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# 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
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%

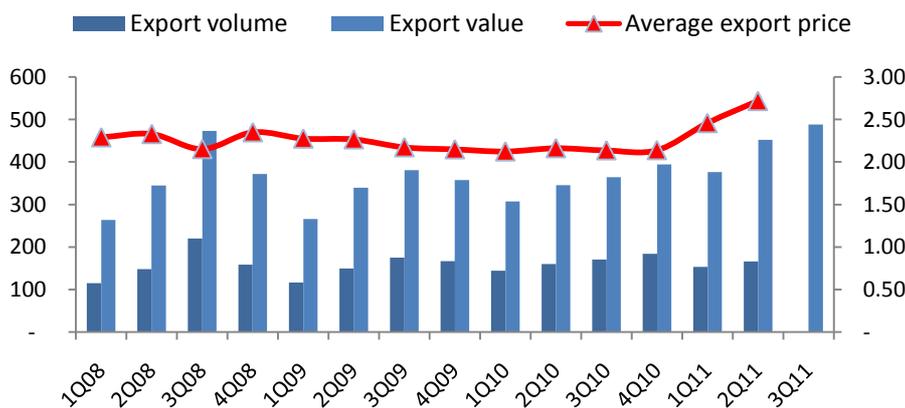
Source: SBS's research

## 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.

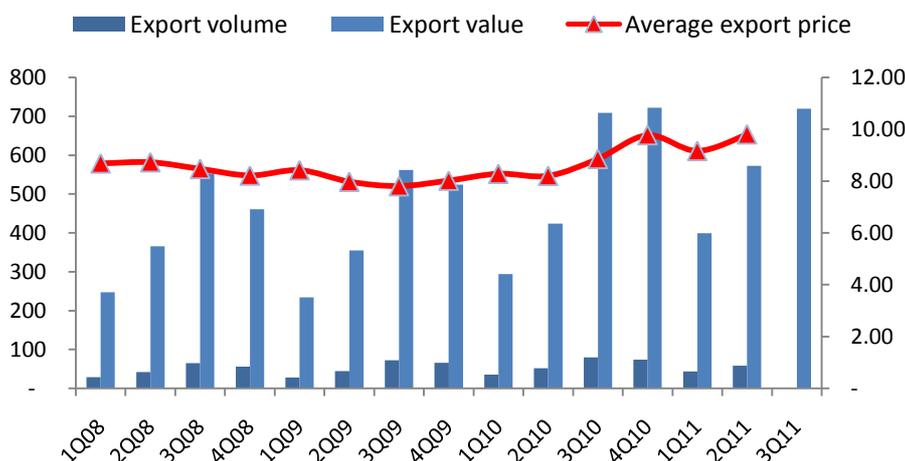
In addition, an about 11% depreciation of VND against USD YTD boosted seafood processors and exporter reporting sterling growth in top-line.

### Exhibit 2: Pangasius Exports



Source: VASEP, SBS

### Exhibit 3: Frozen Shrimp Exports



Source: VASEP, SBS

## Positive indicators from export market demand

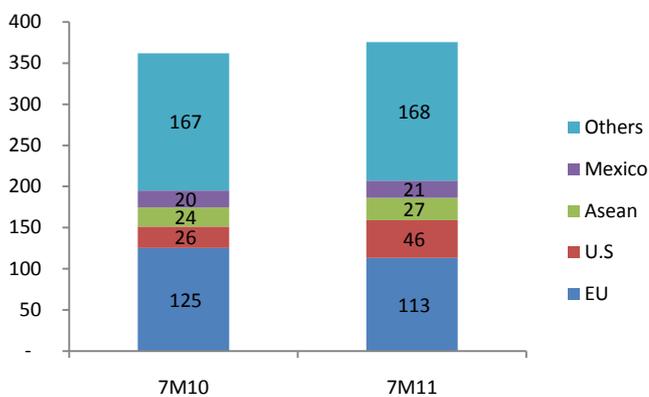
With sound results from 9M11, Vietnam Association of Seafood Exporters & Producers (VASEP) optimistically forecasts Vietnam could reach seafood export value of VND5.5 bn in 2011.

**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.

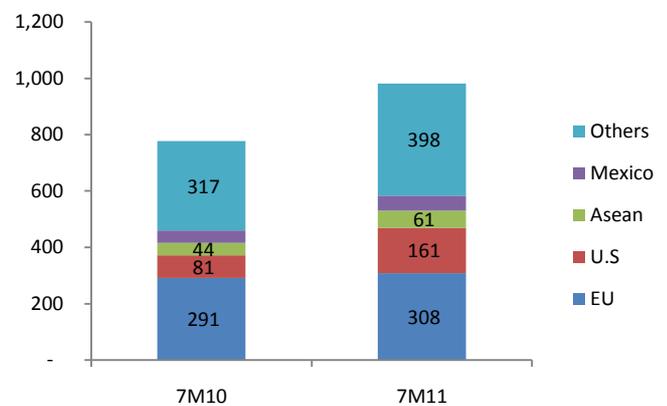
**EU market:** After slight decline from the beginning of FY11, the demand for imported pangasius now shows sign of recovery since Aug 2011 due to stocking demand for festive season towards year-end.

