



BUSINESS INSIGHT #2:

Aquatic Food Production Industry – Disrupted Recovery?

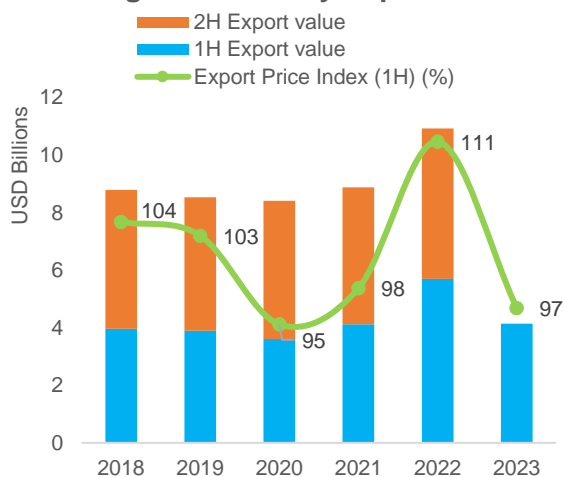
DATE OF ISSUE : 20/9/2023

The remarkable surge in export activities throughout 2022 facilitated the aquatic food production sector's recuperation, inducing substantial revenue escalation over the past year. Nevertheless, transitioning into 2023, the landscape appears to be less favorable for sustaining this path of recovery. Elevated input costs, formidable capital accessibility constraints, and intensified competitive pressures stemming from the global market have collectively conspired against the seamless continuation of this recuperative phase.

In Review: The Year 2022

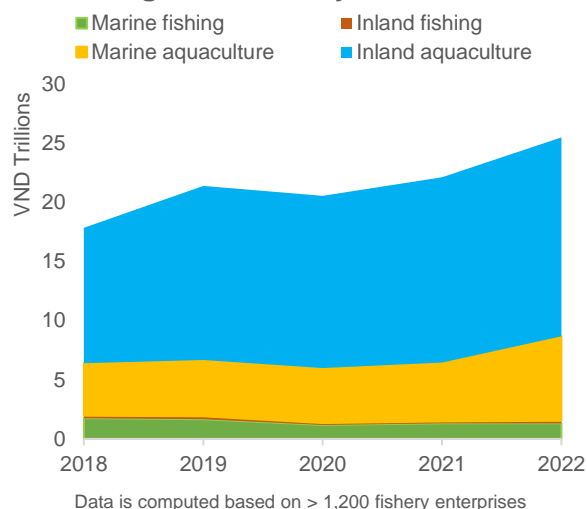
In 2022, the fishery industry witnessed a significant growth compared to 2021, owing to a rise in both demand and prices in the global market, particularly in the United States and China. The total value of seafood exports in the year surged from approximately \$8.9 billion in 2021 to nearly \$11 billion in 2022, representing an increase of over 23% (Figure 1). The driving force behind this upswing was the enhanced export performance of catfish and freshwater shrimp during 2022. Specifically, the low inventory situation, which persisted for two years due to the Covid-19 pandemic, spurred seafood imports from the U.S. market. Furthermore, the escalating inflation rates prompted consumers to shift their preferences from expensive domestically farmed fish to competitively priced imported seafood. For Vietnam's largest seafood import market, China, despite facing Covid-19 containment policies, the country intensified its seafood imports to meet the demand as its domestic production was hampered.

Figure 1: Fishery Export



Source: General Statistics Office

Figure 2: Fishery Revenue



Source: FiinGroup

Aligned with the ascending trend in the value of seafood exports throughout 2022, the aggregated revenue data of aquatic enterprises also reflects distinct growth, with key contributors to this upswing being inland and maritime aquaculture activities. Supported by information gathered from over 1,200 aquatic industry participants, their combined revenue experienced a 15% YoY surge, escalating from approximately 22 trillion VND in 2021 to surpass 25 trillion VND in 2022 (Figure 2). Notably, domestic aquaculture, forming the primary share of industry revenue, increased by 7%, reaching almost 17 trillion VND in 2022 from over 15 trillion VND in 2021. Ranking second in revenue share, marine aquaculture recorded robust growth, rising by 44% YoY, exceeding 7 trillion VND in 2022 from nearly 5 trillion VND in 2021. These positive signs align with the Vietnamese aquaculture sector's strategy of sustainable development through reduced extraction, especially nearshore, while prioritizing aquaculture expansion.

