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Minh Phu Seafood Corp (MPC)

3Q earnings miss as gross margin fails to excite

3Q earnings miss on lackluster recovery in the gross margin

— Preliminary 3Q results missed our quarterly estimate by 33% amid weaker-than-expected recovery in the gross profit margin. Consolidated 3Q earnings still delivered positive 4.6% YoY growth to VND241 billion on VND4,402 billion in revenue that was down by 15.6% YoY. The ongoing need for cash deposits under US antidumping orders prevented any improvement in the gross margin, which only widened to 12.1% versus our expectations for a 15.8% margin in 3Q. This was nonetheless better than last year's 11.6% during the same period. Although not providing specific numbers, management did guide for better gross profits for 2020E at June's shareholders' meeting. We believe this view reflected the 10%-15% drop in input prices for raw shrimp arising from the pandemic but also assumed a positive outcome from the US antidumping probe which did not materialize. Consequently, continuing antidumping tariffs for US exports led to a 12.1% YoY drop in quarterly gross profit to VND532 billion in 3Q and may cause management to provide more cautious guidance for 2020E performance.

Re-entry into MPC premature and maintain HOLD on MPC

— We continue to recommend investors take short-term profits on Minh Phu Corporation (MPC, HOLD, TP VND31,700) and switch holdings to Vinh Hoan Corp (VHC, BUY, TP VND47,100). Re-entry should only be considered after the full implications on MPC's exports to the US are thoroughly reflected in the stock price. Vietnam's overall shrimp exports have maintained positive growth since the start of the year and are now up 33.0% YoY to USD634 billion until September but antidumping tariffs continue to hinder MPC's performance. MPC has since initiated an appeal to a higher court against the US Customs and Border Protection's original October 14th decision with the decision to accept the appeal expected within 60 days.

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Investment ratings & definitions

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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