

Fisheries

Recovering amid unpredictable developments

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Neutral maintain

Exports recovered from low comparative levels in 1H23

Since 1H24, the fisheries export industry has initially recorded signs of recovery above the low base of the previous year amid cooling inflation. Although the growth was not strong, the demand in some major markets has started to recover. The largest market, the US, had posted considerable growth while the remaining markets, China, Japan and the EU, reported modest growth. Vietnam's main products, shrimp and pangasius, have maintained growth despite competitive pressure from many other markets.

Business results of fisheries enterprises recovered

Fisheries companies have also partly contributed to the recovery of the whole industry, but the level of recovery depends on the products and main markets of each business. Export output has recovered positively, but export prices have not improved, so although revenue grew strongly, profits did not grow correspondingly. Shrimp exporters had more positive results than pangasius exporters. Many enterprises also reported profit growth over the same period last year.

The sector is expecting recovery in the second half of the year, but many uncertain factors remain

In 2H24, the fisheries industry's goal is to achieve export turnover of USD10 billion (+8% YoY). Major markets are expected to rebound as many central banks signaled interest rate cuts in the second half of the year. However, there are still many uncertain factors such as anti-dumping duties, political tensions, IUU yellow card, and competition with many other countries. These may cause maritime freight rates to skyrocket and require local businesses to improve their capacity. The valuation of fisheries stocks is at the five-year average, reflecting the market's neutral expectations for this industry. We recommend tracking leading stocks in the industry with solid competitive advantages such as Vinh Hoan Corporation (VHC) and Sao Ta Foods (FMC) for accumulation during market corrections.

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I. Business performance in 1H24

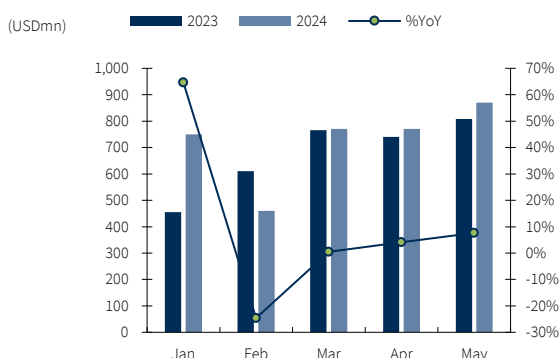
Exports recovered from comparative low bases in 1H23, gaining 6.5% YoY in 5M24

Fisheries exports in 1H24 have shown signs of recovery from the low bases of 1H23. In May 2024, the country's fisheries exports gained 7% YoY to USD870 million. Cumulatively in the first five months of the year, the figure reached USD3.6 billion (up 6.5% YoY). The rebound was not strong as the recovery of the global economy is quite slow, in addition to geopolitical tensions, competition with fisheries products from other countries, modest domestic supply due to climatic factors and limited farming skills.

In the first five months of the year, there were not many changes in the export structure between markets. The US and Japan markets are still the biggest importers, respectively weighting 17.1% and 16.2%. A few emerging markets have increased their contribution, but it is insignificant. Most markets have recovered over the same period last year (Figure 3). The US market, which dropped sharply last year, has risen again, helping to improve the performance of local exporters.

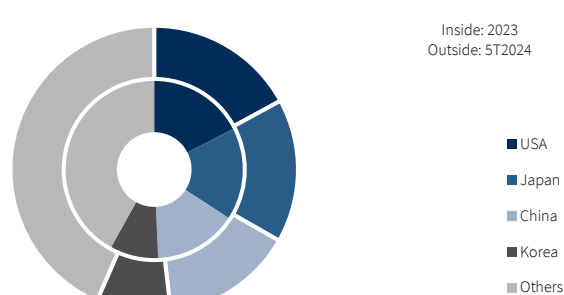
Regarding products, the main export products all recorded growth from a low base over 1H23. In 5M24, shrimp exports hit USD1.3 billion (+7% YoY), pangasius USD755 million (+2% YoY), tuna USD397 million (+25% YoY), and crab reached USD101 million (+84% YoY).

