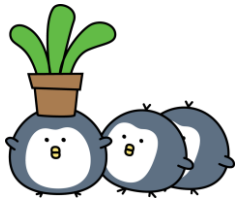
November, 2022

FISHERIES INDUSTRY

Challenged by inflation



[Analyst]
Diem Ngo
☎ (84-28) 6299-7759
✉ diem.ndn@shinhan.com



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Overview of Vietnam's fisheries industry in 2021

Farming — Accounting for 55% of total fisheries production, with the volume of 4.9 mil tons/year

Fingerling



Farming area



Shrimp
- Autonomy in raw materials: 40%.
- 80% is raised in Mekong Delta
- USD 3.88 bil (2021)
- 44% total export value





Pangasius
- Autonomy in raw materials: 80%.
- 70% is raised in Mekong Delta.
- USD 1.62 bil (2021)
- 18% total export value

Medicine



Feed



Almost companies are self-sufficient in feed production but not in medicine

Fishing — Accounting for 45% of total fisheries production, with the total volume of 3.9 mil tons/year



- USD 0.31 bil (2021)
- 3% total export value



- USD 0.76 bil (2021)
- 9% total export value



- USD 0.14 bil (2021)
- 2% total export value



- USD 1.89 bil (2021)
- 21% total export value

Almost the products are caught in North Central and Central Coast, accounted for 42% of total volume in 2021.

Production factory





- 825 fisheries processing factories eligible for export
- Total export's capacity is 4.5-5 mil tons of raw materials/year

Export — Total export value in 2021: USD 8.9 bil



USD 2.05 bil (23%)
In which:
- Pangasius: USD 0.37 bil
- Shrimp: USD 1.05 bil



USD 1.33 bil (15%)
In which:
- Shrimp: USD 0.58 bil



USD 1.14 bil (13%)
In which:
- Pangasius: USD 0.45 bil
- Shrimp: USD 0.41 bil



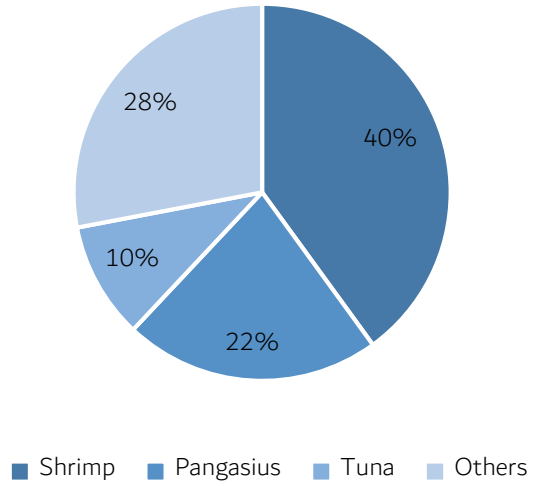
USD 0.81 bil (9%)
In which:
- Shrimp: USD 0.37 bil



USD 1.07 bil (12%)
In which:
- Pangasius: USD 0.11 bil
- Shrimp: USD 0.62 bil

Overview of Vietnam's fisheries industry - 10M2022

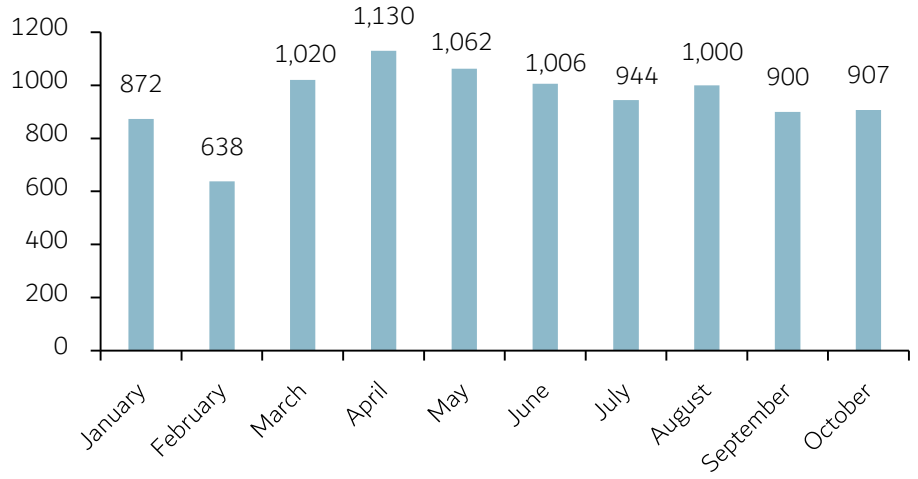
Fisheries export by type in 10M/2022



Source: VASEP, Shinhan Securities Vietnam

Export value of fisheries in 10M/2022

(unit: mil USD)

