CUU LONG FISH JOINT STOCK COMPANY (CL-FISH CORP)

Seafood – Catfish – ACL (HOSE)

Initiate Coverage – April 20, 2010

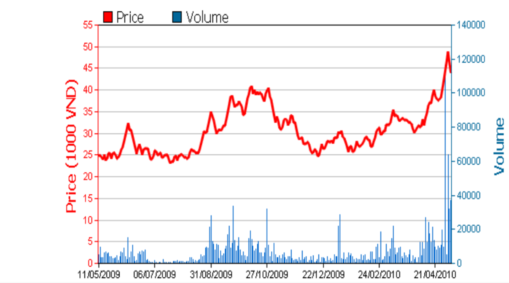
RECOMMENDATION - BUY

General data

Price @ 20/4/2010 (VND)	40,000
Target price (VND)	53,000
Market Cap (VND bn)	440.0
Foreign ownership %	5.14

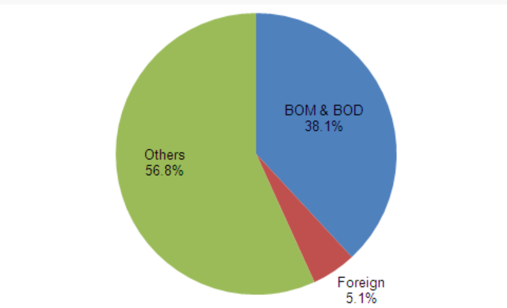
Valuation measures	**2009**	**2010**	**2011**
EPS *(VND)*	5,588	8,459	12,433
EPS growth (%)	(30%)	51%	47%
P/E (x)	8.7x	4.7x	3.2x
P/B (x)	2.0x	2.5x	1.6x
EV/EBITDA (x)	9.2x	3.9x	2.9x
ROE %	28%	34%	36%
ROA %	8%	12%	15%
Dividend yield %	6%	6%	6%

Share price performance



Source: Hose

Ownership structure



Source: HOSE & ACL's annual report

TARGET PRICE VND 53,000

We initiate coverage on ACL with a BUY recommendation for medium and long-term investment, a target price of VND 53,000 per share corresponding to a 2010 P/E of 6.3x. At the current market price of VND 40,000 per share, ACL is trading at a 32.5% discount to our target price and an attractive forward P/E 2010 of 4.7x – one of the lowest in this sector. We highly appreciate and recommend investing in CUU LONG FISH JOINT STOCK COMPANY for the following key rationales:

(1) **Not only one of the most profitable but more importantly the most consistent player –** Fish processing is a lucrative business in Vietnam which has drawn many business people to involve in, leading to more severe competition among each other. Moreover, the catfish sector is often affected by other external factors such as high barriers and regulations from import countries or economic crisis. As a result, maintaining stable and high profitability is not an easy task. Unlike the others, ACL stands out as one of the most consistently performing player in the sector with the average ROE of 36.5% and average net profit margin of 9.4% in the past 3 years. Especially, during the economic crisis of 2009 when many catfish exporters were badly hit, ACL maintained an ROE of 28.3% and net margin of 7.0%

(2) **Strongest growth anticipated in 2010 yet lowest P/E among peers –** The new factory has been fully operated from Q1-2010, raising the company's total processing capacity by 2.5x from 100 tons to 250 tons of raw fish per day. This factory allows ACL to meet with unsatisfied demand from its long-time clients in the Middle East and the EU that the company was unable to supply before due to shortage of processing capability. Revenue and net profit of 2010 are therefore expected to grow significantly by 50.4% and 85.03%, respectively, from the previous year. At the current market price of VND 40,000/share, ACL is still trading at a modest P/E trailing of 5.7x and attractive P/E forward 2010 of 4.7x, which is the lowest P/E level in the catfish sector.

(3) **Despite the small market cap, ACL has been in the top 10 largest catfish exporters in Vietnam –** Leading by the BOM with more than 25 years of experience in raising and trading fish, regardless of its young age of only 7 years of establishment and development, ACL has successfully affirmed its position in the top 10 largest catfish exporters in Vietnam for many consecutive years. Middle East and EU are key export markets accounting for 65% and 20% total revenue of the company in 2009. With improved processing capacity, ACL will continue focusing and increasing its market share in these traditional markets as well as preparing to enter the US market from next year. Hence, we expect ACL's ranking in the top 10 will climb from 8^{th} in 2009 to 6^{th} this year.

(4) **More vertical integration into fish farming and fish feed will increase operation efficiency and enhance quality control –** ACL's owner family has a long tradition of raising fish and is well reputed for this expertise. In 2010, ACL plans to invest into fish farm of 45ha, which will supply 45% of the company's raw material need. The company also plans to build a fish feed factory to save cost of feed and at the same time control the quality better. We believe in the company's ability to implement these expansion projects and the contribution of these projects into ACL's performance such as enhancement of revenue and profit margins.

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OVERVIEW

History

- Cuu Long Fish Joint Stock Company (ACL) was previously Cuu Long An Giang catfish import-export limited company established in 2003. The Board of Management included family members who have had more than 25 years experience in farming since the beginning of the catfish farming sector at An Giang in 1986. Its processing capacity now reaches 250 tons of raw fish per day. Since 3/2005, the first processing factory has come into operation at a design-capacity of 100 tons of raw fish per day. Since 6/2009, a second processing factory has operated at a capacity of 150 tons of raw fish per day. Its catfish fillet product is exported to more than 40 countries all over the world in which the Middle East, Europe, Asia, Africa and Australia are main markets.

- In May 2007, ACL officially became a joint stock company with chartered capital of VND 90 bn. The company has increased this figure to VND 110 bn in the first quarter of 2010. ACL is currently one of the leading companies in the sector and one of the top 10 largest catfish exporting enterprises in Vietnam. Revenue from catfish fillet exports accounts for 90.5% of total revenue. The remaining 9.5% of revenue is from trading by-products and other activities.

Business Activities

- Operating in farming, processing, preserving, and trading seafood and seafood products.
- Processing fish food, animal feed.
- Production of packaging and selling of materials for the packaging industry.
- Trading of agricultural products and foodstuff.
- Trading of materials for fish breeding industry.
- Cold-storage facility rentals.
- Investing in infrastructure in industrial zones, tourist resorts, hotels, office buildings.
- Making direct and indirect investment, mergers and acquisitions.

