

Vietnam Fisheries

Long-awaited turnaround

Positive sector rating on expectations for industry-wide turnaround

We initiate coverage on Vietnam's fishery sector with a Positive rating due to our expectations for an industry-wide turnaround from 4Q. Vietnam's fishery exports have been falling since 2019 but are poised to enter a cyclical upturn for both the *pangasius* and shrimp exporters. Moreover, farming methods are being upgraded to improve Vietnam's ability to meet stricter global requirements for rules of origin, food safety and environmental sustainability as well as enhancing competitiveness in overseas markets and reducing cyclicalities in the upcoming recovery.

Pangasius exports expected to turn positive in 4Q

Falling *pangasius* exports have kept skepticism high for any turnaround but we believe growth will hit inflection and turn positive in 4Q. Exports were down 32% YoY in 1H after volumes contracted by 11% YoY and prices plummeted by 23% YoY. But our estimates show that export volumes are recovering at a fast-enough pace at the current level of export prices to return *pangasius* exports to positive growth by 4Q. We initiate coverage of Vinh Hoan Corp (VHC) as our top sector pick and Nam Viet Corp (ANV) with BUYs as Vietnam's two-largest *pangasius* exporters.

Renewed momentum in shrimp exports from 4Q & positive events for 2021E

Shrimp exports have been unhindered by the pandemic and maintained positive 1H growth at 5.7% YoY. We expect renewed momentum for shrimp exports from 4Q on share gains in China as the coronavirus continues to disrupt supply from Vietnam's main competitors and pick up in shipments to the EU with the start of the EVFTA from August. Momentum should also continue into 2021E as punitive tariffs from the US-China trade war allow Vietnamese exporters to gain share against Chinese competitors in the US and the Tokyo Summer Olympic Games boost consumption from Japan in mid-2021E. We initiate coverage on Minh Phu Corp (MPC) with a BUY recommendation as Vietnam's largest shrimp exporter and the best-positioned to benefit from rising shrimp exports.

Risks: second wave; antidumping tariffs; and disease

A second wave of coronavirus outbreaks in overseas markets will inevitably push back our turnaround estimates to 1Q 2021E but a strong base effect should ensure that any delay will not be prolonged beyond 2Q 2021E. Vietnam's fishery exporters have come under scrutiny for antidumping tariffs and this remains one risk that will need to be monitored closely. Moreover, aquaculture's intensive farming methods almost always expose operations to the risk of disease.

Fisheries Analyst
 Nguyen Thanh Danh
 (+84) 354-358-427 danhnt@kbsec.com.vn

Head of International Research
 Harrison Kim
 harrison.kim@kbsec.com.vn

August 12, 2020

Positive initiation

Recommendations

Vinh Hoan Corporation (VHC)	BUY
Current Price	VND36,600
Target Price	VND47,100

Nam Viet Corporation (ANV)	BUY
Current Price	VND16,550
Target Price	VND21,700

Minh Phu Corporation (MPC)	BUY
Current Price	VND26,500
Target Price	VND31,700

Contents

I. Executive Summary	3
II. Focus Chart	4
III. Recommendation & Valuation	5
IV. Long-Awaited <i>Pangasius</i> Turnaround in 4Q	13
V. Shrimp Momentum into 2021E	27
VI. Upcoming Cycle More Sustainable	35
Companies	47
Vinh Hoan Corp (VHC, BUY)	49
Nam Viet Corp (ANV, BUY)	57
Minh Phu Corp (MPC, BUY)	65

I. Executive Summary

Quality and sustainability of the coming cyclical upturn likely to be a vast improvement over the previous cycle

We initiate coverage of Vietnam's fishery sector with a POSITIVE rating on expectations for important catalysts that are likely to occur in 4Q and have a positive impact on the share price performance of the *pangasius* and shrimp exporters. Key events expected for 4Q include: 1) the long-awaited turnaround in *pangasius* exports to positive growth; and 2) renewed momentum in shrimp exports as demand returns in overseas markets and Vietnam's main competitors continue to suffer from production disruptions due to the coronavirus. Moreover, current investments to upgrade farming methods should not only allow Vietnam's fishery exporters to meet stricter global standards for rules of origin, food safety and environmental sustainability but should also secure the competitiveness and improve the cyclicity of exports over the upcoming cycle.

Recovery momentum should continue into 2021E

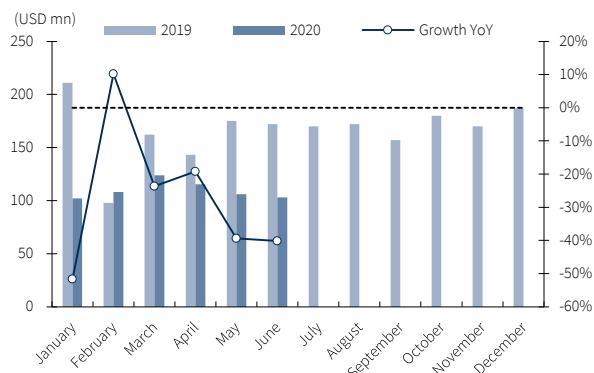
The turnaround in 2020E should gain momentum into 2021E in all of Vietnam's major markets and we expect: 1) China to resume pre-pandemic growth trends as the popularity of *pangasius* grows in the restaurant industry and supply disruptions at Vietnam's major shrimp competitors extend into 2021E; 2) the return of US demand for *pangasius* from the food services industry and wholesalers as they restock inventories, as well as share gains for Vietnam's shrimp exporters against Chinese exporters burdened by punitive tariffs from the US-China trade war; and 3) improved price competitiveness for *pangasius* and shrimp exports to the EU with the removal or reduction of tariffs after the start of the EVFTA in August. Shrimp exports should also benefit from additional consumption from Japan with the Tokyo Summer Olympics in mid-2021E.

Increasing use of aquaculture to support Vietnam's competitiveness and exports 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, in addition to greater control over the entire production process to strengthen the sustainability and tracking of fish.

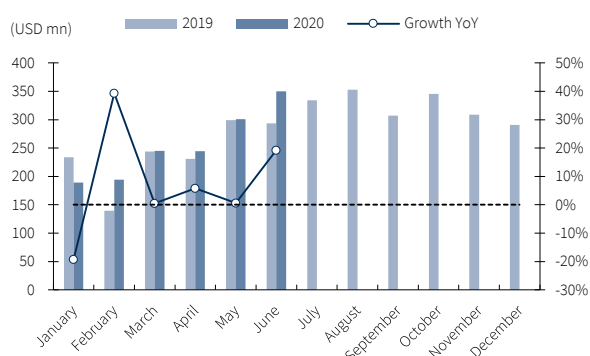
II. Focus Charts

Vietnam fisheries – Monthly pangasius export values & growth, January 2019–June 2020 (million USD, % YoY)



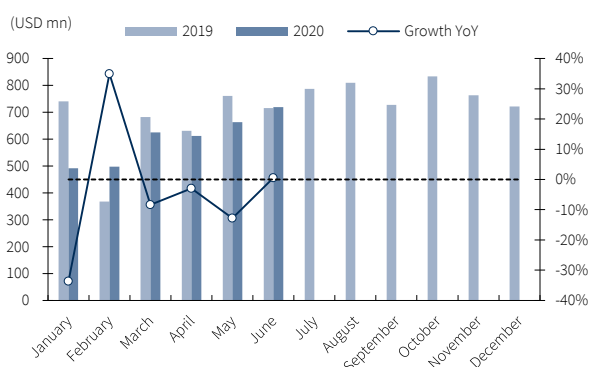
Source: Vietnam Customs, KB Securities Vietnam

Vietnam fisheries – Monthly shrimp export values & growth, January 2019–June 2020 (million USD, % YoY)



Source: Vietnam Customs, KB Securities Vietnam

Vietnam fisheries – Monthly overall export values & growth, January 2019–June 2020 (million USD, % YoY)



Source: Vietnam Customs, KB Securities Vietnam

- *Pangasius* exports have been falling since March 2019 after 2018's boom year

- But we estimate that the current rate of volume recovery and price stability should allow *pangasius* exports to turn positive in 4Q

- Shrimp exports have maintained positive growth in 1H at 5.7% YoY despite the pandemic impacting most overseas markets

- We expect export growth to continue and witness renewed momentum from 4Q and into 2021E on share gains in China, the EU and the US as well as a boost in consumption from Japan in mid-2021E

- Vietnam's overall fishery exports posted flat growth in June and are likely to witness positive sequential growth as demand from overseas markets return to pre-pandemic levels, thereby ending the near two-year slump in exports

III. Recommendation & Valuation

Sector rating: POSITIVE

VHC: BUY, TP VND47,100

ANV: BUY, TP VND21,700

MPC: BUY, TP VND31,700

We assume a POSITIVE stance on Vietnam's fishery sector and initiate coverage on Vietnam's top *pangasius* exporters with BUY ratings on Vinh Hoan Corporation (VHC, BUY, TP VND47,100) as our top pick for the fisheries sector and Nam Viet Corporation (ANV, BUY, TP VND21,700). We also initiate coverage on Minh Phu Corporation (MPC, BUY, TP VND31,700) as Vietnam's leading shrimp producer that is best-positioned to benefit from renewed momentum in shrimp exports.

Table 1. Vietnam fisheries – KBSV universe, recommendations & target prices (VND, %)

Company	Ticker	Price (VND)	Rating	Valuation method	Target price (VND)	Dividend (VND)	Upside (%)
Pangasius							
Vinh Hoan	VHC	36,600	BUY	DCF	47,100	2,000	34.2%
Nam Viet	ANV	16,550	BUY	DCF	21,700	2,000	43.2%
Shrimp							
Minh Phu	MPC	26,500	BUY	DCF	31,700	1,500	25.3%

Source: Company reports, KB Securities Vietnam

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 cyclical nature 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.

Launching 2020E quarterly forecasts

Weak 2Q earnings should largely be expected as they still reflect the worst of the pandemic in overseas markets. The outlook for 2H is more promising as demand in major export markets recover (especially from the food services industry in China and inventory restocking in the US). We expect all fishery companies in our coverage universe to post sequential earnings recovery in 3Q and 4Q (albeit year-on-year recovery will depend on the base effect for each respective company).

Table 2. Vietnam fisheries – KBSV quarterly net attributable profit forecasts, 1Q19–4Q20E (billion VND, %)

Company	2019A				% QoQ				2020E				% QoQ			
	1QA	2QA	3QA	4QA	1QA	2QA	3QA	4QA	1QA	2QA	3QE	4QE	1QA	2QA	3QE	4QE
Pangasius																
VHC	307	420	254	198	-24	37	-40	-22	152	215	273	324	-23	42	27	19
ANV	200	153	153	198	-32	-24	0	29	43	32	64	75	-78	-26	99	17
Shrimp																
MPC	87	70	231	54	-15	-19	229	-77	58	179	362	326	8	210	103	-10

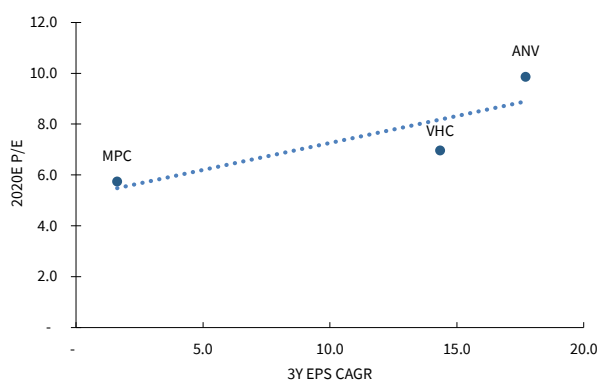
Source: Company reports, KB Securities Vietnam

Table 3. Vietnam fisheries – Valuations

Company	Price (VND)	Mkt cap (USDmn)	3M avg vol (USDmn)	PE (x)			PB (x)			Div yield (%)			ROE (%)		
				2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Pangasius															
VHC	36,600	288.4	1.0	7.0	5.9	5.3	1.2	1.1	1.0	5.5	8.2	9.6	18.6	19.6	19.8
ANV	16,550	90.7	0.2	9.9	7.8	7.1	0.9	0.9	0.9	12.1	9.1	10.3	9.1	11.5	12.2
Shrimp															
MPC	26,500	227.8	0.1	5.7	6.0	5.6	0.9	0.9	0.9	7.6	11.3	12.1	17.4	15.3	15.8

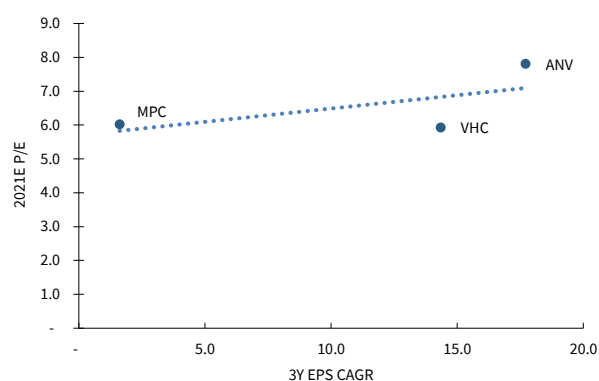
Source: Company reports, KB Securities Vietnam

Fig 1. Vietnam fisheries – 2020E P/E vs 3Y EPS CAGR (x)



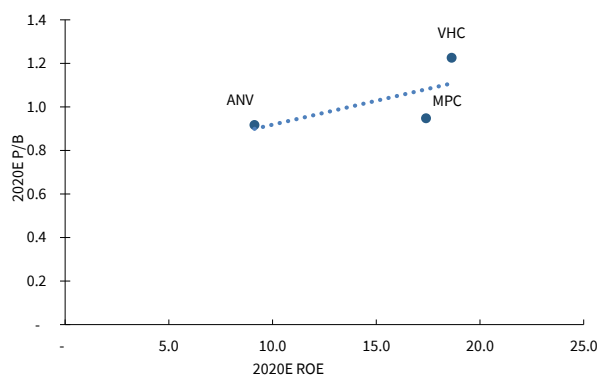
Source: Bloomberg, KB Securities Vietnam

Fig 2. Vietnam fisheries – 2021E P/E vs 3Y EPS CAGR (x)



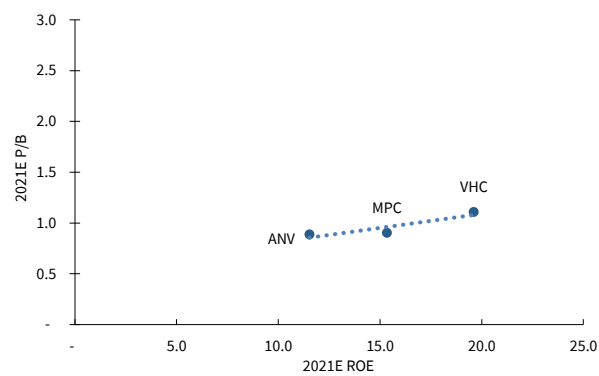
Source: Bloomberg, KB Securities Vietnam

Fig 3. Vietnam fisheries – 2020E P/B vs 2020E ROE (x, %)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Vietnam fisheries – 2021E P/B vs 2021E ROE (x, %)



Source: Bloomberg, KB Securities Vietnam

**Vinh Hoan Corporation (VHC):
Sector top pick and most
leveraged to 4Q turnaround**

We initiate our coverage of VHC as our sector top pick with a BUY rating and a target price of VND47,100. Our target price is based on a discounted cash flow model using the free cash flow to the firm approach. VHC is our sector top pick as the most leveraged to the expected 4Q turnaround in *pangasius* exports given the company's leadership in the important US market.

**2Q weak on pandemic and
continued fall in export ASPs; 2H
momentum into 4Q with inventory
restocking in the US and price
recovery to pre-pandemic levels**

Preliminary 2Q earnings fell by 49% YoY to VND215 billion on VND1,630 billion in revenue (down 19% YoY) due largely to: 1) drop in US and China exports after the pandemic negatively impacted food service demand; 2) lower gross profit margin to 20% from 22% last year on the industry-wide drop in export ASPs (falling since mid-2019); and 3) base effect from last year's one-off gain from the *Van Duc Tien Giang* divestment (earnings down 32% YoY excluding this gain). For 2H, we expect recovery to build momentum into 4Q (earnings up 8% YoY in 3Q and up 64% YoY in 4Q) due to: 1) inventory restocking in the US; 2) more strength from the EU (that even saw 1H revenues up 37% YoY despite the pandemic); 3) higher *pangasius* export prices as they slowly return to pre-pandemic levels; and 4) base effect from 2H 2019's weaker performance.

**We estimate a CAGR of 8.4%
between 2021E and 2025E to
determine our 12-month target
price**

Over our forecast period, we estimate an earnings CAGR of 8.4% between 2021E to 2025E and expect a 17% YoY rebound in 2021E results after overseas markets recover from the pandemic. Our forecasts assume: 1) overseas markets recover from 4Q (especially the US); 2) additional production from the new *Tan Hung* farm in 2021E to support export volumes; and 3) stronger gross profit margins with initial start of the 50-hectare hatchery (we have yet to reflect the second stage expansion to 100 hectares until construction begins).

Table 4. Vinh Hoan Corp (VHC) – Valuation (DCF) & target price (VND, %)

Line item	Notation		Notes
WACC	W	10.60%	$(E/(E+D) * k_E) + ((D/(E+D)) * k_D * (1-t))$
Cost of equity	k_E	11.77%	$r_f + (\beta_E * m)$
Re-levered beta	β_E	0.982	$\beta_A(1+((1-t)*D/E))$
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	25.00%	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		71.9%	
PV of future cash flows (VNDbn)		2,709	
PV of terminal value (VNDbn)		6,936	
PV of Firm (VNDbn)		9,644	
<hr/>			
Total return		34.2%	
Target price (VND)		47,100	
Dividend per share (VND)		2,000	

Source: KB Securities Vietnam

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

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

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.

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.

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).

Table 5. 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	$\beta_u(1+((1-t)*D/E))$
Unlevered beta	β_u	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	
<hr/>			
Total return		43.2%	
Target price (VND)		21,700	
Dividend per share (VND)		1,998	

Source: KB Securities Vietnam

Minh Phu Corporation (MPC): Momentum in shrimp exports to continue into 2021E

2Q earnings surge despite the pandemic; 2H more earnings momentum as delayed shrimp orders are booked in 3Q/4Q

We estimate a CAGR of 11.2% between 2021E and 2025E to determine our 12-month target price

We initiate our coverage of MPC with a BUY rating and a target price of VND31,700. Our target price is based on a discounted cash flow model using the free cash flow to the firm approach. Vietnam's shrimp exports have been unhindered by the pandemic and momentum should continue into 2021E, with MPC to benefit the most as Vietnam's largest shrimp exporter.

Preliminary 2Q earnings surged by 155% YoY to VND179 billion on VND2,736 billion in revenue (down 34% YoY) due to: 1) higher gross profit margins to 12% from 11% last year with the pandemic leading to lower shrimp input costs; 2) lower interest expenses (down 49% YoY) after paying down debt using proceeds from last year's Mitsui stake sale; and 3) drop in selling expenses (down 48% YoY) on lower logistics and storage costs. For 2H, the sharp recovery in shrimp exports from as early as July should accelerate earnings momentum and we expect earnings to jump by 57% YoY in 3Q and 509% YoY in 4Q due mainly to: 1) low base effect with last year's sharp drop in exports following the US antidumping investigation; 2) completion of initial response to the antidumping case; and 3) push back in delayed deliveries to 2H.

Over our forecast period, we estimate an earnings CAGR of 11.2% between 2021E and 2025E and a high base effect to drop 2021E earnings by 8% YoY. Our forecasts assume: 1) positive outcome from the US antidumping case; 2) some contraction/normalization in the gross profit margin as competitors recover from production disruptions caused by the pandemic; and 3) more internally-sourced supply with the completion of the "2-3-4" farming system from 2021E. We have refrained from including any gross margin improvements until the "2-3-4" farming system begins full operations from pilot tests now.

