

VINH HOAN CORP (VHC) – UPDATE

Market Price VND32,750	Target Price VND39,700	Dividend Yield 3.1%	Rating ADD	Sector CONSUMER GOODS
----------------------------------	----------------------------------	-------------------------------	----------------------	---------------------------------

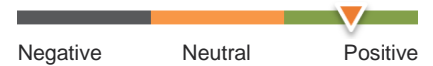
Outlook – Short term



Outlook – Long term



Valuation



25 February 2020

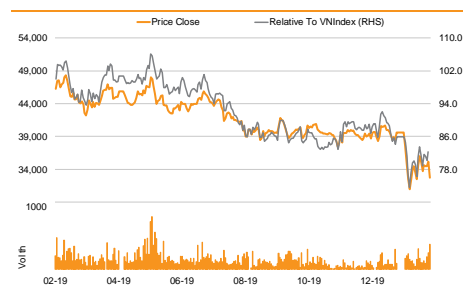
Hinh Dinh Quang

hinh.dinh@vndirect.com.vn

Key changes in the report

- FY20F EPS decreased by 47.9% due to lower ASP

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	48,287
52w low (VND)	31,000
3m Avg daily volume (shares)	104,293
3m Avg daily value (VNDm)	4,960
Market cap (VNDbn)	5,832
Outstanding shares (m)	181
Free float (%)	40
TTM P/E (x)	5.2
Current P/B (x)	1.2

Ownership

Truong Thi Le Khanh	43.5%
Mitsubishi Corp	6.6%
Others	49.9%

Source: VNDIRECT RESEARCH

Covid-19 weighing on 2020 outlook

Weak 4Q19 results on pangasius fillet export price tumble. Vinh Hoan Corporation (VHC) posted declines of 19.7% yoy and 50.9% yoy in 4Q19 revenue and net profit, respectively. 4Q19 gross profit margin (GPM) experienced a sharp drop to 14.1% (-7.1 pts yoy) as average export price of VHC's pangasius fell 30% yoy, per our estimation. Consequently, FY19 net profit fell 18.2% yoy to VND1,180bn, coming in at only 85.3% of our full-year forecast.

COVID-19 weighs on pangasius exports to China. We see a sharp decline in Vietnam's pangasius exports to China in 1H20F as (1) trade may be hindered due to restrictions on border crossing and tightening goods inspection, (2) China has locked down a number of cities and required people to stay home, which in turn reduced demand for pangasius-related dishes often served at fast-food outlets.

U.S. demand for pangasius products could recover in 2020F amid supply shortage of China's white-fish products. We expect U.S.-bound Chinese white-fish shipments to be hit by COVID-19 outbreak due to (1) tightening goods inspection, (2) travel restrictions, and (3) thin supply as a result of workforce shortage. Hence, VHC could gain more market share in the U.S. white-fish market in 2020F. We forecast VHC's export volume to the United States to rise 15% yoy in FY20F.

EVFTA in force to allow Vietnam's pangasius to gain more EU market share. We believe the EU-Vietnam Free Trade Agreement (EVFTA) could bring long-term benefits to Vietnam's pangasius exporters as tariffs on Vietnamese frozen fillets will be reduced to 0% over three years after EVFTA comes into effect, from 5.5% currently.

Reiterate Add, with lower TP of VND39,700. Our target price was lowered by 20.9% to factor in the downward revision in FY20F EPS forecasts due to the impact of COVID-19. We reiterate our Add rating on VHC underpinned by its brighter long-term outlook thanks to the recovery of U.S. market and EVFTA. Downside risks include unfavourable changes in regulations in export markets.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net revenue (bn)	9,271	7,867	7,883	9,445
Revenue growth	13.7%	(15.1%)	0.2%	19.8%
Gross margin	22.0%	19.5%	16.0%	19.1%
EBITDA margin	20.5%	19.5%	14.4%	17.6%
Net profit (bn)	1,442	1,180	840	1,300
Net profit growth	138.5%	(18.2%)	(28.9%)	54.8%
Recurring profit growth	143.4%	(19.4%)	(28.5%)	54.5%
Basic EPS	7,865	6,437	4,579	7,088
Adjusted EPS	7,646	6,328	4,488	6,947
BVPS	21,896	26,604	30,233	35,897
ROAE	41.5%	26.5%	16.1%	21.4%