Basic Information

Head office	90 Hung Vuong st, My Quy Ward, Long Xuyen city, An Giang province.
International Name	Cuulong Fish Joint Stock Company
Abbreviation	CL-Fish Corp
Telephone	+ 84 763931000
Fax	+ 84 763932446
Website	http://www.clfish.com
Charter capital	110.000.000.000 VND
Auditor	Auditing & Consulting Company Ltd

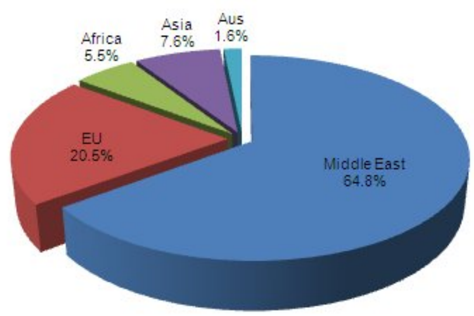
Key personnel

Board of Management	
Tran Van Nhan	Chairman
Tran Tuan Nam	Member
Tran Thi Van Loan	Member
Tran Minh Nhut	Member
Tran Tuan Khanh	Member

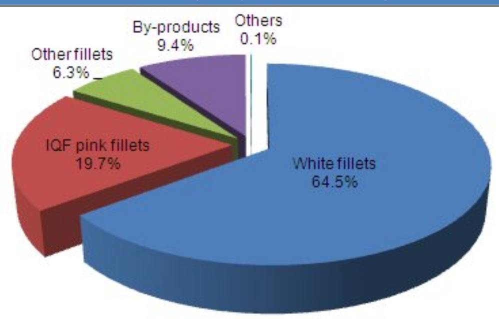
Board of Director	
Tran Thi Van Loan	CEO
Nguyen Xuan Hai	Vice General Director
Tran Tuan Khanh	Vice General Director
Nguyen Thi Bich Van	Chief Accountant

Board of Supervisor	
Tran Chi Thien	Chief of Supervisory Board
Nguyen Van Toi	Member
Pham Thi Hong Ngoc	Member

Revenue breakdown by export markets in 2009



Revenue breakdown by key product segments in 2009



SUMMARY OF HISTORICAL AND PROJECTED FINANCIAL STATEMENTS AND RATIOS

Income statement (VND bn)	2008	2009	2010	2011
Net revenue	**649**	**720**	**1,083**	**1,420**
COGS	516	597	848	1,101
S&A expenses	56	61	92	125
EBITDA	**96**	**75**	**176**	**236**
Depreciation	5	6	17	23
EBIT	**91**	**69**	**160**	**213**
Interest expense	17	15	53	57
Other income	(0)	(5)	-	5
EBT	**74**	**54**	**106**	**156**
Tax	3	7	13	20
Minority Interest	-	(3)	-	-
Net profit	**71**	**50**	**93**	**137**

Growth	2008	2009	2010	2011
Net revenue	69%	11%	50%	31%
EBITDA	92%	-22%	135%	34%
EBIT	95%	-24%	131%	34%
EBT	67%	-24%	131%	34%
Net profit	80%	-30%	85%	47%
EPS	80%	-30%	51%	47%
Gross margin	21%	17%	22%	22%
Net margin	11%	7%	9%	10%
EBITDA/revenue	15%	10%	16%	17%
EBIT/revenue	14%	10%	15%	15%
EPS (VND)	7,940	5,588	8,459	12,433
BPS (VND)	15,607	19,750	25,255	34,688

Balance Sheet (VND bn)	2008	2009	2010	2011
Cash & Cash equivalents	19	64	54	58
Short term financial investments	-	36	-	-
Receivables	202	232	335	400
Inventory	62	113	139	181
Other current assets	3	7	11	14
Current Assets	**286**	**451**	**539**	**653**
Long term receivables	-	-	-	-
Fixed assets	94	148	246	259
Real estate investment	-	-	-	-
Long term financial investments	4	12	12	12
Other non-current assets	9	3	4	4
Non-current Assets	**107**	**163**	**262**	**275**
TOTAL ASSETS	**392**	**614**	**801**	**928**
Current liabilities	188	404	439	489
Non-current liabilities	40	32	84	57
LIABILITIES	**228**	**436**	**523**	**546**
OWNERS' EQUITY	**140**	**178**	**278**	**382**
Charter Capital	90	90	110	110
Minority Interest	24	-	-	-
TOTAL CAPITAL	**392**	**614**	**801**	**928**

Financial ratios	2008	2009	2010	2011
Liquidity ratios				
Current ratio	1.52	1.12	1.23	1.34
Quick ratio	1.19	0.84	0.91	0.97
Profitability ratios				
ROE	53%	28%	34%	36%
ROA	18%	8%	12%	15%
ROIC	21%	10%	13%	17%
Efficiency ratios				
Days receivables	74	103	100	90
Days inventory	44	69	60	60
Days payables	16	42	35	30
Leverage ratios				
Debt/Equity	140%	196%	150%	111%
Debt/Capital employ	58%	66%	60%	53%
Interest coverage	5.4x	6.3x	2.6x	3.0x

Cash Flow statement (VND bn)	2008	2009
EBT	74	53
Depreciation	5	6
Provisions	0	0
Profit/loss from investment activities	(5)	(3)
Interest expense	17	15
Profit before change in working cap	**91**	**72**
Change in working cap	96	48
Net cash flow from operating activities	**(5)**	**24**
Net cash fow from investing activities	**(52)**	**(130)**
Net cash flow from financing activities	74	152
Net cash flow in the period	17	46
Cash at beginning year	1	19
Exchange rate adjustment	1	(1)
Cash at end of year	**19**	**64**

Valuation ratios	2008	2009	2010	2011
Market price @ 20.04.2010			40,000	
P/E	6.2x	8.8x	4.7x	3.2x
P/B	3.4x	3.1x	2.5x	1.6x
EV/EBITDA	7.2x	9.2x	3.9x	2.9x
Dividend yield	10.0%	7.5%	7.5%	7.5%
Target price (VND)			53,000	
P/E	8.7x	11.6x	6.3x	4.3x
P/B	4.2x	3.3x	2.1x	1.5x
EV/EBITDA	8.7x	11.1x	4.7x	3.5x
Dividend yield	7.5%	5.7%	5.7%	5.7%

