

Sector : Agriculture

Minh Phu Seafood Corporation (UpC: MPC) Waiting for the investigation result

Recommendation Neutral

Current price:	31,200	Date:	21/09/2020	Major shareholders (%)	
Previous target price	N/A	Outstanding share (mil)	198	MPM Investments Pte., Ltd;	30.0%
Current target price	33,500	Market cap (VND bil)	5,702	Chu Thi Binh	25.0%
Dividend yield	0%	Average Volume 10 days (share)	174,025	Le Van Quang	22.8%
Upside	7.4%	Foreign Ownership	37.3%	Long Phung Investment Corp.	5.68%

Sector Analyst:

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Target price: 37,440
Cut loss price: 26,930

Table Comparison VNIndex and Stock chart

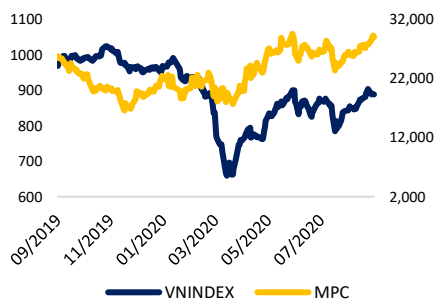
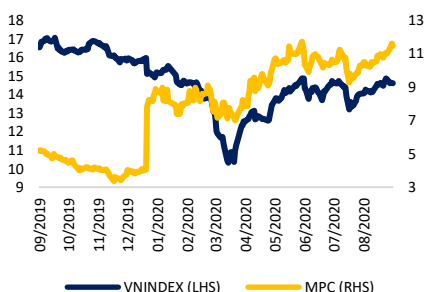


Table Comparison VNIndex and Stock's



Valuation

- We maintain our **NEUTRAL** recommendation for MPC stock with the target price 2021 of 33,500 VND (+7.4% compared with the closing price of 21/09/2020) based on two approach FCFF and P/E.

Business forecast

- For 2020, we expect MPC to post a respective VND 17,264 bn (+2% YoY) and VND 576bn (+30% YoY) in net revenue and profit after tax, equivalent to EPS 2020 of 2,901 VND/ share, PE fw 2020 of 10.0
- For 2021, we forecast net revenue and profit after tax reach VND 19,419 bn (+12.4% YoY) and VND 695 bn (+20.6% YoY). EPS 2021 is 3,498 VND/share.

Catalyst

- EV – FTA coming to effect will support exporting to EU market
- MPC increase the ratio of self – supplying raw materials thanks to (i) applying new technology in current farmlands (ii) deploying of new 300 ha farmlands.

Risks

- Negative result of anti – dumping tax investigation lawsuit
- Corona virus gets worse in the second half of 2020, preventing the recovery of the shrimp demand.

Company Business Result Update

- **First half of FY 2020 business result saw a significant increase in net earnings thanks to cutting expenses.** Net sales totaled VND 5,580bn (-25.7% YoY), fulfilling 37% of guidance while net profit posted VND 231bn (+49.7% YoY), fulfilling 25% of guidance. Exporting markets slumped in the first 6 month: USA (-67% YoY), EU (-39% YoY)....
- **BSC expect that EVFTA coming to effect since 1 August 2020 is a strong catalyst for MPC's exporting value going forward.**
- **Mseafood's anti – dumping tax investigation lawsuit progress:** MPC had sent informations and documents related to the lawsuit, however, corona virus may slow down the progress of investigation.

	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	8.2	9.2	7.4	14.1	Revenue	16,925	16,935	17,263	19,419
PB (x)	1.8	1.1	0.7	1.9	Gross profit	2,197	1,677	1,840	2,070
PS (x)	0.3	0.3	0.4	29	Profit after tax	810	442	576	695
ROE (%)	10.1%	11.1%	4.6%	13.6%	EPS	4,936	2,528	2,901	3,498
ROA (%)	5.0%	6.4%	1.2%	2.4%	EPS Growth	6.7%	-48%	15%	20%
					Liability/Equity	123%	44%	59%	68%

