

Nam Viet Corporation (ANV)

Readying for global expansion

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We initiate coverage with a BUY rating and VND21,700 target price as the company boosts capacity ahead of global expansion

New *Binh Phu* site will be ready for 100% internal production of fingerlings, feed meal and raw whole fish for ANV's processing plants

Management plans to diversify exports alongside better cost competitiveness and global certifications

We initiate coverage of Nam Viet Corporation (ANV) with a BUY recommendation and a target price of VND21,700 based on our DCF valuation. ANV is more than doubling internal capacity in preparations to expand China market share, re-enter the US market; and support growth in the EU and rest of world (primarily the Middle East & Latin America). The expansion is large and the new *Binh Phu* farming site should boost internal capacity to 200,000 metric tons in 2020E and 250,000 metric tons in 2021E from 120,000 metric tons in 2019.

ANV has internally-sourced 100% of production since 2018 but has yet to certify any of its ponds to global safety standards. This will change with the new *Binh Phu* facilities and completion of the 150-hectare hatchery site in 2021E will improve the ratio of internally-sourced fingerlings to 100% from 70%. Once complete, the *Binh Phu* farms will be ready for certification and boast 100% internal production of fingerlings, feed meal and raw *pangasius* whole fish material for ANV's processing plants.

Improved cost competitiveness from the *Binh Phu* farms should allow ANV to re-enter the US market, after antidumping duties forced the company to exit this market in 2014. A stronger cost structure should also facilitate further penetration of the China market (with ANV only entering this market from 2018), while global certifications should support exports into the EU.

Buy initiate

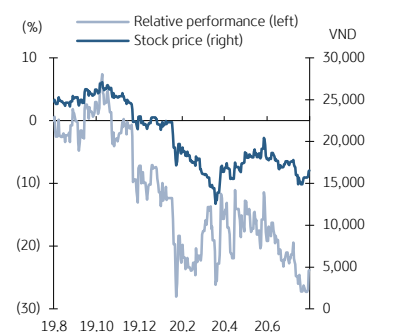
Target Price	VND21,700
Total return (%)	43.2%
Current price (Aug 12)	VND16,550
Consensus target price	VND19,100
Mkt capitalization (USDbn)	USD91mn

Trading data	
Free float (%)	13.6%
Avg trading value (3M)	USD0.17mn
Foreign available (%)	47.7%
Major shareholders (%)	Doan Toi (56.3%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-6.2	-11.5	-12.4	-33.3
Relative	-3.5	-12.7	-3.0	-23.8

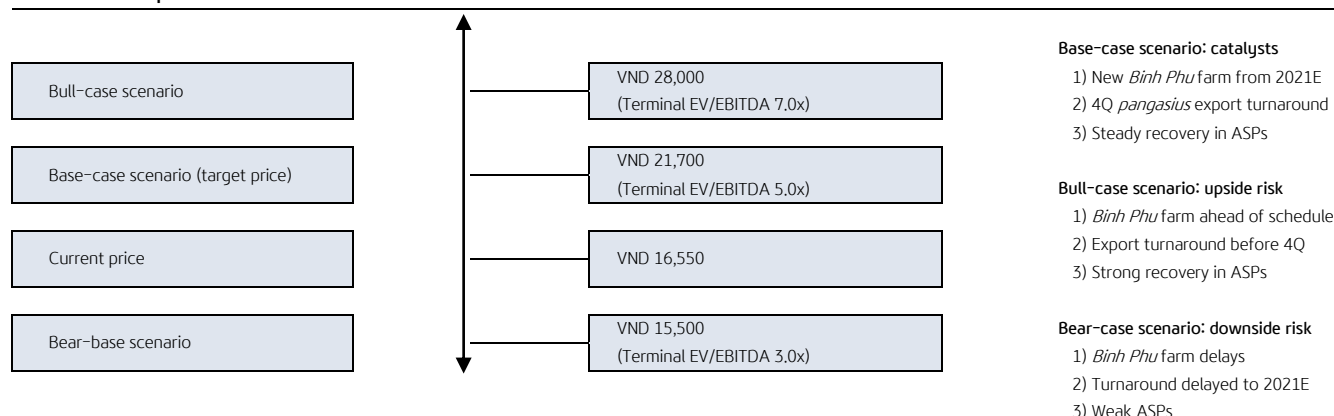
Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	4,481	3,287	3,347	3,566
EBIT	805	257	313	347
NP attributable to parent	704	214	270	297
EPS (VND)	5,536	1,679	2,120	2,326
EPS growth (%)	15.4	(69.7)	26.3	9.7
P/E (x)	3.0	9.9	7.8	7.1
EV/EBITDA (x)	3.8	8.6	5.9	5.2
P/B (x)	0.9	0.9	0.9	0.9
ROE (%)	33.3	9.1	11.5	12.2
Div yield (%)	9.0	12.1	9.1	10.3



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue						
EBIT						
OP						
NP after MI						

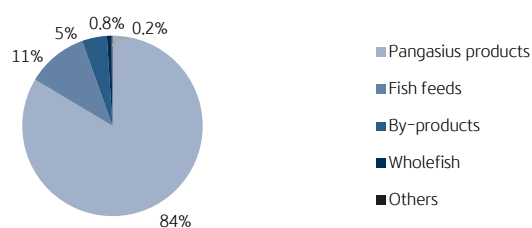
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	3,287	3,347	4,935	5,814	(33.4)	(42.4)
EBIT	257	313	na	na	na	na
OP	245	318	720	931	(66.0)	(65.8)
NP after MI	214	270	693	927	(69.1)	(70.8)

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

Peer group comparison

(USDbn, x, %)	Mkt Cap	12m fwd P/E	3y EPS CAGR	12m fwd ROE	12m fwd P/B
VHC VN	0.3	6.9	-10.0	17.7	1.2
MPC VN	0.2	na	na	na	na
ANV VN	0.1	10.5	-28.8	8.5	0.9
FMC VN	0.1	na	na	na	na

Source: Bloomberg, KB Securities Vietnam

Readying for global expansion

**Nam Viet Corporation (ANV):
More than doubling internal
production capacity to prepare for
global expansion**

We initiate our coverage of ANV with a BUY rating and a target price of VND21,700. Our target price is based on a discounted cash flow model using the free cash flow to the firm approach. We also expect ANV to benefit from 4Q's return to positive growth for *pangasius* exports as they more than double internal production capacity in preparation for global expansion.

**2Q earnings hit hard from weak
overseas markets and higher cost
structure of internally-sourced
fish; 2H sequential recovery with
return of China market and new
production from *Binh Phu* farm**

Preliminary 2Q earnings fell by 79% YoY to VND32 billion on VND884 billion in revenue (down 17% YoY) due to: 1) severe pandemic-induced contraction in export revenue (down 52% YoY); 2) shift to lower-margin domestic sales (up 114% YoY); and 3) sharp fall in the gross profit margin to 10% from 21% a year ago on higher costs for 100% internally-sourced fish and industry-wide drop in export ASPs. For 2H, we expect sequential earnings recovery to reach 99% QoQ for 3Q and 17% QoQ for 4Q (but still down 58% YoY in 3Q and 62% YoY in 4Q) due to: 1) shift back to China from domestic sales; 2) steady recovery in export prices to pre-pandemic levels; 3) new production from the *Binh Phu* farm; and 5) pick up in 4Q China exports with relaxation of pandemic-related inspections.

**We estimate a CAGR of 13.3%
between 2021E and 2025E to
determine our 12-month target
price**

Over our forecast period, we estimate an earnings CAGR of 13.3% between 2021E and 2025E and 26% YoY rebound for 2021E earnings due to higher gross profit margins from the new *Binh Phu* farm. Our forecasts assume: 1) start of the *Binh Phu* farming site in 2021E, especially hatchery activities; and 2) more than doubling of internal production capacity dedicated for expansion of overseas markets in China, the EU, ASEAN and Latin America. We have not fully-reflected all of ANV's new capacity into our forecasts due to uncertainty on the exact timing of re-entry into the US market and capacity shortfalls at the company's processing plants (new plants will need to be built).

We determine our 12-month target prices using DCF valuations to reflect the lack of consistent dividend payouts

Our valuations are based on discounted cash flow models (DCF) that utilize the capital asset pricing model (CAPM) to estimate the cost of equity and cost of debt for individual stocks. This allows us to determine the appropriate weighted cost of capital (WACC) to discount projected free cash flows to the firm (FCFF approach). The lack of consistent dividend policies from Vietnam's fishery companies make our DCF models the preferred method to set our 12-month target prices, especially in light of the severe swings in profitability arising from the cyclicity of the sector's commodity products. That said, we expect the volatility of cash flows – and ability of companies to adopt sustainable dividend payout policies – to improve over our forecast period as companies upgrade farming methods to satisfy stricter global quality standards.

Table 1. Nam Viet Corp (ANV) – Valuation (DCF) & target price (VND, %)

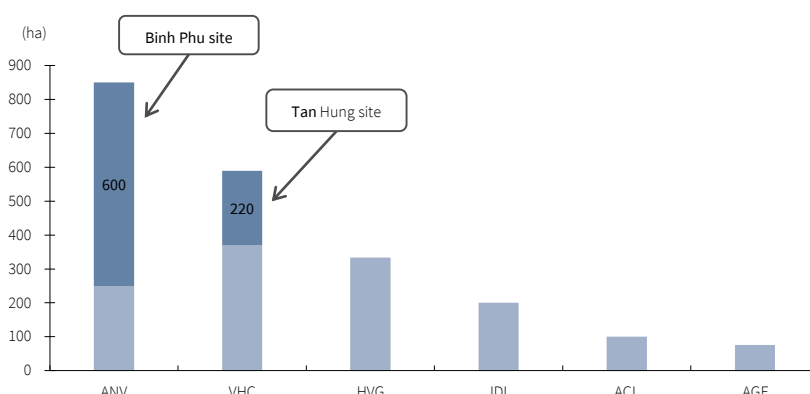
Line item	Notation		Notes
WACC	W	10.85%	$(E/(E+D) * k_e) + ((D/(E+D)) * k_D * (1-t))$
Cost of equity	k_e	13.30%	$r_f + (\beta_e * m)$
Re-levered beta	β_e	1.154	$\beta_A(1+((1-t)*D/E))$
Unlevered beta	β_A	0.810	Weighted-average sector unlevered beta
Cost of debt	k_D	7.00%	$r_f + (\beta_D * m)$
Debt beta	β_D	0.448	d / m
Assumptions			
Target gearing	D/E	50.00%	Long-term debt/equity ratio
Statutory tax rate	t	15.00%	Marginal corporate tax rate
Debt premium	d	4.00%	Estimated investment grade spread
Market risk premium	m	8.93%	Expected market return – risk free rate
Risk free rate	r_f	3.00%	10-year government bond
<hr/>			
Terminal value as % of firm value		54.9%	
PV of future cash flows (VNDbn)		1,632	
PV of terminal value (VNDbn)		1,986	
PV of Firm (VNDbn)		3,618	
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Total return		43.2%	
Target price (VND)		21,700	
Dividend per share (VND)		1,998	

Source: KB Securities Vietnam

New 600-hectare *Binh Phu* farming site will boost ANV’s total production to 250,000 metric tons in 2021E from 2019’s 120,000 metric tons

ANV’s 600-hectare *Binh Phu* farming site will be Vietnam’s single-largest aquaculture facilities comprising 150 hectares for the new hatchery and 450 hectares for cultivating *pangasius*. ANV internally-sources 100% of its fish production and the new farming area will boost total production to 250,000 metric tons when completed in 2021E from 2019’s 120,000 metric tons. Currently, 229 ponds are ready for use and management will begin production in 156 ponds to harvest 105,000 metric tons in additional whole fish and boost total production to 200,000 metric tons in 2020E or a 66% YoY increase.

Fig 1. Vietnam fisheries – Farming areas of major *pangasius* producers, 2019 (hectares)

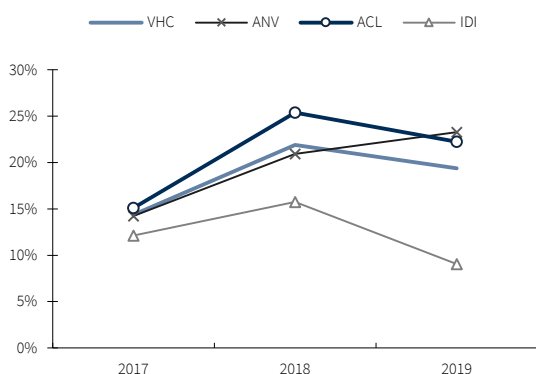


Source: Company reports, KB Securities Vietnam

Production boost and modern facilities to support expansion in gross profit margins

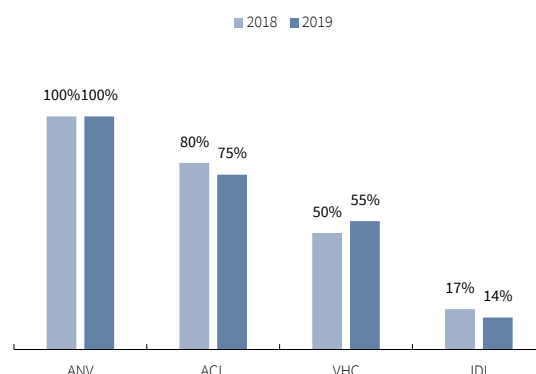
The new *Binh Phu* facilities are modern and offer a lower cost structure by taking advantage of automated feeding systems to reduce labor costs and solar panels to lower energy costs and qualify as environmentally sustainable operations. Results are already being seen, with ANV’s gross profit margin expanding to 23% and surpassing competitors in 2019 when only 20,000 metric tons were added to production (or about 17% of 2019’s total production).