Source: VND RESEARCH, COMPANY REPORT

FY19: Net profit slumped as sluggish U.S. demand for pangasius products hurt GPM

Figure 1: Results comparison

FYE December (VND bn)	4Q19	4Q18	% yoy	2019	2018	% yoy	vs. our forecast	Comments
Net revenue	2,171	2,702	-19.7%	7,867	9,271	-15.1%	86.4%	4Q19 revenue declined 19.7% yoy as VHC pangasius' average export price in 4Q19 plunged about 30% yoy, per our estimation
Gross profit	305	570	-46.5%	1,533	2,039	-24.8%	84.0%	
Gross profit margin	14.1%	21.1%	-7.1pts	19.5%	22.0%	-2.5pts	-0.5pts	4Q19 GPM plummeted to 14.1% from 21.1% in 4Q18 due to a 30% decline in pangasius average export prices. Therefore, FY19 GPM was 0.5pts lowered than our expectation.
Selling expenses	77	56	35.9%	252	210	19.7%	119.3%	4Q19 selling expenses rose 35.8% yoy due to higher transportation and storage costs
G&A expenses	38	47	-19.3%	149	144	3.6%	101.2%	
SG&A/net revenue	5.3%	3.8%	+1.5pts	5.1%	3.8%	+1.3pts	+1.2pts	
Operating profit	191	467	-59.1%	1,308	1,734	-24.6%	89.0%	
Financial income	54	22	143.1%	254	137	85.8%	106.0%	Financial income surged 143.1% yoy as VHC recorded abnormal profit of VND15bn from a divestment from an associate company and interest income increased 46% yoy thanks to higher cash balance.
Financial expenses	24	24	0.0%	93	167	-44.4%	117.7%	
Interest expenses	12	20	-39.5%	60	56	6.3%	148.8%	
Net other income	0	(9.0)	NA	1	(46)	NA	NA	
Pre-tax profit	223	466	-52.2%	1,309	1,688	-22.4%	80.8%	
Net profit	199	406	-50.9%	1,180	1,442	-18.2%	85.3%	Pre-tax and net profit plunged 52.2% and 50.9%, respectively, due to a sharp decline in pangasius fillet export price and higher selling expenses. For FY19, net profit fell 18.2% yoy, to come in at 85.3% of our full-year forecast.
Net profit margin	9.2%	15.0%	-5.8pts	15.0%	15.6%	-0.6pts	+0.0pts	