Fig 1. Vietnam – Fisheries exports in 5M24 (USDmn)



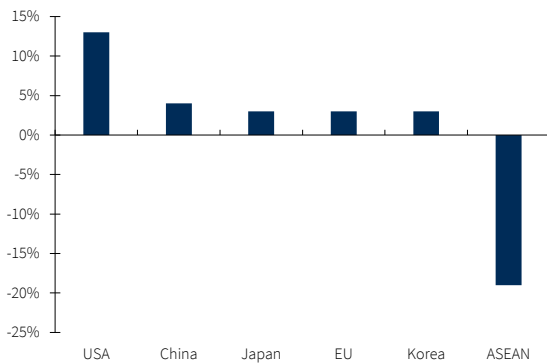
Source: VASEP, KB Securities Vietnam

Fig 2. Vietnam – Fisheries importing markets (%)



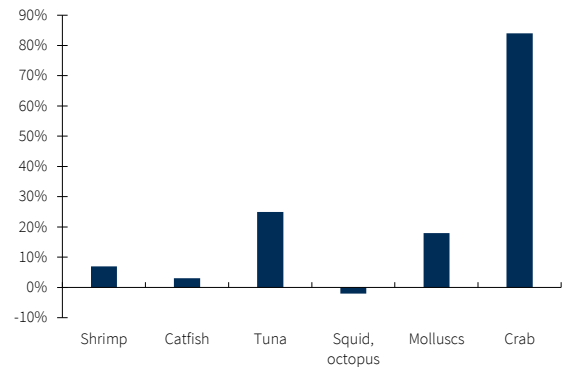
Source: FiinProX, KB Securities Vietnam

Fig 3. Vietnam – Export growth by market in 5M24 (%)



Source: VASEP, KB Securities Vietnam

Fig 4. Vietnam – Export growth by product in 5M24 (%)



Source: VASEP, KB Securities Vietnam

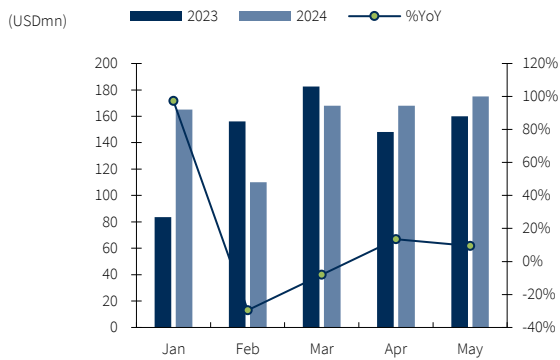
Pangasius exports recovered thanks to the US market recovering demand

The main export industry groups have also recovered, following the main trend of the whole industry. For pangasius exports, according to VASEP, this segment brought in nearly USD755 million in 5M24 (up 2% YoY). The main export market for pangasius is the US, which is recovering. VASEP also said consumers in the US are increasing their demand for white fish products, especially pangasius from Vietnam. Some other white meat fish such as tilapia are getting scarce, helping Vietnamese pangasius to benefit. The EU market has not yet seen positive developments due to the influence of political tensions and strict standard requirements for imported products. The remaining markets were almost flat or posted slight declines due to slow economic recovery and competition with pangasius and whitefish in general from many other markets.

Shrimp exports rebounded, but competition became increasingly fierce

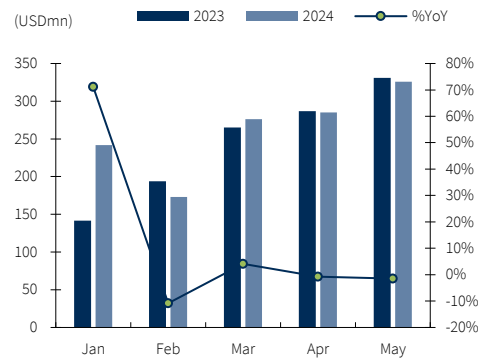
Shrimp exports also recorded positive signals in the context of slow economic recovery and increasing competition. According to VASEP, shrimp exports earned USD1.3 billion in 5M24 (up 7% YoY). The Chinese market witnessed the sharpest increase with an increase of 21% YoY due to the country restricting shrimp supply from Ecuador over the discovery of sulfite residues and increased prices. However, in recent months, a decrease in this market was recorded as shrimp supply was abundant again, and Vietnam has to face competition from other foreign competitors. The remaining markets are not very positive as the US market is flat while the Japanese and Korean markets even recorded a decrease YoY.

Fig 5. Vietnam – Pangasius export turnover (USDmn)



Source: Bloomberg, KB Securities Vietnam

Fig 6. Vietnam – Shrimp export turnover (USDmn)



Source: Bloomberg, KB Securities Vietnam

Shrimp export enterprises recovered positively while pangasius recorded less positive results

Businesses in the fisheries industry have recovered, following general trend, but the level of recovery depends on their key products, main markets, product quality, and ability to expand the market.

Pangasius export businesses recorded mixed results in the 1Q. VHC returned to revenue growth from low 1Q23 results thanks to the recovery of the main export market, the US, while Nam Viet Corporation (ANV) and IDI Corporation (IDI) still encountered difficulties in the quarter, related to the slow recovery of the Chinese market and fierce competition from other countries. In addition, as export fish prices have not yet recovered and freight rates have escalated, the profits of pangasius businesses continued to be squeezed in 1Q.

