

Shrimp exporter prospect

10M20 update

Mirae Asset Securities (Vietnam) LLC.

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2019 and 10M20 shrimp export market

- In 2019, Vietnam's shrimp exports accounted for 14.6% of global market share, just behind India (22%) and Ecuador (17%), at a total value of US\$3.2bn.
- In 10M20, Vietnamese shrimp's export value increased by 11.9% YoY. The main growth driver was the US market, where the value of imported Vietnam shrimp increased 35.5% in 10M20. Accordingly, the US market surpassed the EU to become the largest importer of Vietnamese shrimp.
- Vietnam's shrimp exports to the EU only rose by a mere 1.6% YoY in 9M20, due to the impact of the COVID-19 pandemic. The EVFTA, which took effect from August 1, 2020, is expected to boost shrimp exports, with the tariff on Vietnamese frozen shrimp dropping from 4.2% to 0%, versus over 7% for competitors.
- With the closure of restaurants and hotels around the world due to the COVID-19 pandemic, there was a 16.6% drop in the consumption value of Vietnamese giant tiger prawns (*penaeus monodon*). Meanwhile, consumption of whiteleg shrimp (*vannamei*) in retail channels still increased 13.5% YoY in 10M20.
- Shrimp exporting companies, including MPC, FMC, and CMX, reported divergent results, due to differing product lines and markets. In 9M20, FMC and CMX saw revenue increases of 16.3% YoY and 46.2% YoY, respectively. However, after-tax profit (NPAT) fell 3.4% YoY and 41.4% YoY, respectively, due to volatility in raw material costs, additional costs of logistics, and testing measures. MPC's 9M20 revenue fell 21.6% YoY, due to the increase of US anti-dumping tax on this company from 0% to 10%. Still, MPC recorded a 17% YoY increase in NPAT in 9M20, thanks to lower selling expenses, financial profit, and other profit increases.

Investment thesis

- We believe FMC is best positioned to effectively exploit the market trends, as it is focused on *vannamei* products and has a high portion of revenue from the US market (32%). Moreover, FMC has maintained low inventory levels (as of end-9M20), so it will benefit from the downtrend in raw material costs. FMC's day inventory outstanding (DIO) was about 79 days, below those of MPC (90 days) and CMX (over 200 days).
- FMC's 2021 NPAT growth rate is forecast at 23.6% YoY, reaching VND295bn, strongly improved compared with 3.8% YoY growth in 2020. The expected dividend is VND2,500/ share.

Valuation and recommendation

- Our recommendation for FMC is adjusted to HOLD from BUY with TP is maintained at VND39,000 per share (Upside +10%). FMC's current market price increased 13% from our latest update on Nov 2020 (VNIndex +12% in the period).

Key data (FMC VN)



Share price (11/05/2020, VND)	35,350	Market cap (VND bn)	1,793
NP (21F, VND bn)	295	Shares outstanding (mn)	49
Consensus NP (21F, VND bn)	N/a	Free float (%)	71.3
EPS growth (21F, %)	23.6	Foreign ownership (%)	9.1
P/E (21F, x)	5.2	Beta (12M)	1.1
Market P/E (21F, x)	15	52-week low (VND)	15,200
VN-Index	1,081	52-week high (VND)	38,000

Share performance

(%)	1M	6M	12M
Absolute	9.3	9.3	35.4
Relative	0.1	-8.3	24.8

Earnings and valuation metrics

FY ()	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue (VND bn)	3,498	3,807	3,710	4,581	5,119
EBIT (VND bn)	129	217	238	242	311
EBIT growth (%)	8.0%	68.1%	9.6%	1.8%	28.7%
NP (VND bn)	112	180	230	238	295
NP growth (%)	9.3%	60.6%	27.3%	3.8%	23.6%
Diluted EPS (VNDbn)	2,291	3,680	4,685	4,861	6,009
Diluted EPS growth (%)	9.3%	60.6%	27.3%	3.8%	23.6%
ROE (%)	19.6%	26.2%	24.5%	22.6%	24.0%
ROA (%)	6.8%	12.1%	15.1%	11.2%	12.2%
Dividend yield (%)	28.0	6.0	13.4	8.0	8.0