Exhibit 4: Pangasius Export Volume (thousand tons)



Source: VASEP

Exhibit 5: Pangasius Export Value (USD m)



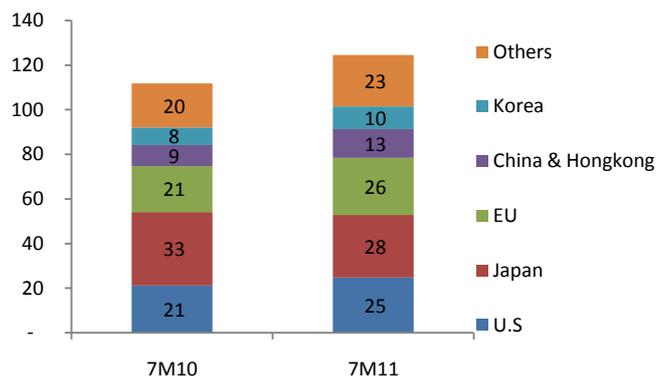
Source: VASEP

**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.

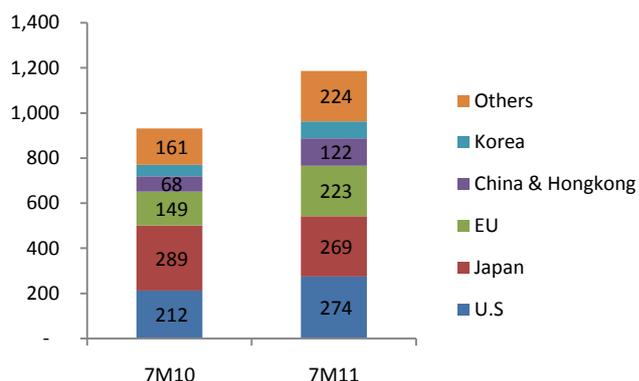
**Japan market:** In contrary to strong growth of shrimp import in almost market, 7M11 Vietnam shrimp export volume to Japan decreased by 15% y-o-y. The decline is resulted from disacters at the end of March 2011 and finding of antibiotic residues exceeding permitted levels, specially Enrofloxacin (5M11 – 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)**

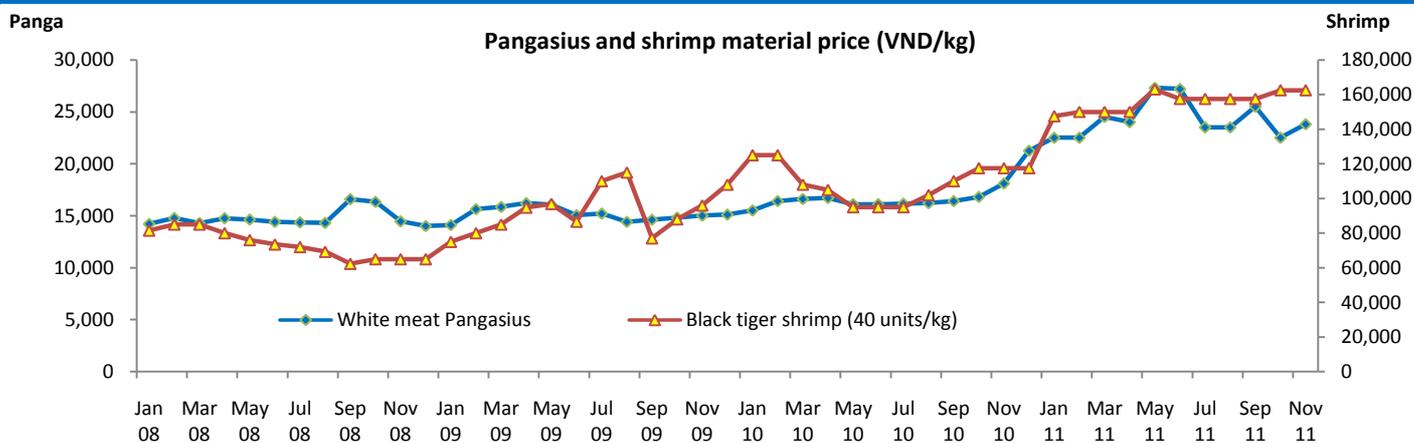


Source: VASEP

**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
<i>VHC</i>	70m fish breeds/year  meeting 36% farming demand	140,000 tonnes/year  supplying 60% of farming demand	320 ha  meeting 60% of producing demand
<i>HVG</i>		130,000 tonnes/year -  supplying nearly 50% of farming demand	370 ha -  meeting nearly 60% of producing demand
<i>MPC</i>	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

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## 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](http://www.sbsc.com.vn)

### Singapore DMG & Partner

DMG & Partners  
Securities Pte. Ltd.  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : + (65) 6533 1818  
Fax : + (65) 6532 6211

### Cambodia

Sacombank Securities (Cambodia) PLC  
56 Preah Norodom Blvd  
Sangkat CheyChumneas, Khan Daun Penh,  
Cambodia  
Tel: +855 23 999 890  
Fax: +855 23 999 891

### Laos

Lanexang Securities Public Company  
5th Floor, LSX Building, Ban Phonthan  
Vientiane Capital  
The Lao P.D.R

### Saigon

63B Calmette Street  
Nguyen Thai Binh Ward, District 1,  
Ho Chi Minh City  
Vietnam  
Tel: +84 (8) 3821 4888  
Fax: +84 (8) 3821 3015

### Hanoi

6<sup>th</sup>-7<sup>th</sup> 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](mailto:hanoi@sbsc.com.vn)