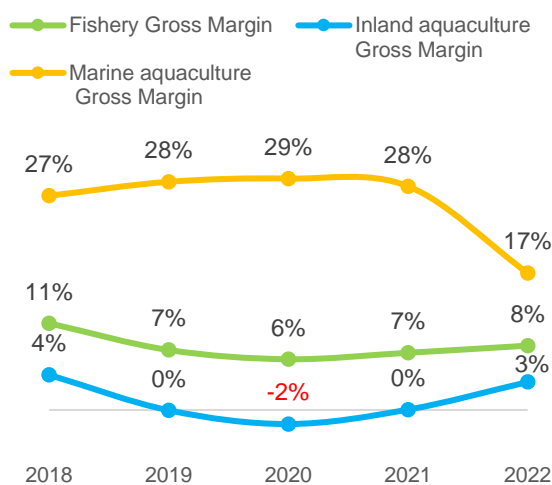
Table 1: Top Key players of the industry

Company	Total Assets (VND billion)	Gross Revenue (VND billion)	Gross Profit Margin	Age (Year)	FiinGroup Credit Score 2023
Company 1	5,257	723	12%	16	66
Company 2	3,950	1,527	-9%	2	42
Company 3	1,325	1,232	14%	5	57
Company 4	1,310	1,035	15%	15	52
Company 5	739	781	3%	17	60
Company 6	687	952	-13%	13	41
Company 7	566	923	3%	7	64
Company 8	503	712	-14%	17	32
Company 9	416	4,038	0%	13	46
Company 10	240	1,162	1%	9	65

Source: FiinGroup

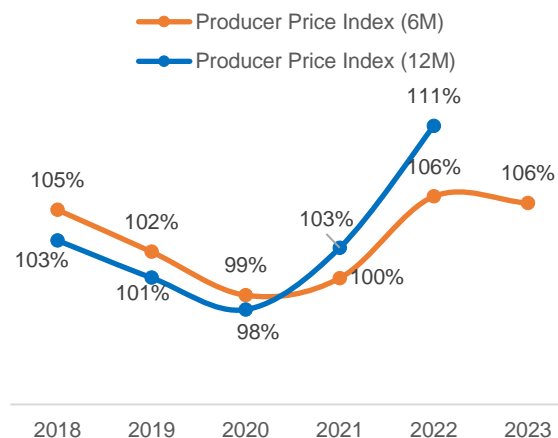
Despite experiencing a significant growth in export values and revenue in 2022, the gross profit margin across the seafood industry only saw a slight increase. In fact, even seafood enterprises engaged in marine aquaculture activities, which tend to export aquatic products, experienced a notable decline in their gross profit margins. During the period from 2019 to 2022, the gross profit margin of the seafood industry fluctuated around 7% and reached 8% in 2022. In the case of the marine aquaculture sector, the gross profit margin oscillated around 28% during the 2018-2021 period but decreased to 17% in 2022 (Figure 3). The modest gross profit margin of the seafood industry is primarily attributed to the substantial proportion of input costs within the sector. This low gross profit margin could diminish the industry's attractiveness and hinder its ability to attract both investment and financing.

Figure 3: Profitability ratios



Source: FiinGroup

Figure 4: Fishery Producer Price Index



Source: General Statistics Office

The increase in production costs within the industry is further highlighted through the continuous upward trend of the seafood industry's production price index¹ from 2020 to early 2023. The production prices in the seafood industry surged notably toward the end of 2022, with the production price index for 2022 reaching 111% compared to 2021 (refer to Figure 4). This upward trend persisted into the first half of 2023, where the production price index for 6 months of 2023 stood at 106% compared to the same period in 2022. The high costs of commodities, input materials for aquaculture development, increased logistics costs from 2022, and labor expenses are factors that have kept seafood processing production costs consistently high.

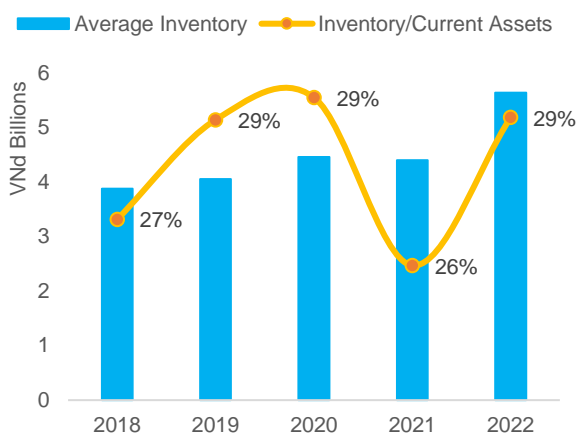
¹ The seafood industry's production price index is a metric that measures the changes in the prices of seafood products, such as fish and shrimp, that producers must pay when manufacturing them. When this index rises, it signifies an increase in the production costs of seafood, indicating that the production of these products has become more expensive.