Fig 2. Vietnam fisheries – Gross profit margins of major *pangasius* producers, 2017–2019 (%)



Source: Company reports, KB Securities Vietnam

Fig 3. Vietnam fisheries – Internal supply percentage of major *pangasius* producers, 2018–2019 (%)

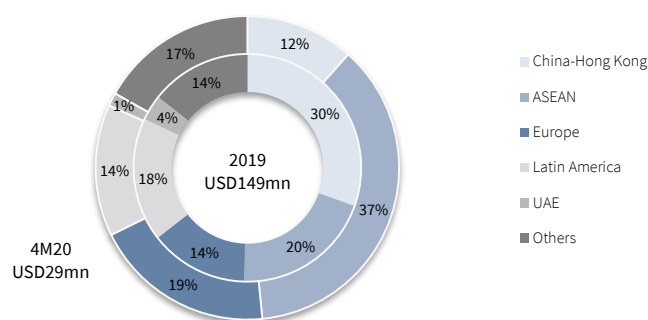


Source: Company reports, KB Securities Vietnam

New capacity being prepared for overseas markets and management's expectations for cyclical recovery in 2021E

New production will be dedicated for overseas expansion by offering a better cost structure to avoid antidumping tariffs and stronger supply chain management to satisfy global quality standards. Greater control over the supply chain should also allow specialized production for individual markets, with the EU preferring *pangasius* fillets less than 800 grams per piece and China favoring larger fillets at over 1,200 grams per piece. Initially, new production will likely focus on expanding ANV's presence in China after only entering this market in 2018 and then the EU and ASEAN markets. Re-entry into the US market will not likely occur until 2022E due to the lengthy procedure to receive approval from US customs over antidumping tariffs. Moreover, none of ANV's ponds are currently certified for global standards but we expect the company to start this process in 2022E after all of the new ponds are ready for production in 2021E.

Fig 4. Nam Viet Corp (ANV) – Export values breakdown by market, 2019–4M20 (million USD, %)

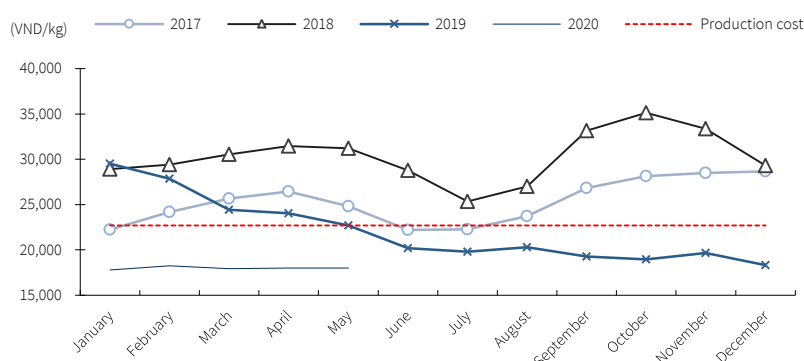


Source: Company reports, KB Securities Vietnam

Internal sourcing of whole fish material and fingerlings to reduce costs and offset exposure to weak selling prices

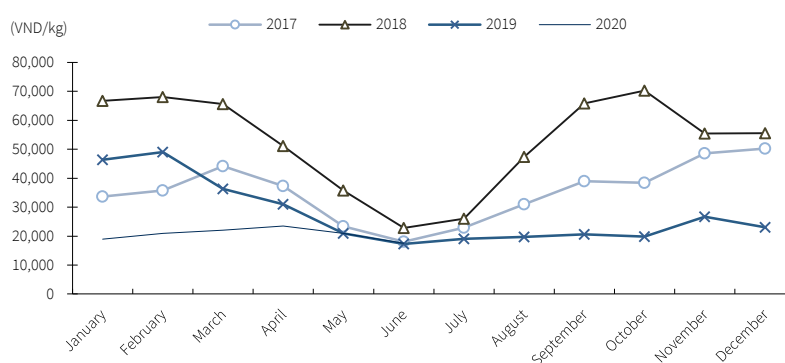
We expect ANV to continue pursuing the full integration of its supply chain to cope with fluctuating *pangasius* selling prices that have fallen below production costs since May 2019. The 150-hectare hatchery site at *Binh Phu* is an important part of this plan and should increase internal sourcing of fingerlings to 70% in 2020E from 2019's 30% and reach 100% when the hatchery is fully operating in 2021E. Maintaining a stable source of supply and steady prices for fingerlings is critical in the cultivation process as seen in 2018 when fingerling shortages pushed whole fish material costs to a record high of VND35,000 per kilogram. ANV's fingerlings are hatched at a low production cost of VND15,000 per kilogram and 30 pieces per kilogram due to the high survival rates of larvae to fingerlings at 3.5%–12.0% compared to the 0.9%–5.0% from outsourced suppliers that led to higher production costs at VND20,000 per kilogram.

Fig 5. Vietnam fisheries – Raw mature *pangasius* selling prices (size 700gr/pcs) & production cost, Jan 2017–May 2020 (VND/kg)



Source: Agromonitor

Fig 6. Vietnam fisheries – Price of *pangasius* fingerlings (size 30 pcs/kg), Jan 2017–Jun 2020 (VND/kg)



Source: Agromonitor

Feed also internally sourced but processing plants may need to expand

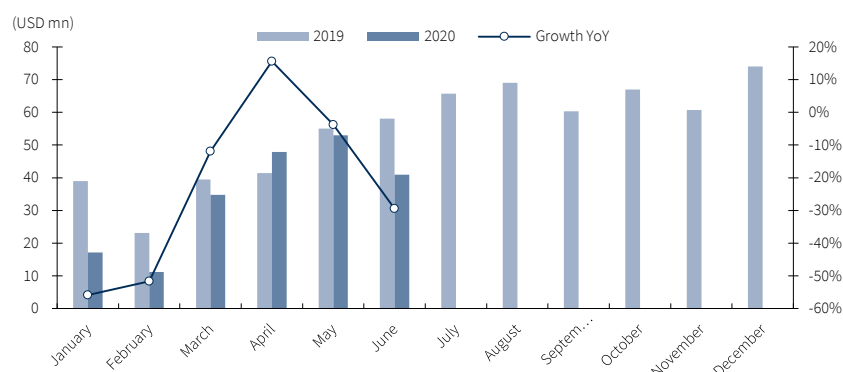
ANV meets 100% of its feed needs from Navifeed, a company owned by the son of ANV's chairman. Feed represents about 80% of total production costs at a ratio of 1.45 kilograms of feed for every 1 kilogram of mature fish. Navifeed can produce 1,000 metric tons of feed per day to fully meet ANV's daily needs even including the additional ponds at *Binh Phu*. That said, one bottleneck that should become evident are ANV's three existing processing plants that are running at 450–500 metric tons per day. Even at maximum capacity at 600 metric tons per day, these plants are insufficient to handle additional production from *Binh Phu* and ANV will need to expand output. Lack of skilled labor may also impact output given the falling popularity of fish processing jobs.

Table 2. Nam Viet Corp (ANV) – Processing plants, 2019 (tonnes/day)

	Approval number	Capacity
An Do Duong	DL 18	400
Nam Viet	DL 152	120
Thai Binh Duong	DL 384	80
Total		600

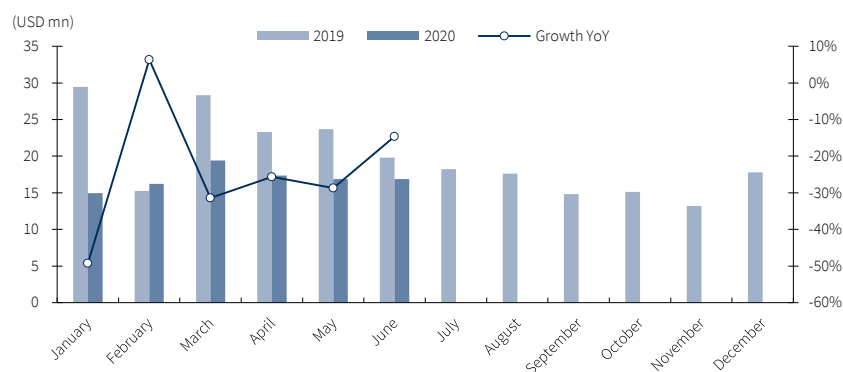
Source: Company reports, KB Securities Vietnam

Fig 7. Vietnam fisheries – Monthly pangasius export values to China & growth, Jan 2019–June 2020 (million USD, % YoY)



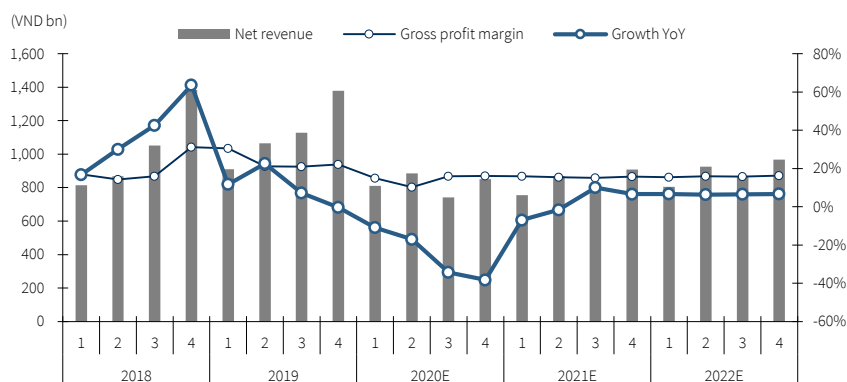
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 8. Vietnam fisheries – Monthly pangasius export values to the EU & growth, Jan 2019–June 2020 (million USD, % YoY)



Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 9. Nam Viet Corp (ANV) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: KB Securities Vietnam

Long-Awaited *Pangasius* Turnaround in 4Q

NEAR-TERM OUTLOOK:

Our expectations for export growth to turn positive in 4Q should be an important catalyst for *pangasius* exporters

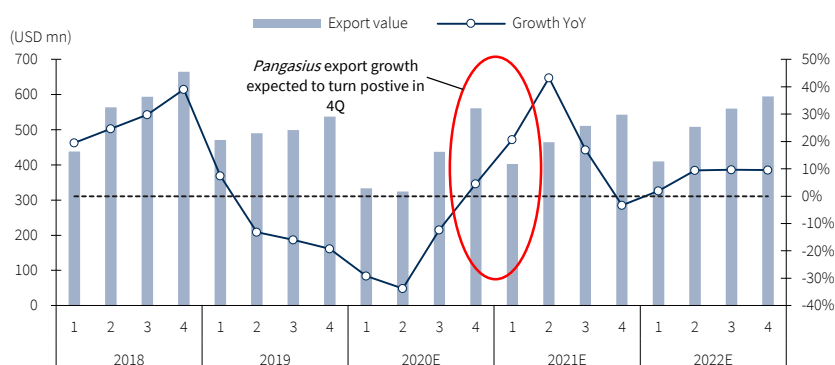
EXPORT VALUES:

Two important milestones likely reached as early as 3Q

The return to positive growth for exports will be a key catalyst for Vietnam's *pangasius* exporters and we estimate this inflection point will be hit in 4Q. After recording 27% growth during 2018's boom year, exports have been falling continuously since March 2019 and kept skepticism high for any turnaround in share price performance. But several factors are currently at work – including steady volume recovery, price stability and the waning base effect – that should drive a sharp improvement in sentiment and reverse the near two-year slump. Bad weather at the beginning of 2018 led to a shortage of fingerlings (baby fish), severe shortfall in whole fish material for processing plants and surge in prices that initially kicked off a bonanza for *pangasius* farmers but also quickly pushed the market into oversupply by the end of 2018 when record prices led to a boost in production.

The coronavirus has led to a deeper contraction in exports in 1H, falling by 32% YoY after volumes contracted by 12% YoY and prices plunged by 22% YoY. But our estimates show that volumes are recovering at a sufficient pace and prices have reached stable enough levels to return exports to positive growth by 4Q. Two important milestones will be reached as early as 3Q according to our calculations: 1) export volumes should stop falling and register flat YoY growth; and 2) export prices should bottom out and begin to trend higher from 4Q.

Fig 10. Vietnam fisheries – Quarterly *pangasius* export values & growth forecasts, 2018– 2022E (million USD, % YoY)



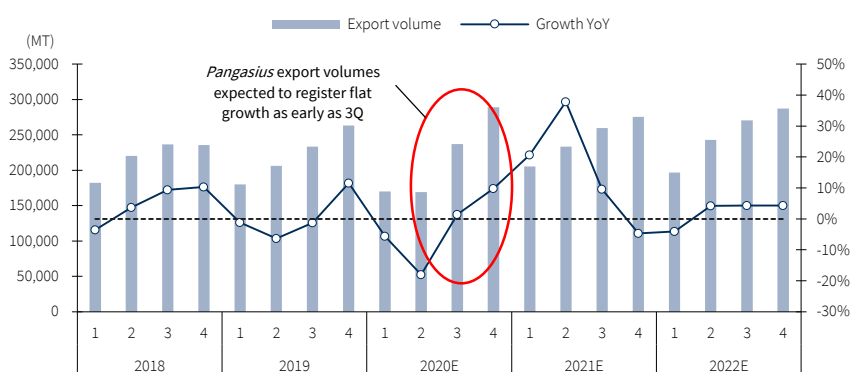
Source: Agromonitor, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

EXPORT VOLUMES:

Export volumes should stop falling as early as 3Q led by China recovery and US inventory restocking and then turn positive in 4Q led by the EU on the EVFTA

Our most recent data point is the preliminary June number from Vietnam’s customs office and only China has shown signs of recovery as the first large overseas market to reopen its economy (all other major markets continued to register negative growth). This should change from 3Q but the pace of recovery will likely differ by market. We expect US recovery to join China led by inventory restocking in 3Q followed by renewed growth from the EU in 4Q with the start of the EU–Vietnam Free Trade Agreement (EVFTA).

