

VietinbankSc Industry Report Fishery Industry in Vietnam

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 Import-Export JSC

Glossary

Industry Update

Industry Definition

The fisheries industry includes businesses operating in the field of exploiting, aquaculturing, processing, preserving, storing, transporting, marketing or selling seafood or seafood products. The commercial activities are aimed

delivering seafood products for human consumption or as input factors in other industrial process. In some direct or indirect ways, lives of over 500 million people in developing countries depend on fisheries and aquaculture.

Main Activities

The primary activities of this industry

Catching and aquaculturing seafood

Processing and exporting seafood products

Trading fisheries logistics and services (fishing ports, landing sites...)

The major products in this industry

Shrimp

Pangasius

Tuna and other seafood products (mollusk, squid and octopus...)

Similar Industry

1020 Processing and preserving fisheries and products from fisheries

47222: Selling seafood in the retail stores

10080: Producing feed for fish, cattle and poultry

202030: Selling feed and ingredients for fish, cattle and poultry under wholesale form.

Additional Resources

For additional information on this industry

www.vasep.com.vn

Vietnam Association of Seafood Exporters and Producers

www.fistenet.gov.vn

Directorate of Fisheries

www.nafiqad.gov.vn

Nation Agro – Forestry – Fisheries Quality Assurance Department

www.fao.org

Food and Agriculture Organization of the United Nations

Industry at a Glance

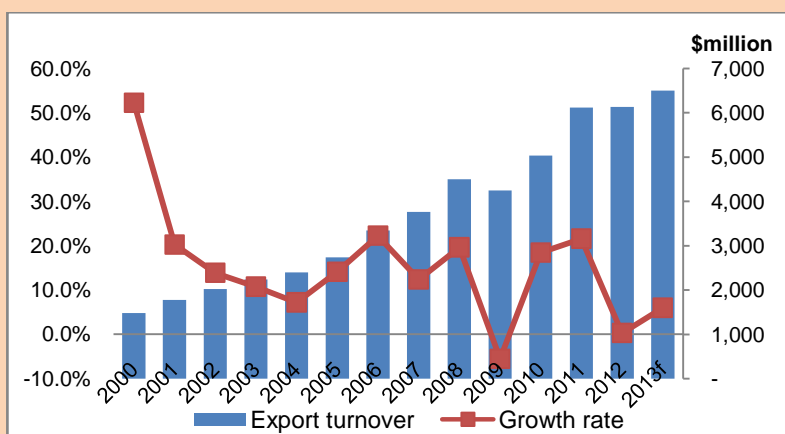
Key Statistics Snapshot

Revenue 2012e	Annual Growth 11-15	Annual Growth 15-20
\$6,84bn	8%	6-7%
Profit 2012e	Wages 2012e	Businesses
\$266,9m	390,1m	600

Market share 2012

Minh Phu Corp (MPC)	6.0%
Vinh Hoan Corp (VHC)	2.5%
Hung Vuong Corp (HVG)	1.8%
Quoc Viet Corp, Lts	1.7%
STAPIMEX	1.7%
Agifish JSC (AGF)	1.5%
Anvifish JSC (AVF)	1.3%

Vietnam fishery export value for the period of 2000-2013f



Source: VASEP - 2012

Key External Drivers

- Growth of the global economy

- Exchange rate

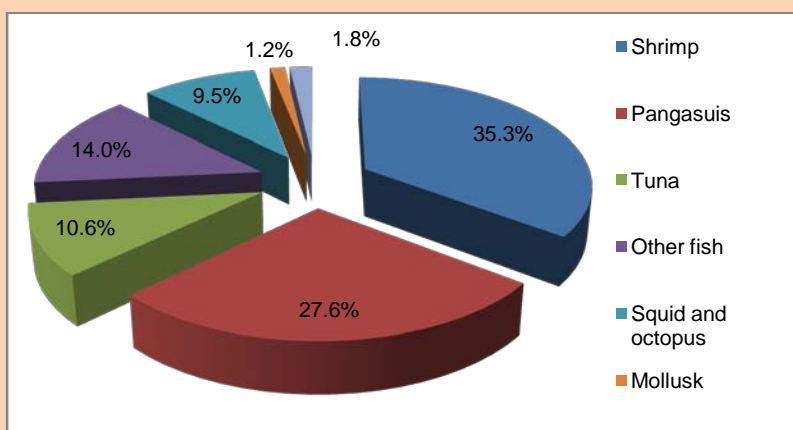
- Interest rate

- Input material

- Trade barriers and food safety standards

- Climate change

Product export segmentation 2012 (by value)



Source: VASEP - 2012

Industry Structure

Industry Life Cycle	Mature	Barriers to Entry	Low/High*
Revenue Volatility	Low	Industry Globalization	Low
Industry Assistance	Medium	Competition Level	High
Concentration Level	Low	Regulation Level	Medium

* The entry barrier is LOW for domestic businesses but HIGH for export businesses

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Industry Life Cycle

Executive Summary

Asia plays a key role in aquaculture activities of the world, accounting for approximately 90% of total supply. The global supply of fisheries increases by 2,3% per year. However, it is still lower than the average demand growth of 2.7% per year. Therefore, it becomes more likely that the supply would not meet demand in the future.

Vietnam has a coastline of 3.260 km and an exclusive economic zone (EEZ) of more than one million km², and considers fisheries as an important factor in the economy development. Potential fishery resources are 4.2 million tons, of which the annual allowable catch is 1.7 million ton.

In 2012, export turnover of Vietnam's fishery industry reached \$6,1 million, which increased 16 times in the last 20 years. This growth process has led Vietnam to become one of 5 largest seafood exporters in the world together with Indonesia and Thailand, and the third in fishery production and aquaculture, after China and India, and the 13th on fishing yields.

