

VINH HOAN CORP (VHC) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND42,600	VND51,800	4.7%	ADD	CONSUMER GOODS

16 October 2020

Outlook – Short term: **Neutral**
Outlook – Long term: **Positive**
Valuation: **Positive**

Consensus*: Add:5 Hold:3 Reduce:0
 Target price/Consensus: 14.5%

Key changes in the report

- FY20F revenue lowered by 8.4%
- Target price raised by 29.2%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	43,150
52w low (VND)	19,590
3m Avg daily value (VNDmn)	23,148
Market cap (VND bn)	7,733
Free float (%)	25
TTM P/E (x)	7.7
Current P/B (x)	1.5

Ownership

Truong Thi Le Khanh	43.5%
Mitsubishi Corp	6.6%
Vo Phu Duc	5.9%
Others	44.0%

Source: VND RESEARCH

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Signs of a leap from 2021 onwards

- The outlook of pangasius market and its related products is trending upward due to increased demand from EU and tighter supply from other whitefish competitors.
- We expect earnings to record a 40% CAGR in FY20-22F, bolstered by EU-VN FTA which was effective since 01 Aug 2020.
- Reiterate with ADD rating and a higher TP of VND51,800 as we roll over our valuation to end-FY21F.

Lackluster 1H20 performance due to the COVID-19 outbreak

Vinh Hoan Corporation (VHC) experienced declines of 14.4% yoy and 49.5% yoy in 1H20 revenue and net profit, respectively, fulfilling 41.4-43.8% of our full-year forecast. The COVID-19 outbreak severely hit the pangasius market, leading to a drop in the pangasius industry export value (-30% yoy). The lower market value would cause VHC's FY20F revenue to drop by 8.2% yoy.

We expect a strong recovery of pangasius export from 2021 onwards

After a decade of efforts, Vietnam and the European Union have completed the ratification process for the Europe-Vietnam Free Trade Agreement (EVFTA) to officially be effective on 01 August, 2020. This opened more opportunities for pangasius export to the EU as the tariffs on pangasius could be reduced to zero in the next three years. We also expect pangasius export to other markets to recover in FY21F after COVID-19 is defeated thanks to vaccination.

Decent outlook for FY21F

We expect FY21F earnings to increase yoy thanks to an improvement in export volume to the U.S. and EU market. The demand for whitefish from the U.S. market has been stable throughout years, while we notice a sharp increase in export value to the EU market. Specifically, we expect the export volume to the U.S. and E.U. market to increase by 8% and 20% yoy in FY21F, respectively.

Reiterate Add, with a higher TP of VND51,800

We lift our one-year target price by 29.2% on the back of a strong recovery in pangasius export markets from FY21F onwards. Our TP is based on a combination of five-year DCF valuation and three-year average P/E of 6.7x on FY21F EPS. We reiterate our Add rating on VHC with FY21F dividend yield of 4.7%. Downside risks include (1) COVID-19's impacts on pangasius export markets last longer than expected and (2) 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	7,224	8,724
Revenue growth	13.7%	(15.1%)	(8.2%)	20.8%
Gross margin	22.0%	19.5%	16.8%	20.4%
EBITDA margin	20.5%	19.5%	15.6%	19.3%
Net profit (bn)	1,442	1,180	842	1,345
Net profit growth	138.5%	(18.2%)	(28.7%)	59.8%
Recurring profit growth	143.4%	(19.4%)	(28.4%)	59.5%
Basic EPS	7,865	6,437	4,589	7,333
Adjusted EPS	7,646	6,328	4,498	7,187
BVPS	21,896	26,604	29,243	34,655
ROAE	41.5%	26.5%	16.4%	23.0%

Source: VND RESEARCH

PANGASIOUS MARKETS STRUGGLE TO RECOVER POST COVID-19

Lackluster 1H20 performance due to weak demand of global market

The COVID-19 epidemic had started spreading since 31 Dec 2019, which soon became one of the worst outbreak in history. The pangasius export value was earlier expected to accelerate this year, yet amid the Covid-19 pandemic, Vietnam's pangasius export value in 1H20 dropped 29.8% yoy to US\$612.3m. VHC's export value to its main markets including China, US, and EU also dropped 15.5% yoy, 24.4% yoy, and 36.6% yoy, respectively. Thus, VHC's 1H20 net revenue dropped 14.4% yoy, while net profit experienced a sharp decline of 49.5% yoy.

