Shinhan Securities

# Import – Export
# The flourishment




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Fisheries

# Back to the race



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# Content

**Fisheries – Back to the race**

1. Overview of fisheries sector 2023

   Pangasius and Shrimp exporting are facing difficulties in 10 months of 2023

2. Outlook for 2024 of fisheries sector

   Expect a recovery when (1) inventories of importers decrease and (2) soybean prices decrease which helps improve the gross profit margin

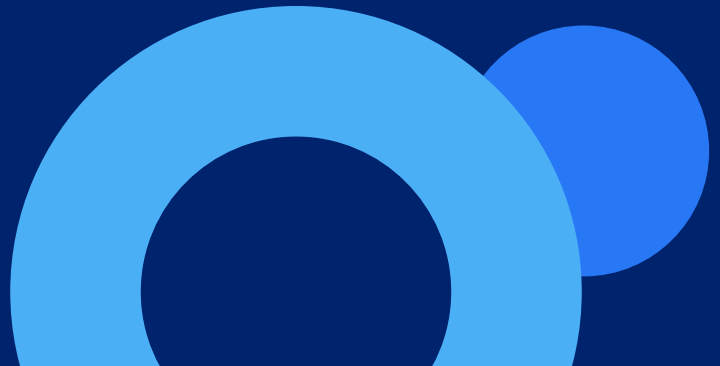
3. Fisheries Stock pick

   VHC, ANV, FMC – The recovery of export

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# Overview of Fisheries Sector in 2023

During 10M/2023, fisheries exports reached USD 7.4 billion (-21% YoY). Shrimp and pangasius exports achieved USD 2.8 billion (-24% YoY) and USD 1.5 billion (-29% YoY), respectively. Since August, pangasius exports have narrowed their decline and in September had positive growth compared to the same period last year.



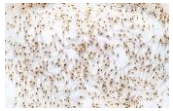
# Part 1– Overview of Vietnam's fisheries industry 10M/2023

**Farming** — Accounting for 57% of total fisheries production, with the volume of 4,336.9 thousand tons in 10 months (+4.5% YoY)

**Fishing** — Accounting for 43% of total fisheries production, with the volume of 3,308.3 thousand tons in 10 months (+0.4% YoY)

→ **Processing factories**

## Fingerling



## Farming area



- Autonomy in raw materials: 40%.
- • 80% is raised in
- Mekong Delta
- USD 2.8 billion (-24% YoY)
- 38% total export value





- Autonomy in raw materials: 80%.
- 70% is raised in Mekong Delta.
- USD 1.5 billion (-29% YoY)
- 20% total export value

## Medicine




## Feed



Almost companies are selfsufficient in feed production but not in medicine



- USD 0.54 billion (-15% YoY)
- 7% total export value



- USD 0.69 billion (-22% YoY)
- 9% total export value



- USD 0.1 billion (-11%YoY)
- 1% total export value



- USD 0.16 billion (-14%YoY)
- 2% total export value

Almost the products are caught in North Central and Central Coast





- 847 fisheries processing factories
- 692 factories were granted EU Code export codes
- Total export's capacity is 4.5-5 mil tons of raw materials/year

Total export value 10M/2023: USD 7.4 billion (-21% YoY)

**Export**



USD 1.3 bil (-32% YoY)
In which:
- Pangasius: USD 0.23 bil (-54% YoY)
- Shrimp: 0.59 tỷ USD (-20% YoY)



USD 1.2 bil (-14% YoY)
In which:
- Shrimp : USD 0.42 bil USD (-28% YoY)



USD 1.3 bil (-15% YoY)
In which:
- Pangasius : USD 0.49 bil(-23% Yoy)
- Shrimp: USD 0.52 bil (-5% YoY)

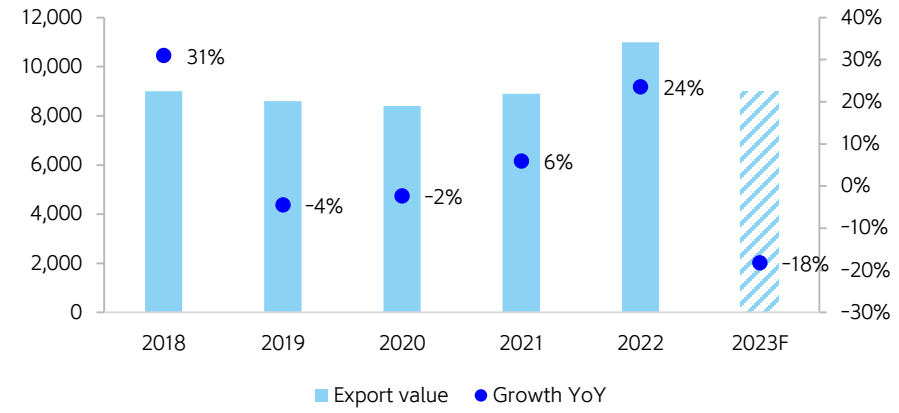


USD 0.64 bil(-21% YoY)
In which:
- Shrimp: USD 0.28 bil (-30% YoY)

# Part 1– Overview of Vietnam's fisheries industry

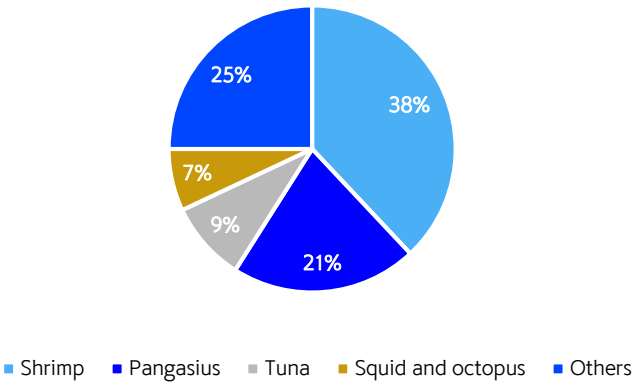
## High inflation and inventory decreased the consumption of fisheries products

### Export value of fisheries from 2018 – 2023F (USD million)




Source: VASEP, Shinhan Securities Vietnam

### Fisheries export by type in 10M/2023



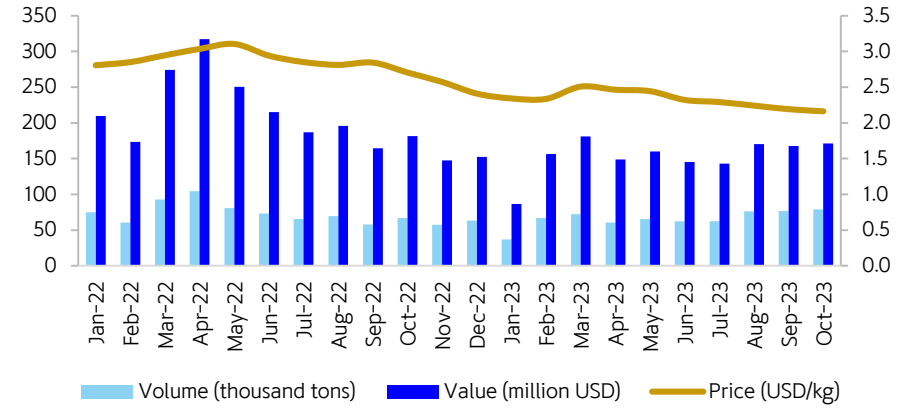

Source: VASEP, Shinhan Securities Vietnam

- **In 2023, inflation occurred globally, making commodity prices more expensive** and people reducing spending, leading to a decline in seafood consumption (because seafood is not an essential food for many countries, such as the US and EU). The average total seafood consumption per capita in the US is 14.6kg/person/year.
- **Exports of pangasius and shrimp in the first half of 2023 will continuously decrease due to the high inventory of the US, the top import market, weak demand**, and Vietnamese shrimp prices that are also not competitive with cheap shrimp from Ecuador and India. Also, the comparison with last year's high base is also a reason for the large decrease in numbers. Exports of other types of fisheries also decreased by double digits, but their contribution to the revenue proportion was not high.
- We forecast that **this year's fisheries exports will reach 9 billion USD** (-18% YoY), lower than the target of USD 10 billion, with the expectation that exports will improve in the second half of the year when the holiday season is approaching.

# Part 1.1 – Vietnam's pangasius industry

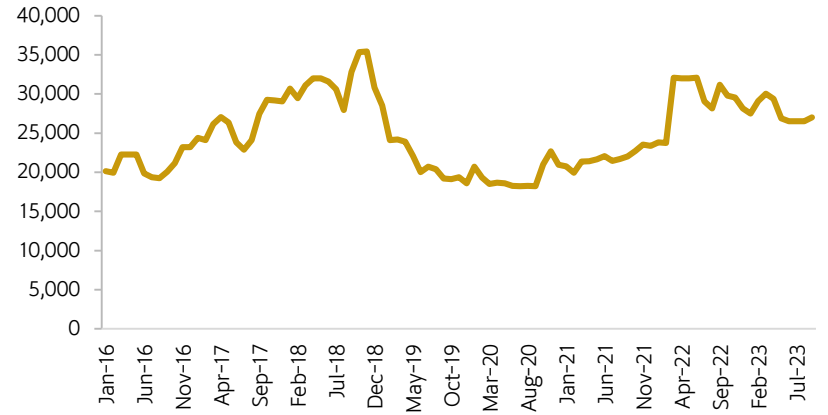
## In September, pangasius export recorded positive growth for the first time compared to the same period last year. Expect a recovery in raw material price

### Volume and price of pangasius export 2022-10M/2023




Source: Agromonitor, Shinhan Securities Vietnam

### Pangasius's raw material price size 850g-1kg 2016-2023 (VND)



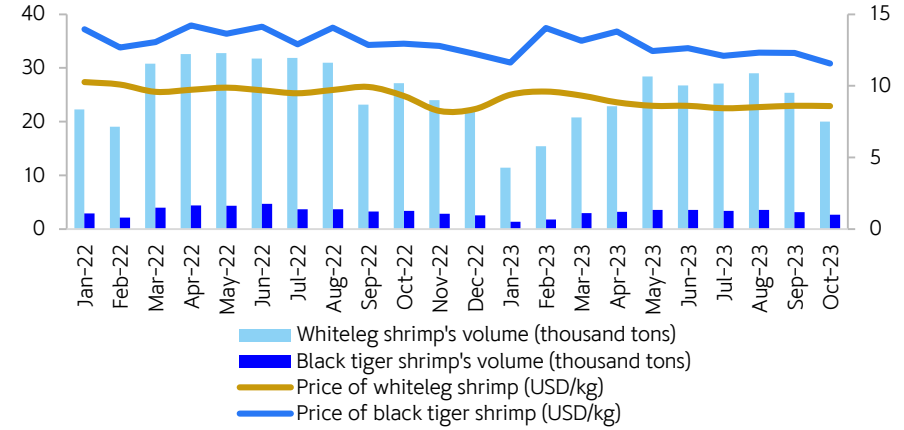

Source: Agromonitor, Shinhan Securities Vietnam

- Vietnam's pangasius revenue structure includes **82% frozen fillets and 16% butterfly-cut pangasius** (mainly for exporting to the Chinese market).
- Since August 2023, the situation has shown more positive signs when pangasius exports have improved in quantity and value compared to the previous month and **in September it recorded positive growth for the first time compared to the same period last year**, even though pangasius export prices were still on the bottom line. **We expect pangasius exports for 2023 to reach USD 1.7 bn (-28% YoY).**
- The poor export situation causes the price of raw material pangasius to decrease, making people have no motivation to raise fish and are still waiting for higher prices to sell. The price of raw material size 850g-1kg is currently at 26,500-27,000 VND, the lowest since 2022. Normally, raw material pangasius prices will decrease sharply in May and increase again in October, so **we expect prices to recover next quarter.**

# Part 1.2 – Vietnam's shrimp industry

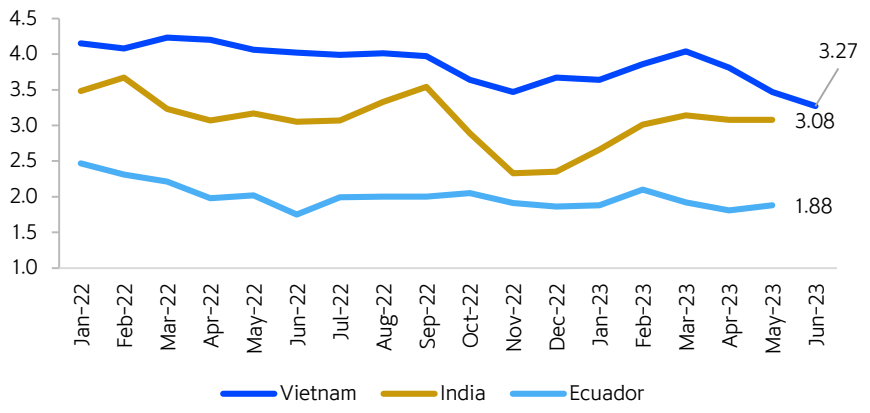
## Vietnam's shrimp exports in 10/2023 still decreased but there was a recovery from main import markets. Expect for orders in Q4/2023

**Volume and export price of whiteleg and black tiger shrimp in VN 2022-10M/2023**




Source: Agromonitor , Shinhan Securities Vietnam

**Cost of producing whiteleg shrimp of VN, India and Ecuador (USD/kg)**



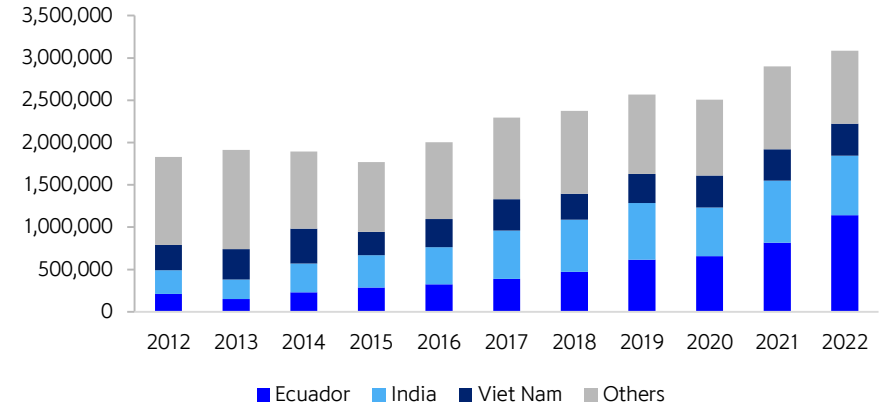

Source: Agromonitor, Shinhan Securities Vietnam

- Vietnam exports mainly **whiteleg shrimp, which account for ~75% of revenue.** In 10M/2023, shrimp exports reached USD 2.8 billion. Our country's shrimp have a higher export price because production costs are much higher than in other countries due to the low shrimp survival rate (India: 60–70%, Ecuador: 90%). **The shrimp industry is expected to have a higher export value in 2H2023** when signals of orders have returned, especially when the China&Hong Kong markets have shown signs of growth in orders.
- Shrimp exports in 1H2023 decreased in value compared to previous years due to a sharp drop in prices, though export output increased month by month. Vietnam's main shrimp import markets are the US, China & Hong Kong, Japan, etc., all of which have decreased in price due to inflation, so people have shifted to consuming cheaper products. **We forecast that shrimp exports this year will reach USD 3.4 billion (-21% YoY)**, 29% lower than VASEP's plan at the beginning of the year.

# Part 1.3 – World's shrimp industry

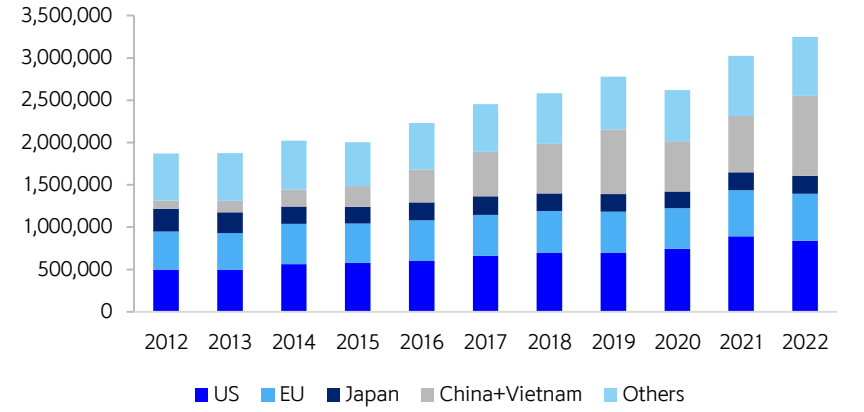
## Shrimp exports from the world's two largest shrimp exporters, India and Ecuador, will slow down in the second half of the year

**Shrimp's export volume of major exporters 2012-2022 (tons)**




Source: Shrimp Insights, Shinhan Securities Vietnam

**Shrimp's import volume of major importers 2012-2022 (tons)**




Source: Shrimp Insights, Shinhan Securities Vietnam

- In the first half of the year, **India and Ecuador still grew in output but will slow down in the second half of the year** because of slow demand, high production costs, and the unexpected situation of El Nino. According to Shrimp Insights, India may reduce output to -15% YoY, and Ecuador has no output growth in the second half.
- **India's shrimp exports in 1H2023 were -1% YoY due to selling off inventory** and production at the end of the 2022 season. Since 2021, India's shrimp exports have continuously decreased in both price and output.
- **Ecuador's shrimp exports in the first half of this year are still growing well** but are being affected by slowing growth from the beginning of 2022 until now. Ecuador's shrimp is cheap and promoted with the national shrimp brand, so it will have many advantages over other exporting countries.

