

Seafood

Update report

June 2021

Recommendation **OUTPERFORM**

Target price (VND/share) **42,800**

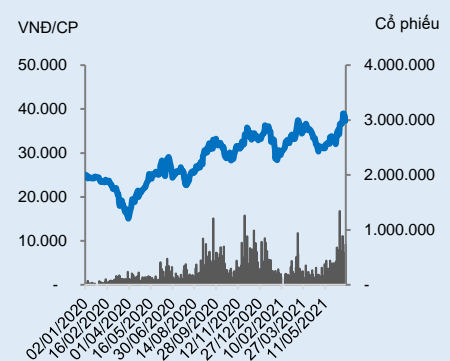
Market price (06/22/2021) 37,300

Upside potential +14.8%

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Trading exchange	HOSE
52-week price range	21,600 – 39,000
Market cap	2,190 bn
Shares outstanding	58,850,000
10-day average volume	645,010
Foreign Ownership	7.4%
FOL	49%
Dividend per share	2,000
Dividend yield	5.5%
Beta	0.89

PRICE



	YTD	1T	3T	6T
FMC	7.9%	11.5%	6.3%	13.3%
VN-Index	23.2%	4.8%	18.7%	29.3%

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Sao Ta Food JSC

Ticker: FMC

Reuters: FMC

Bloomberg: FMC VN

Potential sustainable growth from the key markets.

1Q21 revenue rose but NPAT fell. Sao Ta Food JSC (FMC) has announced its 1Q21 financial report, with its weekly revenue and NPAT reaching VND 969 bn (+35.7% yoy) and VND 30 bn (-23.3% yoy) respectively. Export revenue in 5M 2021 has further prospered to USD 75.6 mn, up 33.3% yoy. The impressive revenue showed positive signals for growth from the key markets, while the high cost of input materials and freight costs led to a decline in NPAT.

Processing capacity to be improved to meet EU market demand. Up to now, the EU market is of the 3 important markets of FMC, usually contributing about 25-30% of the annual export turnover. In order to serve the increasing demand in the EU market without affecting the export capacity to the US and Japan, FMC is investing in 2 new factories in An Nghiep Soc Trang Industrial Park, bringing the total design capacity from 24,000 - 26,000 tons/year to about 45,000 tons of finished products per year – increased about 80%.

Farming area to be expanded to improve raw material self-supply. FMC plans to further expand 100 hectares of farming areas in 2021-2022, raising the rate of raw-material self-supply to 50% by 2025. In the long term, BVSC expects that this promote of raw material self-supply will help FMC increase gross profit margin from 9.7% (in 2020) to 11-13%, minimizing the negative impact of shrimp price fluctuations.

Good governance, stable dividend policy. FMC has quite a healthy financial structure and increasingly effective ability to manage working capital. With the companionship of the PAN group, along with reasonable management policy, the enterprise is likely to maintain effective operations while developing in a sustainable way. FMC has paid an average of VND 2,250/share in the last 5 years, and expects to pay a cash dividend of at least VND 2,000/share.