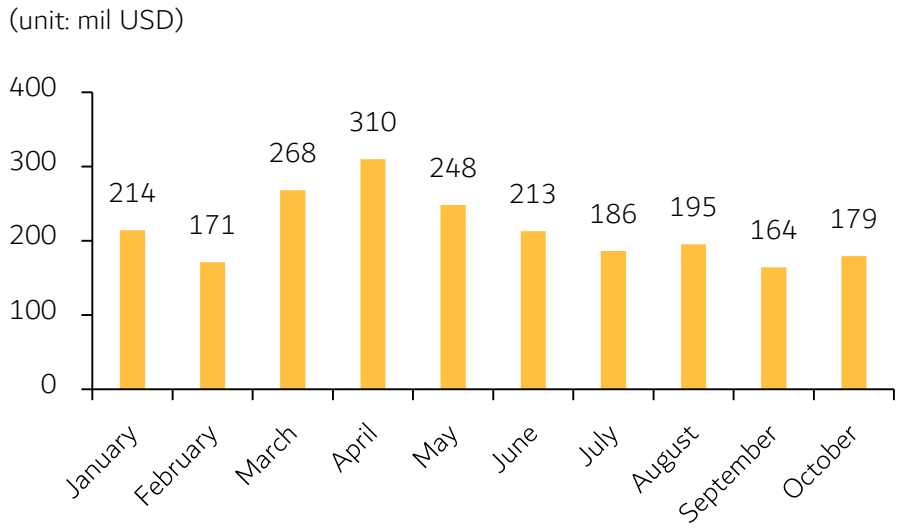


Source: VASEP, Shinhan Securities Vietnam

- Vietnam has a long coastline, a water surface area is 3 times the mainland, a favorable climate, and biodiversity for exploiting and farming fisheries. Because of that, our country ranked 3rd among the world's fisheries exporters, with an export value of nearly USD 9 billion/per year and a CAGR of 5% (2017-2021). In terms of type, fisheries ranked 7th and accounted for 3% of the export value of Vietnam in 2021. In 2022, the total export value of fisheries is expected to achieve 10 billion USD with the two-digit increasing from all markets.
- Shrimp and pangasius are 2 types of fisheries that are exported the most, accounting for 40% and 22% of total fisheries export value in 10M/2022. Accumulated in the first 10 months of 2022, the total export value of fisheries in Vietnam got USD 9.4 billion, reaching 94% of the year's target plan.