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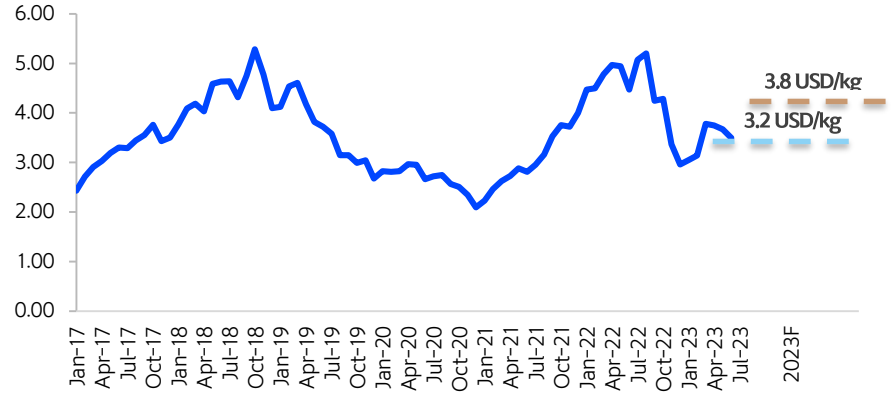
# Potentials of Fisheries Sector in 2024

The seafood industry will recover in 2024 as market inventories decrease next year and lower soybean meal prices help improve profit margins

# Part 2 – Potentials of fisheries industry 2024 – Pangasius

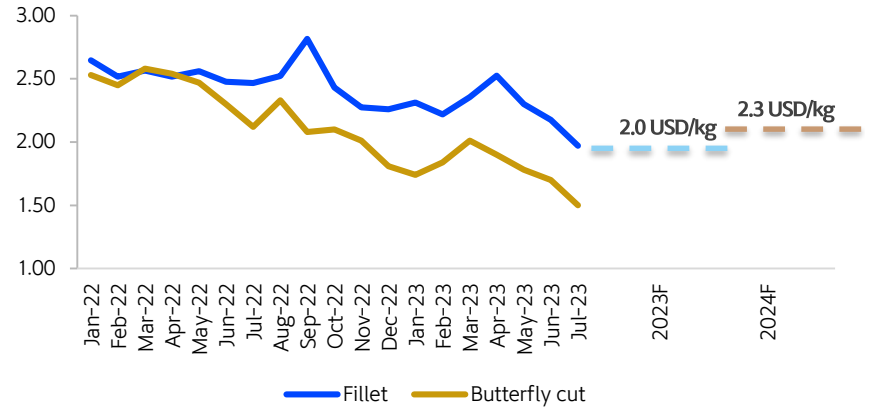
## Pangasius exports will grow again as countries handle inventories and take advantage of cheap products

### Pangasius's selling price to US 2016-2024F (USD/kg)




Source: Agromonitor, VASEP, Shinhan Securities Vietnam

### Pangasius's selling price to China 2022-2024F (USD/kg)



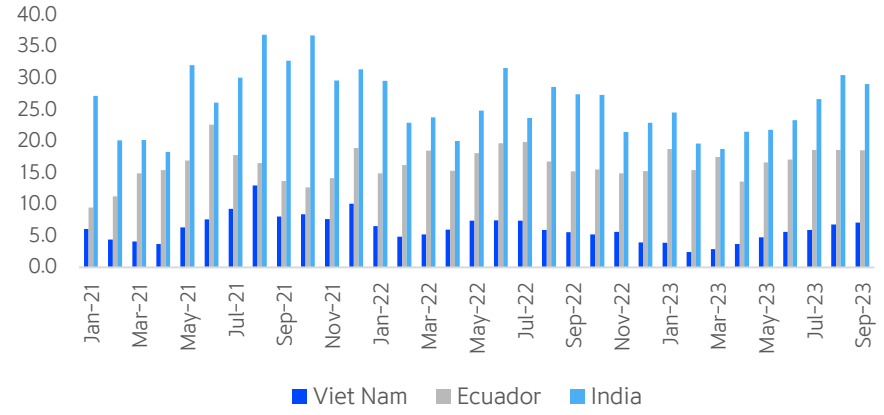

Source: Agromonitor, Shinhan Securities Vietnam

- The price of pangasius exported to the US has dropped sharply since October 2022, extending the decline into the third quarter of 2023. Currently, inventory in the US market is still high, leading to exports to the US still being stagnant in the next quarter. **We forecast that the average price of pangasius exports to the US in 2023 will be 3.2 USD/kg and in 2024 will be 3.8 USD/kg based on expectations of recovery in output as well as value when inventory in the US market decreases and demand returns.**
- The Chinese market is Vietnam's second-largest pangasius import market and mainly imports butterfly-cut pangasius. The Chinese market has recovered slowly because it has not recovered in the post-COVID-19 period, the unemployment rate is high, and this market also has a smaller price size requirement than other markets. However, since the beginning of the year until now, exports to the Chinese market have remained quite stable because pangasius products are still cheap. **We forecast that the fillet selling price to the Chinese market in 2023 will be at 2.0 USD/kg and in 2024 will reach 2.3 USD/kg.**

# Part 2 – Potentials of fisheries industry 2024 – Shrimp

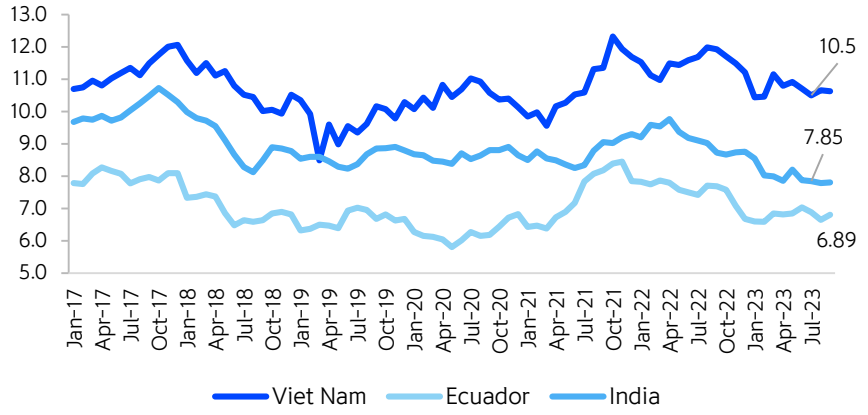
## Expect the recovery of the US, the largest import market, will return to import growth in 2H2023

Export volume of shrimp to the US 2021-9M/2023 (thousand tons)




Source: NOAA, Shinhan Securities Vietnam

Selling price of shrimp to the US 2017-9M/2023 (USD/kg)



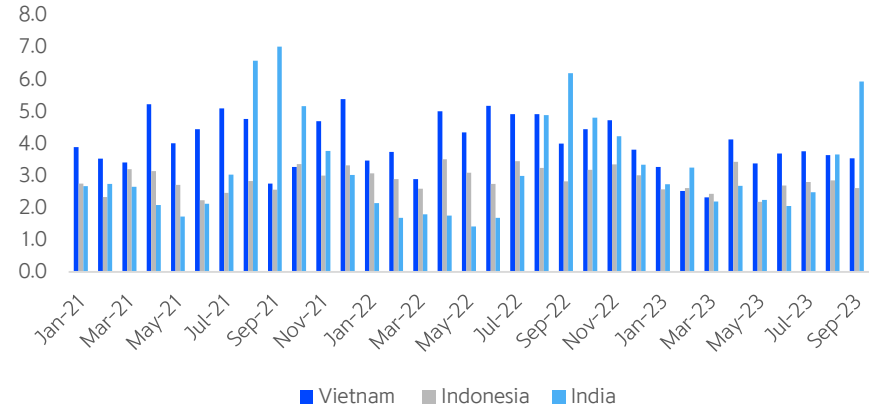

Source: NOAA, Shinhan Securities Vietnam

- The US market accounted for about 21% of Vietnam's total shrimp exports in 10M/2023. Currently, Vietnam accounts for ~6%, India accounts for 39%, and Ecuador accounts for ~25% of the market share in the US. Since the beginning of the year, US import demand has decreased due to high inflation, so people have turned to canned products and high inventory levels due to high imports at the end of last year.
- Since Q2/2023, our country's production costs have decreased significantly due to a deep decrease in food prices (accounting for more than 60%). Along with that, Vietnamese products exported to the US are mainly deep-processed shrimp and account for a market share of about 25% (1% lower than India).
- We expect the US market continues to **grow in Q4 with deeply processed shrimp products as the holiday season approaches.**

# Part 2 – Potentials of fisheries industry 2024 – Shrimp

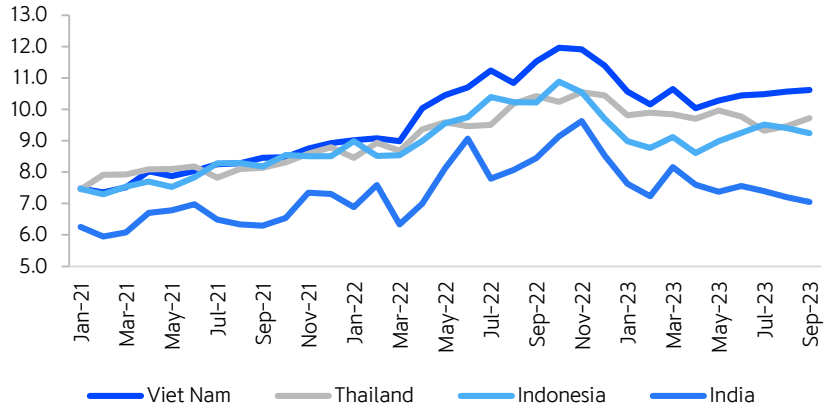
## Maintaining the market share of deeply processed shrimp in the Japanese market

**Export volume of shrimp to Japan 2021-2023 (thousand tons)**




Source: Trade Statistics of Japan, Shinhan Securities Vietnam

**Selling price of shrimp to Japan 2021-2023 (USD/kg)**




Source: Trade Statistics of Japan, Shinhan Securities Vietnam

- The Japanese market ranks 3rd among Vietnam's shrimp importers, but **Vietnam is Japan's leading shrimp supplier.** From the beginning of the year, Vietnam has always been the country that exports the most to Japan in terms of both output and value because Vietnam has deeply processed products that Japan likes, such as kariage, tempura,...
- In our opinion, the **Japan market will bring a huge source of revenue to Vietnam** when the second largest shrimp exporter to Japan, India, is gradually decreasing from 2021. Along with **maintaining the advantage of deep-processed shrimp to expand market share** and thereby get better selling prices than competitors in the industry.

# Part 2 – Potentials of fisheries industry 2024 – Supporting signals

## Soybean meal prices are on the decline. The pangasius industry enjoys favorable tax rates after POR19

Price of soybean meal imported from the US 2017-2023 (VND)



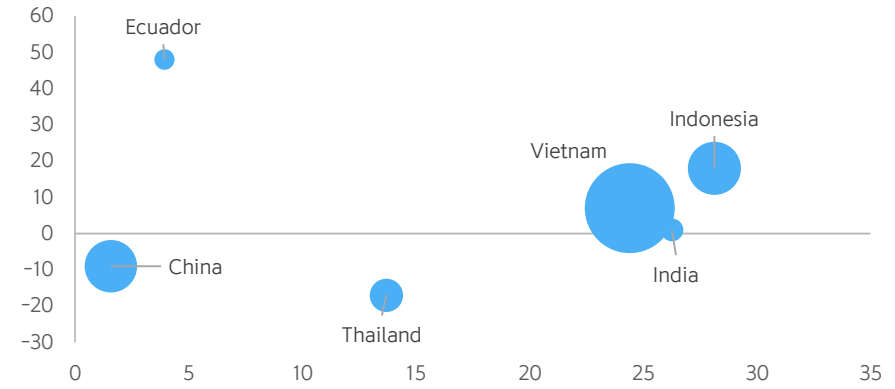

Source: Trade Economics, Shinhan Securities Vietnam

- Recently, **consuming white fish has been more popular thanks to the preference of having healthy diet**. The main types of white fish consumed are Alaska pollock, cod, tilapia, and pangasius. Vietnamese pangasius will have the most advantage based on the following factors: (1) Vietnamese pangasius enjoys an import tax rate of 0% while China's tilapia is taxed at 25%, so Vietnamese pangasius will have a better price advantage; (2) The US and EU favor wild-caught fish such as cod and Alaska pollock, but in the long term, this trend will gradually decrease because these two types of fish have been overexploited and will soon no longer be available for fishing.
- The US Department of Commerce (DOC) has just officially issued preliminary results of POR19 for Vietnamese frozen pangasius fillets exported to the US. Accordingly, there are two defendant enterprises that are required to have the DOC preliminary determine the anti-dumping tax rate: VHC 0.00 USD/kg and CCA 0.14 USD/kg. The remaining businesses receive a national tax rate of 0.14 USD/kg.
- Along with that, **the price of soybean meal is trending down**, which will benefit pangasius farming businesses because feed costs account for a large part of the cost of production.

# Part 2 – Potentials of fisheries industry 2024 – Supporting signals

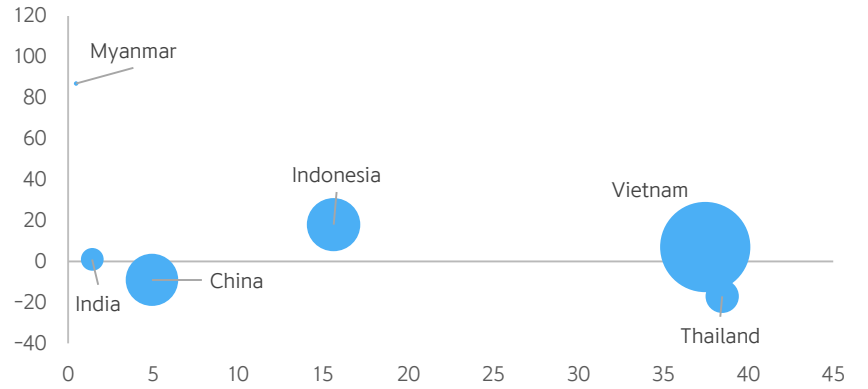
## Vietnam focuses on deep-processed shrimp and takes advantage of tax exemption from agreements

Mkt share of countries export deeply processed shrimp to the US




Source: ITC, Shinhan Securities Vietnam

Mkt share of countries export deeply processed shrimp to Japan




Source: ITC, Shinhan Securities Vietnam

- Though Vietnamese shrimp have difficulty competing in the frozen shrimp segment, they have quite an advantage in the deep-processed shrimp segment. **Vietnam's market share of deeply processed shrimp is the highest in the world**, with ~41% of which:
  - In the Japan market, we account for more than 37% of the market share, just behind Thailand with 38.5%, but the annual growth rate is 7% while Thailand is -17%.
  - In the US market, our country accounts for ~25% of the market share, behind India (26%) and Indonesia (28%).
- It can be seen that Vietnam's market share in developed countries is quite high and is only about 1-2% lower than that of major exporting countries. However, the selling price is 10–25% higher. If our country can maintain its market share of deep-processed shrimp, improve its skills, and take advantage of tax exemption and reduction agreements from EVFTA, CPTPP, and anti-dumping tax, then its market share will have the opportunity to expand in the coming years. Especially when the **import tax into the EU for deep-processed shrimp will be 5% in 2025 and 0% in 2027.**

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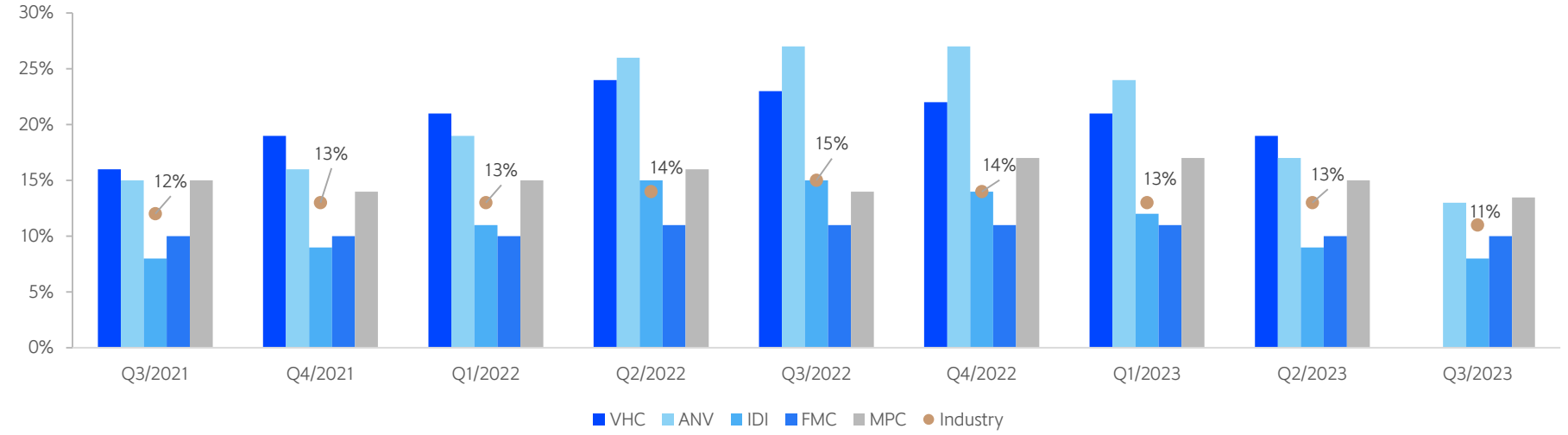
# Fisheries Stock Pick

VHC, ANV, FMC – The recovery of export

# Part 3 – Fisheries stock pick

## Business results of listed fisheries companies have continuously decreased from Q3/2022 to the present but a recovery expected from Q4/2023

Gross profit margin of the entire industry and prominent listed companies Q3/2021-Q3/2023 (%) (TTM)




Source: Trade Economics, Shinhan Securities Vietnam

Business results of fisheries companies in Q3/2023:

- **Pangasius:** 2022 is a booming year for the pangasius industry when revenue and profits reach records. However, in 2023, the export situation gradually slows down due to inflation and increased inventories in importing countries and lasts until Q3/2023, causing selling prices to decrease and food costs to increase, reducing industry-wide profits.
- **Shrimp:** Our country's shrimp industry is inherently competitive in selling price compared to other countries, along with weak demand in 2023 due to inflation, causing selling prices and export output to decrease. Along with that, unfavorable weather conditions make shrimp farming difficult.