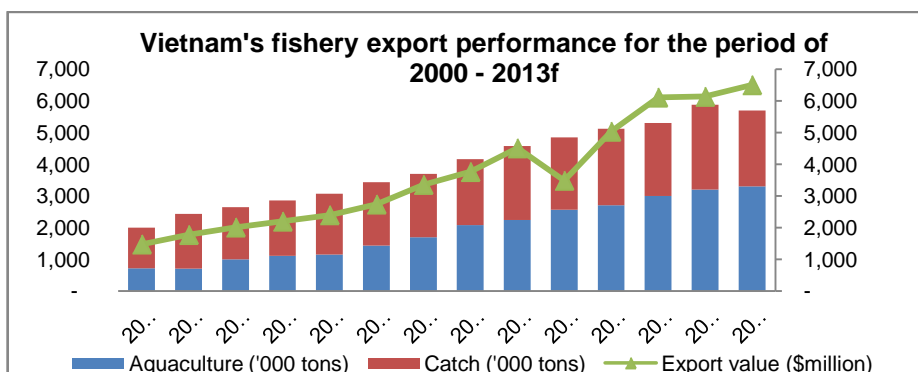
Currently, shrimp is the largest export product, accounting for 36% of total export value in 2012, followed by pangasius (29%), tuna (9%), and other fish (15%), squid and octopus (8%). With respect to the market, the US is the largest importer for Vietnam (19% of export value in 2012), followed by Japan (18%), EU (18%).... In the recent years, the fishery of Vietnam has reached remarkable achievements in export turnover,

which contributes to jobs creation, economic growth in local areas. However, Vietnam seafood businesses are facing many difficulties including funding and expanding market issues, complicated disease, and especially raw materials shortage. The rate of import value over the export value continuously grows from 4% to 11% in the 2007-2012. These issues negatively affect business efficiency and sustainable development of the industry.

The Vietnam Association of Seafood Exporters and Producers (VASEP) is a non-governmental, with 280 members, including leading Vietnamese seafood producers, exporters and service suppliers in the seafood sector, of which export turnover accounts for about 80% of total export turnover of Vietnam's seafood.

The advantage of infrastructure (closed production process) and export market base make it an opportunity for the largest companies in the industry (HVG, VHC, MPC) to grow sustainably even in the difficult period compared to other companies.

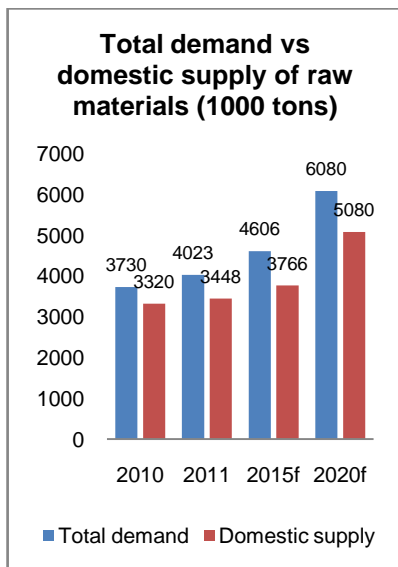
In general, the fishery industry is still facing many difficulties, including trade and technical barriers. However, since fishery industry is one of the leading export sectors, which receive favorable conditions from the government to develop, it still has a lot of growth opportunities in the future.



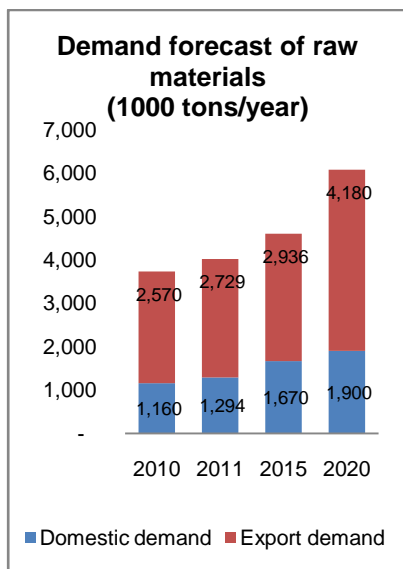
Source: VASEP

Industry Performance

Key External Drivers



Source: FAO 2012



Source: FAO 2012

Fluctuation in global market

The deceleration in the global economy has caused a downturn in consumer spending. Since 95% of Vietnamese seafood is exported, external factors will influence the fishery industry more obviously than others, for example the changes in economic condition or policies of major economies such as US, China, and Japan.

IMF has forecasted that the global economic growth would be 3.3% in 2013, which is higher than that in 2012 (2.5%). However, the recovery is still apparently slow.

Exchange rates

Exchange rates are always important issues for exporters, especially in the industries with large proportion of exports like fishery industry of Vietnam. Any fluctuation of exchange rates affects the revenue and profit of the businesses. The exchange rates used to increase, so seafood companies earn significant financial revenues thanks to exchange rate differences.

Interest rate

The majority of seafood businesses in the sector have high demand of capital, especially working capital in order to purchase input materials for processing. This characteristic results in high demand of short-term loans; therefore, the impact of interest rate on seafood businesses is very strong. During the period from early 2011 to mid-2012, interest rates were pushed up, making interest costs become a burden of most businesses in the sector.

Input material

Input material plays an important role for business operation in the seafood sector since its cost takes

up about 70-80% of production cost. According to DOF's report in 2012, in the 2015 – 2020 periods, import demand of raw material would increase by from 620 thousand tons/year to 1 million ton/year since domestic resources meet about 80% production demand. Therefore, fishery companies have to continue import raw materials, leading to the increase in production cost. Input material shortage has caused difficulties for businesses in the sector, because of it, some seafood companies made huge losses or even had to leave the industry.

Barriers of trade and food safety

During the last few years, import markets have imposed increasingly complicated safety standards related to chemical and drug residues and certification, barriers of anti-dumping duties of DOC, especially Ethoxyquin antibiotic residues which has caused difficulties for shrimp exports to Japan's market. If the seafood businesses can not meet these standards and regulations, their revenues and reputation in the global market are seriously affected, even the worst case is that they are forced to stop their operation.