Figure 1: 1H20 results comparison

FYE Dec (VND bn)	2Q20	2Q19	% yoy	1H20	1H19	% yoy	vs our forecast	Comment
Net revenue	1,630.1	2,024.5	-19.5%	3,266.2	3,813.8	-14.4%	41.4%	1H20 net revenue declined 14.4% yoy as VHC's pangasius products, by-products and other revenues declined by 12.8% yoy, 1.2% yoy and 44.2% yoy respectively, while collagen and gelatin revenues was up by 24% yoy.
Gross profit	319.9	436.3	-26.7%	534.6	857.6	-37.7%	42.3%	
Gross profit margin	19.6%	21.6%	-3.6% pts	16.4%	22.5%	-6.1% pts	+0.4% pts	1H20 gross profit margin dropped to 16.4% from 22.5% in 1H19 as pangasius fillet export price slumped significantly by 23% yoy in 1H20, per our estimation.
Selling expenses	36.4	62.2	-41.5%	75.2	111.0	-32.2%	29.8%	VHC's selling expenses was well-managed to cope with COVID-19
G&A expenses	36.0	33.9	6.1%	76.3	79.4	-3.9%	51.2%	
Operating profit	246.9	453.9	-45.6%	419.4	800.2	-47.6%	53.7%	
Financial income	39.7	135.3	-70.6%	94.5	165.9	-43.1%	60.0%	
Financial expenses	40.3	22.6	77.8%	58.1	47.1	23.5%	72.0%	Vinh Hoan Corporation reported a FX loss of VND34bn in 1H20, which is higher than the FX loss of VND14bn in 1H19
Interest expenses	9.3	15.4	-39.3%	21.7	33.0	-34.2%	53.9%	
Net other income	(6.4)	3.6	-278.9%	(7.0)	3.4	-306.2%	97.4%	
Pre-tax profit	240.5	457.4	-47.4%	412.4	803.6	-48.7%	44.3%	Its pre-tax profit is in-line with our forecast
Net profit	215.4	419.9	-48.7%	367.6	727.3	-49.5%	43.8%	

Source: VND RESEARCH

Prices to remain low in FY20F

As of Aug 2020, average catfish export price was US\$2.7/kg, trending downwards since Jan 2019 due to oversupply while global demand slowly dropped. In 2018, the pangasius industry export rose 26.5% yoy to US\$2.26bn, thanks to (1) U.S. low anti-dumping tax imposed on Vietnamese pangasius products, and (2) the trade war between US-China created opportunities for VHC to gain market share. Subsequently, farmers in Vietnam focused strongly on raising raw fish, driving the raw fish prices down. In 2019, farmers reported a loss of VND2,000 – 3,000/kg, and currently farmers are suffering from a loss of VND3,000 – 5,000/kg. Meanwhile, the drop in industry export volume also contributed to the overall cause of low market price. The pangasius producers suffered double impacts from both the COVID-19 outbreak and the market oversupply, leading to several negative effects on price. We expect the oversupply condition would not see a significant improvement, while the export market price could recover in 2H21F. In FY21F, the raw fish price is likely to stay at the current price point, while the export price edges up 3.4% yoy from US\$3.0 to US\$3.1/kg.