Note: NP refers to net profit attributable to controlling interests

Source: Company data, Mirae Asset Securities (Vietnam) LLC Research estimates

C O N T E N T S

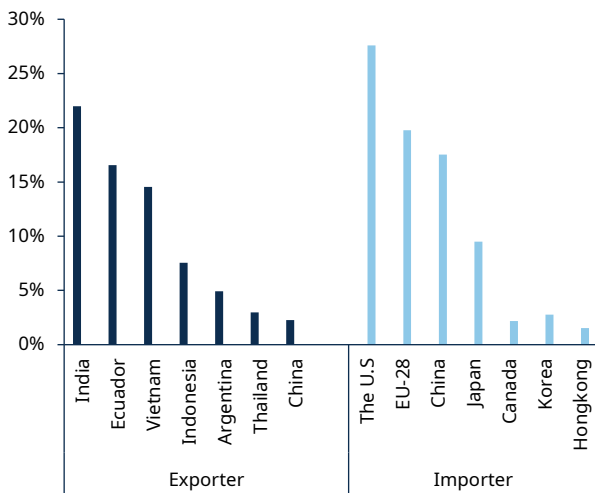
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1. Vietnamese shrimp – Processed shrimp market dominator

In 2019, the world shrimp market was worth US\$22.3bn, with total volume of 2.8mn tons. The main exported products are frozen shrimp, accounting for 79% in value and 82% in volume. The US, the EU, China, Japan, Canada, Korea, and Hong Kong are the world's largest shrimp importers, accounting for 81% of the total world shrimp import value.

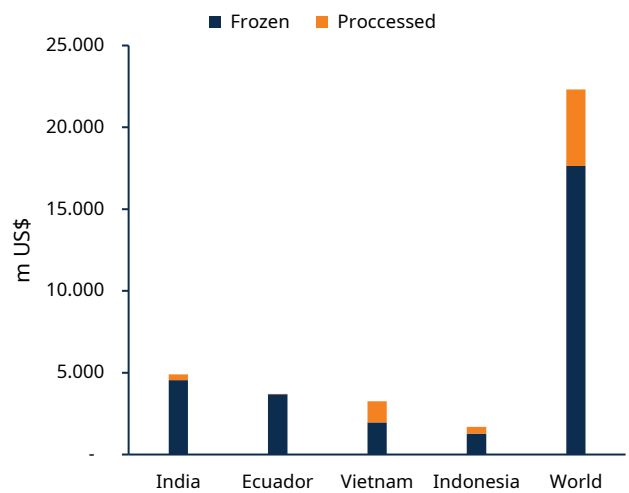
In 2019, Vietnam exported 346,000 tons of shrimp (US\$3.2bn), making it the world's third-largest exporter in value, equivalent to 15% of total global market share. For the frozen shrimp segment, Vietnam competes with India and Ecuador (over 95% of the export value of these countries is in the frozen shrimp segment). In the processed shrimp segment, Vietnam is the leading exporter, accounting for 28% of the total world export value. In 2019, Vietnam's processed shrimp export value reached US\$1.3bn, equivalent to 40% of the total Vietnam shrimp exports. Because the price of processed shrimp is about 21%–39% higher than that of frozen shrimp, the average export price of Vietnamese shrimp is higher than that of other countries.

Figure 1. Vietnam one of world's top-3 shrimp exporters in 2019



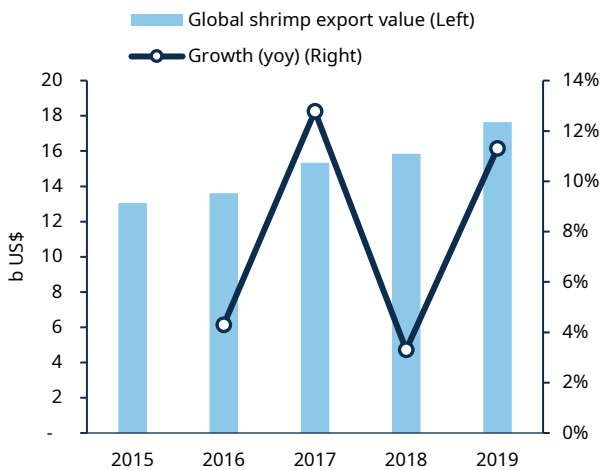
Source: UN Comtrade

Figure 2. Frozen shrimp: Major part of Vietnam's shrimp exports



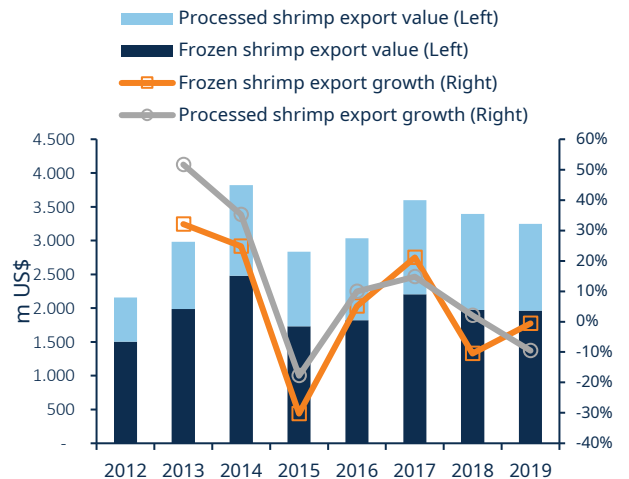
Source: UN Comtrade

Figure 3. Global shrimp export market sees moderate growth in FY15–19, with CAGR of 7.8%