Source: ACL Financial statements & VCSC forecast

Catfish – Capturing opportunities after the crisis

Seafood exporting is one of Vietnam's key industries

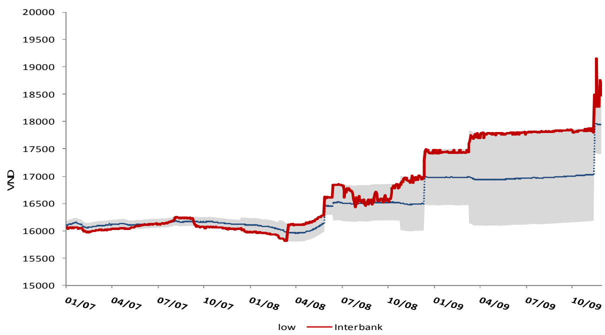
The seafood industry is one that makes significant contributions to Vietnam's export structure. With export turnover of USD 4bn, seafood is one of Vietnam's five key exported goods, after crude oil and textile-garment. With this positioning, the seafood exporting sector generally receives preferential treatment from the Government including loan assistance and income tax incentives. The applicable tax for these businesses is 15-20% compared to a 25% applicable rate for others. Rapid and impressive growth for the sector, low investment cost, and the government's preferential policies have attracted more entrants into the industry. Moreover, the upward trend of the VND/USD exchange rate in recent years has also been a positive factor benefiting the export industry in general and seafood businesses in particular.

Top 5 exporting industries of Vietnam

	Product	Export value (USD mil)	Proportion
1	Textile garment	9,004	15.9%
2	Crude oil	6,210	11.0%
3	Seafood	4,207	7.4%
4	Shoes	4,015	7.1%
5	Rice	2,662	4.7%
	Total 5 main groups	23,436	46.1%
	2009 total export turnover	56,584	100,0%

Source: General Statistic Office

VND/USD Fluctuation



Source: Reuters

…in which catfish is the key product capturing an increasingly higher proportion thanks to its big advantage.

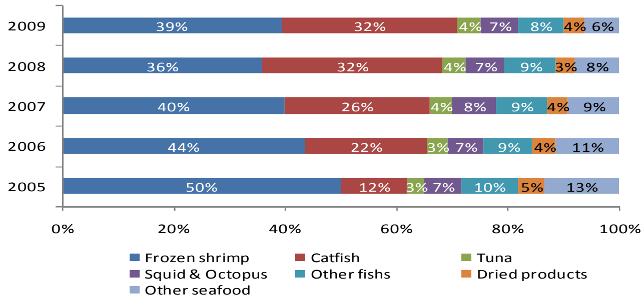
Jumping to the second position in seafood export turnover with its share proportion growing from 12% up to 32% in the past 5 years.

Frozen catfish (tra, basa) has rapidly become the second key exported product following after shrimp of Vietnam since the past 5 years when markets around the world have positively welcomed the products thanks to its good quality and good price. The product's proportion in export turnover has risen significantly from 12% in 2005 to 31.6% in 2009. The average growth rate of catfish export turnover in the past 10 years also reached 16% per year, a high level compared to the 10% average growth rate of the seafood industry.

Catfish is one of several Vietnam export products capturing remarkable market share thanks to favorable natural conditions for farming and processing.

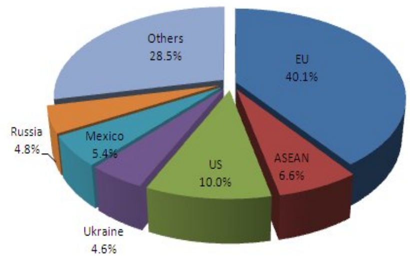
Vietnam is currently one of the biggest catfish suppliers, dominating more than 60% market share of catfish exports around the world thanks to high advantages of natural and human resources. With the advantages at hand including environmental conditions (such as water, weather) and abundant low-cost labor, Cuu Long Delta is an ideal and effective area suitable for Vietnam catfish farming. Total catfish volume which is harvested annually in this area reaches about 1 mil tons. In particular, An Giang, Can Tho and Dong Thap provinces are the largest breeding areas and most productive with about 300-400 tons of raw fish harvested per hectare for fillet quality that is more flavorful than in other areas around the world.

Vietnam seafood export structure



Source: VASEP

2009 catfish export markets



Source: VASEP

<u>Diverse and rich potential export markets</u>

Thanks to a diversified export market of Vietnam catfish, risks related to export market that businesses might face has in part been mitigated due to lesser dependence on just a few traditional markets as in the past. In 2009, Vietnam catfish was exported to 133 countries in which Europe and America were two important players capturing the largest proportion in total catfish export value.

Catfish export, though experiencing negative growth rate in 2009 along with lowest export price in the past 5 years…

In 2009, affected by the global economic depression, Vietnam catfish export activities faced many difficulties. This is the first time its turnover saw a negative growth rate, after high growth over the years. According to VASEP, Vietnam exported approximately 607.7 thousand tons of catfish valued at USD 1,342bn in 2009, down 5.2% in volume and 7.6% in value from the same period 2008. In addition to low consumption volume, catfish export price is also down to an average of USD 2.21/kg in 2009 - corresponding to a 2.7% decrease from 2008 – the lowest export price in the past 5 years.

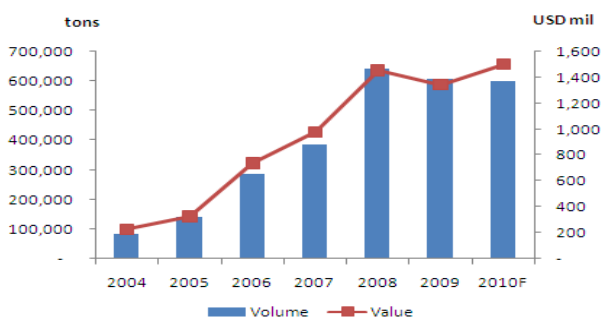
The US, Spain and Germany are the three largest import markets with value of USD 100 mil or more accounting for 9.98%, 9.02% and 8.11% respectively. Compared to the same period last year, while value from catfish exports into large markets of Europe in 2009 was down (from 0.6% - 39.6%), catfish exports into Luxembourg, Hungary, Estonia and Slovenia jumped to 41.7%, 7.7%, 182.9%, 136.5% and 100.9% respectively. In addition, it is worth mentioning some smaller markets that are showing signs of positive growth such as Brazil and India.

…is on the rebound with the expectation of increase in both price and volume.

The optimistic outlook of the global economy in 2010 might lead to recovery in consumption and the price of goods as well as stimulate positive growth for Vietnam's catfish exports. At the same time, since 4/2009, Russia, one of the largest catfish consuming markets has reopened to accept Vietnam catfish products. This has opened up many opportunities for impressive growth for the industry and businesses allowed to export to Russia.