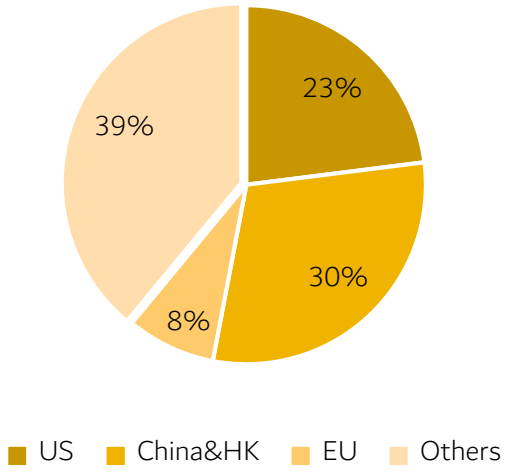
Pangasius export – 10M2022

Export value of pangasius in 10M2022



Source: VASEP, Shinhan Securities Vietnam

Export by destination in 10M2022

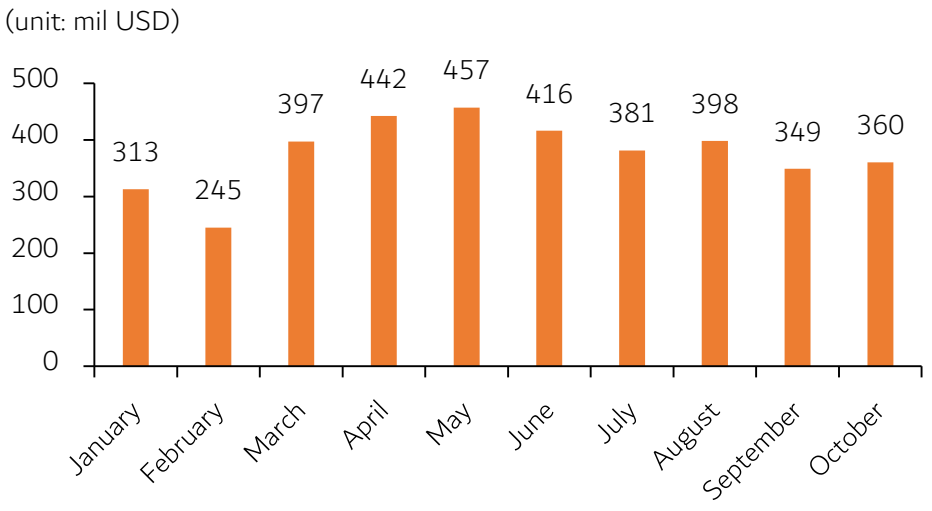


Source: VASEP, Shinhan Securities Vietnam

- Vietnam is a leading exporter of pangasius, accounting for more than 90% of the world due to favorable geographical conditions for pangasius farming in the Mekong Delta region. In 2022, the pangasius industry targets exporting to reach 2.6 billion USD. Accumulated 10M/2022, the total export value of pangasius reached 2.1 billion USD. This is the explosive result of the whole industry due to the pent-up demand from the two years of the pandemic.
- For the US, Vietnam has an advantage due to the tax rate of 0% applied for Vinh Hoan Corporation, Nam Viet Corporation, and Bien Dong Seafood Co., Ltd. The general tax rate for other companies is 2.39%. For China and HongKong, Vietnam is one of the major pangasius suppliers when accounting for 28% of exporting value. For EU, those countries import up to 95% of white fish, and Vietnam's pangasius will benefit from the GSP tax (Generalized System of Preferences) of 5.5% and will enjoy 0% EVFTA tax after 3 years.

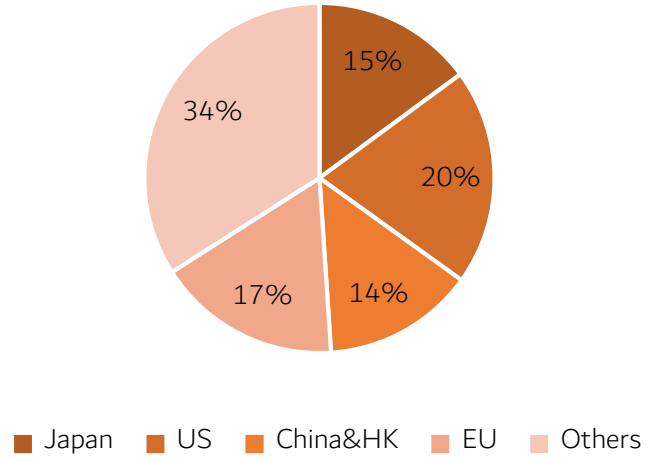
Shrimp export - 10M2022

Export value of shrimp in 10M2022



Source: VASEP, Shinhan Securities Vietnam

Export by destination in 10M2022



Source: VASEP, Shinhan Securities Vietnam

- Accumulated in 10M/2022, the total export value of shrimp reached USD 3.8 billion, accounted for 40% of the total fisheries export value in Vietnam. In 2022, the target for exporting shrimp is USD 4 billion. Although the export value increased, exporting shrimp is facing many difficulties such as: shortage of supply, high input cost, etc.
- According to the Ministry of Industry and Trade, fresh shrimp is an item with preferential import tax under EVFTA that is reduced immediately. Vietnam's two main shrimp products, black tiger shrimp and white shrimp are being reduced from 12.5% and 20% to 0% in the first year after the EVFTA. This preferential policy has brought many benefits when exporting directly to the EU market.