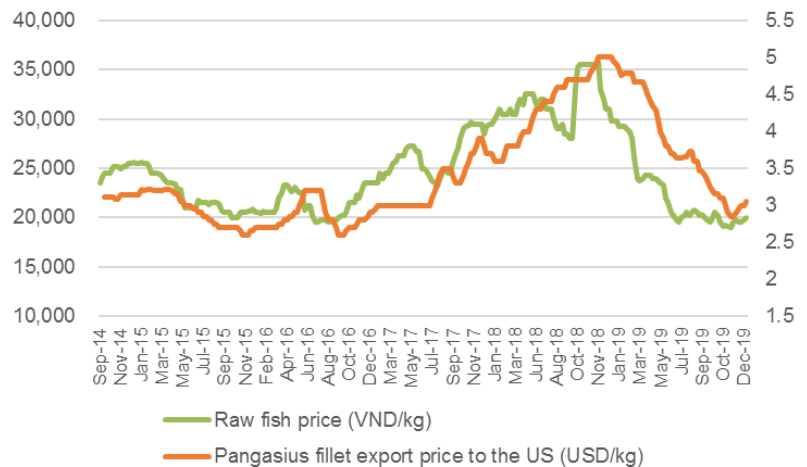
Source: VNDIRECT RESEARCH

According to the Vietnam Association of Seafood Exporters and Producers (VASEP), Vietnam's pangasius export value in 2019 fell 11.4% yoy to US\$2bn due to sluggish demand from the U.S. market. Specifically, the U.S. market witnessed a significant drop of 47.6% yoy in export value to US\$287.7m after the U.S. Department of Commerce imposed extremely high anti-dumping tariff of US\$1.4-3.9/kg on Vietnamese pangasius, thus causing a huge drop in U.S. demand for Vietnam pangasius products. Weakened demand from the U.S. for Vietnamese pangasius led to a significant drop in raw fish price as well as pangasius fillet export price. Per our estimation, the FY2019 average raw fish price fell about 30% yoy while pangasius fillet export prices to the United States eased to US\$3.0/kg in Dec 2019 from a record high of US\$4.9/kg in Dec 2018.

Pangasius exports to the European Union slid 3.5% yoy to US\$235.4m in FY19 due to softer export prices. Pangasius exports to ASEAN in 2019 also eased 3.6% yoy to US\$195.4m with the same reason.

On the other hand, China saw a strong demand for Vietnamese pangasius given the country's ongoing pork shortage due to the African Swine Fever (ASF) outbreak. Specifically, Vietnam's pangasius exports value to China in 2019 rose 25.3% yoy to US\$662.5m.

Figure 2: Raw fish price and pangasius fillet export price to the U.S. market plummeted due to oversupply (US\$/kg)



Source: Agromonitor, NOAA, VNDirect Research

2020 outlook: A challenging year ahead

COVID-19 outbreak could reduce pangasius exports to China

We see a decline in Vietnam’s pangasius exports to China as (1) trade may be hindered due to restrictions on border crossing and tighter goods inspection process, (2) China locked down a number of cities and required people to stay home, causing a reduction in demand for pangasius-related dishes often served at fast-food outlets. As we believe that the COVID-19 outbreak will last until the end of 2Q20F, we expect VHC’s pangasius exports to China may slow in 1H20F before recovering in 2H20F, when demand for pangasius products rebound amid pork shortage in China due to ASF. As a result, we expect VHC’s export volume to China to decline about 8% in 2020F.

Raw fish and pangasius fillet export prices could stay low in 1H20F before gradually recovering in 2H20F

According to VASEP, Chinese market accounted for 33% of Vietnam’s pangasius exports in 2019. We believe that weaker Chinese demand for pangasius products due to COVID-19 outbreak could cause a temporary supply surplus, thus dampening raw fish and pangasius fillet export prices during 1H20F. However, we think this situation could change in 2H20F as a low-price environment could discourage farmers and pangasius export companies to expand their farming areas; therefore, the domestic market could see a supply deficit of raw fish in 4Q20F when the Chinese demand for pangasius products recover. For FY20F, we forecast the average raw fish price to decrease 6% yoy, while VHC’s ASP to decline 14% yoy.

U.S. demand for pangasius products could recover in 2020F due to China’s low supply of white-fish products

We expect that Chinese white-fish shipments to the United States could be affected by the COVID-19 outbreak due to (1) tighter goods inspection process, (2) travel restrictions, and (3) deficient supply as a result of workforce shortage. Therefore, Vietnam’s pangasius products could gain more market share in the U.S. market in FY20F and VHC could be the biggest beneficiary thanks to its largest market share in the US pangasius market. We forecast VHC’s export volume to the United States to rise 15% yoy in FY20F.

Moreover, in Nov 2019, the Food Safety and Inspection Service (FSIS) of the U.S. Department of Agriculture announced the recognition of the

inspection system for exported Siluriformes fish and fish products (including Vietnamese pangasius products) from Vietnam to be as qualified as the U.S. system. The recognition is a good news for Vietnamese pangasius enterprises who export to the market. The recognition will also enhance the reputation of Vietnam's pangasius products not only in the U.S. market but also in other fastidious markets such as Japan, China and the EU, thereby boosting exports in the long term.

EVFTA creates favourable conditions for Vietnam's pangasius products to gain more market share in the EU

On 12 Feb, the European Parliament ratified the EVFTA. We believe that the pact will bring long-term benefits to Vietnam's pangasius exporters as tariffs on Vietnam's frozen fillet will be reduced to 0% over three years after EVFTA comes into effect, from 5.5% currently. We believe that the EVFTA would take effect from 2H20F after Vietnam's National Assembly ratifies it in its next sitting in May.