Fig 11. Vietnam fisheries – Quarterly *Pangasius* export volumes & growth forecasts, 2018– 2022E (metric tons, % YoY)



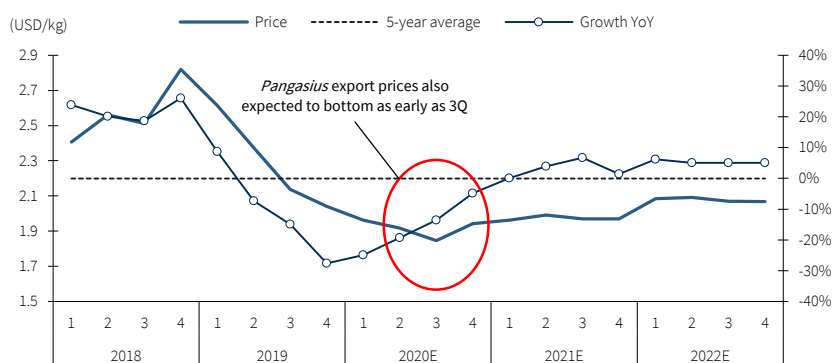
Source: Agromonitor, KB Securities Vietnam

EXPORT PRICES:

Export prices should also bottom out in 3Q and then trend higher

We expect overall export prices to bottom out in 3Q and trend higher from 4Q when the better pricing environment in China and the EU become more clearly evident in 4Q. China’s tight inspection standards for seafood imports due to the coronavirus should last until 3Q and extend price weakness for only one more quarter before being relaxed to support price recovery in 4Q. Moreover, prices for EU exports should benefit from the start of the EU–Vietnam Free Trade Agreement (EVFTA) in August that will reduce tariffs and improve the price competitiveness of Vietnam’s *pangasius* exports by 4Q.

Fig 12. Vietnam fisheries – Quarterly *Pangasius* export prices & growth forecasts, 2018–2022E (USD/kg, % YoY)

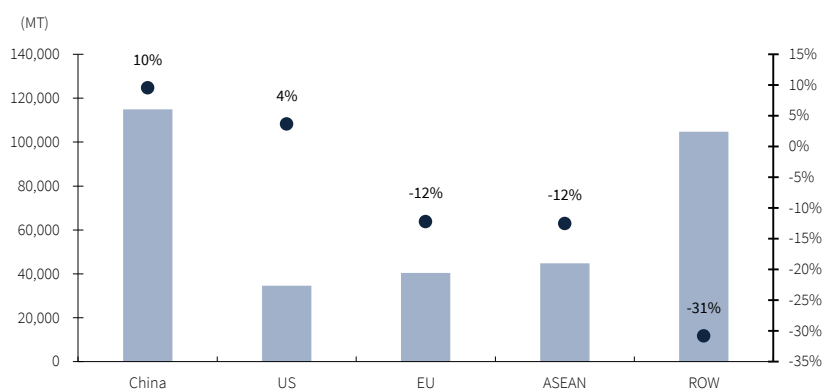


Source: Agromonitor, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

EXPORT VOLUMES BY MARKET:
Volumes in the US and China have been more resilient but collapsed in the EU, ASEAN and rest of the world

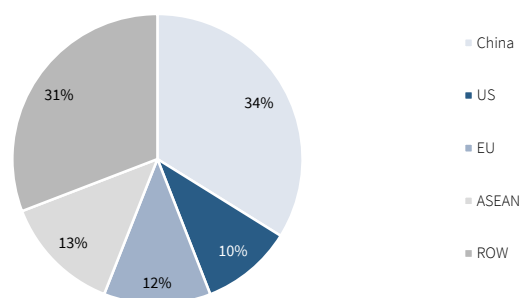
Export volumes to the US and China have proven resilient – and maintained positive growth in 1H despite the pandemic – with most of the hit to export volumes coming from the EU, ASEAN and the rest of the world. The US and China together now make 44% of volumes or close to half of Vietnam’s total export volumes and are, in our view, the most promising markets for recovery, followed by the EU, with markets in ASEAN and the rest of the world likely to recover into 2021E.

Fig 13. Vietnam fisheries – Pangasius export volumes by market & growth, 1H20 (metric tons, % YoY)



Source: Agromonitor, KB Securities Vietnam

Fig 14. Vietnam fisheries – Pangasius export volume breakdown by market, 1H20 (%)

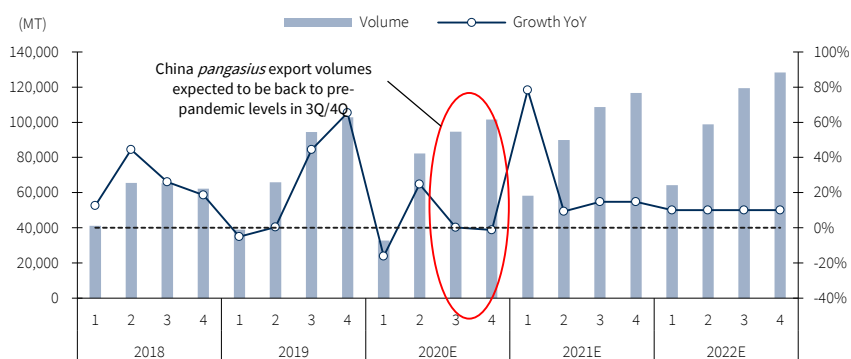


Source: Agromonitor, KB Securities Vietnam

China already starting to recover with reopening of the economy

China volumes have already turned positive in 2Q as the first major market to reopen its economy. China is the one market clearly hit by the coronavirus given attractive growth in the past few years alongside greater use of *pangasius* in China’s restaurant industry. We expect China to be the first market to resume pre-pandemic trends and believe volumes will rebound quickly to 2019 levels in 3Q and 4Q.

Fig 15. Vietnam fisheries – Quarterly *pangasius* export volumes to China & growth forecasts, 2018–2022E (metric tons, % YoY)

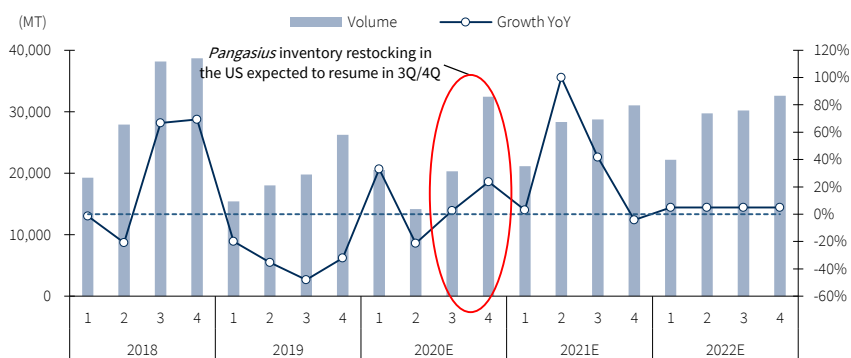


Source: Agromonitor, KB Securities Vietnam

Reopening and restocking to drive export volumes to the US market

Reopening of the US market should see demand pickup from the food services industry as well as inventory restocking from wholesalers. Demand from the US market is split between the food services industry and retail (ie, supermarkets) sold via wholesalers. We expect both areas to recover alongside the reopening of the economy. Of these, US wholesalers were already restocking inventories from 1Q after running down stockpiles bought in 2019 due to concerns over a US-China trade war. We expect this – and delayed purchases during 2Q’s usually stronger seasonality – to support volumes in 3Q and continue into 4Q’s holiday season (the seasonally strongest quarter).

Fig 16. Vietnam fisheries – Quarterly *pangasius* export volumes to the US & growth forecasts, 2018–2022E (metric tons, % YoY)

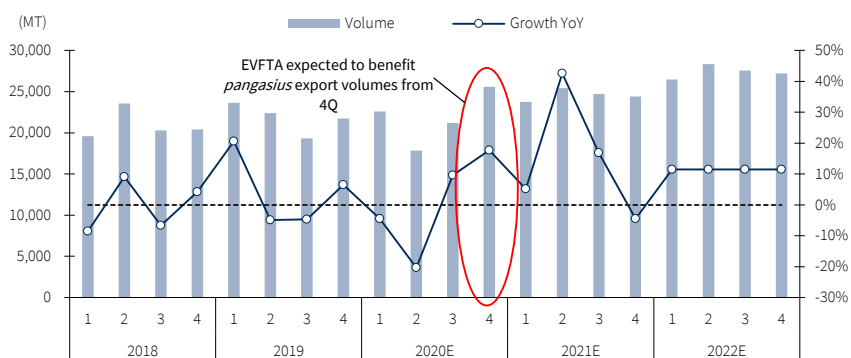


Source: Agromonitor, US Department of Agriculture, KB Securities Vietnam

EVFTA should help stop the downtrend in EU volumes

We expect the EU-Vietnam Free Trade Agreement (EVFTA) to help stop the downtrend in EU export volumes, with tariffs dropping to 4.1% from 5.5% in 2020E and eliminated by 2023E. Benefits will not be limited to improving the price competitiveness of Vietnam’s exports but the EVFTA should also overcome issues related to rules of origin, food safety and environmental sustainability. Most of the benefit from the EVFTA should be realized in 4Q, when we expect export volumes to the EU to regain momentum.

Fig 17. Vietnam fisheries – Quarterly pangasius export volumes to the EU & growth forecasts, 2018–2022E (metric tons, % YoY)

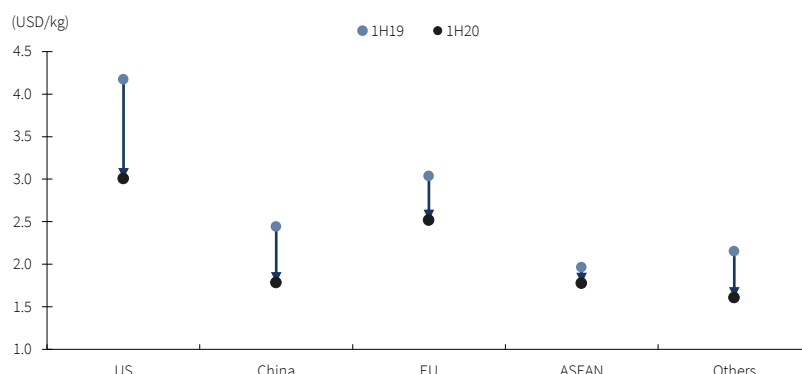


Source: Agromonitor, KB Securities Vietnam

**EXPORT PRICES BY MARKET:
Some delays from coronavirus but export prices have fallen to more sustainable levels**

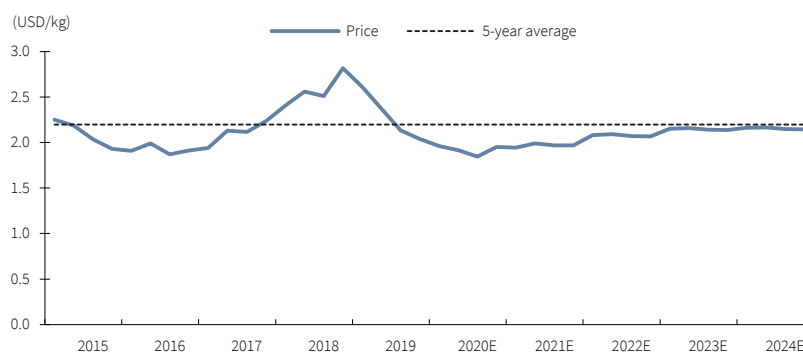
Export prices have stabilized to more sustainable levels after falling precipitously from 2018’s record highs. Prices have largely overcome the negative effects of 2018’s pangasius shortages that caused prices to surge in 2018 and then crash in 2019 after the spike in prices led to over-farming and oversupply. Moreover, inventories in the US market are back in balance after stockpiling on US-China trade war concerns bloated inventories and extended the downturn in prices.

Fig 18. Vietnam fisheries – Pangasius export prices by market, 1H19–1H20 (USD/kg)



Source: Agromonitor, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 19. Vietnam fisheries – *Pangasius* overall export prices, 2015–2024E (USD/kg)



Source: *Agromonitor*, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

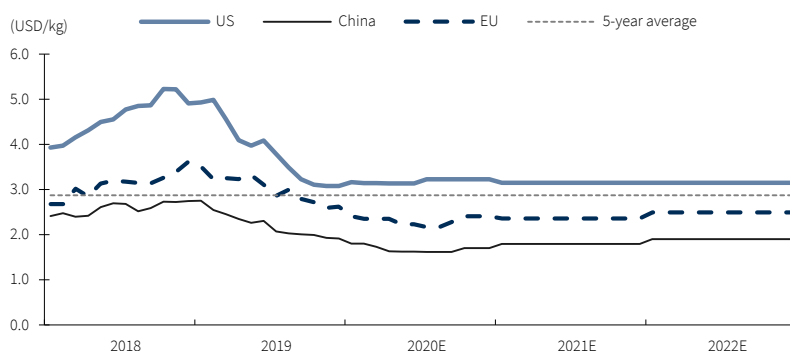
Some delays from coronavirus but export prices have fallen to more sustainable levels

China pricing: ASPs are usually 30%–40% lower than the US and 20%–30% lower than the EU market due to: 1) lower transportation and inspection costs; and 2) lower farming costs with less stringent environmental and food safety requirements. With demand already coming back in China, we expect export prices to move higher from 4Q when China relaxes the current tight inspections due to the coronavirus.

