

Vinh Hoan Corporation's December IR news

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Industry's prominent events in 2018

Pangasius exports set all-time high USD 2.3 billion record

In 2018, Vietnam seafood exports hit nearly USD 9 billion, a growth of 8.4% year-on-year, according to latest data from VASEP. In which, pangasius exports set a new 20-year record high of USD 2.3 billion, an increase of 27% year-on-year. According to industry experts at Global Seafood Market Conference, the development of pangasius will continue apace in 2019 when worldwide production is expected to reach 3 million tons, a 4.6% increase year-on-year.

Vietnam's farming area totaled 5,400 hectare in 2018, a slight increase of 3.3% over 2017. Harvest volume reached 1.42 million tons, up 8.4% year-on-year.

Pangasius World Harvest WHOLE FISH WEIGHT



Source: Global Seafood Market Conference

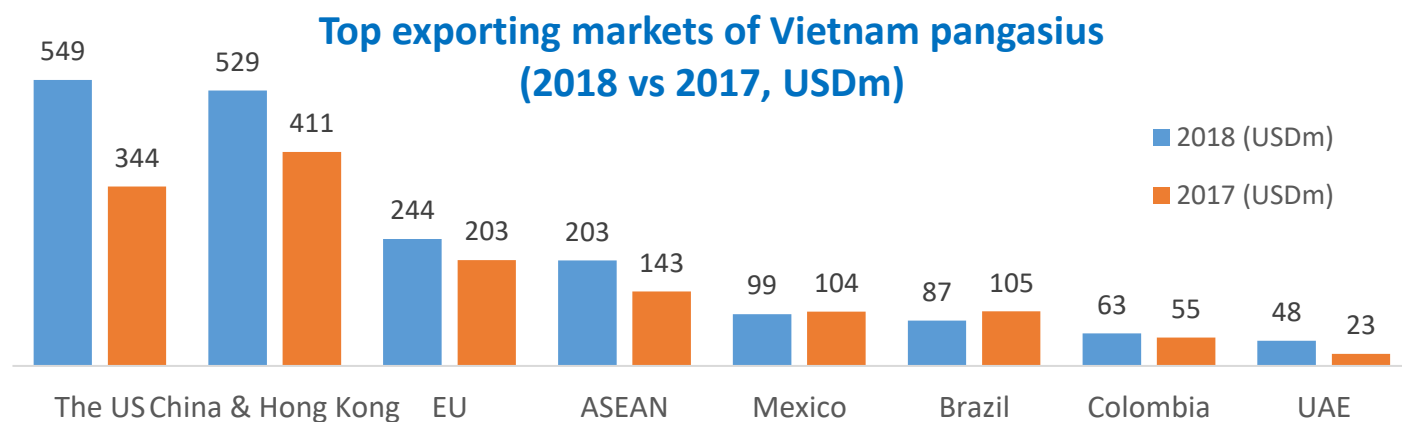
Recovery of main markets, gathering momentum in fast-growing markets

US returned to No.1 exporting market of Vietnam pangasius with USD 549 million worth of export value in 2018, a surge of 60% year-on-year. Demand in the US is expected to remain stronger in 2019 so price still stays high.

After a long sluggish period, exports to EU in 2018 also showed sign of recovery with USD 244 million in export value, a spike of 20% year-on-year. Top consuming markets were Netherlands, UK, Germany, and Belgium with growth rate reaching 33%, 6%, 11%, and 12% respectively.

China-Hong Kong ranked second in total export value, of USD 529 million, accounting for 23% of total Vietnam's pangasius exports in 2018, an increase of 29% year-on-year. According to VASEP, this neighboring market still has ample room for development thanks to its large demand for a wide variety of pangasius products at various pricing levels. Convenient transportation also eases exports to this market. ASEAN bloc also gained momentum with combined export value recorded at USD 203 million in 2018, up 42% year-on-year. Top destinations for pangasius were Thailand, Singapore, Philippines, and Malaysia. Demand from the bloc surged in 2018, especially from Philippines with over-year growth of 32%.

With the new trade agreements, e.g. EVFTA, CPTPP coming into play in 2019, import tariffs on pangasius from Vietnam in many markets will be eliminated immediately or gradually reduced to 0%, creating better opportunities for pangasius' deeper penetration into these markets.



