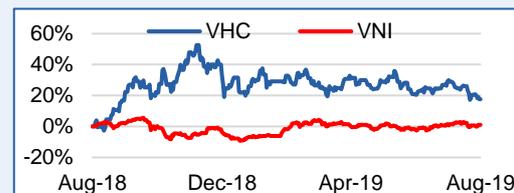


Industry:	Agricultural Products		<u>2018</u>	<u>2019F</u>	<u>2020F</u>	<u>2021F</u>
Report Date:	August 19, 2019	Rev Growth	13.7%	1.5%	10.5%	9.4%
Current Price:	VND83,000	EPS Growth	137.5%	10.8%	6.7%	10.6%
Target Price:	VND108,700	GPM	22.0%	22.2%	22.2%	22.2%
Upside to TP:	+31.0%	NPM	15.6%	17.0%	16.4%	16.6%
Dividend Yield:	4.8%	EV/EBITDA	4.1x	3.9x	3.5x	3.1x
TSR:	+35.8%	P/CFO	11.3x	4.9x	5.4x	4.1x
Rating:	BUY	P/E	5.4x	4.9x	4.6x	4.2x



Market Cap:	USD329.2mn		<u>VHC</u>	<u>Peers*</u>	<u>VNI</u>
Foreign Room:	USD214.4mn	P/E (ttm)	4.6x	5.4x	16.5x
ADTV30D:	USD600,000	P/B (curr)	1.7x	1.3x	2.4x
State Ownership:	0%	Net D/E	0.0x	0.9x	N/A
Outstanding Shares:	92.4mn	ROE	44.6%	24.4%	14.7%
Fully Diluted Shares:	92.4mn	ROA	29.9%	9.4%	2.5%
Three-year PEG	0.6				

Company Overview

Vinh Hoan is the leading global exporter of pangasius fish (Vietnamese catfish), specializing in aquaculture and fish processing. Its key markets include the US, EU and China. VHC's products account for about half of the US's pangasius imports and ~2% of its seafood consumption, per our estimate.

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Management optimistic about volume recovery

- We attended VHC's analyst meeting on August 16, 2019, which was hosted by the Chairwoman, CEO, and CFO. The main topics were VHC's H1 2019 results and its business outlook in H2 2019 and 2020.
- Our takeaways from the meeting were broadly in line with our expectation as management hinted at a recovery in the US market vs H1 2019 and continued robust performances in the EU and China.
- Management guidance for the EU market is more aggressive than our forecast while we project stronger growth in China vs management. Meanwhile, management's expectations for the US market in the H2 2019-2020 period largely align with our forecasts.
- We do not see potential material risks to our current forecasts and reiterate our BUY rating.

Audited earnings surged 70% YoY (unaudited results: 64% YoY) in H1 2019 thanks to widening price spreads and one-off divestment profit. Per management, VHC's selling prices in H1 2019 were similar to H1 2018 as it enjoyed high export prices in Q1 2019 while its export prices fell slower than raw fish prices in Q2 2019. Based on Agromonitor data, we estimate VHC's ASP dropped 17% YoY while raw fish prices slumped 27% YoY in Q2 2019. In addition, VHC recorded VND104bn (USD4.5mn) of financial income from selling its remaining 35% stake in associate company VDTG in June 2019.

Export volume declined in H1 2019 due to temporary factors while end-consumer demand for pangasius remains healthy, per VHC. Based on Agromonitor data, we estimate VHC's sales volume fell 12% YoY in H1 2019. Management attributes this softening of H1 2019 sales volume to the "wait-and-see" sentiment of American buyers ahead of the results of the US antidumping order review in late April 2019 in addition their destocking of inventory. That said, end-consumer demand for pangasius has remained robust in 2019, per VHC's customer surveys. Chinese orders were also curbed by an early Lunar New Year in Q1 2019 that pushed a portion of customer orders to Q4 2018. However, Chinese orders have already showed signs of recovery in Q2 2019.

VHC forecasts export volume to the US will bounce back starting in H2 2019 while exports to the EU and China will stay elevated. For full-year 2019, VHC expects its export volume to the US (59% of VHC's pangasius revenue in H1 2019) will dip by single digits while jumping 15% YoY in the EU (14% of VHC's pangasius revenue in H1 2019) along with a 30%-40% increase YoY in China (16% of VHC's pangasius revenue in H1 2019). Management stated that EU demand for pangasius

started to strengthen in late 2018, which we attribute to an improved image of pangasius and a whitefish shortage in this region in 2019. On the other hand, China is poised to remain a big growth driver for Vietnam's pangasius industry. According to VHC, China's younger generations prefer boneless pangasius fish to traditional thorny fish species such as carp and tilapia.

For 2020, VHC believes export volume to the US will bounce back at a double-digit rate from a low 2019 base partly thanks to materialized effects from trade tensions between the US and China. We note that the US imposed a 25% tariff on Chinese tilapia (a competing species to pangasius) in May 2019. Per management, it takes approximately a year for restaurants in the US to switch from Chinese tilapia to Vietnamese pangasius due to contractual terms. On the other hand, VHC expects its export volume to rise 10% YoY in the EU while soaring 25%-30% YoY in China in 2020. Part of VHC's upbeat view on the Chinese market is hinged on the country's potential pork shortage caused by African swine fever outbreaks. The impact of this is expected to become more visible in H2 2019, when Chinese consumption typically peaks.

VHC anticipates that export prices will bottom out in Q3 2019. As raw fish prices have rebounded so far in August 2019, VHC expects its selling prices will stop slipping MoM for the remainder of 2019. As demand typically peaks in late Q3 and Q4, VHC also eyes for a small selling price increase toward year-end 2019.

Collagen and gelatin revenue skyrocketed 240% YoY in H1 2019; ambitious targets for 2020. Per VHC, the collagen and gelatin segment contributed around 7%-8% to its revenue in H1 2019 and boasted a GPM of 30%-40%. VHC expects a capacity upgrade (from 2,000 tonnes to 3,500 tonnes per annum) that is slated to complete by the end of Q2 2020. Additionally, planned ASP hikes will bolster this segment's revenue and allow net profit to surge 60% YoY and 50% YoY, respectively, in 2020.

Tan Hung farming project is delayed to 2020; no negative impact on margins thanks to current low raw fish prices. Per VHC, this project's hatchery area has been completed; however, its farming area is behind schedule due to water treatment issues. Nevertheless, it should not have a negative impact on margins in the short term as VHC currently can buy raw fish from third-party farmers at more favorable prices compared to its in-house production costs. VHC now expects the Tan Hung project to start operation and post a 50% utilization rate in 2020.

In August 2019, VHC raised its stake in Vinh Hoan Fish Hatchery JSC from 45% to 96%. Per management, the cooperation between VHC and its partners in this project, including a shrimp hatchery company and a pangasius hatchery farmer, will stay the same despite this change in ownership structure. We view this as a positive development for VHC given the company's strategy of deepening its value chain and the level of control that the new stake brings about.

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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between - 10% and 10%
UNDERPERFORM	If the projected TSR is between - 10% and - 20%
SELL	If the projected TSR is - 20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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