# Part 3 – Fisheries Stock Pick

## Top listed fisheries companies

| Ticker | Main products | Mkt Cap (bn VND) | Revenue Q3/2023 (bn VND) | Rev growth Q3/2023 (QoQ) | GPM Q3/2023 | ROA (TTM) | ROE (TTM) | EPS 2024F | P/E 2024F | P/B 2024F | Target price* (VND) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| VHC | Pangasius | 12,745 | 2,698 | -0.9% | 10.6% | 8.7% | 13.18% | 7,817 | 13.6 | 2.3 | 106,300 |
| ANV | Pangasius | 3,994 | 1,099 | 2.3% | 7.7% | 2.7% | 5.1% | 6,288 | 5.9 | 1.4 | 54,600 |
| MPC** | Shrimp | 6,838 | 2,350 | 10.7% | 14.1% | 1.4% | 2.7% | 1.009 | 19.3 | 1.4 | 16,900 |
| FMC | Shrimp | 3,014 | 1,793 | 73.7% | 10.3% | 8.6% | 14.2% | 5,117 | 9.8 | 1.3 | 65,800 |

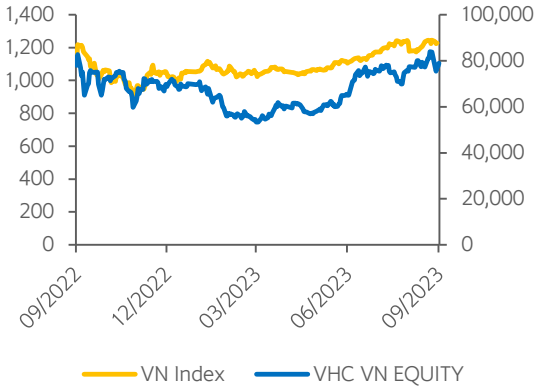
Souce: Bloomberg, Fiinpro, Shinhan Securities Vietnam
Data as of 23/11/2023
(*) Target price (fair value) within 12 months
(**) Data from Bloomberg

# Vinh Hoan Corporation (HOSE: VHC)

VINH HOAN

| | |
|---|---|
| **Target price** (12 months) | **VND 106,300** |
| Current price (23/11/23) | VND 69,500 |
| **Return (%)** | **52.9%** |
| VNINDEX | 1,088 |
| Market P/E (x) | 14.8 |
| Market cap (billion VND) | 12,744 |
| Outstanding shares (mil shares) | 183 |
| Free-float (mil shares) | 91 |
| 52-week high/low (VND) | 86,300/53,300 |
| 90-day avg. trading volume (mil shares) | 0.96 |
| 90-day avg. turnover (bn VND) | 76 |
| Major SHDs (%) Truong Thi Le Khanh | 43.16 |
| Major SHDs (%) Dragon Capital | 6.93 |

| Performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 21.4 | 47.8 | -1.4 |
| Rel.to VN-Index (%) | 18.8 | 38.5 | -3.9 |




## Waiting for recovery

Vinh Hoan Corporation is the leading pangasius enterprise in Vietnam with an export proportion of more than 15%. 2023 is a difficult year for the pangasius industry in general and Vinh Hoan in particular. In 2024, we expect the business situation to become more positive when macroeconomic stability helps the purchasing power of import markets (especially the US) recover..

### Investment catalysts & theses

- **Pangasius segment:** We evaluate that this segment (accounts for 57% of total revenue) will be affected by concerns about price and output decline. However, we expect the situation in year 2024 will become more optimistic thanks to the recovery of order quantity, and supermarkets in the US market are reducing prices to boost customers' purchases. Along with that, expanding farming areas and investing in fish breeding centers will help the company increase the proportion of self-sufficient raw materials to 75% and increase the survival rate in pangasius farming. In 2024, the company's main business segment will recover when US imports grow.
- **Collagen & Gelatin and Sa Giang::** In these two areas, the company will focus on developing more markets. The gelatin factory will be invested to expand its capacity, and the company will focus on developing new products with foreign partners by participating in seafood trade fairs.
- **Processing dried fruit:** Thanh Ngoc Company is expected to officially go into operation in June 2023 after a trial period. The company's management expects the gross margin of this segment to be 15% and contribute revenue of VND 350 billion.

### Risk:

(1) Risk of export; (2) Shortage of supply

| Year | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (bil VND) | 7,037 | 9,054 | 13,231 | 10,380 | 12,419 |
| OP (bil VND) | 695 | 1,199 | 2,254 | 1,371 | 2,021 |
| NP (bil VND) | 719 | 1,107 | 2,013 | 1,204 | 1,782 |
| EPS (VND) | 3,923 | 5,993 | 10,771 | 6,325 | 7,817 |
| BPS (VND) | 28,225 | 32,087 | 41,959 | 45,685 | 46,100 |
| OPM | 9.9 | 13.2 | 17.0 | 13.2 | 16.3 |
| NPM | 10.2 | 12.2 | 15.2 | 11.6 | 14.4 |
| ROE (%) | 14.3 | 20.0 | 29.6 | 14.8 | 18.9 |
| P/E (x) | 10.24 | 10.5 | 6.5 | 16.8 | 13.6 |
| P/B (x) | 1.42 | 2.0 | 1.7 | 2.3 | 2.3 |
| EV/EBITDA (x) | 8.1 | 8.1 | 5.1 | 10.8 | 7.8 |

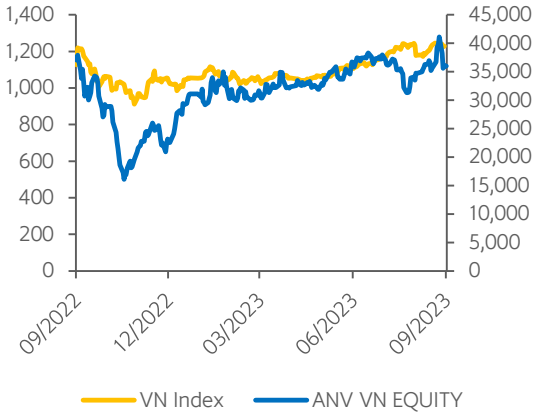
Source: Company data, Shinhan Securities Vietnam

# Nam Viet Corporation (HoSE: ANV)

NAVICO
NAM VIET CORPORATION

| | |
|---|---|
| **Target price** (12 months) | **VND 54,600** |
| Current price (23/11/23) | VND 30,000 |
| **Return (%)** | **82%** |
| VNINDEX | 1,088 |
| Market P/E (x) | 14.8 |
| Market cap (billion VND) | 3,993 |
| Outstanding shares (mil shares) | 133 |
| Free-float (mil shares) | 41 |
| 52-week high/low (VND) | 41,950/15,000 |
| 90-day avg. trading volume (mil shares) | 2.30 |
| 90-day avg. turnover (bn VND) | 85 |
| Major SHDs (%) Doan Toi | 53.77 |
| Major SHDs (%) Doan Chi Thanh | 12.85 |

| Performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 3.5 | 121.3 | 12.0 |
| Rel.to VN-Index (%) | 4.5 | 17.4 | 8.5 |




## Reaching out to the new sea

Nam Viet Corporation (HoSE: ANV) is one of the leading enterprises in Vietnam's pangasius export industry, with 100% autonomy from farming areas and fingerlings to feed.

### Investment catalysts & theses

- **Expectation of export growth from main export markets and new market:** Revenue from the China market accounted for nearly 20% of the company's total revenue. After stopping cooperation with partner Shanghai Fenglei, the market share in China's market will increase significantly. In the beginning of August 2022, Nam Viet started exporting the first pangasius containers to the US after nearly 10 years. In the last 5 months of 2022, the US market brought in 1.9 million USD, equivalent to 1.4% of the company's export revenue. It is expected that revenue from the US market this year will contribute significantly to ANV's revenue after the company enjoys 0% tax antidumping duties.
- **The advantage of autonomy in farming areas helps control costs:** Nam Viet is a leading company in the industry with 100% autonomy from the farming area, fingerlings, raw materials, and feed factory to the processing factory. This will help the company have an advantage in input costs, helping it improve its gross profit margin compared to competitors. The company is also building a Binh Phu farming area with 600ha to help supply enough for all customer orders.

### Outlook for 2023 and 2024

- 2023 will not be a very positive year for the pangasius industry when inventories from other countries are still high, leading to an oversupply that reduces the export prices of pangasius. Along with that, inflation is still anchored at a high level on a global scale, which may affect ANV's business results in 2023; however, we expect the company's revenue to recover in 2024 and growth to return to normal in 2025.

**Risk:** (1) Risk of investigating in new market; (2) Risk of investing in new segments

| Year | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (bil VND) | 3,439 | 3,494 | 4,897 | 3,953 | 5,584 |
| OP (bil VND) | 244 | 216 | 863 | 212 | 1,004 |
| NP (bil VND) | 203 | 129 | 674 | 115 | 840 |
| EPS (VND) | 1,590 | 1,013 | 5,300 | 898 | 6,288 |
| BPS (VND) | 18,300 | 18,313 | 22,598 | 22,923 | 27,181 |
| OPM | 7.1 | 6.2 | 17.6 | 5.4 | 18.0 |
| NPM | 5.9 | 3.7 | 13.8 | 2.9 | 15.0 |
| ROE (%) | 8.6 | 5.5 | 25.8 | 3.9 | 25.6 |
| P/E (x) | 4.37 | 32.9 | 4.3 | 41.0 | 5.9 |
| P/B (x) | 1.30 | 1.8 | 1.0 | 1.6 | 1.4 |
| EV/EBITDA (x) | 14.0 | 16.5 | 4.5 | 33.7 | 7.2 |

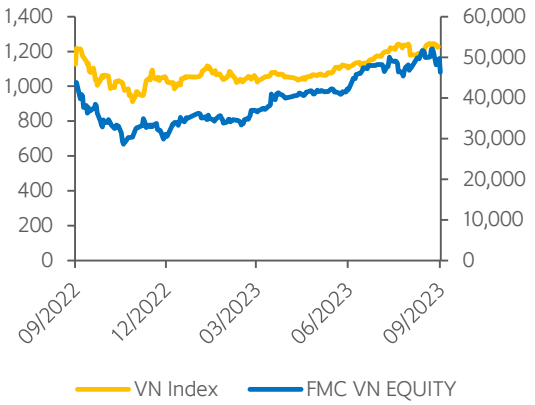
Source: Company data, Shinhan Securities Vietnam

# Sao Ta Foods JSC (HOSE: FMC)

FIMEX VN
A MEMBER OF THE PAN GROUP
THE PAN GROUP

| | |
|---|---|
| **Target price** (12 months) | VND 65,800 |
| Current price (23/11/23) | VND 46,100 |
| **Return (%)** | 42.7% |
| VNINDEX | 1,088 |
| Market P/E (x) | 14.8 |
| Market cap (billion VND) | 3,014 |
| Outstanding shares (mil shares) | 65 |
| Free-float (mil shares) | 23 |
| 52-week high/low (VND) | 53,500/28,600 |
| 90-day avg. trading volume (mil shares) | 0.07 |
| 90-day avg. turnover (bn VND) | 3 |
| Major SHDs (%) The PAN Group | 37.75 |
| Major SHDs (%) C.P. Vietnam Livestock Co., Ltd | 24.90 |

| Performance | 3T | 6T | 12M |
|---|---|---|---|
| Absolute (%) | 10.2 | 20.3 | 1.1 |
| Rel.to VN-Index (%) | 7.7 | 11.0 | -1.4 |




Shinhan Securities

## Sustainable growth

Sao Ta Foods JSC (HOSE: FMC) is one of the leading shrimp exporters in Vietnam while always maintaining its position in the top 5 largest shrimp exporters in Vietnam. FMC is now self-sufficient in 30% of raw materials in a farming area of 505ha.

### Investment catalysts & theses

- **Shifting the revenue structure to the Japanese market and maintaining the US market:** Since 2022, the company has advocated increasing exports to Japan and South Korea because of its location advantage. The geographical proximity to Vietnam helps reduce selling costs, along with the company's product lines that are also suitable for the Japanese market. The two sides have a long-term cooperation relationship. We think this is the right step for the company in the situation where the shrimp industry is facing difficulties when exporting to the US because the price is higher than in other exporting countries. In the first half of 2023, the proportion of revenue in the following markets was: Japan (40%), the US (18%), Western Europe (24%), Korea (6%), and Australia (6%).
- **Healthy financial structure:** The company has a healthy financial structure with the lowest debt ratio in the industry (debt/equity ratio: 0.24, debt/total assets: 0.17). We consider this to be a bright spot for the company in the context of the shrimp industry, which has a rather precarious business model.
- **Good cost management helps the company to have the highest net profit margin in the industry:** Though the company has the lowest gross profit margin in the industry, it is quite stable thanks to good management of expenses, such as good inventory management with the lowest inventory days in the industry, along with the restructuring of revenue through the Asian market to help reduce selling costs and improving gross margin thanks to food support from C.P. Group.

### Outlook for 2023 and 2024

- 2023 will not be a positive year for the shrimp industry when the weather is unfavorable, with the selling price of Vietnam's shrimp, especially FMC, which is still high compared to other countries. Along with that, inflation is still anchored at a high level on a global scale, which may affect FMC's business results in 2023. However, we expect the company's growth to return in the coming years as the company expands its farming area (~255ha) and increases its factory capacity to prepare for the coming years

**Risk:** (1) Risk of unfavorable weather and macroeconomic conditions

| Year | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (bil VND) | 4,415 | 5,199 | 5,702 | 5,037 | 5,409 |
| OP (bil VND) | 225 | 265 | 307 | 294 | 341 |
| NP (bil VND) | 226 | 287 | 321 | 298 | 348 |
| EPS (VND) | 4,607 | 4,677 | 4,605 | 4,387 | 5,117 |
| BPS (VND) | 22,044 | 30,231 | 32,361 | 34,686 | 37,770 |
| OPM | 5.1 | 5.1 | 5.4 | 5.8 | 6.3 |
| NPM | 5.1 | 5.5 | 5.6 | 5.9 | 6.4 |
| ROE (%) | 18.8 | 22.4 | 15.7 | 13.6 | 14.7 |
| P/E (x) | 6.8 | 10.8 | 7.0 | 11.4 | 9.8 |
| P/B (x) | 1.4 | 1.7 | 1.0 | 1.4 | 1.3 |
| EV/EBITDA (x) | 6.4 | 9.2 | 5.6 | 8.8 | 7.9 |

Source: Company data, Shinhan Securities Vietnam

Shinhan Securities

Textile and Garment

# Revival signals



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## Textile and Garment – Revival signals

1. Textile and garments industry overview

   Top 3 global footprint of Vietnam textile and garments exports

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   Less competitive advantages as high labor costs

2. 10M2023 updates of textile and garments sector

   16.4% YoY decreases of textile and garments exports in 10M2023

   60.4% YoY tumbles of listed textile and garments companies' earning in 9M2023

3. Textile and garments industry outlook 2024

   Lower retail inventory and recovered demands in markets

   Expected revival imports of raw materials and yarns in Q4/2023

   Positive YoY growth of textile IIP since Q2/2023

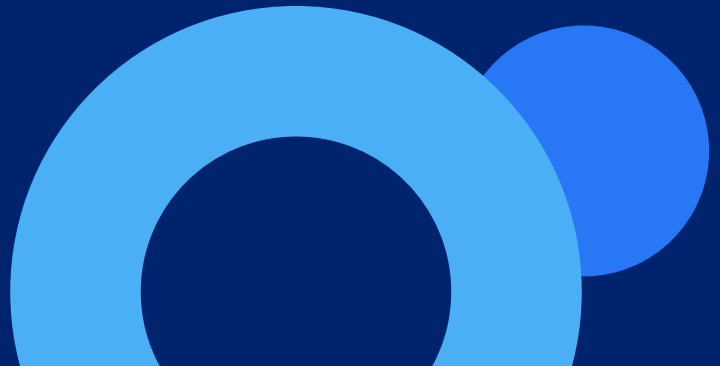
4. Textile and Garment Stock pick

   STK – Expanded capacity from the new Unitex 1 factory and new orders moving from China