Challenges in 2023

In contrast to some positive signals seen in 2022 as discussed above, the situation has changed in 2023, with the seafood industry facing heightened pressures from the international market and unfavorable macroeconomic factors domestically. First, the export prices of seafood products at the beginning of 2023 show a significant downward trend. This is due to intense price competition in the international market from countries like India and Ecuador, making it challenging for Vietnamese export enterprises to secure orders, leading to continuous price reductions. Second, countries that imported a substantial amount of seafood in 2022 ended up accumulating large inventories, which remained unsold, causing a sharp reduction in seafood import demand in early 2023. These two main factors have contributed to a decline in the value of seafood exports in the first half of 2023, dropping from \$5.7 billion in 2022 to \$4.1 billion in 2023, marking a decrease of about 27%. This marks a disruption in the recovery that the industry had experienced since 2021 (Figure 1).

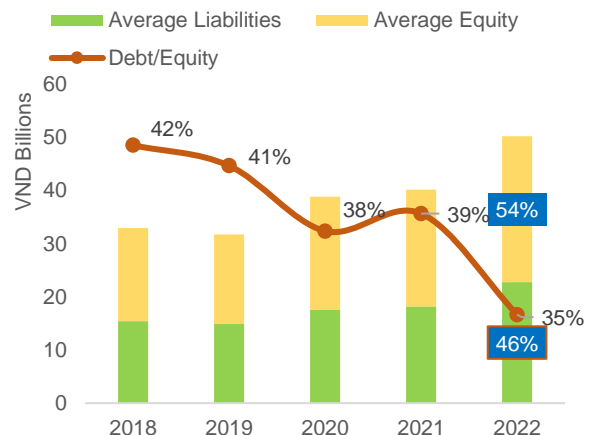
In the context of declining export prices and reduced international import demand, addressing the issue of high year-end inventory levels in the seafood industry has become a pressing concern. The average estimated year-end inventory for a seafood enterprise saw a certain increase, rising from 4.4 billion VND at the end of 2021 to over 5.6 billion VND by the end of 2022, reflecting a nearly 30% growth (refer to Figure 5). The accumulation of high inventory levels at the end of 2022, coupled with slow inventory turnover, could potentially lead to increased storage and preservation costs, particularly in the context of inflation in 2023. This poses a significant challenge for seafood enterprises if they are unable to find consumption markets in 2023.

Figure 5: Fishery Inventory



Source: FiinGroup

Figure 6: Fishery Capital Structure



Source: FiinGroup

The challenges faced by seafood enterprises in 2023 extend beyond just the sales process; seeking funding, especially through loans, also presents certain obstacles for the seafood sector. The proportion of equity capital to total assets consistently remains above 50%, and the ratio of debt-to-equity capital trended downward during the 2018-2022 period, indicating that long-term funding for seafood enterprises typically comes from internal resources (Figure 6). In the transition from late 2022 to 2023, the high interest rates along with tightened credit conditions will continue to hinder seafood enterprises in accessing loans to sustain their production and exports. The difficulty in accessing loan capital will prevent seafood industry businesses from investing in technological development to address productivity challenges and reduce production costs, as mentioned earlier. According to FiinGroup's assessment, financial risk within the seafood industry remains a significant concern, particularly for the 2023 financial year.

Some Proposals for the Future

The Vietnamese seafood production industry is currently facing significant challenges on its path to recovery in 2023. These challenges are rooted in adverse impacts from the international market and ongoing issues carried over from 2022. Key challenges include ineffective inventory management, addressing the rise in production costs, and securing financial resources. In addition to self-implemented solutions, both the government and industry associations should provide specific support measures for the seafood sector to overcome these hurdles.

To elaborate, seafood enterprises should concentrate on diversifying their financial sources by fostering strong collaborations with financial institutions and investors. This collaboration may encompass the establishment of strategic partnerships and a careful examination of various financial options. Companies should also seek long-term financing sources to channel resources toward research and development or investments in advanced technology. This investment can enhance production efficiency and bolster competitive capabilities, thereby increasing the export value and easing international pricing pressures. Moreover, businesses should adopt adaptable strategies and conduct comprehensive risk analyses to navigate market fluctuations effectively.