Table 6. Minh Phu Corp (MPC) – Valuation (DCF) & target price (VND, %)

Line item	Notation		Notes
WACC	W	11.09%	$(E/(E+D) * k_E) + ((D/(E+D)) * k_D * (1-t))$
Cost of equity	k_E	13.48%	$r_f + (\beta_E * m)$
Re-levered beta	β_E	1.175	$\beta_A(1+((1-t)*D/E))$
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	10.00%	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
Terminal value as % of firm value		77.0%	
PV of future cash flows (VNDbn)		1,963	
PV of terminal value (VNDbn)		6,581	
PV of Firm (VNDbn)		8,544	
Total return		25.3%	
Target price (VND)		31,700	
Dividend per share (VND)		1,500	

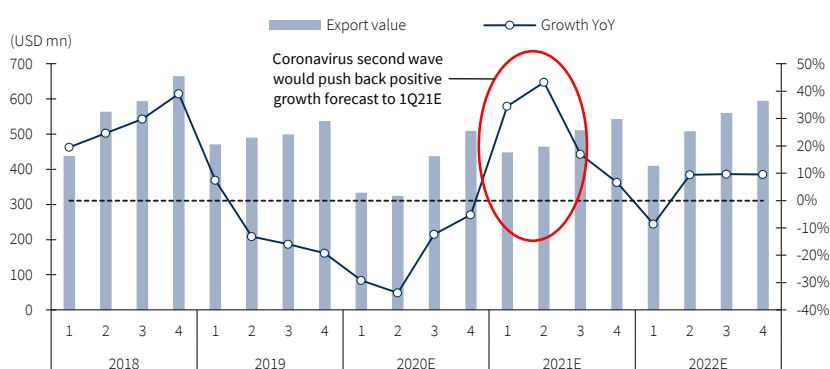
Source: KB Securities Vietnam

RISK OF SECOND WAVE:

Second wave of coronavirus cases in overseas markets could push back the return to positive export growth to 1Q 2021E

The risk of a second wave of coronavirus cases in overseas markets in 2H could push back our estimate for positive export growth to 1Q 2021E. Improvements in Vietnam's major *pangasius* export markets are in their early stages – and have yet to be realized in actual data – with our current estimates assuming the continuation of the nascent recovery. Should a second wave emerge in 3Q or 4Q then our estimate for positive export growth by 4Q will inevitably be pushed back to 1Q 2021E. Importantly, the return to positive growth is also supported by a base effect that should not prolong any upturn beyond 2Q 2021E.

Fig 5. Vietnam fisheries – Quarterly *pangasius* export values & growth forecasts (assuming second wave in 2H20), 2018– 2022E (million USD, % YoY)



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

AUDIT RISK:

Vietnam still needs to pass the second audit from the US Food Safety & Inspection Service (FSIS) under the *US 2014 Farm Bill*

The coronavirus has indefinitely delayed Vietnam's second audit by the US Food Safety & Inspection Service (FSIS) that was originally scheduled for March 2–13. This audit is conducted under the *US 2014 Farm Bill* and requires Vietnam's safety methods to meet US standards. Vietnam already passed the first onsite audit that focused on the processing phase of raw fish exports in September 2018, while the second audit will examine the farming and transportation portions of the export process.

RISK OF ANTIDUMPING TARIFFS: US authorities closely monitoring Vietnam's exports for any violations of antidumping rules

Antidumping tariffs can have a meaningful impact on export volumes to the US. Issues include law suits from local catfish farmers in the southern states against *pangasius* exporters, estimating the cost structure of Vietnam's fishery exports with proper documentation, government subsidies and rules of origin. Vietnam's major fishery companies – including VHC, MPC, Bien Dong (unlisted) and NTSF Seafoods (unlisted) – have avoided or are paying near-zero antidumping tariffs which has helped them become large exporters to the US. In contrast, ANV exited the US market in 2013 after being hit with steep antidumping tariffs and the company will need to apply for an antidumping review to re-enter the market. ANV plans to do this after upgrading farming methods to lower costs and satisfy rules of origin as part of the company's overseas expansion plan. Moreover, MPC is currently under an antidumping investigation for using raw Indian shrimp for its prepared shrimp exports to the US as a way to evade antidumping duties levied on Indian shrimp imports.

Table 7. Vietnam fisheries – US antidumping tariffs on *pangasius* exporters, 2007–2018 (USD/kg)

	Period of review	VN-wide	Vinh Hoan	Hung Vuong	Bien Dong	Nam Viet	NTSF	Cuu Long
POR 5	2007–2008	2.11	0		0.02		0	
POR 6	2008–2009	2.11	0		0.02		0	
POR 7	2009–2010	2.11	0		0.19		0	
POR 8	2010–2011	2.11	0.13	0.77	0.19	0.77	0.77	
POR 9	2011–2012	2.11	0	1.2	0.19	0.77	0.42	0.42
POR 10	2012–2013	2.39	0	0.97	0.19	0.97	0.97	0.97
POR 11	2013–2014	2.39	0	0.41	0.19	0.69	0.69	0.69
POR 12	2014–2015	2.39	0	0.41	0.19	0.69	0.69	0.69
POR 13	2015–2016	2.39	0	3.87	0.19	0.69	3.87	3.87
POR 14	2016–2017	2.39	0	3.87	0.19	0.69	1.37	1.37
POR 15	2017–2018	2.39	0	3.87	0.19	0.69	0.15	1.37

Source: US Department of Commerce

ENVIRONMENTAL RISK:

Harvests are highly sensitive to water quality and other environmental conditions

Aquaculture harvests are highly sensitive to water quality and the environmental conditions of farming ponds in the Mekong Delta (where all of Vietnam's *pangasius* and shrimp cultivation is concentrated). Water temperatures and salinity must be within required levels to produce healthy *pangasius* and shrimp. One growing problem has been saltwater intrusion – or the contamination of freshwater by seawater – that raises the salinity of farming ponds and causes the loss of appetite or death of *pangasius* and shrimp. Intrusions are becoming more commonplace as upstream hydroelectric dams in the headwaters of the Mekong River impact the flow of river sediment and erode riverbanks causing the Mekong Delta to sink and flood more frequently. This problem is unlikely to go away as around eleven hydropower dams are planned for the lower Mekong River by 2040 due to the soaring rise in demand for power.

RISK OF DISEASE:

Aquaculture always at the risk of disease

Intensive farming methods always put aquaculture at risk of infectious disease. The 2013 outbreak of EMS (Early Mortality Syndrome) wiped out 40% of Thailand's entire stock of shrimp and made the country lose its position as the world's largest shrimp producer. A wide variety of infectious diseases could shock the sector, including 1) highly lethal and contagious diseases like white spot syndrome (WSS) able to wipe out entire shrimp populations in a matter of days; 2) high mortality emerging diseases like SHIV (shrimp *hemocyte iridescent virus*); 3) bacterial diseases like *columnaris* that can devastate *pangasius* farms; or 4) the Red Spot Disease (*aeromonas*) caused by poor water quality or high stocking densities of *pangasius* ponds, to name a few.

IV. 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

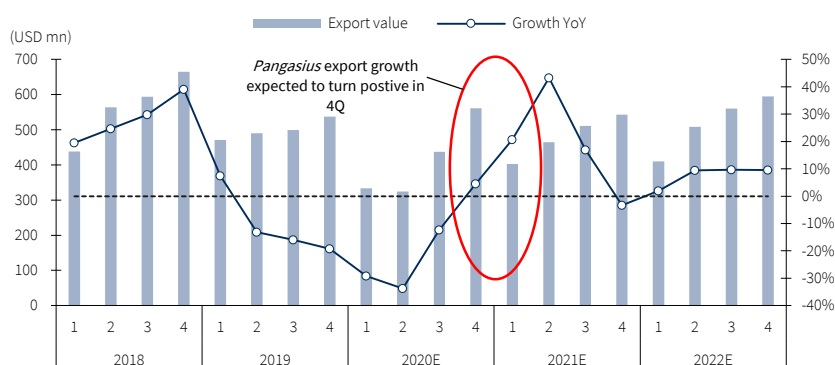
EXPORT VALUES:

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



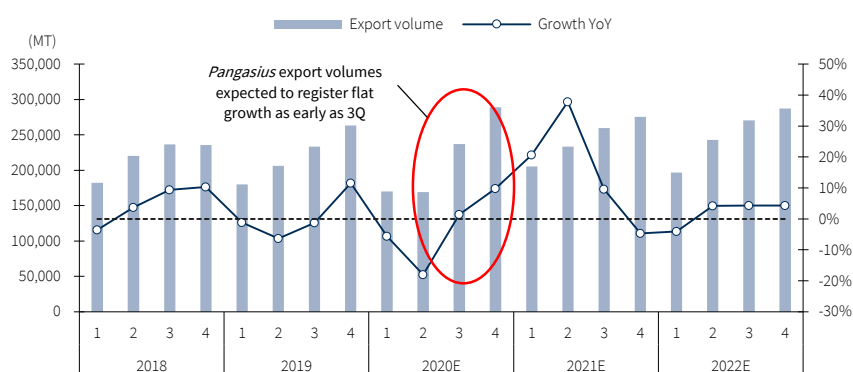
Source: Agromonitor, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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



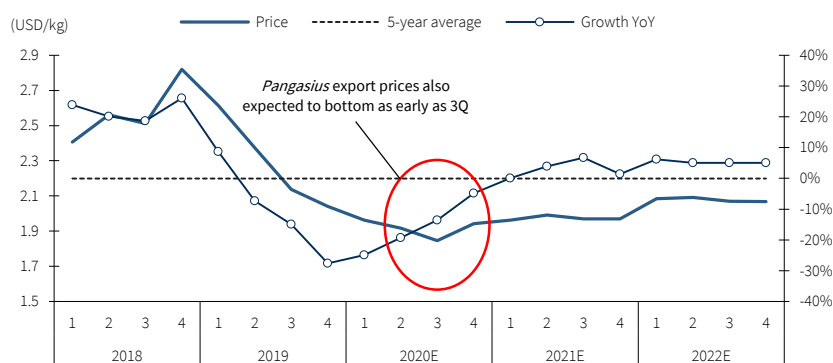
Source: *Agromonitor*, KB Securities Vietnam

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

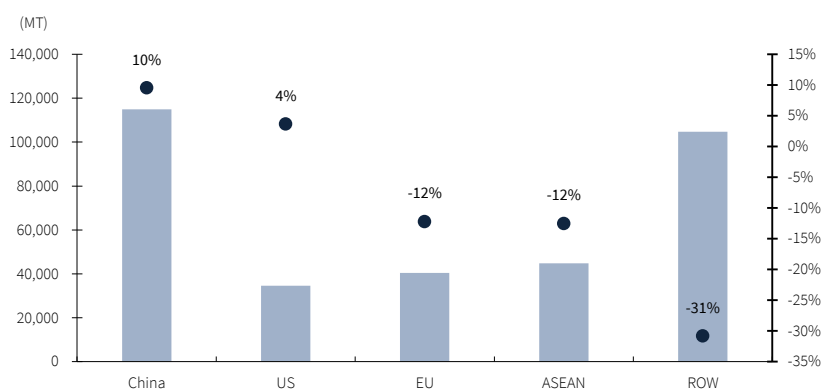


Source: *Agromonitor*, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

**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**

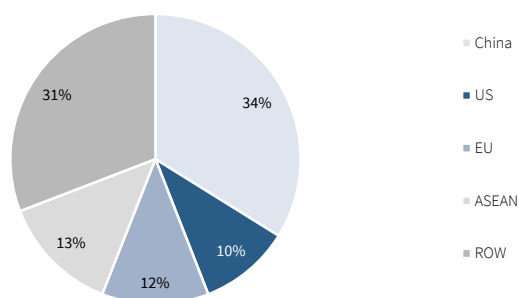
Export volumes to the US and China have proven resilient – and maintained positive growth in 1H despite the pandemic – with most of the hit to export volumes coming from the EU, ASEAN and the rest of the world. The US and China together now make 44% of volumes or close to half of Vietnam’s total export 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 9. Vietnam fisheries – Pangasius export volumes by market & growth, 1H20 (metric tons, % YoY)



Source: Agromonitor, KB Securities Vietnam

Fig 10. Vietnam fisheries – Pangasius export volume breakdown by market, 1H20 (%)

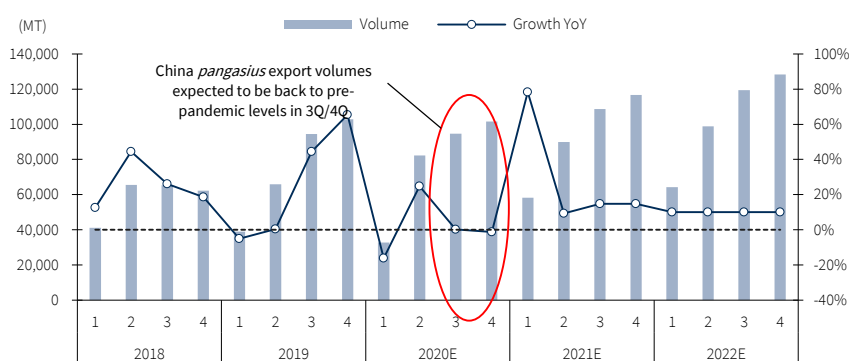


Source: Agromonitor, KB Securities Vietnam

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

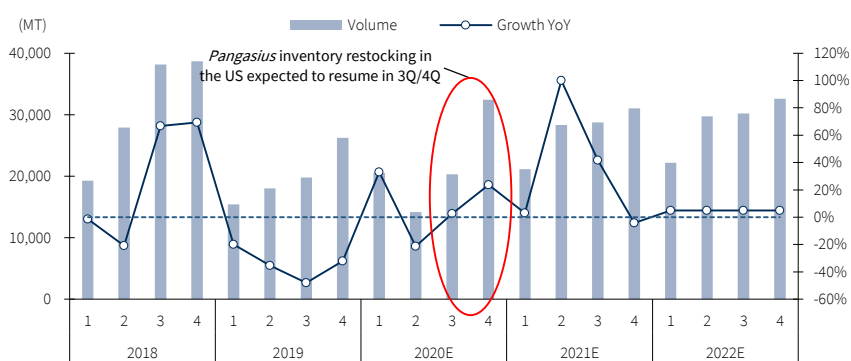


Source: Agromonitor, KB Securities Vietnam

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

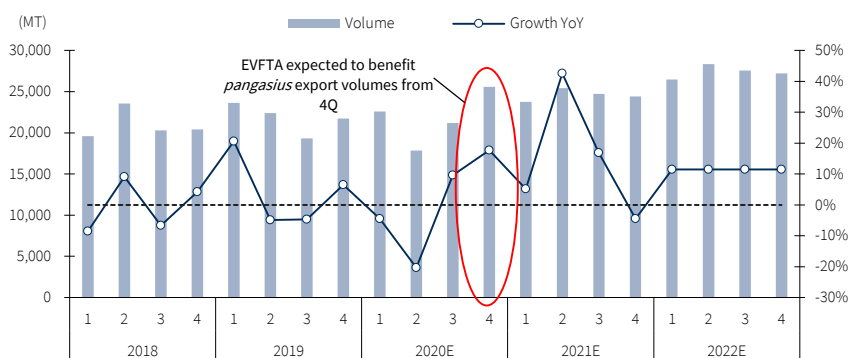


Source: Agromonitor, US Department of Agriculture, KB Securities Vietnam

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

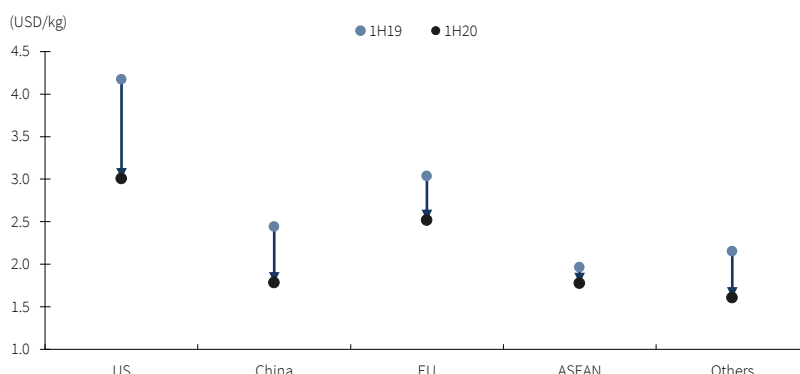


Source: Agromonitor, KB Securities Vietnam

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

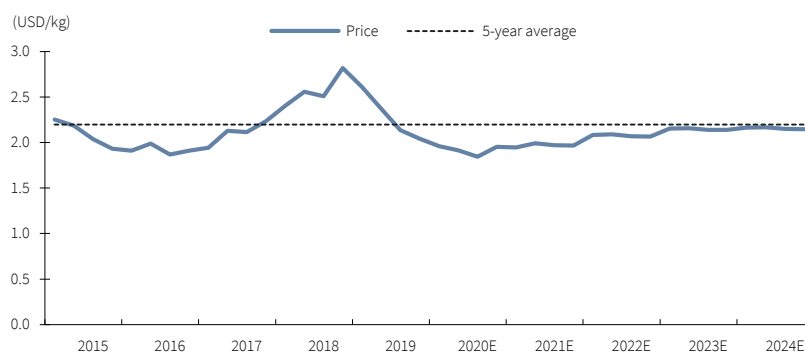
Export prices have stabilized to more sustainable levels after falling precipitously from 2018’s record highs. Prices have largely overcome the negative effects of 2018’s pangasius shortages that caused prices to surge in 2018 and then crash in 2019 after the spike in prices led to over-farming and oversupply. 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 14. Vietnam fisheries – Pangasius export prices by market, 1H19–1H20 (USD/kg)



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

Fig 15. Vietnam fisheries – *Pangasius* overall export prices, 2015–2024E (USD/kg)



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

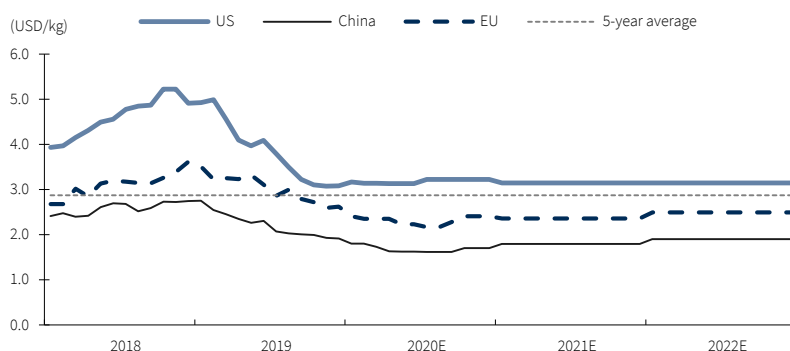
Some delays from coronavirus but export prices have fallen to more sustainable levels

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

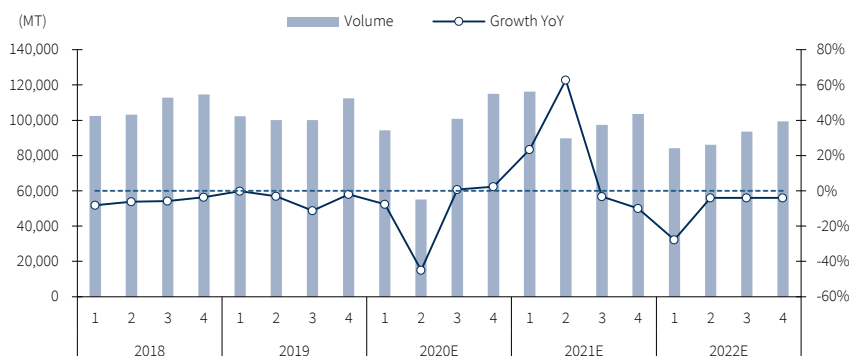


Source: International Trade Centre, US Department of Agriculture, Eurostat, KB Securities Vietnam

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

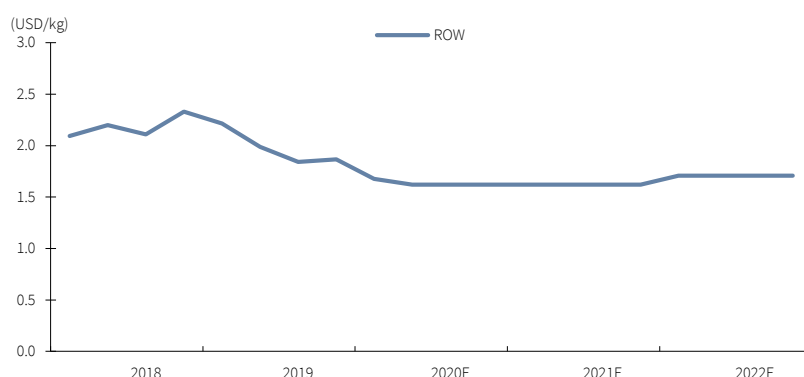
We do not expect recovery for exports to the rest of the world until 2021E when the pandemic comes under better control given the severity of volume contraction seen in 1H. The main regions within the rest of world category are the ASEAN countries (mainly Singapore and Malaysia), the Middle East and 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 17. 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 18. Vietnam fisheries – *Pangasius* export prices to rest of the world, 2018–2022E (USD/kg)

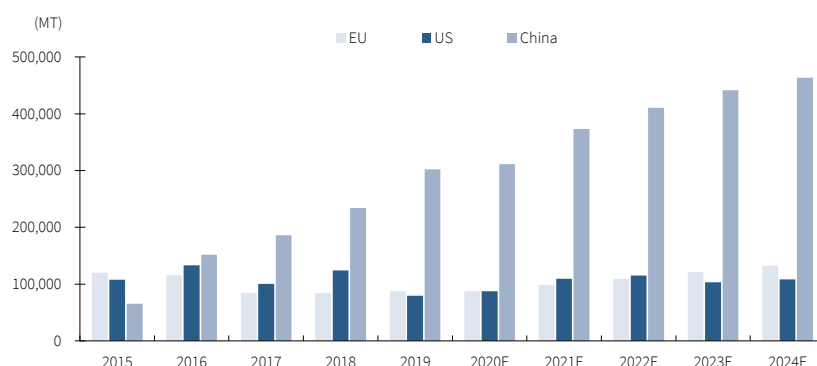


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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