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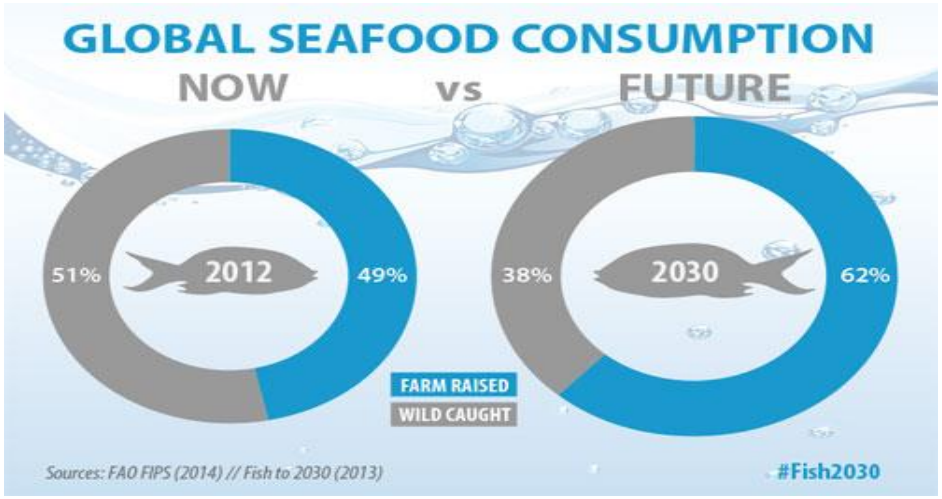
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Potentials of fisheries industry





- **There is still a lot of room for growth in the fisheries industry:** Fisheries trade is now 3.6 times higher than beef, 5 times pork, and 8 times more poultry in terms of sales. Population growth and increased per capita consumption are the main drivers of growth in the fisheries sector.
- **European Union–Vietnam Free Trade Agreement (EVFTA):**

➢ Normally, pangasius and shrimp products exported to the EU have an 8-12% tax rate. After Vietnam signed the EVFTA with the EU, pangasius products enjoyed a GSP tax (Generalized System of Preferences) of 5.5%. They will enjoy 0% EVFTA tax after 3 years (according to the Directorate of Fisheries).

➢ Vietnam ranked 3rd among the world's shrimp exporters. Although the market share of exporting to the EU only accounts for 16%, Vietnam has signed the EVFTA with the EU, in which shrimp is an item with a tax reduction to 0% immediately after the EVFTA comes into effect. Additionally, Vietnam is considered superior to the other two countries (Egypt and Ecuador) in terms of processing level, so Vietnam's shrimp is sold at a higher price.

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Risks of fisheries industry





- **IUU (Illegal, unreported and unregulated fishing):** Vietnam was warned by the European Commission (EC) with "yellow card" on October 23, 2017. The Government and other related ministries, departments have made many efforts to remove this warning. But now, it has been almost 5 years, and it is still impossible to say when the IUU yellow card will be "finished." The European Commission also plans to monitor Vietnam's results in combating IUU fishing, and if progress is not achieved, tariffs may not be exempted under the EVFTA Agreement.

➢ Tuna, swordfish, sharks, and other shark species are the main products affected by the IUU and yellow card regulations. Shrimp is the main export item of Vietnam to the EU. However, exporting shrimp decreased mainly due to the season and not IUU. Pangasius exports fell primarily due to the negative effects of social networks and unfair requirements, not due to IUU.

- **Exchange rate risk:** is a risk that any exporter must face, especially with the current volatile economic situation. Vietnam is a country that exports 90% of pangasius to the world and ranks 3rd in shrimp exports, so exchange rate fluctuations such as JPY/VND and EUR/VND have a significant impact on Vietnam.

Risks of fisheries industry





- **Inflation:** Inflation is taking place across the globe. Since 2022, export growth to all markets has been in double digits except the UK because the record level of CPI was 11.1%. Inflation is forecasted to continue in 2023, causing people's consumption trend to shift to cheap substitutes. This will benefit Vietnamese fisheries such as pangasius because the price is lower than other white fish in the same segment. However, inflation will cause disadvantages for the shrimp industry because this is a high-class product. Vietnam's selling price still needs to be competitive compared to two other major exporting countries, Ecuador and India.
- **Risk of the export market:** Although it accounts for only 15% of Vietnam's exports, China is still a significant market for Vietnam's fisheries industry. According to Vietnambiz, 76% of surveyed enterprises expect China to reopen as one of the critical factors to help exports be more positive.. For the shrimp segment, the US market is significant when accounting for 20%. Still, Vietnam has a disadvantage in this market due to competition from Ecuador because of its geographical position near the US, with lower selling prices, bringing higher competitive advantages. Therefore, Vietnamese enterprises need to make more improvements, such as proactive sources of raw materials and technology, to reduce costs, enhance environmental protection for farming, and be flexible in the export market.

