

Sector Note

Fishery

Weak demand still weighs on outlook

- Aggregated NP of listed fishery exporters recorded a decrease of 74% yoy in 1Q23 caused by weaker demand in main export market and 1Q22 high base.
- We expect the U.S market to be key driver for the Vietnam seafood export growth by 40-50% in 2H23F compared to 1H23, in our view.
- We added VHC and ANV to the watchlist.

1Q23 recap: Business results plummeted as expected

After a wonderful 2022 in which aggregate revenue/NP of listed fishery firms climbed dramatically by 29%/86% yoy thanks to pent-up demand in the U.S market, business performance of listed companies plunged in 1Q23. According to our estimates, 1Q23 aggregated revenue of listed fishery companies decrease strongly by 32% yoy following a drop in both export average selling price (ASP) and volume. Gross margin of the sector narrowed by 5.1% pts as ASP decrease while production cost lingers at high price. As a result, aggregate NP in 1Q23 slumped 74% yoy.

We expect the import demand from U.S market to recover from 2H23F

According to NOAA, seafood imports of U.S market recorded a decrease of 10%/18% yoy in import volume/value, respectively, following 1) high and prolonged inflation in U.S has led to the tightened household spending, indirectly affecting demand for seafood product in both Horeca (Hotel-Restaurant-Caf) and retail channel and 2) high inventory level from 2022. As a result, Vietnam's seafood export to U.S slumped 51% yoy in 4M23. We believe the U.S market seafood demand will likely recover from 2H23 as 1) cool down inflation, 2) lower inventory level, 3) higher demand for the year-end holidays which assists seafood export turnover of Vietnam to U.S to increase by 40-50% in 2H23F compare to 1H23, per our estimate.

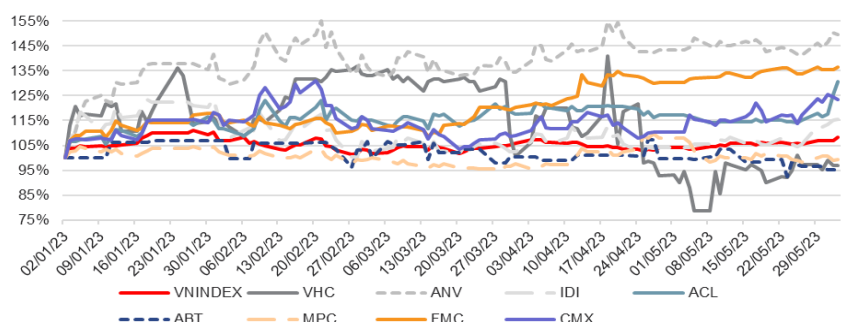
The China's reopening effect is not strong as expected

After three years of following the "Zero Covid" approach, China has finally opened, resulting in a 13% yoy rise in seafood imports in 1Q23. However, Vietnam's key export products such as pangasius and shrimp to China market fell sharply by 68% and 27% yoy in 4M23, respectively due to 1) sharp adjustment in pork price and the strong supply of tilapia which lower demand for pangasius, in our view, 2) the shrimp export value to China of Vietnam decreased due to competition from countries with cheap shrimp sources such as India, Ecuador,... Given the unpredictability of the Chinese economy's macroeconomic fundamentals and the heavy competition from other countries, we anticipate a slight growth in seafood exports from Vietnam to China in 2H23F compared to 1H23F.

We put VHC and ANV on the watch list

We believe that at this point, the industry's gloomy outlook for 2023 has already priced in when stock prices of listed companies have fallen about 40-60% since their peak in 2Q22. With the expected recovery demand from U.S market from 2H23F, we added VHC and ANV to the watchlist for long-term investments because they have the leading positions in the industry and have the most exposure to this market.

Figure 1: Stock price movements of some listed fishery companies



Sources: VNDIRECTS RESEARCH, BLOOMBERG



Analyst(s):



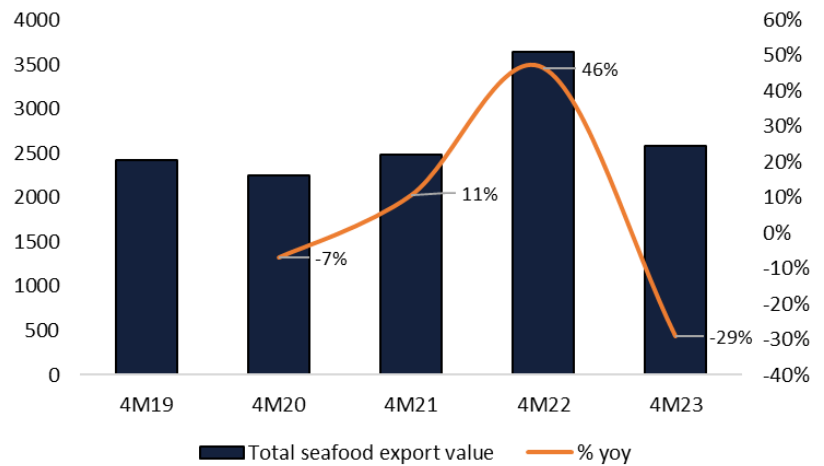
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Key charts: Vietnam seafood export recap

