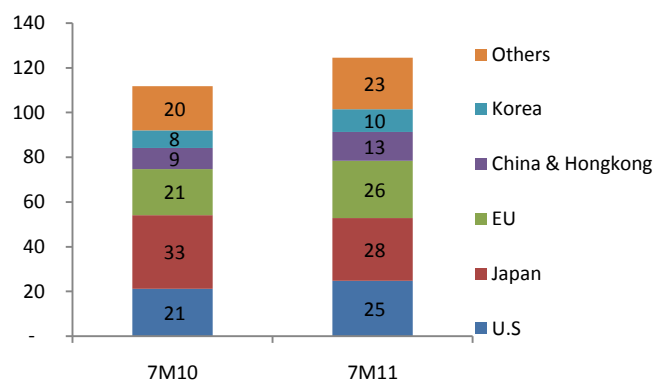
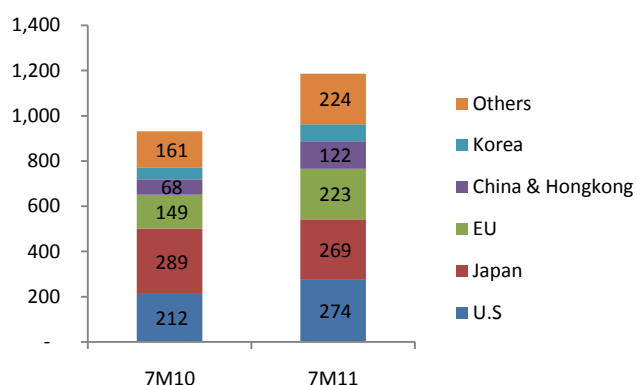


Exhibit 7: Frozen Shrimp Export Value (USD m)

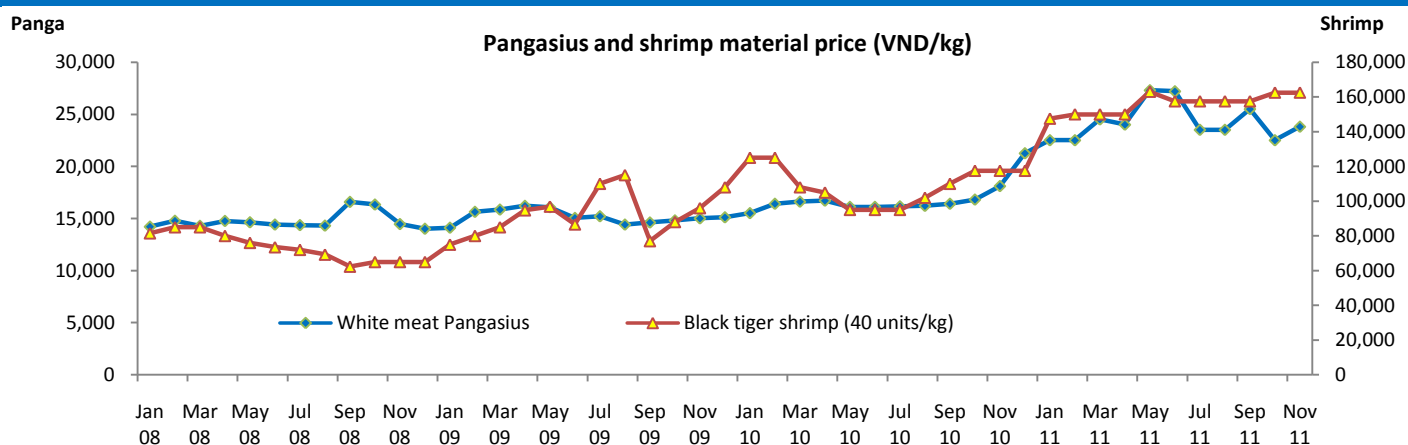


Source: VASEP

Profit margin not move in line with top-line due to surging material prices

Our talks with management of seafood exports reveals that despite increasing export demand bringing about higher sales in 9M11, NPAT growth of almost fishery companies were quite lower than their revenue improvement. It was largely due to significant escalation of material price by 45% - 51% on y-o-y basic. In our view, narrowing pangasius farming area and outbreaks of shrimp diseases are still the main risks for short supply until the end of FY11 and the beginning of FY12. In addition, the rise of input costs (such as seed, aquatic food, electricity...) and higher export demand in 4Q11 continue boosting material price and lessening the companies' profit margin as well.