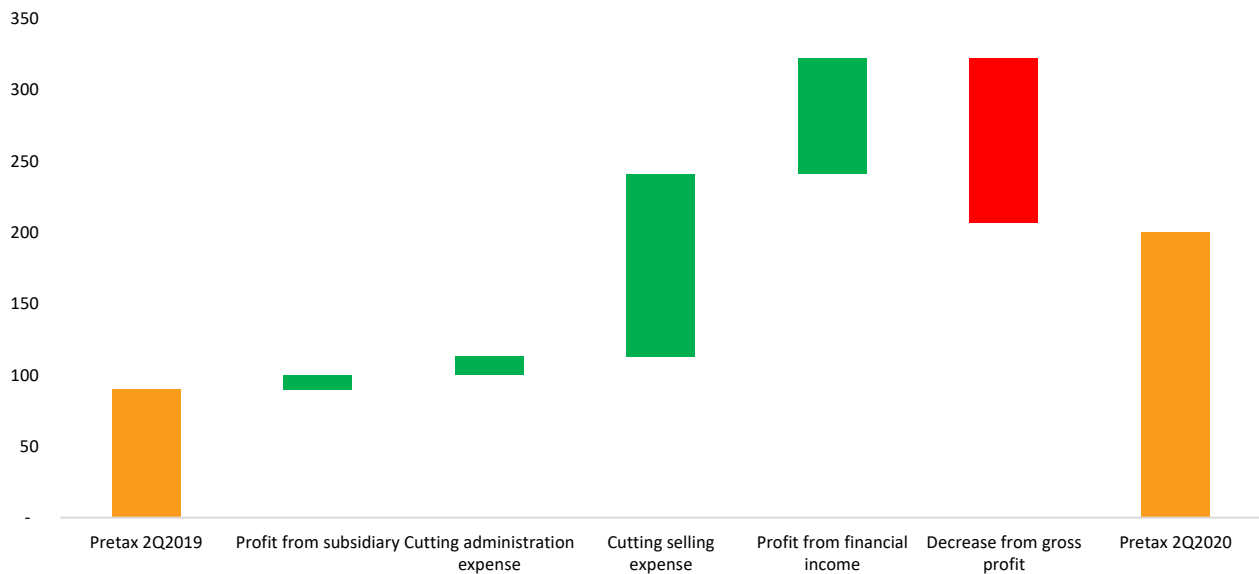
I. FIRST SIX MONTH BUSINESS RESULT UPDATE

The first six - month business result recorded a great performance thanks to cutting selling expense. Accumulated by 6 months, MPC delivered VND 5,580bn (-25.7% YoY) in net sales and VND 231bn (+49.7% YoY) in profit after tax, having accomplishing 36.7% and 25% of the 2020 guidances respectively. Total export value reached USD 227mn (-17% YoY) while exported volume slumped by 19% YoY.

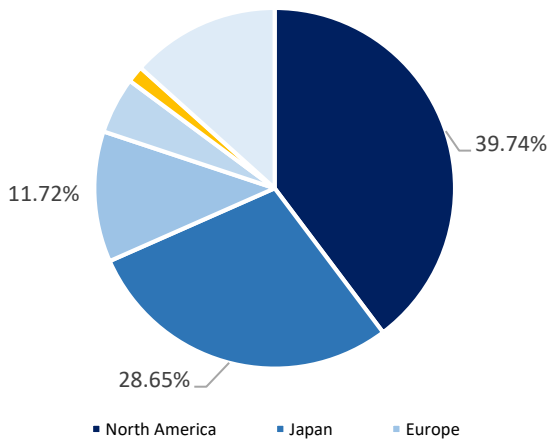
+ Sales in major markets were hit hard: USA: USD 37mn (-67% yoY), EU: USD 23mn (-39% YoY), Korea: USD 12mn (-33% YoY). While anti – dumping tax investigation lawsuit squeezed US demand for MPC’s products, corona virus made it worse as demands in other major markets evaporate.

+ However, the company focusing on cutting selling expense makes up for the large slump in revenue, resulting a surprising increase in net earnings. Selling expense margin in second quarter for 2020 was down to 5.2% from 6.5% in the same period last year.