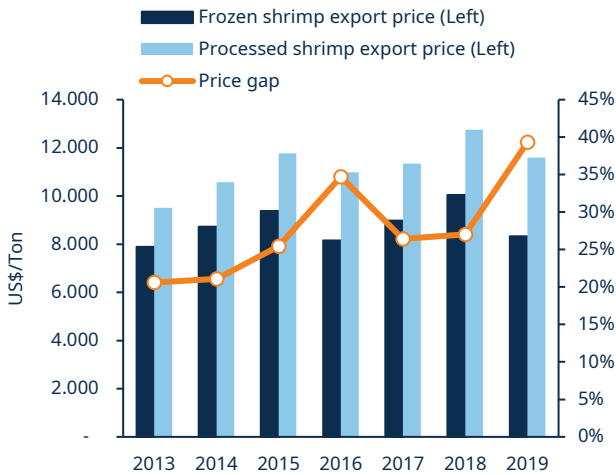
Source: UN Comtrade

Figure 4. Vietnam's shrimp export value fell 4% YoY in 2019, driven by 10% YoY drop in frozen shrimp export value



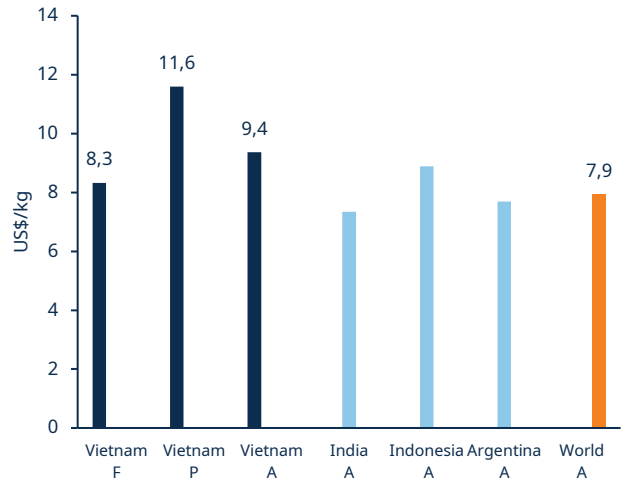
Source: UN Comtrade

Figure 5. In FY12–19, the export price of processed shrimp was 21%–39% higher than that of frozen



Source: UN Comtrade, Mirae Asset Vietnam Research

Figure 6. Vietnam’s average shrimp export price was higher than that of other countries (2019)



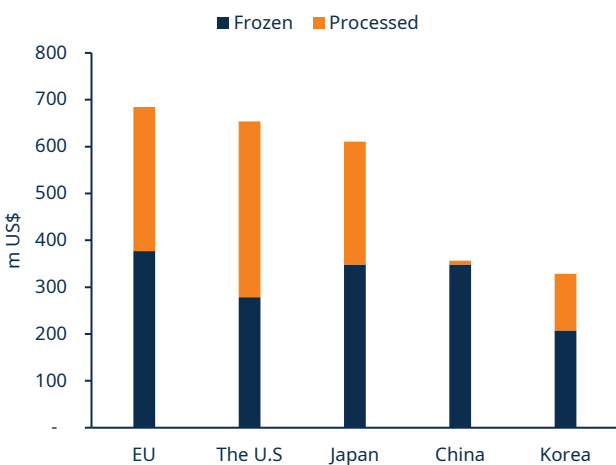
Source: UN Comtrade, Mirae Asset Vietnam Research
Note: F – Frozen, P – Processed, A – Average

2. Vietnam’s share in EU market is expected to rise with EVFTA

The EU was the world’s second-largest shrimp market in 2019, with a value of US\$4.4bn, equivalent to 19.8% of global market share. The EU was also the largest market for Vietnam’s shrimp exports, with a turnover of US\$648mn, equivalent to 21.1% of total turnover and 20.7% of export volume. Frozen shrimp’s export value reached US\$377mn, equivalent to 55% of Vietnam’s total shrimp export turnover to the EU market, and accounting for a 9.8% market share.

Under EVFTA, the tariff on Vietnam frozen shrimp to the EU was cut from 4.2% to 0% from August 1, 2020, with the import tax on processed shrimp set to gradually decline from 7% to 0% over the next seven years. Meanwhile, tariffs on imports from competitors, such as India, Ecuador, Indonesia, and Thailand remain at between 4% and 20%, depending on the country. With the tariff reduction, the market share of Vietnam frozen shrimp is expected to increase soon, thanks to the price advantage.

