

# OUTLOOK FOR 2019

Seizing the opportunity by anticipating industry trends

## Summary of Contents

- Review of 2018
- Outlook for 2019
- January results

### Review of 2018

In 2018, confidence regained after Farm Bill clarity and warmed weather resulted in higher supply. Harvest volume hit 1.42 million tons, a yoy increase of 15%. Despite a significant increase in raw material prices, total farming area slightly rose by 3% yoy, at 5,400 ha. As such, the farming area has been stable in the last 5 years with expansion rate at only 3% p.a. This situation can be attributed to a more mature raw material market being less influenced by the “boom and bust” cycle.

Although average price of raw material in 2018 was higher by 13% over year, the price trend showed positive correlation with previous years in terms of seasonality – troughs during May – July when supply is abundant and peaks towards year end when supply comes short.

Export value hit USD 2.26 billion, up by 26.5% yoy. Market mix remained stable, with the US, China, EU, and ASEAN continued to be top exporting markets of the industry. US came back to the leading position, with remarkable growth of 60% yoy.

Despite mounting technical and trade barriers in major markets, exports to them still increased in 2018 fueled by the organic growth in demand and acceptance of the fish's higher pricing level by consumers there. Tightening requirements on controlling food safety though initially created tough entrance for exporters, finally turned out to be a differentiating factor for Vietnam exporters against other countries and build a more solid ground for the industry's long-term growth.

China-US trade tension paved out opportunities for Vietnam exporters to capitalized on the market gap left by Chinese exporters of substitute products e.g. tilapia and cod.

Besides, after passing the on-site inspection conducted by FSIS – an agency under US Department of Ag, Vietnam is now among three countries qualified as having equivalent food safety controls to those of the US. This is a huge edge that the industry should tap into to

foster sales to this market and promote the image of the fish in world-wide market, especially for Vinh Hoan as it commands 4 out of 13 establishments in FSIS' eligible-for-export list.

China is undeniably a large and fast-growing market for Vietnam pangasius. With the steeping increase in its middle-income class and upper-income class, spending for imported seafood also followed. Vietnam is now the third largest exporter of seafood to China, after Russia and Norway. China is unique considering its large and varied demand for a wide range of products at different prices. Pangasius is now available in all market segments, from lower end to high end. Geographic and transportation convenience also eases Vietnam exporters in entering this neighboring market. China's dominance in global ecommerce bridges the gap between Vietnam exporters and end consumers. Being among Alibaba's top 20 seafood suppliers has enabled Vinh Hoan to access the platform's huge customer base in a short lead time thanks to its omni sales channel.

Besides, Chinese government's recent introduction of stricter controls on cross-border trade activities has improved the sustainability of exports to this market. In July 2018, China also cut down import taxes on pangasius products imported from Vietnam, reducing the incentives for shady border traders.

In Europe, with EVFTA taking effect from 2019, import taxes on pangasius from Vietnam shall be gradually eliminated. Thus, pangasius becomes more competitive against other whitefish captured in EU and Chinese tilapia which image positioning does not go well with EU consumer taste. The demand from the bloc to re-export to Central and Eastern Europe also facilitates more pangasius imports.



## Outlook for 2019

We observe supply will tighten towards the end of 2019 as the fingerlings have been short since earlier this year. Vietnam Ministry of Agriculture and Rural Development has set forth the 2019 harvest volume target of 1.51 million tons, a slight rise of 6.6% yoy.

Raw material prices are expected to sustain at reasonable levels: raw materials surge in 2018 has led to higher selling prices and shortened the price gap with other popular whitefish in most markets, creating an inequilibrium in profits shared among parties in the supply and distribution chain. Thus, the raw material prices shall sustain at reasonable levels in 2019 to secure the competitiveness of the fish and facilitate the access to a broader market base.

Nonetheless, Vinh Hoan with its focus on offering untreated fillets and a wide variety of products targeting different market segments, together with internationally certified farms and processing facilities, and customer services shall command a price premium to market.

VASEP forecasts an industry's export value of USD 2.3 billion in 2019, a yoy growth of 1.8%. The Department also sets out the execution plan to achieve its targets, including:

- Improved quality of breeders and fingerlings through government-business cooperation, enforcing traceability of the fish, completion of producing high quality 3-level (research-hatchery-nursery) pangasius fingerlings, encouraging companies to develop their own farming activities to bring about high-quality breeders and fingerlings.
- Focused branding strategy tailored for major markets and enhanced trade development activities in potential markets.

For Vinh Hoan, while raw material prices have fallen from the peak, we estimate that by farming internally we can achieve a mid-teen percentage saving per kg of raw materials during 2019. Furthermore, through application of advanced farming technology e.g. genetic selection technology, Biofloc biotechnology in water treatment, Moina (*Moina brachiata*) aquaculture as natural feed for fry, and investment in modern infrastructure (plant, pond liner, aeration system...) in our affiliate Vinh Hoan Fish Hatchery Co. Ltd. and grow-out farms, Vinh Hoan aims at securing healthier breeders and fingerlings and reining in costs in anticipation of fingerlings shortage situation.



## January results

Finished products prices softened in Q4 2018, followed by the same in raw materials price in Q1 2019. However, the softening prices are partly offset by long-term contract renewals.

We recorded USD 31.5 million in export value in Jan, a 35% growth yoy.