Viet Nam seafood export value in 4M23

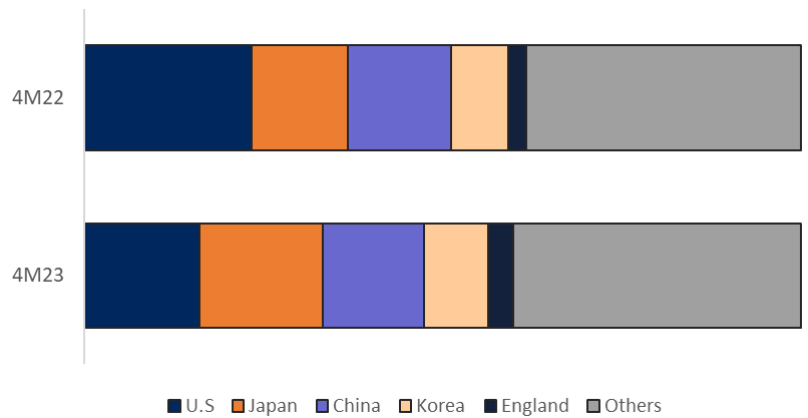
According to the General Department of Customs, seafood exports in 4M23 reached US\$2.57bn, down 29% yoy. All major items' export value recorded a sharp decline of 10-41% as the main market demand was heavily affected by high inflation, the economic slowdown which caused a decrease in both export volume and ASP.



Sources: GDC, VNDIRECT RESEARCH

Seafood export destination in 4M23

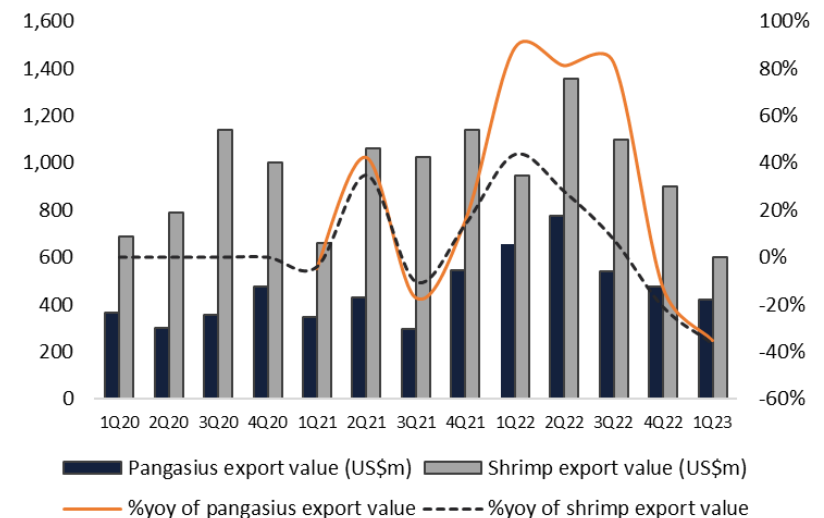
In 4M23, the 4 largest export markets of Vietnamese seafood are the Japan, U.S, China, and Korea. These 4 markets account for 60% of total seafood export turnover. Japan has surpassed the U.S to become the largest export market of Vietnamese seafood, although exports to this market decreased by 9% yoy to US\$444m. Meanwhile, The US export turnover slumped 51% yoy to US\$412m due high inventory level together with weak demand for seafood. Seafood exports to China in 4M23 also decreased by 30% yoy to US\$364m regardless of the market's fully reopening.



Sources: GDC, VNDIRECT RESEARCH

Vietnam's pangasius and shrimp export value in 1Q23

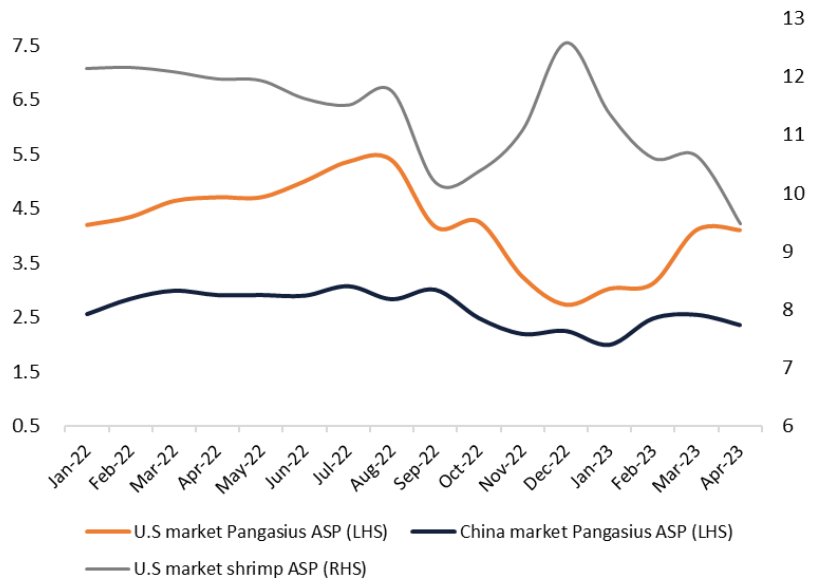
According to Agromonitor, following the downward trend from 4Q22, pangasius exports decreased by 23% in volume and 34% in export turnover, respectively due to the sluggish demand from U.S market and high base from 1Q23. China and the US are still the two markets that account for the dominant proportion of Vietnam's pangasius exports, together accounting for over 53% the export turnover. Shrimp exports also dropped 37% yoy due to 1) 9% yoy decrease in ASP and 29% yoy decrease in export volume. High inflation affects shrimp consumption in most markets, and big suppliers like India and Ecuador put intense pricing pressure on Vietnamese shrimp.