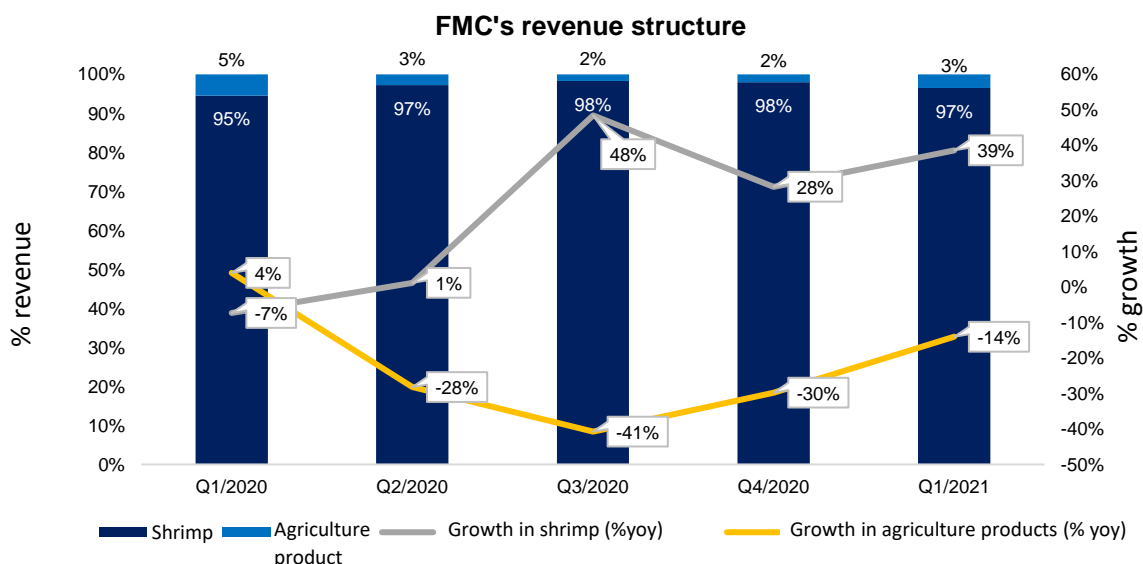
FY21 business forecast. FMC's revenue is likely to grow compared to last year, thanks to the recovery of consumption in all 3 key markets (the US, EU and Japan). However, net profit margin is not likely to return to the 2019's level due to the slow increase in export prices, while related costs such as raw material prices and transportation costs remain high. BVSC forecasts FMC's FY21 net revenue to reach VND 4,729 bn (+7% yoy) and NPAT of VND 260 bn (+15% yoy), equivalent to EPS of 4,419.

Valuation and investment viewpoints. BVSC issue a short-term **OUTPERFORM** rating on FMC, with a target price of **VND 42,800/share** using the DCF method, corresponding to a FY21 forward P/E of 9.7x.

Business results update

Business results (bn VND)

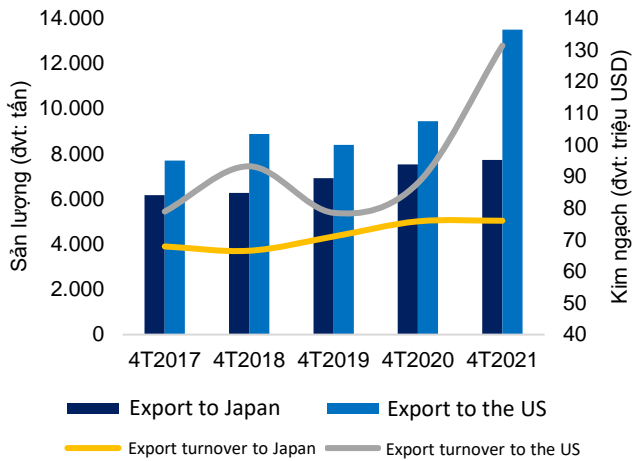
Indicator	2020	Growth (%yoy)	1Q21	Growth (%yoy)
Net revenue	4,415	19.0%	969	35.7%
Gross profit margin	9.7%	-170 bps	7.7%	-220 bps
Gross profit	430	1.2%	75	5.7%
NPAT	226	-1.7%	30	-23.3%