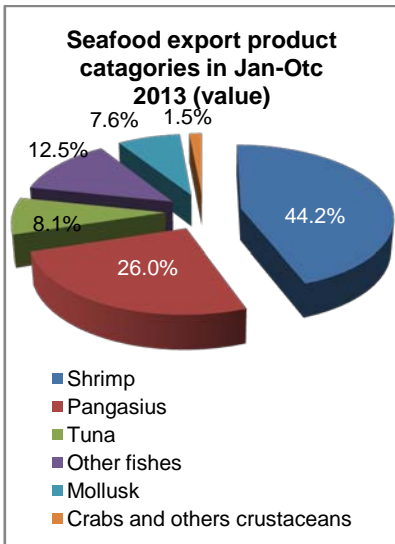
Climate change

As climate changes, the temperature of oceans, seas and lakes will change as well. So many fisheries will be seriously affected due to the new ecosystems, abnormal weather phenomena. The global warming greatly influences aquaculture, especially the aquaculture of shrimp which is very sensitive to the changes of living environment. These changes may affect fisheries worldwide, but the impacts are likely to be extremely serious for fishers in developing countries like Vietnam.

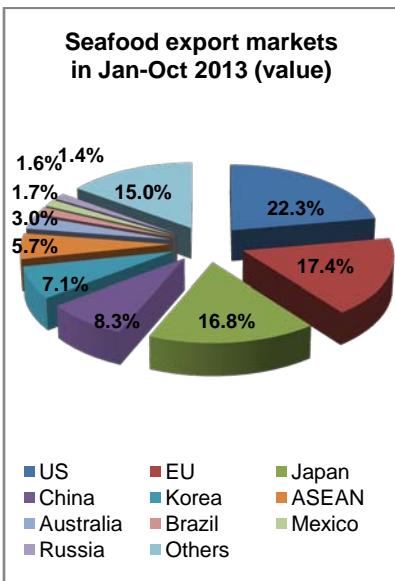
Industry Performance

Current Performance

Major challenges in capital and raw materials shortage, lower demand of international markets since the beginning of the year



Source: VASEP – Nov 2013



Source: VASEP – Nov 2013

Source: VASEP - Oct 2013

Fishery's export turnover in October/2013 reached a record of \$776 million, which increased by 29,7% y-o-y. The ten-month turnover was US\$5.6 billion, which increased by 9.1% compared to the same period of 2012. This is due to of strong growth in the export value of shrimp, together with a slight recovery of fish products (increased by 6.4%), squid and octopus (increased nearly 7%). However, exports value of other species significantly fell over the same time last year. Specifically, the export value of squid and octopus, crabs and other crustaceans, mollusks fell by 16%, 12%, 5% respectively. Major causes of this situation come from the fact that is a shortage of raw material inputs.

In the first 10 months of 2013, Vietnam seafood was exported to 156 markets. 10 largest markets still accounted for 85% of total export value. However, there was a significant change in shares of seafood export market. In particular, the export value to Japan, EU, Korea decreased by 0,6%, 1,5% and 1,2% y-o-y, while that of the US increased by 2% y-o-y and Chinese market increased by 2% y-o-y. This change has brought China outperform Korea to the 4th largest export market for Vietnam.

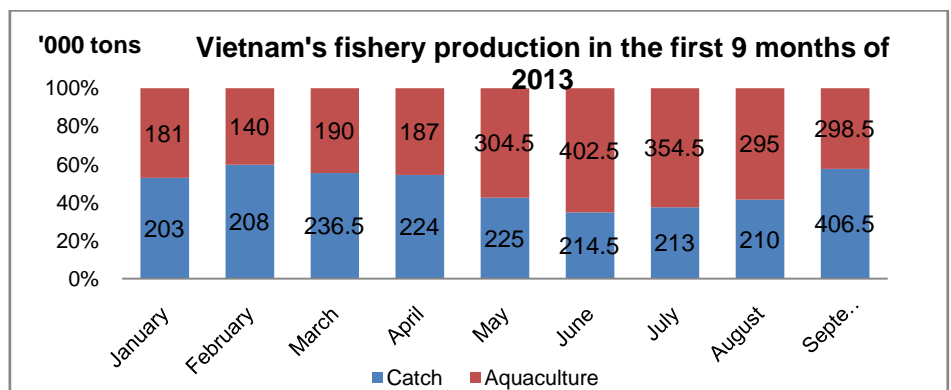
Total seafood exports to China reached \$ 462 million for the first 10 months, which increased by

37% y-o-y. Specially, shrimp export increased by nearly 50%, reaching \$310 million. However, processed shrimp accounted for only 4%, whereas raw shrimp accounted for 96%. It is not good sign in the context of shortage of raw resources to meet demand of major markets such as the US, EU, and Japan.

According to VASEP, the number of fishery companies in 2012 reduced significantly by 300 from over 900 to over 600 (mainly SMEs), due to the difficult situation of the sector in the recent years.

In Q4/2013, fishery export turnover is forecasted to reach \$1.7 billion (up 6.5% y-o-y) which is mostly comprised of shrimp, but the recovery of pangasius is difficult, export tuna and others would be lower than in the same period. Total export turnover in 2013 is forecasted to reach \$6.5 billion.

Currently, Vietnam's fishery industry has to face many challenges, such as diseases (EMS), international anti-dumping and anti-subsidy lawsuits, competition from other countries and the impact of climate change as well as strict market regulation on food safety, environmental responsibility and resource protection. Especially, input material shortage becomes more severe when Ministry of Finance proposes to increase import tariffs of some species.



Industry Performance

Industry Outlook

Positive outlook for Vietnam's vannamei shrimp exports

Short term outlook

Major economies of the world such as the US, EU and Japan are recovering. In 2014, GDP of the US, EU and Japan are projected to grow by 2.6%, 2.2% and 1.6% respectively. These countries are important export markets of Vietnam. According to Ministry of Trade and Industry, shrimp and pangasius- turnover are expected to continue to drive the total value of seafood export in 2014

Shrimp turnover is expected to reach US\$2.8 billion in 2013, which is much higher than the year's target, and account for 43% of the

country's total seafood export revenue. Moreover, vannamei shrimp export is forecasted to make a record figure of US\$1.2 billion by the end of the year thanks to tremendous increase in shrimp price caused by sharp decline in global shrimp supply.