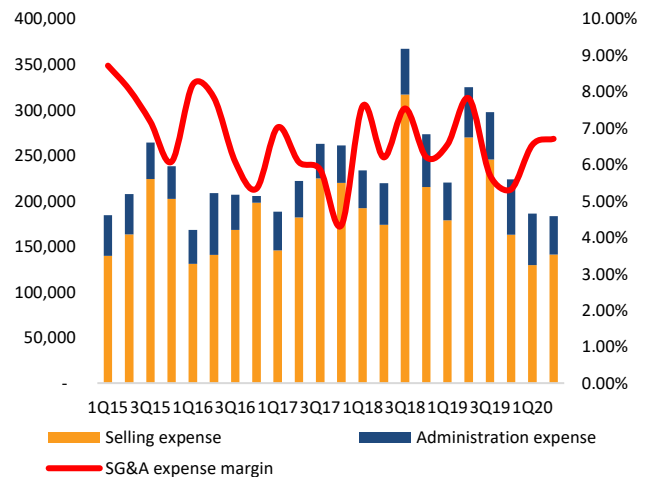
Second quarter pretax profit breakdown



Revenue breakdown by markets

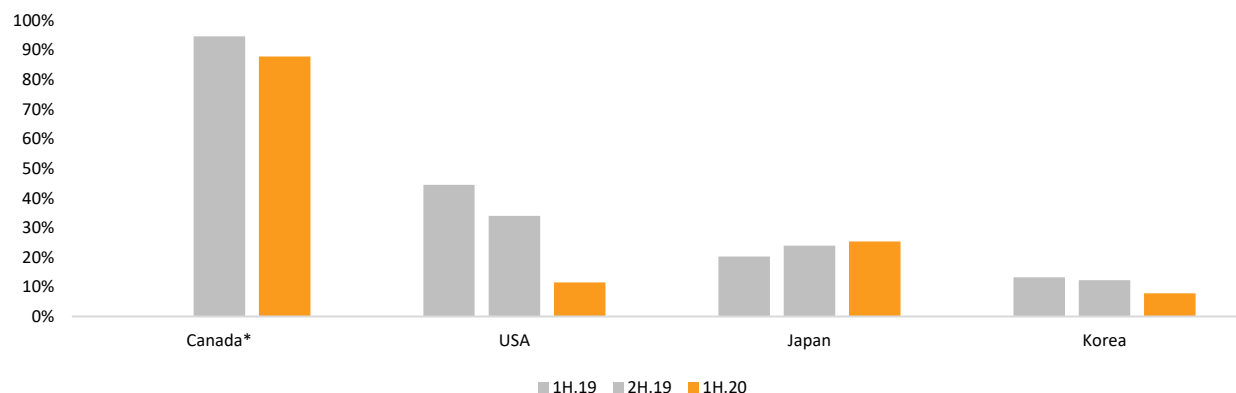


Quarterly SG&A expense



Source: MPC

MPC's market share



*: BSC estimate

Source: The company

FY 2020 guidance was an ambitious target. MPC set the guidance for revenue and profit after tax respectively of VND 15,206bn (-10.2% YoY) and VND 915bn (+106.5% YoY). BSC consider that the company is less likely to achieve the targets as the company is being challenged by (i) corona virus (ii) anti – dumping tax investigation lawsuit in USA.

	1H.2020 A	2020 P	% Achieved
Revenue	5,580	15,206	37%
Profit after tax	231	915	25%
Export value (mn USD)	227	638	36%
Volume (tonnes)	20,642	56,700	36%

Source: MPC

Investment projects update: MPC focus on the expansion of farmland while delay the factory capacity expansion.

(i) High-tech shrimp farming project: MPC has completed the application of 2 - 3 - 4 technology in Loc An farming area (300ha) and continue to implement in Kien Giang farming area (600ha). According to the company, the productivity was quite positive. The company set the target to self – supply 50% of raw material demand, up from the current ratio of 10%.

BSC believes that the company set the priority in increasing the self – supply ratio is a big change in the long term strategy. The company is moving into the upper stage of the value chain of the shrimp industry, helping MPC to be more active in controlling shrimp materials in quality, customer requirements.

(ii) Processing factory capacity expansion project: In 2020, the company only expande the capacity of Minh Phu Ca Mau factory with a total design capacity of 5,000 tons of finished products / year with investment capital of VND 250bn. Minh Phu delay Minh Quy factory project whose capacity is expected to reach 40,000 tons per year due to complicated corona pandemic.

II. SECOND HALF OF 2020 OUTLOOK

According to our view, Minh Phu business picture in the last 6 months of this year is affected by different factors. **The overall outlook for the shrimp industry is expected to remain positive, therefore, MPC with the leading position will benefit from this trend.**

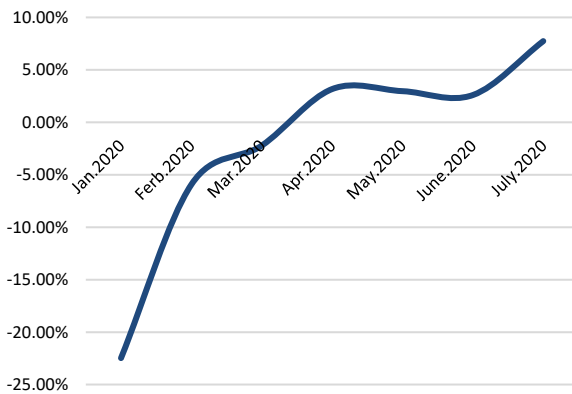
(i) Shrimp export markets continued with positive growth thanks to (a) high growth from the US market (b) growth from the EU market after the EV-FTA took effect on August 1 / 2020

In the first 7 months of 2020, shrimp exports reached USD 1.8 bn (+ 7.74% YoY), of which:

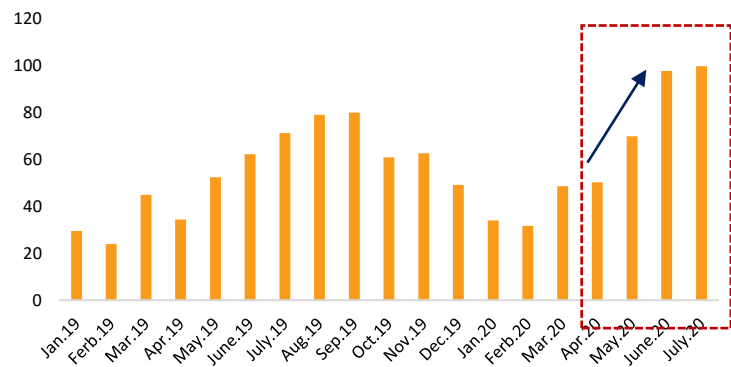
+ The US market: continued to be the strongest growing market with value of VND 423mn (+ 36.1% YoY) due to (i) a low base in 2019 (ii) supply from rival markets (India) is corrupted by Covid -19.

+ The EU market: major shrimp import markets in the EU had mixed movements: UK (USD 82.9 mn, + 9.1% YoY), Netherlands (USD 58 mn, -4.4% YoY), Germany (USD 49 mn, -16.2% YoY).

%YoY accumulate shrimp export value



Kim ngạch xuất khẩu tôm Việt Nam vào thị trường Mỹ (triệu USD)

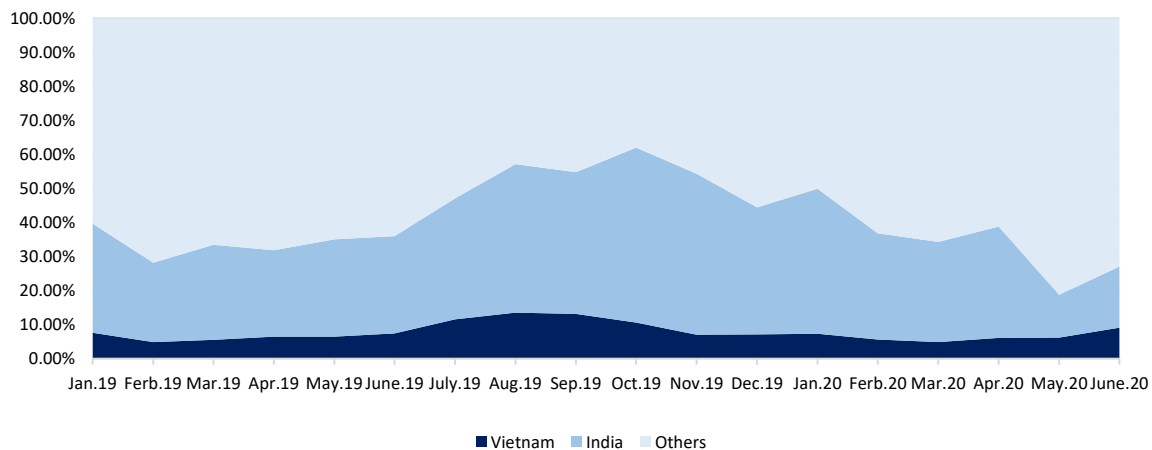


Source: BSC consolidate

BSC expects shrimp exports to continue to be positive in the last 6 months of 2020, especially in the US and EU markets.

+ In the US market: BSC expects the growth rate to remain at a good level thanks to (i) high consumption demand in the second half of 2020 due to the re-operation of the HORECA channel (ii) the Indian supply continue to be disrupted due to the impact of pandemic. However, BSC notes that the anti-dumping tax investigation in the US will still make it difficult for MPC to export to the US market.

Market share of USA shrimp import



+ In the EU market: The reduction of tax on shrimp products when the EV - FTA comes into effect is expected to stimulate seafood importers to import Vietnamese shrimp due to more competitive selling prices. BSC estimates that after the agreement comes into effect, Vietnam's shrimp export prices drop to 7.8 EUR / kg, shortening the gap with India's shrimp prices (~ 6.8 EUR / kg).

