

Minh Phu Corporation (MPC)

Negative outcome from US antidumping probe

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US Customs & Border Protection (CBP) rules against MPC and levies tariff on MPC's shrimp exports to the US

The US Customs & Border Protection (CBP) ruled against Minh Phu Corporation (MPC, HOLD, TP VND31,700) and its US subsidiary – MSeafood – on its antidumping investigation related to trans-shipment of Indian shrimp. The CBP concluded that MPC failed to provide sufficient documentation to show it had not shipped Indian-origin shrimp into the US and will continue to levy India's 10.17% duty on its exports into the US. The next review period will begin from April 2021E.

Negative impact could decrease 2020E/2021E earnings by 13% and 27%, respectively

We await a response from management to gauge the full extent of this action but we initially estimate the negative impact to earnings could reach as much as 13% and 27% of our 2020E/2021E estimates. This assumes lower gross profit margins for US exports from the 10.17% tariff and lower shipment volumes into one of the company's largest markets at about 40% of revenue. That said, MPC will likely divert exports to other markets to offset the shock during any appeals process that could last until the end of 2022E.

Re-entry into MPC may take longer due to the antidumping event and maintain HOLD recommendation

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 VND 47,100) until the implications on MPC's exports to the US can be thoroughly assessed. MPC will likely disagree with the ruling and initiate an appeal but this can only begin from April 2021E and management and local press have yet to report the outcome of the antidumping probe. We would only consider re-entering the stock after this negative event is fully-reflected in the share price.

Hold maintain

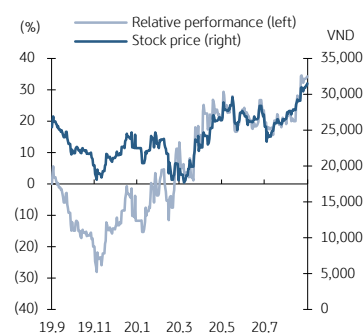
Target Price	VND31,700
Total return (%)	14.3%
Current price (Oct 19)	VND29,500
Consensus target price	VND29,700
Mkt capitalization (USDbn)	USD254mn

Trading data	
Free float (%)	48.1%
Avg trading value (3M)	USD0.15mn
Foreign available (%)	11.7%
Major shareholders (%)	Mitsui (35.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	18.9	14.5	75.0	24.0
Relative	11.3	9.0	27.8	34.3

Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	16,998	14,826	17,289	18,458
EBIT	611	991	987	1,080
NP attributable to parent	441	924	881	954
EPS (VND)	2,531	4,619	4,403	4,771
EPS growth (%)	(64.5)	82.5	(4.7)	8.4
P/E (x)	12.4	6.8	7.1	6.6
EV/EBITDA (x)	10.0	7.2	7.5	7.0
P/B (x)	1.2	1.1	1.1	1.0
ROE (%)	10.1	17.4	15.3	15.8
Div yield (%)	13.1	6.4	9.6	10.2



Source: Bloomberg, KB Securities Vietnam

US Customs rules against MPC

We estimate the negative impact to our 2020E/2021E earnings at 13%/27% when India's 10.17 duty is made permanent for MPC

We estimate that MPC's antidumping duties could reach as much as VND208 billion in 2020E when India's 10.17% duty is made permanent for the company's exports to the US. But this number includes the VND86 billion in duties already paid and expensed in the company's earnings and limits the negative impact to our 2020E earnings to 13%. Under this scenario, our 2020E earnings would come in at VND802 billion or VND4,009 per share and give the stock a P/E ratio of 7.9 times compared to VND924 billion or VND4,619 per share and P/E ratio of 6.9 times, previously. Our 2021E earnings would fall further by 27% to VND645 billion or VND3,224 per share and raise the P/E ratio to 9.8 times from VND881 billion or VND4,403 per share and P/E ratio of 7.2 times. Our 2021E sensitivity analysis also factors in lost potential revenue – as MPC misses the uplift in shipments when the US returns to normal conditions after the pandemic – that could magnify the negative impact to earnings.