Due to the increase in demand and price, shrimp would still have the highest export value in 2014. Besides, pangasius price has recently been on uptrend, so pangasius export is also expected to recover in the coming year.

The underlying trend of the fishery market is positive

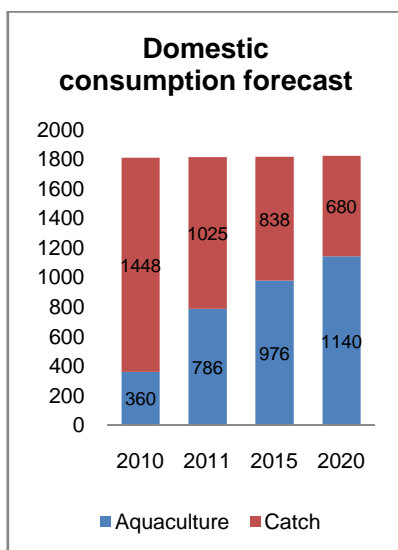
Long term outlook

The economy of the US - the largest importer of Vietnam seafood in 2012 witnessed moderate growth in the first quarter of 2013. The process of deleveraging in the households and financial sectors is expected to gradually ease over the next years. This may help to improve lending conditions, ease credit constraints and strengthen consumption spending

Local demand for fish and other seafood products is expected to increase rapidly over time due to growth of population from 90,7 million to 97,7 million (annualized rate of 0,8% in the 2013-2022 period), and increase of real incomes (GDP per capital is forecasted to increase by 11,8% per year in the same period).

According to the Vietnam's Fisheries General Department - Ministry of Agriculture and Rural Development, the overall development plan for Vietnam's fishery sector until 2020 focuses on large-scale production with appropriate and efficient production models that could bring high yield and high-quality products. This is a positive sign for the long-term development of the whole industry.

The sector's total output is expected to reach 9 million tons between 2020 and 2030, 70% of which would come from aquaculture. Export turnover is also projected to climb from \$10billion to \$20 billion at the same time.



Source: DOF 2012

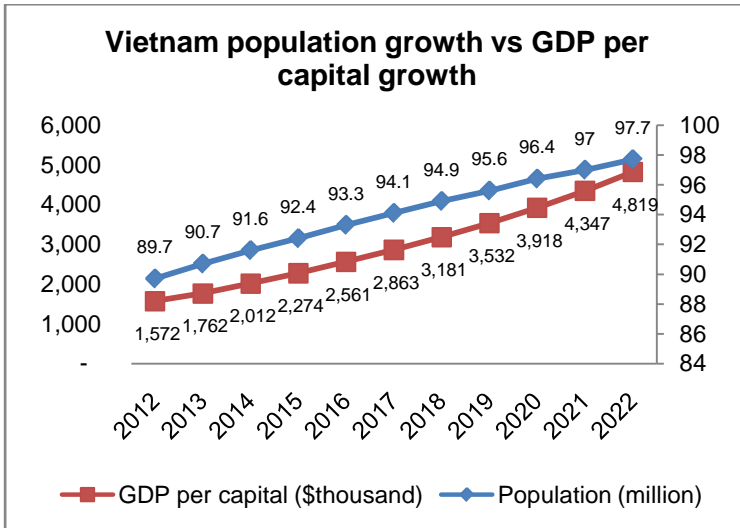
Global consumption of seafood is forecasted to rise over the long-term. According to the FAO, by 2015, the consumption demand would reach 165 million tons which increase by 2.1%/year on average, and consumption per capital would reach 14.3 kg (the current level of about 14 kg). The UN predicts that the world population would increase by 2 billion people in the next 20 years. Therefore, the consumption in developing countries is expected to grow up. It is obvious that pressure on seafood resources will increase, but it's also opportunities for the global fishery industry in general and Vietnam's fishery industry in particular.

Industry Performance

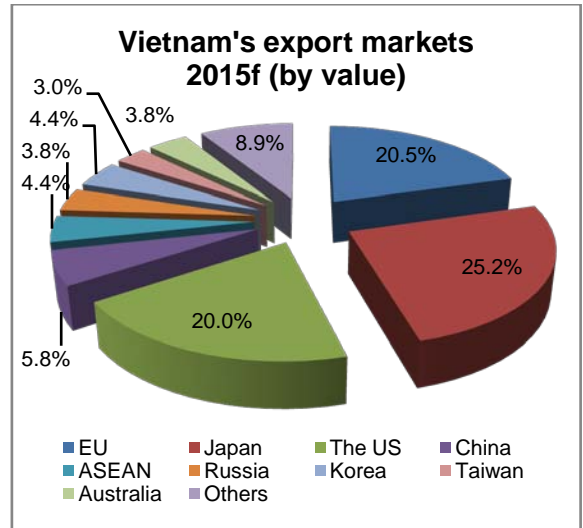
Industry Outlook Continued

In general, the fishery industry in Vietnam has been facing many challenges in the international trade. However, since fishery industry is one of strategic industries of

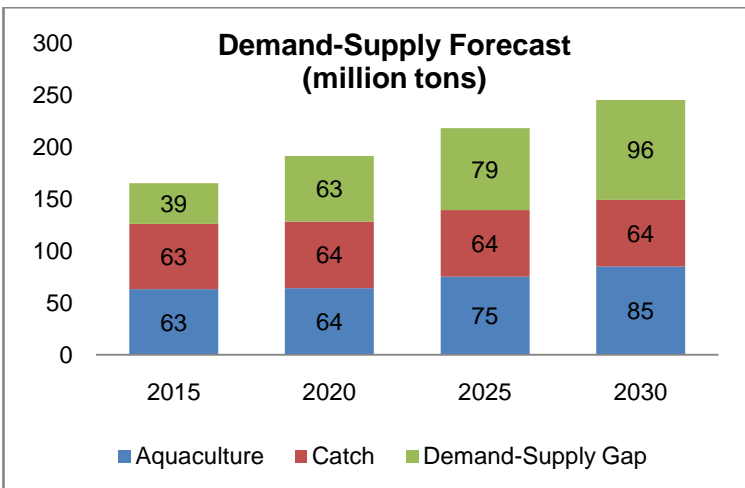
Vietnam, it has been given favorable policies by the government, which may lead to the sustainable development of the industry.