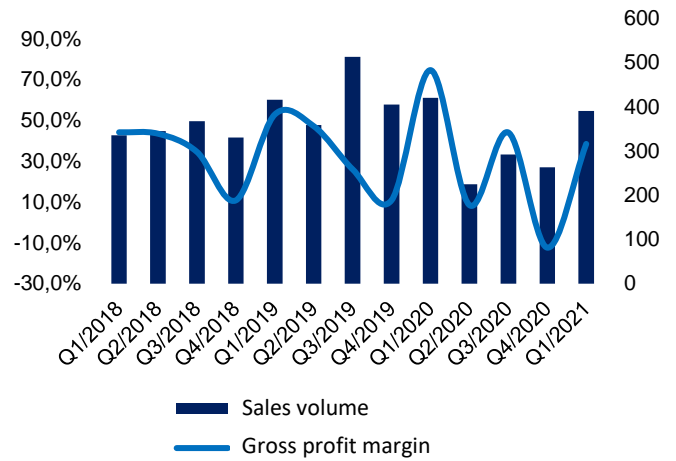
Sources: FMC, BVSC compiles

FMC has announced its 1Q21 financial report, with its weekly revenue and NPAT reaching VND 969 bn (+35.7% yoy) and VND 30 bn (-23.3% yoy) respectively. Thus, in 1Q21, FMC has fulfilled 21% revenue and 12% NPAT according to the FY21 plan. Export revenue in 5M 2021 has further prospered to USD 75.6 mn, up 33.3% yoy, and the output of processed shrimp also increased by nearly 30% yoy. FMC stated that the growth mainly came from the US and Japanese markets, where demand had positive signals in the first month of this year. However, 1Q21 NPAT is not quite impressive, due to a number of factors:

- (1) FMC increase the outsourced raw shrimp to meet export demand. Raw shrimp purchased from outside is often more expensive than from FMC's farming area, which led to an increase in costs and decrease in the company's gross profit margin (see *FMC's Outsourced Shrimp and BTP Shrimp*, page 6).
- (2) Shipping and warehousing costs remain high with no sign of cooling down.
- (3) The company's agribusiness segment has not yet promoted its strength, due to the demand for agricultural products' being fluctuated, while FMC needs to ensure the supply from farmers.

Vietnam's exports and export turnover of value-added shrimp to the US and Japan


Sources: NOAA, Japan's Organization of Customs, BVSC compiles

FMC's agribusiness sales volume and gross profit margin (unit: %)


Sources: FMC, BVSC compiles

Shrimp processing capacity to increase by 70% in 2022

EU market holds great potential

According to statistics from the General Department of Customs, shrimp export turnover in 2020 reached USD 3.73 bn, up 11% compared to 2019. This is the first year that shrimp export sees growth since 2017 due to (1) production's being less disrupted thanks to Vietnam's better disease control than major competitors such as Ecuador and India, and (2) increased demand for shrimp products in the retail segment during social distancing. The EU market alone recorded an export turnover of USD 517 mn, up about 6% yoy. **In the 2016-2020 period, the CAGR of shrimp imports to the EU from Vietnam reached 3%, seeing further potential for growth after the EVFTA comes into effect.**

Vietnam's exports and export turnover to the EU market


Source: Eurostat

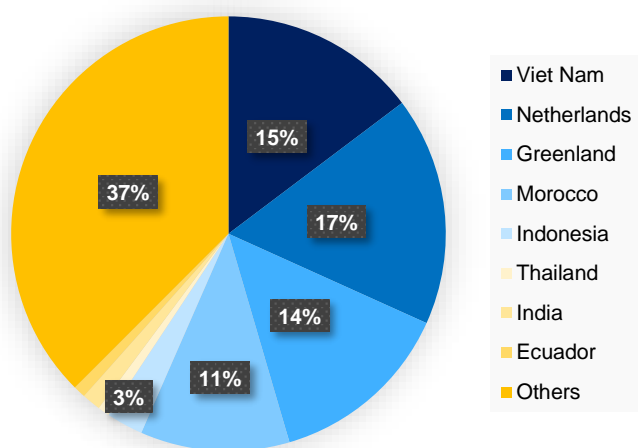
Shrimp export taxes to the EU by country

Country	030617	160521
Vietnam (EVFTA)	0%	B7*
Ecuador (EU-Ecuador FTA)	0%	0%
India (GSP)	4,2%	7%
Indonesia (GSP)	4,2%	7%
Thailand	12%	20%

*B7: gradually reducing to 0% according to the 7-year roadmap since the agreement came into force