Table Tariff of shrimp products export to EU market

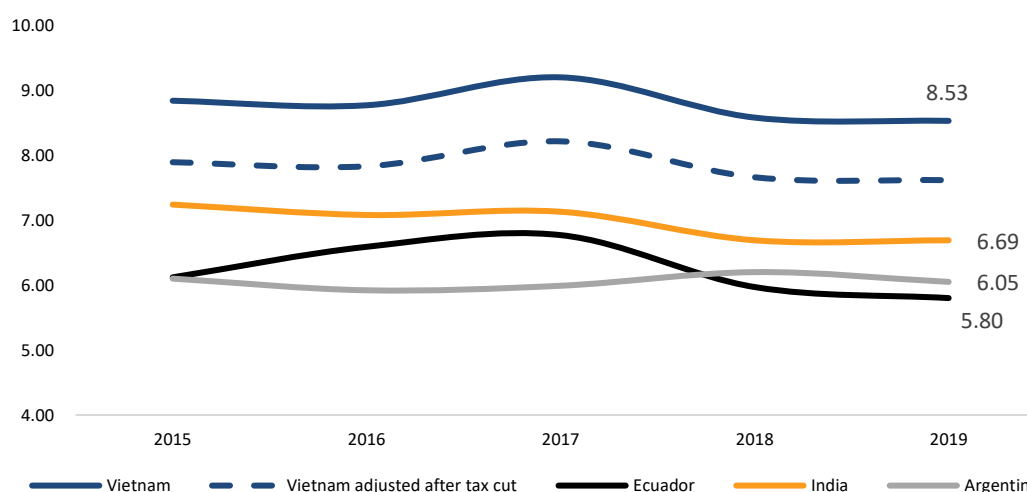
Country	Products	Tariff (%)	Tariff after EV – FTA comes into effect
Vietnam	Frozen shrimp	12	A*
	Processed shrimp	8	B3**
Ecuador	Frozen shrimp	0	
Argentina	Frozen shrimp	12	
India	Frozen shrimp	6	

*: Decrease to 0% after EV- FTA comes into effect

** : Decrease to 0% in 3 years after EV- FTA comes into effect

Source: WHO Center

Bảng So sánh giá bán tôm đông lạnh của một số quốc gia vào EU (EUR/kg)



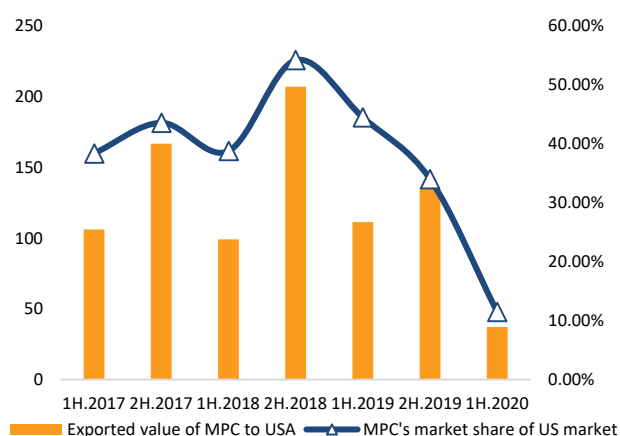
Source: Europa

(ii) The anti-dumping tax lawsuit in the US market continues to negatively affect the company's sales.

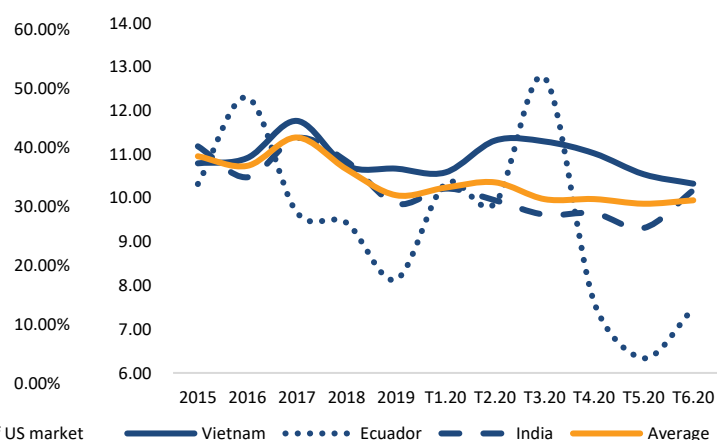
Currently, the US Customs and Border Protection Department has officially started an anti-dumping tax evasion investigation against Mseafood, a subsidiary of Minh Phu Group in the United States and has applied a preliminary provisional measure. Thus, during the investigation, Minh Phu's shrimp exports to the US will be subject to a tax rate of 10% (same rate applied to India) compared to the same period of 0% tax. This makes Minh Phu's position seriously affected as the products is relatively more expensive. In the first 6 months of the year, MPC's market share in the US market fell to 11.4%, compared with the average market share of 42%.

Regarding the progress of the investigation, the MPC has sent the answers and documents surrounding the lawsuit to the US side, however, BSC believes that the Covid -19 epidemic will make progress slower than usual.

MPC's market value of US market



Exporting shrimp price to USA markets



Source: MPC, NOAA

Table Tariffs on shrimp exported to USA market

	POR 9	POR 10	POR 11	POR 12	POR 13
Minh Phu	1.3	0	0	0	0
Fimex	0	4.78	4.78	4.58	0
Stapimex	0.91	4.78	4.78	4.58	0
Camimex	0.91	4.78	4.78	4.58	0
Vietnam	25.76	25.76	25.76	25.76	25.76

Source: DOC

III. FORECAST AND VALUATION

In 2020, BSC forecasts net sales and profit after tax reach VND 17,854 bn (+5.4% YoY) and VND 624bn (+41.1% YoY) based on the following assumptions:

+ 2020 exported volume reach 56,376 tonnes (-2.3% YoY), which is equivalent to a growth of 11.4% in volume in the second half of 2020 thanks to (i) high demand season in the second half of 2020 (ii) delayed contracts back to normal.