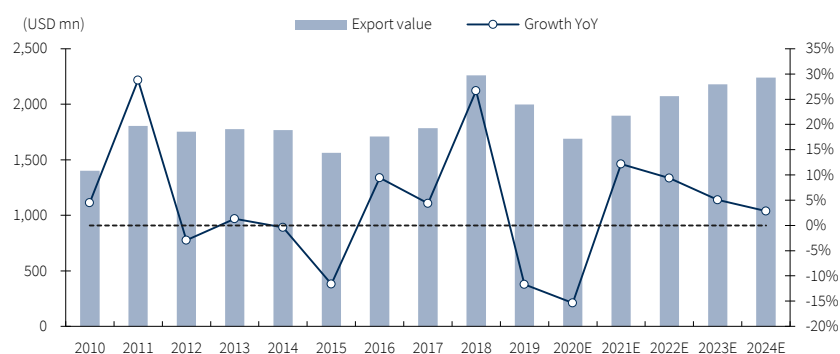


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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

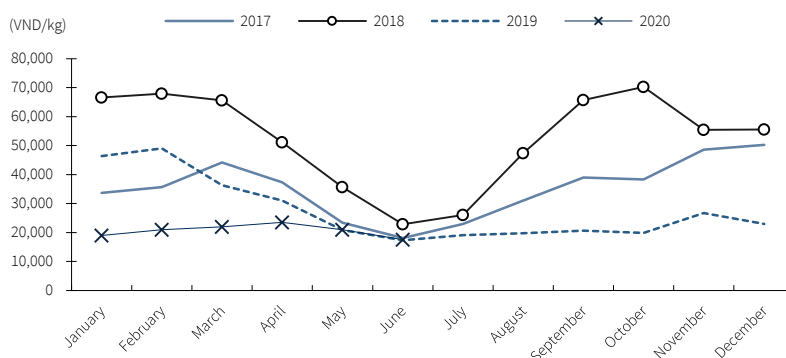


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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

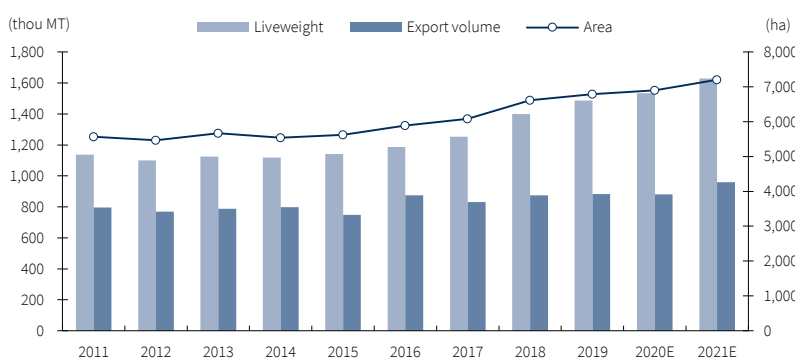


Source: Agromonitor

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

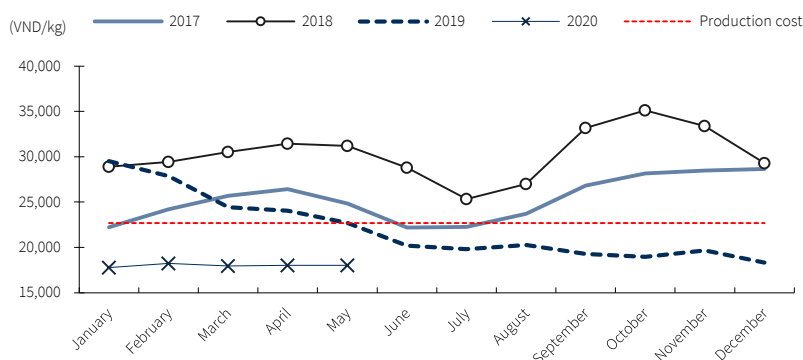


Source: Ministry of Agriculture & Rural Development, KB Securities Vietnam

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

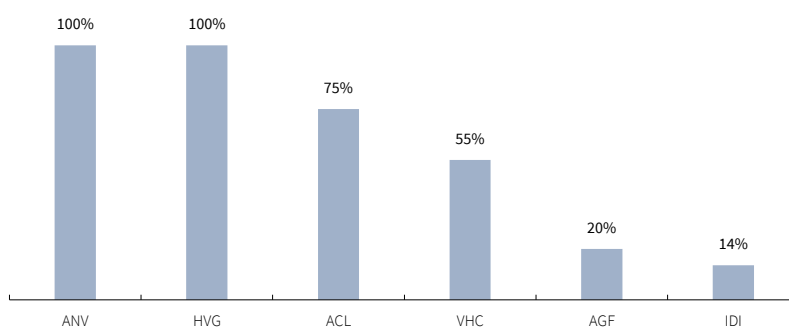


Source: Agromonitor

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 24. 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**

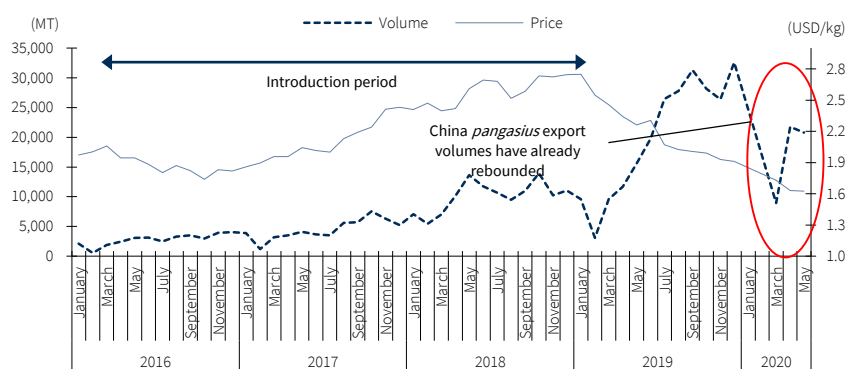
The coronavirus impacted China exports in 2020E and stalled penetration rates but we expect this market to revert back to pre-pandemic trends from as early as 2021E and retain its leading role as a large-volume market. *Pangasius* quickly gained popularity from Chinese consumers as a high quality white 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

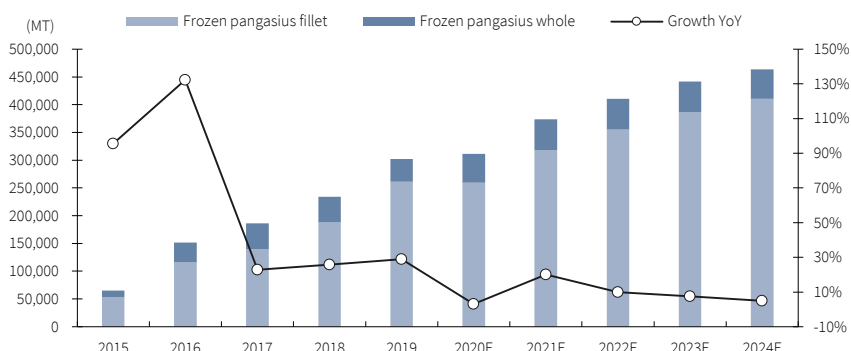
January 2020–now:
COVID-19 pandemic negatively impacted restaurant demand from China and exports

Fig 25. 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 26. Vietnam fisheries – *Pangasius* export volumes to China & growth forecasts, 2015–2024E (metric tons, % YoY)



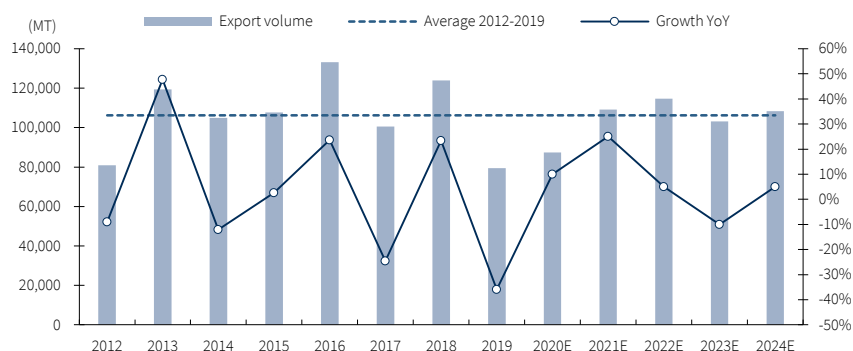
Source: International Trade Centre, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

US 2021E & BEYOND

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

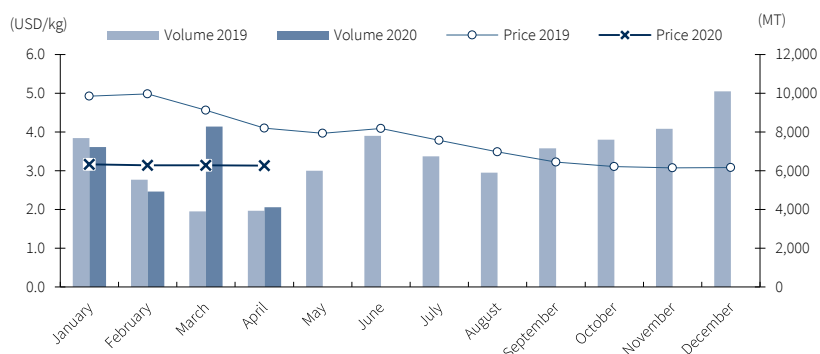
With inventory overhang largely resolved in the US market by 2020E, restocking should continue into 2021E as the pandemic delays top-up buying this year. Together with ongoing recovery in the food services industry, we estimate that export volumes could reach about 109,000 metric tons in 2021E (+25% 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 27. 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 28. Vietnam fisheries – Monthly *pangasius* export volumes to the US & prices, Jan 2019–Apr 2020 (metric tons, USD/kg)



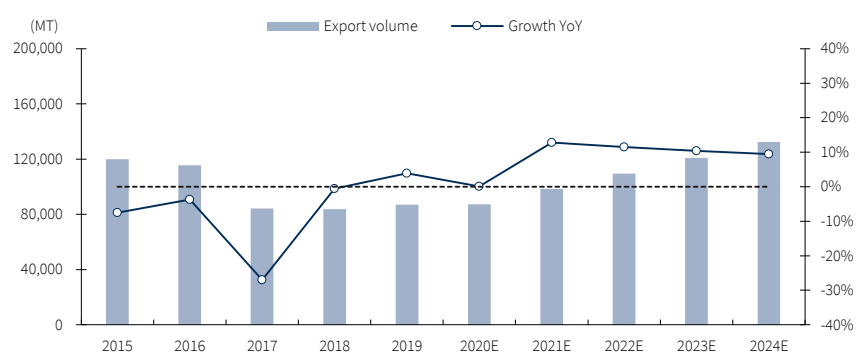
Source: US Department of Agriculture, KB Securities Vietnam

EU 2021E & BEYOND

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

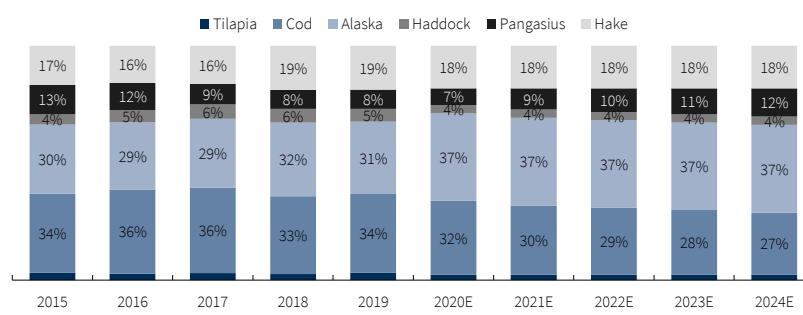
The EVFTA will require Vietnam to adhere to strict food safety and environmental standards and we believe this provides a big opportunity to restore the media-damaged image of pangasius exporters and improve exports from 2021E. European consumers have been apprehensive in buying pangasius due to the 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 29. Vietnam fisheries – Pangasius export volumes to the EU & growth forecasts, 2015–2024E (metric tons, % YoY)



Source: Agromonitor, Eurostat, KB Securities Vietnam

Fig 30. EU fisheries – Whitefish import volumes by species, 2015–2024E (%)



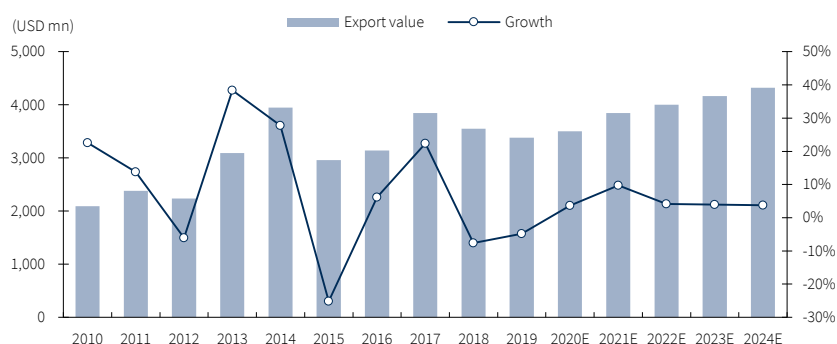
Source: Eurostat, KB Securities Vietnam

V. Shrimp Momentum into 2021E

Growth in shrimp exports should be unhindered by the coronavirus and continue in 2020E and 2021E

Modest growth in overseas markets and share gains – with gains being the more critical of the two – have allowed Vietnam’s shrimp exports to record stable growth at a 10% CAGR between 1998 to 2019. We expect this to continue in 2020E and 2021E, with several events supporting our view: 1) more China growth as Vietnam’s two-largest competitors struggle with the coronavirus pandemic; 2) market share gains against Chinese competitors in the US with the ongoing US-China trade war; 3) August’s start of EVFTA that will immediately eliminate tariffs on frozen shrimp imports and narrow the gap in Vietnam’s price competitiveness in the EU market; and 4) boost in shrimp consumption from Japan with the Tokyo Summer Olympics in mid-2021E.

Fig 31. Vietnam fisheries – Shrimp export value & growth forecasts, 2010–2024E (million USD, % YoY)

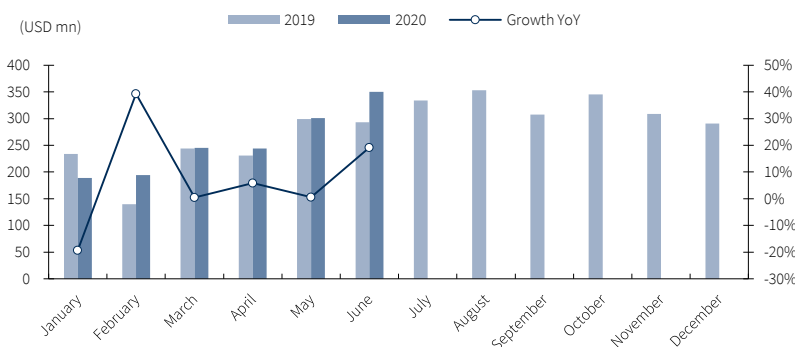


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Vietnam’s shrimp exports grew by 5.7% YoY despite the pandemic

Vietnam shrimp exports totaled VND1.5 billion or up 5.7% YoY for the first half of 2020E. Monthly growth in shrimp exports remained positive since February 2020E and were not held back by the pandemic.

Fig 32. Vietnam fisheries – Total shrimp export values & growth, Jan 2019–June 2020 (million USD, % YoY)

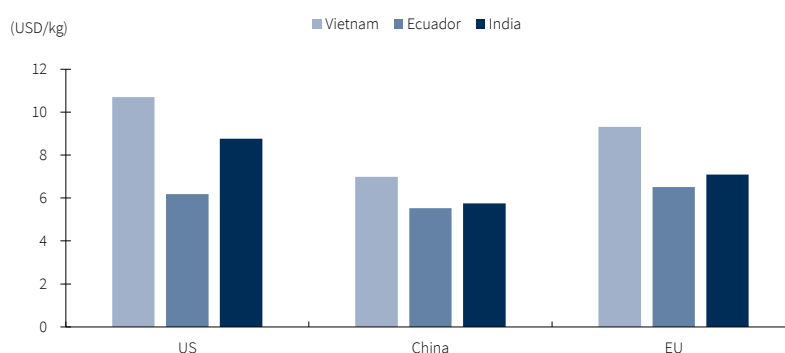


Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

But Vietnam's shrimp exports keep losing competitiveness against Ecuador

Of the world's top three shrimp exporters – India, Ecuador and Vietnam – shrimp from Vietnam ranks highest in terms of price in every major market despite only average quality product. Ecuador leads in terms of both price and quality, with Ecuadorian shrimp considered to have a high degree of uniformity, relatively large harvest sizes and the lowest export prices among the top three exporters. This allowed Ecuador to surpass Vietnam in 2019 to become the world's second-largest shrimp exporter after India.

Fig 33. Global fisheries – Average shrimp export prices of world's top three exporting countries to US, China & EU, 2020E (USD/kg)



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

Top three countries competing to improve the productivity of shrimp farms

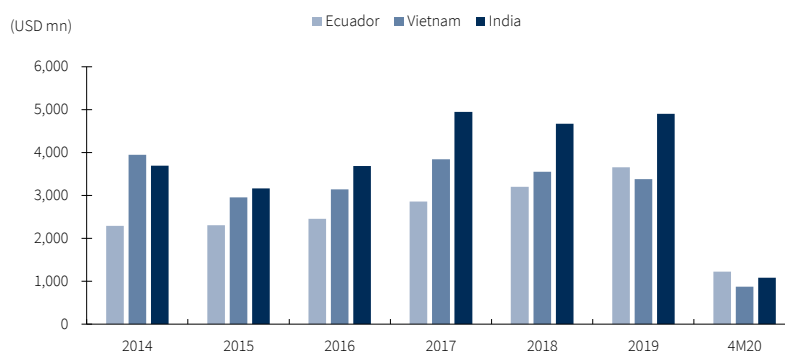
Productivity at the farm level is critical to compete in global markets given intensifying competition from countries like Ecuador and India in the coming years. All are currently increasing investments to improve production output:

India: Focusing on economies of scale by expanding farming areas outside its shrimp capital in the Andhra Pradesh state to boost supply.

Ecuador: Concentrating on reducing production costs by upgrading farming techniques to improve yields/quality instead of expanding the number of ponds.

Vietnam: Boosting production by separating out the nursery phase to improve survival rates and introducing partial harvesting techniques to increase the number of harvests and crop yields.

Fig 34. Global fisheries – Shrimp export values of world's top three exporting countries, 2014–April 2020 (million USD)



Source: Vietnam Association of Seafood Exporters & Producers, Camara Nacional de Acuicultura de Ecuador, Undercurrentnews

Fig 35. Global fisheries – Shrimp trade flow by major importer–exporter, Jan 2019–Mar 2020 (% of world total)

Jan 2019–Mar 2020		Exporter									World
		India	Ecuador	Vietnam	China	EU	Thailand	Indonesia	Argentina	Others	
Importer	US	11.35%	2.69%	2.81%	0.46%	0.03%	2.10%	5.53%	0.69%	2.62%	28.28%
	EU	2.51%	3.41%	3.07%	0.57%	6.37%	0.30%	0.43%	2.34%	8.25%	27.25%
	Vietnam	0.75%	1.14%	0.00%	0.00%	0.01%	0.04%	0.01%	0.08%	0.16%	2.18%
	Japan	1.48%	0.07%	2.60%	0.40%	0.00%	1.74%	1.52%	0.68%	0.95%	9.45%
	China	4.00%	9.23%	2.01%	0.00%	0.00%	1.18%	0.27%	1.33%	1.90%	19.91%
	South Korea	0.07%	0.30%	1.51%	0.13%	0.00%	0.26%	0.01%	0.10%	0.38%	2.77%
	Canada	0.59%	0.07%	0.68%	0.36%	0.01%	0.24%	0.10%	0.04%	0.11%	2.19%
	Others	0.78%	0.65%	1.57%	1.03%	0.29%	0.65%	0.16%	0.83%	2.01%	7.96%
	World	21.53%	17.58%	14.26%	2.95%	6.71%	6.50%	8.02%	6.08%	16.38%	100.00%

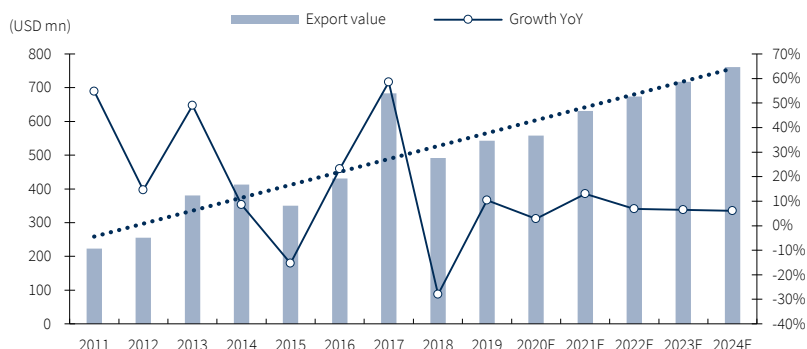
% of world total

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

CHINA MARKET:
Pandemic-induced production
disruptions at competing countries
to aid quick bounceback for
Vietnam's exporters

China's shrimp market is highly price sensitive and Vietnam's shrimp exports are the least price competitive among the top three. Nonetheless, exports to China have been on a clear uptrend since 2011 and recorded a CAGR of 12% between 2011 and 2019 (primarily frozen shrimp). June exports to China have already jumped by 23% YoY after bottoming out in February and narrowed the contraction in shrimp export values to minus 3% YoY in 1H to USD227 million. Despite Vietnam's higher shrimp prices, we expect Vietnam's exporters to bounce back the quickest in 2020E and 2021E as disruptions from the coronavirus continue to hamper supply from India and Ecuador. Despite the end of nationwide lockdowns in both countries, shrimp production chains are still suffering from disruptions at farms and processing centers. Moreover, China implemented tight inspections for refrigerated food products imported from high-risk countries since June – including India and Ecuador – after finding shrimp packages from Ecuador contaminated with the coronavirus.