Figure 7. EU-28 was Vietnam No.1 export market in 2019



Source: UN Comtrade

Figure 8. EU tariff on shrimp from Vietnam fell to 0% from August 1, 2020

Product	Vietnam		India	Ecu.	Indo.	Thai.
	Pre-EVFTA	Post-EVFTA				
Frozen <i>panaeus monodon</i>	4%	0%	4%	12%	4%	12%
Frozen <i>vannamei</i>	4%	0%	12%	12%	4%	12%
Processed shrimp (*)	7%	0%	7%	20%	7%	20%

Note: Frozen *panaeus monodon* HSCODE 03061710
Frozen *vannamei* HSCODE 03091792
Processed shrimp HSCODE 16052190 & 16052901
EU tariff for imported processed shrimp reduce gradually to 0% in 7 years from EVFTA applied

Source: VASEP

3. Vietnam’s 10M20 shrimp exports surged, thanks to China and US markets

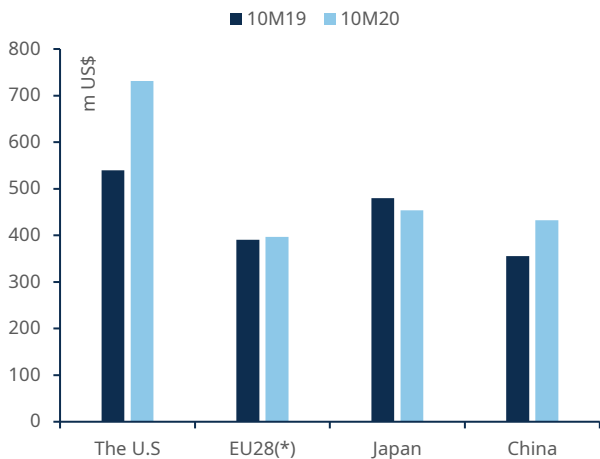
Vietnam’s shrimp export turnover in 10M20 reached US\$2.97bn (+11.9% YoY), thanks to a 8.7% increase in volume and 2.9% rise in average export price. The US market played a key role in the growth of shrimp exports in 10M20, with import volume from Vietnam increasing by 37% YoY. The total value of Vietnam shrimp imports to the US reached US\$731mn, as the US became Vietnam’s largest shrimp market in 10M20. The growth of the US market contributed 61% to the total growth in Vietnam’s shrimp export turnover during this period.

This growth is the result of the US increasing the tariff on Chinese shrimp products as part of its trade war with China, and the subsequent increase in imports from other markets to compensate for the shortage. In addition, China’s shrimp imports in 10M20 from Vietnam also increased by 21% YoY in value, reaching US\$432mn and contributing 24% to total growth. We believe that China increased imports of Vietnamese shrimp to compensate for the food shortfall caused by the outbreak of African swine fever in that country, which has lasted since the beginning of 2019. The value of shrimp exports to the EU market increased by a modest 1.6% YoY in 10M20, while exports to Japan decreased by 5.3% YoY.

We believe that Vietnam’s control of the COVID-19 pandemic is also a positive factor contributing to growth in shrimp exports. The pandemic could negatively affect India’s shrimp production in 2020, leading to an increase in imports from less-affected countries, such as Vietnam and Ecuador.

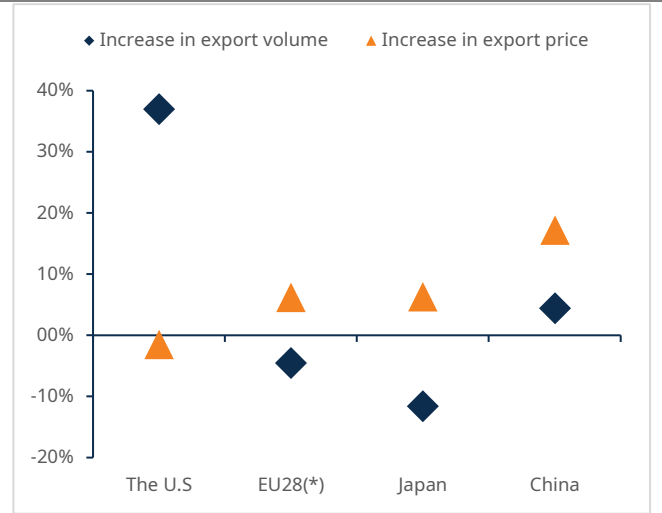
We believe that the EVFTA will be a driver of Vietnam’s shrimp export growth. However, the impact on 10M20 results remained unclear, due to its short validity period (effective from August 1, 2020) and the impact of the COVID-19 pandemic on the EU market in 2020. We believe that the positive effects of this factor will be more evident from 4Q20.