	1H.17	2H.17	1H.18	2H.18	1H.19	2H.19	1H.20	2H.20F
Exported volume (tonnes)	21,937	34,575	24,819	42,825	25,658	32,060	20,642	35,734

+ Export value in each market: North America export value reach USD 222mn (-28.1% YoY), Japan market export value is USD 141mn (+6.5% YoY), EU market export value is USD 72mn (-1% YoY) and Korean export value is USD 35mn (-7% YoY).

By the first 6 month of this year, MPC's revenue by market breakdown: North America market - 39.7% of total revenue), Japan market - 28.6% of total revenue, EU market – 11.7% of total revenue and Korea – 5.1% of total revenue.

+ Gross profit margin in 2020 is forecast to reach 10.8%, up from 9.9% in 2019. In the first 6 months of the year, MPC's gross profit margin is a10.4%. We expect gross margin to improve in the second half of 2020 thanks to (i) the low base for 2019 (the company had to buy high-priced raw materials in 2019 due to lack of raw shrimp) (ii) Selling prices increased slightly thanks to high demand

+ SG&A margin for 2020 is 6.1% of revenue, slightly down by 0.2% from the 2019 level

Table MPC's Business Forecast				
Unit: bn VND	2018	2019	2020F	2021F
Net revenue	16,925	16,935	17,264	19,419
<i>Growth</i>	8.0%	0.1%	1.9%	12.5%
Finished product revenue	14,508	13,984	14,174	16,177
Merchandise revenue	2,485	3,053	3,053	3,206
Cost of goods sold	(14,727)	(15,257)	(15,423)	(17,349)
Gross profit	2,197	1,677	1,840	2,070
<i>Gross profit margin</i>	13.0%	9.9%	10.7%	10.7%
Selling expense	(907)	(857)	(846)	(971)
<i>Selling expense margin</i>	5.4%	5.1%	4.9%	5.0%
Administration expense	(186)	(209)	(214)	(241)
<i>Administration expense margin</i>	1.1%	1.2%	1.2%	1.2%
Profit before tax	902	497	647	781
Profit after tax	810	443	576	695
EPS	4,936	2,528	2,901	3,498
<i>Growth</i>	6.7%	-48.8%	14.7%	20.6%

Source: BSC Research

PE multiple approach: Currently, the stock is trading around P/e trailing of 10.4, a premium of 22% compared to 5 year median PE. BSC chooses the target P/E of 8.5 as anti dumping tax investigation lawsuit is the key risk to our valuation.

PE approach	2020	2021	2022
EPS	2,901	3,498	3,776
PE	8.5	8.5	8.5
Target price	24,700	29,700	32,100

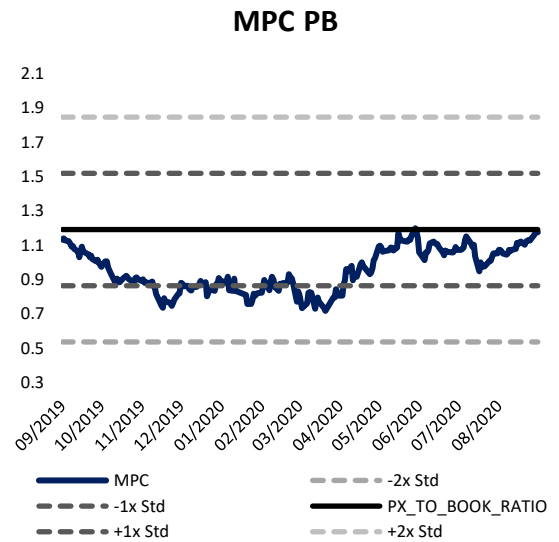
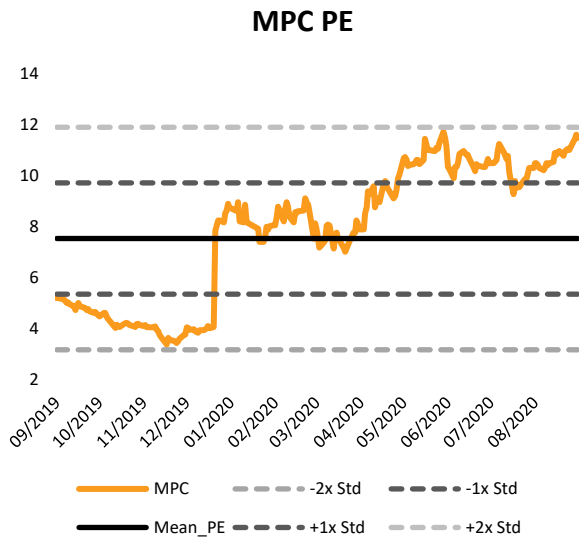
Source: BSC Research