Sources: VASEP, VNDIRECT RESEARCH

Vietnam's shrimp and pangasius export average selling price (Unit: USD/kg)

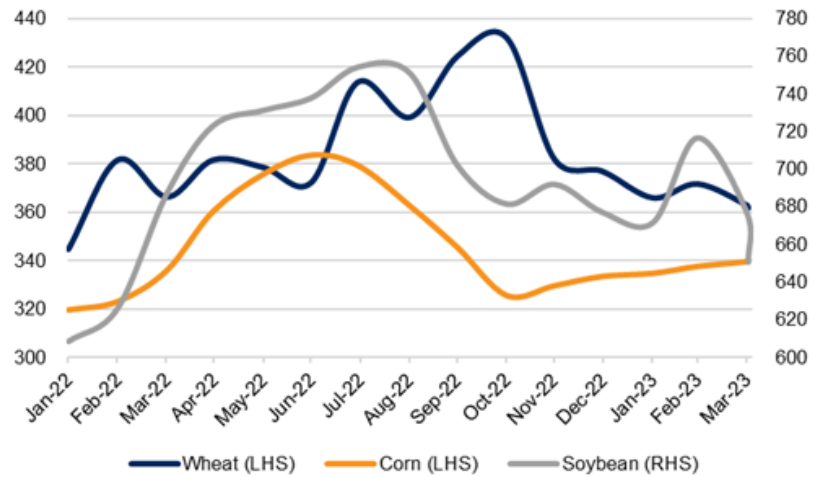
The export price of pangasius fillet to the U.S still stayed flat after recovering since March 23, but much lower than the peak of July-August 22, while the export price to China decreased April 23. The price of shrimp exported to the U.S market continued to plunge in April-early May 2023, showing that the demand for shrimp in this market has not shown any signs of recovery.



*FOB price, ** CFR price, ***Vannamei prawn PTO 16/20
Sources: Agromonitor, VNDIRECT RESEARCH

Key plant-based material import price (US\$/T) of aqua feed in Vietnam

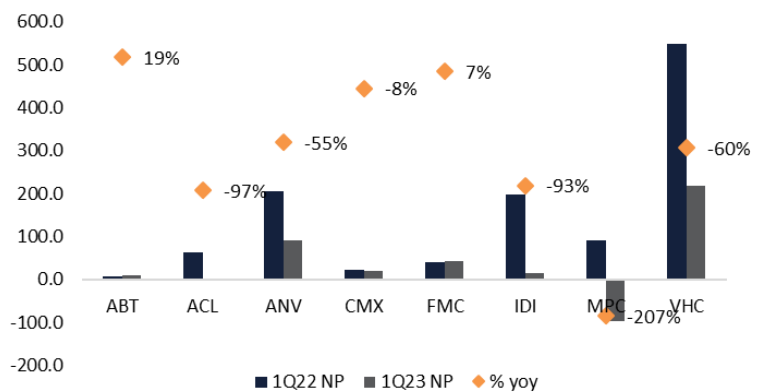
Global prices of wheat, soybean and corn (animal feed inputs) have declined 49.8%/19.7%/28.6% yoy, 11.4%/12.1%/17.6% mom and 20.3%/10.5%/16.8% ytd in May 2023. In domestic market, wheat, soybean and corn import price decreased by 5.2%/10%/5.4% yoy, in line with global price.



Sources: BLOOMBERG, VNDIRECT RESEARCH

The aggregate NP slumped following GM contraction

1Q23 aggregated revenue of listed fishery companies decreased strongly by 32% yoy following the drop in both export ASP and volume. Gross margin of the sector narrowed by 5.1% pts as ASP decrease while production cost lingers at high price. As a result, the aggregate NP in 1Q23 slumped 74% yoy.