Fig 36. Vietnam fisheries – Shrimp export value to China & growth forecasts, 2011–2024E (million USD, % YoY)

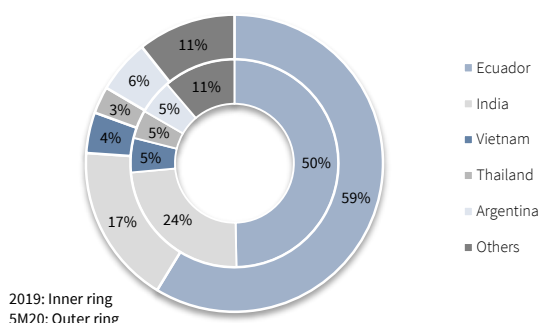


Source: International Trade Centre, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

China bounce back should extend to 2021E but slower growth from 2022E

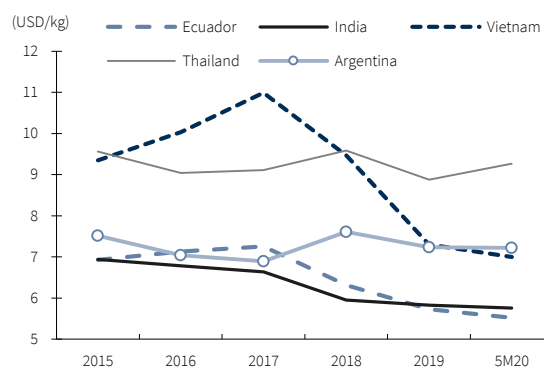
We expect Vietnam’s rebound in shrimp exports to China to extend into 2021E at 13% YoY growth from 2020E’s 3% YoY growth. But Vietnam’s lack of price competitiveness will likely slow export growth in China to around 6%–7% from 2022E onwards. Vietnam is still a small player in China when compared to India and Ecuador due to less competitive selling prices. China’s shrimp imports are almost all frozen raw shrimps – which is not Vietnam’s strength – and a highly price sensitive market. Vietnam’s high prices has kept market share in China low at only 5% vs Ecuador’s 50% and India’s 24% in 2019. Competition is also heating up as more countries target China for exports after the country lowered tariffs to 2% from 5% in 2018.

Fig 37. China fisheries – Frozen shrimp import market share by major country, 2019–May 2020 (%)



Note: Direct imports only.
Source: International Trade Centre, Undercurrentnews, KB Securities Vietnam

Fig 38. China fisheries – Shrimp import prices by country, 2015–May 2020 (USD/kg)

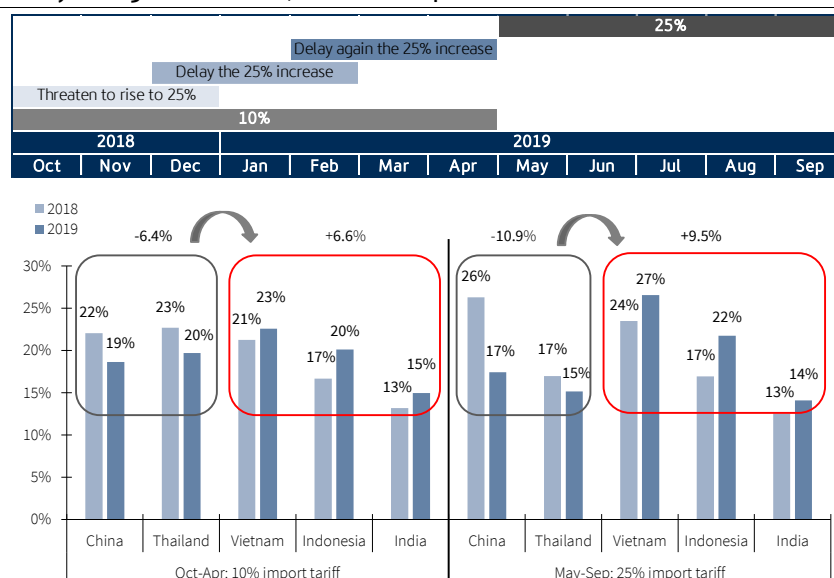


Note: Direct imports only.
Source: International Trade Centre, Undercurrentnews, KB Securities Vietnam

**US MARKET:
Chance to grab market share from
Chinese competitors**

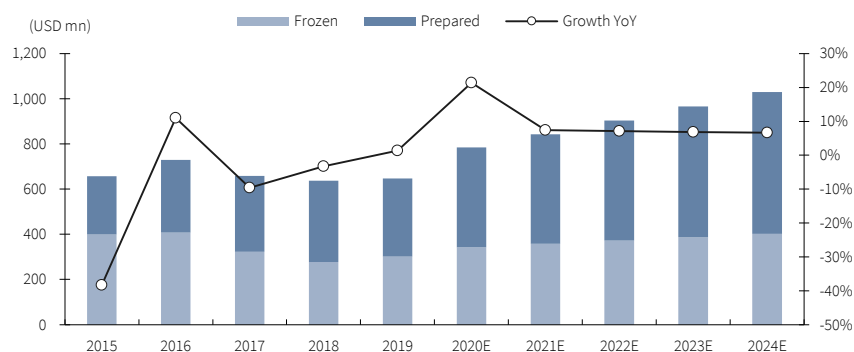
The ongoing US-China trade war slapped a 10% tariff on China’s prepared shrimp exports to the US in October 2018, which has since increased to 25% in May 2019 and remains in place despite January’s “Phase One” trade deal. China’s market share has since shifted to Vietnam, Indonesia and India and we expect this to continue (albeit some of Vietnam’s exporters – excluding MPC – have been paying antidumping tariffs since 2003 and are currently at 4.58%). China and Thailand’s market share fell by 6.4 percentage points between October 2018 to April 2019 when the US first imposed a punitive 10% tariff on China imports that roughly equaled the 6.4 percentage point gain in market share for Vietnam, Indonesia and India during that time. A similar shift in market share was also seen between May 2019 and September 2019 when the tariff was increased further to 25%. Thailand’s market share has been falling in the US since 2013’s EMS (Early Mortality Syndrome) shrimp disease outbreak.

Fig 39. US fisheries – Change in prepared shrimp import market share by major country during the trade war, Oct 2018–Sep 2019 (%)



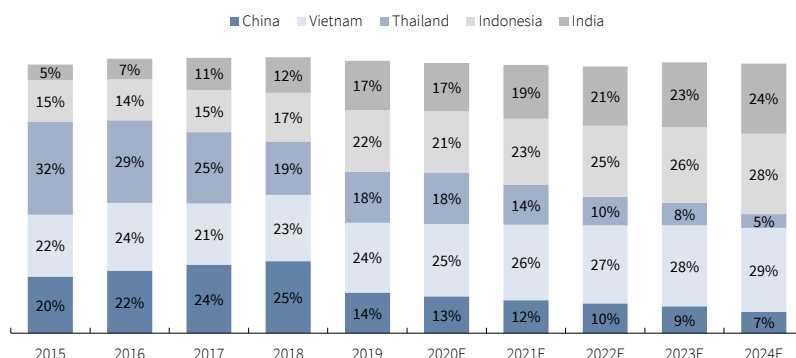
Source: US Department of Agriculture, KB Securities Vietnam

Fig 40. Vietnam fisheries – Shrimp export value to the US & growth forecasts, 2015–2024E (million USD, % YoY)



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

Fig 41. US fisheries – Prepared shrimp import market share by major country, 2015–2024E (%)

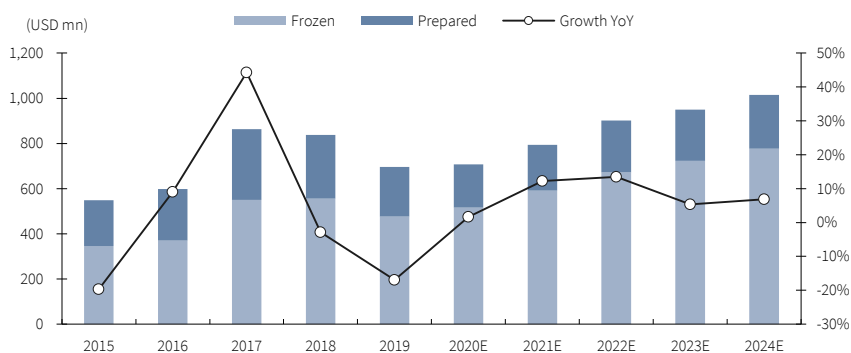


Source: International Trade Centre, Vietnam Association of Seafood Exporters & Producers, US Department of Agriculture, KB Securities Vietnam

**EU MARKET:
Frozen shrimp to benefit from the EVFTA**

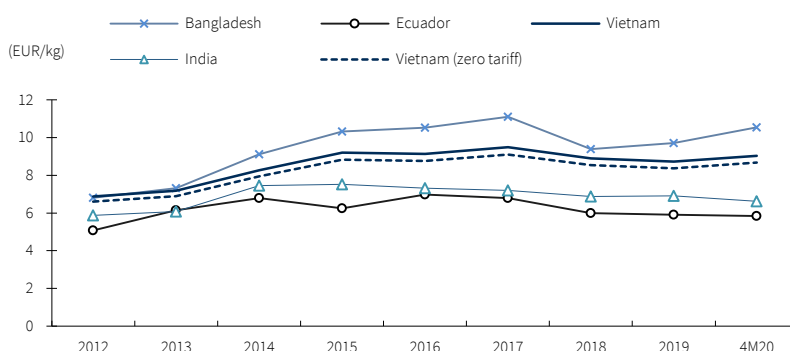
The EVFTA will immediately eliminate the 4.2% import tariff on Vietnam’s frozen shrimp when the treaty comes into force in August. This should allow Vietnamese shrimp exporters to gain market share, especially against Indian exporters that will need to keep paying this tariff. Market share for frozen warm water shrimps is price sensitive in the EU market, with Vietnam ranking third at 9% of the market in 2019 vs Ecuador’s 25% and India’s 15%. Ecuador has benefitted most from tariff-free status, having been exempt from paying the 4.2% tariff for frozen shrimp since 2017 when the country signed a free trade agreement with the EU. That said, Vietnam’s stronger market position in prepared shrimp at about one-third of the market should benefit less from the EVFTA. Tariffs on prepared shrimp will remain unchanged at 7% before falling to 5% in 2025E and being gradually eliminated by 2027E. We expect growth in prepared shrimp to be driven more by shifting demand for farmed shrimp (Vietnam, Indonesia and Thailand) from wild-caught shrimp (Canada and Iceland).

Fig 42. Vietnam fisheries – Shrimp export value to the EU & growth forecasts, 2015–2024E (million USD, % YoY)



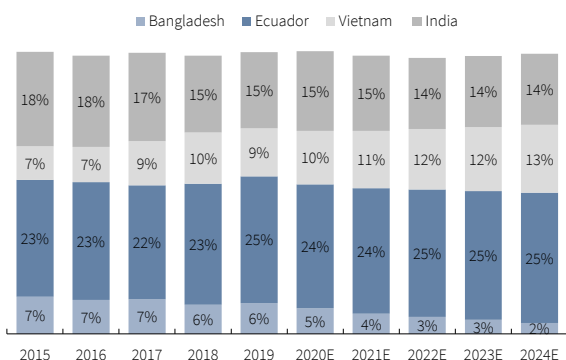
Source: Vietnam Association of Seafood Exporters & Producers, Eurostat, KB Securities Vietnam

Fig 43. EU fisheries – After-tariff prices of frozen shrimp imports, 2012–4M20 (EUR/kg)



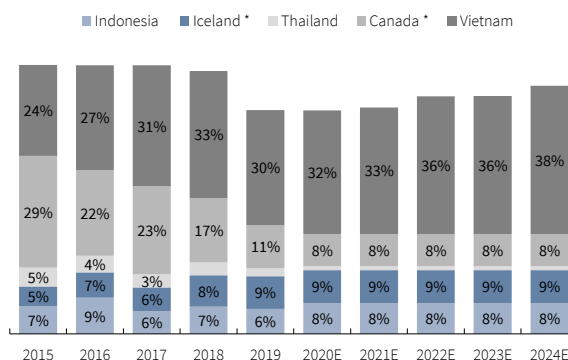
Source: Eurostat, Europa, Vietnam Chamber of Commerce & Industry, KB Securities Vietnam

Fig 44. EU fisheries – Frozen shrimp import market share by major country, 2015–2024E (%)



Source: Eurostat, KB Securities Vietnam

Fig 45. EU fisheries – Prepared shrimp import market share by major country, 2015–2024E (%)

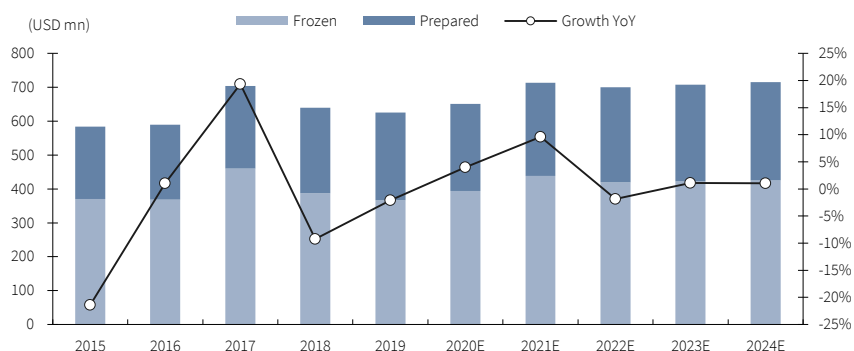


Note: Wild-caught shrimps for Canada & Iceland and farmed shrimp for other countries. Source: Eurostat, KB Securities Vietnam

**JAPAN MARKET:
Tokyo’s 2020 Summer Olympics will start in mid-2021E and boost consumption from one of Vietnam’s most profitable markets**

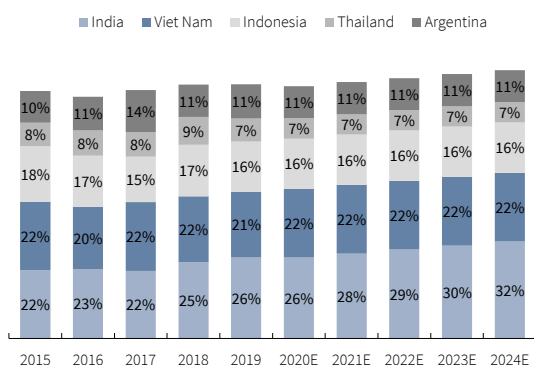
The start of Tokyo’s 2020 Summer Olympics in mid-2021E should lead to additional consumption from Japan as seen during 2002’s World Cup event. Japan is Vietnam’s third-largest but one of the most profitable overseas markets, with careful preparation and meticulous packaging appealing to Japanese consumers and ranking Vietnam as Japan’s second-largest overseas shrimp supplier. Specifically, Vietnam’s packaged shrimp sets (eg. butterfly shrimp) and shrimp products (eg. tempura shrimp) sell well in Japan. We estimate that additional demand from the delayed Tokyo Summer Olympics will boost shrimp exports to Japan by 9% YoY in 2021E vs our expectations for 3% YoY growth in 2020E. Given the dominant market position of Vietnam’s exporters, we also expect prices to remain steady during 2020E and 2024E at USD11.50 per kilogram for frozen shrimp and USD10.10 per kilogram for processed shrimp.

Fig 46. Vietnam fisheries – Shrimp export value to Japan & growth forecasts, 2015–2024E (million USD, % YoY)



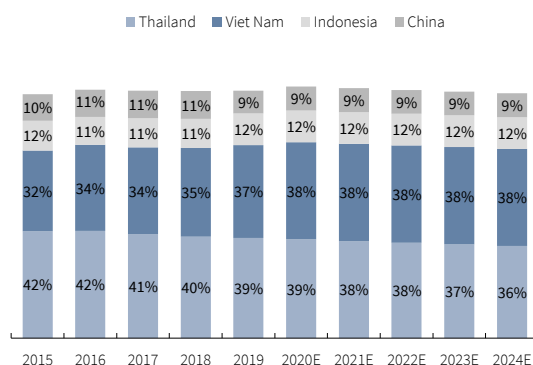
Source: International Trade Centre, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 47. Japan fisheries – Frozen shrimp import market share by major country, 2015–2024E (%)



Source: International Trade Centre, KB Securities Vietnam

Fig 48. Japan fisheries – Prepared shrimp import market share by major country, 2015–2024E (%)



Source: International Trade Centre, KB Securities Vietnam

VI. Upcoming Cycle More Sustainable

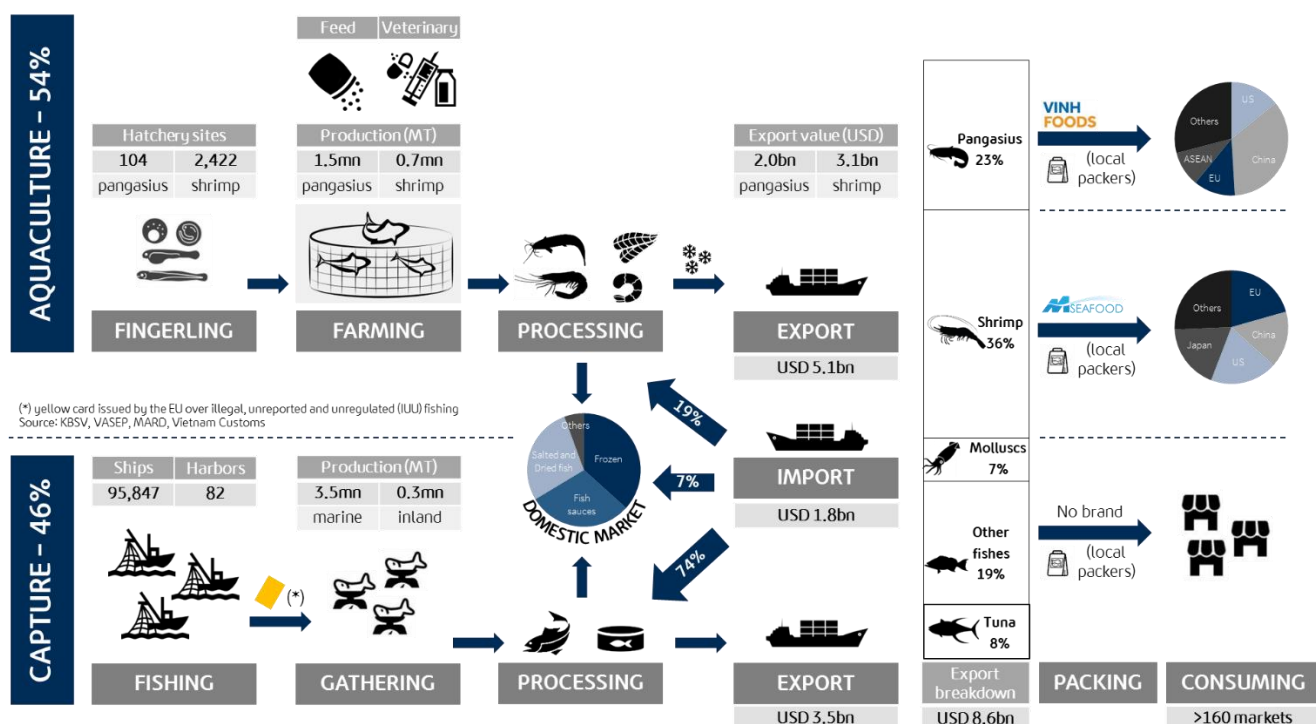
Vietnam’s fishery industry is undergoing meaningful changes that will change the nature of the upcoming cycle