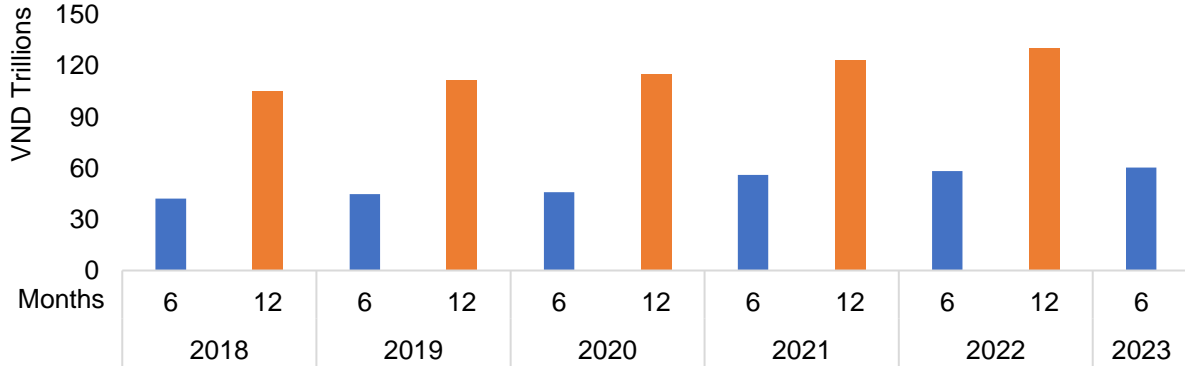
From a governmental perspective, it is imperative to accelerate the implementation of specific measures that support the sustainable development of the seafood production industry. This includes facilitating capital allocation by creating favorable conditions for the provision of credit packages, such as the 10 trillion VND credit package, optimizing the value-added tax refund policies, and improving transportation infrastructure. Simultaneously, actively promoting trade facilitation and encouraging seafood enterprises to invest in research and development, enhance production efficiency, and adhere to environmental compliance standards will significantly support seafood exports in the future. Furthermore, it is essential that government policies remain in alignment with trade agreements between partner nations to ensure a conducive and competitive environment for the seafood industry's growth and resilience.

Summary

In 2022, the fishery industry in Vietnam depicted a positive landscape by showcasing several optimistic indicators. Among these, the total value of seafood exports and the revenue of seafood enterprises witnessed robust growth, primarily attributed to the surge in export prices of seafood products. However, this narrative might shift in 2023, as the seafood export sector faces challenging dynamics such as declining export prices, reduced international import demand, and high year-end inventory levels from 2022. Furthermore, the difficulties for seafood enterprises in 2023 extend beyond the sales process as mentioned earlier, encompassing issues of accessing funding. To address the complexities of these challenges, seafood enterprises should intensify collaboration with the government to formulate policies that alleviate funding constraints, reduce operational costs, and develop effective strategies to enhance production process efficiency and product value. This approach would enable them to strengthen their position in the international market.

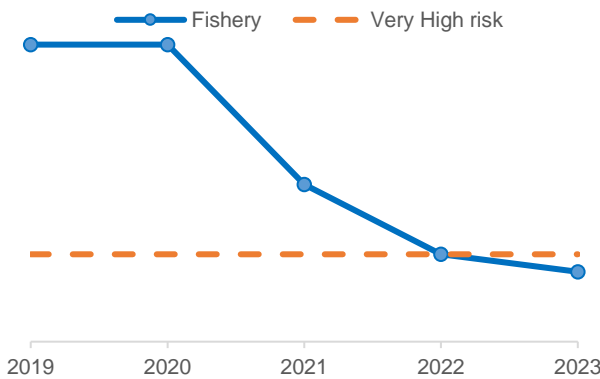
Supplemental Materials²

Figure 7: GDP - Fishery (cummulative - at current price)