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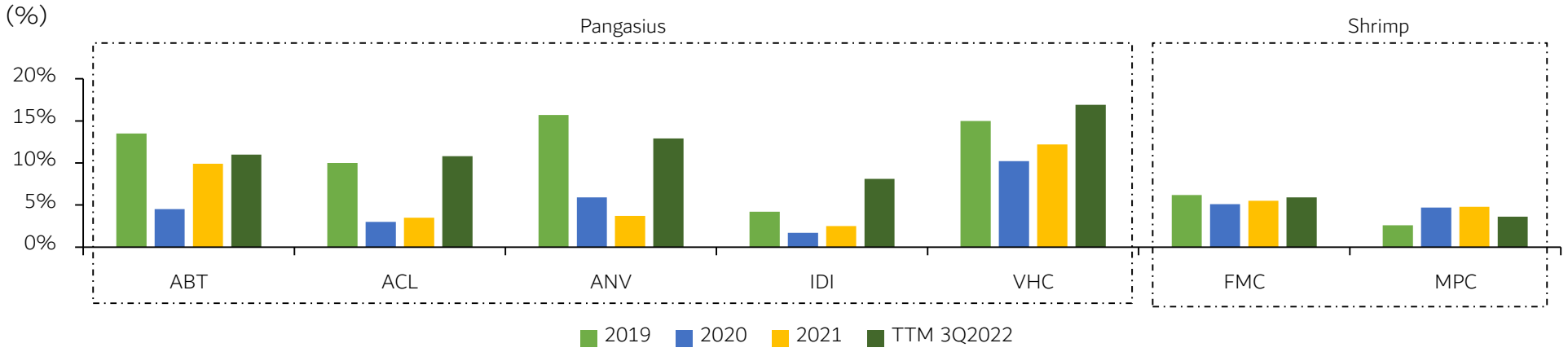
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Update business results of listed companies

Gross profit margin of company in fisheries industry by segment from 2019 to TTM 3Q2022



Source: Bloomberg, Shinhan Securities Vietnam

- The profit of the companies in fisheries industry is diversified due to :

❖ **Pangasius:** The profit of companies exporting pangasius increased steadily because of the world's huge demand, which increased the volume and price of pangasius.

❖ **Shrimp** : Shrimp exports also recorded a high growth from the increase in selling price. Still, this increase was insignificant due to the adverse weather situation this year (La Nina-causes a lot of rain), making farming two main products, white shrimp and black tiger shrimp, face many difficulties due to disease.

Update business results of listed companies

General info						Key financials – TTM 3Q/2022			Valuation (23F)	
No.	Ticker	Sub-sector	Aquaculture area (ha)	% Export revenue	Mkt Cap. (VND bn)	GPM (%)	ROA (%)	ROE (%)	P/E (x)	P/B (x)
1	ANV	Pangasius	850	68.4	2,746	27.1	11.7	23.5	4.2	0.6
2	IDI	Pangasius	350	34.5	2,124	14.6	7.6	18.1	1.8	0.7
3	VHC	Pangasius	610	83	11,883	23.3	21.1	32.5	11.4	2.3
4	FMC	Shrimp	320	95	2,240	11.4	11.4	17.0	5.3	0.9
5	MPC	Shrimp	900	98.5	6,758	13.7	6.5	12.2	5.6	1.1

Source: Fiinpro, Bloomberg, Shinhan Securities Vietnam, Data as of 11/29/2022

- In the first half of 2023, although the global economy is still gloomy, we believe that pangasius will grow more stably than shrimp because of its lower price, which is consistent with the current high inflation situation. Entering the second half of 2023, we expect shrimp exporters to be able to recover output when inflation cools down, and this is the year's high export season.

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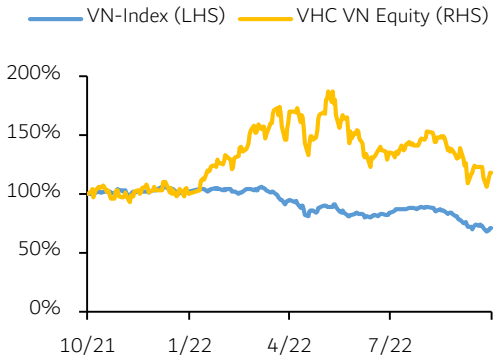


BUY

(Company Update)