Figure 2: Raw fish price and pangasius fillet export price to the US market plummeted due to oversupply



Source: VND RESEARCH

A BRIGHTER OUTLOOK FOR FY21F

VHC is one of the biggest beneficiaries of EVFTA

After a decade of efforts, Vietnam and the European Union have completed the ratification process for the Europe-Vietnam Free Trade Agreement (EVFTA) to officially be effective on 01 August, 2020. Specifically, the import tax on pangasius products to the European Union (EU) will be reduced from 5.5% to 0% in 3 years in terms of raw catfish and from 7% to 0% in 7 years regarding processed pangasius. Soon after EVFTA was signed, shipments of Vietnamese fishery products to EU already increased by around 10% mom in August, reflecting the immediate effect of the agreement. The EU has strict standards on food safety, quarantine testing, and traceability for seafood products, which comes out in favor of Vinh Hoan. VHC has proved itself to be the top exporter of pangasius; since 2005, VHC has acquired multiple standard certifications, includes ISO 9001:2000, IFS, GLOBALG.A.P, ASC, and more, proving its position and superiority among its peers.

VHC's pangasius export value to the EU climbed 61.5% yoy but its export revenue from the U.S. market dropped 48.4% yoy in 2Q20, due to the reduced demand for whitefish in the U.S. Thus, VHC quickly joined the export market to EU with the current low tax, partly offsetting the fall in U.S. export value. Moreover, the outlook for 2021F COVID-19 pandemic in EU is considered better than that of the USA, foreseeing a better recovery in 2021F. In particular, as of 13 Oct, the US has 7.83m cases ytd, while Europe only has 4.2m cases ytd. While entering a new market is a challenge for VHC's potential market growth, we expect VHC's export value to the EU to increase by 20% yoy in FY21F.

The U.S demand for pangasius products would recover in 2021F due to China's low supply of whitefish products

We expect China's export to the US will continue to be affected by the trade war, especially during COVID-19. Moreover, China has experienced severe floods since early Jun 2020. Twin impacts from both COVID-19 and natural disaster could lead to a decline in China's food supply, thus prioritizing the domestic

demand for agriculture and aquaculture products, limiting the export of their fishery products, including whitefish. As a result, we believe Vietnam's pangasius will gain whitefish's market share in the U.S. market, thus VHC's export volume to the US is forecasted to increase by 8% in FY21F due to fewer competitors and demand recovery.

Pangasius products demand in China could recover in 2021F

According to VASEP, in 8M20, Vietnam's total pangasius export value to China – Hong Kong reached US\$271m, declining 22.6% yoy. The decline in export value was due to: (1) weaker demand due to COVID-19 impact and (2) rumors that imported seafood could transmit the corona virus affected the demand for imported seafood in China. Accordingly, we expect VHC's export value to China to decline 28.3% yoy in FY20F, stronger than the industry's average decline of 15.5% yoy.

However, pangasius demand in China is forecasted to bounce back in 2021F thanks to the successful containment of the outbreak and aquaculture products shortage due to natural disasters. As a result, we estimate VHC's pangasius export to China to rise 10% yoy in 2021F.

Collagen & gelatin (C&G) segment continues to grow in FY21F, contributing 14% to the FY21F revenue

VHC's C&G segment revenue grew 24% yoy in 1H20 as production achieved breakeven level, bringing in more profit for VHC. Meanwhile, 1H20 gross profit margin of C&G segment improved to 49% from 46% in FY19. Currently, VHC exports its products to food-packaging, pharmaceuticals and cosmetics producers in the Asia-Pacific markets, including South Korea, Japan and Taiwan. According to Grand View Research, the global collagen market was valued at US\$4,562m in 2019 and forecasted to grow at 5.9% CAGR during 2020 – 2027F. This industry is becoming more lucrative thanks to growing concerns over wellness and health among consumers worldwide. We expect VHC's C&G business to stay healthy in the upcoming years. In addition, the company aims to expand its C&G capacity from 2,000 tons/year to 3,500 tons/year starting from Oct 2020. As a result, C&G FY21F revenue is expected to grow exponentially by 62.8% yoy thanks to the demand increase for C&G products.