01

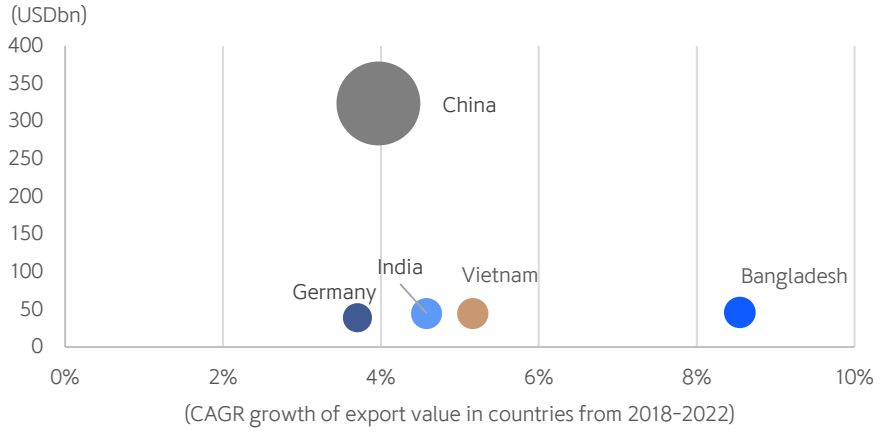
# Textile and garments industry overview

Textile and garment is a key industry of Vietnam, ranking in the Top 3 largest textile exporting countries in the world. In 2022, the textile industry will reach USD 44.5bn in 2022, +5% CAGR of export value in 2018-2022



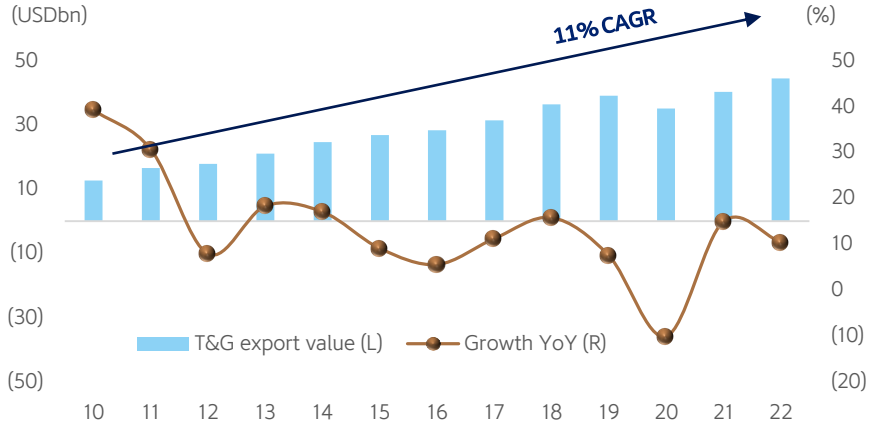
## Export value of Vietnam textile and garments set Top 3 globally

### T&G export contributed 3rd largest shares in the world




Source: Shinhan Securities Vietnam

### T&G export value increased by 11% CAGR from 2010-2022

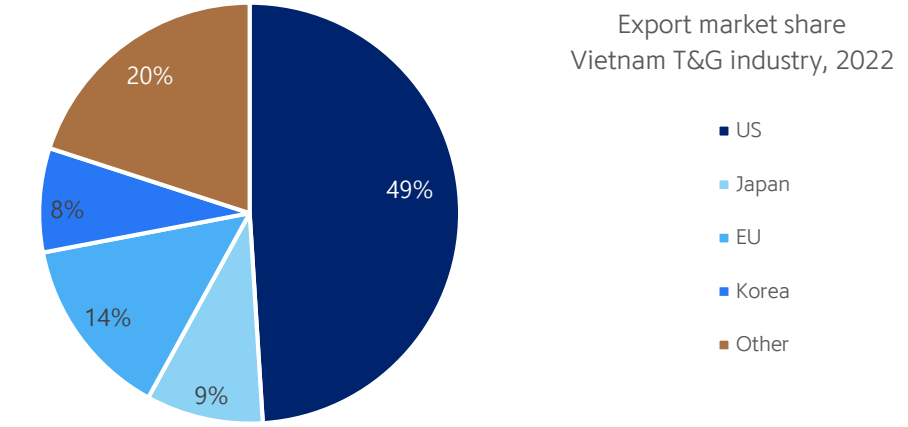



Source: Vietnam Custom, Shinhan Securities Vietnam

- Vietnam's textile and garments (T&G) exports reached USD 44.5bn in 2022, which is 3rd largest export shares globally, after China (USD 323bn), and Bangladesh (USD 45.7bn) .
- The export value of the T&G industry has been positive growth consecutively, reaching 5% CAGR from 2018-2022.
- Of which, garments exports accounted for 86.4%, while fiber and yarn exports made up for 10.8% of T&C export value in 2022.
- US contributed largest market shares with more than 40%, following by EU (11%), Korea (11%), Japan (10%).

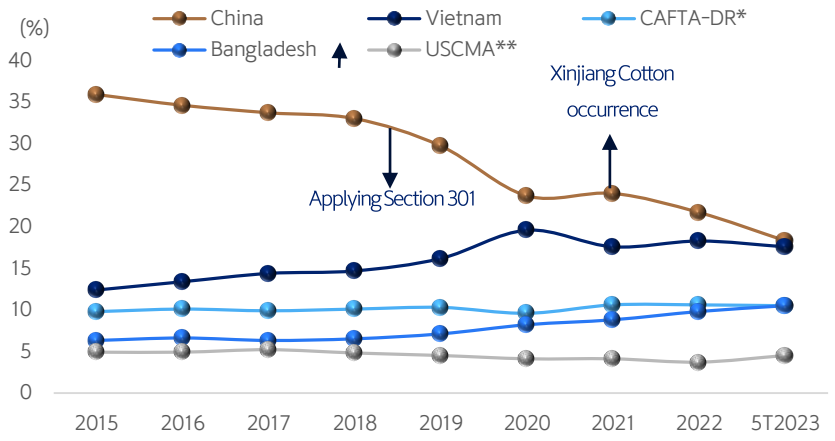
## Benefit from the US-China trade war

### The US is the largest export market of Vietnam T&G industry




Source: Vietnam Custom, Shinhan Securities Vietnam

### Vietnam T&G has strongly expanded the US market since 2019

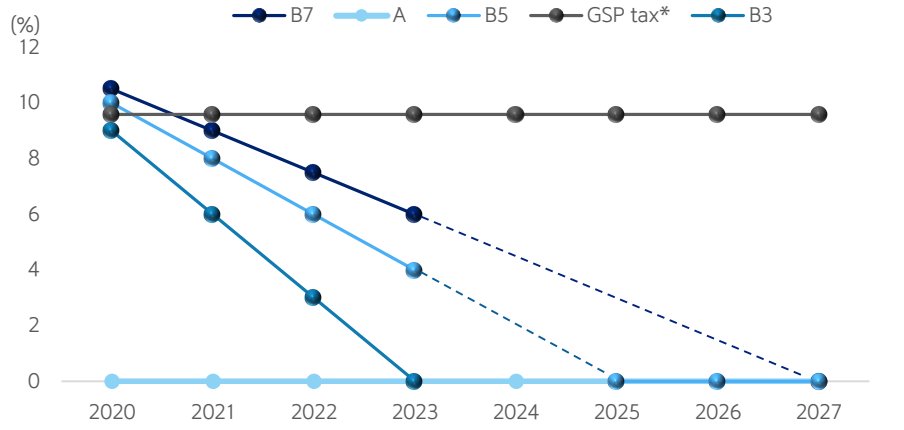



Source: USFIA, Shinhan Securities Vietnam
*CAFTA-DR: CAFTA free trade agreement includes the US - Dominican Republic - Central America
**USCMA: NAFTA trade agreement includes US-Mexico-Canada

- As the largest export market for Vietnamese textiles and garments, US is the key driver of the Vietnamese textile and garment industry, reaching 11% CAGR of export value to US from 2018-2022. In the US market, Vietnam is the 2nd largest textile supplier after China.
- The US-China trade war affects the Chinese textile and garment industry by (1) the US has applied Section 301 import tax from September 2018 to present, thereby imposing an additional 10% tax on textile and garment products, (2) ) allegations related to "using forced labor" in the Xinjiang Cotton => The occurrences put pressure on fashion brands to work with T&G processing, especially with Chinese T&G manufacturers.
- As orders tend to shifted to other countries, and Vietnam took advantage to sharply increase its market share in the US market, from 12.4% in 2015 to 17.9% in 5M2023. Meanwhile, China's market share was 18.3% in 5M2023 (a sharp decrease from 35.9% in 2015).

## Market expansion opportunities come from FTAs

### Tax reduction roadmaps of EVFTA on T&G products



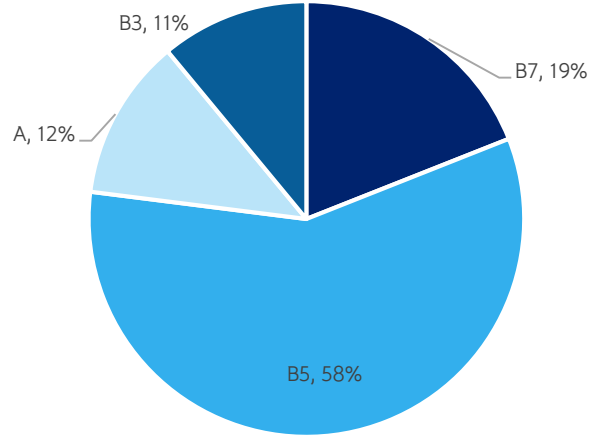

Source: GSO, Shinhan Securities Vietnam

*Note: **A**: Tariffs will be eliminated on the effective date of the agreement*

***B3/5/7:** Tariffs will be eliminated in four/six/eight equal stages starting from the date of agreement.*

***GSP Tax:** Generalized System of Preferences for developing countries (beneficiary countries) to enjoy tax exemptions or reductions.*

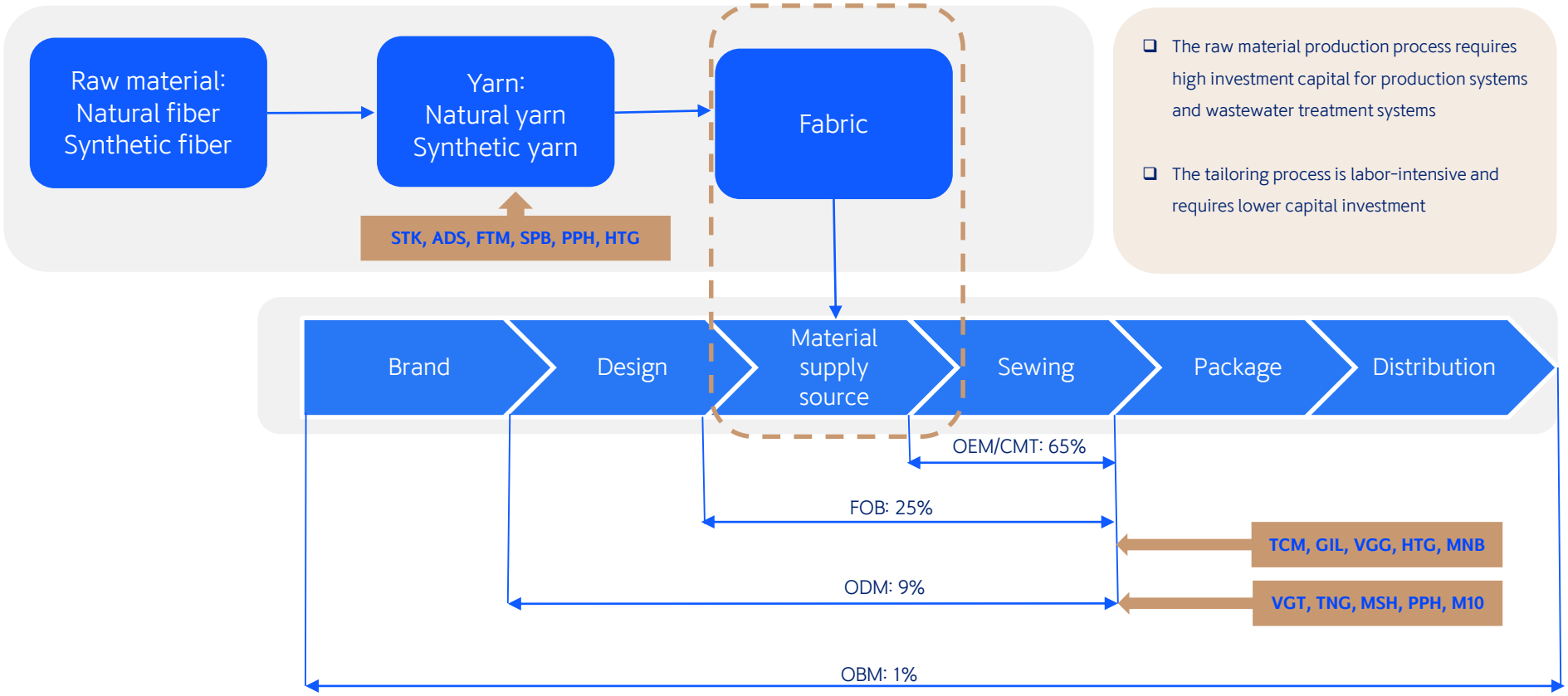
### 58% T&G will reduce tariffs to zero by 2025 to EU exports




Source: GSO, Shinhan Securities Vietnam,

- Thanks to preferential tariff advantages, Vietnam benefits from the wave of outsourcing production shifts, especially in the T&G industry. According to the MoIT, T&G is one of the industries that maximize advantages of preferential tariffs the most from 14 FTAs, reaching 66.9% (2019), 59% (2020), and 59.9% (2021) of C/ O incentives
- As many preferential tariff from EVFTA, the EU is a potential market, currently contributing 10% of Vietnam's textile and garment export value. T&G exports have been increased 19.4% CAGR since EVFTA took effect (August 2020).
- According to GSO, by 2025, about 58% of textile and garment products will be eligible for tax reduction to zero when exported to the EU market.

## Exploiting the value chain is the key engine of Vietnam's T&G industry development




- The raw material production process requires high investment capital for production systems and wastewater treatment systems
- The tailoring process is labor-intensive and requires lower capital investment

Sources: VITAS, Shinhan Securities Vietnam

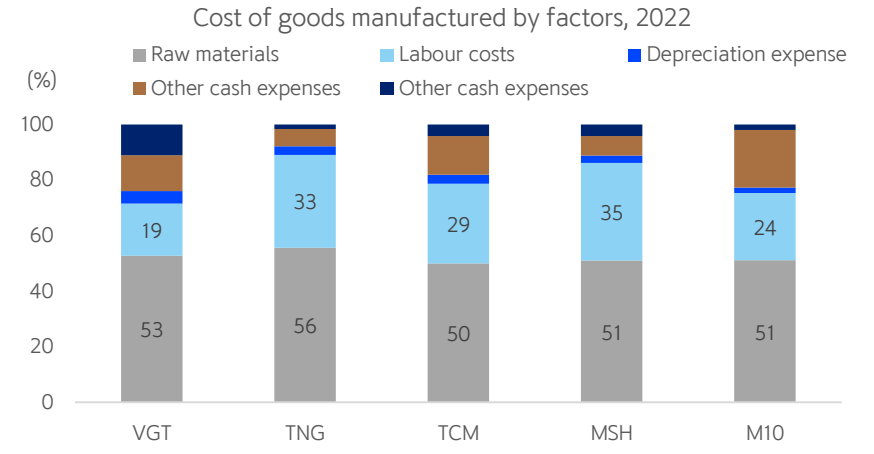
## Market expansion opportunities come from FTAs

### Strengths and weaknesses of sourcing bases in 2023 of US

| Sourcing | Speed to market | Sourcing cost | Flexibility and agility | Risk of labor and social compliance | Risk of environmental compliance |
|---|---|---|---|---|---|
| US | 4.5 | 2.0 | 3.0 | 4.0 | 4.0 |
| Mexico | 4.0 | 2.5 | 3.5 | 3.0 | 3.0 |
| CAFTA-DR | 4.0 | 3.5 | 3.5 | 3.5 | 3.5 |
| China | 3.5 | 3.5 | 4.0 | 1.5 | 2.5 |
| Vietnam | 3.0 | 3.5 | 4.0 | 2.5 | 2.5 |
| Bangladesh | 2.0 | 4.5 | 3.5 | 2.5 | 2.5 |
| Indonesia | 2.5 | 4.0 | 3.5 | 3.0 | 3.0 |
| India | 2.5 | 3.5 | 3.5 | 3.0 | 2.5 |
| Sri Lanka | 2.5 | 3.5 | 3.5 | 3.5 | 3.0 |
| Cambodia | 2.5 | 3.5 | 3.0 | 2.5 | 3.0 |
| EU | 3.0 | 2.0 | 3.0 | 3.5 | 4.0 |
| Turkey | 3.0 | 3.0 | 3.5 | 3.0 | 3.0 |
| AGOA* | 2.0 | 4.0 | 3.0 | 3.0 | 2.5 |
| Egypt | 3.0 | 3.5 | 3.0 | 3.0 | 3.0 |

Source: USFIA, Shinhan Securities Vietnam
*AGOA: African Growth and Opportunity Act

### Raw materials and labor costs account more than 70%




Source: Company, Shinhan Securities Vietnam

- High labor costs: due to the labor-intensive textile manufacturing, labor costs account for about 25-30% of the input costs. However, Vietnam's labor costs are increasingly high (reaching 300 USD/month/person) compared to Bangladesh (95 USD/month/person), reducing the price competitiveness advantage for Vietnamese businesses.
- Dependence on raw materials: 50% of raw materials and accessories supplies for the T&G industry is imported => (1) under pressure and risks from regulations on raw materials and accessories traceability in the supply chain, reducing competitive advantage from FTAs (2) high manufactured costs.