Shrimp exporting enterprises recorded more positive signals than pangasius in 1Q24 thanks to the positive growth of shrimp exports. Shrimp exporters like FMC, Minh Phu Corporation (MPC), and Camimex Group (CMX) all recorded strong revenue growth, especially in the Chinese market with a sharp increase in output but little impact from increased freight prices. At the end of the first quarter of 2024, major shrimp exporting enterprises all recorded positive profit growth over the same period last year.

II. Business outlook for 2H24

The demand should rebound, but there are still many uncertain factors from international markets

In 2024, the fisheries industry's goal is to reach an export turnover of USD10 billion. Businesses only reached 36% of the plan in 5M24, but exports should surge at the end of the year when demand increases during holidays. Regarding the industry outlook for the second half of 2024, we assess that all major markets are starting to show signs of recovery, but the recovery speed is slow, and there are still many unpredictable factors. Major central banks have begun to show moves to cut interest rates, typically the ECB cutting interest rates in early June, and the Fed expecting to lower interest rates in the second half of this year, which are positive factors to consumer purchasing power. The US recognition of Vietnam as a market economy also benefit local exporters.

However, the fisheries industry still has many uncertain factors, including (1) anti-dumping duties; (2) political tensions that may cause freight rates to skyrocket; and (3) IUU yellow card affecting exports to the EU. In addition, Vietnamese fisheries products have to compete with fisheries from other countries in price and quality, requiring local businesses to improve 'deep' processing capacity.

Shrimp exports are expected to recover but also face fierce competition

For the US market, the whole industry is waiting for official decisions on anti-subsidy and anti-dumping tariffs. In addition, Vietnam is competing fiercely with Ecuadorian shrimp with advantages of distance and prices in this market. Exports to China benefit from geographical advantages and this country's limiting shrimp imports from Ecuador and India due to sulfite residues. Although demand is slow to recover in Japan, this market still favors deeply processed products, which adds one more advantage to Vietnamese shrimp compared to shrimp from other countries. Any business capable of deep processing will benefit on this market.

Shrimp businesses are all looking for their own directions in the context of slow export recovery and strong competition with shrimp from Ecuador and India. FMC focuses on deep-processed shrimp, hitting the Japanese market strongly. MPC encountered difficulties in the US market, so it intended to return to the domestic market through strategic cooperation with the BHX chain of MWG. CMX plans to develop fish processing and export to the Korean market when cooperating with the country's largest mart chain, Emart.

Pangasius exports place high expectations on the US market

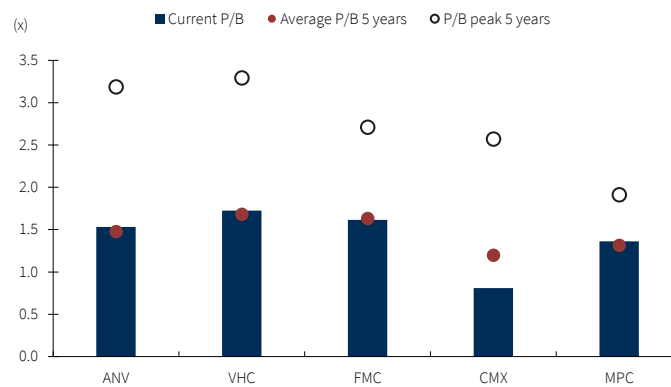
For the pangasius export industry, the recovery of the market in the US helped pangasius exports to have high expectations in 2H24. Besides, the US and the Western countries also issued a decree banning pollock from Russia, which will benefit Vietnamese pangasius. Pangasius export prices are also expected to recover slightly in the second half of the year thanks to supply shortages as low prices and unfavorable weather limited farming. However, exports to the US and EU markets are greatly affected when freight prices increase, which may hit the profits of exporting companies.

Pangasius exporting businesses expect a recovery in 2H24 when the demand from major economies rebounds. VHC is a leading enterprise in the industry with the ability to expand markets and manage costs well, especially enjoying zero anti-dumping tax in the US market, so it may have the best performance among other pangasius exporting peers. Enterprises such as IDI and ANV also expect to improve their exports, but the prospects will not be as good as VHC.

NEUTRAL rating to the fisheries sector

In terms of valuation, most fisheries stocks are near the five-year average P/B level, reflecting the market's neutral expectations for these stocks in the near future. With the prospect of a slow recovery and many uncertain factors, we gave a NEUTRAL rating to this sector. However, during corrections, investors can focus on leading stocks in the industry with solid competitive advantages such as VHC and FMC. Besides, investors can also buy stocks when factors such as anti-dumping duties, IUU yellow card, and freight rates have more positive developments.

Fig 9. Vietnam – P/B of fisheries companies (x)



Source: Bloomberg, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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