Figure 3: Earnings revision

Unit: VNDbn	2020F		2021F		% yoy	Comments
	Old	New	%Δ			
Fillet volume growth	5.0%	8.0%		10.0%		We expect that COVID-19 would have been contained by 2021, leading to a recovery in in fillet volume growth. Furthermore, we believe the push from EVFTA will further increase the industry's export volume
Fillet ASP growth	-14.1%	-14.1%		3.4%		
Net revenue	7,883	7,224	-8.4%	8,724	20.8%	
<i>Pangasius fillet</i>	4,730	4,784	1.1%	5,495	14.9%	We expect FY21F pangasius fillet's revenue to rise 14.9% yoy due to a 3.4% yoy growth in average export price and a 10% yoy volume growth, under the assumption that pangasius products would recover in 2021F.
<i>Collagen + gelatin</i>	834	770	-7.7%	1,254	62.8%	Vinh Hoan is finishing its C&G production line upgrade. We believe this will likely boost VHC's collagen and gelatin capacity and reduce its production costs, leading to a higher revenue and GPM. However, amidst the COVID-19 pandemic, VHC failed to upgrade the production line ontime. Consequently, we lowered our forecast for FY20F VHC's C&G segment.
<i>Other products</i>	2,319	1,671	-27.9%	1,975	18.2%	We believe the VHC's main export markets will recover next year as the COVID-19 would be contained thanks to vaccination, leading to a rise in Vinh Hoan's trading products and other services revenue
Gross profit	1,263	1,212	-4.1%	1,782	47.1%	We believe Vinh Hoan's C&G products with its high GPM will greatly contribute to VHC's gross profit.
<i>Gross profit margin</i>	16.0%	16.8%	+0.8% pts	20.4%	+3.6% pts	
<i>Pangasius fillet</i>	12.8%	13.1%	+0.3% pts	16.8%	+3.7% pts	
<i>Collagen + gelatin</i>	46.2%	49.0%	+2.8% pts	49.0%	0.0%	
<i>Other products</i>	11.7%	12.3%	+0.6% pts	12.3%	0.0%	
Selling expenses	252	224	-11.0%	270	20.5%	
G&A expenses	149	137	-8.3%	163	19.5%	
SG&A/net revenue	5.1%	5.0%	-0.1% pts	5.0%	0.0%	We expect the company's SG&A/net revenue percentage to remain unchanged year-on-year
Operating profit	862	851	-1.3%	1,470	72.8%	
Financial income	157	155	-1.4%	183	18.1%	
Financial expenses	81	79	-1.5%	62	-21.5%	
Net other income	(7)	(7)	-6.1%	(8)	-20.8%	
Pre-tax profit	932	920	-1.3%	1,462	58.9%	
Net profit	840	842	0.2%	1,345	59.8%	
Net profit margin	10.7%	11.6%	+0.9% pts	15.4%	+3.8% pts	

Source: VND RESEARCH

REITERATE WITH ADD RATING AND TP OF VND51,800

We lift our TP by 29.2% to VND51,800 to factor in VHC's expected higher business results in FY21F after COVID-19 pandemic. Our TP is based on a five-year DCF valuation and a three-year average P/E of 6.7x on FY21F EPS. We reiterate our Add rating on VHC, with a total return of 26.3%, including a potential price gain of 21.6% and FY21F dividend yield of 4.7%. Downside risks include (1) COVID-19's impacts on pangasius export markets last longer than expected and (2) unfavorable changes in export markets regulations.