Sources: Fiinpro, VNDIRECT RESEARCH

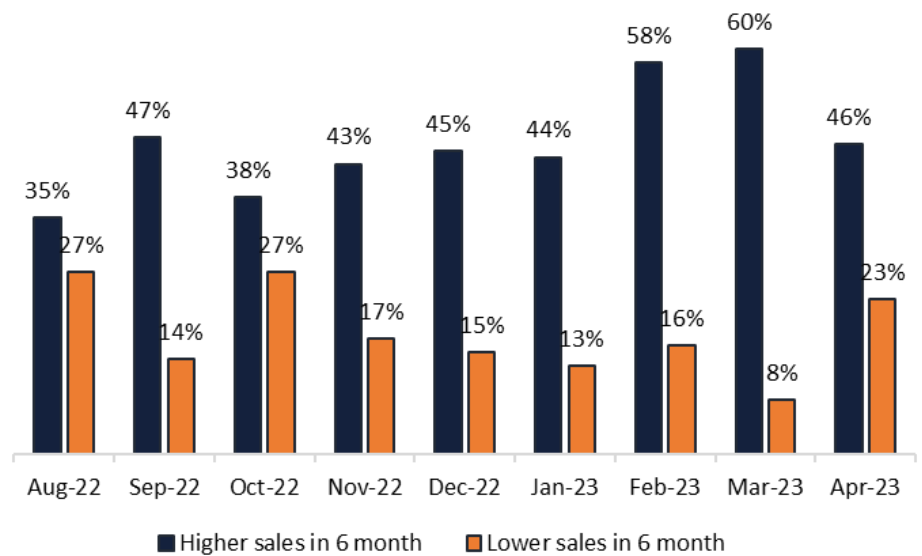
2023 industry outlook: Export turnover recovers from 2H23F

U.S market: Waiting for a recovery in 2H3F

The American seafood consumption demand has been impacted by high inflation and the economic downturn, as they have had to tighten spending even on essential consumer products such as food. Horeca (Hotel-Restaurant-Café), one of the main consumption channels of seafood products, has shown a pessimistic forecast for the coming months. The U.S National Restaurant Association’s Restaurant Performance Index (RPI) fell 1.0% in March, due largely to a deterioration in restaurant operators’ outlook for business conditions in the months ahead. The decline was largely the result of dampened expectations for both sales growth and the overall economy.

Only 46% of operators expect their sales volume in six months to be higher than it was during the same period in the previous year in Apr-23, down from 60% in Mar-23 indicated restaurant operators in U.S are somewhat less optimistic about sales growth in the months ahead.

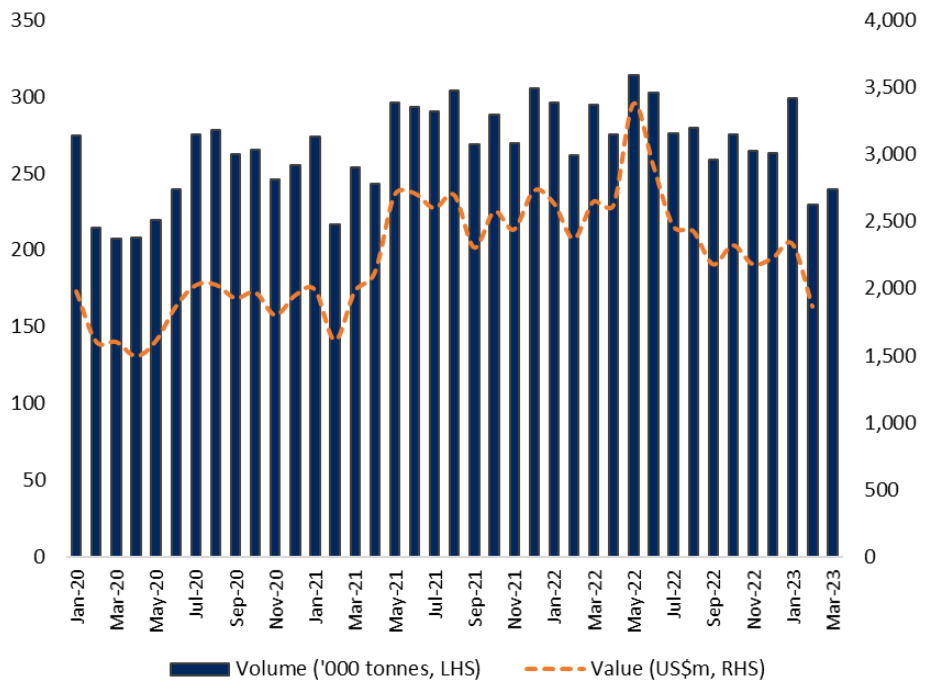
Figure 2: Restaurant operators’ outlook for sales volume in next 6-moths



Source: U.S National Restaurant Association

According to data from National Oceanic and Atmospheric Administration (NOAA), both the total import seafood volume and average price of U.S market have been on a downward trend since the beginning of 2H22 after importers had stocked enough necessary inventories. Even during the last months when the big holidays occur in 2022 which is often considered a high time of seafood consumption, the value of U.S seafood imports still decreased over the same period. By Mar-23, import volume showed signs of increasing, but import value continued the downtrend. This shows that in general, the U.S market has tended to import seafood products at lower prices, demonstrating the impact of high inflation on people’s consumption.