02

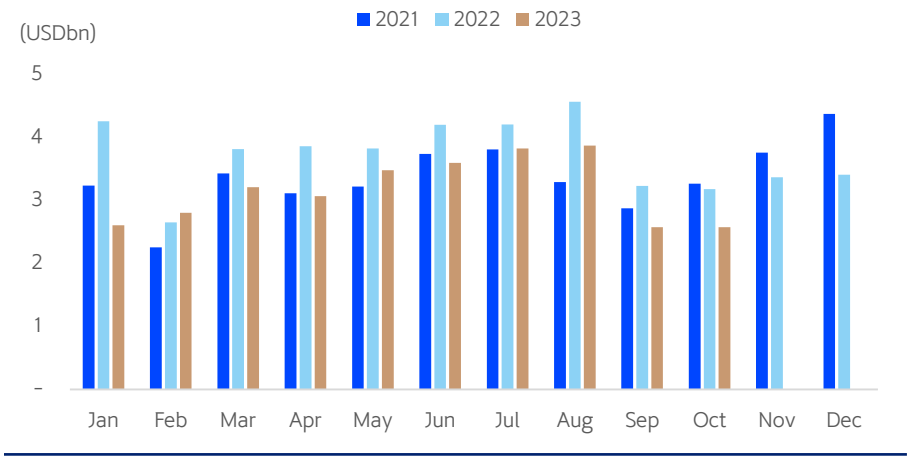
# 10M2023 updates of textile and garments industry

In 10M2023, textile and garment export value decreased by 16.4% YoY to reach USD 33bn since slow consumption and high inventory in main markets dragged textile and garment orders tumbled.

# Part 2 – 10M2023 updates of textile and garments industry

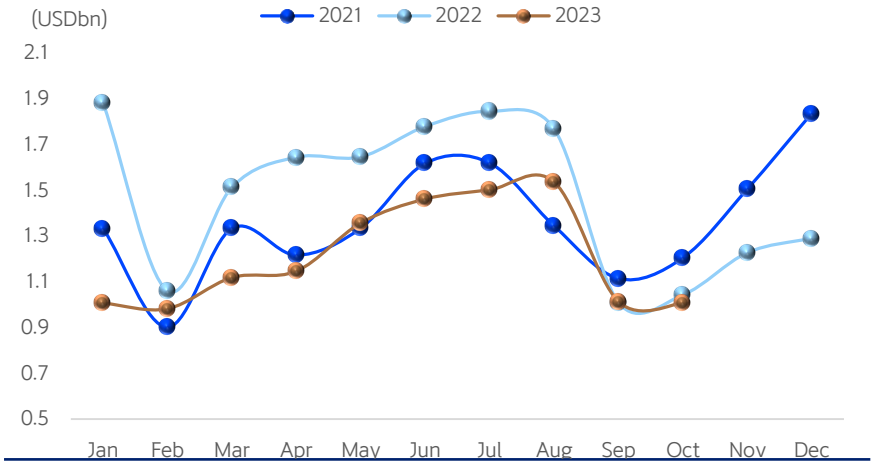
## Gloomy fashion retail industry in the US slowed down Vietnam T&G exports in 10M2023

### T&G exports in 10M2023 decreased YoY compared to high base




Source: Vietnam Custom, Shinhan Securities Vietnam

### T&G export value to the US decreased by 25% YoY in 10M2023




Source: Vietnam Custom, Shinhan Securities Vietnam

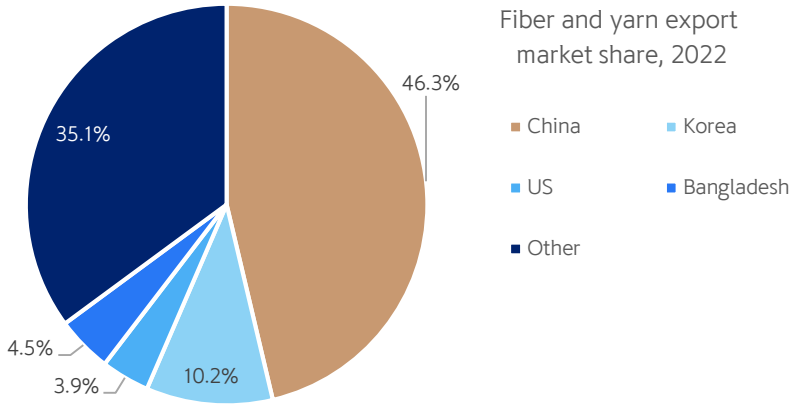
In 10M2023, T&G export value decreased by 16.4% YoY to reach USD 33 billion due to:

- ❑ Export value to the US, the largest consumer market of Vietnam T&G industry, sharply decreased by 20.1% YoY accumulated in 10M2023.
- ❑ As T&G exports increased sharply in 2022 to meet pent-up demand after the pandemic, pushing high base in 2022
- ❑ Yet, rising inflation causes consumers to tighten spending, slowing down consumption in 2023.

# Part 2 – 10M2023 updates of textile and garments industry

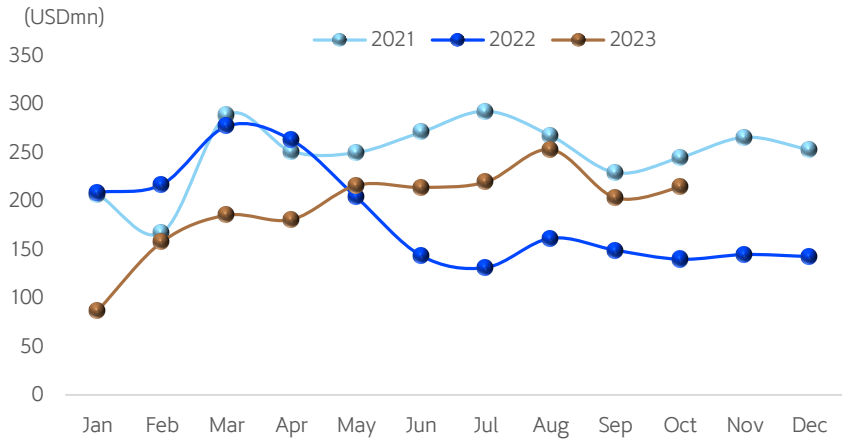
## Fiber and yarn export value decreased in 10M2023 but recovered signal of volume export

### China is the largest market for exporting fiber and yarn




Source: Vietnam Custom, Shinhan Securities Vietnam

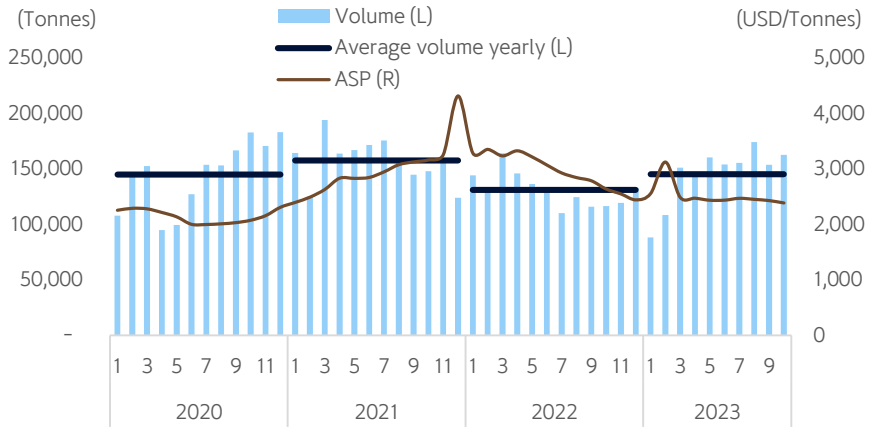
### Fiber and yarn exports to China increased YoY in 10M/2023




Source: Vietnam Custom, Shinhan Securities Vietnam

- In 10M2023, fiber and yarn export value decreased by 10.9% YoY to reach USD 3.6bn , mainly due to the average selling price adjusted – 18.9% YoY, reaching 2,504 USD/Ton.
- However, the demand for fiber and yarn improved from Q2/2023, mainly thanks to the recovery demand of Chinese market, itching export volume of industry to +9.9% YoY in 10M2023.

### Fiber export volume might improve

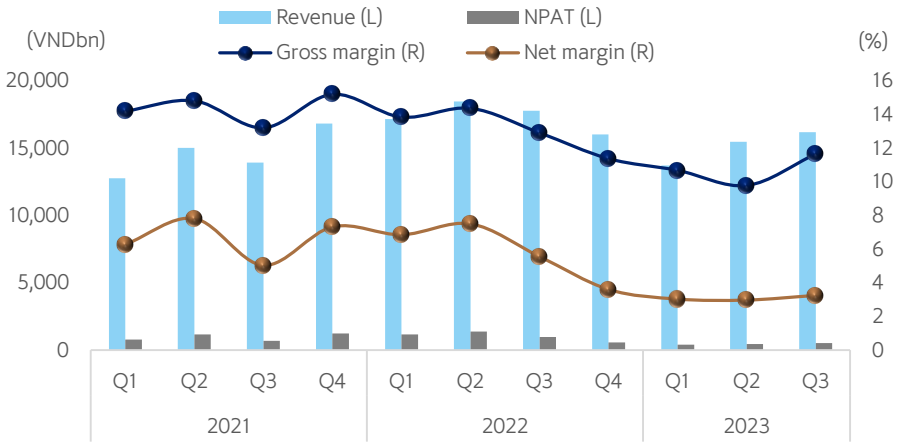



Source: Vietnam Custom, VCOSA, Shinhan Securities Vietnam

# Part 2 – 10M2023 updates of textile and garments industry

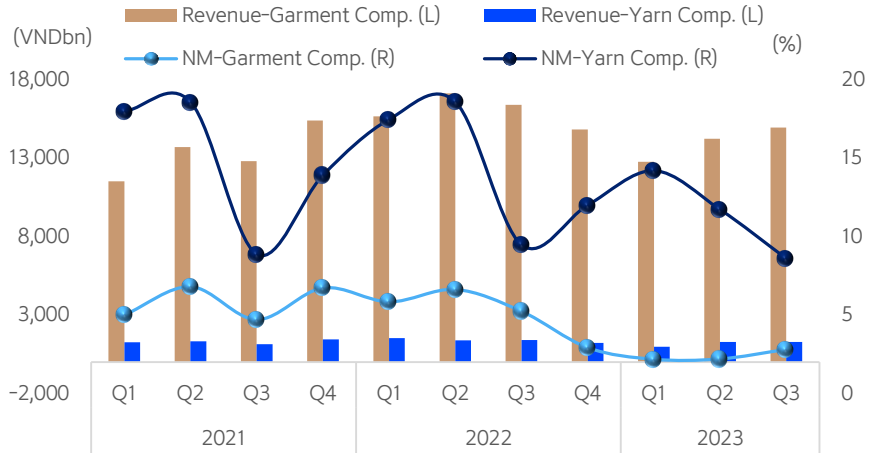
## 9M23 business results: Revenue and net profit of listed T&G company decreased

### NM decreased due to narrow GPM in 9M2023




Source: Vietnam Custom, Shinhan Securities Vietnam

### 9M23 revenue of top 10 T&G companies decreased YoY




Source: Vietnam Custom, Shinhan Securities Vietnam

- ❑ Revenue of listed T&G companies decreased by 14.9% YoY in 9M2023 due to weak consumption of garments in many markets, stagnant new orders from fashion brands.
- ❑ Net profit of listed T&G companies decreased sharply by 60.4% YoY since (1) gross profit margin decreased as reduced selling prices and (2) heftier interest expenses +42.5% YoY.

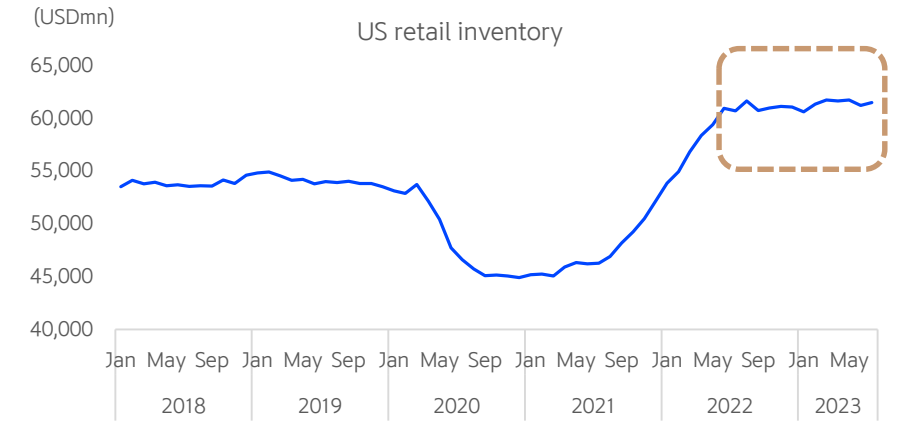
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# Textile and garments industry outlook 2024

We expect the textile and garment industry in 2024 to recover 8.6% YoY from a low base as garment consumption in main markets will improve.

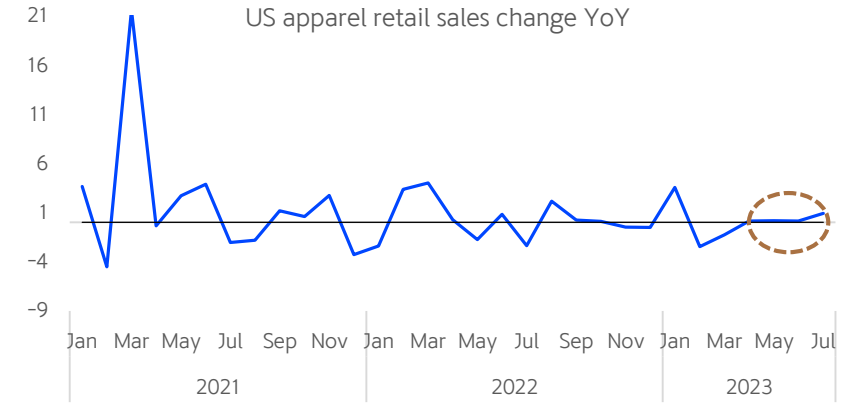
## Retail stockpile decreased while consumption gradually recovered in key markets

### US retail inventories stablize




Source: FRED, Shinhan Securities Vietnam

### US apparel retail sales improved slightly YOY




Source: FRED, Shinhan Securities Vietnam

The US, Vietnam's main T&G consumer market, is expected to recover from a low base in 2024 since:

- Apparel retail stockpile have remained at a high level. It is expected that the stockpile would decrease in the end of Q4/2023 due to increased consumption during the holiday season. Therefore, gradually reducing inventory will add storage for new orders in 2024.
- The FOMC forecasts inflation gradually decreasing in 2024, which make less spending tighten. It could boost consumption of non-essential items, including apparel products. In 3Q/2023, the US recorded positive growth of apparel retail revenue MoM.

# Part 3 – Textile and garments industry outlook 2024

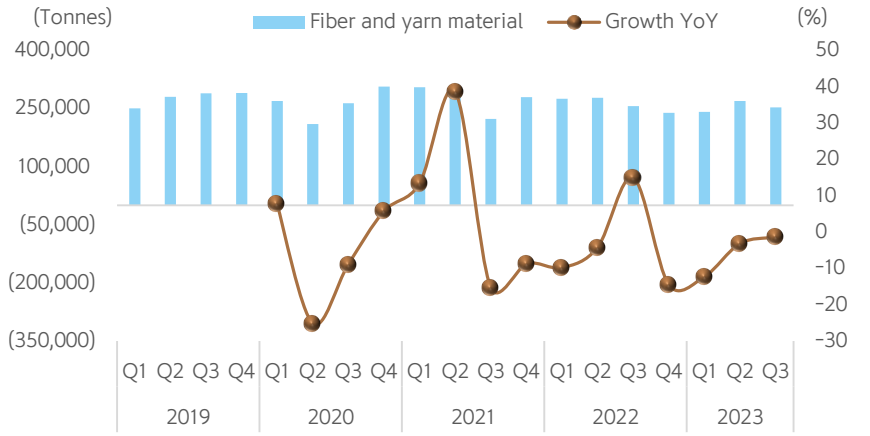
## Positive growth of the raw materials import could lead to the potential recovery for garment

### Import of raw cotton increased sharply from Q2/2023




Source: Vietnam Custom, Shinhan Securities Vietnam

### Import of fiber and yarn maintain low in 10M2023




Source: Vietnam Custom, Shinhan Securities Vietnam

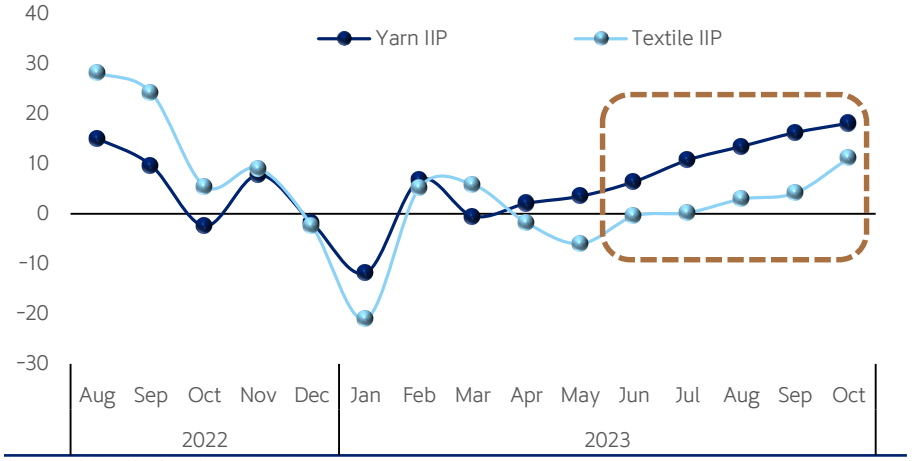
- ❑ According to GSO, imported cotton volume grew positively in Q2/2023, +24.5% YoY after tumbled volume import in 2022.
- ❑ Meanwhile, we estimated that the import volume of raw fibers and yarns is maintain at low level till Q3/2023 and would recovery from Q4/2023.