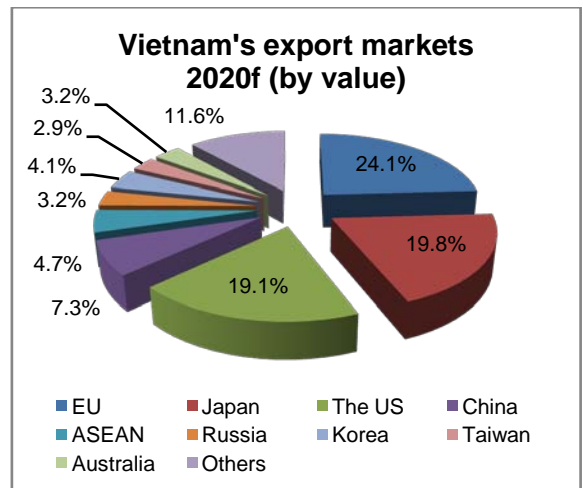
Source: Business Monitor Q3 - 2013



Source: DOF 2012



Source: FAO



Source: DOF 2012

Industry Performance

Industry Life Cycle

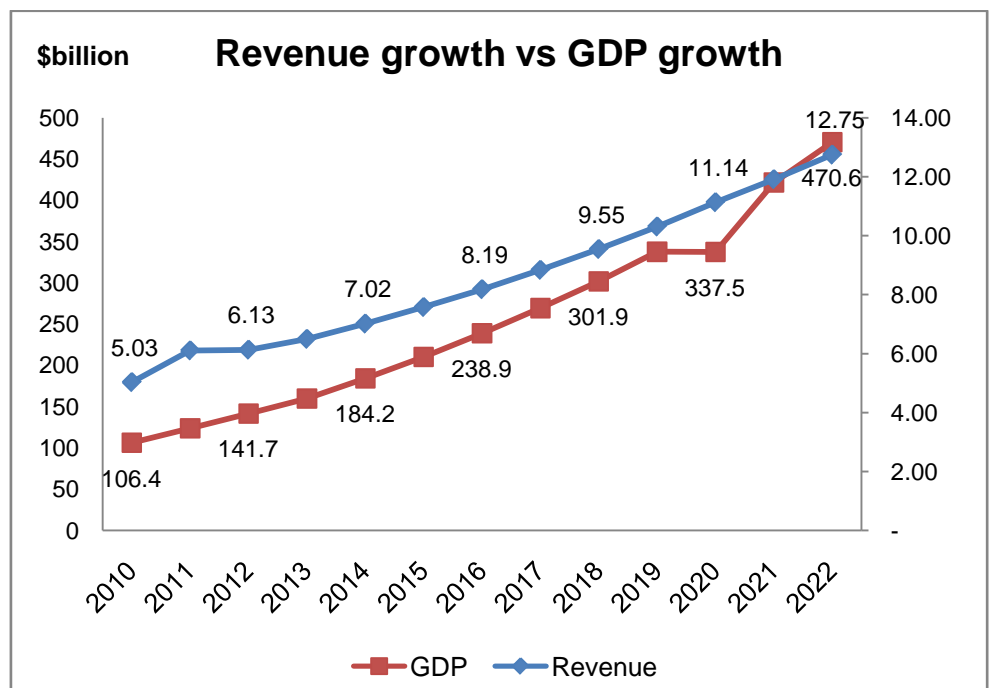
The fishery industry in Vietnam is in a maturity stage of its life cycle.

In term of development process: Since the natural conditions are very favorable, Vietnam's fishery industry have been existing and developing for many years.

In terms of revenue: the income of seafood companies had declined over the year. The main reason is increase in input material cost, which negatively affects companies' profit margin due to its large proportion of production costs (70%-80%). Especially in the shortage of domestic supply, they have to import input material.

In terms of growth rate: the seafood industry has similar growth rate to the economy. According to development plan of the Ministry of Agriculture and Rural Development, industry's export turnover is expected to increase at an annualized rate of 6-7% in the 2011-2020 periods that is same level of Vietnam's GDP growth during the same period as BMI forecasts.

In terms of product categories: the ability to expand aquaculture area and to introduce new products is limited due to barriers on capital, climatic condition and especially barriers of strict market regulation on food safety.



Source: GSO, Business Monitor Q3 2013

Products & Markets

Supply Chain | Products | Demand Determinants

Major Markets | International Trade | Business Location

Supply Chain

Key buying industry

Export markets: Vietnam exports seafood (mainly frozen products) to about 160 countries and territories in the world.

- **The US** (22.3%)
- **Europe:** Belgium (18%), Germany (16%), Italia (15%), Spain (12%), Holland, France...
- **Japan** (16.8%)
- ASEAN (5.7%)
- Other countries: China, Korea, Australia...

Domestic markets: The market mainly consumes fresh seafood

- Restaurants, hotels
- Wholesale market systems, supermarkets

Key selling industry

Import markets: Vietnam imported input materials from 69 countries, mostly from: Taiwan, Indonesia, the US, Norway, Japan and Korea.

Domestic markets:

- Fisheries logistics and services: boat building bases, boat repairing units, net manufacturing, and flack ice making and cold storage...
- Breed production units and centers: There are 3 national centers in north, the center and south of the country with more than 5.000 units, producing 30 billion breeds for aquaculture per year.
- Fish wholesale market: the major trading form in Vietnam seafood markets provide input materials for processing.