US pricing: Offering the highest ASPs due to: 1) high proportion of more processed frozen fillets; 2) strict environmental and food safety regulations; and 3) less room to cut pricing amid anti-dumping concerns. Vietnam's *pangasius* exporters have been closely monitored by customs officials since 2003 for unfair pricing and pay heavy antidumping duties compared to the country's shrimp exports (except for the top 2 exporters that pay none or marginal duties). This prevents most from undercutting export prices or has forced exit of some from the US market. Inventories from 2019's stockpiling of *pangasius* ahead of the US-China trade war have been largely responsible for the extended weakness in US export prices. But with excess inventory drawn down and restocking well underway prior to the pandemic – and only pausing during social distancing – we expect export prices to slowly trend higher in 3Q and 4Q.

EU pricing: ASPs are highly sensitive to environmental and food safety issues but also weaker demand and competition from other types of white fish (eg, haddock and Alaskan pollock). The waning popularity of *pangasius* and criticism of farming methods (ie, environmental sustainability) led to weaker export pricing trends in the EU compared to China and the US prior to the pandemic. That said, we estimate that near-term pricing will benefit from 2020E's scheduled tariff cut to 4.1% from 5.5%, with most of this increase expected for 4Q.

Fig 20. Vietnam fisheries – *Pangasius* export prices by market, 2018–2022E (USD/kg)

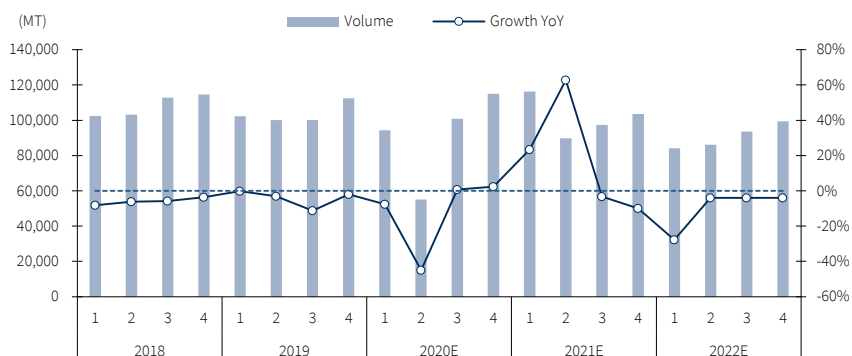


Source: International Trade Centre, US Department of Agriculture, Eurostat, KB Securities Vietnam

ROW: ASEAN, the Middle East and Latin America will probably not recover until 2021E

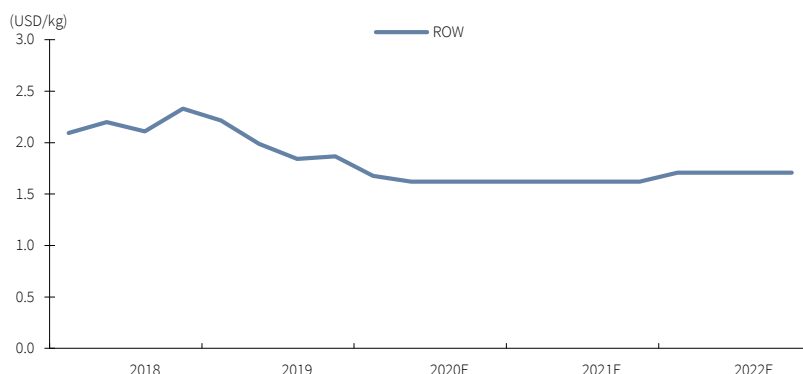
We do not expect recovery for exports to the rest of the world until 2021E when the pandemic comes under better control given the severity of volume contraction seen in 1H. The main regions within the rest of world category are the ASEAN countries (mainly Singapore and Malaysia), the Middle East and Latin America. Export volumes to ASEAN were down 15% YoY, the Middle East were down nearly 30% YoY and Latin America were down close to 40% YoY. One encouraging sign, however, is that markets in this category have witnessed stable prices which should bode well for recovery when volume demand picks up again.

Fig 21. Vietnam fisheries – Quarterly *pangasius* export volumes to rest of the world & growth forecasts, 2018–2022E (metric tons, % YoY)



Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 22. Vietnam fisheries – *Pangasius* export prices to rest of the world, 2018–2022E (USD/kg)

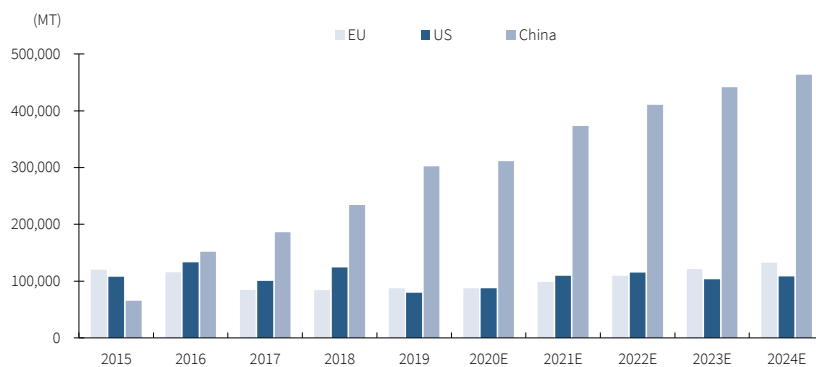


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

**MID- TO LONG-TERM OUTLOOK:
Vietnam's three major overseas
markets – the US, China & EU –
should continue recovery into
2021E**

We expect 2020E's turnaround in exports to gain momentum from 2021E for all of Vietnam's major overseas markets. China should resume pre-pandemic trends and see a pickup in demand from the important food service segment (most demand from China is from the restaurant industry). Inventory overhang in the US has cleared and restocking will probably continue into 2021E, while food service demand should continually improve as the US economy normalizes. August's official start of the EU-Vietnam Free Trade Agreement (EVFTA) should not only improve price competitiveness but should also help facilitate a sustainable turnaround in the EU market by resolving issues related to environmental sustainability and food safety. We estimate 2021E export volumes to increase by 20% to China vs our 2020E growth estimate of 3%; 25% to the US vs our 2020E growth estimate of 10%; and 13% to the EU vs our 2020E estimate for flat growth.

Fig 23. Vietnam fisheries – *Pangasius* export volume forecasts by market, 2015–2020E (metric tons)

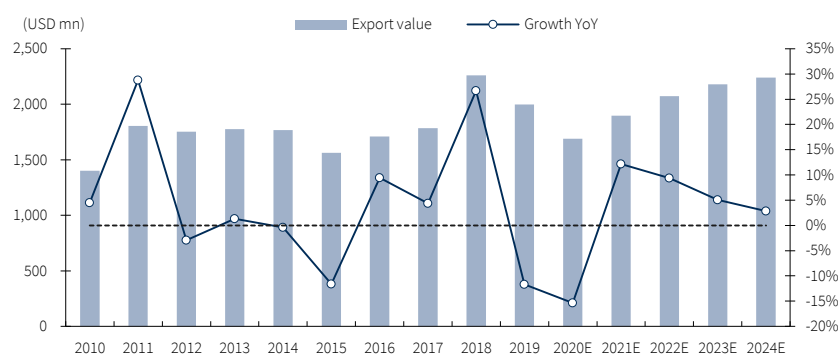


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Reduced farming has also vastly improved supply dynamics to maintain stable pricing

Vietnam's supply situation has vastly improved and should translate into a more pronounced rebound in export values from 2021E onwards. Farming output remains at depressed levels and we expect the greater use of internally-sourced fish stocks, food safety and environmental issues to lead to a more measured ramp up in production over the next cycle. This should go a long way to keep export prices stable throughout our forecast period, while gradually increasing export volumes to boost overall export values over the mid- to long-term and avoid repeating the mistakes of 2018. We estimate that Vietnam's export values will increase by 12% in 2021E and average about 5%-6% growth in the coming years vs our expectations for minus 15% growth in 2020E.

Fig 24. Vietnam fisheries – *Pangasius* export value forecasts & growth forecasts, 2010–2024E (million USD, % YoY)

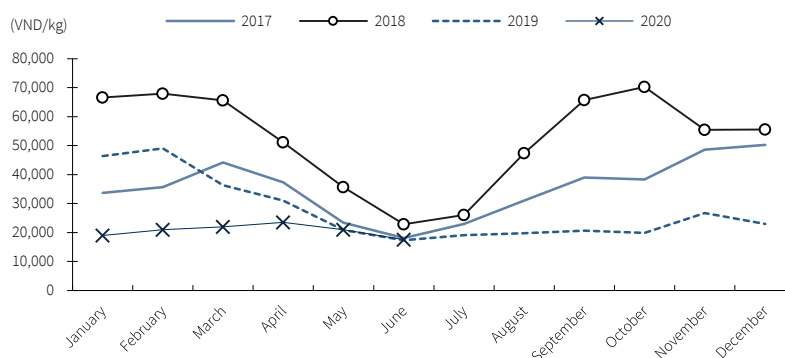


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Weak fingerling feedstock prices the bellwether for local farming activities

Fingerling (baby fish) prices are currently at four-year lows and signal weak farming activities and the apprehension of local producers to increase fish stocks. We believe this primarily reflects limited financial resources to boost production amid the uncertain demand outlook that has deteriorated further due to the coronavirus. This bodes well for pricing into 2021E and we expect the pickup in demand will initially outpace the ability of local *pangasius* farmers to increase output and keep supply tight during the upturn. It takes about six months to grow a fingerling to a mature fish.

Fig 25. Vietnam fisheries – Price of *pangasius* fingerlings (size 30 pieces/kg), Jan 2017–Jun 2020 (VND/kg)

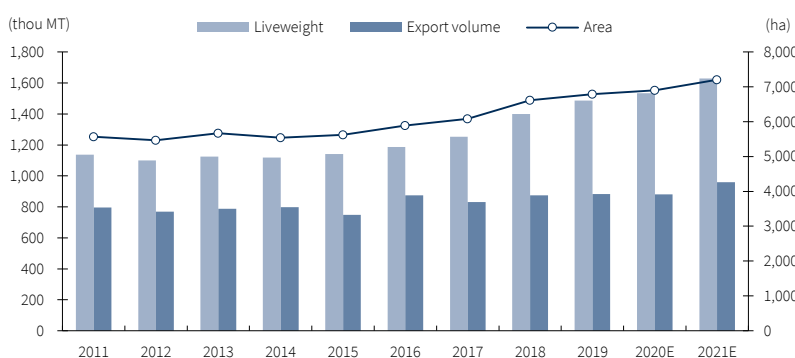


Source: Agromonitor

New farming sites will be ready for production by 2021E

The *pangasius* harvest should see positive growth in 2021E when new farms are ready for production. Major *pangasius* processors initiated sizable investments from 2018 to cut raw material costs and internally-source more fish supplies by expanding farming areas (Nam Viet: 600ha; and Vinh Hoan 220ha). Most of these projects will be complete by 2021E and we estimate the new farming sites will be primarily dedicated to exports and add about 10% to Vietnam’s overall *pangasius* production in 2021E.

Fig 26. Vietnam fisheries – *Pangasius* farming area & liveweight harvest forecasts, 2011–2021E (hectares, thousand metric tons)

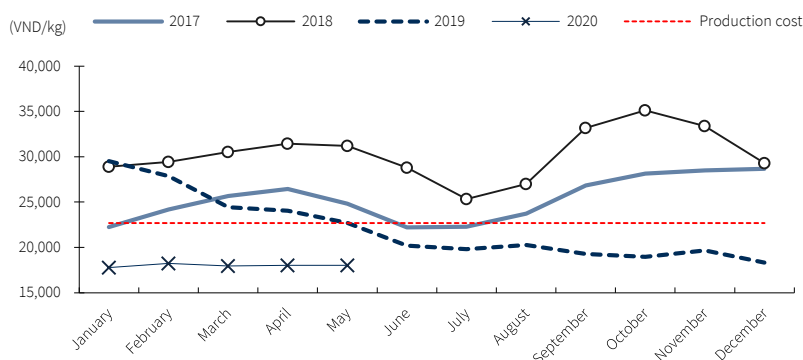


Source: Ministry of Agriculture & Rural Development, KB Securities Vietnam

Price recovery should also revitalize fallow ponds to boost harvests

Farmers have been willing to sell raw fish to processing plants at about 15% below costs since mid-2019. This comes after most farms reduced crop sizes and were forced to sell fish as soon as they reached minimum maturity to recoup feed costs. Most ponds remain empty or have switched to shrimp farming where prices have been more resilient. Consequently, we expect higher *pangasius* selling prices to revitalize fallow fish farms and boost overall harvests.

Fig 27. Vietnam fisheries – Raw mature pangasius selling prices (size 700 grams/piece) & production costs, Jan 2017–May 2020 (VND/kg)

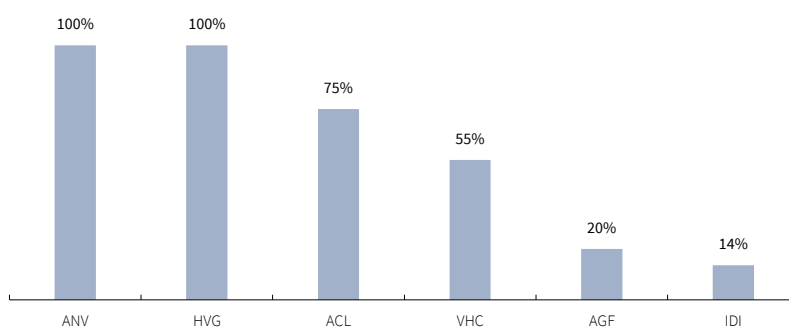


Source: Agromonitor

But greater use of in-house production should keep the pace of output increases in check

Vietnam’s pangasius exporters are moving to in-house production to better control output and cut raw material costs. This trend is also to overcome the difficulty of tracking raw fish from third-party suppliers needed to receive global quality certifications. Internal supply allows processors to meet strict requirements for food safety, environmentally-approved farming methods and rules of origin for the US and EU markets. We expect the greater reliance on internally-sourced raw fish – and the heavy capital expenditure for pangasius processors – to keep the pace of output increases in check.