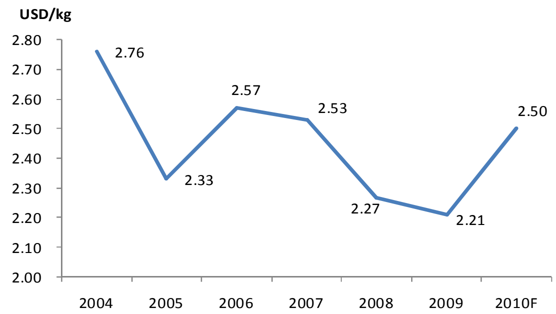
Catfish exporting is anticipated to see good growth in 2010. Catfish export turnover in 2010 is targeted at USD 1.5bn, up about 12% from 2009. Export volume is cautiously forecasted at 600,000 tons, a slight decrease of 1.3% from the previous year. However, the expected average export price which may increase to USD 2.5/kg, a 13.2% increase from 2009 is the key driver stimulating catfish export turnover in 2010. In fact, in the first few months of 2010, Vietnam catfish export volume was partly improved by the upward trend in seafood consumption in big markets such as Europe, America and Russia while export price was only slightly improved. The expectation for the near future, with the current trend of high raw catfish price and rebound in consumption, catfish processing companies may be able to negotiate higher export prices.

Vietnam catfish exporting in 2004-2010



Source: VASEP

Average catfish export price in 2004-2010



Source: VASEP & VCSC

ACL – an average-size company with highly stable and efficient business operations

Despite the small market cap, ACL has been in the top 10 largest catfish exporters in Vietnam

Fish processing is a lucrative business in Vietnam which has drawn many business people to involve in, leading to more severe competition among each other. According to statistics from the Industry and Trade Information Center, at present, there are over 260 companies operating in catfish exporting and processing in Vietnam. However, thanks to the leading of the BOM with more than 25 years of experience in raising and trading fish, regardless of its young age of only 7 years of establishment and development, ACL has successfully affirmed its position in the top 10 largest catfish exporters in Vietnam for many consecutive years. At the end of 2009, reaching more than USD 39mil on total catfish export value, ACL held the 8th position in the top 10 largest catfish exporters in Vietnam. With improved processing capacity, ACL will continue focusing and increasing its market share in these traditional markets as well as preparing to enter the US market from next year. Hence, we expect ACL's ranking in the top 10 will climb from 8th in 2009 to 6th this year.

Top 10 largest catfish exporters in Vietnam in 2009

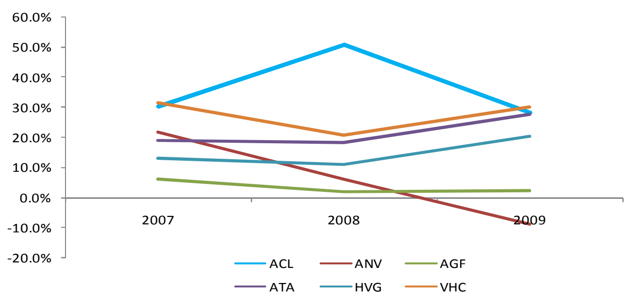
	Company	Export volume (tons)	Export value (USD mil)
1	Hung Vuong Joint Stock Company	63,702	121,713
2	Vinh Hoan Joint Stock Company	38,873	110,151
3	Nam Viet Joint Stock Company	46,073	84,829
4	Viet An Joint Stock Company	23,911	57,295
5	An Giang Fisheries Import & Export Joint Stock Company	23,129	55,142
6	Binh An Joint Stock Company	19,313	53,316
7	Thien Ma Seafood Import & Export Co. Ltd.	22,709	43,315
8	Cuu Long Fish Joint Stock Company	18,447	39,097
9	Hiep Thanh Group Joint Stock Company	15,285	33,946
10	Can Tho Seafood Import & Export Joint Stock Company	13,330	33,791

Source: VASEP

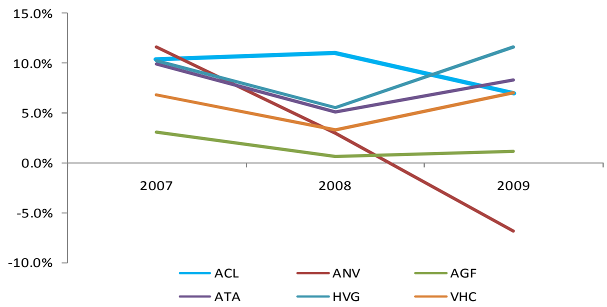
Efficient, profitable and consistent performance over the years

The good growth and impressive profitability from processing and exporting has increasingly attracted more entrants into the market. Maintaining stable and effective operations is not an easy task in the face of fierce competition among companies in the industry which is easily affected by other factors including barriers from importers or difficulties from the past economic crisis.

ROE ratios of some companies in the sector



Net margin ratio of some companies in the sector



Source: VCSC

Although the size of capital and capacity is still quite modest in comparison with its peers, ACL is one of few companies whose operation has been kept relatively stable with great profitability compared to the industry average. Its average ROE was 36.5% and average net margin was 9.4% in the last three years. Under pressure of the 2009 global crisis, while many exporters encountered many difficulties, ACL achieved a good ROE ratio of 28.3%, greater than the industry average of 16% and a net margin of 7.0%, greater than the industry average of 4.3%. Positively overcoming 2009 – a year full of difficulties and challenges – has affirmed ACL's position in the sector, its highly efficient operating performance as well as its reputation and catfish brand name in global import markets, especially in the Middle East where ACL is a leading brand name.

Growths in export volume and value in 2009 compared to the general downtrend of the catfish sector

In 2009, the catfish exporting sector saw its first negative growth rate since 2004. However, ACL still maintained its growth in volume and export turnover.

At the end of 2009, its total catfish export volume was 18.447 tons with total export turnover of USD 39.1mil, corresponding to a 12% increase in volume and 3.2% in turnover from 2008. Vietnam catfish export price in 2009 was generally down in some markets all over the world due to the impact of the economic recession. This resulted in a 7.8% decrease in ACL's average export price, from USD 2.3/ton in 2008 down to USD 2.12/ton in 2009. However, supported by the increase in total export volume, ACL still maintained its turnover improvement – the major factor stimulating its 2009 revenue.