Positive signals of the raw materials segment in 2H2023 might be potential of textile industry recovery in 2024.

# Part 3 – Textile and garments industry outlook 2024

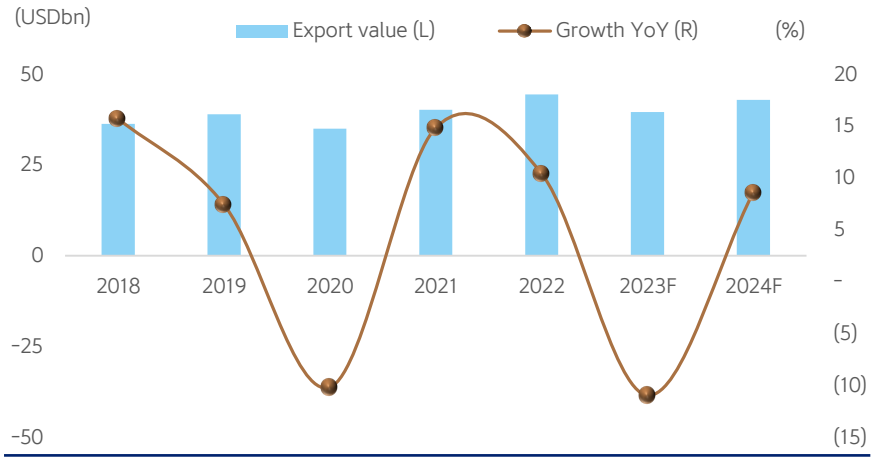
## The textile export industry is expected to increase 8.6% YoY in 2024:

### Textile industry IIP improves YoY in Q2/2023




Source: GSO, Shinhan Securities Vietnam

### Expect the T&G industry to grow 8.6% YoY in 2024




Source: GSO, Shinhan Securities Vietnam

- ❑ Recovery from low base in 2023
- ❑ Reduced retail stockpile while recovered consumption in major markets will boost new orders for Vietnam T&G manufacturers.
- ❑ Positive signals of the raw materials segment in 2H2023 make clearer T&G industry growth potential in 2024.
- ❑ The IIP (industrial production index) growth YoY of the T&G industry have pounced back consecutively in Q2/2023 , showing growth potential of T&G production activities.

04

# Textile and Garment Stock Pitch

STK – Expanded capacity from the new Unitex 1 factory and new orders moving from China

# Listed T&G companies

| General information | | | | Stock price | | | Ratio | | | Performance | | Valuation 24F | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | Ticker | Sector | Mkt. Cap (VNDbn) | CIP (VND) | TP (*) (VND) | Upside (%) | GPM (%) | ROA TTM (%) | ROE TTM (%) | Revenue Q3.2023 (VND bn) | Revenue chng. Q3.2023 (% YoY) | P/E (x) | EV/ Sales(x) | EV/ EBITDA (x) |
| 1 | VGT | T&G | 5,850 | 11,800 | 12,100 | 2.5 | 10.0 | 0.1 | 0.5 | 4,088 | -11.1 | 11.4 | 793 | 8.5 |
| 2 | TCM | T&G | 3,405 | 41,550 | 48,400 | 16.5 | 15.0 | 5.0 | 8.6 | 919 | -25.2 | 22.0 | 1,114 | 11.5 |
| 3 | STK | T&G | 2,559 | 27,200 | 38,800 | 42.6 | 14.7 | 4.3 | 6.3 | 377 | -26.7 | 22.5 | 1,883 | 9.9 |
| 4 | MSH | T&G | 2,854 | 38,050 | 44,267 | 16.3 | 10.7 | 6.1 | 12.9 | 1,206 | -26.6 | 11.2 | 636 | 6.0 |
| 5 | TNG | T&G | 2,100 | 18,500 | 21,850 | 18.1 | 13.7 | 4.1 | 13.4 | 2,104 | 4.1 | 8.8 | 720 | - |
| 6 | PPH | T&G | 1,948 | 26,100 | - | - | 1.6 | 10.6 | 19.5 | 444 | 6.6 | 4.4 | 1,611 | 9.0 |
| 7 | VGG | T&G | 1,565 | 35,500 | - | - | 9.2 | 3.0 | 9.0 | 2,264 | 17.5 | 12.0 | 130 | 4.2 |
| 8 | ADS | T&G | 680 | 13,400 | - | - | 13.2 | 2.4 | 8.3 | 453.4 | -5.2 | 13.7 | 799 | 8.5 |

(*) Target price in next 12 months

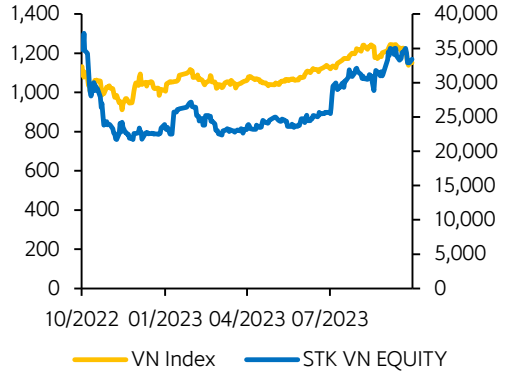
Source: Fiinpro, Bloomberg consensus, Shinhan Securities Vietnam

Data as of Nov 24th,2023

# Century Synthetic Fiber (HOSE: STK)

| | |
|---|---|
| **Target price (12M)** | **VND 38,800** |
| Current price (23/11/2023) | VND 27,200 |
| Return (%) | 42.6% |
| VNINDEX | 1,088 |
| Market P/E (x) | 14.8 |
| Market Cap. (bn VND) | 2,559 |
| Outstanding Shares (mn) | 94 |
| Free Floating Shares (mn) | 55 |
| 52-Wk High/Low (VND) | 37,261/20,478 |
| 3M Avg. Trading Vol. (mn) | 0.1 |
| 3M Avg. T/O (bn VND) | 2.2 |
| Foreigner ownership | |
| Shareholders (%) Dang My Linh | 14.9 |
| Dang Trieu Hoa | 14.3 |

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute(%) | 8.5 | 37.3 | -7.9 |
| Rel. to VNINDEX(%) | 8.3 | 31.9 | -12.9 |




## Consumption trends boost short and long-term prospects

Century Synthetic Fiber produces polyester yarn including virgin and recycled yarn. In 2024, STK will launch Unitex 1 factory, increasing total capacity by 50% to 96,000 tons/year, becoming the 2nd largest yarn manufacturing company in Vietnam.

**Investment thesis:** The company focuses on increasing recycled fiber shares from 45% to 80% in 2026. To catch up the trend of recycled polyester fiber consumption increases by the world's largest brands, STK planned to increase total capacity with 3 factories including Unitex 1 (+36,000 tonnes), Unitex 2 (+24,000 tonnes), and the Alliance Fiber-Weaving-Dyeing project (+15,000 tonnes) in the next 5 years.

**2024 outlook: Low base and improving consumption drive revenue growth of 33.8% YoY in 2024**

**We forecast that STK's low base and improved yarn consumption will drive revenue growth of 33.8% YoY in 2024.** Volume sales is expected to grew 24% YoY due to (1) recovery in garment industry consumption in 2024 will lead to increased demand for fiber industry production orders in 1H2024; (2) new orders will be transferred from China to STK starting from 2024 as expected schedule; (3) factory capacity increased by 30,000 tones in 2H2024, helping to increase STK's total average capacity to 65,000 tones/year to anticipate the growing demand of recycled and virgin yarn.

**Gross profit margin improves by 3.2ppt in 2024 to offset lofty interest expenses.** We expect STK to increase recycled fiber production with higher profit margins in 2024, increasing gross profit margin from 14% in 2023 to 17.2% in 2024. However, because the Unitex 1 factory is funded by USD 57 million is estimated to pay interest expenses from 2H23, make interest expenses increased by 57.6% YoY. Accordingly, profit margin increases by 1.7ppt to 10.7%, as such 2024 NPAT hike 60% YoY

**Risks:** (1)Consumer demand lessening than expectation, making lower yarn orders; (2) Input cost which is PET chips price increased as the impact of oil prices, reducing gross profit margin.

| FY | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (VNDbn) | 1,766 | 2,042 | 2,115 | 1,582 | 2,116 |
| OP (VNDbn) | 175 | 275 | 291 | 160 | 284 |
| NPAT (VNDbn) | 144 | 278 | 242 | 142 | 227 |
| EPS (VND) | 2,091 | 4,084 | 3,341 | 2,008 | 3,211 |
| BPS (VND) | 15,318 | 17,808 | 18,258 | 17,459 | 19,813 |
| OPM | 9.9 | 13.5 | 13.8 | 10.1 | 13.4 |
| NPM | 8.2 | 13.6 | 11.4 | 9.0 | 10.7 |
| ROE (%) | 8.5 | 14.1 | 11.4 | 4.6 | 6.0 |
| P/E (x) | 16.0 | 8.2 | 10.0 | 16.6 | 10.4 |
| P/B (x) | 2.2 | 1.9 | 1.8 | 1.9 | 1.7 |
| EV/EBITDA (x) | 10.3 | 8.0 | 8.4 | 10.9 | 6.0 |

Shinhan Securities

# Logistics

# Vibrant again



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# Content

## Logistics – Vibrant again


1. Global logistics market

   A less exciting year

   Find the balance in 2024

   A warming trend in 2024

2. Vietnam's logistics market

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   The gloomy business picture in the first 9 months of 2023

   Vietnam's export shows signs of improvement

   The push from increasing service fees from January 1, 2024

3. Logistics stock pick

   GMD & HAH - Demand recovery & freight rate on the rise again

# 01 Global logistics market

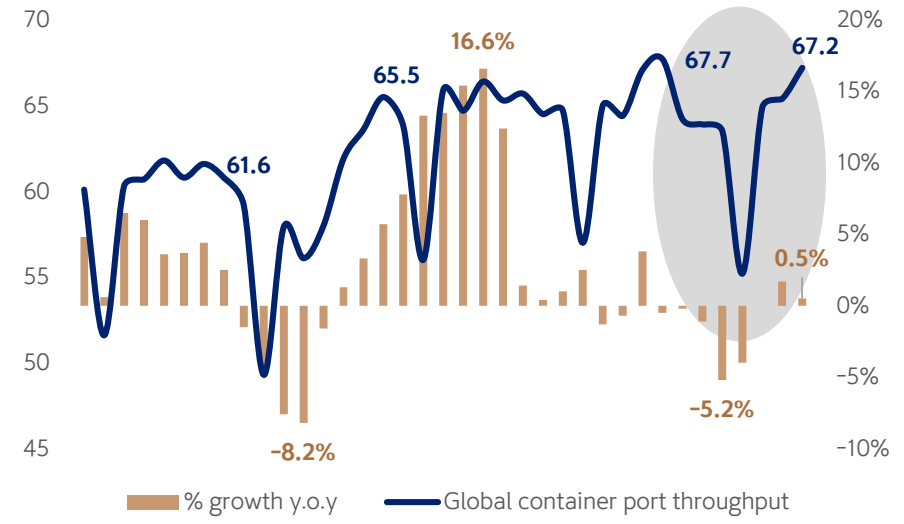
A less exciting year

Find the balance in 2024

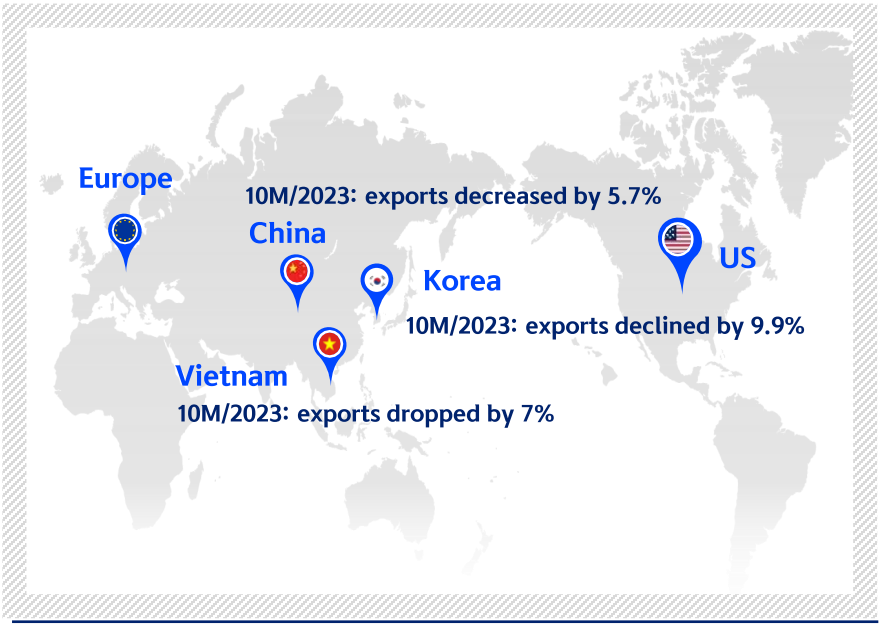
A warming trend in 2024

## 2023 witnessed a less exciting year

**Global container port throughput (million TEUs)**




Source: WTO, Shinhan Securities Vietnam



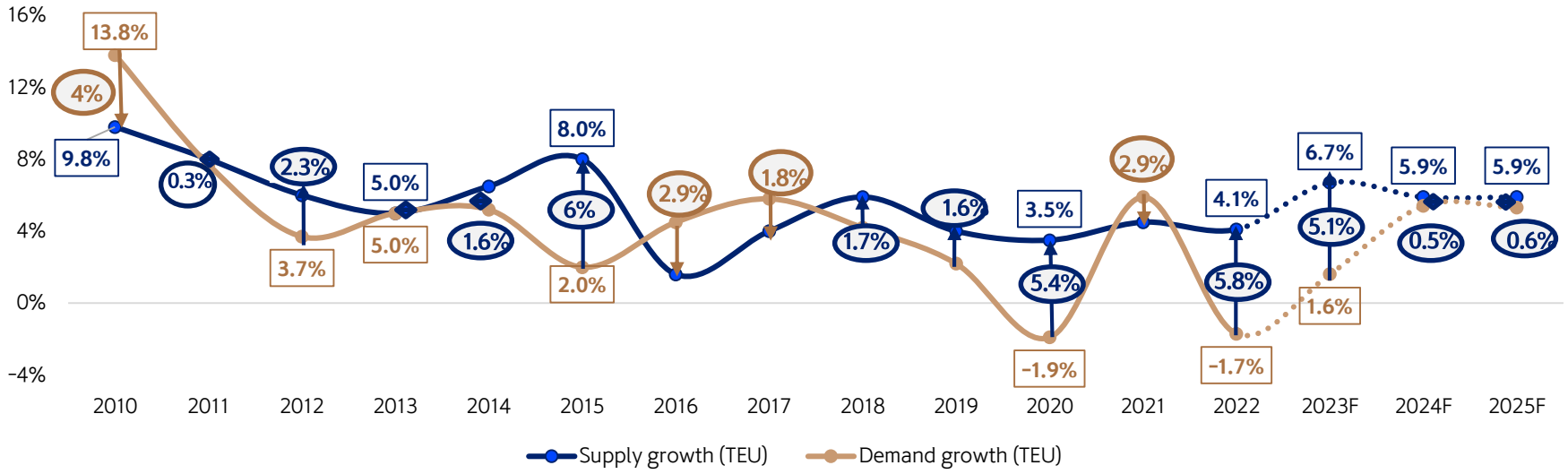

Source: Bloomberg, Shinhan Securities Vietnam

- After surging during the pandemic, container trade suffered a setback in 2023 due to high inventories alongside the economic downturn. Merchandise trade growth has slowed in most regions, causing activity related to logistics services such as ports and shipping to decline. Global container throughput rebounded in the second quarter, but the increase remained modest.

- China, the world's largest exporter, recorded a decline in exports of 5.7% in 10M/2023. The slowdown in exports is not limited to China. Exports from South Korea fell 9.9% in ten months from a year earlier, led by sharp declines in exports of semiconductors, computers and other electronic products.