Source: VASEP

Selling prices of pangasius on all exporting markets reached new high levels, mostly buoyed by striking raw material prices. From the beginning of 2017, the industry had to face with severe shortage of fingerlings (baby fish) due to cold weather. Lack of fingerlings available for farming subsequently led to scarcity of raw materials (raw fish) input for processing companies. Raw fish pricing increase was passed on to the final selling price. Besides, 2017's uncertainty inherent in the imported Siluriformes fish inspection (under Farm Bill) was largely cleared and thus sent positive signal to importers, which led to more confident sales activities to the US. Shooting demand from Chinese market for this fish also pushed the price up further. Those companies without own farms were hit harder as the market ran out of supply, and had to pay higher price to meet their signed orders. All these rationales factored in a surging raw material price trend sustaining for most of the year.

US-China trade tension brought forth opportunities for Vietnam pangasius

In 2018, amid deepening US-China trade war, Vietnam pangasius sector is capitalizing on new orders from US buyers. In US market, pangasius is considered the best substitute for Chinese tilapia thanks to its competitive pricing and similar quality. US recently placed a tariff of 10% on tilapia imported from China and an upcoming 25% in March 2019. With tilapia's price being less competitive, pangasius exporters have become prime beneficiaries. Given the escalating trade tension, many tilapia buyers have switched to source pangasius from Vietnam with expanding order size as effect of the new tariff on tilapia comes near.

Vietnam pangasius to clear biggest hurdle to trade in the US

On September 19, 2018, the US Department of Agriculture (USDA) announced on Federal Register that it has completed the onsite verification audits in Vietnam, China and Thailand and made public proposals to grant eligibility to the fish imported from all three nations. After closing the public comment period on October 19, 2018, USDA is expected to grant the final equivalence status of these three countries.

The US import of pangasius from Vietnam, China and Thailand has not suspended since USDA took over the authority to maintain the safety of the fish from the US Food and Drug Administration in September 2017, as USDA has allowed shipments to continue while it investigated.

In March 2018, USDA terminated the ability of 11 other countries, including India, Bangladesh, Guyana, Nigeria, Pakistan, Myanmar, El Salvador, the Dominican Republic, Canada, Mexico and the Gambia, to send their pangasius to the US after these countries fail to file their self-reporting tools.

Passing onsite inspections was by far the most significant step in the initial equivalence process for all three countries, but Vietnam has mattered the most as it accounted for over 91% of the US's Siluriformes fish imports.

Year in review: Vinh Hoan's 10 biggest moments

A look back at our [10 biggest moments in 2018](#)

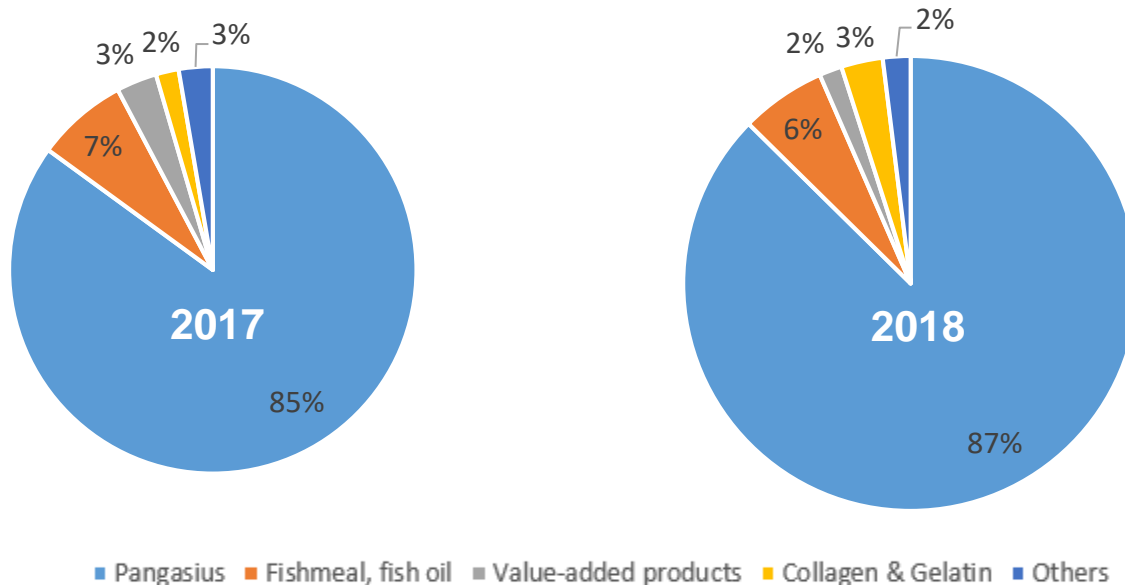
Vinh Hoan's 2018 business performance

Export sales

Total export value (excl. VDTG) in December jumped to USD 39 million, an all-time high growth of 76% year-on-year, fueled by growth in both volume and average selling price of 28% and 37% respectively. Total export value hit USD 378 million in 2018, a rise of 26% over 2017. While all-year volume dropped slightly, average selling price remained high with 33% rise year-on-year driven by hiking raw material prices.