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 49. Vietnam fisheries – Sector overview, 2019

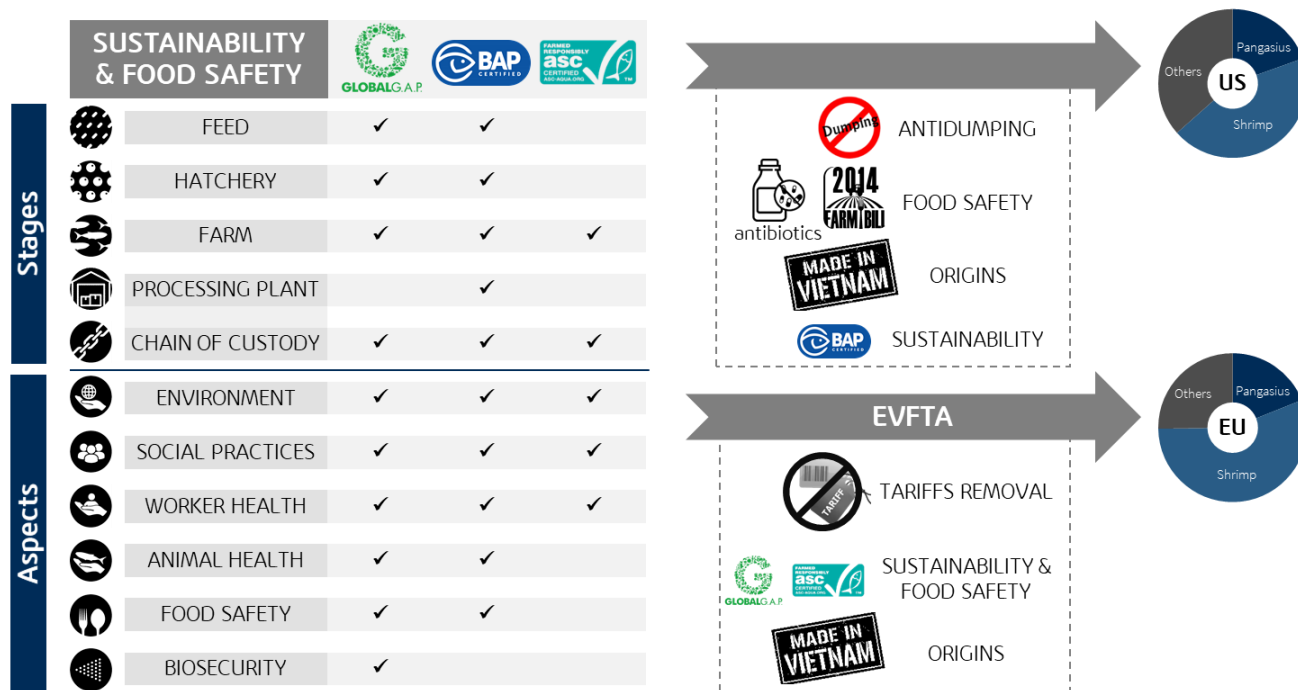


Source: Vietnam Association of Seafood Exporters & Producers, Ministry of Agriculture & Rural Development, Vietnam Customs, KB Securities Vietnam

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 50. Vietnam fisheries – Global quality standards, 2019

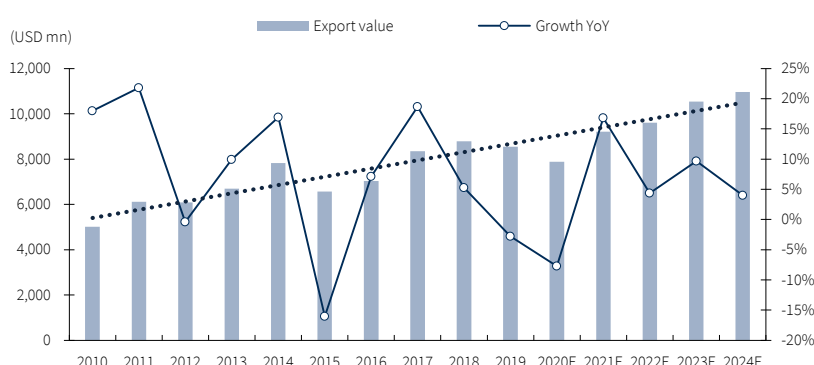


Source: Global Good Agricultural Practices (GlobalG.A.P.), Aquaculture Stewardship Council (ASC), Best Aquaculture Practices (BAP), KB Securities Vietnam

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

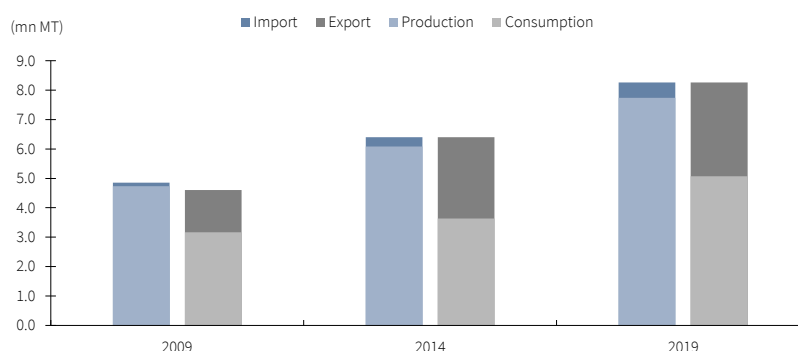
The coronavirus will likely cause Vietnam’s fishery exports to fall by 7.7% YoY for 2020E to USD7.9 billion according to our estimates. But over our full forecast period, we expect Vietnam’s fishery exports to grow at a 5.1% CAGR between 2020E–2024E. This compares to the 4.3% CAGR for exports between 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 51. Vietnam fisheries – Total fishery export value & growth forecasts, 2010–2024E (million USD, % YoY)



Source: Vietnam Customs, KB Securities Vietnam

Fig 52. Vietnam fisheries – Fishery balance by live weight, 2009–2019 (million metric tons)



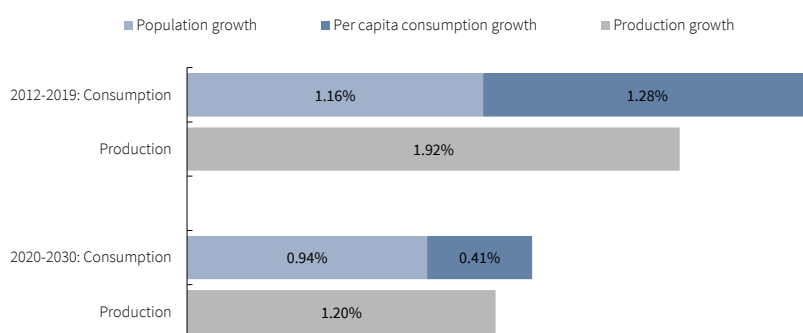
Note: OECD = Organisation for Economic Co-operation & Development, FAO = Food & Agriculture Organization of the United Nations

Source: OECD-FAO 2020, KB Securities Vietnam

Global fish consumption driven by population growth

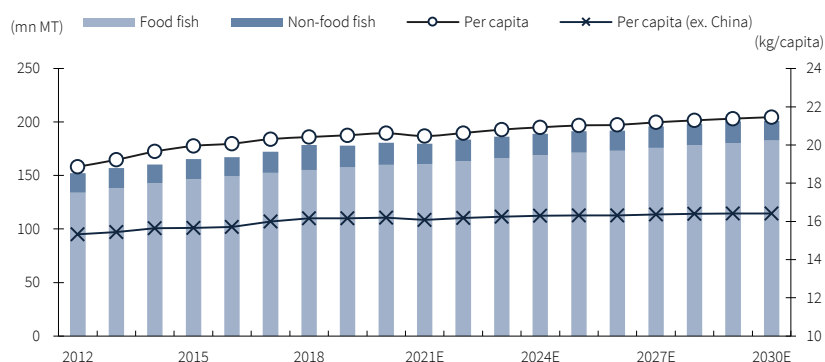
Population growth should be the main driver behind rising global fish consumption. The FAO (Food & Agriculture Organization of the United Nations) estimates that global per-capita fish consumption will grow by 0.41% per annum to reach 21.4 kg/year by 2030E from 2020E's 20.6 kg/year after falling by 1.28% 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 53. Global fisheries – Fish consumption CAGR decomposition & total production CAGR, 2012–2030E (%)



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

Fig 54. Global fisheries – Total & annual per-capita fish consumption, 2012–2030E (million metric tons, kg per capita)

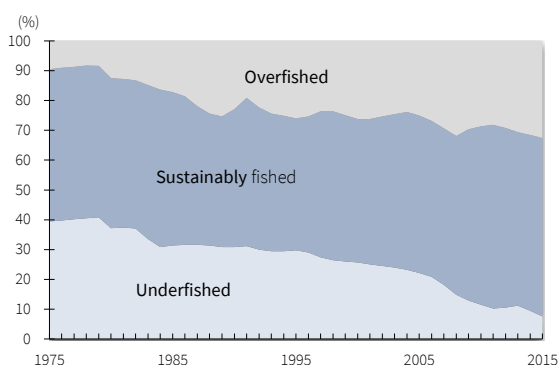


Source: *OECD-FAO 2020*, KB Securities Vietnam

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

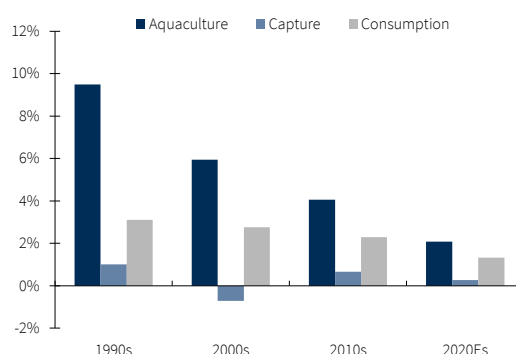
Global fish consumption has been hindered by static growth in live capture fishing and limited opportunities to expand aquaculture capacity. Live capture fishing reached its natural limit in the late 1980s when catches from newly accessed fish stocks failed to replace overfished fishing grounds and led 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 55. Global fisheries – Marine fish stocks breakdown by sustainability, 1975–2015 (%)



Source: *FAO 2018*

Fig 56. Global fisheries – Annual growth rate of fishery production & consumption, 1980s–2020Es (%)

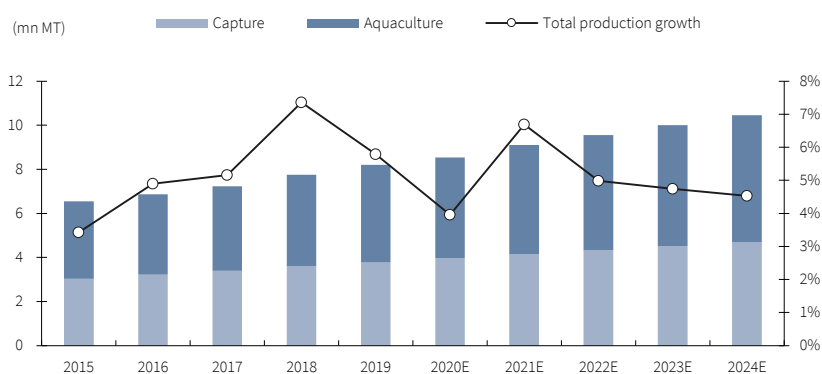


Source: *OECD-FAO 2020, KBSV*

Increasing aquaculture production to support export growth

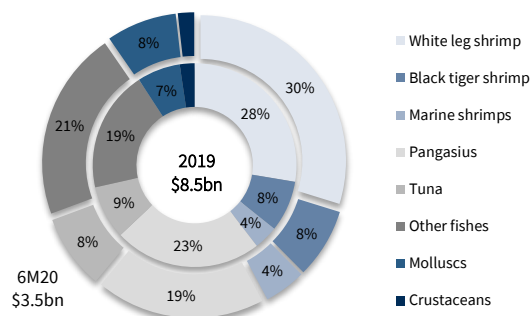
Growth in both wild-caught fishing and aquaculture production should support Vietnam's exports during our 2020E–2024E forecast period (albeit likely to see a slowdown in wild-caught catches). Notably, additional stocks from the South China Sea's large fishing grounds have allowed Vietnam's wild-caught 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 57. Vietnam fisheries – Capture & aquaculture fishery production & total growth forecasts, 2015–2024E (million metric tons, % YoY)



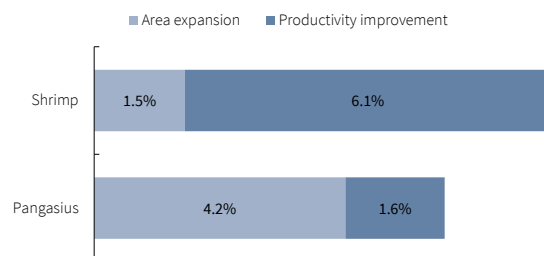
Source: General Statistics Office of Vietnam, KB Securities Vietnam

Fig 58. Vietnam fisheries – Total fishery export breakdown by species, 2019–6M20 (billion USD, %)



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

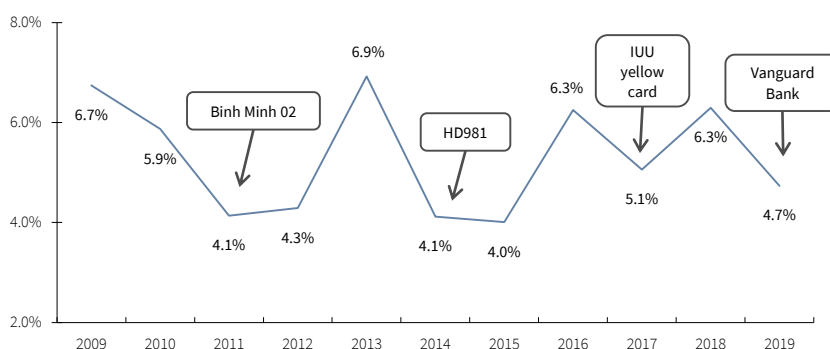
Fig 59. Vietnam fisheries – CAGR decomposition of shrimp & pangasius production, 2015–2019 (%)



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

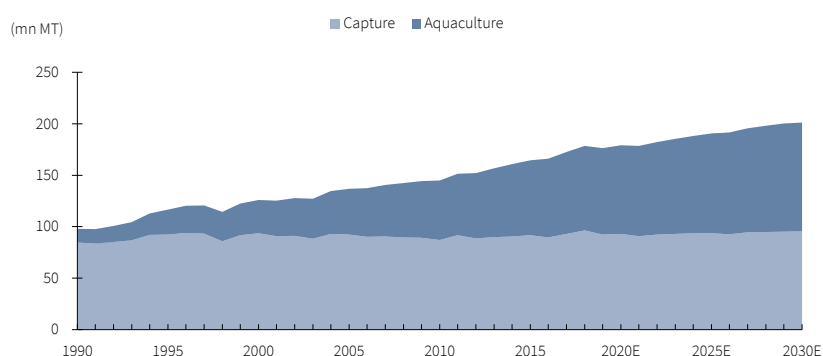


Source: General Statistics Office of Vietnam, KB Securities Vietnam

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

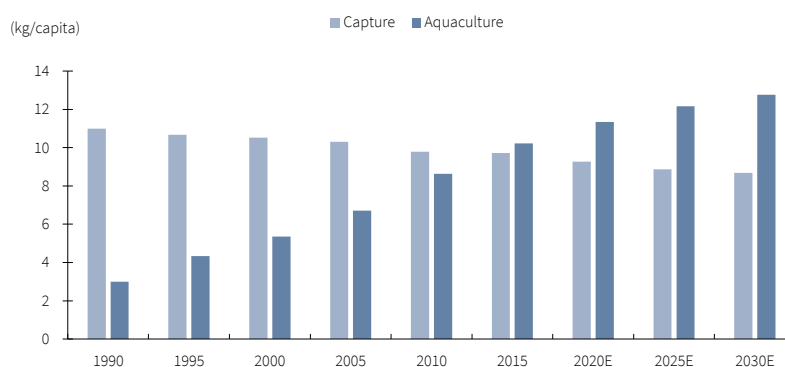
The mid- to long-term global competitiveness of Vietnam's fishery sector will largely depend on its ability to meet growing demand from rising populations around the world as well as changing consumer preferences that place a higher priority on food safety and environmental sustainability. We expect 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 61. Global fisheries – Capture & aquaculture fishery production, 1990–2030E (million metric tons)



Source: OECD-FAO 2020

Fig 62. Global fisheries – Aquaculture & capture contribution to per-capita consumption, 1990–2030E (kg/capita)

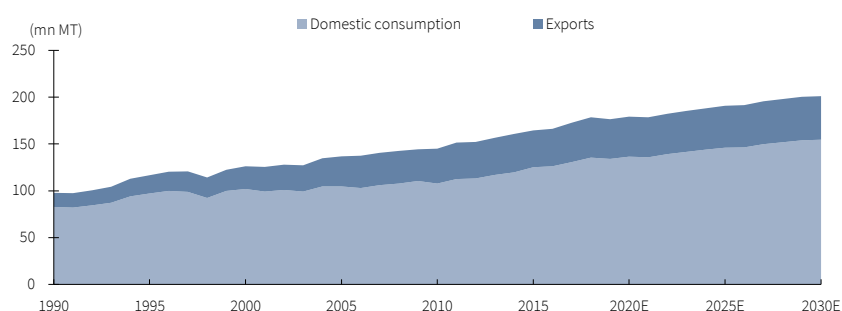


Source: OECD-FAO 2020

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

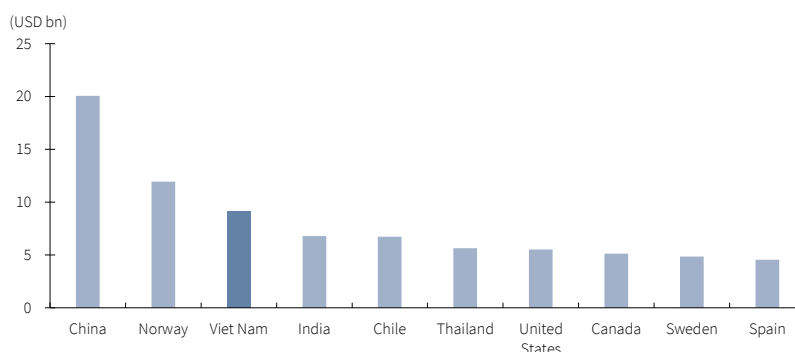


Source: OECD-FAO 2020, KB Securities Vietnam

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 64. 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*

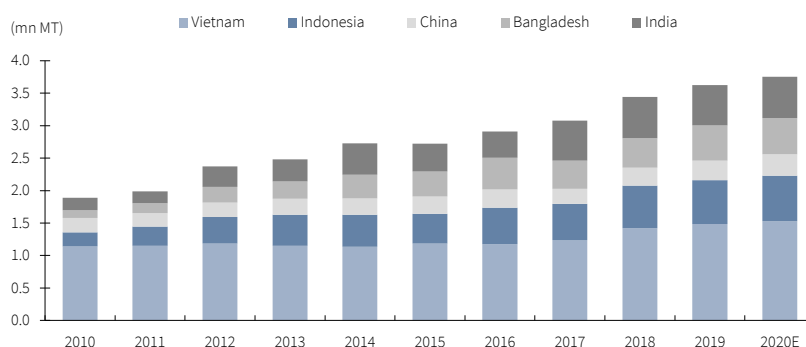
Competition in the *pangasius* market will likely be contained to existing local exporters due to Vietnam's dominance in the global *pangasius* market. Although some concerns have been raised about potential supply from China, India and Indonesia – and plans by India and Indonesia to focus on exports 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 8. 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 134	Bien Dong 130

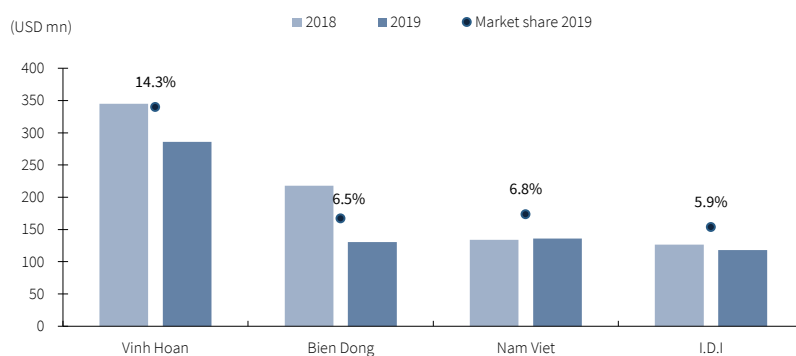
Source: Company reports, KB Securities Vietnam