Table 1. Minh Phu Corp (MPC) – Earnings sensitivity analysis, 2020E–2021E (%)

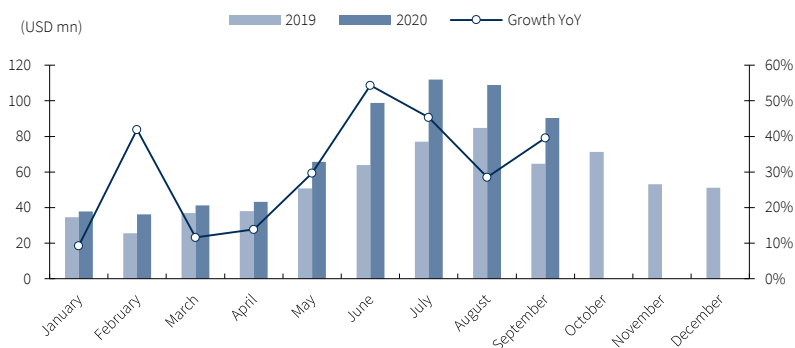
		Revenue impact from imposition of antidumping tariff					
		-20%	-10%	0%	10%	20%	
Antidumping tariffs	2020E	0%	-7%	-3%	0%	3%	7%
		2%	-9%	-6%	-3%	1%	4%
		4%	-12%	-8%	-5%	-2%	1%
		6%	-14%	-11%	-8%	-5%	-1%
		8%	-17%	-14%	-10%	-7%	-4%
		10.17%	-20%	-16%	-13%	-10%	-7%
Antidumping tariffs	2021E	0%	-9%	-5%	0%	5%	9%
		2%	-15%	-10%	-5%	-1%	4%
		4%	-20%	-15%	-11%	-6%	-1%
		6%	-25%	-21%	-16%	-11%	-6%
		8%	-31%	-26%	-21%	-16%	-12%
		10.17%	-36%	-32%	-27%	-22%	-17%

Source: KB Securities Vietnam

Re-entry premature and will need to see the full negative impact reflected in MPC's share price

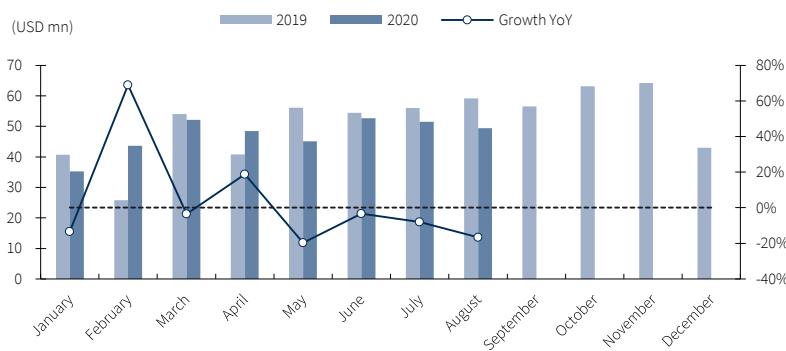
Although we originally highlighted the risk of a negative outcome in our recent downgrade report on MPC (*Profit taking ahead of antidumping event*, September 28, 2020), a negative outcome may make re-entry into the stock premature as the stock may not fully-reflect this event. Management has yet to acknowledge the outcome of the antidumping investigation and news of this event has not been reported by the local press despite the outcome being publicly available on the website of the US Customs and Border Protection. We believe MPC will ultimately announce counter-measures including diverting exports to the EU where shipments are gaining momentum with the start of the EVFTA (and could go a long way in offsetting reduced export volumes into the US even if not entirely). Until then, 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 VND 47,100) and only consider re-entering the stock after the implications on MPC's exports to the US are thoroughly reflected in the stock price.

Fig 1. Vietnam fisheries – Monthly shrimp export values to the US & growth, Jan 2019–Sep 2020 (million USD, % YoY)



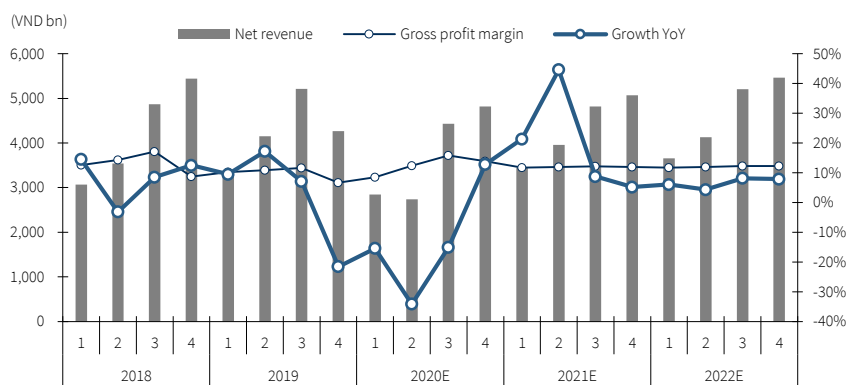
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 2. Vietnam fisheries – Monthly shrimp export values to Japan & growth, Jan 2019–Aug 2020 (million USD, % YoY)