Products & Markets

Products

Shrimp and pangasius play as Viet Nam's top export items

Shrimp and pangasius products play a key role by accounting for 65% of total export value

Shrimp

Shrimp is the seafood product which has the highest export value among fishery products with three main forms: frozen, canned and fresh shrimp. Shrimp aquaculture has many advantages different raising conditions in comparison with other countries. Shrimp export value is expected to increase in the coming years, especially vannamei shrimp.

Pangasius

Pangasius has become very popular in EU and the US in recent years due to its low price and the ongoing weak economic conditions in these regions. Vietnam's pangasius exports accounts for about 75% of the global market share.

Fish and fish products: including fresh fish, processed fish, canned fish and fish meal.

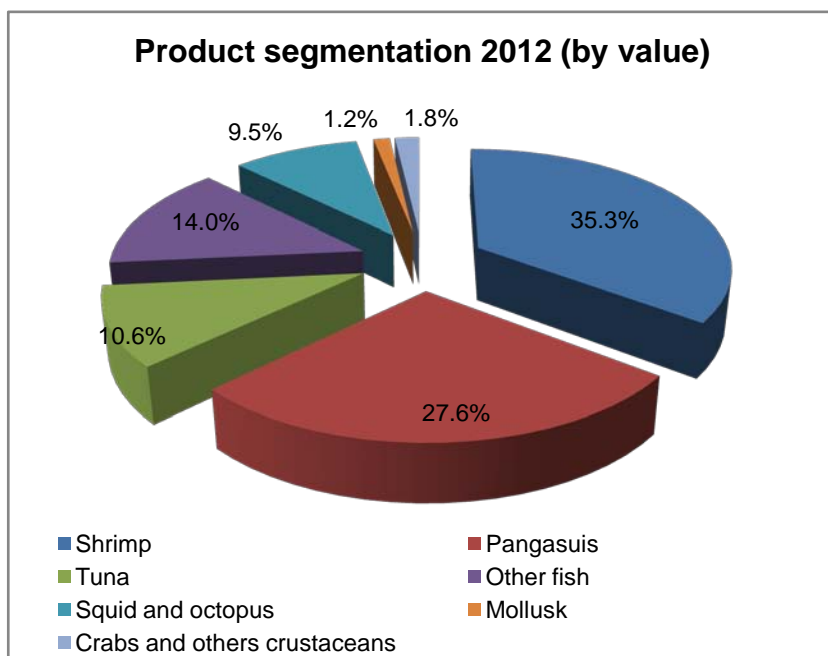
Dried fish products

Other fish products: mollusk, crabs and others crustaceans...

Products segmentation

Products	Number of export markets	Export value	Major markets
Shrimp	92	2,24	Japan, US, EU, China and Korea (83%)
Pangasius	142	1,74	EU, US and Asean (50%)
Tuna	96	0,57	US, EU and Japan (72%)
Squid and octopus	71	0,51	Korea, Japan and EU (78%)
Crabs and others crustaceans	15	0,12	US, EU and Japan (84%)

Source: VASEP 2012



Source: VASEP 2012

Products & Markets

Demand Determinants

The world economy's growth

The economic growth is closely related with consumer spending, especially consumer spending on high value product group like seafood. Good economic conditions will inspire consumers' confidence and motivate consumers to spend more. However, the global economy

in recent years is going through a series of issues related to public debt, budget deficit, inflation and unemployment which has caused the reduction in consumer spending, specially in major and traditional export markets for Vietnam, such as US, EU, Japan...

The seafood price

The price is one of the important factors which strongly affect consumer demand. The seafood prices in the global markets tend to increase due to many reasons such as the shortage of raw material and the complex evolution of diseases (EMS in Asia is an example). In

particular, in July/2013, black lobster prices in Japan increased from \$5/kg to \$15.95/kg, shrimp prices in the US increased by \$1/pound... This leads to decreasing or stopping the shrimp imports in major markets such as the US, EU of Japan.

The alternative products

Consumers tend to use more alternative products due to the increase in prices of seafood products, consumers' consumption habit and causes related to health.

In terms of price: seafood products face competition from cheaper products which are processed from animals, livestock and poultry. In addition to the advantage of price, these products also provide a huge amount of necessary calories, lipid as well as minerals and vitamins.

In terms of the consumption habits: the different consumption habits lead to different demands. The

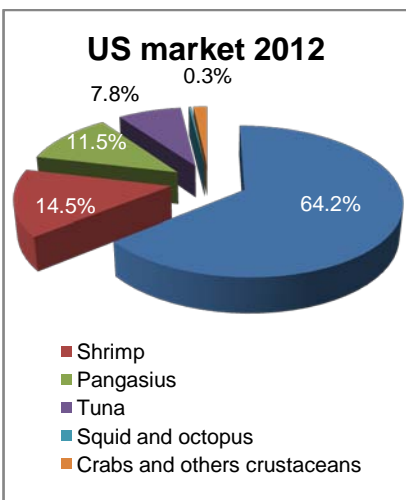
consumption habits are one of the main reasons which lead to low domestic demand because the Vietnamese consumers prefer to use fresh products than frozen products while the domestic seafood companies mainly provide frozen products.

The older people, obese people and people with cardiovascular disease tend to use more food products which have high protein and omega 3, low cholesterol like seafood. The food products from animal are suitable for the young consumers who are in the strong growth phase.

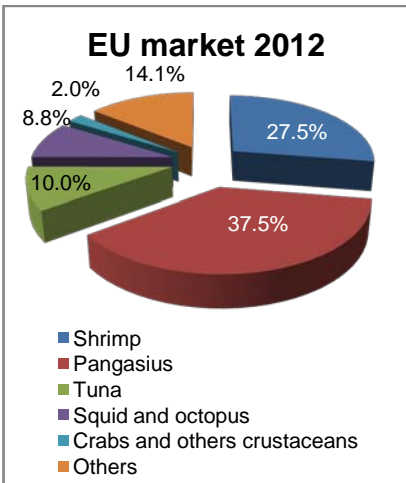
Products & Markets

Major Market

US, EU and Japan are the main importers of Vietnamese seafood



Source: VASEP 2012



Source: VASEP 2012

The export market

Currently, Vietnam's seafood products are exported to more than 150 countries and territories. In addition to three main markets which are the US, EU and Japan, Vietnam's fishery industry also make effort to enter in to the potential market of over a billion people of China.