## The logistics industry will find the balance in 2024

### Supply – demand of world containers



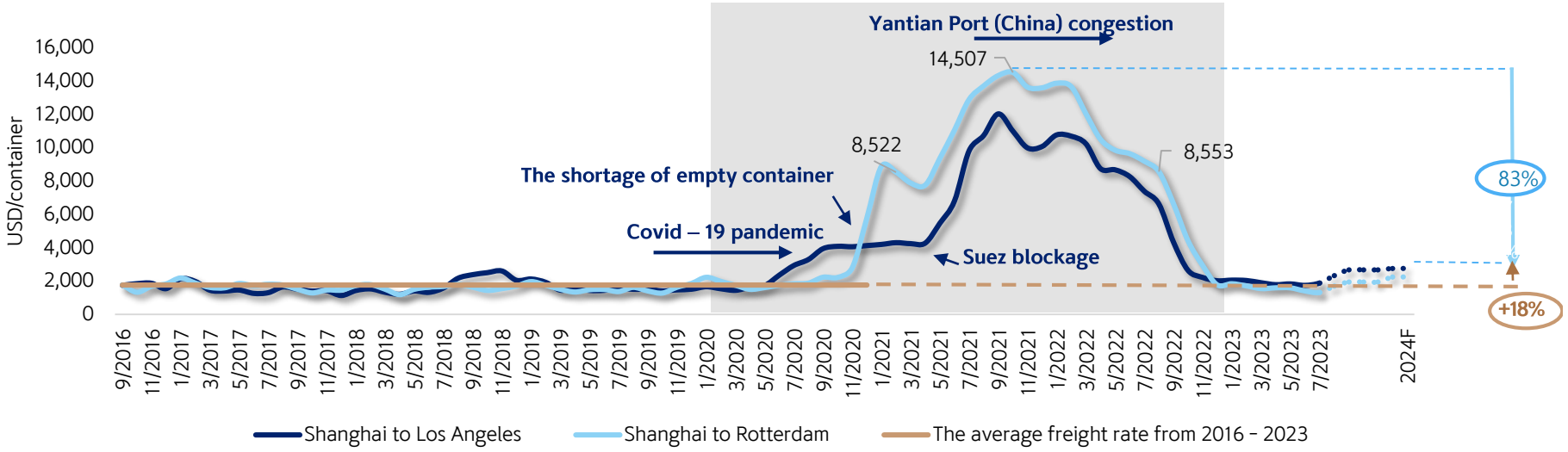

Source: Bimco, Shinhan Securities Vietnam

- **Demand:** Global container volume fell 1.7% in 2022, implying a weakening global economy and high inflation took their toll on demand for containerized goods. In 2023, demand has continued to weaken due to weak retail sales and high inventories in the US and European regions, with the global seaborne Container trade indicator hitting a 5-year low. In 2024, we expect demand to return when (1) global inflation pressures are gradually easing and (2) inventories are reduced to low levels.

- **Supply:** After oversupply in 2023, we expect supply growth to slow in 2024. Supply is expected to increase 6.7% in 2023 and 5.9% in 2024.

# The logistics industry sees a warming trend in 2024

## Container freight rate




Source: Drewry, Shinhan Securities Vietnam

- The container market has gone through a rough time in the past three years. Freight rates reached all-time highs before tumbling 70-80%, while the orderbook has continued to surge. Freight prices returning to the low level of the 2011 – 2019 period have affected the profits of logistics businesses.

- From July 2023 until now, the global market has witnessed a recovery in freight rates. Global container shipping rates in the second half of August 2023 saw the strongest increase in 2 years, signing that the shipping industry is on a warming trend. Specifically, Shanghai to Los Angeles rates have increased nearly 12%, the largest weekly increase since June 2021 and the fourth consecutive week of increase. The reason is that the peak season of the shipping industry starts in August.

02

# Vietnam's logistics market

The short term challenges

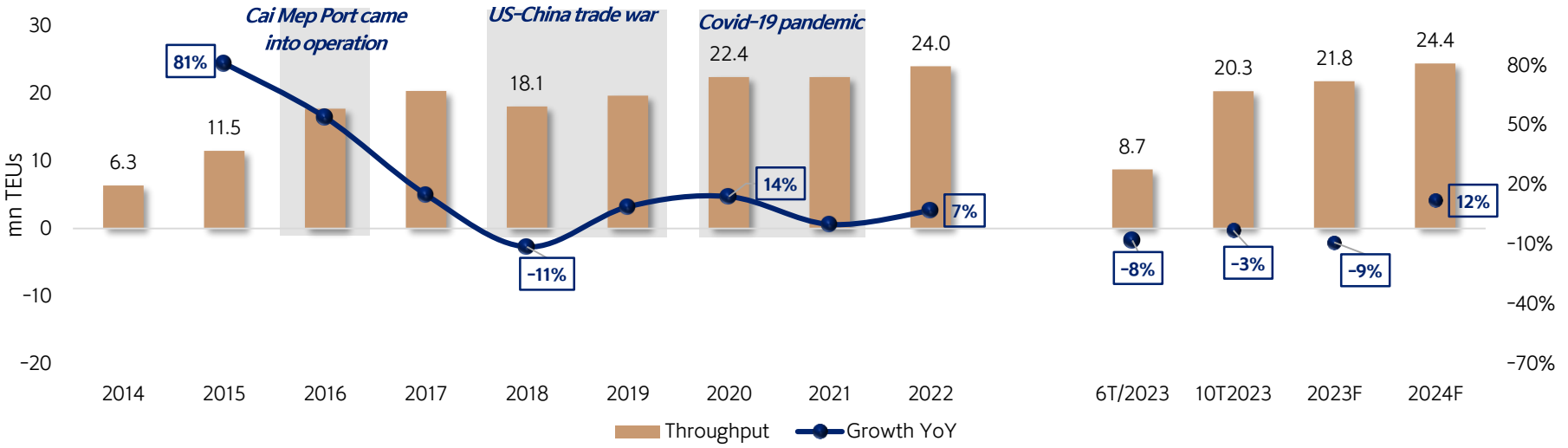
The gloomy business picture in the first 9 months of 2023

Vietnam's export shows signs of improvement

The push from increasing service fees from January 1, 2024

## The short term challenges

### Vietnam's container port throughput



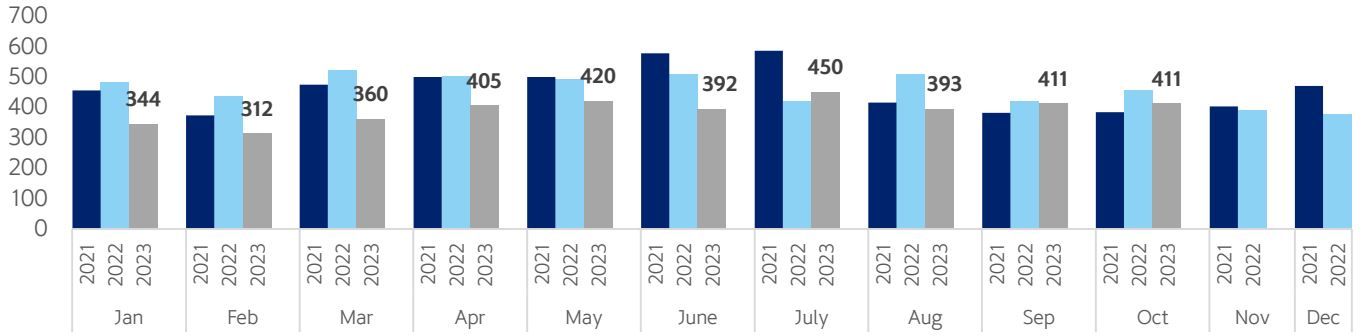

Source: GSO, Shinhan Securities Vietnam

- According to data from the Vietnam Maritime Administration, the volume of container cargo through Vietnam's seaports has grown strongly in the period 2015-2022. The output of goods through the seaport has nearly doubled, with an average growth rate of 11.9%. However, the growth rate has been slowing down in the last 2 years.

- In the first 10 months of 2023, container cargo output is estimated to reach 20.3 million TEUs, down 3% over the same period last year. Seaport areas with a high volume of goods throughput such as Vung Tau down 11%, Hai Phong decreased by 1.7% and Ho Chi Minh City decreased by 3.7%. The main reason is that the production, import and export activities of domestic enterprises have not fully recovered in recent times.

## The short term challenges

### Vung Tau's container port throughput (thousand TEUs)



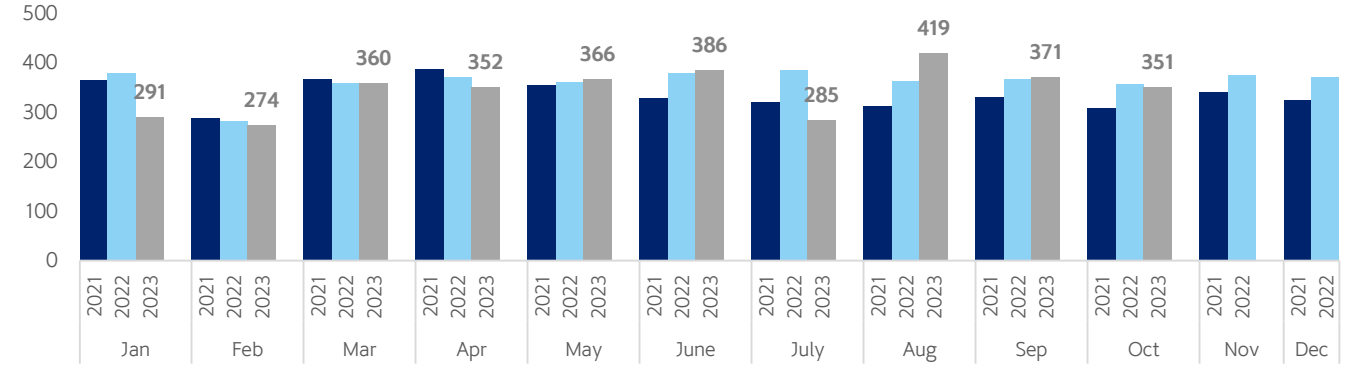

Source: VPA, Shinhan Securities Vietnam

Throughput in 10M/2023 decreased by 11% over the same period. In which, the throughput of Gemalink port decreased by 14%, the throughput of Tan Cang port (TCIT) decreased by 13%,…

In October 2023, Vung Tau 's throughput was still weak (-11% y.o.y)

This shows that consumer demand in Europe and the US is still weak due to the impact of inflation.

### Hai Phong's container port throughput (thousand TEUs)




Source: VPA, Shinhan Securities Vietnam

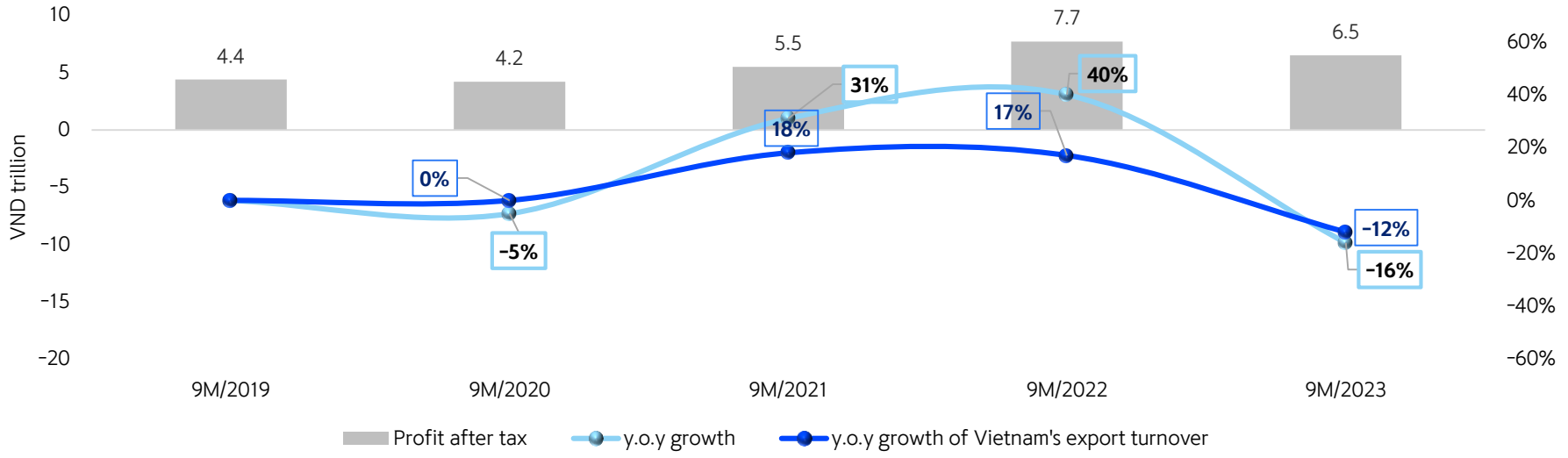
Throughput in 10M/2023 decreased by 5% over the same period. In which, the throughput Lach Huyen port (HICT) decreased by 7%, the throughput Mipec port increased by 7% …

In October 2023, Hai Phong's throughput decreased slightly (-1.7% y.o.y)

This shows a partial recovery in the Inner Asian market, of which the Chinese market is a major contributor.

## The gloomy business picture in the first 9 months of 2023

**Business results of Vietnamese logistics enterprises**

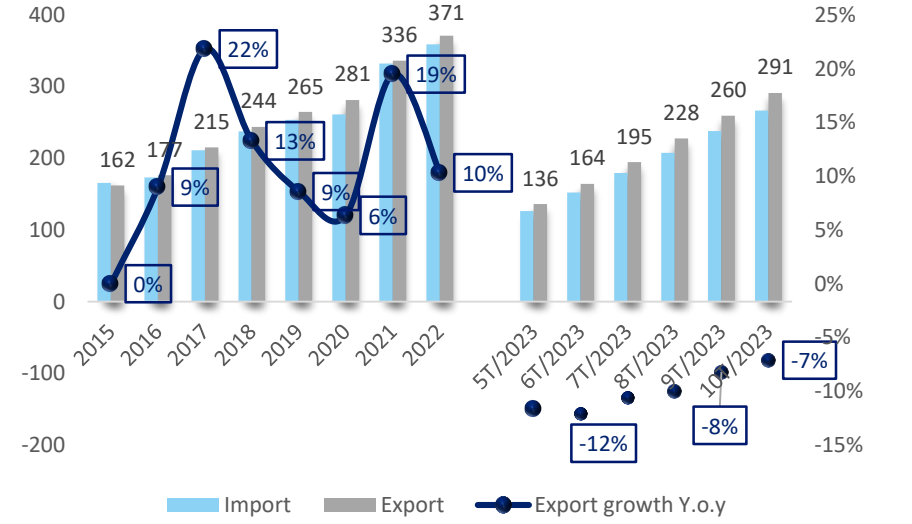



Source: Fiinpro, Shinhan Securities Vietnam

- According to data of 48 logistics businesses (transportation and port operators) listed on the stock exchange, the after-tax profit of these 48 companies reached VND 6,500 bn, down 16% y.o.y. The sharp decrease in throughput of goods and high input costs are one of the reasons why many logistics businesses have declining results. In which:
  - **Transportation:** profit after tax reached VND 2,212 bn , down 9% y.o.y.
  - **Port and warehouse services:** profit after tax VND 4,731 bn, down 9.5% y.o.y.

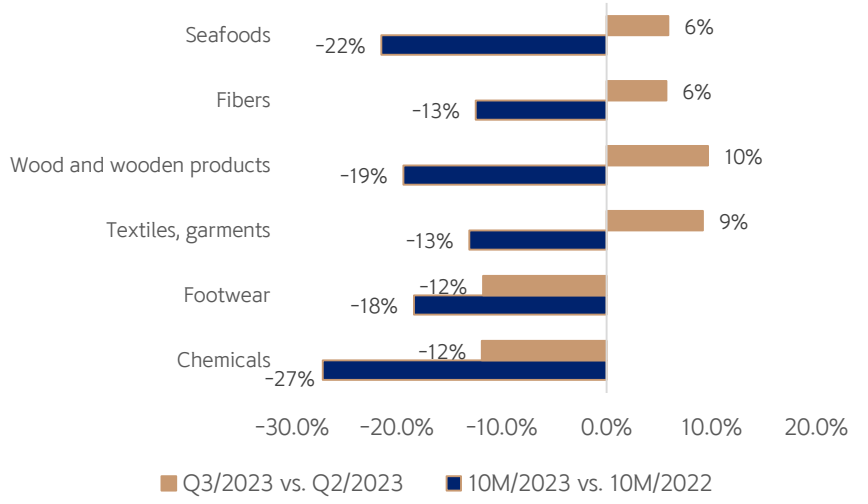
## Vietnam's export shows signs of improvement

### Vietnam's import and export growth




Source: GSO, Shinhan Securities Vietnam

### The exported groups in 10 months of 2023



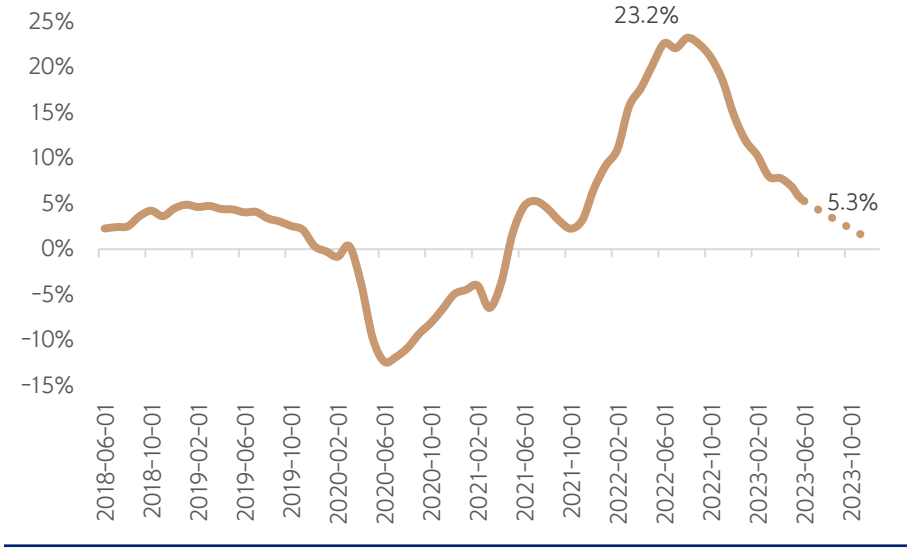

Source: GSO, Shinhan Securities Vietnam

- In the first 10 months of 2023, the total import and export turnover of goods reached USD 557.95 bn , down 9.6% over the same period last year, of which exports decreased by 7.1%; Imports decreased by 12.3%. In Q3/2023, some key product groups such wood, garments, fabrics, seafood,... have improved compared to Q2/2023.