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

Fig 3. Minh Phu Corp (MPC) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: KB Securities Vietnam

Minh Phu Corp (MPC) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	16,998	14,826	17,289	18,458	Total assets	8,064	9,444	9,882	10,543
Cost of sales	15,314	12,876	15,225	16,226	Current assets	6,385	7,680	8,121	8,788
Gross Profit	1,684	1,950	2,063	2,231	Cash & equivalents	625	986	476	659
Financial income	136	188	139	139	ST investments	1,404	445	1,071	1,336
Financial expenses	267	185	199	212	Accounts receivable	1,400	1,740	1,830	1,974
of which: interest expenses	151	94	88	94	Inventory	2,894	4,427	4,657	4,725
Gain/(loss) from joint ventures	14	42	46	47	Other current assets	62	83	87	94
Selling expenses	875	755	864	923	Long-term assets	1,679	1,764	1,762	1,755
General & admin expenses	198	204	212	228	LT trade receivables	6	8	8	9
Operating profit/(loss)	494	1,035	973	1,054	Fixed assets	989	1,069	1,250	1,210
Other income	5	9	10	11	Investment properties	0	0	0	0
Other expense	1	7	2	2	LT incomplete assets	333	295	98	110
Net other income/(expenses)	4	1	9	9	LT investments	188	197	201	204
Pretax profit/(loss)	498	1,036	982	1,064	Goodwill	0	0	0	0
Income tax	54	123	108	117	Other LT assets	163	195	206	222
Net profit/(loss)	445	914	874	947	Liabilities	3,042	3,844	4,002	4,350
Minority interests	4	(10)	(7)	(7)	Current liabilities	2,985	3,778	3,933	4,278
Net profit after MI	441	924	881	954	Trade accounts payable	180	370	417	450
					Advances from customers	25	26	28	30
					ST borrowings	2,222	3,204	3,304	3,604
					Special reserves	36	51	51	51
					Other current liabilities	522	127	133	144
					Long-term liabilities	57	66	69	72
					LT payables	36	46	49	53
					LT borrowings	0	0	0	0
					Other LT liabilities	21	20	21	20
					Shareholders' equity	5,022	5,600	5,880	6,193
					Paid-in capital	2,000	2,000	2,000	2,000
					Share premium	2,361	2,341	2,341	2,341
					Treasury stock	(80)	(56)	(56)	(56)
					Undistributed earnings	346	923	1,203	1,516
					Reserve & others	277	278	278	278
					Minority interests	118	113	113	113
					Total liabilities & equity	8,064	9,444	9,882	10,543
					Key ratios				
					(x, %, VND)	2019A	2020E	2021E	2022E
					Valuations				
					P/E	12.4	6.8	7.1	6.6
					P/E diluted	12.3	6.7	7.0	6.5
					P/B	1.2	1.1	1.1	1.0
					P/S	0.3	0.4	0.4	0.3
					EV/EBITDA	7.9	5.3	5.2	4.7
					EV/EBIT	10.2	6.3	6.3	5.8
					Dividend yield, ordinary (%)	13.1	6.4	9.6	10.2
					EPS	2,531	4,619	4,403	4,771
					BVPS	25,110	28,001	29,400	30,965
					SPS	97,582	74,129	86,443	92,289
					DPS (annual, ordinary)	4,090	2,012	3,000	3,200
					Dividend payout ratio (%)	184.1	43.1	67.5	66.4
					Operating performance				
					ROE	10.1	17.4	15.3	15.8
					ROA	5.1	10.6	9.1	9.3
					ROIC	12.1	19.1	17.3	17.4
					Financial structure				
					Total liab/equity	60.6	68.6	68.1	70.2
					Net debt/equity	31.8	39.6	48.1	47.5
					Current ratio (x)	2.1	2.0	2.1	2.1
					Interest coverage (x)	4.0	10.6	11.2	11.5
					Activity ratios				
					Asset turnover	2.0	1.7	1.8	1.8
					Receivables turnover	10.3	9.4	9.7	9.7
					Inventory turnover	4.5	4.1	3.8	3.9
					Payables turnover	47.1	49.3	41.1	40.0

Source: Company reports, 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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