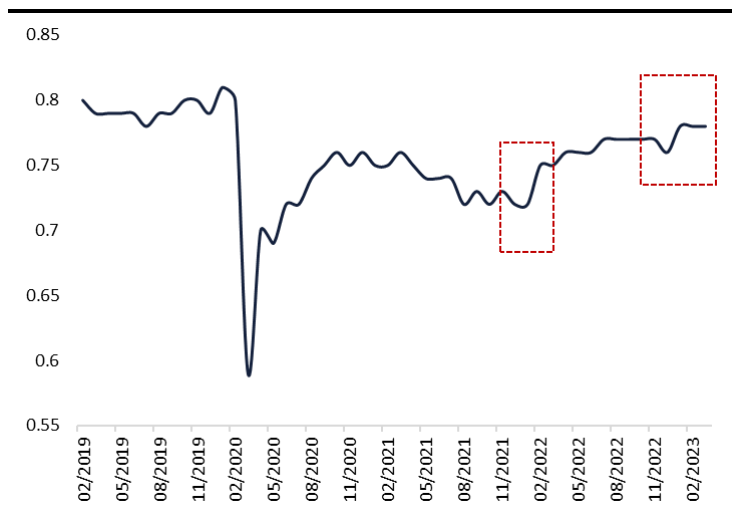
Figure 3: Seafood imports of U.S market recorded a decrease of 10%/18% yoy in import volume/value



Source: VNDIRECTS RESEARCH, NOAA

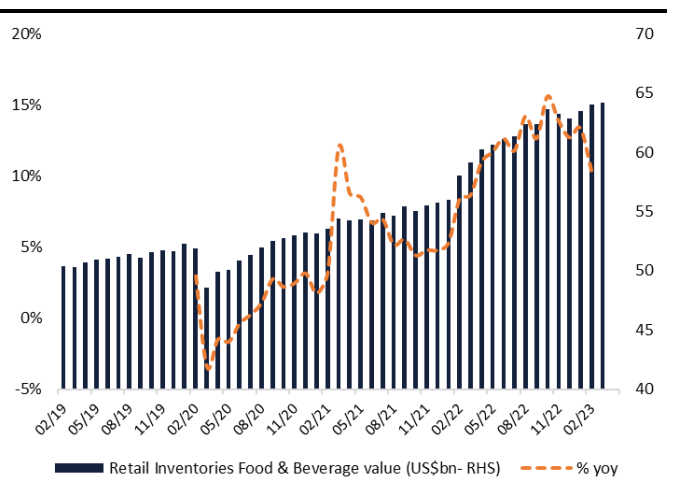
Besides the weakening consumer demand for seafood due to high inflation, the high level of inventories is also one of the reasons why U.S seafood imports will be affected in the short term. Inventories in this market remain high so importers have to reduce or stop new orders in the last months of 2022 and extend to the beginning of 2023. We believe the total seafood import volume of the U.S market in general will continue to slump before recovering in 2H23F from 1H23 trough.

Figure 4: Inventory/sales ratio of U.S remains high in 3M23



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 5: Food & beverage retail Inventories value in U.S increased by 10% yoy in 4M23



Source: BLOOMBERG, VNDIRECT RESEARCH

The weakening of U.S seafood consumption greatly affects Vietnam's seafood exports. In 4M23, seafood exports to the U.S were estimated at US\$412m, down 55% yoy, which largely contributes to the decrease of 29% yoy to US\$2.57bn in Vietnam's seafood export value.

We anticipate that U.S seafood demand would likely recover from 2H23 due to 1) reduced inflation, 2) lower inventory levels, and 3) increased demand for year-end vacations, which will help Vietnam's seafood export turnover to the US climb 40-50% in 2H23F compared to 1H23, according to our estimates. We notice signs of recovery in this market in April 2023, when the average export price of pangasius is going up and US inflation has shown signs of cooling, with CPI in April 2023 being 4.9%, the lowest increase in the previous two years.

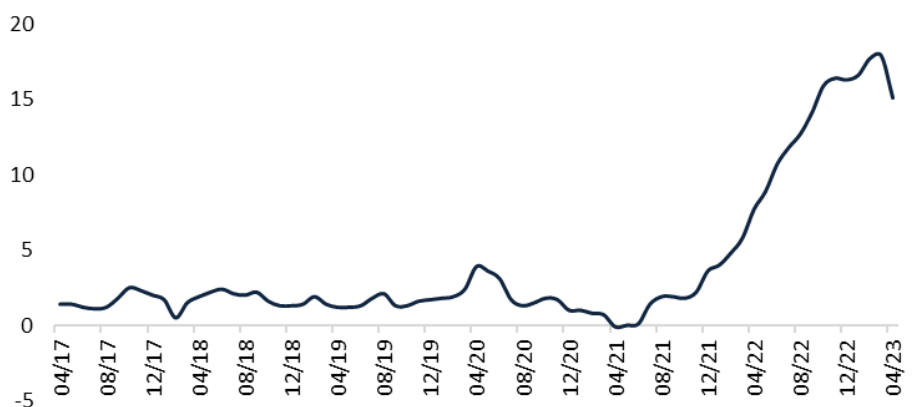
E.U market: Stable demand due to high inflation

In 1Q23, pangasius export turnover to the EU only decreased slightly by 4% yoy to US\$45m because people in this market preferred white fish from Vietnam at a reasonable price in the context of high inflation forcing people to tighten their spending. Most markets in the EU increased imports of Vietnamese pangasius, of which many markets recorded double-digit growth: Romania (36%), Sweden (53%), Denmark (34%), Bulgaria (49%). Some smaller markets in Europe recorded positive 3-digit growth such as: Germany (100%), Lithuania (429%), Finland (436%).