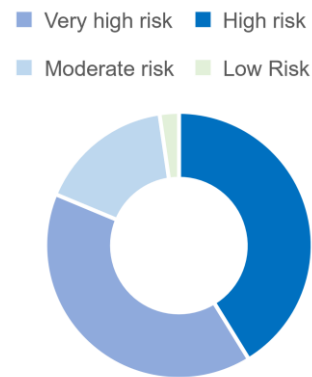
Source: General Statistics Office

Figure 8: Fishery Credit Score



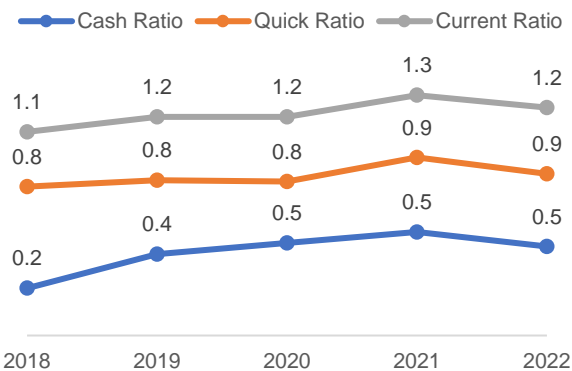
Source: FiinGroup

Figure 9: Score Distribution



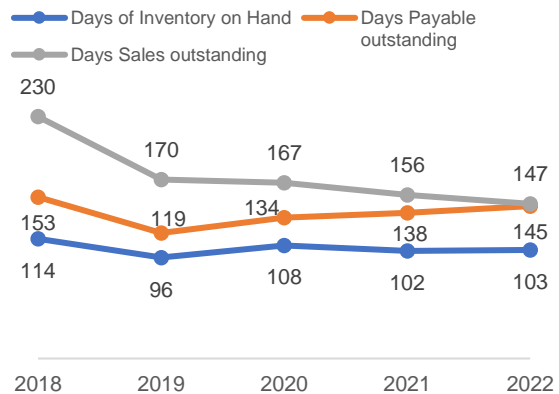
Source: FiinGroup

Figure 10: Liquidity Ratios



Source: FiinGroup

Figure 11: Activity Ratios



Source: FiinGroup

² Supplemental Materials provides more information about the industry including GDP, FiinGroup Credit Score, Industry Average Ratios,..



Copyrights and Disclaimer

This document is prepared by FiinGroup Joint Stock Company for reference purposes only. This document does not make recommendations to buy, sell or hold any particular stock or transaction.

The information in this report, including data, charts, tables, analytical opinions, and assessments of FiinGroup is used for reference only at your discretion and risk. FiinGroup will not be responsible for any loss or damage that may be caused by the use of the information in this report.

This document is subject to change without prior notice. The content and assessments contained in this report may be changed or out of date depending on the facts and additional information available to us. FiinGroup will not be responsible for updating, modifying, and supplementing the content in accordance with such changes.

All information is compiled and processed based on public information and other sources obtained by FiinGroup, we do not have procedures to perform independent verification of the accuracy, completeness, or suitability for use and we make no commitment as to the accuracy of such information.

FiinGroup Joint Stock Company owns the copyright to this document and the entire content of the report. This document is protected under the provisions of copyright laws in Vietnam and other countries under treaties between Vietnam and other countries.

None of the data, charts, tables, models, and statements contained in this report may be reproduced, copied, modified, commercialized, or published in whole or in part in any way without the approval of FiinGroup.

FIIN GROUP, FIIN, and FIINGROUP are registered trademarks of FiinGroup Joint Stock Company

About FiinGroup

As a Vietnam's leader in financial data & analytics, we commit to provide meaningful information, insights and technologies that drive the capital markets.

Established in March 2008, FiinGroup has become a market leader in providing financial data, business information, industry research, credit ratings and other data-driven analytics services in Vietnam. We are proud to be an FDI organization cooperating with various established partners globally such as Nikkei (the holding company of Financial Times), QUICK Corp (Japan), Asian Development Bank (ADB), and most recently S&P Global Ratings, the leading credit rating agency in the world. FiinGroup is serving more than 1,000 local and foreign financial institutions and corporations through our fintech platform as a service (PaaS), annual packages and on-call services.

With the mission to “Enlighten the Market”, FiinGroup strives to create a new standard of financial data analysis for the Vietnam market. We take a shared responsibility to do business in ways that respect, protect and benefit our customers, partners, employees, suppliers, communities, and Vietnam capital market. We co-create innovative data and business analytic solutions to bring more values and offer more opportunities to enterprises and people around the world, now and for future generations.

Contact Us

Vietnam FiinGroup Joint Stock Company

Head Office

 Level 10, Peakview Tower, 36 Hoang Cau Street,
O Cho Dua Ward, Dong Da District, Hanoi, Vietnam

 (84-24) 3562 6962 \ Fax: (84-24) 35625055

 info@fiingroup.vn

 <https://fiingroup.vn>

Ho Chi Minh City Branch

 Level 16, Bitexco Financial Tower, 2 Hai Trieu Street, Ben
Nghe Ward, District 1, Ho Chi Minh City, Vietnam

 (84-28) 3933 3586

 info@fiingroup.vn