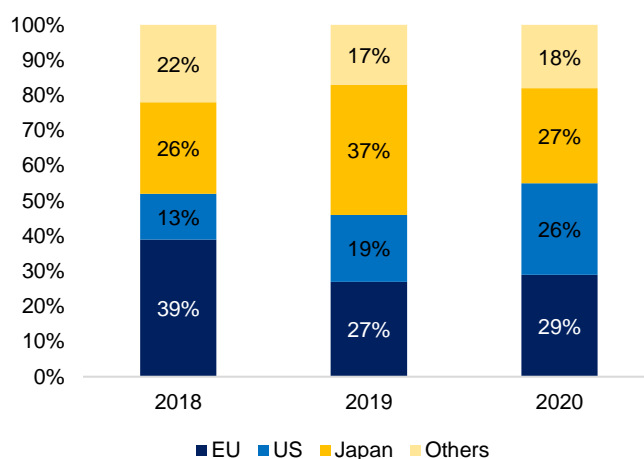
According to the EU-Vietnam Free Trade Agreement (EVFTA), from August 1, 2020, the taxes of 2 items that account for the largest proportion of Vietnam's exports to the EU, frozen shrimp (HS: 030617), have immediately reduced to 0% from the current 4.2% under the GSP; and processed shrimp (HS: 160521) will be reduced to 0% according to the 7-year roadmap, from the current 7% under the GSP. Although products under HS code 160521 have not yet enjoyed the optimal tariff in 2021, **BVSC believes that the EVFTA agreement in the long-term will be the main growth driver for processed shrimp products, which is a strength of Vietnam, and especially FMC.**

Value-added shrimp market share in the EU
in 2020 (HS Code: 160521 & 160529)



Sources: Trademap, BVSC compiles

FMC's revenue by market
(unit: %)



Sources: FMC, BVSC compiles

Starting from 2015, FMC has focused on the EU market after Thai shrimp products lost the advantage of the Generalized System of Preference (GSP) preferential tariff treatment. Until now, the EU market usually contributes about 25-30% to FMC's annual export turnover and remains one of its three key markets.

Capacity expands, but the market potential remains large

FMC's capacity

Factory	Design capacity (tons/year)	Products	Processing capacity in 2020	Status
Nam An Seafood factory	14,500	Block shrimp, stretched shrimp, IQF shrimp, breaded shrimp, fried shrimp	~83%	
An San Food factory	2,900	Mixed vegetables and food, Kakiage,...	~70%	Planning to transfer to subsidiary – Khang An Food JSC
Tin An Seafood factory	2,900	Breaded shrimp	~83%	
Sao Ta Seafood Company	4,350	Block shrimp, IQF shrimp, stretched shrimp	~83%	Planning to let Khang An Food JSC rent in 2 years
Sao Ta Seafood factory	15,000	Stretched shrimp, IQF shrimp (fresh, boiled)		Expected to come into operation in early 2022
Tam An factory	5,000	Agri-products, Shrimp		Expected to come into operation in late 2021

Sources: FMC, BVSC estimates

FMC currently owns only 4 seafood and agricultural products processing factories, with a total design capacity of about 24,000-26,000 tons of finished products/year, quite modest compared to the industry leader - MPC (76,000 tons/year). In 2020, FMC approved the plan to issue an additional 9.8 mn shares to existing shareholders, estimated to earn about VND 245.2 bn, in order to build Sao Ta Seafood Factory to expand the company's production line.

Besides Sao Ta Seafood Factory, FMC also invested in building Tam An factory for its subsidiary, Khang An Food JSC (KAC), which is expected to focus on agricultural products and deep-processed shrimp.

The total amount invested in the two factories is nearly VND 400 bn. They are expected to come into operation in late 2021- early 2022, bringing the total capacity of shrimp and agricultural product processing to nearly double (45,000 tons/year). The improvement of processing capacity supports enterprises in continuing to expand their market share in the EU market while still meeting the needs in two other important markets, Japan and the US.

With the current export market structure of FMC, the investment to expand the capacity of 15,000 tons/year is still within FMC's sales and consumption capacity. Focusing on the EU market has many **advantages** including:

- (1) The EU market, especially the North-Western European countries, favors value-added processed shrimp products, which are of FMC's strength. Currently, Vietnam is holding a large market share in the EU for value-added shrimp (see figure *Value-added shrimp market share in the EU market in 2020*, page 4). This shows that customers in the EU are quite familiar with Vietnamese products, which supports FMC's brand awareness
- (2) Our country's export turnover to EU in 2020 recorded a growth of about 5-6% despite the pandemic situation (see figure *Vietnam's shrimp exports and export turnover to the EU*