Figure 4: DCF model – key assumptions and inputs

General assumptions (in VND bn, otherwise noted)	2020F	2021F	2022F	2023F	2024F	Terminal
EBIT	962	1,477	1,800	1,724	1,634	
-Taxes	82	118	144	138	131	
EBIAT	880	1,359	1,656	1,586	1,504	
-Changes in working capital	142	204	242	279	315	
-Net Capex	-349	-337	-324	-312	-300	
+Depreciation & Amortisation	96	-615	-392	-152	-128	
FCFF	769	611	1,182	1,401	1,391	9,761
PV of FCFF	769	532	896	924	799	4,881
PV of DCF (5 years)	3,921					Risk free rate (10-year VGB yield) 4.0%
PV of Terminal value	4,881					Equity risk premium 10.1%
Enterprise Value	8,802					Beta (Source: BB, adj. beta) 1.2
Less: Total debt	(650)					WACC 14.9%
Less: Minority interest	-					Terminal growth rate 3.0%
Plus: Cash and Cash equiv.	1,911					
Implied EV	10,064					
No. of o/s shares (m)	181,946,026					
Implied value per share (VND)	55,311					

Source: VND RESEARCH

Figure 5: Blended target price

Valuation method	Implied value per share (VND)	Weight (%)	Weighted value per share (VND)
DCF	55,311	50%	27,656
P/E (target P/E 6.7)	48,297	50%	24,148
Fair value			51,804
Target price (rounded down)			51,800

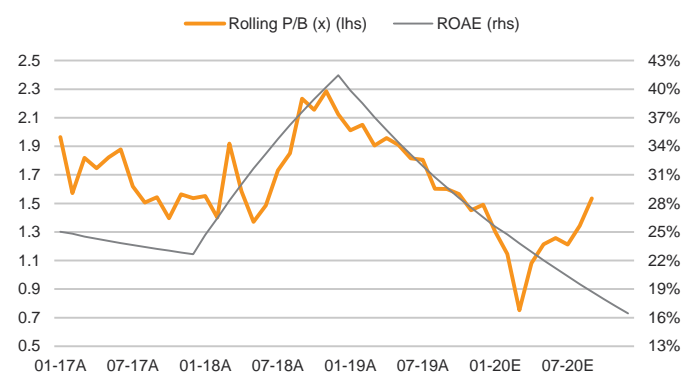
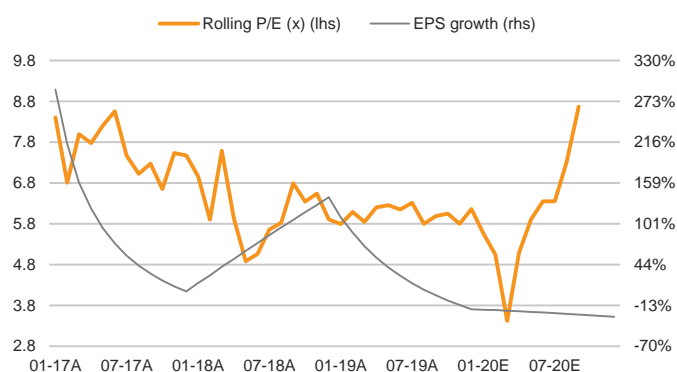
Source: VND RESEARCH

Figure 6: Peer comparison (data as at 15 Oct 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	15.7	-27.0%	NA	10.7	NA	0.9	NA	7.9%	NA	6.4%	NA	0.2	NA
Cuu Long Fish JSC	ACL.VN	NA	NA	30.7	-38.0%	NA	18.9	NA	1.0	NA	5.1%	NA	2.3%	NA	1.0	NA
IDI International Development and Investment JSC	IDI.VN	NA	NA	56.0	-54.4%	NA	9.1	NA	0.4	NA	4.7%	NA	1.8%	NA	1.4	NA
Nam Viet Corp	ANV.VN	NA	NA	111.5	15.2%	NA	6.0	NA	1.1	NA	19.5%	NA	10.9%	NA	0.6	NA
Average				53.5	-26.1%	NA	11.2	NA	0.8	NA	9.3%	NA	5.4%	NA	0.8	NA
Median				43.4	-32.5%	NA	9.9	NA	0.9	NA	6.5%	NA	4.4%	NA	0.8	NA
Vinh Hoan Corp	VHC.VN	Add	51,800	354.1	-29.7%	-28.7%	7.7	9.6	1.5	1.5	16.8%	16%	12.7%	13%	0.1	0.1