Figure 3: Earnings revision

	2020F		%Δ	2021F	% yoy	Note
	Old	New				
Unit: VNDbn						
Fillet volume growth	11.3%	5.0%		9.7%		We cut our forecast of FY20F fillet export volume by 5% as we expect China demand for pangasius fillet to be lower in 1H20 due to COVID-19 outbreak
Fillet ASP growth	-3.1%	-14.1%		7.3%		We adjust our FY20F ASP by 25.9% as we estimate FY20F fillet ASP to decline 14% yoy to US\$3.0/kg
Net revenue	10,151	7,883	-22.3%	9,445	19.8%	As we adjusted our assumption for fillet export volume and price, we reduced our FY20F net revenue forecast by 22.3% from our previous forecast
<i>Pangasius fillet</i>	6,706	4,730	-29.5%	5,625	18.9%	We cut our FY20F fillet export volume by 5% and reduce our FY20F ASP by 25.9%
<i>Collagen & gelatin (C&G)</i>	817	834	2.1%	1,175	40.8%	We raised FY20F utilisation rate of C&G plant to 69% from previous forecast of 67%
<i>Other products</i>	2,627	2,319	-11.7%	2,646	14.1%	We expect by-products (fish meal, fish fat) revenue to decline 8% yoy amid lower ASP
Gross profit	2,192	1,263	-42.4%	1,808	43.2%	
Gross profit margin	21.6%	16.0%	-5.6pts	19.1%	+3.1pts	GPM contraction amid lower ASP
<i>Pangasius fillet</i>	22.6%	12.8%	-9.8pts	17.0%	+4.2pts	FY20F GPM of pangasius fillet export is expected to fall significantly to 12.8% as COVID-19 outbreak will hurt Chinese demand for pangasius in 2020
<i>Collagen & gelatin</i>	44.5%	46.2%	+1.7pts	46.2%		
<i>Other products</i>	11.7%	11.7%		11.7%		
Selling expenses	240	252	5.0%	293	16.3%	
G&A expenses	164	149	-9.1%	177	18.8%	
SG&A/net revenue (%)	4.0%	5.1%	+1.1pts	5.0%	-0.1pts	
Operating profit	1,788	862	-51.8%	1,338	55.2%	
Financial income	179	157	-12.3%	174	10.8%	
Financial expenses	70	81	15.7%	62	-23.5%	
Net other income	-10	-7	-30.0%	-9	28.6%	
Pre-tax profit	1,886	932	-50.6%	1,442	54.7%	
Net profit	1,612	840	-47.9%	1,300	54.8%	
Net profit margin	15.9%	10.7%	-4.7pts	13.8%	+3.1pts	

Source: VNDIRECT RESEARCH

Reiterate Add, with lower target price of VND39,700

Our TP is based on an equal weighting of a five-year DCF valuation and a target P/E of 5.1x on average FY20-21F EPS. We use the average of FY20-21F EPS to reflect our expectation of VHC's business recovery from FY21F onwards. Our target P/E of 5.1x is a 25% discount from VHC's three-year average P/E of 6.8x to factor in the expected slowdown of the firm's business results in FY20F amid

COVID-19 outbreak which could hurt market sentiment on VHC's stock price. We lower our TP by 20.9% to VND39,700 to factor in VHC's expected lower business results in FY20F due to COVID-19 impacts. However, VHC's share price has corrected by 17% YTD, therefore, we reckon that the effects of COVID-19 has been largely priced in and we reiterate our Add rating on VHC, with a total return of 24.3%, including a potential price gain of 21.2% and a FY20F dividend yield of 3.1%.