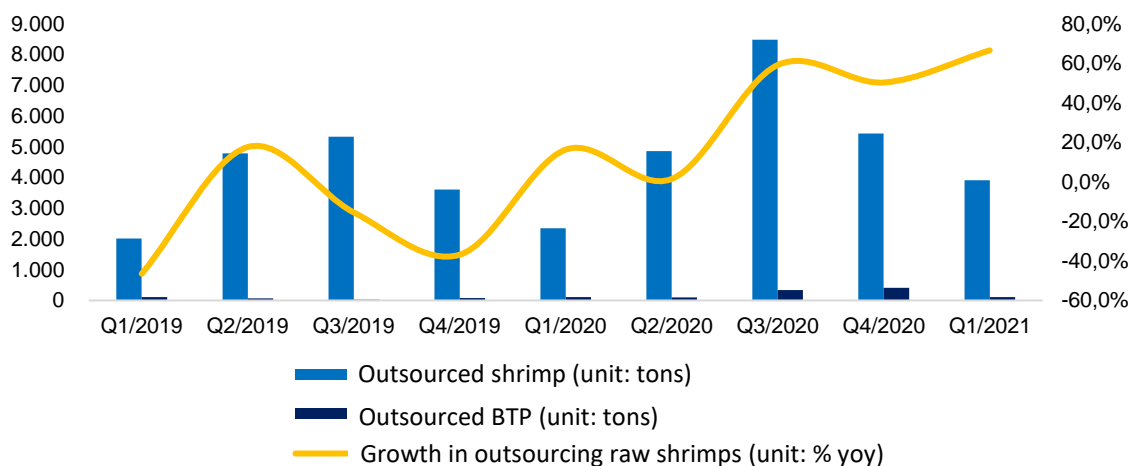
market, page 3). BVSC expects that the demand for shrimp products in this market to be quite stable, with a potential for sustainable growth in the future.

- (3) Although the value-added shrimp products have yet not shown significant effectiveness, the EVFTA agreement will be the main driver of growth in the long term.

Farming area to be expanded, raw material self-supply to be improved to raise gross profit margin

In 2020, FMC has expanded about 81 hectares of farming area, bringing the total farming area to 270 hectares (+30% yoy), partially implementing the plan to increase the material self-supply from 10-15% in 2020 to 50% by 2025. Specifically, the enterprise plans to further expand another 100 hectares of farming areas in the period of 2021-2022. Gross profit margin in 2020 did not completely reflect the efficiency of the new farming area because it is still negatively affected by the unsatisfactory selling price and high price of outsourced shrimp, while the expanded farming area has only been put into operation for a short while. **However, in the long term, BVSC believes that the improvement of material self-supply will help FMC improve gross profit margin to 11-13%.**

Rocketed prices of outsourced shrimp and BTP making it more important to promote self-supply



Sources: FMC, BVSC compile

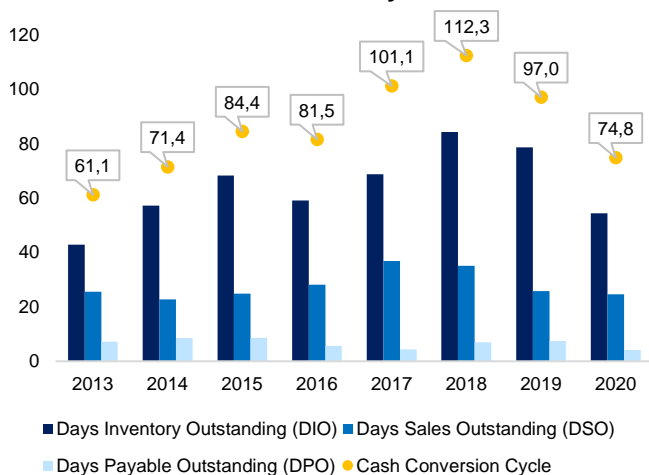
Good governance, stable dividend policy

Despite fluctuations in supply and demand, FMC has managed working capital more and more effectively, especially from 2018 to present. The company uses less financial leverage than peers in the same industry, does not take long-term debt, and tends to reduce the use of financial leverage in recent years, reducing financial risks for shareholders. FMC's operating expenses in 2013-2020 also remained stable at below 5%. FMC has achieved all the above thanks to its enthusiastic and knowledgeable management team in the seafood industry, and the ability to