Fig 28. Vietnam fisheries – Percentage of internal supply at major pangasius exporters, 2019 (%)



ANV = Nam Viet Corp (ANV); HVG = Hung Vuong Corp (HVG); ACL = Cuu Long Fish (ACL); VHC = Vinh Hoan Corp (VHC); AGF = Angiang Fisheries Import Export (AGF); & IDI = International Development & Investment Corp (IDI)
 Source: Company reports, KB Securities Vietnam

**CHINA 2021E & BEYOND:
Attractive penetration of the
China market should resume from
2021E onwards**

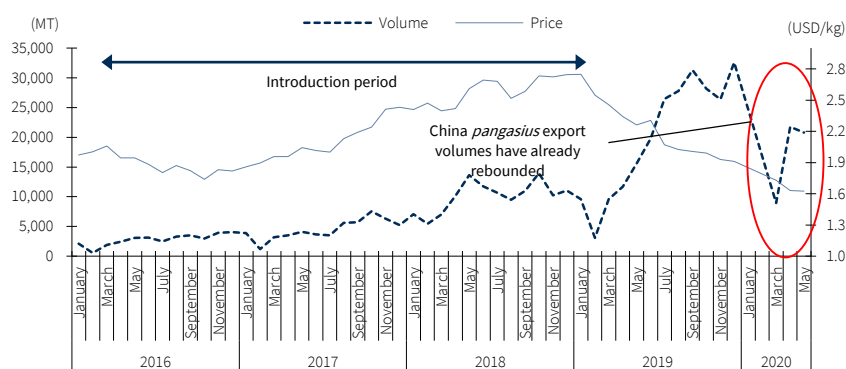
The coronavirus impacted China exports in 2020E and stalled penetration rates but we expect this market to revert back to pre-pandemic trends from as early as 2021E and retain its leading role as a large-volume market. *Pangasius* quickly gained popularity from Chinese consumers as a high quality white fish sold mainly through restaurants (eg, hot pot). Frozen fillets and butterflied whole fish are also competitively priced at about USD1.60 per kilogram. *Pangasius* was first introduced to the China market in small volumes at higher prices before wider acceptance allowed Vietnam’s exporters to drop prices to boost volumes significantly from March 2019. China became Vietnam’s largest *pangasius* market in 2019 after strong volume demand from restaurants led to a CAGR of 53% when popularity first grew between 2015 and 2018.

Prior to March 2019:
“Higher price, low volume” early acceptance phase
→ *Pangasius* begins to gain widespread popularity among Chinese consumers as a competitively-priced, high-quality white fish

March–December 2019:
“High volume, lower price” penetration phase
→ Exporters cuts prices to significantly boost volumes to penetrate further into this large-volume market

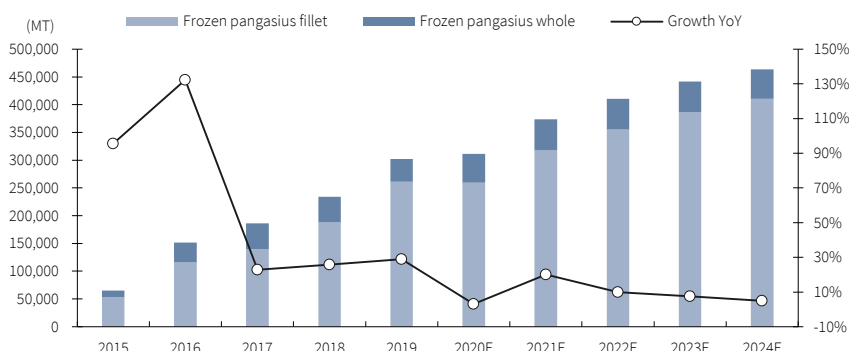
January 2020–now:
COVID-19 pandemic negatively impacted restaurant demand from China and exports

Fig 29. Vietnam fisheries – Monthly *pangasius* export volumes to China & prices, Jan 2016–May 2020 (metric tons, USD/kg)



Source: International Trade Centre, KB Securities Vietnam

Fig 30. Vietnam fisheries – *Pangasius* export volumes to China & growth forecasts, 2015–2024E (metric tons, % YoY)



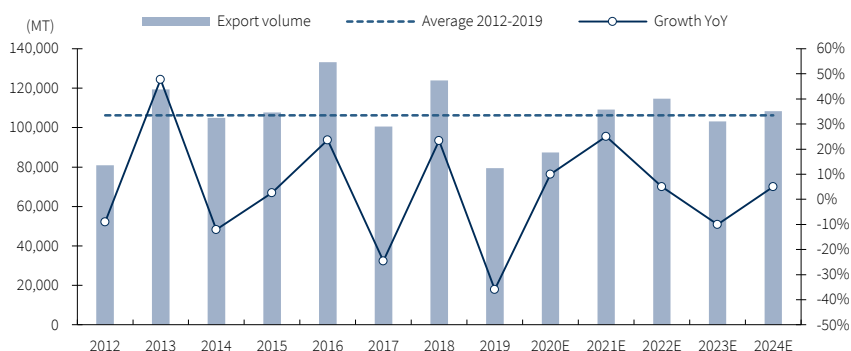
Source: International Trade Centre, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

US 2021E & BEYOND

Growing popularity to restore US market volumes to pre-pandemic levels by 2021E and drive longer-term growth

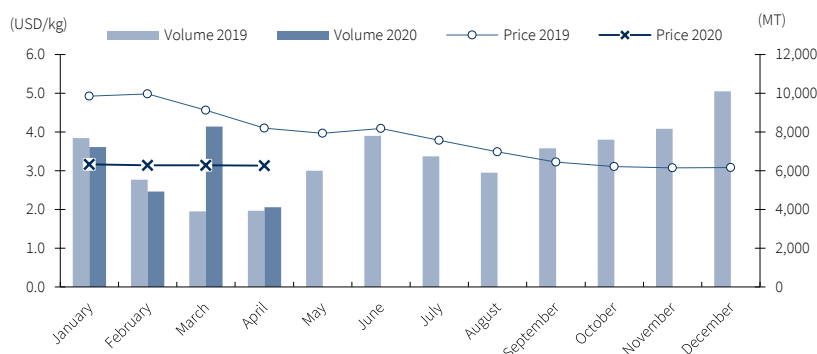
With inventory overhang largely resolved in the US market by 2020E, restocking should continue into 2021E as the pandemic delays top-up buying this year. Together with ongoing recovery in the food services industry, we estimate that export volumes could reach about 109,000 metric tons in 2021E (+25% YoY) or back to average levels seen between 2012 and 2019. Moreover, anti-dumping tariffs for major *pangasius* exporters – Vinh Hoan (VHC) and Bien Dong (unlisted) – are currently near zero and should not interfere with any rebound in exports. Other than the difficulties with anti-dumping – and the one area that will need to be closely monitored – we expect growing popularity of *pangasius*, better food safety and price competitiveness against US-cultivated cat fish to sustain mid- to long-term growth in the US market.

Fig 31. Vietnam fisheries – Annual *pangasius* export volumes to the US & growth forecasts, 2012–2024E (metric tons, % YoY)



Source: Agromonitor, US Department of Agriculture, KB Securities Vietnam

Fig 32. Vietnam fisheries – Monthly *pangasius* export volumes to the US & prices, Jan 2019–Apr 2020 (metric tons, USD/kg)



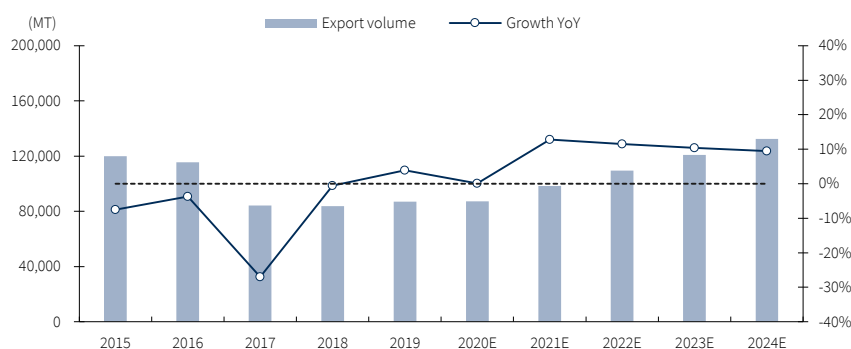
Source: US Department of Agriculture, KB Securities Vietnam

EU 2021E & BEYOND

EVFTA provides big opportunity to rebuild the reputation of Vietnam’s pangasius exports

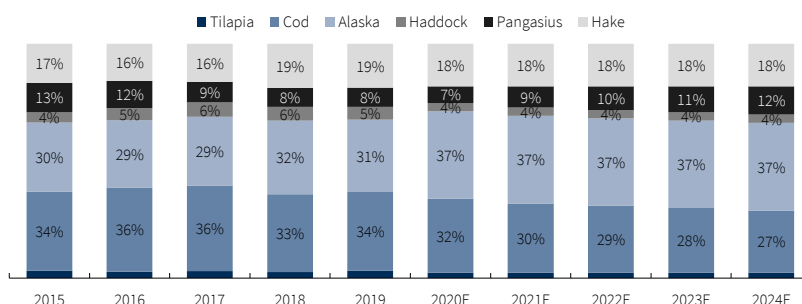
The EVFTA will require Vietnam to adhere to strict food safety and environmental standards and we believe this provides a big opportunity to restore the media-damaged image of pangasius exporters and improve exports from 2021E. European consumers have been apprehensive in buying pangasius due to the perception that the fish are inferior and grown in unhygienic conditions using farming methods that are harmful to the environment. We believe tighter safety requirements from the EVFTA and greater commitment by Vietnam’s pangasius exporters to receive global certifications could help repair their reputation and reverse the fall in market share that has been shrinking against other white fishes since 2010. Near-term, we expect pangasius exports to benefit from the gradual reduction of the 5.5% import tariff that will drop to 4.1% in 2020E before being ultimately eliminated by 2023E.

Fig 33. Vietnam fisheries – Pangasius export volumes to the EU & growth forecasts, 2015–2024E (metric tons, % YoY)



Source: Agromonitor, Eurostat, KB Securities Vietnam

Fig 34. EU fisheries – Whitefish import volumes by species, 2015–2024E (%)



Source: Eurostat, KB Securities Vietnam

Nam Viet Corp (ANV) – Discounted cash flow model

DCF VALUATION

Terminal value (VND in billions)						Terminal value (US\$ in millions)				
	1,995	2,660	3,325	3,990	4,654	86	114	143	171	200
Present value of firm						Present value of firm				
WACC	3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
8.9%	2,938	3,373	3,808	4,243	4,678	126	144	163	182	200
9.9%	2,879	3,295	3,710	4,126	4,542	123	141	159	177	195
10.9%	2,824	3,221	3,618	4,016	4,413	121	138	155	172	189
11.9%	2,772	3,151	3,531	3,911	4,291	119	135	151	168	184
12.9%	2,722	3,085	3,449	3,812	4,175	116	132	148	163	179
Present value of equity per share						Present value of equity per share				
WACC	3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
8.9%	16,400	19,800	23,200	26,600	30,100	0.70	0.80	1.00	1.10	1.30
9.9%	16,000	19,200	22,500	25,700	29,000	0.70	0.80	1.00	1.10	1.20
10.9%	15,500	18,600	21,700	24,900	28,000	0.70	0.80	0.90	1.10	1.20
11.9%	15,100	18,100	21,100	24,000	27,000	0.60	0.80	0.90	1.00	1.20
12.9%	14,700	17,600	20,400	23,300	26,100	0.60	0.80	0.90	1.00	1.10

Projected Unlevered Free Cash Flows

(VNDbn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	114	152	91	247	693	805	257	313	347	401	466	535
Taxes on EBIT @ 15.0%	17	23	14	37	104	121	39	47	52	60	70	80
Earnings before interest	97	130	78	210	589	685	219	266	295	341	396	454
Depreciation & provisions	97	80	77	80	80	81	88	155	155	148	144	142
(Profit)/loss from investing	-673	-18	-22	-5	-56	-58	-55	-51	-51	-51	-51	-51
Other adj for oper activities	660	79	525	39	14	-8	-9	83	89	97	108	120
Cash flow from operations	182	271	658	324	627	700	243	453	488	535	597	665
Change in working capital	-144	-91	-329	487	79	-391	260	160	-82	-110	-94	-166
Capital expenditures	-82	-87	-103	-50	-437	-363	-120	-105	-110	-145	-145	-145
Decrease in investments	-224	-34	599	5	13	0	-23	0	0	0	0	0
Unlevered free cash flow	-268	59	825	767	282	-55	360	508	295	280	358	354
Forecasted exchange rate	21,388	22,445	22,761	22,698	23,175	23,173	23,266	23,359	23,453	23,547	23,641	23,736
Unlevered FCF (US\$m)	-13	3	36	34	12	-2	15	22	13	12	15	15

Firm Value Calculations

WACC	10.9%	PV of future cash flows (VNDbn)	1,632	2020E Total debt (VNDbn)	944
DCF period	5 Yrs	PV of terminal value (VNDbn)	1,986	2020E Cash (VNDbn)	100
Terminal EBITDA (VNDbn)	665	PV of Firm (VNDbn)	3,618	Terminal value as % of firm value	54.9%
Terminal multiple (x)	5.0x	Current exchange rate (VND)	23,270	Current shares outstanding (mn)	127.5