The new factory put into operation in June 2009 which helped ACL improve its processing capacity is the strongest driver stimulating its total export volume. As the relationship between the company and its partners increasingly widens, the old factory running at capacity of 120-130% in the past two years has not yet been able to satisfy all customer demands. The operation of the new factory has timely increased ACL's capacity and output quality to better meet customer demand. This helped ACL gain a high growth rate, specifically in export volume and revenue in general in light of the many difficulties in 2009.

2009 net profit saw a negative growth due to decrease in gross margin

In 2009, ACL recorded net revenue of VND 720.1bn, a 10.9% increase from the same period of 2008. However, because of higher price of raw input fish, material costs used directly for production increased to 13.2% from the previous year. In addition, labor cost, depreciation expense and other costs also saw a remarkable increase of 30% leading to a total 15% increase in production cost in 2009 compared to 2008. Meanwhile, ACL's revenue only grew 10.9% so its 2009 gross margin was 17.1%, down 3.5% from the previous year.

Production cost structure in 2007-2009

VND bn	2007	2008	2009
Raw materials	258.2	495.1	560.6
Labor	13.8	33.8	43.9
Depreciation	3.0	4.7	5.9
Others	6.9	10.5	15.7
Total production costs	282.0	544.0	626.0
% total cost increase	-	92.9	15.1

Source: Notes to 2009 financial statements of ACL

Gross margin contraction was the main reason that ACL's profit saw negative growth in 2008 in spite of revenue growth rate of 10%. Besides, other costs were also higher such as sales cost, management cost and compensation cost for breaking contracts accounted for more than VND 5bn. Therefore, ACL ended 2009 with earnings after tax of 50.3bn, down 29.6% from 2008. 2009 net margin was 7.0% compared to 11.0% the previous year.

Despite the negative growth rate in 2009, the results ACL achieved was optimistic and encouraging compared to its peers. ACL surpassed its 2009 profit target of 25.7%. This outcome was partly supported by income from financial activities, mainly from the profit of 10.15 bn difference of foreign exchange rate in the year.

ACL is developing step by step with a sustainable investment strategy through a vertically integrated value chain in order to enhance quality control and operating efficiency

Expanding processing capacity to satisfy market demand

ACL started with only one catfish-processing factory that came into operation in 2005 with relatively modest capacity of 100 tons of raw fish per day, corresponding to 10,000 tons of fillet products per year. However, in the face of developing potential of catfish processing activity and the positive growth rate of the company, this factory could not satisfy customer needs in spite of its operation beyond designed capacity of 120-130% in recent years. This in part restricted its potential to widen its export markets, improve market share as well as contribute to revenue and profit.

Under that circumstance, ACL invested in a new processing factory at a designed capacity of 150 tons of raw fish per day, enhancing its total processing capacity to 250 tons of raw fish per day or 25,000 tons of finished products per year. The new factory has officially come into operation in June 2009. This is usually a great challenge for businesses in the sector due to difficulties in searching for consumption market, input materials while suffering higher depreciation expense and loans interest expense. However, with a rather small size and a new modest processing capacity of 250 tons of fish per day compared to its peers such as ANV, VHC, and HVG, ACL can fully run both plants at maximum capacity. The new factory has been running at full capacity since the beginning of 2010 and stabilizing gradually. This not only improves its competitive advantage in order to meet high customer demand but also will contribute significantly to the ACL's revenue and profit growth from this year going forward.

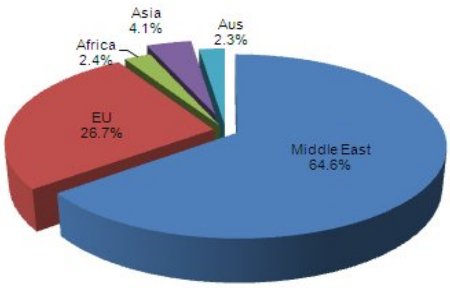
Improving market share in the traditional Middle East market in parallel with developing the European market and widening to others in order to diversify and minimize risks related to few key export markets.

ACL's products are exported to over 40 countries around the world, in which main export markets include Europe, Middle East, Asian countries, Africa and Australia.

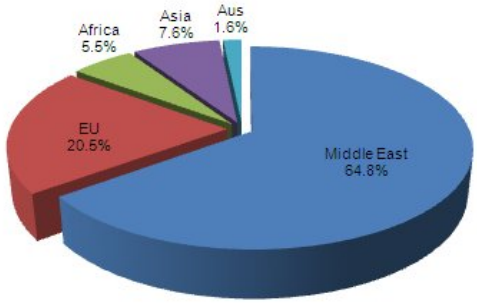
The Middle East is its traditional market capturing the largest proportion – 65% of ACL's revenue in 2009. Within the last three years, the Middle East – North Africa area has grown significantly on import volume and has become a bright spot for Vietnam catfish consumption demand. In which, three main markets including Egypt, UAE, Arab Saudi account for 66% total volume and 60.5% turnover in this area. With first-to-market advantage in the Middle East, ACL has captured a dominant market share and is also the leader in exporting catfish here, establishing familiar brand-name, good relations and sustainability. With the advantages on hand and the potential to bring revenue and profit will help ACL both maintain its position and improve export share in this market when capacity is expanded.

Following the Middle East, Europe is ACL's second major market, capturing 20.5% of its revenue in 2009. This proportion is lower than 28.7% in 2008 partly due to the impact of the global economic recession and partly due to the restricted capacity. However, in light of new capacity, improved quality and a closed farming-processing chain, ACL will increase its export proportion to Europe market in parallel with preparing procedures to consider anti-dumping duties to penetrate into the US market in 2011. Therefore, we expect ACL's export proportion to Europe will increase to at least 25% of its total turnover in 2010.

Revenue breakdown by export markets in 2008



Revenue breakdown by export markets in 2009



Source: ACL

Investing in farming area in order to ensure a stable and quality source of input materials for production

With the rapid development of catfish processing factories, having a stable input material source and guaranteeing product quality are very important and essential.

ACL's main source of raw fish is purchased from farming families who are traditional partners of the company in Cuu Long Delta in general and An Giang province in particular. The company's factories located in an area abundant in raw fish combined with established relationships are advantages providing ACL with a stable input material source. Indeed, it is worth mentioning that supplies from a 34 ha farming area belonging to members of ACL's management meets 33% of the company's raw fish demand.

