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Minh Phu Seafood Corp (MPC)

1Q earnings hit from the US market

Preliminary 1Q earnings drop by 32% YoY on weaker US exports

— Preliminary 1Q consolidated earnings fell by 32% YoY to VND55 billion on VND2,844 billion in revenue (-15% YoY) due largely to weaker exports and lower gross profit margins. The hit to export volumes from the coronavirus were also exacerbated by the US antidumping investigation. MPC's US exports continued to suffer in 1Q after the US Customs & Border Protection (CBP) formally launched an investigation on evading antidumping duties in January. US shrimp exports have averaged about 40% of total revenue for the past five years but have fallen sharply as early as June 2019 when a US congressman called for an antidumping investigation on MPC. Moreover, gross profit margins were negatively impacted by a heat wave and saltwater intrusion during the quarter as higher disease rates for farmed shrimp led to higher costs of goods sold. Some of this negative impact to profitability was offset by lower interest expenses (down VND30 billion or 62% YoY) after the company called VND1,190 billion in bonds carrying a 7.5% coupon in mid-2019.

Awaiting export recovery for markets in the US and Japan

— Management now waits for exports to recover in the company's two-largest markets of the US and Japan (which together were 58.8% of total export revenue in 2019). Both markets witnessed positive growth during 1Q despite the coronavirus, with Vietnam's shrimp exports increasing by 8.4% YoY for Japan and 18.2% YoY for the US. The sharp rise in the US market was largely explained by the nationwide lockdown in India. India is the largest shrimp exporter to the US but the country's lockdown halved shrimp processing capacity and forced US clients to find alternative suppliers. Management views India's current situation as a potential opportunity for the company to quickly recover US exports should the antidumping investigation end in a positive outcome.

Strong earnings guidance offers little meaning as they exclude any COVID-19 impact

— Management guides for VND1,368 billion in earnings before tax for 2020E or a 175% YoY increase over 2019 on USD709 million (+10% YoY) in export revenue. That said, management does not have a credible track record in meeting full-year guidance and has failed to meet targets since 2015 due to persistent weakness in export selling prices or higher shrimp input costs. Also, this guidance does not reflect any negative impact from the coronavirus pandemic.

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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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