Fig 65. 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 66. Vietnam fisheries – Export values and market share of major *pangasius* exporters, 2018–2019 (million USD, %)

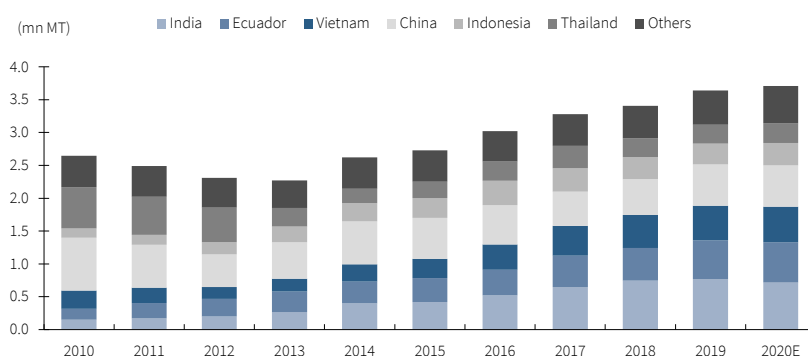


Source: Company reports, Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

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

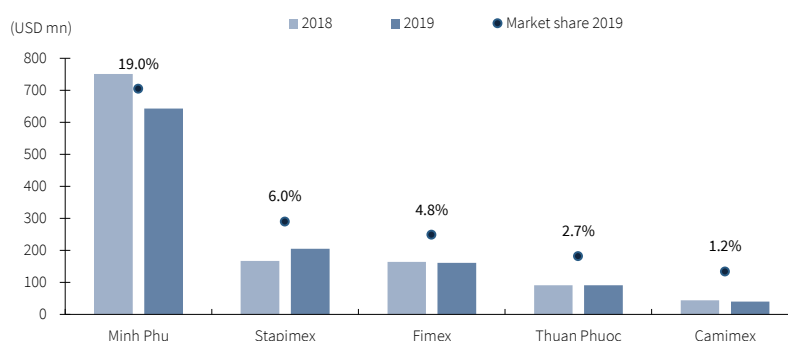
Vietnam's competitive landscape for shrimp exporters is relatively stable, with MPC at 19% market share and the next-largest players having market shares of less than 6% each. Vietnam's main shrimp exporters are (in order of size): Stapimex (traded in the OTC market), Fimex (FMC and listed in the Ho 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 67. Global fisheries – Farmed shrimp production, 2010–2020E (million metric tons)



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

Fig 68. 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



Companies

Vinh Hoan Corp (VHC)

Nam Viet Corp (ANV)

Minh Phu Corp (MPC)

August 12, 2020

Fisheries Analyst
 Nguyen Thanh Danh
 (+84) 354-358-427 danhnt@kbsec.com.vn

Initiate coverage with BUY and VND47,100 target price as Vietnam's leading pangasius exporter to the important US market

We initiate coverage of Vinh Hoan Corporation (VHC) as our sector top pick with a BUY recommendation and a target price of VND47,100 based on our DCF valuation. Superior product quality and premium pricing should allow VHC to benefit most from inventory restocking in the important US market and allow it to avoid any antidumping duties. VHC is Vietnam's leading pangasius exporter to the US, with about 60% of the company's exports going to the US market.

EU also becoming an important market, with close to half of production already receiving global certifications

Consumers in the EU are highly sensitive to environmental sustainability and food safety, making global quality standards important for this market. We estimate about 80% of VHC's internal farming sites already received one of three global certifications (eg, ASC, BAP or GlobalG.A.P). Given about 55% of total production is sourced internally, this implies about 44% of production – and well above peers – will meet minimum global standards. This gives VHC a unique advantage to benefit from falling tariffs in the EU when the EVFTA begins in August.

Management committed to increasing internal sourcing to boost GPMs and upgrade farming methods to global standards

The new *Tan Hung* farms should add about 220 hectares of ponds from 380 hectares at the end of 2019 or a 58% increase in land area. We expect about half to be ready this year to boost internally-sourced fish stocks to 55% in 2020E and 60% in 2021E. Part of this new land will be dedicated to a hatchery complex (50 hectares) to meet about 30% of internal fingerling demand from zero now to stabilize costs and meet global quality standards.

Buy initiate

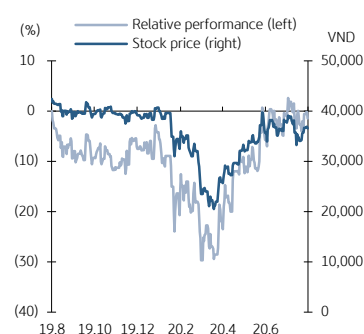
Target Price	VND47,100
Total return (%)	34.2%
Current price (Aug 12)	VND36,600
Consensus target price	VND39,000
Mkt capitalization (USDbn)	USD288mn

Trading data	
Free float (%)	50.1%
Avg trading value (3M)	USD0.95mn
Foreign available (%)	67.5%
Major shareholders (%)	Truong Thi Le Khanh (43.2%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.7	9.9	5.3	-13.7
Relative	-0.9	8.4	16.6	-1.5

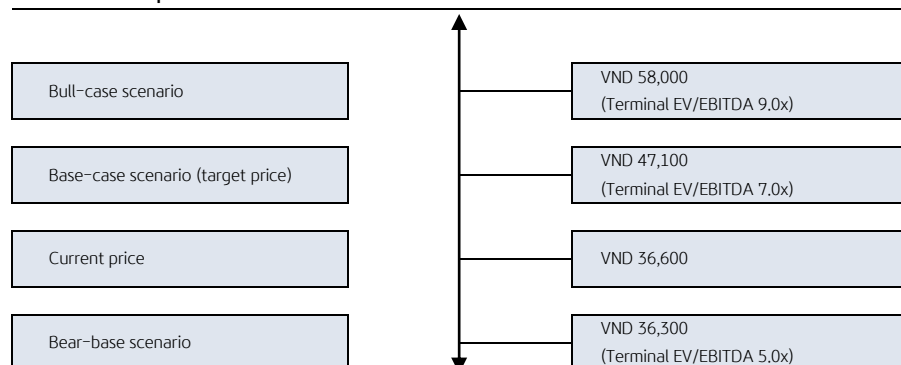
Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	7,867	8,036	9,472	10,419
EBIT	1,132	1,022	1,220	1,372
NP attributable to parent	1,179	965	1,133	1,262
EPS (VND)	6,430	5,262	6,176	6,880
EPS growth (%)	(18.2)	(18.2)	17.4	11.4
P/E (x)	5.7	7.0	5.9	5.3
EV/EBITDA (x)	5.8	6.3	5.2	4.7
P/B (x)	1.4	1.2	1.1	1.0
ROE (%)	26.5	18.6	19.6	19.8
Div yield (%)	2.8	5.5	8.2	9.6



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) New *Tan Hung* farm from 2021E
- 2) 4Q *pangasius* export turnaround
- 3) Steady recovery in ASPs

Bull-case scenario: upside risk

- 1) *Tan Hung* farm ahead of schedule
- 2) Export turnaround before 4Q
- 3) Strong recovery in ASPs

Bear-case scenario: downside risk

- 1) *Tan Hung* farm delays
- 2) Turnaround pushed back to 2021E
- 3) Weak ASPs

Revised earnings estimates

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

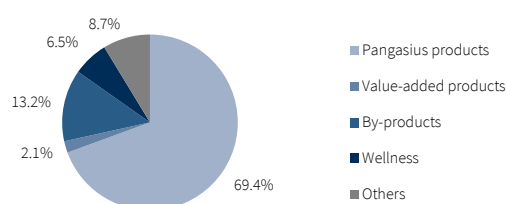
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	8,036	9,472	8,026	8,758	0.1	8.1
EBIT	1,022	1,220	1,274	1,363	(19.8)	(10.5)
OP	1,090	1,287	1,010	1,167	8.0	10.3
NP after MI	965	1,133	936	1,095	3.1	3.4

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

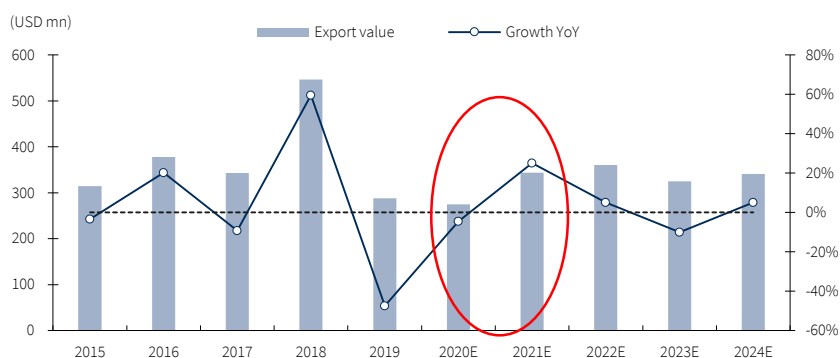
Source: Bloomberg, KB Securities Vietnam

Most leveraged to 2020E turnaround

**Sector top pick:
VHC most leveraged to the
turnaround in pangasius exports,
with a dominating position in the
US market**

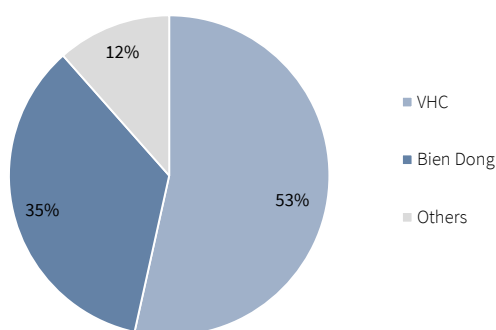
We expect VHC to benefit most from the long-awaited turnaround in *pangasius* exports, especially in the important US market. VHC dominates in the US *pangasius* market, securing leadership with superior product quality and premium pricing. This should allow the company to benefit most from resumption of 1Q’s inventory restocking that was not only delayed by the coronavirus but will now likely be extended into 2021E. VHC’s sales into the US were 53% of Vietnam’s total *pangasius* exports into the US in 2019 and makes the company the most recognized supplier among local US wholesalers looking to replenish stocks. With the US market representing about 60% of VHC’s total export revenue, we expect the rebound in US exports to drive a strong recovery in sales for 2H 2020E and 2021E.

Fig 69. Vietnam fisheries – Annual pangasius export values to the US & growth forecasts, 2015–2024E (million USD, % YoY)



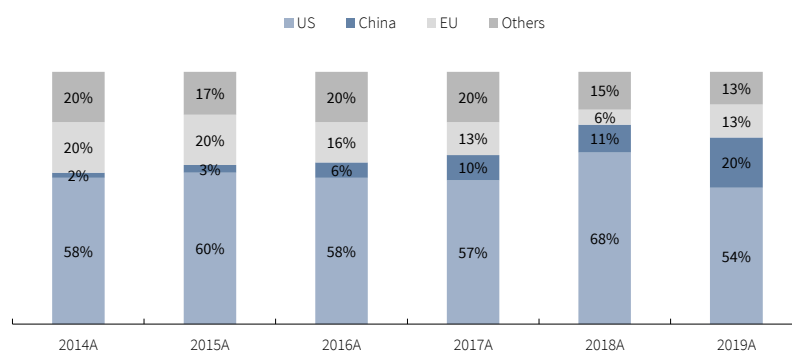
Source: Vietnam Association of Seafood Exporters & Producers, US Department of Agriculture, KB Securities Vietnam

Fig 70. US fisheries – Market share of Vietnamese pangasius exporters by value, 2019 (%)



Source: Company reports, KB Securities Vietnam

Fig 71. Vinh Hoan (VHC) – Revenue breakdown by market, 2014–2019 (%)



Source: Company reports

VHC's premium pricing allowed the company to pass all antidumping reviews

Premium pricing has protected VHC from any risk of antidumping tariffs that has forced the exit of large competitors from the US, like Hung Vuong Corporation (HVG) and Nam Viet Corp (ANV). The company's ability to maintain higher export pricing comes from its ability to meet strict quality standards. With a strong track record (ie, documentation) and having passed all antidumping reviews, we expect VHC to capture the bulk of the rebound in US exports. Most Vietnamese peers struggle with antidumping duties and we believe lengthy antidumping reviews may prevent smaller exporters from entering the US market in time to benefit from rebounding exports.

Table 9. Vietnam fisheries – Final results of antidumping tariffs on *pangasius* (USD/kg)

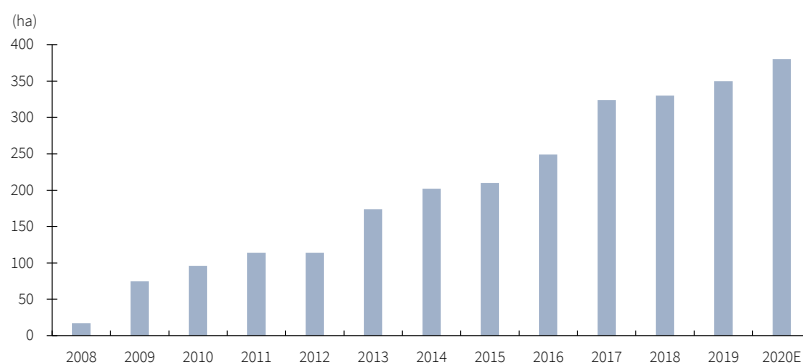
	Period of review	VN-wide	Vinh Hoan	Hung Vuong	Bien Dong	Nam Viet	NTSF	Cuu Long
POR 5	2007–2008	2.11	0		0.02		0	
POR 6	2008–2009	2.11	0		0.02		0	
POR 7	2009–2010	2.11	0		0.19		0	
POR 8	2010–2011	2.11	0.13	0.77	0.19	0.77	0.77	
POR 9	2011–2012	2.11	0	1.2	0.19	0.77	0.42	0.42
POR 10	2012–2013	2.39	0	0.97	0.19	0.97	0.97	0.97
POR 11	2013–2014	2.39	0	0.41	0.19	0.69	0.69	0.69
POR 12	2014–2015	2.39	0	0.41	0.19	0.69	0.69	0.69
POR 13	2015–2016	2.39	0	3.87	0.19	0.69	3.87	3.87
POR 14	2016–2017	2.39	0	3.87	0.19	0.69	1.37	1.37
POR 15	2017–2018	2.39	0	3.87	0.19	0.69	0.15	1.37

Source: US Department of Commerce

Embracing global quality standards ahead of the EVFTA

We estimate that about 80% of VHC's farming ponds are certified by one of the three global standards (ASC – Aquaculture Stewardship Council, BAP – Best Aquaculture Practices, or GlobalG.A.P. – Global Good Agricultural Practice). Management's longer-term strategic focus continues to be 100% certification for all internally-sourced production, especially for the new 220 hectares at the *Tan Hung* farms. Certifications and management's commitment to global quality standards should give VHC a distinct advantage in the EU market that is sensitive to food safety and environmental sustainability. Certifications also support new product lines like VHC's *Vinhwellness* brand that launched the world's first ASC-certified Collagen Supplement (a by-product of *pangasius* processing) in Sweden in October 2019. VHC's revenue from wellness products (collagen and gelatin) saw 24% YoY growth in 1H20 despite the pandemic.

Fig 72. Vinh Hoan (VHC) – Farming area certified to at least one global standard, 2008–2020E (hectares)

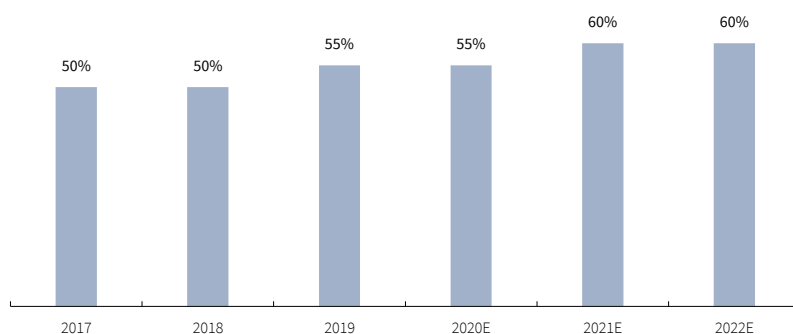


Source: Company reports, KB Securities Vietnam

Also boosting internal sourcing to boost GPMs and upgrade farming methods to global standards

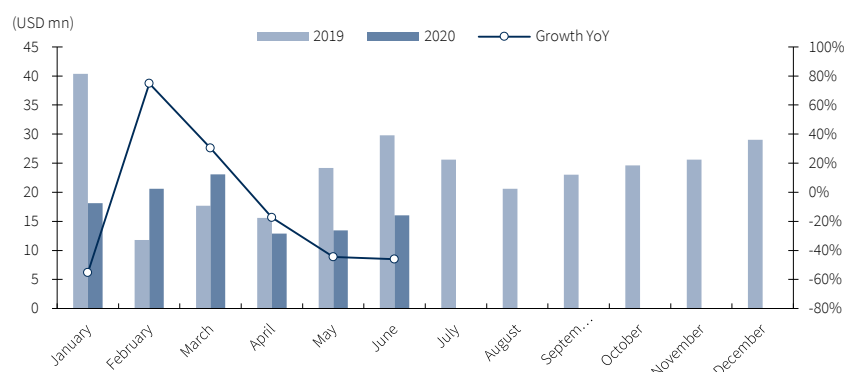
VHC is also increasing internal sourcing by slowly expanding farming sites to strengthen supply chain management and expand gross profit margins. About half of the new *Tan Hung* site's 220 hectares should be ready for farming in 2020E, with the remaining ponds available in 2021E after alum treatments are complete. Importantly, the 50-hectare hatchery complex will give VHC the ability to internally source about 30% of its fingerling needs from zero previously to complete the production chain, improve cost competitiveness and meet global quality standards. We expect internally-sourced production to reach 55% in 2020E and increase to 60% from 2021E when the *Tan Hung* farm is fully operational.