With the expansion of production lines, increasing transparency and self-reliance in purchasing raw materials ACL has decided to purchase the entire 34 ha of farming area belonging to members of management in Dong Thap province, providing about 21,000 tons of raw fish annually. Besides, the company is also actively investing in a farming area spanning 12 ha in An Giang capable of supplying 7,500 tons of raw fish material per year. ACL completed transferring this 12 ha farming area and in the second quarter 2010 and will dig ponds for fish. It is expected that in the fourth quarter 2010, ACL may harvest the first batch of raw fish here.

The investment in the 34 ha farming area is being advanced and expected to be completed by year-end and may be ready for operation in 2011. Total investment capital in the 45 ha farming area is about VND 55 bn. So, total invested area of 45 ha combined with an approximate capacity of 28,500 tons of raw material per year will meet 45% material demand for ACL's two factories as from 2011.

The self-reliance in material supplying helps to stabilize ACL's production against the regular uncertainty of material source, to control input expenses and manage a clean catfish farming cycle in order to satisfy strict standards of importers. ACL's profit is anticipated to increase 5 bn per year if the 45 ha farming area comes into operation.

Moreover, to assure sanitary standards and consistency of quality for products, ACL is constantly focused on testing product quality from input to output. Hence, ACL can satisfy requirements of strict markets like Europe and minimize the loss of market risk. Simultaneously, it also aims to widen its exports to one of the strictest markets, the US.

Investing in a fish feed factory – completing the closed value chain and strengthening competitive advantages

In addition to investing in the clean farming area, ACL also built a fish feed -processing factory with modern equipment and a design capacity of 76,800 tons of fish feed per year. The location of ACL's fish feed factory is rather ideal between two large centers (Long Chau, Chau Doc) of An Giang province, adjacent to road and waterway systems that are suitable for transportation and trade. Moreover, the factory is away from crowded residential areas or construction sites causing pollution.

Total investment spent on the fish feed factory for seafood is VND 210bn including fixed capital expense of VND 97.3bn and working capital of VND 113bn. Construction is expected to begin in June 2010 and completed in one year. Hence, this factory promises not only to satisfy the ACL's consumption demand along with farming families in the area and gradually complete the closed farming value chain to help ACL ensure its raw fish quality but also positively contribute to its revenue and profit in the years ahead.

Revenue and Profit forecast from the fish feed factory

	Unit	2011F	2012F	2013F	2014F
Designed capacity	tons/year	76,800			
Operating capacity	%	70%	75%	80%	85%
Production & Consumption vol	tons/year	26,880	57,600	61,440	65,280
Selling price	VND/kg	6,700	6,700	6,700	6,700
Revenue	VND bn	180.1	385.9	411.6	437.4
Gross margin	%	20.0%	20.2%	20.4%	20.5%
Net profit	VND bn	5.6	14.2	17.2	18.1

2010 – Strongest growth anticipated in 2010 thanks to full operating of new capacity

During the crisis, ACL built a second processing factory with capacity of 150 tons of raw fish per day, increasing its total capacity to 250 tons of raw fish, up 2.5 times from the existing line. This is considered as a good foundation for ACL's positive development in 2010 and following years. Furthermore, the recovery of the global economy together with Vietnam's export situation and the slippage in price between VND and USD are good supporting elements helping ACL to compensate for the disadvantages of higher raw fish price, transportation expense, and interest expense.

Excluding these companies - AGF, ANV, FBT - which had poor or experienced losses in income last year are expected to gain impressive growth rate this year, most other companies in the industry are cautious about their business plans this year due to concerns of not only increases in prices of raw fish, interest expense but also the fierce competition among companies and the unstableness of import markets due to technical barriers. Under these circumstances, ACL is one of few businesses confident in setting forth an optimistic business plan in 2010 with revenue of VND 1,110bn and net income of VND 70.4bn, corresponding to a large increase of 54.1% in revenue and 40% in earnings from 2009.

2010 revenue and income plans of some companies in the sector:

2010 Target	ABT	ACL	AGF	ANV	ATA	HVG	VHC
Revenue (VND bn)	550	1,110	1,500	2,300	570	6,000	3,000
Net income (VND bn)	90	70.4	80*	90	46	500	180
Revenue growth rate % y-o-y	1.1	54.1	12.4	23.7	30.6	94.5	8.3
Net income growth rate % y-o-y	12.1	40.0	344.4	n/a	28.0	39.8	(6.8)

Source: VCSC

(*) Income plan of AGF is before tax income

Positive financial result in Q1/2010 has consolidated the possibility of completing and surpassing ACL's year plan

Ending Q1/2010, ACL achieved VND 252bn in net revenue, a significant increase of 75.8% from the same period 2009. Increase in revenue this period was driven by both price and volume factors. ACL's total exported frozen catfish volume in Q1/2010 reached 4,741 tons valued at USD 11.8mil, up 45.2% in volume and 71.9% in value compared to Q1/2009. The average export price in the first quarter 2010 was USD 2.48/ton versus USD 2.10/ton of Q1/2009, indicating an increase of 18.4%.

The company's gross profit in the first 3 months of 2010 was VND 47.6bn. Its gross margin was 18.9% - improving significantly compared to 13.1% in the first quarter of 2009. The recovery of consumer demand together with the shortage of raw fish supply pushed raw fish price up to VND 17,000/kg in Q1/2010 compared to the average level of VND 15,000 – 15,500/kg in 2009. Generally, raw fish price has been up nearly 12% from the first quarter of 2009 but the improvement of 18% in export price has stimulated its gross margin to increase remarkably in first 3 months of this year.

ACL's operation in Q1/2010 brought VND 23.4bn in earnings after tax, a great increase compared to 1.9bn from the same period last year. With these results, ACL has accomplished 22.7% of revenue plan and 33.2% of profit plan. With a bright outlook for the catfish sector in 2010, we believe this result is the first favorable step consolidating the possibility of completing and surpassing ACL's annual plan.

2010 Outlook

Since the beginning of 2010, the new processing line has run at its full capacity while the existing one operated at only 70% of designed capacity due to the shortage of workers. However, this problem has been resolved recently as the company now has 2,500 current workers which are enough for both factories running at full capacity. Therefore, we forecast both factories will run at average capacity of 90% in 2010, corresponding to total processed and exported volume of over 22,100 tons, up 20% from the year 2009. The average export price of ACL in 2010 is conservatively forecasted to grow at 10% to USD 2.33/ton from the previous year. Based on these assumptions, we expect ACL's revenue from catfish (tra, basa) exporting activities to reach VND 985.7 bn in 2010. Revenue from trading by-products and other products will capture 9% of ACL's total revenue valued at VND 97.5bn. Overall; we anticipate ACL's total net revenue for the year 2010 to be at VND 1,083.2bn, up 40.4% from 2009.

