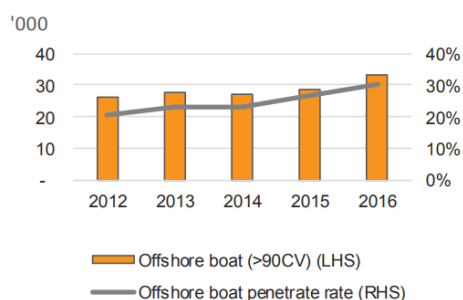


NICHE MARKET THAT BENEFITS FROM THE GOVERNMENT'S STRATEGY

The Vietnamese government decided to give the fishing sector, especially offshore fishing, a push by issuing decree 67 in 2014, which outlined the support and guidelines for the fishing sector. The government's support includes the following: low interest loans, tax exemption, insurance support, and infrastructure improvement. Since then, the fishing sector experienced rapid growth, with the total number of fishing ships increasing to 110,000 ships; 31,000 of these ships were offshore vessels.

Vietnam offshore vessel development



Source: VNDIRECT

Personally, I don't always support government strategy, but fishing is important as (i) it's traditional business, as we have been fishing for thousands of years; (ii) Vietnamese are skillful in fishing. The Japanese are recruiting Vietnamese sailors and workers for their offshore fishing team; (iii) Natural advantages: Vietnam has 3,260kms of beaches, which is excellent for traveling and fishing; (iv) The ocean dispute with China is also a key issue. We need to have a strong presence in the East Sea, which includes having more ships.



This is the plan: changing from small fishing vessels to big iron offshore vessels

Cars will need tires and ships will need ropes, anchors and nets. The same logic applied for tires and ropes: The larger cars/ships (e.g. trucks) have quicker life cycles, and the tires/ropes are more expensive. For big ships, they have to change their ropes every two years, while nets are changed every few months.



Who will be the leader in producing ropes and net in Vietnam?

Siam Brothers (HOSE: SBV) was originally an FDI company from Thailand. They later changed to a joint stock company and listed on the HSX in May 2017. SBV is the market leader with a 36% market share (2nd position is about 14%).



Vietnam map – long beach & big ocean

SBV's business is simple and easy to understand: The company produces rope and nets, and then sells them. Producing rope is easy, and importing rope is also easy (China/Korea). What will be their key to success?

Investment highlights:

- **Market power:** More than 1/3 of the market share in Vietnam.
- **Bargaining power by product quality:** Well-known brand name with high quality, and the company's selling price is 10-30% higher than other brands. Due to the growth of offshore fishing, the demand for high quality ropes and nets is also getting higher.
- **Nation-wide presence:** They have 600 retailers at 28 provinces that have fishing businesses.
- **High utilization:** Three factories are running at 80% of capacity, which is a very high level.
- **Increasing capacity:** SBV will increase its capacity by 40% starting from 2018. SBV is therefore well positioned to capture the market growth in coming years.
- **High dividend yield:** 9.3%

What's next after ropes and nets?

Garware Ropes (P/E 23.88) is similar to SBV. After producing ropes, the company was able to move to producing other products without a significant change in operations. Some of these products are aquaculture products (cages, bird protections, and mooring ropes), agriculture products (insect nets and shade nets), and sports products (Tennis net, swimming pool nets, and golf nets).

I think that SBV will move in the same direction. They are producing products for construction (ropes for cleaning the skyscraper, safety net, rope ladders) and agriculture. SBV is now trading at only a P/E of 8.66 with a 9.3% dividend yield, which is very attractive.

The ideology of Vietnamese is changing from “using cheap stuff” to “using good quality stuff”. We have seen these changes in many sectors: motorbikes (from Chinese products to Japanese/Thai products), food (from untraced origin to brand-name and organic products), and fashion (from un-branded to branded product e.g. Zara/H&M) This is understandable as the growth of the middle income class is high. If we apply the same ideology to SBV we could see they are in a very good position:

- Fisherman will need higher quality ropes.
- Construction sites will need higher quality nets
- Farms will need durable nets.
- Skyscrapers will need better ropes (for cleaning windows/ escape ladders in some cases)

Considering these perspectives, it's not a niche market anymore.



Safety net – farm net – rope ladder

The company is located in Ho Chi Minh City, and is open to meet investors. We have our research report on SBV, you could find it [here](#).

 <p>VNDIRECT WISDOM TO SUCCESS</p>	<p>NGUYEN THE TRUNG, ERIC Associate Director Trung.nt@vndirect.com.vn +84 937478432</p> <p>VNDIRECT in alliance with </p>
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