The US

In 2012, the US replaced UE to become the largest importer of Vietnam seafood with the growth of 5,4% in export value compared to 2011. US was the largest importer of Vietnam tuna and the second largest importer of shrimp and pangasius.

Advantages: This market has huge demand, and good payment terms (average only 25-35 days).

Difficulties: the difficulties include high competitive pressures, commercial risks from lawsuits in the US market, barriers of anti-dumping duties of DOC. Anti-dumping duties for pangasius products, which are adjusted by DOC (POR 9) in Otc 2013, increased unexpectedly and almost doubles compared with POR8.

EU

EU is the second largest shrimp consumer market in the world, and the traditional market of Vietnamese pangasius. However, the European sovereign debt crisis has caused the reduction in consumer spending. In 2012, the market share of Vietnamese seafood in EU sharply decreased by 14% y-o-y, specifically, shrimp, pangasius (19,1%), cephalopod (down 19,4 %). However, since May/2013, this market has recovered with an average growth rate of 12,5%. In particular, Germany, Britain and France are leading importers.

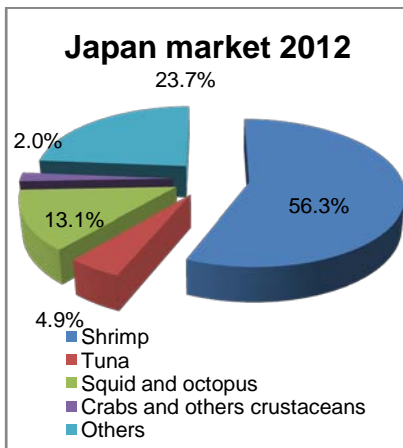
VASEP has recently signed a memo with port Zeebrugge (Belgium) to establish the European distribution center to increase the stability of pangasius export to this market.

Advantages: EU is a large consumer market, EU's demand for fish in particular and marine products in general is high, with 60% of seafood products consumed in EU are imported.

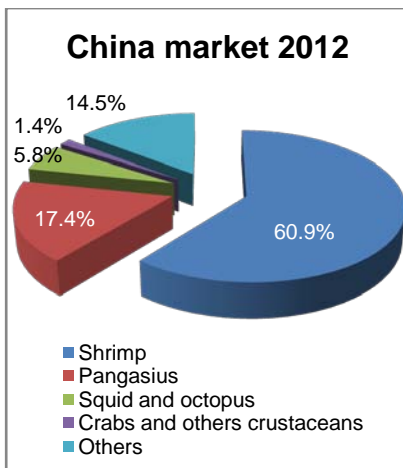
Difficulties: regulations and standards on quality of seafood products are more and more stringent.

Products & Markets

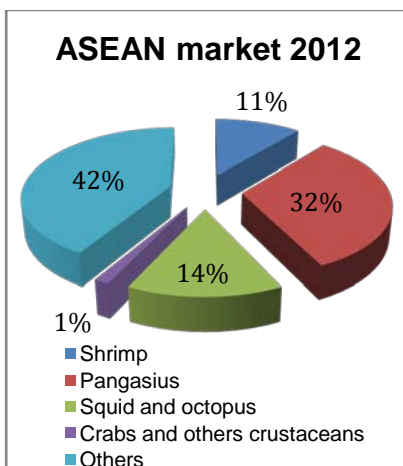
Major Market Continued



Source: VASEP 2012



Source: VASEP 2012



Source: VASEP 2012

Japan

Japan is one of important markets in which over 100 Vietnamese exporters are involved.

Advantages: This is the potential market, focusing on high-level products. Price is usually higher than other markets, payment terms is good (average 10-15 days).

Difficulties: High technical barriers about safety standards related to chemical and drug residues, especially Ethoxyquin antibiotic residues led shrimp exports to Japan

decline deeply. Since the materials are provided by external suppliers, Vietnam shrimp enterprises are incapable of controlling the Ethoxyquin level (maximum residue limits of 0.01 ppm), which is an antioxidant added to aquatic foods.

Japan is considering lifting the ethoxyquin residue level in shrimps imported from Vietnam from 0.01 ppm to 0.2 ppm. The new accepted level of ethoxyquin in Vietnamese shrimps will be officially announced by end of January next year.

Other markets

ASEAN

Seafood exports to this market in 2012 also achieved positive growth, with a turnover of \$334 million (up 8.7% y-o-y). Currently, among the

members of ASEAN, Thailand, Singapore and Malaysia are three leading importers of Vietnamese seafood.

China

China is the import market from Vietnam which has a strongest growth rate. This year, Vietnam seafood exports to China reach

nearly \$45 million/month, of which shrimp reach nearly \$28 million/month (accounting for 68% of total export value of Vietnam).

Korea

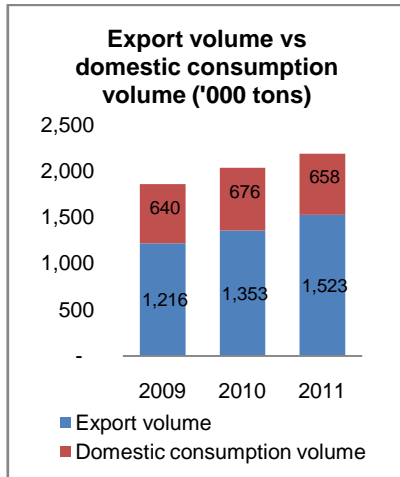
This is a stable and potential market of Vietnam's seafood industry. Main products are octopus, surimi, shrimp and tuna. In particular, Korea is the 5th shrimp consumers for Vietnam, accounting for nearly 8% of the total shrimp exports. In 2012, Korea accounted for 8.3% of Vietnam's

seafood exports, with export turnover reached \$509 million, which increased by 6.5% compared to 2011. However, from the end of 2012, Korea applied Ethoxyquin test for shrimp imports from Vietnam, so shrimp consumption in this market is more difficult than in the past.