Figure 4: DCF model – key assumption and inputs

General assumptions (in VND bn, otherwise note	2019F	2020F	2021F	2022F	2023F	Terminal
EBIT	972	1,456	1,774	1,692	1,600	
-Taxes	96	143	175	167	158	
EBIAT	876	1,312	1,599	1,526	1,442	
-Changes in working capital	(224)	(397)	(293)	(185)	(167)	
-Net Capex	(349)	(337)	(324)	(312)	(300)	
+Depreciation & Amortisation	142	204	242	279	315	
FCFF	445	783	1,224	1,308	1,290	9,295
PV of FCFF	445	680	925	860	737	4,618
PV of DCF (5 years)	3,648					Risk free rate (10-year VGB yield) 4.0%
PV of Terminal value	4,618					Equity risk premium 10.1%
Enterprise Value	8,266					Beta (Source: BB, adj. beta) 1.2
Less: Total debt	(582)					WACC 15.0%
Less: Minority interest	-					Terminal growth rate 3.0%
Plus: Cash and Cash equiv.	1,489					
Implied EV	9,173					
No. of o/s shares (m)	181,946,026					
Implied value per share (VND)	50,418					

Source: VNDIRECT RESEARCH

Figure 5: Blended target price

Valuation method	Implied value per share (VND)	Weight (%)	Weighted value per share (VND)
DCF	50,418	50%	25,209
P/E (target P/E 5.5)	29,157	50%	14,578
Fair value			39,787
Target price (rounded down)			39,700

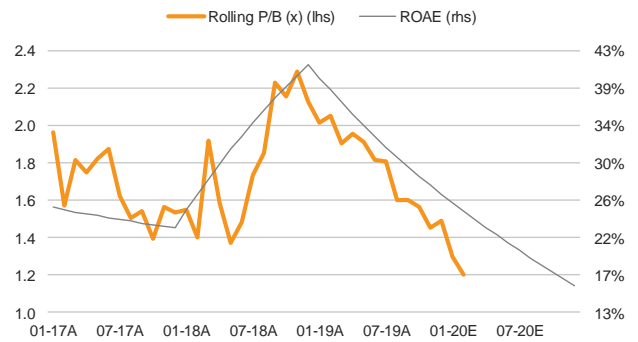
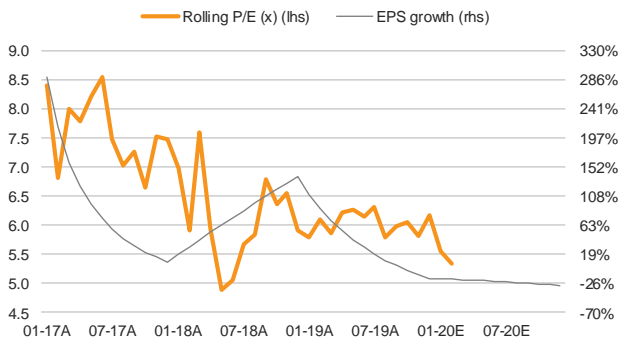
Source: VNDIRECT RESEARCH

Figure 6: Peer comparison (as at 24 February 2020)

Company	Ticker	Recom.	Target price (VND)	Market Cap (US\$m)	EPS growth (%)		P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E (x)	
					TTM	FY20F	TTM	FY20F	TTM	FY20F	TTM	FY20F	TTM	FY20F	TTM	FY20F
Bentre Aquaproduct Import & Export Jsc	ABT.VN	NA	NA	385	-27.0%	NA	7.9	NA	0.9	NA	13.9%	NA	11.1%	NA	0.2	NA
Cuu Long Fish Jsc	ACL.VN	NA	NA	469	-58.3%	NA	3.5	NA	0.7	NA	35.5%	NA	16.4%	NA	1.1	NA
I.D.I International Development and Investment Jsc	IDI.VN	NA	NA	933	-48.6%	NA	3.0	NA	0.3	NA	17.0%	NA	6.7%	NA	1.2	NA
Nam Viet Corp	ANV.VN	NA	NA	2,250	15.2%	NA	3.2	NA	0.9	NA	33.3%	NA	18.6%	NA	0.6	NA
Average				1,009	-29.7%		4.4		0.7		24.9%		13.2%		0.8	
Median				701	-37.8%		3.3		0.8		25.2%		13.8%		0.8	
Vinh Hoan Corp	VHC.VN	Buy	39,700	5,832	-18.2%	-28.9%	5.2	7.3	1.2	1.1	26.5%	16.1%	18.3%	12.4%	0.1	0.1