Sales by products 2018 vs 2017

Product mix did not change much from 2017, with pangasius fillets still accounted for the lion share of total export value, a rise of 34% year-on-year. Collagen and gelatin had an impressive development in 2018, with total export value worth USD 11.2 million, doubling the 2017 result.



Source: Vinh Hoan

Market mix

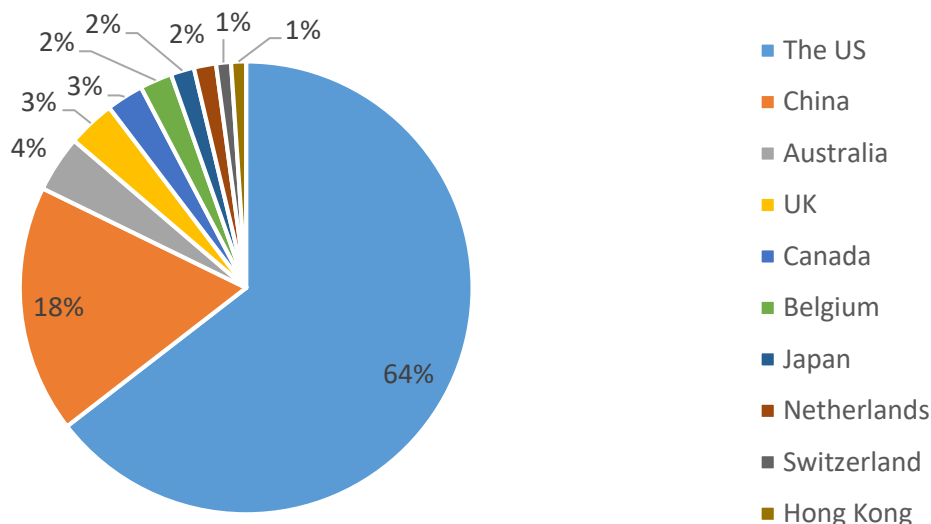
The Company's top markets remained stable with deeper penetration into major markets.

US continued to be the No.1 exporting markets, accounting for over 60% of total export value with year-on-year sales spiked by 49% driven by higher selling price and volume.

China saw a high growth of 26 % year-on-year. Years of efforts spent on promoting pangasius to Chinese consumers finally proved fruitful when the fish became increasingly popular at restaurant chains and e-commerce platforms where most sales of Vinh Hoan ended up.

Switzerland, Australia, and Belgium also sourced more pangasius from Vinh Hoan, with sales shooting up by 64%, 15%, and 11% year-on-year respectively.

Vinh Hoan's 2018 top 10 exporting markets



Source: Vinh Hoan

Introduction to Vinh Hoan's latest subsidiary - Vinh Phuoc Food Co. Ltd.

In August 2018, Vinh Hoan announced the capital contribution of VND 300 billion ~ USD 13 million into a subsidiary named Vinh Phuoc Food Company Limited (VPF).

VPF's tear sheet:

Subsidiary name: Vinh Phuoc Food Company Limited

Head office: An Phu Hamlet, An Nhon Commune, Chau Thanh District, Dong Thap Province

Charter Capital: VND 300 billion, fully contributed by Vinh Hoan Corporation

Main business activities: Processing, preservation of seafood and aquatic products

Legal representative: Ms. Le Thi Sau

Synergies realized from VPF

Convenient location for transportation of the raw materials and finished products

With the distance from farms in Ben Tre province and Dong Thap province to VPF's processing facilities being just 50 km and the distance from VPF to Vinh Hoan Corporation's head office being only 1.5 hours by land transport, this has facilitated the transportation of both raw materials and finished products, lowered the logistics cost and mitigated the risk of product deterioration due to long transportation time.

Existing facilities and properties ready for utilization

VPF possesses filleting plant with high processing capacity, extended farming area, and large vacant land available for future expansion plan.

- 1 fillet processing plant with capacity of 150 MT of raw fish/day
- 2 farms with total area of 75 ha
- 1 cold storage with capacity of 3,200 MT of finished products
- Vacant land area of 8.5 ha

Abundant skilled workforce

VPF's abundant workforce of over 800 skilled labors is also a vital factor to ramp up the whole Group's capacity faster. Vinh Hoan plans to double VPF's existing filleting capacity to 300 MT of raw fish/day by 2020 and construct a fishmeal and fish oil complex in the same location