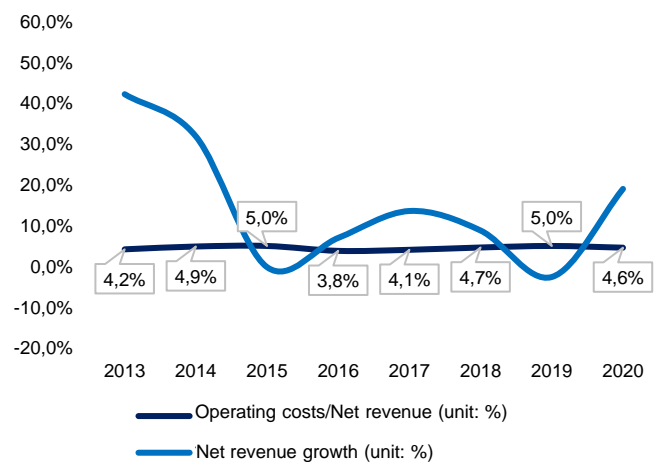
maintain good relationships with partners, distributors, households, etc. In particular, the appearance of PAN Group as a shareholder since 2018 is also a factor affecting the company's policies. PAN Group operates in many links of the agricultural chain, has a lot of experience to support FMC in terms of strategy in the present and in the future to exploit potential markets, expand suitable distribution channels. We believe that with the companionship of the PAN Group and reasonable management policy, FMC will be able to maintain effective operations while developing the business in a sustainable way.

Regarding dividend policy, FMC maintains regular cash payments in 2008-2020. The company plans to pay a cash dividend in 2021 at a minimum of VND 2,000/share and has made an average payment of VND 2,250/share in the last 5 years. Based on actual and forecast business results and profit distribution history, FMC is likely to maintain this dividend payout ratio in the coming period.

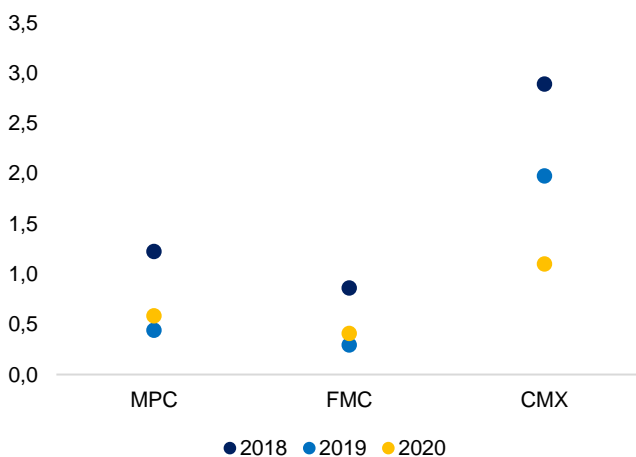
FMC manage working capital more effectively