Cost Of Capital Calculations

WACC	10.9%	Re-levered beta	1.154	Risk free rate	3.0%
Cost of equity	13.3%	Debt beta	0.448	Market risk premium	8.9%
Cost of debt	7.0%	Unlevered beta	0.810	Target gearing	50.0%
		Statutory corporate tax rate	15.0%	Debt premium	4.0%

Memorandum

(VNDbn, US\$m)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	1.05	1.16	1.29	1.43	1.59	1.76
Present value in VND	0	0	0	0	0	0	343	437	229	196	226	201
Present value in US\$	0	0	0	0	0	0	15	19	10	8	10	8

Source: Company reports, KB Securities Vietnam

Nam Viet Corp (ANV) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	4,481	3,287	3,347	3,566	Total assets	4,135	3,544	3,723	3,823
Cost of sales	3,438	2,821	2,826	3,001	Current assets	2,691	2,055	2,299	2,450
Gross Profit	1,043	466	521	565	Cash & equivalents	25	100	382	536
Financial income	52	51	51	51	ST investments	585	271	394	289
Financial expenses	60	64	46	49	Accounts receivable	443	397	399	425
of which: interest expenses	49	51	37	39	Inventory	1,583	1,253	1,089	1,161
Gain/(loss) from joint ventures	0	(0)	0	0	Other current assets	54	34	36	39
Selling expenses	191	163	151	160	Long-term assets	1,444	1,489	1,424	1,373
General & admin expenses	47	46	57	57	LT trade receivables	2	2	2	2
Operating profit/(loss)	798	245	318	349	Fixed assets	553	896	1,068	1,017
Other income	34	8	0	0	Investment properties	0	0	0	0
Other expense	1	0	0	0	LT incomplete assets	671	359	137	143
Net other income/(expenses)	33	8	0	0	LT investments	144	166	166	166
Pretax profit/(loss)	831	253	318	349	Goodwill	0	0	0	0
Income tax	126	39	48	52	Other LT assets	75	66	51	44
Net profit/(loss)	704	214	270	297	Liabilities	1,749	1,241	1,340	1,360
Minority interests	0	0	0	0	Current liabilities	1,728	1,219	1,318	1,358
Net profit after MI	704	214	270	297	Trade accounts payable	350	205	199	212
					Advances from customers	11	10	11	11
					ST borrowings	1,295	922	1,022	1,022
					Special reserves	0	0	0	0
					Other current liabilities	91	81	86	92
					Long-term liabilities	20	22	22	22
					LT payables	0	0	0	0
					LT borrowings	20	22	22	22
					Other LT liabilities	0	0	0	0
					Shareholders' equity	2,386	2,304	2,383	2,463
					Paid-in capital	1,275	1,275	1,275	1,275
					Share premium	22	22	22	22
					Treasury stock	(28)	(28)	(28)	(28)
					Undistributed earnings	1,117	1,034	1,113	1,194
					Reserve & others	0	0	0	0
					Minority interests	0	0	0	0
					Total liabilities & equity	4,135	3,544	3,723	3,823
Operating ratios (%)					Key ratios (x, %, VND)				
	2019A	2020E	2021E	2022E		2019A	2020E	2021E	2022E
Revenue growth	8.8	(26.6)	1.8	6.5	Valuations				
EBIT growth	16.2	(68.0)	21.6	10.8	P/E	3.0	9.9	7.8	7.1
EBITDA growth	14.7	(61.1)	35.6	7.2	P/E diluted	3.0	9.8	7.8	7.1
NP after MI growth	17.4	(69.6)	26.3	9.7	P/B	0.9	0.9	0.9	0.9
Gross profit margin	23.3	14.2	15.6	15.8	P/S	0.5	0.6	0.6	0.6
EBITDA margin	19.8	10.5	14.0	14.1	EV/EBITDA	2.4	6.1	4.5	4.2
EBIT margin	18.0	7.8	9.3	9.7	EV/EBIT	2.6	8.2	6.7	6.1
Pre-tax profit margin	18.5	7.7	9.5	9.8	Dividend yield, ordinary (%)	9.0	12.1	9.1	10.3
Net profit margin	15.7	6.5	8.1	8.3	EPS	5,536	1,679	2,120	2,326
					BVPS	18,709	18,062	18,683	19,311
					SPS	35,233	25,772	26,243	27,961
					DPS (annual, ordinary)	1,495	1,998	1,500	1,700
					Dividend payout ratio (%)	27.1	118.9	70.7	73.0
					Operating performance				
					ROE	33.3	9.1	11.5	12.2
					ROA	18.6	5.6	7.4	7.9
					ROIC	32.7	9.5	12.5	14.8
					Financial structure				
					Total liab/equity	73.3	53.9	56.2	55.2
					Net debt/equity	54.1	36.7	27.8	20.6
					Current ratio (x)	1.6	1.7	1.7	1.8
					Interest coverage (x)	16.5	5.1	8.5	8.8
					Activity ratios				
					Asset turnover	1.2	0.9	0.9	0.9
					Receivables turnover	8.9	7.8	8.4	8.7
					Inventory turnover	3.5	2.3	2.9	3.2
					Payables turnover	15.4	11.8	15.8	16.5

Source: Company reports, KB Securities Vietnam

Appendix

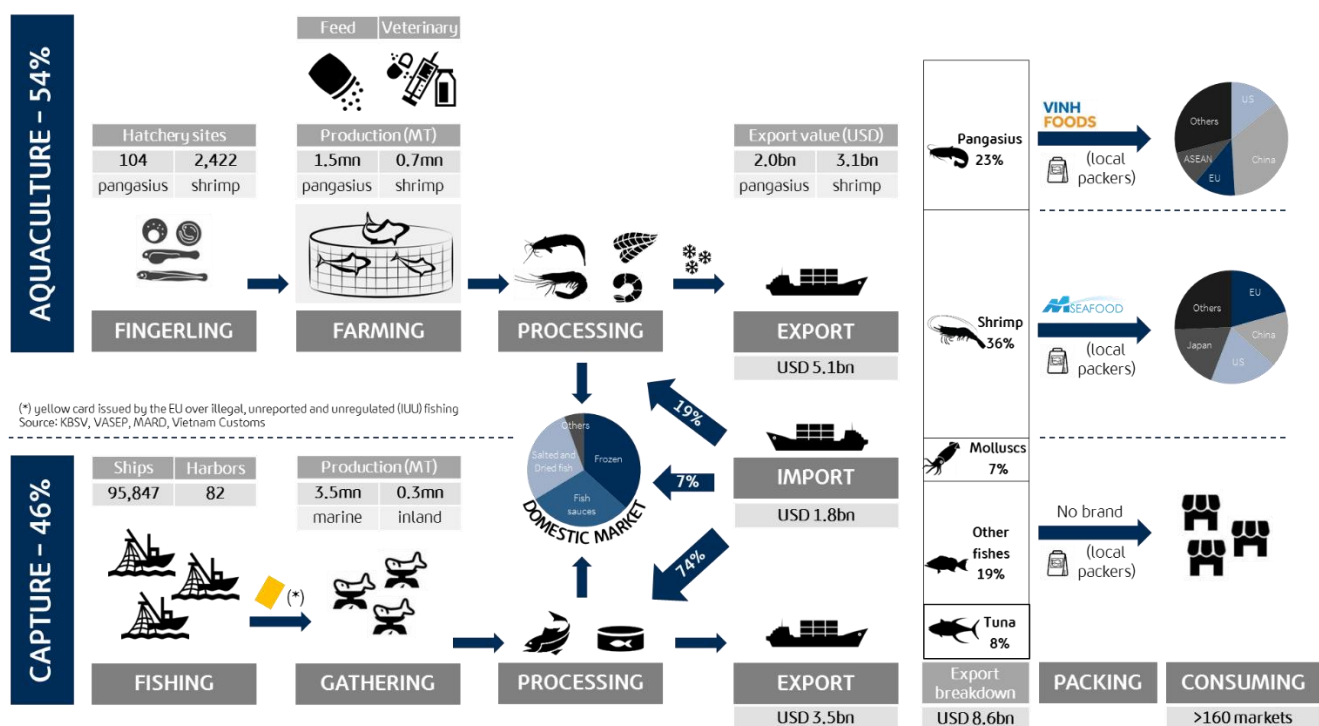
Vietnam’s fishery industry is undergoing meaningful changes that will change the nature of the upcoming cycle

Vietnam’s fishery sector is transforming from basic commodity-goods suppliers of frozen and semi-processed fishery products to prepared consumer products able to meet strict global quality standards. Infrastructure investments are currently underway that will upgrade farming methods to meet global specifications for rules of origin, food safety and environmental sustainability. Main growth drivers include: 1) rising global fish consumption; 2) increase in aquaculture production, especially new facilities to meet global standards; and 3) trade deals to further Vietnam’s global economic integration.

Vietnam exports about 40% of its fishery production to overseas markets

Vietnam’s fishery industry is split between aquaculture at about 54% of production and live capture at 46%. Aquaculture primarily focuses on farming of pangasius (about 1.5 million metric tons per year) and shrimp (about 0.7 million metric tons per year) and includes hatcheries to breed fingerlings, farming ponds to grow fish to maturity, local feed producers and processors to clean, peel, fillet and package fish for domestic consumption (fresh) and exports (frozen). Exports are usually sold to wholesalers and distributed to consumers via local distribution networks or under local brands. Branded exports are limited to VHC’s VinhFoods for pangasius and MPC’s MSeafood for shrimp sold directly to consumers in the US and Japan. Vietnam’s live capture production consists of small companies or individual boat owners that sell catches to individually-owned processors for domestic distribution or export.

Fig 35. Vietnam fisheries – Sector overview, 2019

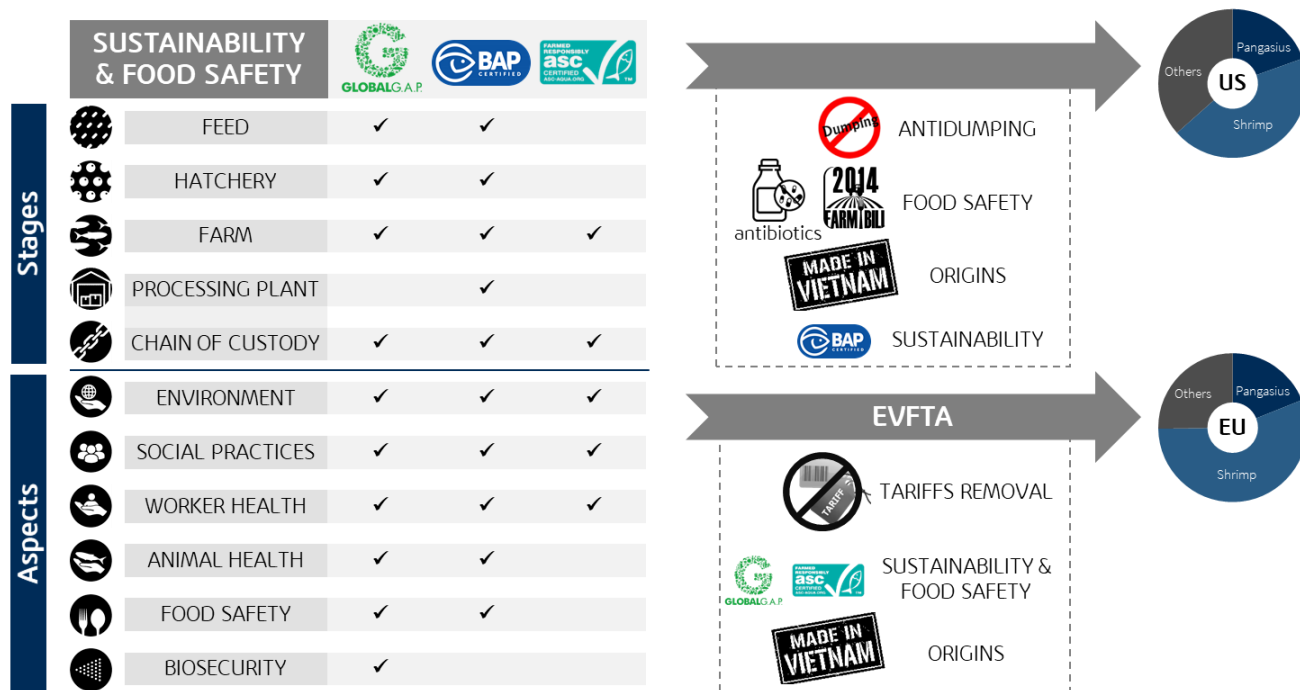


Source: Vietnam Association of Seafood Exporters & Producers, Ministry of Agriculture & Rural Development, Vietnam Customs, KB Securities Vietnam

Vietnam is adopting new farming methods to meet global standards for rules of origin, food safety and environmental sustainability

The popularity of *pangasius* peaked in overseas markets in 2011 when many consumers were attracted to the low price and texture of the white fish. This changed after consumer groups raised questions on food safety (antibiotics, feed quality and use of wild stock for culturing) and environmental sustainability of open-cage farming methods in the Mekong Delta (disease outbreaks and infections of wild populations). Shrimp has also seen concerns on food safety (antibiotics), rules of origin (exports of Indian shrimp into the US to bypass tariffs) and antidumping investigations. Food safety impacted US exports the most, while environmental sustainability issues have affected shipment volumes to the EU. To overcome these issues, Vietnam’s fisheries sector is increasing the use of aquaculture to upgrade farm operating and environmental standards to meet global requirements for rules of origin, food safety and environmental sustainability. Vietnam’s major exporters are initially targeting ASC certification requirements (Aquaculture Stewardship Council) by focusing on the greater use of inland farming ponds and chain of custody for fish stocks via stricter documentation. Many are also internally-sourcing more production by cultivating fingerlings in their own hatcheries and purchasing raw material from overseas markets to produce their own feed meal to meet the more stringent requirements for BAP (Best Aquaculture Practices) and GlobalG.A.P. (Good Agricultural Practice) certifications. The BAP certification is recognized in the US, while the EU market uses the ASC and GlobalG.A.P. certifications. Moreover, US anti-dumping investigations are tightening the rules of origin needed to track costs for anti-dumping tariffs and countervailing duties. The start of the EVFTA will also require tougher enforcement of the rules of origin to qualify for tariff exemptions under the trade deal.