Exhibit 8: Material price (VND/kg)



Source: VASEP

Trend to expand to upstream segments in the value chain

We recognize that seafood exporters are no longer fully focus on processing and exporting but expanding toward farming, aquatic food supplying, breeding. The motivation of this trend are: i) meeting farming and producing certificates of importers such as GlobalGAP, BAP - Best Aquaculture Practice..., ii) improving ability to control costs for the purpose of getting better GPM while low degree of control over selling price. However, it will take high investment. Therefore, we anticipate consolidation in the industry and expect large-scale businesses with great market shares and competitive advantages can efficiently go through this trend.

Exhibit 9: Investment in the value chain of some fishery companies

| | Breeding | Aquatic food | Farming |
|------------|---------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------|
| VHC | 70m fish breeds/year meeting 36% farming demand | 140,000 tonnes/year supplying 60% of farming demand | 320 ha meeting 60% of producing demand |
| HVG | | 130,000 tonnes/year - supplying nearly 50% of farming demand | 370 ha - meeting nearly 60% of producing demand |
| MPC | 65m post shrimps/year - meeting over 70% of farming demand | | 1,200 (600ha of water area) - meeting 20% of producing demand |

Source: VASEP

OUR VIEW

Vietnam seafood export has already entered a stable period with average volume of 1.2 – 1.3m tonnes/year since 2008 (610 – 660 m tonnes of pangasius products, over 240 tonnes of shrimp products). Exporters keep exploring new markets, however, they account for a negligible proportion of annual export, whereas low possibility to expand market share in traditional customers (EU, US, Japan) owing to stronger competition from other peers (China, Thailand, Indonesia, India...).

Challenge in export market – more hurdle ahead. We believe that the barriers to import market is always there, exporters always need look beyond to overcome trade barriers in tandem with growing protectionist tendencies of domestic fishery industry in import market.

Increasing levels of competition amongst exporters. Unfair competition in selling price commonly seen amongst exporters caused by the fact that total production capacity is nearly double in compared with export demand (1.1 – 1.3m tonnes/year). In addition, a large amount of fishery companies ~ 900 businesses (221 businesses in pangasius export and 321 companies in shrimp export) leading to strongly diminishing ability to negotiate selling price of our fishery companies.

Give NEUTRAL stance on the sector and scale down our sector coverage to 3 specific stocks HVG, MPC & VHC. We expect to see consolidation trend in the upcoming time, especially small-sized companies amid interest hike and increasing material price environment. And we decide to place our focus on the 3 companies that we believe having greater advantage over others, i.e the two leading companies in pangasius export with different development strategy: VHC with in-depth strategy, HVG with scale expansion through acquisition and MPC – the leading company in shrimp export.



Disclaimers

The information and statements contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy, completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. SBS and other related companies and/or their officers, directors and employees may have positions and may have affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. No person is authorized to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorized by or on behalf of SBS. This document is private circulation only and is not for publication in the press or elsewhere. SBS accepts no liabilities whatsoever for any direct or consequential loss arising from any use of this document or its contents. The use of any information, statements forecasts and projection contained herein shall be at the sole discretion and risk of the users. This document is confidential and is intended solely for the use of its recipient. Any duplication or redistribution of this document is prohibited.

Sacombank Securities Company - Head office

278 Nam Ky Khoi Nghia street, District 3 Ho Chi Minh City Vietnam

Tel: +84 (8) 6268 6868 Fax: +84 (8) 6255 5957 www.sbsc.com.vn

| Singapore DMG & Partner | Cambodia | Laos |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : + (65) 6533 1818 Fax : + (65) 6532 6211 | Sacombank Securities (Cambodia) PLC 56 Preah Norodom Blvd Sangkat CheyChumneas, Khan Daun Penh, Cambodia Tel: +855 23 999 890 Fax: +855 23 999 891 | Lanexang Securities Public Company 5th Floor, LSX Building, Ban Phonthan Vientiane Capital The Lao P.D.R |
| Saigon | Hanoi | |
| 63B Calmette Street Nguyen Thai Binh Ward, District 1, Ho Chi Minh City Vietnam Tel: +84 (8) 3821 4888 Fax: +84 (8) 3821 3015 | 6 th -7 th Floor, 88 Ly Thuong Kiet Street Hoan Kiem District Hanoi Vietnam Tel: +84 (4) 3942 8076 Fax: +84 (8) 3942 8075 Email: hanoi@sbsc.com.vn | |