Figure 9. The US emerged as Vietnam’s biggest shrimp export market in 8M20



Source: Viettrader

Figure 10. Growth in imports from the US accounted for 66% of the growth in Vietnam’s shrimp exports in 8M20



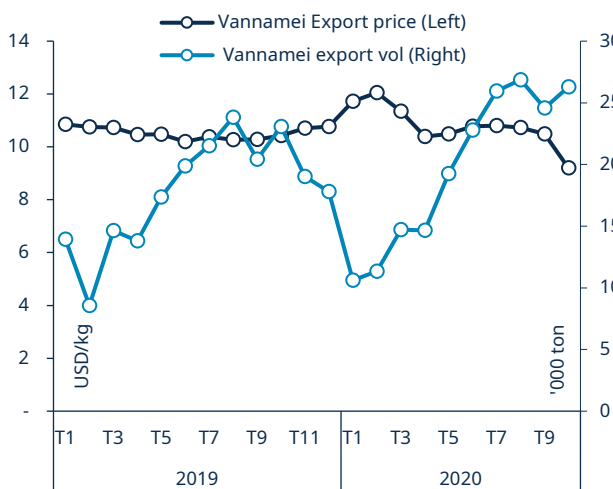
Source: Viettrader

4. Vannamei surged, while penaeus monodon faced challenges

In 10M20, the outbreak of the COVID-19 pandemic led to the adoption of social distancing and quarantine measures, which decimated the global hotel and restaurant sector. Consumption of large and high-value shrimp varieties, such as penaeus monodon and lobster, plummeted. Meanwhile, the rise in the number of home-cooked meals, as well as increased demand for instant and fast food (e.g., pizza) led to a sharp increase in demand for smaller, cheaper varieties of shrimp (i.e., vannamei). As a result, Vietnam’s vannamei export turnover in 10M20 rose by 13.5% YoY to US\$2.1bn, thanks to a 11.3% YoY volume increase. By contrast, penaeus monodon export turnover fell by 16.6% YoY to US\$452mn, due to a 16.3% YoY drop in volume.

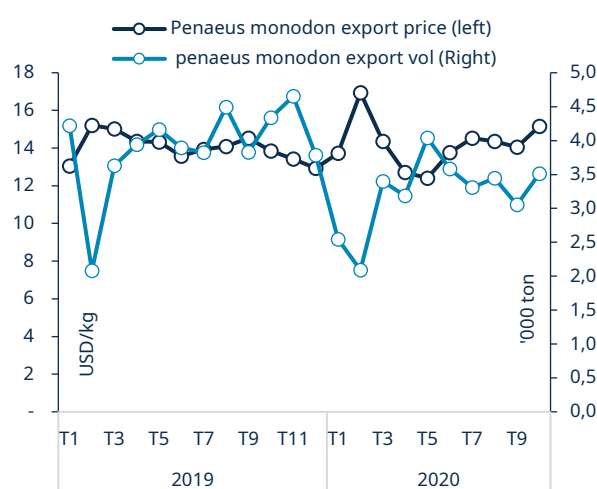
Some European countries, such as the UK, France, and Germany, announced strict new lockdown measures in November 2020. This means that the consumption trend will not change much in the remainder of the year. On that basis, we believe that penaeus monodon consumption will continue to be under great pressure in 4Q20, while vannamei consumption should see continued growth.

Figure 11. Vannamei export volume increase strongly while export price stable in 10M20



Source: Viettrader

Figure 12. Export price of penaeus monodon increase but volume shrank in 10M20



Source: Viettrader

5. Divergent 9M20 business results of listed companies

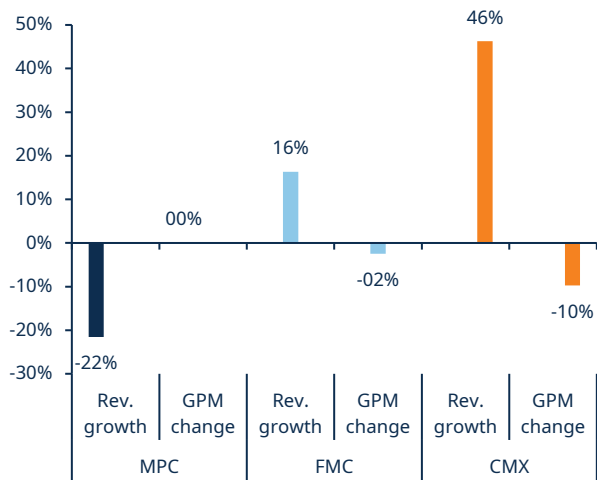
We noticed two common points in the 9M20 financial statements of listed shrimp exporters:

1) The three listed shrimp exporting companies reported good revenue growth in 9M20, in accordance with the general situation; FMC VN achieved 16.3% YoY revenue growth and CMX VN had revenue growth of 46.2% YoY. In particular, MPC VN's 6M20 revenue declined 25.8% YoY, compared with 6M19, due to the increase in the US anti-dumping tax from 0% to 10% from January 2020.