Strict management of costs amid revenue fluctuations



FMC uses less financial leverage compared to peers in the industry



Dividends in 2015 - 2020

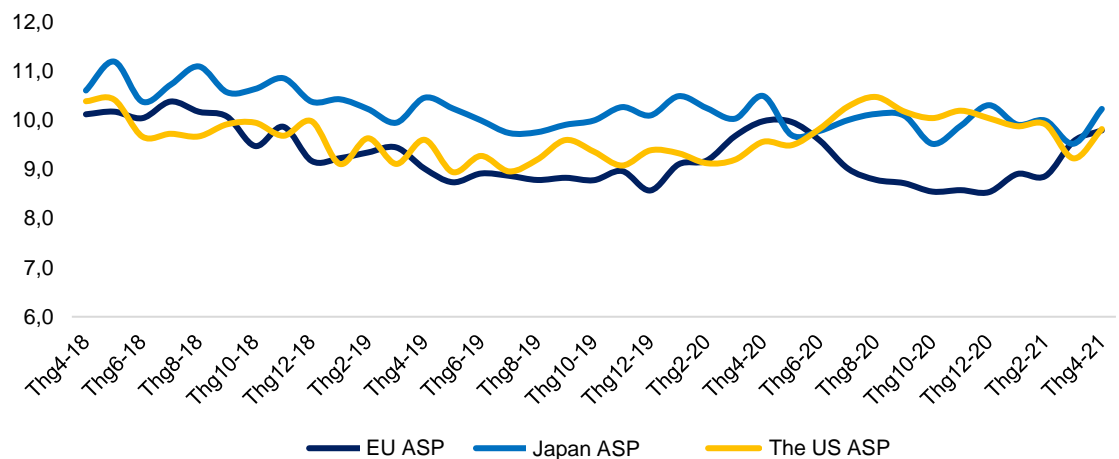


FY21 business forecast

BVSC forecast FMC's FY21 net revenue at VND 4,729 bn (+7% yoy) and NPAT at VND 260 bn (+15% yoy), corresponding to EPS of 4,419. Expected reasons include:

(1) Selling price slightly increases by 1-2% since customers' income suffered negative impacts by the pandemic, causing them to be sensitive for mid-range food products such as processed shrimp.

**Average export price of block shrimp (HS1605) by region
(unit: USD/kg)**



Sources: NOAA, Eurostat, Japan's Organization of Customs, BVSC compiles

(2) Consumption reached 18,000 - 18,200 tons. FMC said that the current orders of both FMC and KAC have been signed and settled until the end of 3Q21, while the year-end orders are still in moderation due to the unsatisfactory situation of raw material prices. Q1 is usually not a properous period for the US, EU, and Japan markets, but FMC still recorded growth in sales volume and shrimp export turnover at 35% yoy and 15% yoy respectively. Therefore, BVSC believes that this business has the ability to boost consumption in three key markets, achieving growth in volume compared to last year.

(3) The farming area of 270 ha is maintained (will be expanded by 100 ha by 2022), reaching 17-18% of self-supply input materials.

(4) SG&A costs increase as transportation costs (freight, warehousing, related services, etc.) remain high.

Indicator (unit: VND bn)	2019	2020	2021F
Net revenue	3,710	4,415	4,729
Growth (%)	-2.5%	19.0%	7.1%
NPAT	230	226	260
Growth (%)	27.3%	-1.7%	15.1%
Gross profit margin (%)	11.4%	9.7%	10.2%
EPS (VND/share)	4,685	4,607	4,419

Valuation and investment viewpoints.

In recent years, FMC has always been in the top 5 in terms of shrimp export turnover from Vietnam, with the key markets being the US, EU and Japan. With the expansion of farming and processing scale, FMC has the ability to grow revenue, improve and stabilize gross profit margin in the medium and long term. Particularly in 2021, we believe that the increased demand for shrimp will create growth in revenue, however, the export price will only increase slightly while the outsourced raw materials and transportation costs reach sudden highs, making NPAT slow to prosper.

BVSC issue a short-term **OUTPERFORM** recommendation on FMC, with a DCF-based target price of **VND 42.800/share**, corresponding to a 2021 forward P/E of 9.7x. With strict management policy and methodical business strategy, we believe that FMC's growth story will not only be in a short term.

Investment risks.

Risks in raw material prices:

Currently, about 80-85% of FMC's raw shrimp are still dependant on outsources, causing FMC's gross profit margin to be greatly affected by fluctuations in the price of raw shrimp in the market. In 2021, some of the factors affecting raw material prices include:

- (1) The cost of animal feed at historical high, causing the cost of farming to increase
- (2) A shortage of raw shrimp in the summer as the world's large shrimp supply, India, faces the problem of supply chain disruption, increasing competition in purchasing raw materials.

The plan to raise the self-supply rate to 50% by 2025 aims to minimize the above risk. FMC said that it is currently expanding the farming area to meet the requirements of the export market, including compliance with the standards of the Aquaculture Stewardship Council (ASC), etc. to minimize the above risks.

Risks in export:

The EU and Japanese markets usually have many requirements on standards for processing, packaging, and product quality. Specifically, in 2017, some Indian shrimp enterprises were banned from exporting to the EU market due to the antibiotic residues in shrimp. During the period of 2020 – 2022, imported food control activities will become even more stringent to prevent the spread of Corona virus, increasing the likelihood of orders (1) being canceled, and/or (2) being delayed at border gates and seaports due to lengthy quarantine procedures. Particularly in the US market, FMC is currently enjoying a preferential tax of 0%, but this tariff rate can be completely changed when the US Department of Commerce conducts the next review period.