Fig 36. Vietnam fisheries – Global quality standards, 2019

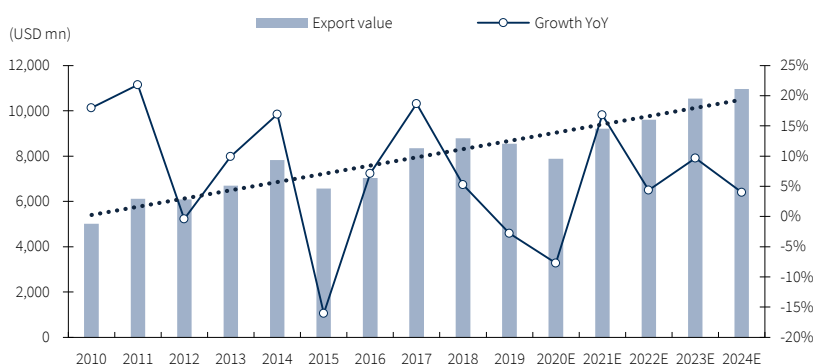


Source: Global Good Agricultural Practices (GlobalG.A.P.), Aquaculture Stewardship Council (ASC), Best Aquaculture Practices (BAP), KB Securities Vietnam

We expect Vietnam’s fishery exports to grow at a 5.1% CAGR between 2020E and 2024E

The coronavirus will likely cause Vietnam’s fishery exports to fall by 7.7% YoY for 2020E to USD7.9 billion according to our estimates. But over our full forecast period, we expect Vietnam’s fishery exports to grow at a 5.1% CAGR between 2020E–2024E. This compares to the 4.3% CAGR for exports between 2012 and 2019 and the minus 2.5% YoY performance in 2019 after exports fell to USD8.5 billion from 2018’s record high. Exports have grown to 41% of domestic production based on 2019’s live weight statistics compared to 30% in 2009.

Fig 37. Vietnam fisheries – Total fishery export value & growth forecasts, 2010–2024E (million USD, % YoY)



Source: Vietnam Customs, KB Securities Vietnam

Fig 38. Vietnam fisheries – Fishery balance by live weight, 2009–2019 (million metric tons)



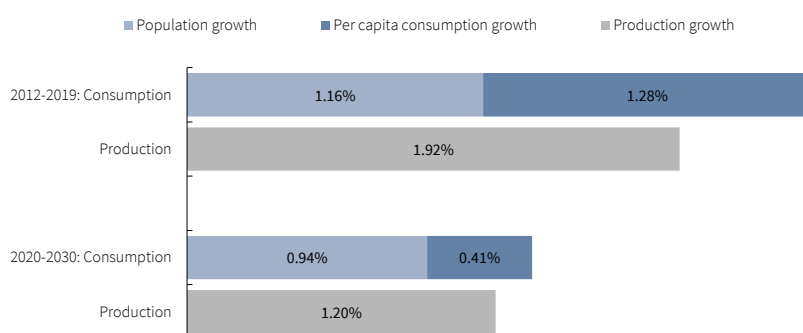
Note: OECD = Organisation for Economic Co-operation & Development, FAO = Food & Agriculture Organization of the United Nations

Source: OECD-FAO 2020, KB Securities Vietnam

Global fish consumption driven by population growth

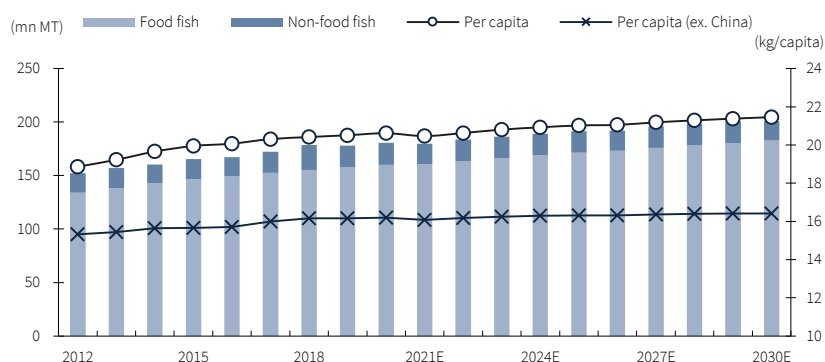
Population growth should be the main driver behind rising global fish consumption. The FAO (Food & Agriculture Organization of the United Nations) estimates that global per-capita fish consumption will grow by 0.41% per annum to reach 21.4 kg/year by 2030E from 2020E's 20.6 kg/year after falling by 1.28% per year in the last decade due to the slowdown in global fish production. Most of this rise will likely come from China and excluding China per-capita fish consumption was only 16.2 kg/year in 2019 and is expected to remain flat over the next decade. But this forecast also assumes the world's population will grow at a 0.94% CAGR or more than double the rise in per-capita consumption, making population growth an important factor for overall global fish consumption. The FAO attributes the sharp slowdown in per-capita fish consumption to lower production growth that may fall to a CAGR of 1.20% between 2020E and 2030E from the 1.92% CAGR seen between 2012 and 2019. In contrast, population growth should slow less from 1.16% CAGR seen between 2012 and 2019.

Fig 39. Global fisheries – Fish consumption CAGR decomposition & total production CAGR, 2012–2030E (%)



Source: United Nations, *OECD-FAO 2020*, KB Securities Vietnam

Fig 40. Global fisheries – Total & annual per-capita fish consumption, 2012–2030E (million metric tons, kg per capita)

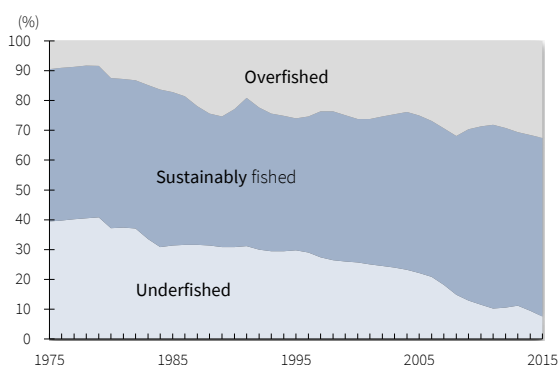


Source: *OECD-FAO 2020*, KB Securities Vietnam

Static growth in live capture and limited opportunities to expand aquaculture has hindered global fish consumption

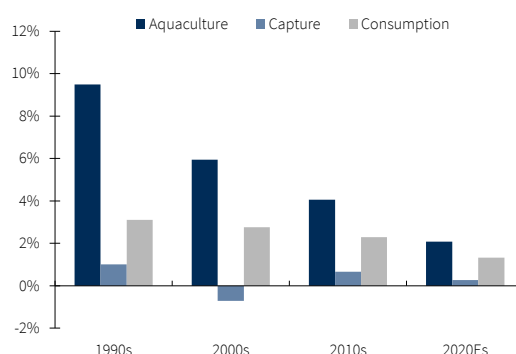
Global fish consumption has been hindered by static growth in live capture fishing and limited opportunities to expand aquaculture capacity. Live capture fishing reached its natural limit in the late 1980s when catches from newly accessed fish stocks failed to replace overfished fishing grounds and led to static growth since then. Growth in aquaculture has also slowed to 2% levels after peaking at 10% in the 1980s and 1990s due to the lack of suitable new farming locations, spread of disease from intensive aquaculture and stricter environmental regulations.

Fig 41. Global fisheries – Marine fish stocks breakdown by sustainability, 1975–2015 (%)



Source: *FAO 2018*

Fig 42. Global fisheries – Annual growth rate of fishery production & consumption, 1980s–2020Es (%)

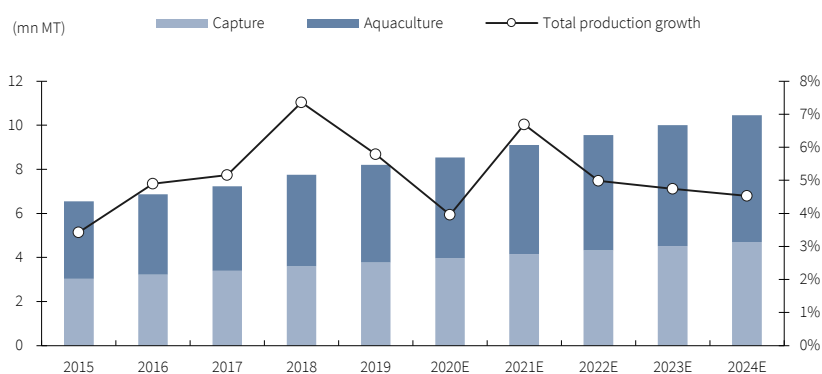


Source: *OECD-FAO 2020, KBSV*

Increasing aquaculture production to support export growth

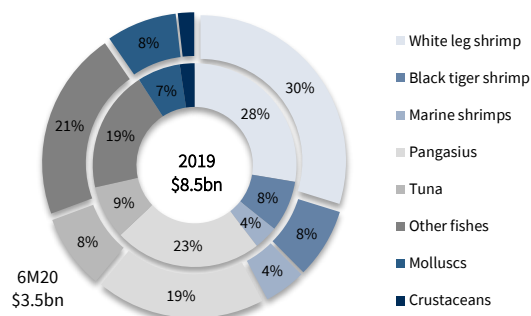
Growth in both wild-caught fishing and aquaculture production should support Vietnam's exports during our 2020E–2024E forecast period (albeit likely to see a slowdown in wild-caught catches). Notably, additional stocks from the South China Sea's large fishing grounds have allowed Vietnam's wild-caught fishing industry to maintain positive growth for the past 15 years to total 8.2 million tons in 2019 or a CAGR of 5.21% between 2012 and 2019 when world wild-caught fishing recorded a CAGR of only 0.09%. But this should slow to a CAGR of 4.5% between 2020E and 2024E as we expect offshore tensions to reduce catches from the South China Sea. Vietnam's live-capture production has fallen on several occasions due to maritime tensions, including 2011's *Binh Minh* event, 2014's *Haiyang Shiyou* event and 2019's *Haiyang Dizhi* event. Moreover, Vietnam is still under a "yellow card" from 2017's IUU action from the EU. The IUU or illegal, unreported and unregulated fishing regulatory framework requires flag states to certify the origin and legality of fish caught and exported to the EU. That said, we expect the growth in aquaculture production to offset this slowdown and support overall export growth. Productivity improvements in shrimp farming and expansion of *pangasius* ponds – Vietnam's two major fishery export items – have allowed aquaculture production to grow at a CAGR of 5.3% between 2012 and 2019. These trends should continue and we forecast aquaculture to record a CAGR of 5.4% between 2020E and 2024E. Aquaculture has represented over half of Vietnam's total fishery production since 2008 and is now at 54% or inline with the global trend.

Fig 43. Vietnam fisheries – Capture & aquaculture fishery production & total growth forecasts, 2015–2024E (million metric tons, % YoY)



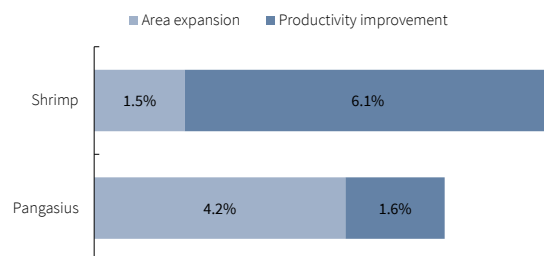
Source: General Statistics Office of Vietnam, KB Securities Vietnam

Fig 44. Vietnam fisheries – Total fishery export breakdown by species, 2019–6M20 (billion USD, %)



Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

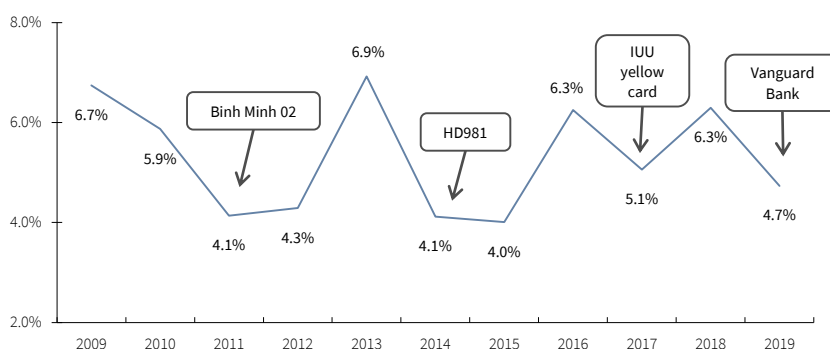
Fig 45. Vietnam fisheries – CAGR decomposition of shrimp & pangasius production, 2015–2019 (%)



Source: Ministry of Agriculture & Rural Development, KB Securities Vietnam

- 2011: China’s patrol vessels accused of severing exploration cables on Vietnam’s *Binh Minh 02* survey ship
- 2014: China’s *Haiyang Shiyou 981* (HD981) rig drills by the Parcel Islands in waters claimed by Vietnam
- 2017: European Commission issues IUU “yellow card” warning on Vietnam’s fishery exports into the EU
- 2019: *Haiyang Dizhi 8* (HD8) survey ship sparks standoff at Vanguard Bank

Fig 46. Vietnam fisheries – Capture fishery production growth, 2009–2019 (% YoY)