Target price (12 months)	**VND 98,500**
Current price (29/11/22)	VND 64,800
Return (%)	52%
VNINDEX	1,032
Market P/E (x)	10.7
Market Cap (bn VND)	11,883
Outstanding shares (mn)	183
Free-Floating (mn)	92
52-Wk High/Low (VND)	118,000/57,200
90-day avg. trading volume (mn)	0.72
90-day avg. turnover (bn VND)	49
Foreign ownership (%)	26.43
Shareholders (%) Truong Thi Le Khanh	43.16
Mitsubishi Corporation	6.54

Performance	3M	6M	12M
Absolute (%)	-27.2	-36.8	6.4
Rel. to VN-Index (%)	-8.4	-17.1	36.9



Vinh Hoan Corporation (VHC VN)

Investment theses & Catalysts

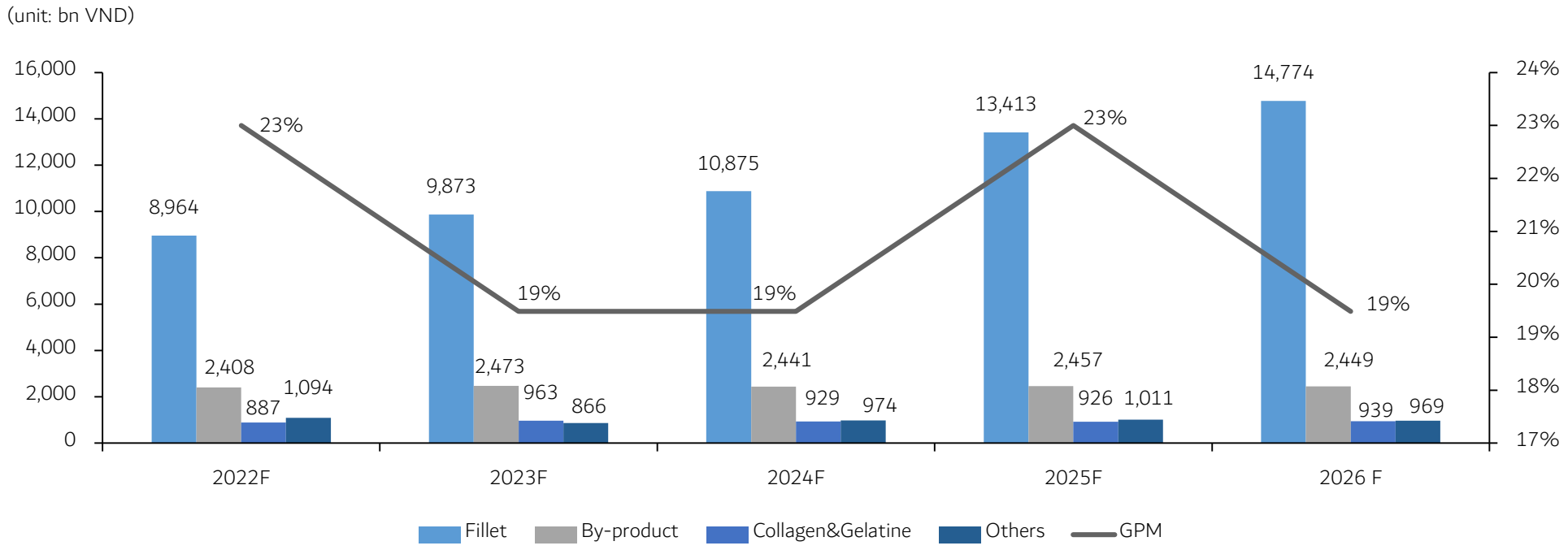
- Vinh Hoan Corporation (HoSE: VHC) is one of the leading pangasius exporters in Vietnam, with the export revenue accounting for 80% and the autonomy of raw materials up to 70%.
- As of September 2022, Vinh Hoan's revenue was 10,755 billion VND (+69% YoY) thanks to the increasing demand for pangasius from developed countries. The war between Russia-Ukraine has made Vietnam's pangasius more competitive in exporting to the US and Europe. In 2023, we forecast Vinh Hoan's revenue will decrease due to the unfavorable world economic situation but will still grow at 6% and reach VND 14,175 billion.
- Vinh Hoan aims to build a complete economic model with the motto "Zero Waste" to create products from every part of a pangasius, helping reduce costs and improve the company's profit margin. Vinh Hoan has invested in the alternative protein technology to find new solutions of rising feed costs due to inflation. Along with that, Vinh Hoan expanded into rice products by purchasing 76.72% shares of Sa Giang Import-Export Company, and investing 228 billion VND in the company that produces fruit and vegetable juices and processes TNG Foods.