Fig 73. Vinh Hoan (VHC) – Internal supply percentage, 2017–2022E (%)



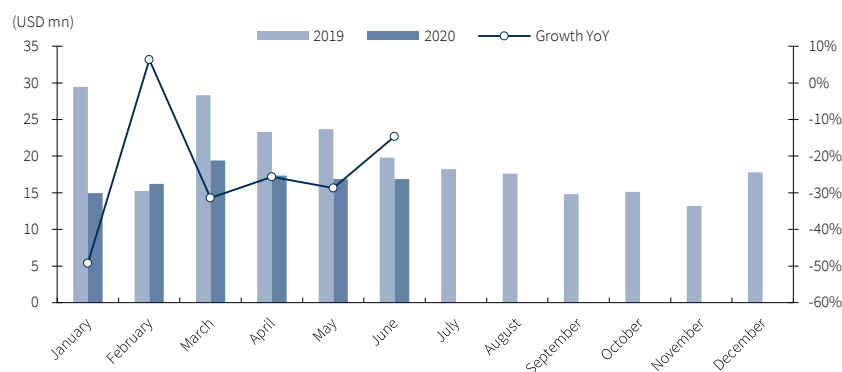
Source: Company reports, KB Securities Vietnam

Fig 74. Vietnam fisheries – Monthly pangasius export values to the US & growth, Jan 2019–June 2020 (million USD, % YoY)



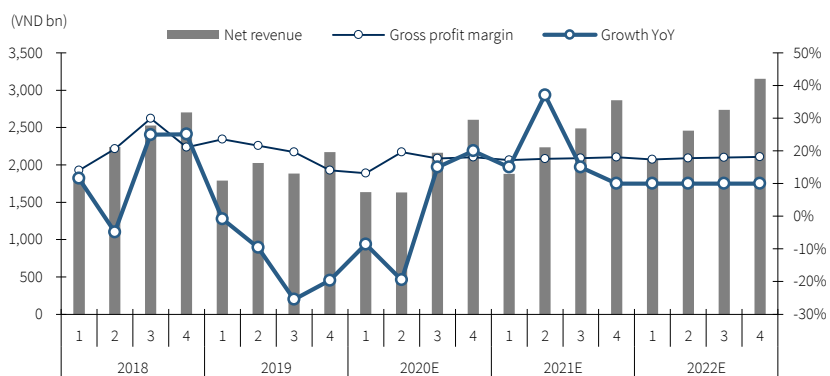
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 75. Vietnam – 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 76. Vinh Hoan (VHC) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: Company reports, KB Securities Vietnam

Vinh Hoan Corp (VHC) – Discounted cash flow model

DCF VALUATION

Terminal value (VND in billions)						Terminal value (US\$ in millions)				
	8,200	9,840	11,480	13,120	14,760	357	428	499	570	642
Present value of firm						Present value of firm				
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x
8.6%	8,136	9,222	10,307	11,393	12,478	351	398	445	492	540
9.6%	7,893	8,930	9,967	11,004	12,040	340	385	430	475	521
10.6%	7,663	8,654	9,644	10,635	11,626	330	373	416	459	503
11.6%	7,445	8,392	9,339	10,286	11,234	321	362	403	444	485
12.6%	7,238	8,144	9,050	9,956	10,862	312	351	391	430	469
Present value of equity per share						Present value of equity per share				
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x
8.6%	38,900	44,800	50,800	56,700	62,600	1.70	1.90	2.20	2.40	2.70
9.6%	37,600	43,200	48,900	54,600	60,200	1.60	1.90	2.10	2.40	2.60
10.6%	36,300	41,700	47,100	52,500	58,000	1.60	1.80	2.00	2.30	2.50
11.6%	35,100	40,300	45,500	50,600	55,800	1.50	1.70	2.00	2.20	2.40
12.6%	34,000	39,000	43,900	48,800	53,800	1.50	1.70	1.90	2.10	2.30

Projected Unlevered Free Cash Flows (VNDbn)	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	416	432	686	761	1,685	1,132	1,022	1,220	1,372	1,541	1,676	1,771
Taxes on EBIT @ 15.0%	62	65	103	114	253	170	153	183	206	231	251	266
Earnings before interest	354	368	583	647	1,433	963	869	1,037	1,166	1,309	1,425	1,505
Depreciation & provisions	117	139	144	198	144	162	187	231	235	239	240	244
(Profit)/loss from investing	-210	-51	-33	-30	-42	-221	-81	-81	-81	-81	-81	-81
Other adj for oper activities	222	71	-29	-169	-291	45	-214	-20	-23	-25	-27	-28
Cash flow from operations	483	527	665	646	1,243	949	761	1,166	1,298	1,442	1,558	1,640
Change in working capital	-528	-335	308	-160	-573	323	-671	-93	-299	-329	-271	-194
Capital expenditures	-484	-287	-334	-489	-22	-349	-546	-271	-276	-281	-287	-293
Decrease in investments	6	-18	2	16	-388	388	0	0	0	0	0	0
Unlevered free cash flow	-524	-112	641	13	260	1,312	-456	802	723	832	1,000	1,153
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)	-24	-5	28	1	11	57	-20	34	31	35	42	49

Firm Value Calculations

WACC	10.6%	PV of future cash flows (VNDbn)	2,709	2020E Total debt (VNDbn)	1,233
DCF period	5 Yrs	PV of terminal value (VNDbn)	6,936	2020E Cash (VNDbn)	233
Terminal EBITDA (VNDbn)	1,640	PV of Firm (VNDbn)	9,644	Terminal value as % of firm value	71.9%
Terminal multiple (x)	7.0x	Current exchange rate (VND)	23,000	Current shares outstanding (mn)	183.4

Cost Of Capital Calculations

WACC	10.6%	Re-levered beta	0.982	Risk free rate	3.0%
Cost of equity	11.8%	Debt beta	0.448	Market risk premium	8.9%
Cost of debt	7.0%	Unlevered beta	0.810	Target gearing	25.0%
		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	1.28	1.42	1.57	1.74
Present value in VND	0	0	0	0	0	0	-435	692	564	587	637	664
Present value in US\$	0	0	0	0	0	0	-19	30	24	25	27	28

Source: Company reports, KB Securities Vietnam

Vinh Hoan Corp (VHC) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	7,867	8,036	9,472	10,419	Total assets	6,612	7,656	8,468	9,101
Cost of sales	6,334	6,647	7,795	8,557	Current assets	4,611	5,302	6,079	6,663
Gross Profit	1,533	1,389	1,677	1,862	Cash & equivalents	86	233	435	461
Financial income	251	175	161	161	ST investments	1,492	1,285	1,650	1,808
Financial expenses	90	106	94	100	Accounts receivable	1,516	1,942	1,981	2,179
of which: interest expenses	60	54	62	64	Inventory	1,414	1,699	1,869	2,056
Gain/(loss) from joint ventures	14	0	0	0	Other current assets	103	142	145	159
Selling expenses	252	211	302	332	Long-term assets	2,001	2,354	2,388	2,438
General & admin expenses	149	156	156	157	LT trade receivables	6	3	3	3
Operating profit/(loss)	1,308	1,090	1,287	1,434	Fixed assets	1,447	1,928	1,972	2,028
Other income	12	5	0	0	Investment properties	0	0	0	0
Other expense	11	12	0	0	LT incomplete assets	392	257	254	240
Net other income/(expenses)	1	(7)	0	0	LT investments	1	1	1	1
Pretax profit/(loss)	1,309	1,084	1,287	1,434	Goodwill	40	34	28	23
Income tax	130	119	154	172	Other LT assets	114	130	129	142
Net profit/(loss)	1,179	965	1,133	1,262	Liabilities	1,735	2,175	2,397	2,402
Minority interests	0	0	0	0	Current liabilities	1,716	2,145	2,364	2,365
Net profit after MI	1,179	965	1,133	1,262	Trade accounts payable	440	462	521	573
					Advances from customers	20	28	25	27
					ST borrowings	866	1,233	1,333	1,233
					Special reserves	33	20	20	20
					Other current liabilities	357	402	465	512
					Long-term liabilities	19	30	33	36
					LT payables	0	0	0	0
					LT borrowings	0	0	0	0
					Other LT liabilities	19	30	33	36
					Shareholders' equity	4,877	5,480	6,070	6,699
					Paid-in capital	1,834	1,834	1,834	1,834
					Share premium	224	224	224	224
					Treasury stock	(114)	(114)	(114)	(114)
					Undistributed earnings	2,932	3,535	4,125	4,754
					Reserve & others	0	0	0	0
					Minority interests	2	2	2	2
					Total liabilities & equity	6,612	7,656	8,468	9,101
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	(15.1)	2.1	17.9	10.0	Valuations				
EBIT growth	(32.8)	(9.8)	19.3	12.5	P/E	5.7	7.0	5.9	5.3
EBITDA growth	(29.5)	(5.8)	18.7	10.8	P/E diluted	5.6	6.9	5.8	5.2
NP after MI growth	(18.2)	(18.2)	17.4	11.4	P/B	1.4	1.2	1.1	1.0
Gross profit margin	19.5	17.3	17.7	17.9	P/S	0.9	0.8	0.7	0.6
EBITDA margin	16.5	15.2	15.3	15.4	EV/EBITDA	5.2	5.5	4.6	4.2
EBIT margin	14.4	12.7	12.9	13.2	EV/EBIT	5.9	6.6	5.5	4.9
Pre-tax profit margin	16.6	13.5	13.6	13.8	Dividend yield, ordinary (%)	2.8	5.5	8.2	9.6
Net profit margin	15.0	12.0	12.0	12.1	EPS	6,430	5,262	6,176	6,880
					BVPS	26,597	29,886	33,103	36,531
					SPS	42,901	43,823	51,651	56,817
					DPS (annual, ordinary)	1,023	2,000	3,000	3,500
					Dividend payout ratio (%)	15.7	37.5	47.9	50.2
					Operating performance				
					ROE	26.5	18.6	19.6	19.8
					ROA	18.3	13.5	14.0	14.4
					ROIC	23.1	18.0	19.6	20.2
					Financial structure				
					Total liab/equity	35.6	39.7	39.5	35.9
					Net debt/equity	16.0	18.2	14.8	11.5
					Current ratio (x)	2.7	2.5	2.6	2.8
					Interest coverage (x)	19.0	19.0	19.8	21.3
					Activity ratios				
					Asset turnover	1.2	1.1	1.2	1.2
					Receivables turnover	4.5	4.6	4.8	5.0
					Inventory turnover	5.6	5.2	5.3	5.3
					Payables turnover	15.6	16.9	18.3	18.2

Source: Company reports, KB Securities Vietnam

Nam Viet Corporation (ANV)

Readying for global expansion

August 12, 2020

Fisheries Analyst
 Nguyen Thanh Danh
 (+84) 354-358-427 danhnt@kbsec.com.vn

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

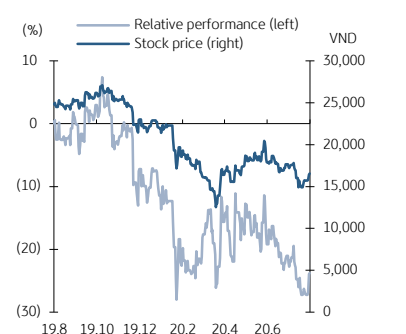
Target Price	VND21,700
Total return (%)	43.2%
Current price (Aug 12)	VND16,550
Consensus target price	VND19,100
Mkt capitalization (USDbn)	USD91mn

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

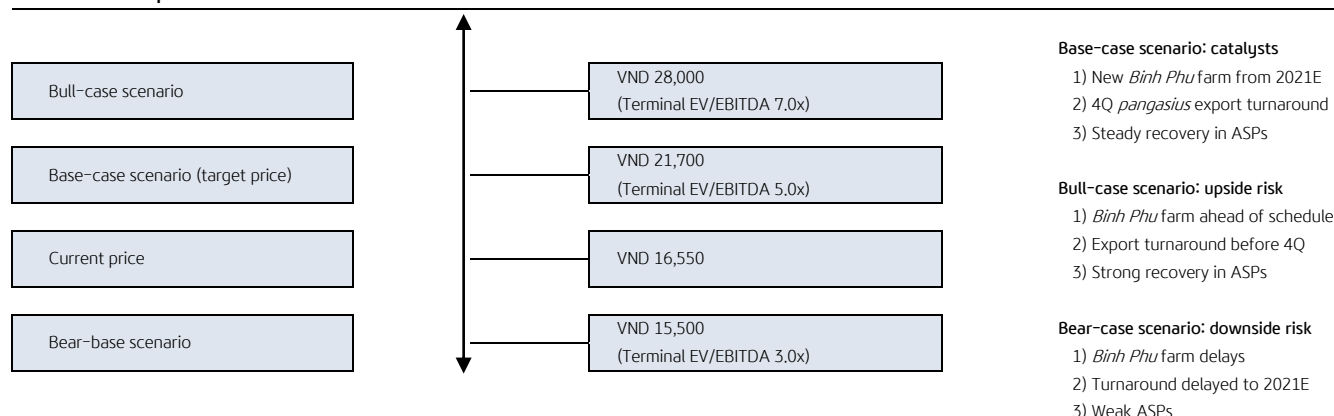
Forecast earnings & valuation

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						

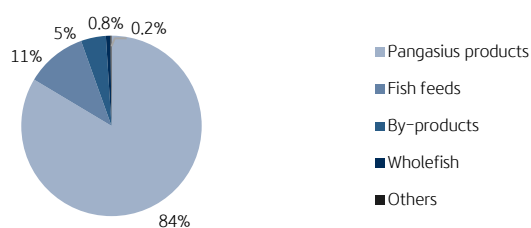
Source: Bloomberg, KB Securities Vietnam

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

Valuation & target price

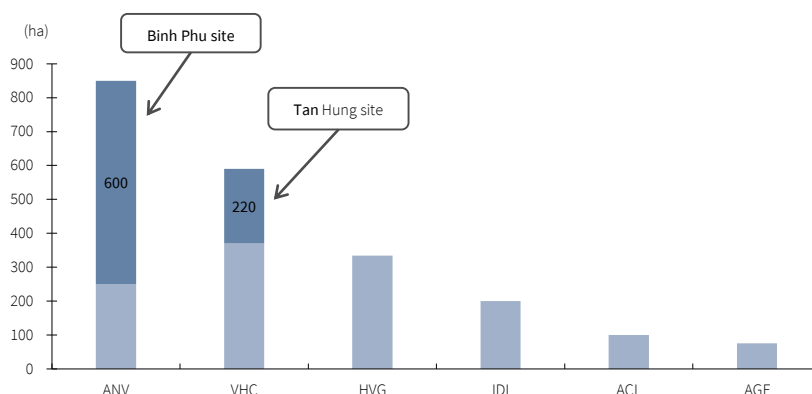
- 1) Valuation method:
Discounted cash flow (DCF) model
- 2) Target price calculation
Terminal EV/EBITDA 5x
WACC 10.9%
- 3) Target price range:
VND15,500 - VND28,000
- 4) Valuation at target price
12.9x P/E
1.2x P/B

Readying for global expansion

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

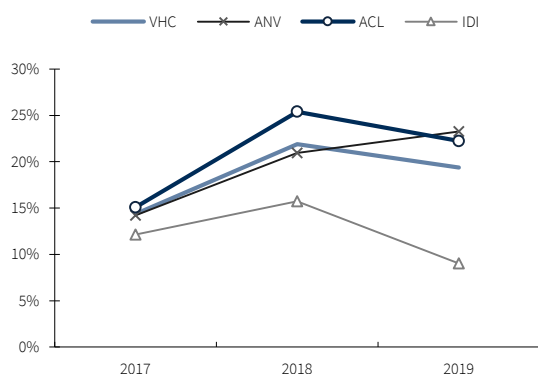


Source: Company reports, KB Securities Vietnam

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

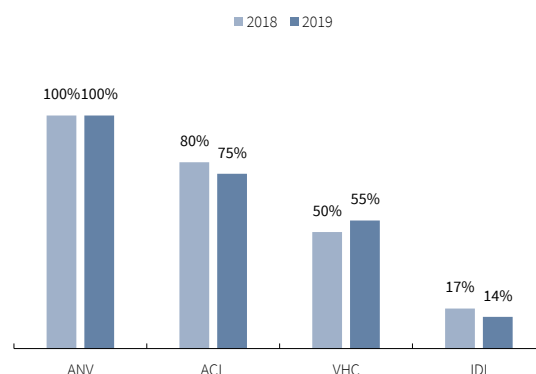
The new *Binh Phu* facilities are modern and offer a lower cost structure by taking advantage of automated feeding systems to reduce labor costs and solar panels to lower energy costs and qualify as environmentally sustainable operations. Results are already being seen, with ANV’s gross profit margin 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 78. Vietnam fisheries – Gross profit margins of major *pangasius* producers, 2017–2019 (%)



Source: Company reports, KB Securities Vietnam

Fig 79. Vietnam fisheries – Internal supply percentage of major *pangasius* producers, 2018–2019 (%)

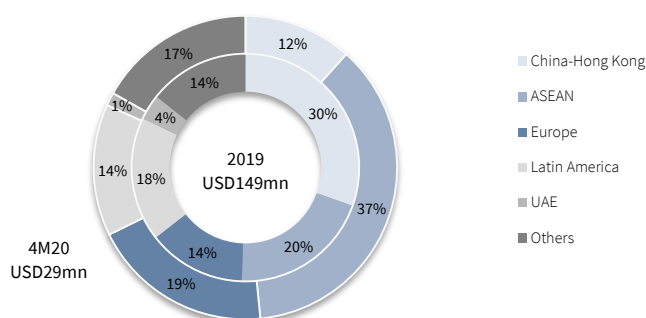


Source: Company reports, KB Securities Vietnam

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

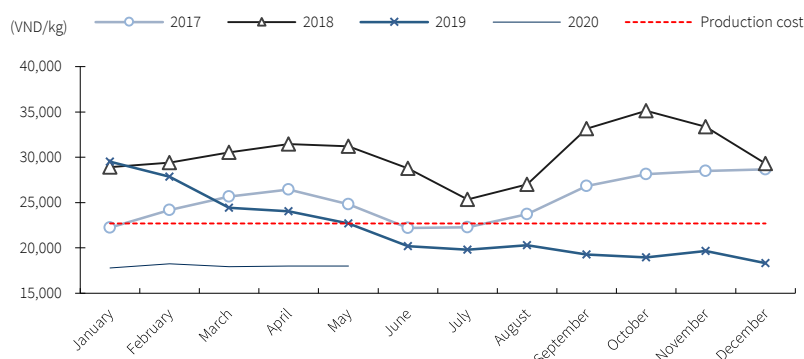


Source: Company reports, KB Securities Vietnam

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

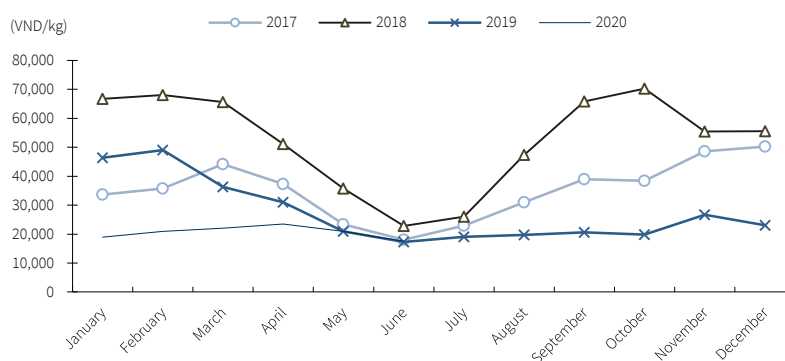
We expect ANV to continue pursuing the full integration of its supply chain to cope with fluctuating *pangasius* selling prices that have fallen below production costs since May 2019. The 150-hectare hatchery site at *Binh Phu* is an important part of this plan and should increase internal sourcing of 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 81. Vietnam fisheries – Raw mature pangasius selling prices (size 700gr/pcs) & production cost, Jan 2017–May 2020 (VND/kg)



Source: Agromonitor

Fig 82. 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

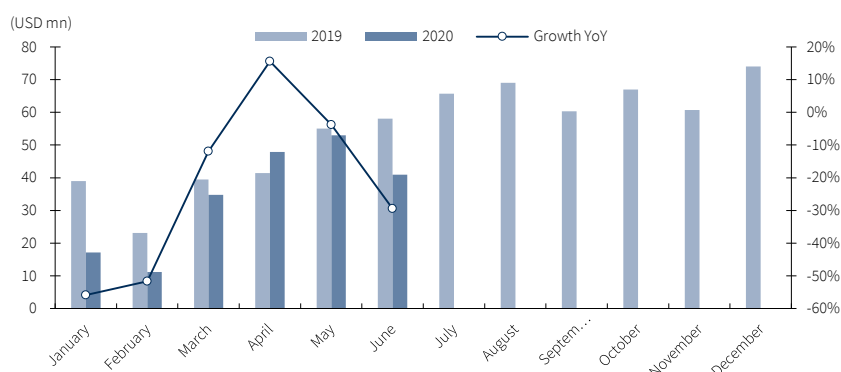
ANV meets 100% of its feed needs from Navifeed, a company owned by the son of ANV's chairman. Feed represents about 80% of total production costs at a ratio of 1.45 kilograms of feed for every 1 kilogram of mature fish. Navifeed can produce 1,000 metric tons of feed per day to fully meet ANV's daily 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 10. 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

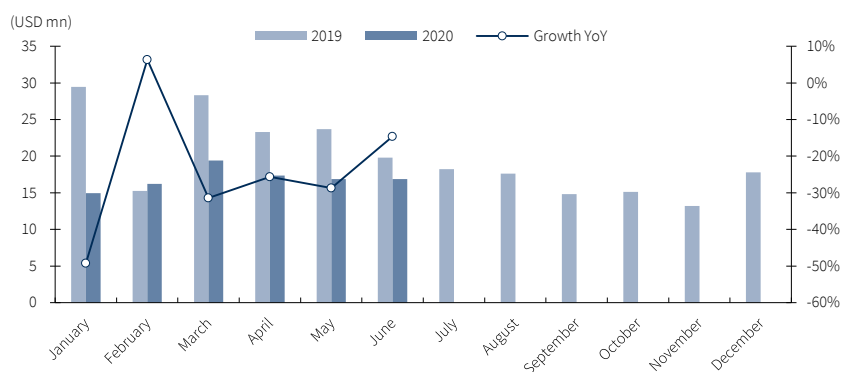
Source: Company reports, KB Securities Vietnam

Fig 83. Vietnam fisheries – Monthly pangasius export values to China & growth, Jan 2019–June 2020 (million USD, % YoY)



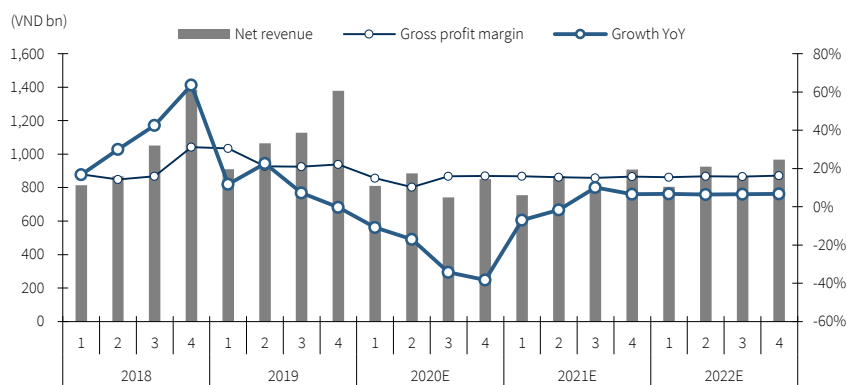
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 84. 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 85. Nam Viet Corp (ANV) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: 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

Minh Phu Corp (MPC)

Key beneficiary of rebounding shrimp exports

August 12, 2020

Fisheries Analyst
 Nguyen Thanh Danh
 (+84) 354-358-427 danhnt@kbsec.com.vn

We initiate coverage with a BUY rating and VND31,700 target price as the top beneficiary of rebounding shrimp exports from 4Q

We initiate coverage of Minh Phu Corporation (MPC) with a BUY recommendation and a target price of VND31,700 based on our DCF valuation. As Vietnam's largest shrimp exporter, we believe MPC will benefit most from our expectations for resumed momentum in exports from 4Q. Near-term factors supporting our 4Q outlook include: 1) pick up in China demand as the pandemic continues to disrupt supply from Vietnam's two-largest competitors (India and Ecuador); and 2) improved competitiveness in the price-sensitive EU market when the EVFTA immediately removes the 4.2% tariff for frozen shrimp exports from August.