According to Agromonitor, the average price of pangasius exported to the EU increased by 9.5%, while the price to the U.S and European markets decreased by 22.4% yoy and 16.4% yoy. Note that the U.S and EU market prices are FOB prices, so the effect of yoy shipping cost change has been excluded. This proves the growing demand for pangasius in general in European countries.

We expect the demand for Vietnam's pangasius of EU will remain flat in 2H23F compared to 1H23 as inflation in the EU is still high while the supply of other whitefish such as pollock is affected by the tension between Russia and Ukraine.

Figure 6: Food inflation in EU still stands at a very high level (% yoy)



Source: VNDIRECTS RESEARCH, BLOOMBERG

China market: The effect of reopening is not strong as expected

In early-2023, China has officially opened after 3 years pursuing the "Zero Covid" strategy, resulting in China's seafood import to increase significantly. According

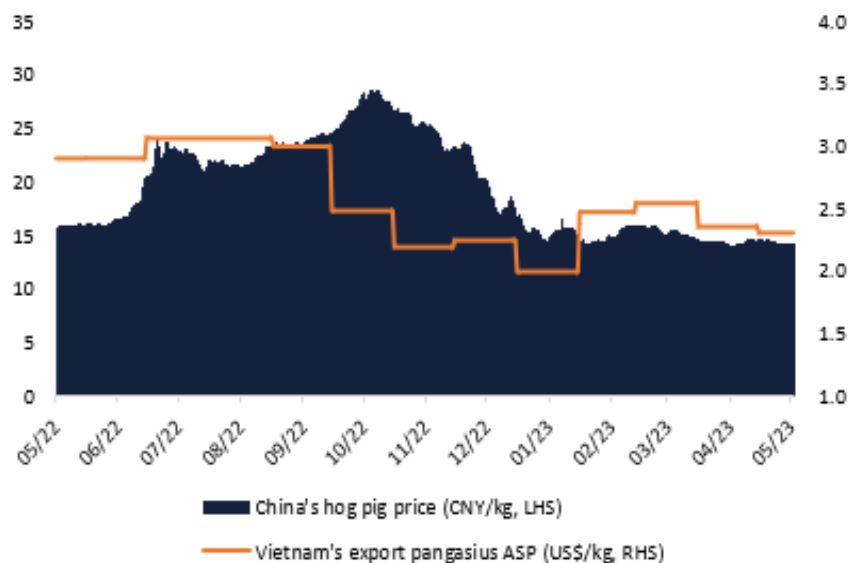
to statistics of China Customs, in 1Q23, China's seafood import value grew strongly by 13% yoy in 1Q23 to US\$4.5bn following 17% yoy increase in volume.

However, Vietnam's seafood exports to the China market have not been as good as expected, as the seafood export turnover in 4M23 to the China market only reached US\$364m, down 30% yoy followed the sharp decline in key exporting products like shrimp and pangasius. The market share of Vietnam's seafood products in China has also decreased significantly compared to 2022, accounting for only 4.2% in 1Q23 from 8.8% from 2022.

As with Vietnam's shrimp products, it is subjected to great competition from Ecuador and India when the strengths of these two countries are frozen shrimp products, small size, cheap price. China increased purchases of shrimp from other countries, but decreased purchases from Vietnam. Specifically, the amount of shrimp imported from Ecuador increased by 43% yoy; from India by 16%; from Argentina by 205% in 1Q23.

For Vietnamese pangasius exports, we noticed a sharp decline of 68% yoy in export value to China market in 4M23 due to high base in 2022 as 1) Chinese consumers prefer affordable pangasius as a replacement product when pork prices soar in 2022 and 2) China's tilapia production was hampered during several periods of strong Covid-19 outbreaks in 2022, in our view.