Risk 1) Risk of pangasius's material price; 2) Risk of investing in new subsidiaries; 3) Risk of exporting.

Year	2020	2021	2022F	2023F	2024F
Revenue (bnVND)	7,037	9,054	13,353	14,175	15,218
Operating profit (bnVND)	695	1,199	2,417	2,123	2,230
Net profit (bnVND)	719	1,107	2,188	1,997	2,062
EPS (VND)	6,005	9,396	11,873	9,308	13,188
BPS (VND)	28,283	32,153	42,948	43,134	50,505
OPM (%)	9.9	13.2	18.1	15.0	14.7
NPM (%)	10.2	12.2	16.4	14.1	13.5
ROE (%)	14.3	20.0	31.8	23.0	20.0
PER (x)	10.2	10.5	8.5	10.5	10.1
PBR (x)	1.4	2.0	2.3	2.2	1.9
EV/EBITDA (x)	8.1	8.1	6.2	5.8	6.6

Revenue forecast of Vinh Hoan (2022F –2026F)

Revenue forecast of Vinh Hoan (2022F –2026F)



Source: Company data, Shinhan Securities Vietnam

- In 2023, although the economic situation was less favorable in the first half of the year, it is forecasted to show signs of recovery in the year's second half. Given Vinh Hoan's leading position in the industry, we expect the company's revenue in 2023 to grow at 6%. In which, revenue from frozen fillets is expected to grow by 10% to reach VND 9,873 billion, along with the by-products, collagen&gelatine segments will also extend by increasing sales. Factory capacity, as well as demand for fish oil in China, is rising. We also expect the company's profit margin to stay at 20% thanks to the investment in a feed factory that reduces costs and takes advantage of large-scale production.

Valuation methods

Combine valuation of VHC		
	Weight	Target Price
P/E	60%	81,987
FCFF	40%	123,424
Total	**100%**	**98,500**

Peer valuation		
Ticker	PE (x)	Mkt Cap (bnVND)
ABT VN Equity	9.36	381.65
ACL VN Equity	3.61	460.69
ASM VN Equity	1.92	2,372.51
CMX VN Equity	2.65	566.56
FMC VN Equity	8.94	1,961.67
IDI VN Equity	2.81	1,850.75
CAT VN Equity	7.46	182.00
CCA VN Equity	7.46	192.28
KHS VN Equity	5.66	146.30
THP VN Equity	12.28	218.27
ANV VN Equity	4.16	2,186.60
Average 5yrs of VHC	9.32	
Mean	6.91	
EPS forward	11,873	
Target price (VND)	**81,987**	

Source: Fiinpro, Shinhan Securities Vietnam

- We apply a combination of P/E and Discounted Cash Flow (DCF) valuation methods with 60% and 40% weights to value Vinh Hoan. For the FCFF method, we assume a high revenue growth rate of about 50%, driven by the increasing demand for pangasius exports due to pent-up demand during the COVID-19 period. In 2023, despite the gloomy economic situation, we forecast the company's revenue growth rate will reach 6%.

Forecast FCF of VHC					
Unit: billion VND	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Net profit	2,188	1,997	2,062	2,921	2,581
Plus: After-tax interest expense	81	72	85	94	104
Plus: Depreciation & Amortization	328	371	380	390	400
Minus: Change in working capital	1,650	108	621	794	329
Minus: CapEx	1,066	117	121	221	201
Free Cash Flow (FCF)	-118	2,223	1,771	2,381	2,546
PV of FCF	-107	1,839	1,329	1,620	1,568
Terminal growth rate	1%				
Present value of long-term value	17,968				
Enterprise value	24,853				
Debt	2,671				
Cash and cash equivalents	480				
Implied Equity Value	22,633				
Number of shares outstanding (billion)	183				
Target price (VND)	**123,424**				

Source: Company data, Shinhan Securities Vietnam

WACC (%)	**9.8%**
Risk-free rate	5%
Equity risk premium	7.8%
Beta	0.98
Cost of debt (%)	3.01%
Cost of equity (%)	12.93%
Debt to equity ratio (%)	29%
Value of debt (bn VND)	2,671

Appendix – Important Disclosure



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- All opinions and estimates regarding the company and its securities are accurate representations of the covering analyst's judgments as of this date and may differ from actual results.
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