FINANCIAL RATIOS

Business results				
Unit (VND bn)	2018	2019	2020	2021F
Revenue	3,807	3,710	4,415	4,729
Cost of goods sold	3,412	3,285	3,986	4,247
Gross profit	395	425	430	483
Financial income	11	18	33	36
Financial expenses	34	21	23	15
NPAT	180	230	226	260

Balance sheet				
Unit (VND bn)	2018	2019	2020	2021F
Cash and cash equivalents	32	253	278	435
Accounts receivable – short-term	289	242	305	324
Inventories	837	578	608	628
Tangible fixed assets	276	267	308	497
Long-term financial assets	0	0	0	0
Total assets	1,495	1,521	1,711	1,969
Short-term loans	593	277	442	355
Long-term debt	0	0	0	0
Owners' equity	689	939	1,081	1,409
Total resources	1,495	1,521	1,711	1,969

Financial indicators				
Indicator	2018	2019	2020	2021F
Growth				
Revenue growth (%)	8.6%	-2.2%	18.9%	7.1%
Net profit growth (%)	60.6%	27.3%	-1.7%	15.1%
Yield				
Gross profit margin (%)	10.4%	11.4%	9.7%	10.2%
Net profit margin (%)	4.7%	6.2%	5.1%	5.5%
ROA (%)	11.5%	15.2%	14.0%	14.1%
ROE (%)	28.6%	28.2%	22.4%	20.9%
Capital structure				
Total debts to total asset	39.7%	18.2%	25.9%	18.0%
Total debts to owners' equity	86.1%	29.5%	40.9%	25.2%
Per shares				
EPS (VND/share)	4,490	4,685	4,607	4,419
Book value (VND/share)	17,138	19,141	22,044	23,944

DISCLAIMER

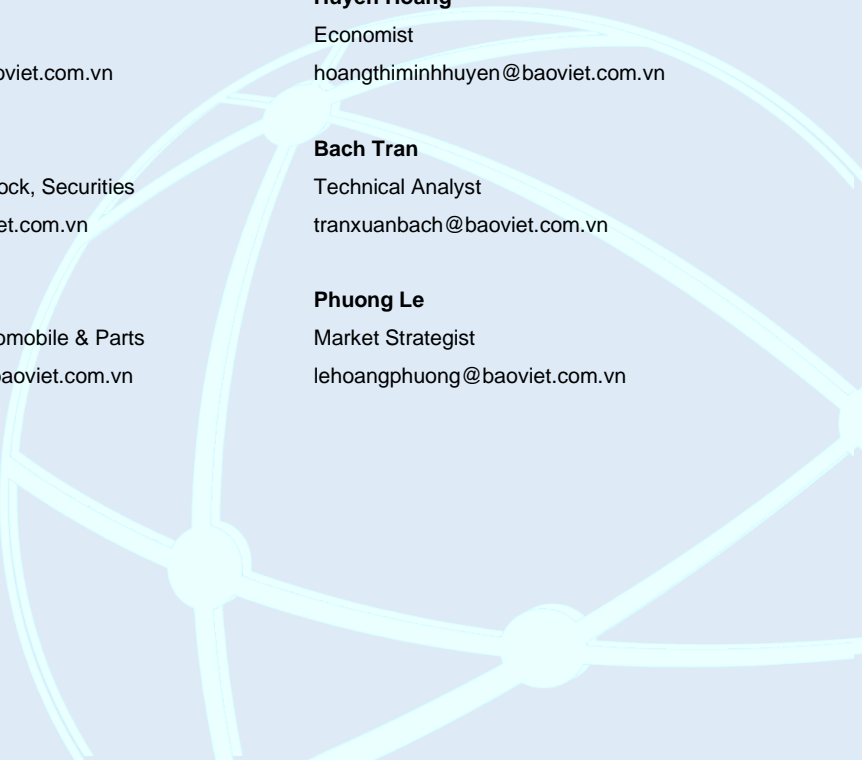
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