Source: VND RESEARCH, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	7,867	7,224	8,724
Cost of sales	(6,334)	(6,013)	(6,942)
Gen & admin expenses	(149)	(137)	(163)
Selling expenses	(252)	(224)	(270)
Operating profit	1,132	851	1,349
Operating EBITDA	1,298	1,015	1,553
Depreciation and amortisation	(165)	(164)	(204)
Operating EBIT	1,132	851	1,349
Interest income	254	155	183
Financial expense	(93)	(79)	(62)
Net other income	1	(7)	(8)
Income from associates & JVs	14	0	0
Pre-tax profit	1,309	920	1,462
Tax expense	(129)	(78)	(117)
Minority interest	0	0	0
Net profit	1,180	842	1,345
Adj. net profit to ordinary	1,180	842	1,345
Ordinary dividends	(185)	(367)	(367)
Retained earnings	995	475	978

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	86	251	141
Short term investments	1,492	1,660	1,660
Accounts receivables	1,516	1,206	1,637
Inventories	1,414	1,465	1,767
Other current assets	103	97	118
Total current assets	4,612	4,680	5,323
Fixed assets	1,504	1,746	1,934
Total investments	1	1	1
Other long-term assets	496	454	549
Total assets	6,613	6,882	7,807
Short-term debt	866	650	487
Accounts payable	283	285	333
Other current liabilities	566	394	485
Total current liabilities	1,714	1,329	1,305
Total long-term debt	0	0	0
Other liabilities	20	190	147
Share capital	1,834	1,834	1,834
Retained earnings reserve	2,933	3,409	4,381
Shareholders' equity	4,879	5,362	6,355
Minority interest	0	0	0
Total liabilities & equity	6,613	6,882	7,807

Cash flow statement

(VNDbn)	12-19A	12-20E	12-21E
Pretax profit	1,309	920	1,462
Depreciation & amortisation	165	164	204
Tax paid	(247)	(78)	(117)
Other adjustments	(231)	(134)	(160)
Change in working capital	493	46	(612)
Cash flow from operations	1,489	917	776
Capex	(378)	(406)	(392)
Proceeds from assets sales	17	57	55
Others	(383)	180	(21)
Other non-current assets changes	0	(0)	0
Cash flow from investing activities	(743)	(169)	(358)
New share issuance	0	0	0
Shares buyback	(114)	0	0
Net borrowings	(403)	(217)	(162)
Other financing cash flow	0	0	0
Dividends paid	(185)	(367)	(367)
Cash flow from financing activities	(703)	(583)	(529)
Cash and equivalents at beginning of period	43	86	251
Total cash generated	43	165	(110)
Cash and equivalents at the end of period	86	251	141

Key ratios

	12-19A	12-20E	12-21E
Dupont			
Net profit margin	15.0%	11.6%	15.4%
Asset turnover	1.22	1.07	1.19
ROAA	18.3%	12.5%	18.3%
Avg assets/avg equity	1.45	1.32	1.25
ROAE	26.5%	16.4%	23.0%
Efficiency			
Days account receivable	66.0	56.6	64.1
Days inventory	81.5	89.1	92.9
Days creditor	16.3	17.3	17.5
Fixed asset turnover	5.42	4.44	4.74
ROIC	20.5%	14.0%	19.7%
Liquidity			
Current ratio	2.7	3.5	4.1
Quick ratio	1.9	2.4	2.7
Cash ratio	0.9	1.4	1.4
Cash cycle	131.1	128.4	139.5
Growth rate (yoy)			
Revenue growth	(15.1%)	(8.2%)	20.8%
Operating profit growth	(32.8%)	(24.9%)	58.6%
Net profit growth	(18.2%)	(28.7%)	59.8%
EPS growth	(18.2%)	(28.7%)	59.8%

Source: VND RESEARCH

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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.

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