Source: VNDIRECT RESEARCH

Valuation



Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	7,867	7,883	9,445
Cost of sales	(6,334)	(6,619)	(7,637)
Gen & admin expenses	(149)	(149)	(177)
Selling expenses	(252)	(252)	(293)
Operating profit	1,132	862	1,338
Operating EBITDA	1,298	1,026	1,542
Depreciation and amortisation	(165)	(164)	(204)
Operating EBIT	1,132	862	1,338
Interest income	254	157	174
Financial expense	(93)	(81)	(62)
Net other income	1	(7)	(9)
Income from associates & JVs	14	0	0
Pre-tax profit	1,309	932	1,442
Tax expense	(129)	(92)	(142)
Minority interest	0	0	0
Net profit	1,180	840	1,300
Adj. net profit to ordinary	1,180	840	1,300
Ordinary dividends	(185)	(183)	(275)
Retained earnings	995	656	1,025

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	86	52	206
Short term investments	1,492	1,437	1,450
Accounts receivables	1,516	1,658	1,921
Inventories	1,414	1,394	1,668
Other current assets	103	106	128
Total current assets	4,612	4,647	5,372
Fixed assets	1,504	1,746	1,934
Total investments	1	1	1
Other long-term assets	496	496	594
Total assets	6,613	6,891	7,902
Short-term debt	866	582	391
Accounts payable	283	310	363
Other current liabilities	566	440	547
Total current liabilities	1,714	1,332	1,301
Total long-term debt	0	0	0
Other liabilities	20	15	18
Share capital	1,834	1,834	1,834
Retained earnings reserve	2,933	3,590	4,609
Shareholders' equity	4,879	5,544	6,583
Minority interest	0	0	0
Total liabilities & equity	6,613	6,891	7,902

Cash flow statement

(VNDbn)	12-19A	12-20E	12-21E
Pretax profit	1,309	932	1,442
Depreciation & amortisation	165	164	204
Tax paid	(247)	(92)	(142)
Other adjustments	(231)	(111)	(138)
Change in working capital	493	(264)	(392)
Cash flow from operations	1,489	629	974
Capex	(378)	(406)	(392)
Proceeds from assets sales	17	57	55
Others	(383)	154	(18)
Other non-current assets changes	0	0	0
Cash flow from investing activities	(743)	(195)	(355)
New share issuance	0	0	0
Shares buyback	(114)	0	0
Net borrowings	(403)	(284)	(191)
Other financing cash flow	0	0	0
Dividends paid	(185)	(183)	(275)
Cash flow from financing activities	(703)	(468)	(466)
Cash and equivalents at beginning of period	43	86	52
Total cash generated	43	(34)	154
Cash and equivalents at the end of period	86	52	206

Key ratios

	12-19A	12-20E	12-21E
Dupont			
Net profit margin	15.0%	10.7%	13.8%
Asset turnover	1.22	1.17	1.28
ROAA	18.3%	12.4%	17.6%
Avg assets/avg equity	1.45	1.30	1.22
ROAE	26.5%	16.1%	21.4%
Efficiency			
Days account receivable	66.0	73.3	70.7
Days inventory	81.5	77.1	79.7
Days creditor	16.3	17.1	17.4
Fixed asset turnover	5.42	4.85	5.13
ROIC	20.5%	13.7%	18.6%
Liquidity			
Current ratio	2.7	3.5	4.1
Quick ratio	1.9	2.4	2.8
Cash ratio	0.9	1.1	1.3
Cash cycle	131.1	133.3	133.0
Growth rate (yoy)			
Revenue growth	(15.1%)	0.2%	19.8%
Operating profit growth	(32.8%)	(23.9%)	55.3%
Net profit growth	(18.2%)	(28.9%)	54.8%
EPS growth	(18.2%)	(28.9%)	54.8%

Source: VNDIRECT RESEARCH

DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Hinh Dinh Quang – Senior Analyst

Email: hinh.dinh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>