2) All three companies reported declines in gross profit margin versus the same period last year. This is the result of the increase in domestic shrimp raw material costs, along with increased storage costs and disease prevention, which led to a faster increase in COGS than revenue growth. CMX had the steepest drop in gross profit margin (a decline of 9.8%p versus 9M19's figure), because its products are from penaeus monodon.

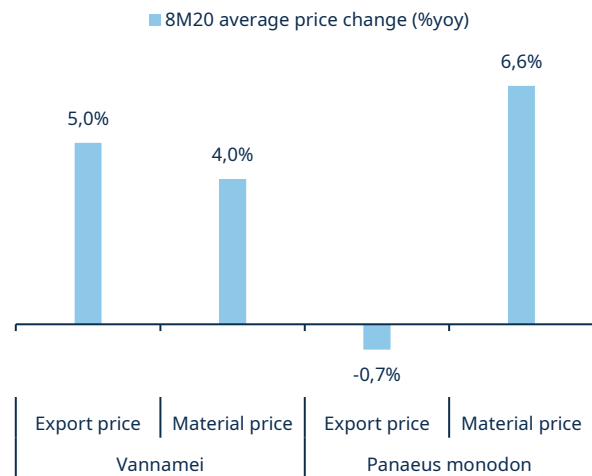
However, due to different product lines and market structures, business results diverged in 9M20. Specifically, 9M20 NPAT of MPC increased by 17% YoY, in contrast to the sharp decline in revenue, thanks to lower transportation costs and increased financial profit. CMX's 9M20 NPAT dropped by 41.4% YoY, due to a 0.7% YoY decrease in the average selling price of penaeus monodon. Moreover, raw material costs increased by 6.6% YoY, causing gross profit margin to drop sharply. FMC saw a slight decline in 9M20 NPAT (-3.4% YoY), due to a 4% YoY increase in raw material costs, together with higher storage and disease control costs.

Figure 13. Gross margin of shrimp exporters declined in 9M20



Source: Companies' report

Figure 14. COVID-19 led to rise in raw material price of shrimp in 9M20



Source: Viettrader

Figure 15. Gross margin of listed shrimp exporters fell in 9M20

	Minh Phu Corp (MPC)		FIMEX (FMC)		CAMIMEX (CMX)	
Product structure (2019)						
Vannamei	70%		95%		10%	
Panaeus monodon	30%		5%		90%	
Market structure (2019)						
The U.S	38%		32%		0%	
EU	11%		24%		59%	
Japan	21%		29%		6%	
Others	30%		15%		36%	
Comparison of 2020 business results						
Unit: VNDbn	9M20	Change	9M20	Change	9M20	Change
Revenue	9,982	-21.6%	3,206	16.3%	1,115	46.2%
Gross profit	1,111	-20.8%	274	-9.3%	135	-18.9%
Gross margin	11.1%	0.1% pts	8.6%	-2.4% pts	12.1%	-9.8% pts
EBIT	471	-15.8%	162	-8.8%	82	-19.8%
EBIT margin	4.7%	0.3% pts	5.0%	-1.4% pts	7.4%	-6.1% pts
Other profit	71	N/a	7	N/a	-34	N/a
% to revenue	0.7%	1.6% pts	0.2%	0.4% pts	-3.0%	-1.0% pts
EBT	542	21.2%	169	-2.7%	49	-43.5%
EBT margin	5.4%	1.9% pts	5.3%	-1.0% pts	4.4%	-7.0% pts
Tax rate	15.6%	3.1% pts	3.7%	0.8% pts	9.8%	-3.2% pts
EAT	457	17.0%	162	-3.4%	44	-41.4%
EAT margin	4.6%	1.5% pts	5.1%	-1.1% pts	4.0%	-6.0% pts
Inventory	3,870	30.8%	898	61.6%	601	20.2%
Inventory/COGS	43.6%	17.5% pts	30.6%	7.9% pts	61.4%	-22.6% pts

Source: Company reports
Note: Pts = Percentage points

6. Feature exporter: FMC (Recommend Hold)

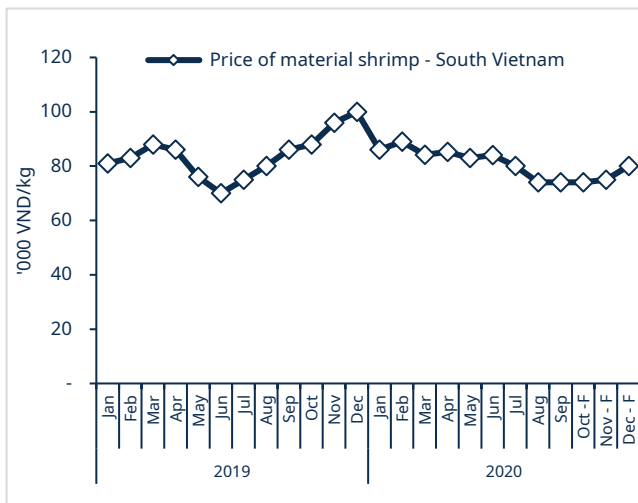
We believe that FMC's profit will improve over the next six months, thanks to strong global demand for vannamei in the world. In addition, the domestic raw material costs of vannamei are forecast to remain at VND75,000–80,000/kg in 2020, thanks to the stable domestic supply and the COVID-19 pandemic remaining under control, and VND80,000–82,000/kg in 2021.