FCFF approach

	2020	2021	2022
Free cash flow to firm	(52)	(25)	800
Present value	5,913		
Total firm value	9,350		
Debt	2,203		
Equity value	7,146		
Number of shares	196,649,670		
Value of a share (VND)	36,300		

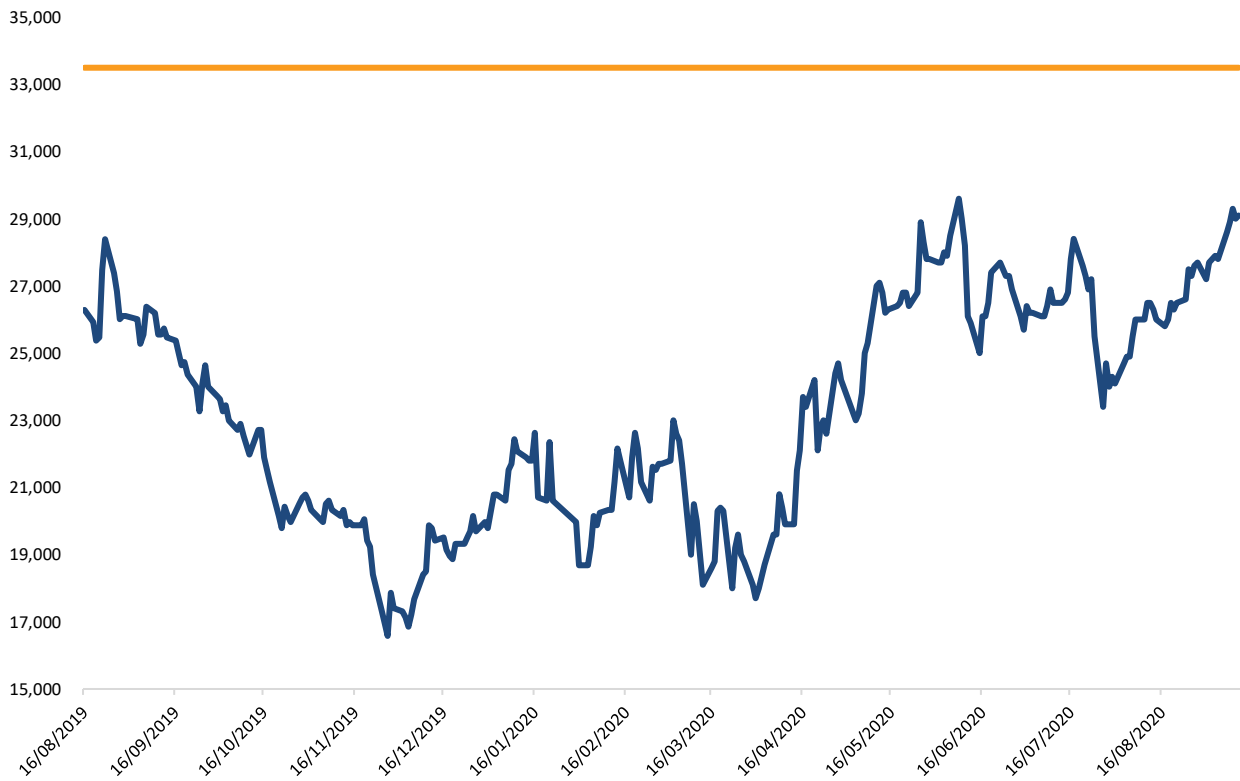
				WACC	
				Rf	6.5%
				Beta	0.5
				Ke	13.0%
				Kd	9.0%
				E/A	60.0%
				Tax rate	20.0%
				WACC	11.2%
				g	2.5%
	Price	Proportion	Average price		
FCFF	36,300	60%	21,780		
P/E	29,700	40%	11,880		
Target price			33,660		
Current price			29,100		
Upside			15.67%		

We recommend NEUTRAL to the ticker with the target price for 2021 of 33,500 VND per share based on two approach : FCFF and P/E with the proportion of 60%/40%.



Source: Bloomberg

MPC STOCK CHART AND BSC'S RECOMMENDATION



TECHNICAL ANALYSIS

MPC – Minh Phu Seafood Corporation

Technical highlights:

- ❖ Current trend: Uptrend.
- ❖ Trend indicator MACD: The MACD line is above the signal line.
- ❖ RSI indicator: Gradually increases above 50 and has not entered the overbought zone.
- ❖ MAs: EMA12 is above EMA26

Outlook:

MPC is in a status of increasing price from the beginning of April until now after having plummeted in 2019. Most of technical indicators are in a positive status. The stock liquidity in recent weeks remains good and stable. Currently, MPC is moving around the old peak at 29-30. The RSI momentum indicator is above neutral so this stock has the potential to continue bullish and return to past highs. According to our assessment, MPC's movement prospect in the coming time is relatively bright, but there may still be short-term corrections in the process of challenging strong resistance areas.

