

July 21, 2020

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Nam Viet Corp (ANV)

2Q earnings hit hard from weak overseas markets

Preliminary 2Q earnings drop 79% YoY on COVID-19 pandemic

— Preliminary 2Q consolidated earnings fell by 79% YoY to VND32 billion on VND884 billion in revenue (down 17% YoY) due largely to: 1) the severe contraction in export revenue coming from the coronavirus pandemic; 2) unavoidable shift to the domestic market; and 3) lower gross profit margin from the industry-wide drop in export ASPs. Revenue from exports decreased by 52% YoY to only VND399 billion due to closures of food services worldwide amid the pandemic. In response to weak overseas markets, the company was forced to sell products to domestic buyers at low prices as a temporary solution, which saw revenue from the domestic market increase by 114% YoY to VND485 billion. The industry-wide drop in ASPs since mid-2019 – coupled with the higher cost of 100% internally farmed fish – also saw the gross profit margin fall to 10% from 21% a year ago to VND90 billion in gross profit (-60% YoY).

2Q's strong shift to the domestic market only a temporary solution

— Continuing pandemic conditions in major export markets forced management to shift to the domestic market despite the absence of any signs of recovery in domestic ASPs since mid-2019. Domestic revenue in 2Q rose to 56% of total revenue – vs the 25% average seen during the past four years – and surpassed export sales for the first time despite the company's focus on exports. Notably, sales of raw mature fish were VND82 billion and accounted for 17% of domestic revenue compared to near zero sales since 2014 and probably reflect the sale of fish stocks from the new *Binh Phu* farming site. Currently, 156 ponds out of a total 229 finished ponds at the *Binh Phu* site have been farming *pangasius*, and these fish were likely sold to local customers to reduce feed costs for mature fish given the company's full reliance on internal farming operations.

Falling short of 2020E's full-year guidance for VND200 billion in earnings

— ANV has completed 38% of its 2020E full-year earnings guidance and 57% of its revenue plan, with 1H earnings of VND75 billion (-79% YoY) on revenue of VND1,695 billion (-14% YoY). Although the shift to domestic sales is helping the company reach its annual target for VND3,000 billion in sales, strong recovery in overseas markets will likely be needed in 2H to restore the gross profit margin sufficiently to meet management's 2020E earnings objective.

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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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