FMC's revenue in 2020 is forecast at VND4,581bn (+23.5% YoY), thanks to increased world vannamei demand. The growth rate of FMC shrimp production is expected to reach 18% YoY, to about 17,698 tons. The main growth driver is the US market. In 2021, FMC's revenue is estimated to improve 11.7% YoY on a 13.5% YoY increase in export volume, thanks to: 1) continued high global demand for vannamei; and 2) positive effects of the EVFTA. We project average FOB prices to decrease slightly, by 2.5% YoY, as vannamei supply from India gradually recovers.

We project FMC's 2020 net profit to grow slightly at 3.8% YoY to VND238bn. Gross profit margin decreases by 2.4%p to 9.1%, due to the impact of the increase in average annual raw material prices and increased costs of transport and disease control. However, we expect FMC's NPAT in 2021 to surge 23.6% YoY to VND295bn, thanks to stable raw material prices, helping gross profit margin improve by 1.9 %p to 10.9%. FMC's FY21 EPS is forecast at VND6,009/share.

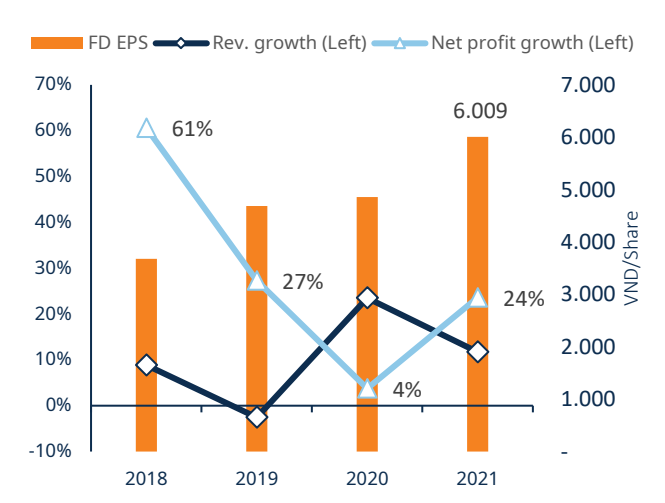
We change our recommendation for FMC from BUY to HOLD with target price of VND39,000 maintained (upside: +10%). FMC's current market price increased 13% from our latest update on Nov 2020 (VNIndex +12% in the period). Our target price is determined based on multiples approach, with a forward P/E of 6.5x (corresponding to the past average) and forward EPS in 2021 of VND6,009. We believe that FMC's business results will see significant improvement in 4Q20 and 1Q21.

Figure 16. Raw material price of vannamei expected to be in range of 75,000–80,000/kg in 4Q20



Source: Viettrader

Figure 17. FMC's EAT is expected to accelerate in FY21F



Source: FMC, Mirae Asset Vietnam Research
 Note: FD EPS – EPS diluted

7. Potential risks

Some risks of devaluation:

- 1) The reappearance of COVID-19 in Vietnam, leading to disruptions in the supply of raw vannamei and shrimp feed supply chain. This would reduce FMC's profit margin.
- 2) An earlier-than-expected recovery in Indian shrimp exports, leading to an increase in world shrimp supplies and a decline in shrimp prices. In that case, the revenue growth rate of FMC would be lower than expected.
- 3) The election of Joe Biden as US President and potential Democratic control of the Senate may lead to a change in US foreign policy with China. This could result in a decline in the growth rate of US imports of Vietnamese shrimp, due to increasing supply from China, slowing down FMC's revenue growth.

Some re-pricing risks:

- 1) The number of European countries adopting social distancing policies for longer than expected, due to the recurrence of the COVID-19 pandemic in this region. This could result in increased demand for whiteleg shrimp in Europe.
- 2) A sharp drop in shrimp supply from India, Ecuador, and Indonesia, due to the recurrence of the COVID-19 pandemic and shrimp diseases. This could increase Vietnam's shrimp market share and sales growth.
- 3) A steep decline in the price of shrimp seed and feed for shrimp. This would improve FMC's gross profit margin and increase its NPAT.