Products & Markets

Major Market Continued

Domestic consumption market is small



Source: DOF 2012

The domestic market

With the population of more than 90 millions, the domestic market is potential. However the domestic market accounts for a small proportion of seafood consumption. According to the DOF's report in 2012, consumption volume of domestic processed products is approximately half of export volume; however, its value is only 9% of the export value.

In terms of the seafood businesses' revenue, the revenue from domestic market is very low (less than 5%). This is due to almost all kinds of

fresh water fish are consumed in domestic market, while the strength of most businesses is frozen products for export, the selling amount of frozen products and canned products is quite modest (5%-10%).

The value of domestic fishery consumption is estimated to increase 5.37% per year. Level of domestic consumption in 2015 is forecasted to be 790,000 tons and 940,000 in 2020, of which frozen products would account for over 30%.

International Trade

More than 95% of Vietnam seafood products are consumed in foreign market.

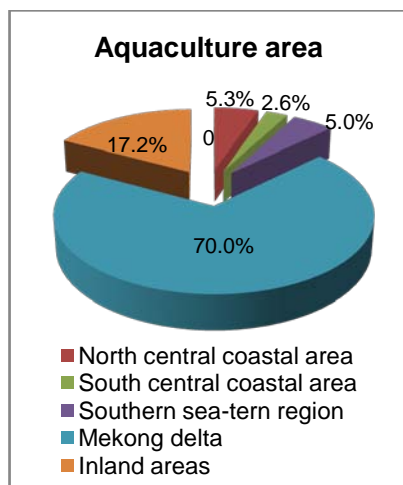
Fishery industry is one of the major export items of the country. Currently, more than 95% of Vietnam seafood products are consumed in foreign market. Vietnam currently exports seafood

products to more than 150 countries and territories over the world. In 2012, export turnover reached \$6.13bil.

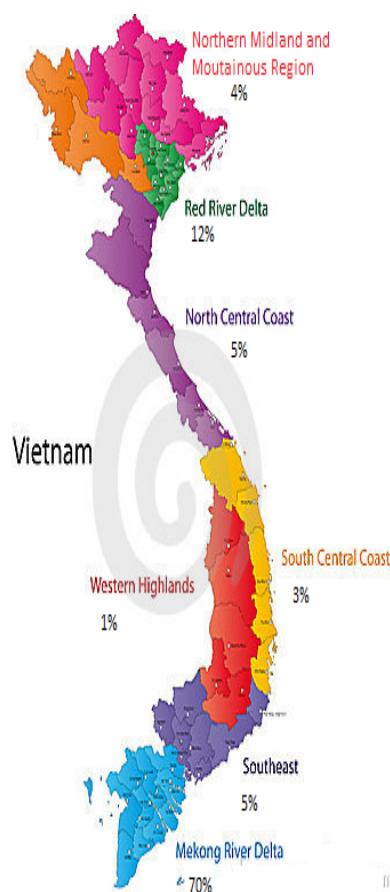
Products & Markets

Business Location

The Vietnam's fishery industry is concentrated in the Mekong Delta



Source: GSO - 2012



Aquaculture area in Vietnam continues to expand, and has increased from 865.4 ha in 2003 to 1.038,9 ha in 2012. The most important and largest region is in the Mekong Delta.

Production and export activities of the fishery industry in Vietnam are distributed along the country with the diversity of aquatic species. It can be divided into 5 major producing regions:

North central coastal area (6 provinces)

Central Vietnam has six provinces with more than 600 km of coastal line, from Thanh Hoa to Thua Thien Hue province. The region focuses on

brackish water and marine aquaculture, with many major species such as shrimp, oysters, abalone, grouper, snapper....

South central coastal area (8 provinces)

The Southern central coastal has about a coastline of 600km, from Da Nang to Binh Thuan. The region has considerable climatic and geographical advantages for

brackish water and marine aquaculture, while freshwater aquaculture only plays a minor role. The largest lobster producers are located in this region.

Southern sea-tern region (6 provinces)

Southern sea-tern region includes 6 provinces from Binh Phuoc to Ho Chi Minh City. Aquaculture development in this region is very diverse, and expanding. Mollusk farming, shrimp culture, lobster and marine fish

farming are important aquaculture activities in this region. Brackish water and freshwater fish farming make up less than 10% of total.

Mekong delta (13 provinces)

The Mekong delta provinces from Long An to Ca Mau contribute the largest volume and value to Vietnam's aquaculture production. Aquaculture in this area has diverse activities: fresh water, brackish water and marine water. It includes breeding, rearing and sale of shrimp,

prawn, mollusk and fig fry and fingerlings. Especially, Mekong delta is suitable for raising shrimp due to the characteristic of geological structure with salinity area accounting for 46.15% area of the whole region. Area for fresh water aquaculture is more than 400.000 hectares.

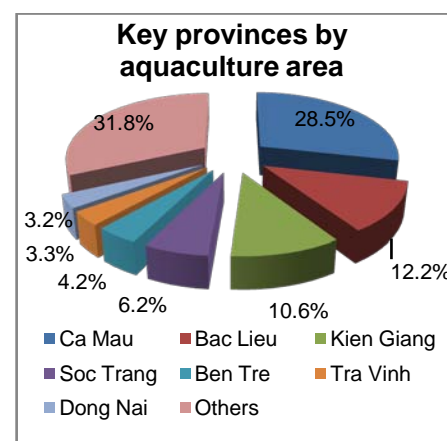
Inland areas (31 provinces)

It includes the red river delta, midland and mountainous north, and highland, which have the system of rivers and canals rather dense and

favorable conditions for the freshwater aquaculture such as catfish, tilapia, carp...

Region	Area (ha)
North central coastal area	55,000
South central coastal area	26,800
Southern sea-tern region	51,600
Mekong delta	727,200
Inland areas	178,300

Source: GSO 2012



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