We also assume the average price of raw fish continues to be high at VND 17,000/kg, up nearly 12% from the previous year. Raw fish expenses combined with increasing volume are key factors pushing the 2010 production cost up 42% from 2009. However, due to the growth of 50.4% in expected revenue, ACL's gross margin will grow from 17.1% in 2009 to 21.7% in 2010. In 2010, its depreciation expense and interest expense will be higher than last year due to (1) Depreciation for the new factory will start to be acknowledged (2) Interest expense will be higher at around 14% for short-term loans (3) Long-term loans will rise significantly from the previous year due to disbursements to invest in farming areas and the fish feed factory. This somehow will restrict ACL's bottom-line profit growth.

Based on the above assumptions, we estimate ACL's earnings after tax to be VND 93bn in 2010, a considerably increase of 85.03% from 2009. The company's net margin 2010 is 8.6% and earnings per share (based on chartered capital of 110 bn) will be as high as VND 8,459 per share in 2010.

Also in 2010, ACL issues additional 2 mil shares for current shareholders (at 9:2 ratio – options to purchase additional share at VND 20,000/share) to mobilize capital to invest in the clean farming area of 34 ha of SQF 1000 CM. Hence, the company's new chartered capital after issuance is VND 110 bn, corresponding to an increase of 22.2% from the previous amount.

Target price – VND 53,000

We apply the Discounted Cash Flow (DCF) method with a WACC of 17.7% to determine the intrinsic value of ACL's share to be VND 53,027. Details of important assumptions are as follows:

Revenue Growth:

We forecast ACL's production and consumption volume will see positive growth of 20% in 2010, corresponding to 90% capacity of both factories. In 2011, assuming both factories run at 97% capacity, the processed and exported catfish volume will grow 10% from 2010. This volume will continue to increase slightly in 2012-2014 with growth rate of 5%, 3%, and 2% respectively.

Therefore, we assume ACL will operate at the full capacity in 2012 and surpass 5-10% of its designed capacity in the following years. Simultaneously, because ACL has no plans to improve its frozen catfish processing capacity yet, we assume ACL will experience stable growth after maximizing its capacity, volume and revenue.

Selling price is anticipated to increase 10% in 2010, 2% in 2011 and remains unchanged in the following years. Moreover, inauguration of the fish feed factory in 2011 will contribute more to its annual revenue.

Items	2010F	2011F	2012F	2013F	2014F
Export volume (tons/year)	22,136	24,350	25,568	26,335	26,861
Volume growth % y-o-y	*20.0%*	*10.0%*	*5.0%*	*3.0%*	*2.0%*
Export price (USD/ton)	2.33	2.38	2.38	2.38	2.38
Export price growth % y-o-y	*10.0%*	*2.0%*	*0.0%*	*0.0%*	*0.0%*
Export value (USD mil)	51.6	57.9	60.8	62.6	63.9
USD/VND exchange rate	19,100	19,482	19,872	20,259	20,674
Exchange rate fluctuation	*6.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Revenue from exporting catfish (VND bn)	985.7	1,128.1	1,208.2	1,269.3	1,320.6
Revenue from trading by-products (VND bn)	97.5	111.6	119.5	125.5	130.6
Revenue from fish feed factory (VND bn)	-	180.1	385.9	411.7	437.4
Total revenue (VND bn)	1,083.2	1,419.8	1,713.6	1,806.5	1,888.6
Total revenue growth % y-o-y	*50.4%*	*31.1%*	*20.7%*	*5.4%*	*4.5%*

Production costs and Gross margin

We forecast the average price of raw fish in 2010 will increase 12% from 2009, reaching VND 17,000/kg. In the next few years, this figure will likely remain high. Because revenue growth is higher than cost of goods sold growth thanks to new capacity and improved export price, gross margin is expected to reach 21.7% in 2010. From 2011 onwards, the operation of the new factory generating good gross margin of 20% will help gross profit margin remain above 20%/year in the following years.

Items (VND bn)	2010F	2011F	2012F	2013F	2014F
Price of raw fish (VND/kg)	17,000	17,000	17,000	17,000	17,000
Growth of raw fish price % y-o-y	*11.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Raw material costs from processing catfish	754.7	830.2	871.7	897.8	915.8
Raw material costs from fish feed factory	-	132.0	282.8	301.7	320.5
Labor costs	54.5	72.9	89.2	106.4	127.0
Depreciation expenses	16.1	26.9	37.4	38.8	40.3
Other expenses	22.5	38.9	61.8	72.6	85.5
Total production costs	847.8	1,100.8	1,342.9	1,417.3	1,489.1
Total net revenue	1,083.2	1,419.8	1,713.6	1,806.5	1,888.6
Gross profit	235.5	318.9	370.7	389.2	399.5
Gross margin (%)	21.7%	22.2%	21.6%	21.5%	21.2%

Profit structure

The new investments in fish farming area and fish feed factory promise to contribute more to ACL's profit from 2011. Hence, profit structure is not merely profit from processing and exporting but expanding to other related activities.

Items (VND bn)	2010F	2011F	2012F	2013F	2014F
Profit from processing and exporting catfish	93.0	126.2	151.9	152.2	165.8
Proportion %	*100%*	*92.3%*	*88.8%*	*87.3%*	*87.8%*
Profit from fish farming	-	5.0	5.0	5.0	5.0
Proportion %		*3.7%*	*2.9%*	*2.9%*	*2.6%*
Profit from fish feed factory	-	5.6	14.2	17.2	18.1
Proportion %		*4.1%*	*8.3%*	*9.9%*	*9.6%*
Total net profit	93.0	136.8	171.1	174.4	188.9

Capital expenditures and capital structure

After building the second processing factory in 2009, ACL is now focusing on investing in two major projects including the clean farming area (to be completed in 2010) and the fish feed factory (to be completed in 2011).

(1) The clean farming area of 45 ha requires approximately VND 55bn of total fixed investment. ACL issues 2 mil new shares at VND 20,000/share for current shareholders in order to mobilize VND 40 bn for this project. The rest will come from ACL's equity capital.