Sao Ta Foods Joint Stock Company (FMC VN)

P&L report - Consolidated (Summary)

VNDbn	2018	2019	2020F	2021F
Net revenue	3,807	3,710	4,581	5,119
COGS	(3,412)	(3,285)	(4,165)	(4,559)
Gross profit	395	425	416	560
SG&A	(178)	(187)	(175)	(249)
EBIT (Adjusted)	217	238	242	311
EBIT	217	238	242	311
Other profit/(loss)	(23)	(3)	7	(6)
Financial	(23)	(3)	7	(6)
Join Venture	-	-	-	-
EBT	194	234	249	305
CIT Tax	(14)	(6)	(10)	(12)
Net profit (recurrent)	180	228	239	293
Other profit	0	2	(0)	2
Net profit	180	230	238	295
Net profit to common share holders	180	230	238	295
Minority interest	-	-	-	-

Cash flow (summary)

VNDbn	2018	2019	2020F	2021F
CF from operating acts	289	301	322	382
EBT	194	236	248	307
Non-cash expense				
Depreciation & amortization	62	67	77	93
Tax paid	(1)	(16)	(10)	(12)
Other adjustment	35	13	7	(6)
Change in WC	76	258	(209)	(168)
Change in receivables	106	52	(3)	(2)
Change in inventory	(93)	260	(301)	(207)
Change in payable	94	16	52	11
Other change	(30)	(69)	43	30
CF from investment	-76	-151	-169	-127
CAPEX	(77)	(155)	(166)	(120)
Income from asset liquidation	0	2	-	-
Change in other LT investment	(5)	(4)	(3)	(7)
Others	6	5	-	-
CF from financing	(428)	(189)	241	(47)
Net borrowing	(381)	(317)	363	75
Share issuance	12	209	-	-
Dividend paid	(59)	(80)	(123)	(123)
Other	-	-	-	-
Net CF in period	(139)	219	185	39
Cash at begin	166	27	246	431
Cash at ending	28	246	431	471

Source: Company report, Mirae Asset Vietnam Research

Balance sheet - Consolidated (Summary)

VNDbn	2018	2019	2020F	2021F
Current asset	1,187	1,098	1,702	1,962
Cash & Equiv.	28	246	431	471
Account receivable	301	247	305	341
Inventory	837	578	879	1,086
Others	22	27	87	64
Non-current asset	308	423	423	461
Investment in joint venture	0	0	0	0
Tangible asset	289	372	361	392
Others	19	50	62	69
Total asset	1,495	1,521	2,125	2,423
Short-term liability	799	572	1,058	1,182
Account payable	83	40	92	102
ST borrowing	593	277	640	715
Other ST liabilities	122	255	326	365
Long term liability	8	10	13	14
LT borrowing	0	0	0	0
Other LT liability	8	10	13	14
Total liabilities	806	582	1,071	1,196
Shareholders' equity	689	939	1,055	1,227
Paid in capital	402	490	490	490
Share premium	71	191	191	191
Others	216	258	373	545
Minority interest	0	0	0	0
Total equity	1,495	1,521	2,125	2,423

Key ratios

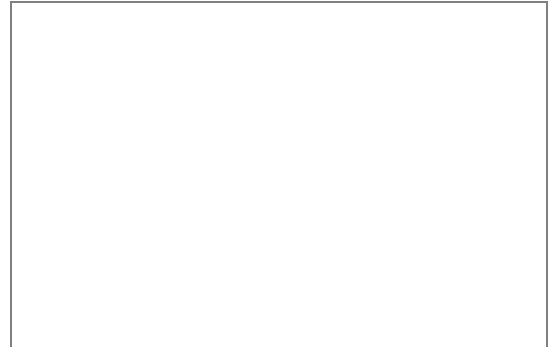
	2018	2019	2020F	2021F
EPS Diluted (VND)	3,680	4,685	4,861	6,009
BVPS (VND)	30,488	31,010	43,334	49,406
Net debt/share (VND)	12,097	5,643	13,052	14,585
Dividend/net profit	32.4%	35.0%	51.4%	41.6%
Revenue growth	8.8%	-2.5%	23.5%	11.7%
EBITDA growth	53.9%	9.5%	4.5%	26.8%
EBIT growth	68.1%	9.6%	1.8%	28.7%
EPS diluted growth	60.6%	27.3%	3.8%	23.6%
Receivable cycle (x)	13	15	15	15
Inventory cycle (x)	5	6	5	5
Payable cycle (x)	46	93	50	50
ROA	12.1%	15.1%	11.2%	12.2%
ROE	26.2%	24.5%	22.6%	24.0%
ROIC	28.9%	24.4%	21.8%	24.1%

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (VND)
Sao Ta Food JSC (FMC VN)	06/11/2020	Buy	39,000
Sao Ta Food JSC (FMC VN)	25/12/2020	Hold	39,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (←), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

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