- The momentum of decline in exports slowed down month by month. Specifically, in October 2023, exports reached USD 32.31 bn, down 5.1% compared to September and up 5.3% over the same period last year.

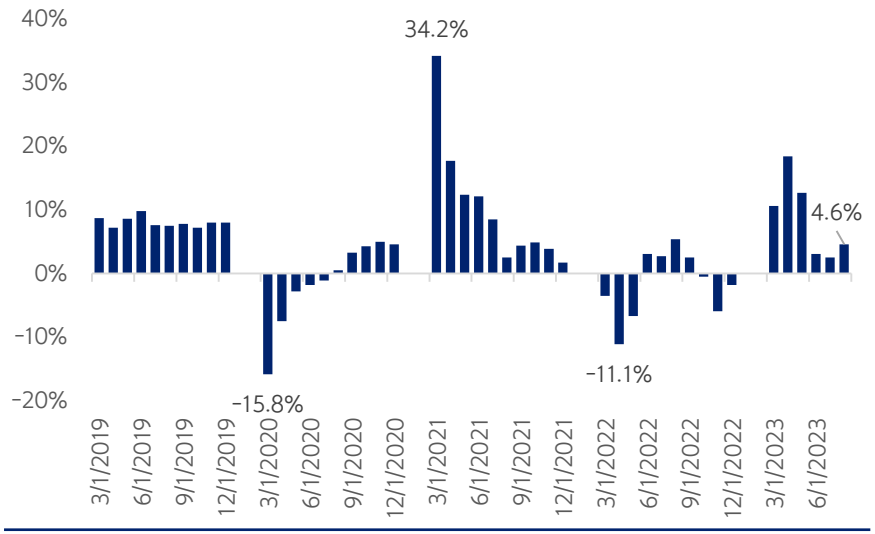
## Vietnam's export shows signs of improvement

### US retail inventory growth y.o.y




Source: FRED, Shinhan Securities Vietnam

### China retail sales growth y.o.y




Source: China National Bureau of Statistics, Shinhan Securities Vietnam

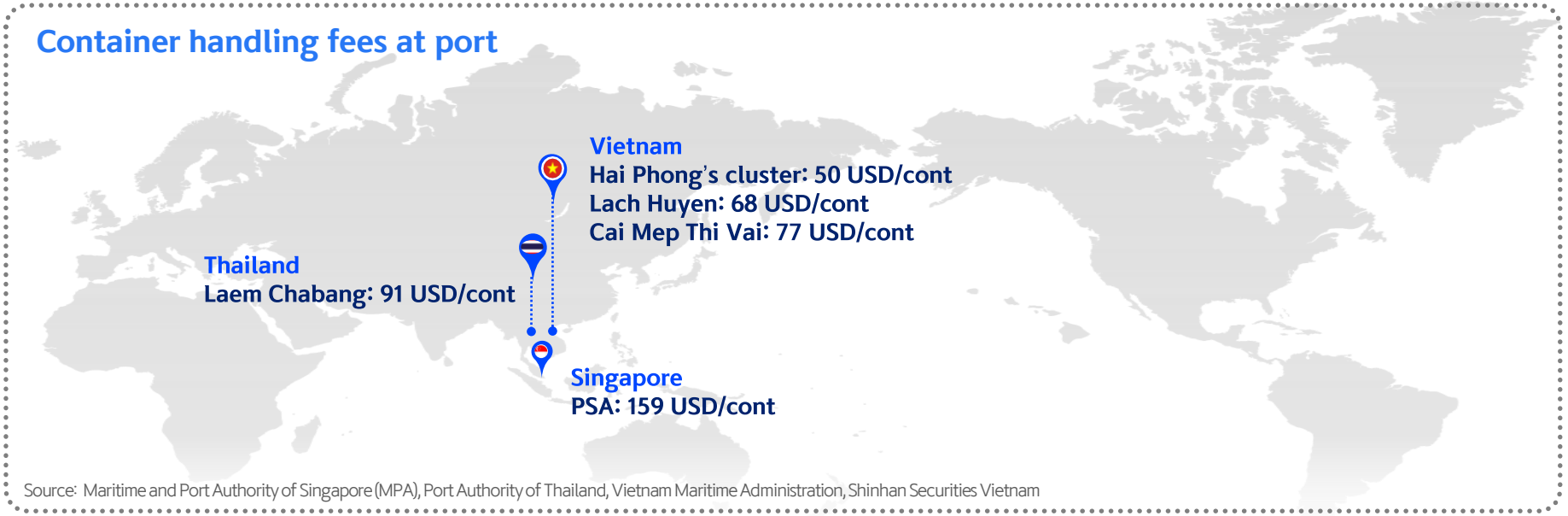
Import-export activities are forecasted to continue to improve thanks to the following factors: (1) goods demand usually rises during year-end festivals, (2) inventories from major export markets of Vietnam are gradually decreasing,…

- US: In the first 6 months of the year, inventory was at 23%, but by August it had decreased to 5% and it is forecast that by the end of 2023 it will approach 0%. This is an opportunity for Vietnam's export goods, when the United States is Vietnam's largest export market.
- China, Vietnam's second largest commodity export market, has lowered interest rates to revive the economy, helping the country's consumption and production demand improve more positively in the near future. According to data from China's National Bureau of Statistics released on September 15, retail sales in August increased 4.6% over the same period, higher than the forecast of a 3% increase from a Reuters poll.

# Vietnam's logistics market

## The push from increasing service fees from January 1, 2024

### Container handling fees at port




Source: Maritime and Port Authority of Singapore (MPA), Port Authority of Thailand, Vietnam Maritime Administration, Shinhan Securities Vietnam

**Circular 54/2018/TT-BGTVT** → **Draft**

Applicable from January 1, 2024

1
- Container handling fees : 10% increase
- Area: Hai Phong, Ho Chi Minh, Cai Mep – Thi Vai

2
- Container handling fees : 10% increase
- Area: accommodate container ships of 160,000 DWT

Container handling fees : 20% increase
(satisfy the above 2 conditions)

# 03 Logistics stock pick

GMD & HAH – Demand recovery & freight rate on the rise again

# Business results of logistics enterprises

| General Info | | | | Price | | | Key financial ratio | | | Business result | | Valuation 24F | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | Ticker | Sector | Mkt.Cap (VND bn) | CP (VND) | TP (**) (VND) | Upside (%) | GPM (%) | ROA TTM (%) | ROE TTM (%) | Revenue Q3.2023 (tỷ VND) | Revenue growth Q3.2023 (% YoY) | P/E (x) | EV/Sale (x) | EV/EBIT DA (x) |
| 1 | GMD | Port services | 21,006 | 69,700 | 74,000 | 6.2 | 46.5 | 17.0 | 29.4 | 997.9 | 0.6 | 17.0 | 2.0 | 9.2 |
| 2 | HAH | Port services | 2,356 | 33,500 | 49,000 | 46.3 | 23.2 | 9.8 | 20.0 | 681.3 | -12.4 | 5.3 | 1.1 | 1.7 |
| 3 | VSC | Port services | 3,359 | 27,700 | 36,000 | 30.0 | 32.0 | 2.8 | 4.8 | 557.2 | 9.8 | 18.5 | 0.8 | 7.2 |
| 4 | ILB | Warehousing services | 743 | 30,350 | - | - | 36.9 | 5.3 | 17.6 | 127.9 | -20.2 | - | - | - |
| 5 | TMS | Warehousing services | 5,052 | 41,500 | - | - | 17.1 | 4.8 | 7.4 | 664.1 | 11.7 | - | - | - |
| 6 | VOS | Inland transport | 1,421 | 10,150 | - | - | - | 2.5 | 4.3 | 715.8 | 0.5 | - | - | - |
| 7 | VIP | Inland transport | 760 | 11,100 | - | - | 24.8 | 23.0 | 25.6 | 132.6 | -32.4 | - | - | - |
| 8 | VTO | Inland transport | 728 | 9,120 | - | - | 18.2 | 5.3 | 7.9 | 249.2 | -21.7 | - | - | - |

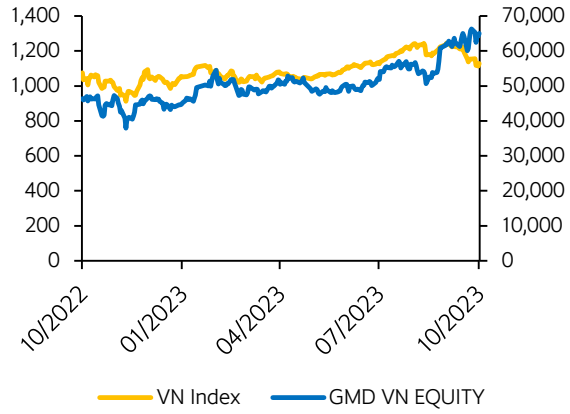
(*) Target price (fair value) for the next 12 months
Source: Fiinpro, Shinhan Securities Vietnam
Data as of 23/11/2023

# Gemadept Corporation (HOSE: GMD)

GEMADEPT CORPORATION

| | |
|---|---|
| **Target price** (12 months) | 74,000 VND |
| Curren price (23/11/23) | 69,700VND |
| Return (%) | 6% |
| VN-INDEX | 1,088 |
| HNX-INDEX | 224 |
| Market Cap (bn VND) | 21,006 |
| Outstanding shares (mn) | 306 |
| Free-Floating (mn) | 294 |
| 52-Wk High/Low (VND) | 68,000/36,400 |
| 90-day avg. trading volume (mn) | 1.28 |
| 90-day avg. turnover (bn VND) | 88 |
| SSJ Consulting VN Shareholders (%) | 9.9 |

| Performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 21.5 | 25.0 | 32.7 |
| Relative to VNIndex(%) | 21.3 | 19.6 | 27.6 |




## Restoring the growth momentum

GMD is one of the leading logistic companies in Vietnam, having modern and large-scale ports system, being located at critical economic positions. The main operating businesses: Port operation; logistic activities. GMD owns a total of 7 seaports, with an annual capacity of up to 5 million TEUs and 5 million tons of bulk cargo.

### Investment thesis & Catalyst

- The economy is tending to recover. We expect import and export activities to be positive in the second half of 2023 when export orders recover as well as consumer demand from major export markets of Việt Nam such as the US, EU, and China return.
- Core profit expected to improve. In the first 7 months of 2023, the Gemalink port's throughput is estimated to reach 782 thousand TEUs (-15% y.o.y), the Hai Phong cluster's throughput is estimated to reach 620 thousand TEUs (+18% y.o.y). In 2024, we expect Gemalink port's throughput to grow again after a difficult economic year and phase 2 of Nam Dinh Vu port will optimize its capacity.
- The approved draft service fee increase from January 1, 2024 will support GMD's profits. The Seaport and Transport Association has proposed a 10% increase in fees in the Cai Mep - Thi Vai port cluster area, Hai Phong and Lach Huyen to approach the region's average.

### Outlook for 2024

- We forecast that GMD's core profit will grow in 2024 thanks to (1) service fees increasing from 5% - 8%, while the volume of goods through the port will increase % due to phase 2 of Nam Port. Dinh Vu will run at maximum capacity and Gemalink output will grow again.

Downside risks: (1) World economic risk and (2) Slow down in demand.

| Year to Dec | 2020 | 2021 | 2022 | 2023F (*) | 2024F |
|---|---|---|---|---|---|
| Core revenue (VND bn) | 2,606 | 3,206 | 3,916 | 3,358 | 3,852 |
| OP (VND bn) | 471 | 693 | 1,104 | 881 | 1,081 |
| Core NP (VND bn) | 440 | 721 | 1,157 | 1,132 | 1,458 |
| EPS (VND) | 1,132 | 1,869 | 3,054 | 2,976 | 3,713 |
| BPS (VND) | 20,472 | 21,920 | 24,030 | 28,813 | 31,627 |
| OPM | 18.1% | 21.6% | 28.2% | 26.2% | 28.1% |
| NPM | 14.2% | 19.1% | 25.4% | 28.9% | 31.4% |
| ROE (%) | 6.3% | 10.0% | 15.0% | 12.4% | 13.3% |
| P/E (x) | 55.6 | 33.7 | 20.6 | 21.2 | 17.0 |
| P/B (x) | 3.1 | 2.9 | 2.6 | 2.2 | 2.0 |
| EV/EBITDA (x) | 20.4 | 16.2 | 11.2 | 11.2 | 9.2 |

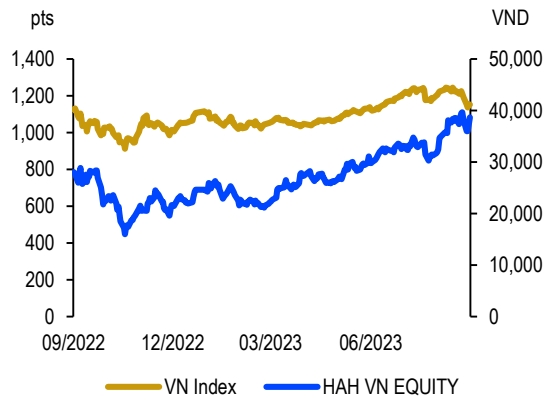
(*) We exclude profits from divestment of Nam Hai Dinh Vu port in 2023.

# Hai An Transport & Stevedoring JSC (HOSE: HAH)

| | |
|---|---|
| **Target price** (12 months) | 49,000VND |
| Curren price (23/11/23) | 33,500 VND |
| Return (%) | 46.3% |

| | | |
|---|---|---|
| VN-INDEX | | 1,088 |
| HNX-INDEX | | 224 |
| Market Cap (bn VND) | | 2,356 |
| Outstanding shares (mn) | | 106 |
| Free-Floating (mn) | | 14 |
| 52-Wk High/Low (VND) | | 40,650/14,933 |
| 90-day avg. trading volume (mn) | | 2.87 |
| 90-day avg. turnover (bn VND) | | 96 |
| Shareholders (%) | Hai Ha Investment and Transport JSC | 14.53 |
| | Sao A D.C Investment JSC | 10.58 |

| Performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 24.0 | 57.9 | 45.5 |
| Relative to VNIndex(%) | 23.8 | 52.5 | 40.5 |




## A brighter picture

Hai An Transport and Handling Joint Stock Company (HAH) is one of the leading shipping enterprises in Vietnam. Hai An is one of the few companies with a complete value chain in the shipping industry. Hai An provides a full range of shipping services including freight services (for North-South routes and international maritime routes), shipping agency, port operation services through Hai An port (such as receiving ships, loading, and unloading goods), warehousing services (withdrawing and storing goods) and logistics services. The complete value chain helps Hai An operate efficiently and optimize costs.

### Investment thesis & Catalyst

- The economy is tending to recover. We expect import and export activities to be positive in the second half of 2023 when export orders recover as well as consumer demand from major export markets of Vietnam such as the US, EU, and China return.
- Business operations are expected to improve from 2024. We forecast that freight rates may recover and increase by about 15% in 2024 due to (1) economic recovery and (2) increased freight rate.
- Fleet expansion helps increase capacity: We expect HAH to receive 4 new container ships of 1,800 TEU, increasing the total fleet capacity to more than 23,000 TEU by the end of 2024 (+23% y.o.y).

### Outlook for 2024

- We forecast that HAH's core profit will grow in 2024 thanks to (1) freight rates increasing by 10% - 15%, while cargo output will increase by 5% - 7% thanks to (1) an increase in ship capacity and (2) economic recovery.

Downside risks: (1) World economic risk and (2) Slow down in demand.

| Year to Dec | 2020 | 2021 | 2022 | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue (VND bn) | 1,192 | 1,955 | 3,206 | 2,750 | 2,849 |
| OP (VND bn) | 171 | 629 | 1,308 | 852 | 1,036 |
| NP (VND bn) | 147 | 551 | 1,041 | 585 | 727 |
| EPS (VND) | 2,835 | 9,133 | 11,699 | 5,222 | 9,302 |
| BPS (VND) | 21,908 | 31,809 | 32,852 | 32,852 | 43,187 |
| OPM | 14.4% | 32.2% | 40.8% | 31.0% | 36.3% |
| NPM | 12.3% | 28.2% | 32.5% | 21.3% | 25.5% |
| ROE (%) | 11.0% | 28.9% | 36.1% | 20.3% | 19.7% |
| P/E (x) | 17.5 | 5.4 | 4.2 | 9.5 | 5.3 |
| P/B (x) | 2.3 | 1.6 | 1.5 | 1.5 | 1.1 |
| EV/EBITDA (x) | 7.4 | 2.9 | 1.4 | 2.0 | 1.7 |

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# Important Disclosure

## Stock

- **BUY:** Expected 12-month gain of 15% or more
- **HOLD:** Expected 12-month loss of 15% to gain of 15%
- **SELL:** Expected 12-month loss of 15% or more

## Sector

- **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY
- **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD
- **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL



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