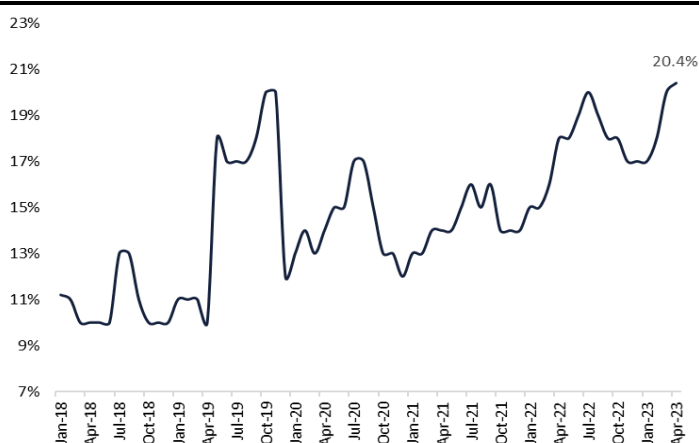
Figure 7: China's hog pig price and pangasius price from 05/22 – 05/23



Source: VNDIRECTS RESEARCH, Agromonitor

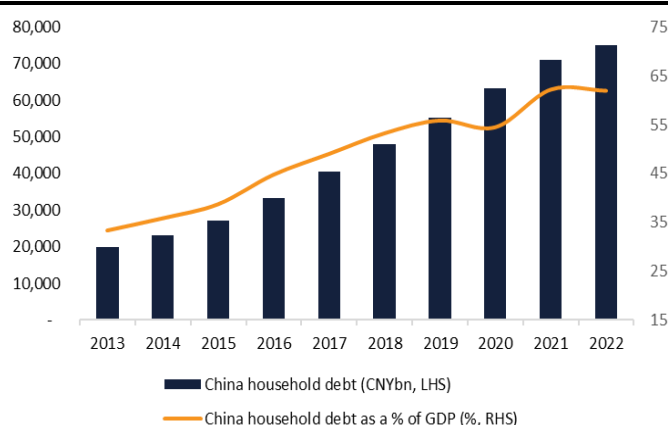
Chinese people also may have a more cautious consumer sentiment in 2H23F as households may have to tighten their spending to pay off debt, while unemployment rate in April 2023 has reached a record of 20.4%. Chinese household expenditure growth outpaced income during the pandemic as their income was affected. The household debt level has risen by around 7% -- from 56% to 63% in the last 3 years. Such increase in debt also explains why Chinese households are not borrowing more now despite record-low interest rate and monetary expansion.

Figure 8: China's 16-24 year old unemployment rate



Source: National Bureau of Statistics of China

Figure 9: China's debt level has risen substantially in the past 3 year



Source: VNDIRECT RESEARCH, BLOOMBERG

FY23F business outlook

1Q23 recap: Business results plummeted as expected after a breakthrough year

After a glorious 2022 with aggregate revenue and NP of listed fishery companies increased sharply by 29%/86% yoy thanks to pent-up demand of U.S market, business results of listed companies plummeted in 1Q23 with aggregated revenue of listed fishery exporters decreased by 32% yoy. The gross margin of most companies contracted, especially the pangasius exporters when the pangasius ASP dropped sharply 12% yoy. As a result, aggregated NP of listed fishery product exporters record a decrease of 74% yoy.

Figure 10: 1Q23 earnings recap of fishery product exporters (unit: VNDbn)

No	Ticker	1Q23 revenue	%yoy	1Q23 NP	%yoy	1Q23 gross margin	%pts change yoy	Comment
1	VHC	2221.6	-32%	219.0	-60%	17.3%	-6.7%	Pangasius exporters have experienced a sharper decline in business results due to the high base level in 1Q22. The leading pangasius exporters such as VHC or ANV said that even though pangasius is considered a food product that is really affordable for consumers, it is not immune to the negative impacts of the economic downturn and high inflation which made purchasing power much weaker. Meanwhile, the cost of production inputs such as raw fish or fish feed all decreased with slower pace of ASP, along with the interest cost in a high interest rate environment, which eroded companies' profit causing a yoy sharp drop in NP.
2	ANV	1155.2	-5%	92.4	-55%	17.6%	-11.4%	
3	ABT	123.9	-7%	9.2	19%	16.8%	-3.2%	
4	ACL	139.7	-57%	1.9	-97%	18.9%	-15.1%	
5	IDI	1762.2	-6%	14.5	-93%	8.2%	-7.8%	MPC - a leading shrimp exporter recorded a net loss of VND97bn in Q1/23 from a net profit of VND90bn in 1Q22 due to a 75% decrease in gross profit. FMC is a rare company that saw a 7% yoy increase in net profit and a 24% decrease in revenue due to a decrease in transportation costs by more than 70% thanks to the company's main focus on the Japanese market (40% of total revenue).
6	MPC	2123.0	-50%	-97.0	-207%	5.8%	-6.2%	
7	CMX	242.2	-49%	21.2	-8%	28.6%	11.6%	
8	FMC	1008.4	-24%	43.7	7%	8.0%	-1.0%	

Source: VNDIRECT RESEARCH, FIINPRO

Mix picture from pangasius and shrimp companies' guidance for 2023F

With the sluggish demand of the export markets and high production costs, the listed fishery export company in the industry, especially pangasius enterprises, has set business plans much more cautiously than in 2022.