The US and Japan should also add to export momentum into 2021E

The US and Japan should also add to export momentum in 2021E, due to: 1) share gains in the US market with the ongoing US-China trade war applying punitive tariffs on Chinese competitors; and 2) higher shrimp consumption from Japan – one of MPC's most profitable markets – with the start of the Tokyo Summer Olympics in mid-2021E.

Upgrading farming methods to meet stricter rules of origin, food safety and environmental sustainability requirements

Management is currently upgrading farming methods to boost internally-sourced output by increasing the number of harvests. MPC's new "2-3-4" farming technique should also improve MPC's ability to meet stricter global requirements for food safety, environmental sustainability and, most importantly, rules of origin. MPC is currently undergoing an antidumping investigation in the US for using of cheaper Indian shrimp for its prepared shrimp products.

Buy initiate

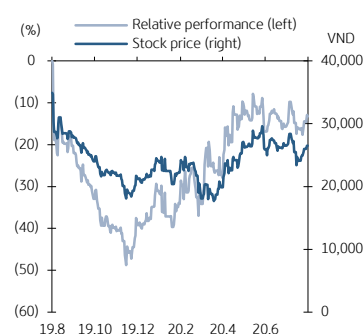
Target Price	VND31,700
Total return (%)	27.2%
Current price (Aug 12)	VND26,500
Consensus target price	VND21,600
Mkt capitalization (USDbn)	USD228mn

Trading data	
Free float (%)	50.1%
Avg trading value (3M)	USD0.13mn
Foreign available (%)	11.7%
Major shareholders (%)	Mitsui (35.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.0	-2.2	14.7	-24.1
Relative	2.9	-3.6	27.0	-13.5

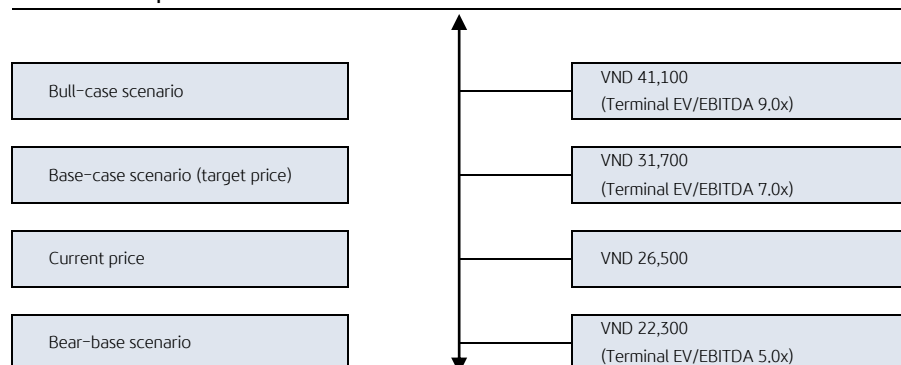
Forecast earnings & valuation

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)	10.5	5.7	6.0	5.6
EV/EBITDA (x)	8.8	6.4	6.7	6.2
P/B (x)	1.1	0.9	0.9	0.9
ROE (%)	10.1	17.4	15.3	15.8
Div yield (%)	15.4	7.6	11.3	12.1



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) Export momentum into 2021E
- 2) New "2-3-4" model from 2021E
- 3) No antidumping tariff

Bull-case scenario: upside risk

- 1) Stronger momentum in 2021E
- 2) Full operation of "2-3-4" model
- 3) Positive antidumping outcome

Bear-case scenario: downside risk

- 1) Weaker export momentum
- 2) Widespread disease in shrimp farms
- 3) Negative antidumping outcome

Revised earnings estimates

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

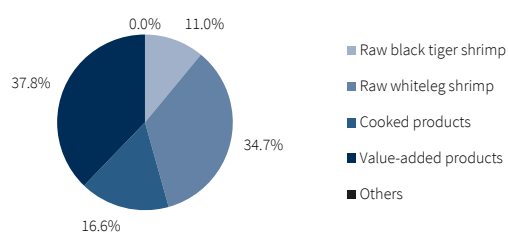
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	14,826	17,289	na	na	na	na
EBIT	991	987	na	na	na	na
OP	1,035	973	na	na	na	na
NP after MI	924	881	na	na	na	na

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

Valuation & target price

- 1) Valuation method:
Discounted cash flow (DCF) model

- 2) Target price calculation
Terminal EV/EBITDA 7x
WACC 11.1%

- 3) Target price range:
VND22,300 – VND41,100

- 4) Valuation at target price
6.9x P/E
1.1x P/B

Key beneficiary of rebounding shrimp exports

Enjoying antidumping exemption in the US market, albeit investigation still underway

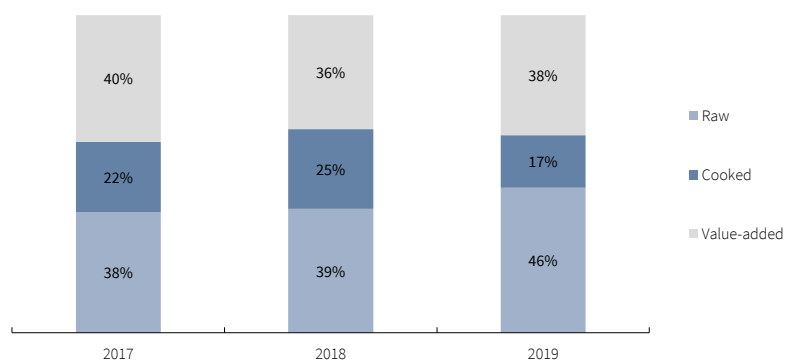
We expect MPC to gain share in the US market against Chinese competitors burdened with punitive tariffs from the US-China trade war. This can already be seen in rising market share for prepared shrimp exports from India, Indonesia and Vietnam at the expense of China and Thailand (prepared shrimp makes up 50%-60% of MPC's revenue). For now, MPC also benefits in the US from zero antidumping tariffs since 2016 but US authorities are investigating the company for evading tariffs on Indian shrimp. MPC used raw Indian shrimp for prepared shrimp exports to the US (Indian shrimp are subject to an antidumping tariff).

Table 11. Vietnam fisheries – Final results of antidumping tariffs on shrimp (%)

	Period of Review	VN-wide	Minh Phu	Stapimex	Camimex	Fimex	NTSF
POR 5	2009-2010	25.76	1.15	1.04	0.83	1.04	0
POR 6	2010-2011	25.76	1.27	1.25	1.25	1.25	1.25
POR 7	2011-2012	25.76	0	0	0	0	0
POR 8	2012-2013	25.76	4.98	9.75	6.37	6.37	6.37
POR 9	2013-2014	25.76	1.39	0.91	0.91	0	0.91
POR 10	2014-2015	25.76	0	4.78	4.78	4.78	4.78
POR 11	2015-2016	25.76	0	4.78	4.78	4.78	4.78
POR 12	2016-2017	25.76	0	4.58	4.58	4.58	4.58
POR 13	2017-2018	25.76	0	0	0	0	0

Source: US Department of Commerce

Fig 86. Minh Phu Corp (MPC) – Revenue breakdown by product, 2017-2019 (%)

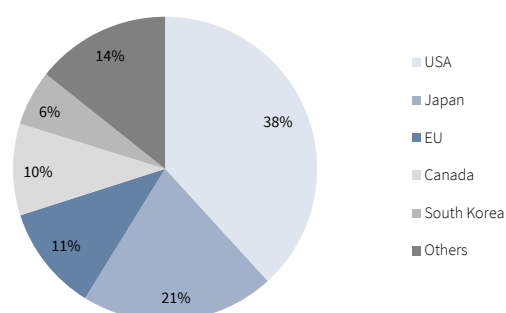


Source: Company reports

Popularity of MPC's value-added products make Japan one of the most profitable markets

Imports make up about 40% of Japan's annual seafood consumption and Vietnam supplies about 22% of Japan's total frozen shrimp imports and 38% of Japan's total prepared shrimp imports. MPC is Vietnam's largest shrimp exporter to Japan at 25% of total shrimp exports. Moreover, MPC's most popular products are higher-value added items (eg, tempura shrimp, butterfly shrimp), making Japan one of the company's most profitable markets. We expect the Tokyo Summer Olympics to boost shrimp consumption in Japan when the games begin in mid-2021E.

Fig 87. Minh Phu Corp (MPC) – Export revenue breakdown by market, 2019 (%)



Source: Company reports

Improved competitiveness in the price-sensitive EU market from the EVFTA's tariff removal

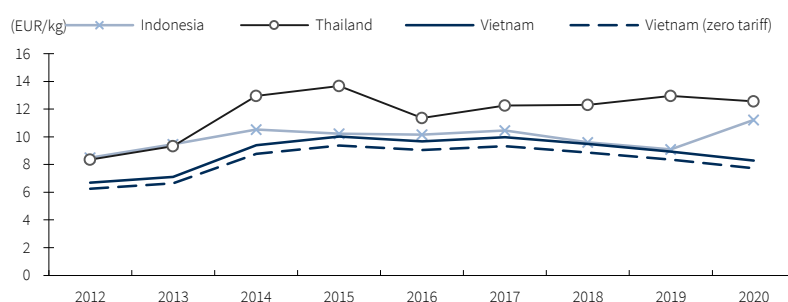
Currently, Vietnam's export prices for frozen raw shrimp average about EUR8.70 per kilogram vs Ecuador's EUR6.00 per kilogram (cost leader and no import tariff since 2017) and India's EUR6.60. But frozen raw shrimp is highly price sensitive in the EU and we believe the elimination of Vietnam's 4.2% import tariff should still allow MPC to gain market share despite weaker price competitiveness. That said, MPC's main focus should continue to be the prepared shrimp market in the EU, where Vietnam leads in market share at one-third of the market and the most price competitive at EUR8.30 per kilogram vs Indonesia's EUR11.20 per kilogram and India's EUR12.60 per kilogram. The EVFTA will only reduce import tariffs for prepared shrimp to 5.0% in 2025E, 2.5% in 2026E and removal by 2027E.

Table 12. Vietnam fisheries – EVFTA tariff removal schedule, 2020E–2027E (%)

	Current tariff	2020	2021	2022	2023	2024	2025	2026	2027
Frozen shrimp	4.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Prepared shrimp	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	5.0%	2.5%	0.0%

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

Fig 88. EU fisheries – After-tariff prices of prepared shrimp imports, 2012–4M20 (EUR/kg)



Source: Eurostat, Europa, Vietnam Chamber of Commerce & Industry, KB Securities Vietnam

New “2-3-4” farming method to boost harvests, reduce costs and improve quality

MPC introducing nursery habitats and partial harvesting methods to increase harvests and fishery yields

MPC’s long-term strategy is to internally-source 50% of production (vs 10% now) and to co-operate with partner farms for the remaining 50%. As part of this plan, we expect the company’s new “2-3-4” farming system to gradually raise internal production to 30% when all ponds are fully stocked by 2021E. The “2-3-4” system aims to triple the number of harvests and boost crop yields by 3.6 times by using partial harvesting techniques and separating out the nursery phase to increase survival rates. Initially, the extra production will be needed to replace raw shrimp imports from India used for prepared shrimp exports to the US due to MPC’s antidumping investigation. The higher proportion of internal production should also help reduce costs (by about 5% per metric ton according to our estimates) and improve the company’s ability to meet global quality standards. MPC has upgraded 400 ponds at the *Loc An* farm and 360 ponds at the *Kien Giang* farm or about 50%-60% of total ponds.

Minh Phu Corporation’s (MPC) new “2-3-4” farming model consists of: 1) “2” development stages for shrimp, with the first 30 days spent in a nursery pond and remaining days in a larger farming pond; 2) “3” harvesting cycles, with 50% harvested after 60 days at sizes equivalent to 65-70 shrimp per kilogram, 45% harvested after 85 days at sizes equivalent to 40-45 shrimp per kilogram, and the remaining 5% harvested after 115 days at sizes equivalent to 20-25 shrimp per kilogram; and 3) “4” key principles to ensure food safety and environmental sustainability, including disease-free fingerlings, clean water, stringent controls on antibiotics and protection of surrounding ecosystems. As this project is not completed as of 2020E – and shrimp exporters rely less on internally-sourced shrimp stocks – we have not included the “2-3-4” farming model into our current MPC forecasts.

Table 13. Minh Phu Corp (MPC) – Traditional vs “2-3-4” farming methods

Line item	Units	“2-3-4” method	Traditional method	Change
Number of seasons per year	seasons	1.5	2.0	
Number of harvests per year	times	4.5	2.0	
Number of ponds per hectare	ponds	2.5	2.5	

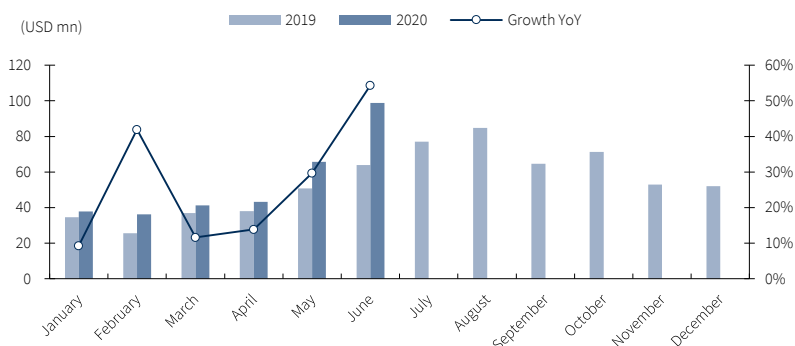
Annual cost	VNDmn/ha	3,225	930	2.5 times
Input cost per season	VNDmn/pond/season	860		

Annual harvest	tons/ha	23.6	6.5	2.6 times
Productivity	tons/pond/season	7.0	2.0	
1st Harvest		1.3		
2nd Harvest		2.2		
3rd Harvest		3.5		
Survival rate	%	90%	65%	

Cost per ton	VNDmn/ton	137	143	-5%

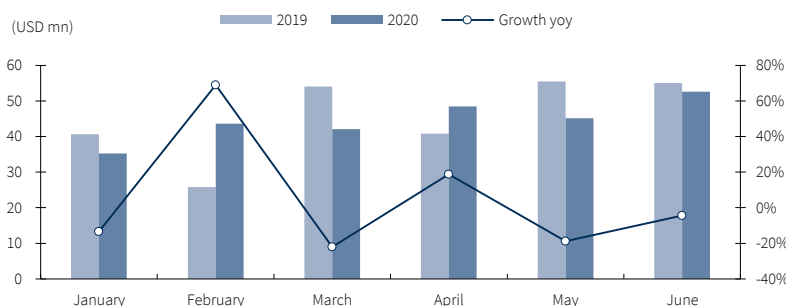
Source: Company reports, KB Securities Vietnam

Fig 89. Vietnam fisheries – Monthly overall shrimp export values to the US & growth, Jan 2019–Jun 2020 (million USD, % YoY)



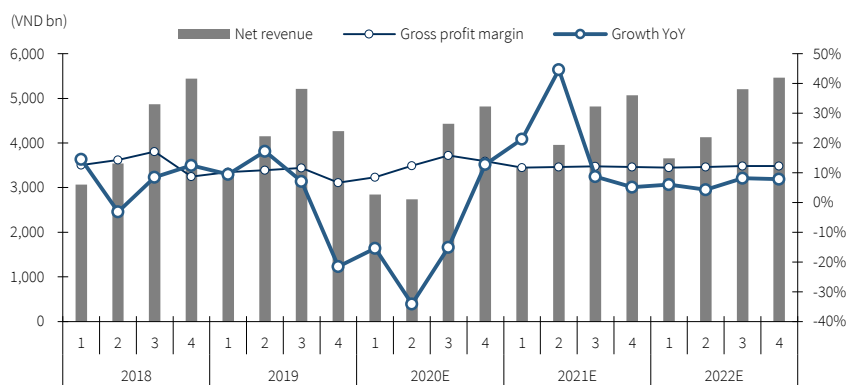
Source: Vietnam Association of Seafood Exporters & Producers, KB Securities Vietnam

Fig 90. Vietnam fisheries – Monthly shrimp export values to Japan & growth, Jan 2019–Jun 2020 (million USD, % YoY)



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

Fig 91. Minh Phu Corp (MPC) – Quarterly revenue, growth & gross profit margin forecasts, 2018–2022E (billion VND, %)



Source: KB Securities Vietnam

Minh Phu Corp (MPC) – Discounted cash flow model

DCF VALUATION												
	Terminal value (VND in billions)					Terminal value (US\$ in millions)						
	7,953	9,543	11,134	12,725	14,315	342	410	478	547	615		
	Present value of firm					Present value of firm						
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x		
9.1%	7,111	8,140	9,170	10,199	11,229	304	348	392	437	481		
10.1%	6,881	7,865	8,848	9,832	10,815	294	336	379	421	463		
11.1%	6,664	7,604	8,544	9,484	10,424	285	325	365	406	446		
12.1%	6,458	7,357	8,255	9,154	10,053	276	314	353	392	430		
13.1%	6,262	7,122	7,982	8,842	9,702	267	304	341	378	415		
	Present value of equity per share					Present value of equity per share						
WACC	5.0x	6.0x	7.0x	8.0x	9.0x	5.0x	6.0x	7.0x	8.0x	9.0x		
9.1%	24,500	29,600	34,800	39,900	45,100	1.00	1.30	1.50	1.70	1.90		
10.1%	23,300	28,300	33,200	38,100	43,000	1.00	1.20	1.40	1.60	1.80		
11.1%	22,300	27,000	31,700	36,400	41,100	0.90	1.10	1.40	1.60	1.80		
12.1%	21,200	25,700	30,200	34,700	39,200	0.90	1.10	1.30	1.50	1.70		
13.1%	20,200	24,500	28,800	33,100	37,400	0.90	1.00	1.20	1.40	1.60		
Projected Unlevered Free Cash Flows (VNDbn)												
	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	1,164	178	194	930	1,104	611	991	987	1,080	1,231	1,393	1,569
Taxes on EBIT @ 10.0%	116	18	19	93	110	61	99	99	108	123	139	157
Earnings before interest	1,047	160	174	837	994	550	892	888	972	1,108	1,253	1,412
Depreciation & provisions	149	193	149	172	178	153	207	218	241	235	231	227
(Profit)/loss from investing	-83	-95	-37	-1	-7	-14	-100	-42	-42	-42	-42	-42
Other adj for oper activities	-15	-259	38	-6	-85	-578	67	-5	-5	-6	-7	-7
Cash flow from operations	1,100	0	324	1,002	1,079	112	1,065	1,060	1,166	1,295	1,436	1,591
Change in working capital	-2,349	104	1,231	-1,108	-830	2,348	-2,089	-268	-170	-110	-102	-161
Capital expenditures	-146	-84	-39	15	-253	-287	-234	-201	-214	-210	-206	-202
Decrease in investments	-4	-101	5	0	-6	-63	-9	-4	-4	-4	-4	-4
Unlevered free cash flow	-1,399	-81	1,521	-91	-10	2,109	-1,266	586	778	971	1,125	1,224
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\$mn)	-65	-4	67	-4	0	91	-54	25	33	41	48	52
Firm Value Calculations												
WACC	11.1%		PV of future cash flows (VNDbn)	1,963		2020E Total debt (VNDbn)	3,204					
DCF period	5 Yrs		PV of terminal value (VNDbn)	6,581		2020E Cash (VNDbn)	991					
Terminal EBITDA (VNDbn)	1,591		PV of Firm (VNDbn)	8,544		Terminal value as % of firm value	77.0%					
Terminal multiple (x)	7.0x		Current exchange rate (VND)	23,270		Current shares outstanding (mn)	200.0					
Cost Of Capital Calculations												
WACC	11.1%		Re-levered beta	1.175		Risk free rate	3.0%					
Cost of equity	13.5%		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	10.0%		Debt premium	4.0%					
Memorandum												
(VNDbn, US\$mn)	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	1.17	1.30	1.44	1.60	1.78
Present value in VND	0	0	0	0	0	0	-1,206	503	600	674	703	689
Present value in US\$	0	0	0	0	0	0	-52	22	26	29	30	29

Source: Company reports, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

congltt@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyenntt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of International Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.