(2) The fish feed factory is expected to be a VND 97.3bn investment including 30% (VND 29.2bn) from equity capital and 70% (VND 68.1bn) from medium to long term loans.

Due to investments in new projects, in addition to the capital for initial fixed investments, the required working capital is relatively large, increasing short-term loans as well as its interest expense, to a degree affecting ACL's capital structure and income results in the coming years. However, ACL's high debt-to-equity ratio will see a gradual positive shift when those projects come into operation and bring stable revenue.

Items (VND bn)	2009A	2010F	2011F	2012F	2013F	2014F
Short term debts	315.7	331.9	365.8	335.6	235.9	124.9
Short term interest expenses	-	*46.5*	*51.2*	*40.3*	*28.3*	*15.0*
Long term debts	32.1	84.2	56.8	45.4	34.1	22.7
Long term interest expenses	-	*6.8*	*5.7*	*4.5*	*3.4*	*2.3*
Total debts	347.8	416.1	422.6	381.0	270.0	147.6
Total interest expenses	15.0	53.3	56.9	44.8	31.7	17.3
Debts/Owners' Equity	196%	150%	111%	73%	41%	18%
Debts/Total Capital	66%	60%	53%	42%	29%	15%

Some major assumptions in valuation model and ACL's target price

Valuation using DCF method	DCF
Strong growth period	5 years
Average revenue growth in the strong growth period	22.4%
Average cash flow growth in the strong growth period	12.4%
Average cash flow growth in the stable long-term growth period	2%
Discount rate (WACC)	17.7%
Equity (VND bn)	583.3
Number of shares (post issuance)	11,000,000
Target price in DCF model (VND/share)	53,027

We exam our target price by using the P/E multiple method applied to other companies in the same industry and believe this result is reasonable.

In addition, we provide a reasonable price for ACL's shares through a P/E multiple methods using the average P/E of some key listed companies in the industry. According to this method, the 2010 average P/E of catfish companies is 7.1x (based on 2010 income plans of these companies). With this average P/E, ACL's target price is VND 60,059 per share, based on our forecasted 2010 EPS of VND 8,459 per share (calculated on new chartered capital of VND 110 bn).

valuation using P/E multiple method	Price @ 20/04/2010	EPS (2010) *	P/E (2010)
AGF – An Giang Fisheries Import & Export JSC	37,500	4,977	7.5
ATA – NTACO JSC	30,300	4,600	6.6
HVG – Hung Vuong JSC	47,200	8,333	5.7
VHC – Vinh Hoan JSC	44,200	5,095	8.7
Average		5,751	7.1
ACL's EPS 2010 (VCSC forecast)		8,459	
Target price using P/E multiple valuation method (VND)		60,059	

(*) EPS 2010 is based on business plans set up by those companies

Therefore, we estimate the target price of ACL's shares through DCF valuation is VND 53,000/share, at which the forward P/E 2010 is 6.3x, and is 32.5% higher than the present market price with dilution after issuance taken into account.

Related risks that might affect valuation result

An unstable source of material led to frequent shortages in supplies and fluctuations in material price causing many difficulties for both farmers and businesses.

Changes in the economy and the industry combined with low profit and high risk has caused many difficulties for farmers, leading to an unstable supply source, and fluctuations in raw material price, directly affecting farmers' profits as well as companies' operations.

Rapid development of catfish exports in 2004-2007 led to widespread farming in order to catch up with the growth of processing and exporting activities. A raw material shortage followed along with difficulties in credit, interest expense, high farming costs and Russia's ban of imported Vietnam catfish since July 2008 have had negative impact on catfish exporting businesses, lowering the number of farmers.

In 2009, Vietnam catfish export volume declined under the weight of the economic depression. Many factories reduced capacity - reducing the volume of raw fish purchased. Farmers encountered many difficulties due to high farming expenses, especially high expense for fish feed in the context of low volume and low purchasing price. The shortage of investment capital and loss in farming made the number of empty ponds increasingly high. Catfish farming areas at Cuu Long Delta in 2009 declined nearly 30% from the previous year.

Since the beginning of 2010, catfish consumption volume in Vietnam's main export markets improved. Last year, the halt in farming that led to temporary shortages of raw fish material was the key reason for the increase in raw fish price from VND 15,000 – 15,500/kg at the end of 2009 to VND 17,000 – 17,500/kg presently. Catfish exports is expected to recover well this year but the shortage of raw fish will not be too severe thanks to the response of farmers. However, raw fish price may remain higher at VND 17,000/kg from the previous year. Farmers can benefit from at price. On the other hand, this price might lower companies' profitability because output expenses rise quickly without correlative increase of export price. If companies have an active and available source of material, risk from fluctuations in material price will be lower. The government and VASEP are trying to regulate and mitigate this concern in order to stabilize the sector.

More barriers from import markets

General regulations on quality standard and product origin of import markets are important factors that catfish exporting companies should pay close attention. After the ban from 7/2008 to 4/2009, Russia has just reopened to allow our catfish products and only permitted 10 companies in the sector to export catfish to this country. This is a lesson as well as experience for Vietnam catfish businesses not to be too subjective despite the easy-going nature of import markets.

Import markets, especially big markets such as the US and Europe, are stricter when setting up regulations and requirements for Vietnam catfish product. Vietnam catfish businesses have been sued and put on a list of nations subjected to anti-dumping duties by the US. Recently, the US intends to put catfish products under control of US quality management office from the aspects of farming, processing, transporting to preserving. If approved, this is a big technical barrier for Vietnam catfish exporting enterprises in penetrating into US market. Moreover, the IUU Act of Europe applicable to Vietnam seafood from 1/1/2010 has severe impacts on businesses that are not well-prepared leading to risk of narrower market share, denied trading and increase in quality management expense.

Unhealthy competition among companies

The attractive growth from catfish exports has attracted more entrants into the market, leading to the fierce competition in the industry. Small companies compete mainly through dumping or selling poor quality products. It is the unhealthy competition that directly harms the effectiveness and benefit of real businesses as well as the reputation of Vietnam catfish all over the world. This is the reason for the false information - harming the overall image and quality of the Vietnam catfish brand and leading to risk of losing markets.

DEFINITION OF RECOMMENDATION

BUY	• Highly appreciated stock with targeted 20% return over one year period. Little amount of downside risk is foreseen.
HOLD	• Fairly priced stock with less than 20% returns over one year holding period. Little amount of downside risk is foreseen.
SELL	• Over-valued stock or poorly performing company with high amount of downside risk.

DISCLAIMER