Figure 11: Listed companies' business plan in FY23

	Product	FY23 business plan		% FY23F business plan/actual results in FY22		Dividend plan
		Revenue	Pre-tax profit	Revenue	Pre-tax profit	
VHC	Pangasius	11,500	1,162	-13%	-50%	20% cash dividend and 20% stock dividend for FY22, 20% cash dividend for FY23
FMC	Shrimp	5,900	400	3%	22%	20% cash dividend for FY23F
IDI	Pangasius	8,133	186	2%	-70%	reinvestment
ABT	Pangasius	600	60	-3%	-14%	25% cash dividend for FY22, 20%-30% cash dividend for FY23F
ANV	Pangasius	5,200	500	6%	-35%	10% cash dividend
ACL	Pangasius	1,300	80	12%	-41%	7% dividend for FY22 and FY23
MPC	Shrimp	17,985	1,251	9%	33%	N/A
CMX	Shrimp	3,050	121	5%	14%	N/A

Source: VNDIRECTS RESEARCH, COMPANY REPORTS

Most companies set revenue plans that are close to and exceed the actual revenue of 2022. However, they are expecting the profit will slump significantly in 2023. This shows the view of enterprises on the gross profit being considerably narrowed down, although the ASP of product can remain high due to inflation.

Meanwhile, shrimp exporters are somewhat more optimistic about business results in 2023 when they expect a yoy increase in both revenue and profit. However, with visible headwinds in 2023 for the shrimp industry, we think that the plans of those companies are ambitious.

We put VHC and ANV on the watch list

The majority of businesses are projected to report negative net profit growth in FY23F when 1) gross profit margin shrinks and 2) high-base effect of FY22, given that U.S. market remain sluggish in 1H23 and the slower-than-expected recovery of Chinese market. However, we believe that at this point, the industry's gloomy outlook for 2023 has already priced in when stock prices of listed companies have fallen about 40-60% since their peak in Q2/22. With the expected recovery demand from U.S market in 2H23F, we added VHC and ANV to the watchlist for long-term investments because they have the leading positions in their respective industries and have the most exposure to these markets.

Figure 12: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	ANV	N/a	Non rate	The returning into the U.S market with a 0% anti-dumping tax rate will considerably a advantage of ANV when U.S market demand bottom-out. ANV's Collagen and Gelatin Factory have come into operation and have the first orders. C&G products have a much higher gross margin than pangasius fillets, so we believe the future contribution of this business will help ANV's gross profit margin improve in the future.
2	VHC	N/a	Non rate	<p>Main export market of VHC's pangasius products is the U.S. market with the revenue proportion of 44% in FY22 and 33% in 4M23. In 2023, we expect that it will be difficult for the company to maintain the export value growth trajectory following the fall in both volume and ASP. VHC's revenue and NP in 2023 are likely to record yoy due to 1) demand in VHC's main markets such as the U.S and EU may heavily affect by the high inflation, 2) VHC's sales volume and ASP are no longer supported by the pent-up demand after the pandemic of the U.S. market in the 1H22 and 3) the demand for C&G segment will not be able to rebound strongly in the context of the gloomy world economy. However, we believe that the market's expectation of a drop in profit in 2023 has been partly reflected in the price as VHC's price has corrected 45% from its peak.</p> <p>In 1Q23, the VHC's revenue/NP decreased 32%/60% yoy mainly causing by the slump of U.S market revenue (-67% yoy).</p>

Figure 13: Peer comparison (data as of 02 June 2023)

Company	Ticker	Price LC\$	Mkt cap (US\$m)	P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E (%)
				TTM	2023F	Current	2023F	TTM	2023F	TTM	2023F	
Pangasius exporter												
Vinh Hoan Corp	VHC VN	58,500	457.0	6.5	8.4	1.4	1.4	23.5	15.9	15.0	11.1	31.0
Nam Viet Corp	ANV VN	33,650	190.8	7.7	N/A	1.5	NA	20.1	N/A	10.3	N/A	78.9
Bentre Aquaproduct Import and Export JSC	ABT VN	31,200	15.7	5.5	N/A	0.8	N/A	14.9	N/A	10.9	N/A	18.8
Cuu Long Fish JSC	ACL VN	12,850	27.5	11.3	N/A	0.8	N/A	7.2	N/A	3.7	N/A	62.3
International Development & Investment Corp	IDI VN	12,600	122.2	7.9	N/A	0.9	N/A	11.4	N/A	4.5	N/A	121.0
Average			162.6	7.8		1.1		15.4		8.9		62.4
Shrimp exporter												
Minh Phu Seafood Corporation	MPC VN	17,500	298.1	9.0	N/A	1.2	N/A	14.2	N/A	8.1	N/A	67.7
Sao Ta Foods Joint Stock Company	FMC VN	41,900	116.7	8.6	7.9	1.4	1.3	16.8	16.1	11.1	10.3	24.4
Camimex Group JSC	CMX VN	9,340	40.5	13.9	N/A	0.8	N/A	5.9	N/A	2.5	N/A	78.1
Average			151.8	10.5	7.9	1.2	1.3	12.3	16.1	7.3	10.3	56.7

Source: VNDIRECT RESEARCH, BLOOMBERG

Sector risks include:

- Higher-than-expected prices and consumption volume in major export markets.
- Higher-than-expected inflation in the U.S and E.U.
- Slower-than expected seafood consumption from China market.

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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