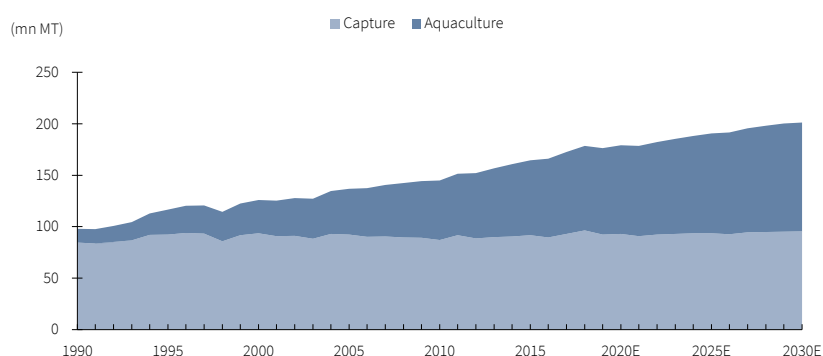


Source: General Statistics Office of Vietnam, KB Securities Vietnam

Aquaculture taking larger role to meet growing fishery demand over the longer term

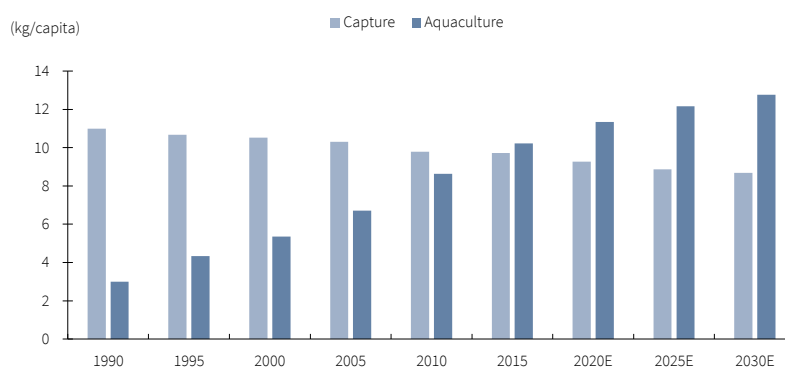
The mid- to long-term global competitiveness of Vietnam's fishery sector will largely depend on its ability to meet growing demand from rising populations around the world as well as changing consumer preferences that place a higher priority on food safety and environmental sustainability. We expect Vietnam to increasingly rely on aquaculture to face these challenges given advantages over live-capture, including the ability to boost harvest sizes by expanding *pangasius* farming areas and improving productivity at shrimp farms, as well as greater control over the entire production process to strengthen the sustainability and tracking of fish. Live-capture fishing faces the difficulties of limited natural resources (South China Sea tensions), enforcement (the EU's IUU yellow card imposed on Vietnam) and rules of origin (US antidumping investigations). These issues largely explain why live-capture fishing volumes have remained flat after reaching a natural limit in the 1980s and the rise of aquaculture since 1990 to meet increasing demand. Reflecting this, per-capita consumption of farmed fish already reached 11.2kg/year by 2019 after surpassing wild-caught fish in 2015.

Fig 47. Global fisheries – Capture & aquaculture fishery production, 1990–2030E (million metric tons)



Source: OECD-FAO 2020

Fig 48. Global fisheries – Aquaculture & capture contribution to per-capita consumption, 1990–2030E (kg/capita)

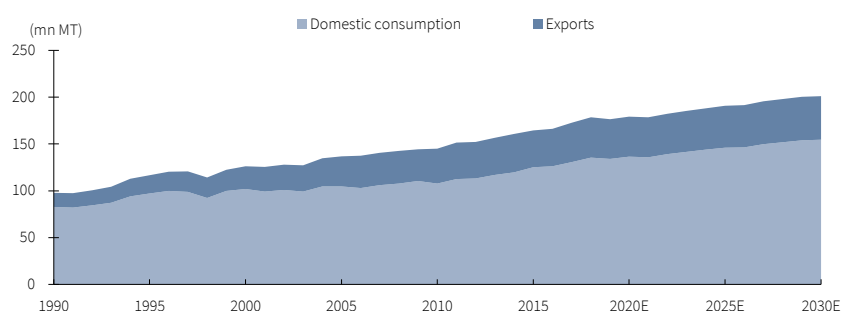


Source: OECD-FAO 2020

Trade deals also facilitating more global trade in fishery products

Developing nations like Vietnam are benefitting from free trade agreements that remove duplicate customs fees, reduce tariffs and facilitate access to new overseas markets. These trade deals also impose tighter regulations on rules of origin, illegal fishing and environmental sustainability. Lower trade barriers are becoming increasingly important as the ratio of fishery exports has risen to 25% of total global production since 2006 from 15% in 1990. Moreover, the FAO estimates that global fishery production will grow to 201.1 million metric tons by 2030E from 2019's 176.3 million metric tons.

Fig 49. Global fisheries – Total fish production breakdown by purpose, 1990–2030E (million metric tons)

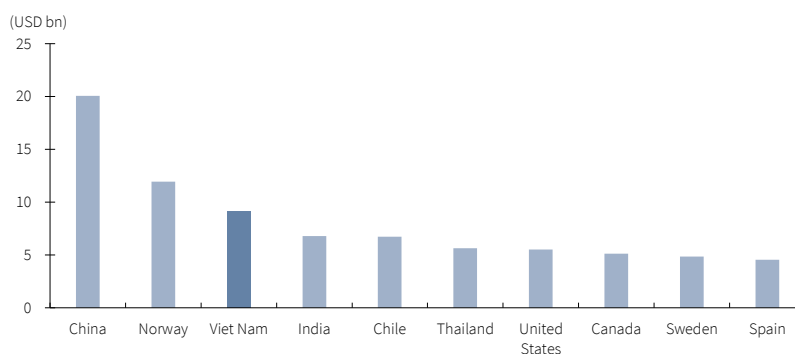


Source: OECD-FAO 2020, KB Securities Vietnam

Vietnam ranks as the world's third-largest fishery exporter

Vietnam ranked third among the world's largest fishery exporters in 2018 at USD8.8 billion. Among the specialty exporters, Vietnam's two main export items are *pangasius* and shrimp, while Norway is famous for salmon and India for shrimp. The outlook is also promising for exports to the EU when the EVFTA comes into effect in August and immediately removes about half of Vietnam's tariffs on fishery exports and the remaining eliminated over the next three to seven years according to the EVFTA schedule.

Fig 50. Global fisheries – Export value of major fishery exporters, 2018 (billion USD)



Source: UN Comtrade, KB Securities Vietnam

Little threat seen in global markets for Vietnam’s specialization in pangasius

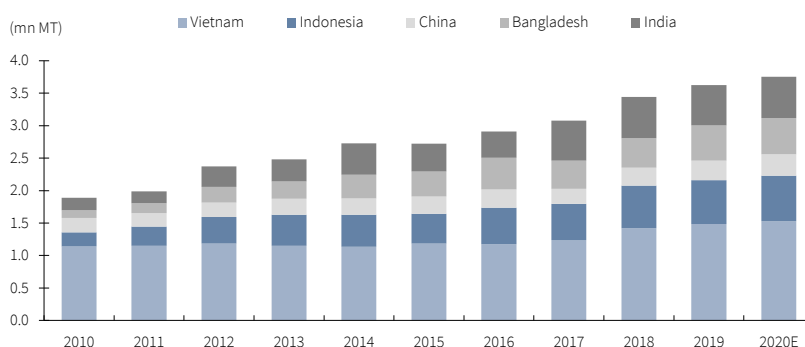
Competition in the *pangasius* market will likely be contained to existing local exporters due to Vietnam’s dominance in the global *pangasius* market. Although some concerns have been raised about potential supply from China, India and Indonesia – and plans by India and Indonesia to focus on exports over the next couple of years – volumes remain small in global markets and most production is consumed domestically. Natural barriers to *pangasius* production include fresh water that needs to be: 1) within a temperature range of 22–30 degrees Celsius; 2) at a pH greater than 5; and 3) salinity under 0.1%. In particular, *pangasius* cultivation is highly sensitive to salinity and saltwater intrusion that has negatively impacted fish farms in the past. Environmental conditions that meet these requirements are only found in the Lower Mekong River in the *An Giang* and *Dong Thap* provinces, where all of Vietnam’s *pangasius* production is concentrated. VHC has led *pangasius* exports for the past ten years at 15% market share and the next-largest companies have been at 6%–7%. Vietnam’s other major *pangasius* companies include (in order of size): Bien Dong (traded in the OTC market), ANV, I.D.I (IDI and listed on Ho Chi Minh Stock Exchange) and Hung Vuong (HVG and listed on UPCoM).

Table 3. Vietnam fisheries – Top 3 pangasius exporters by export value, 2010–2019 (million USD)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Vinh Hoan 126	Vinh Hoan 151	Vinh Hoan 155	Vinh Hoan 166	Vinh Hoan 207	Vinh Hoan 228	Vinh Hoan 251	Vinh Hoan 270	Vinh Hoan 345	Vinh Hoan 286
Hung Vuong 101	Hung Vuong 124	Hung Vuong 112	AGIFISH 113	Hung Vuong 140	Bien Dong 117	Bien Dong 134	Hung Vuong 121	Bien Dong 218	Nam Viet 136
Viet An 62	AGIFISH 84	AGIFISH 92	Hung Vuong 106	Nam Viet 110	Hung Vuong 96	Hung Vuong 102	Bien Dong 114	Nam Viet 154	Bien Dong 130

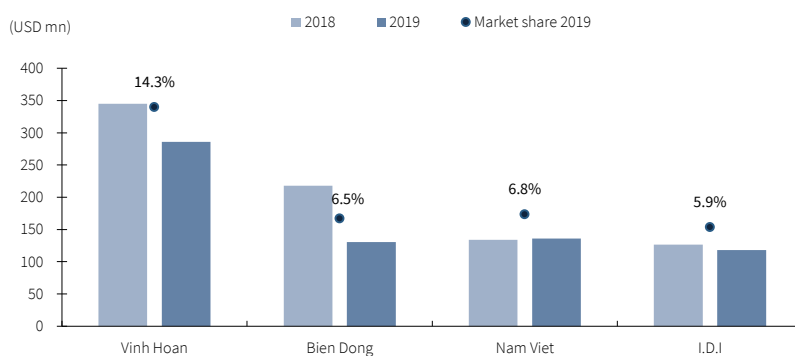
Source: Company reports, KB Securities Vietnam

Fig 51. Global fisheries – *Pangasius* production by country, 2010–2020E (million metric tons, % YoY)



Source: Food & Agricultural Organization, National Fisheries Institute, Global Seafood Market Conference (2019 & 2020)

Fig 52. Vietnam fisheries – Export values and market share of major *pangasius* exporters, 2018–2019 (million USD, %)

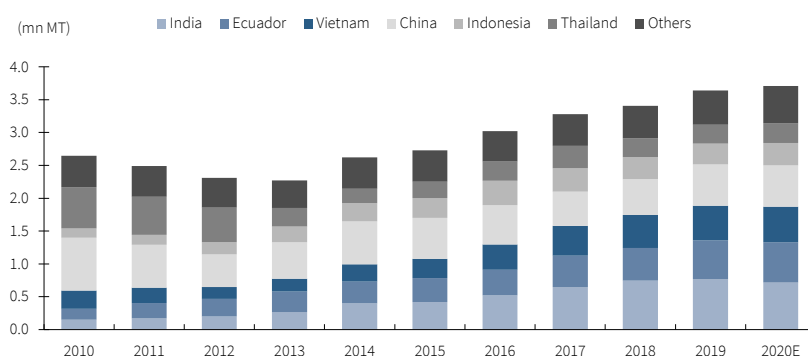


Source: Company reports, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Vietnam's competitive landscape for shrimp concentrated locally but many global players

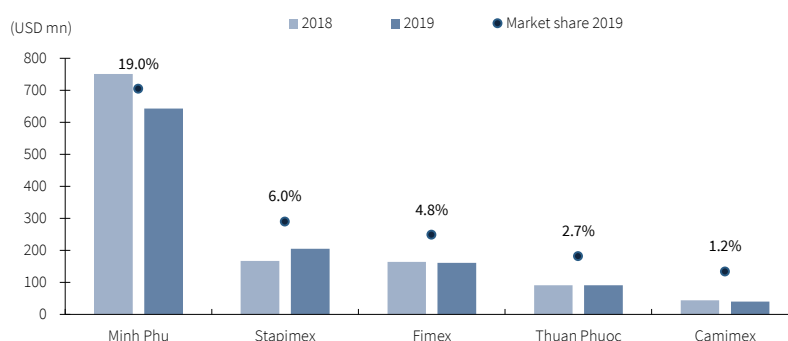
Vietnam's competitive landscape for shrimp exporters is relatively stable, with MPC at 19% market share and the next-largest players having market shares of less than 6% each. Vietnam's main shrimp exporters are (in order of size): Stapimex (traded in the OTC market), Fimex (FMC and listed in the Ho Chi Minh Stock Exchange), Thuan Phuoc (THP and traded in UPCoM) and Camimex (CMX listed on the Ho Chi Minh Stock Exchange). We expect MPC to maintain its leading role as Vietnam's biggest shrimp exporter that also ranks among the world's largest shrimp producers. Global competition remains intense but has eased somewhat after Thailand and China lost their dominance in global farmed shrimp production following the EMS (Early Mortality Syndrome) outbreak in 2013. Since 2014, India, Ecuador, Vietnam and Indonesia all have increased shrimp production to become the world's leading largest shrimp producing countries.

Fig 53. Global fisheries – Farmed shrimp production, 2010–2020E (million metric tons)



Source: Food & Agricultural Organization, National Fisheries Institute, Global Seafood Market Conference 2020

Fig 54. Vietnam fisheries – Export values and market share of major shrimp exporters, 2018–2019 (million USD, %)



Source: Company reports, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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