Recommendation: Investors can buy when the MPC is still fluctuating below 30 and should prioritize holding stocks in the long term with the target of taking profit at around 37.5, consider cutting loss if the support area around 27 is penetrated.



Source: BSC, PTKT iTrade

APPENDIX

Profit and Loss (bil VND)	2018	2019	2020F	2021F
Net revenue	16,925	16,935	17,263	19,419
Cost of goods sold	14,727	-15,257	-15,423	-17,349
Gross profit	2,197	1,677	1,840	2,070
Selling expense	-907	-856	-846	-971
Administration expense	-186	-209	-214	-241
Income from business operation	902	493	647	781
Financial income	129	134	101	139
Financial expense	-337	-267	-248	-231
Interest expense	-203	-151	-140	195
Income from associates/JVs	6	14	0	0
Net other income	0	4	0	0
Profit before tax	902	497	647	781
Corporate Income Tax	-92	-54	-71	-86
Profit after tax	810	443	576	6956
Net income attributable to NCI	107	3	6	7
Net income attributable to shareholders	703	439	570	687
EPS	4,936	2,528	2,901	3,498

Cash flow (bn VND)	2018	2019	2020F	2021F
Profit before tax	902	497	702	782
Depreciation	178	184	260	284
Changes in capex	-819	1,840	-463	-912
Other adjustments	-	-	-	-
Cash flows from operating activities	66	2,273	332	488
Purchases of fixed assets	-183	1,169	-500	-300
Other investments	0	0	0	0
Cash flows from investing activities	-385	2,007	-1,155	-955
Dividend paid	0	-692	-300	-400
Net borrowing	-946	-2,367	1,100	1,000
Other borrowing	-	3,038	-	-
Cash flows from financing activities	-1,021	-98	918	600
Beginning cash	1,785	448	621	696
Ending cash	448	621	696	828

Balance sheet (bn VND)	2018	2019	2020F	2021F
Cash and cash equivalents	448	621	695	828
Shortterm investments	516	1,408	1,414	1,009
Accounts receivable	1,906	1,947	1,918	2,155
Inventories	4,674	2,826	2,962	3,342
Other current assets	79	61	65	74
Total current assets	7,623	6,863	7,213	7,945
Fixed assets	1,039	1,002	1,242	1,257
Long term assets in progress	172	320	320	320
Long term investments	125	188	1	1
Other long term assets	126	163	170	192
Total non current assets	1,469	1,677	1,924	1,963
Total assets	9,092	8,540	9,137	10,565
Current payable	412	664	557	628
Short term borrowing	3,377	2,203	3,342	4,041
Other payables	59	432	239	269
Current Liabilities	4,119	3,462	4,106	5,126
Long term borrowing	1,190	0	0	0
Other long term payable	1	0	0	0
Non current liabilities	1,248	57	19	19
Total Liabilities	5,368	3,519	4,107	5,145
Contributed capital	1,400	2,000	2,000	2,000
Share premium	0	2,361	2,361	2,361
Retained earnings	1,507	347	396	654
Other funds	0	0	0	0
Non controlling interests	1,506	347	125	132
Shareholders' Equity	3,725	5,021	5,030	5,420
Total Liabilities and Equity	9,093	8,540	9,137	10,565
Outstanding number of shares	140	198	198	198

Ratio(%)	2018	2019	2020F	2021F
Liquidity				
Current ratio	1.85	1.98	1.67	1.46
Cash ratio	0.70	1.15	0.93	0.74
Solvency				
Liabilities/Asset	59%	41%	45%	49%
Liabilities/Equity	144%	70%	80%	85%
Efficiency				
Inventory period (day)	108.4	89.7	68.2	71.1
Receivable collection period (day)	38.0	37.4	36.2	34.8
Payable payment period (day)	13.2	12.9	14.0	12.3
CCC	133.1	114.2	90.4	93.9
Profitability				
Gross profit margin	13.0%	9.9%	10.8%	10.5%
Net margin	4.8%	2.6%	3.5%	3.5%
ROE	24.1%	10.1%	11.1%	12.5%
ROA	8.7%	5.0%	6.4%	7.3%
Market ratio				
PE	5.8	8.2	9.2	8.3
PB	1.5	1.8	1.1	
Growth				
Revenue growth	8.0%	0.1%	5.4%	12.4%
PBT growth	13.9%	-44.9%	41.1%	11.5%
EPS growth	6.7%	-48.8%	24.4	11.5%

DISCLOSURE

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