



Vinh Hoan Corp (VHC) [BUY +20.9%]

Update Report

Industry: Agricultural Products
Report Date: February 13, 2020
Current Price: VND34,750

Current Target Price: VND40,500

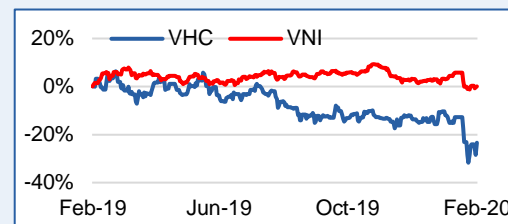
Previous Target Price: VND51,450

Upside to TP: +16.5%

Dividend Yield: 4.4%

TSR: +20.9%

	2019	2020F	2021F	2022F
Rev Growth	-15.1%	-7.6%	21.4%	11.9%
EPS Growth ⁽¹⁾	-17.8%	-34.0%	63.5%	14.6%
EPS Growth ⁽²⁾	-29.9%	-27.0%	62.9%	14.6%
GPM	19.5%	15.8%	19.8%	20.2%
NPM	15.0%	10.7%	14.4%	14.7%
EV/EBITDA	4.3x	5.7x	3.6x	3.1x
P/E ⁽²⁾	6.0x	8.3x	5.1x	4.4x



Market Cap:	USD271.3mn
Foreign Room:	USD177.6mn
ADTV30D:	USD217,000
State Ownership:	0%
Outstanding Shares:	181.9mn
Fully Diluted Shares:	181.9mn
Three-year PEG	0.8

	VHC	Peers	VNI
P/E (ttm)	⁽²⁾ 6.0x	4.1x	16.4x
P/B (curr)	1.3x	1.0x	2.2x
Net D/E	-0.1x	0.9x	N/A
ROE	26.5%	24.4%	13.4%
ROA	18.3%	11.1%	2.2%

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. In 2018, VHC's products accounted for about half of the US's pangasius imports and ~2% of its seafood consumption, per our estimates.

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Coronavirus undermines demand for pangasius

- We maintain BUY on VHC as we remain optimistic on the long-term outlook of the pangasius fish export industry. However, we cut our target price by 21%, which is primarily due to an expected softening in Chinese pangasius demand in 2020 amid the coronavirus (CoV) outbreak.
- Based on our base-case assumption that the CoV issue will fade by end-Q1 2020, we project Chinese demand will start to recover in Q2 2020.
- We cut 2020F/2021F/2022F NPAT-MI by 32%/5%/5% as we tone down our 2020F/2021F/2022F fillet volume assumptions by 7% on average and curtail our 2020F ASP by 7%.
- While 2020 is poised to be a challenging year, we believe VHC's valuation is compelling from a long-term perspective. Based on our forecasts, VHC currently trades at 2020F/2021F PERs of 8.3x/5.1x against its five-year average of 7.7x along with having a FY2019 dividend yield of 4.4%.
- Potential risks to our positive view: prolonged CoV issues extending demand weakness; new competitors enjoying favorable US anti-dumping tariffs.

CoV-driven disruptions to Chinese foodservice industry hurt pangasius demand. Restaurants in China are major customers of Vietnam's pangasius. As many Chinese restaurants – including big chains such as Haidilao – have temporarily closed their stores, we expect Vietnam's pangasius exports to China will plunge ~60% YoY in Q1 2020 before gradually strengthening in Q2 2020. We project Vietnam's/VHC's export volume to China will slump 17%/5% in 2020 (vs 19%/50%+ growth in 2019) before rebounding 20%/35% YoY in 2021F and 17%/30% YoY in 2022F.

We expect ASP to soften along with volume. We estimate China accounted for 33% of Vietnam's pangasius exports in 2019; therefore, weaker Chinese demand could cause a temporary supply surplus. We project VHC's ASP will fall 10% QoQ to USD2.6/kg in Q1 2020 before improving during H2 2020 to USD3.4/kg in Q4 2020. Overall, we project VHC's ASP to drop 18% YoY in 2020 before rebounding 7% YoY in 2021. In our view, CoV's impact on VHC should be less than competitors given its large exposure to the US market (~48% of VHC's 2019 export value) where it holds a duopoly position. Also, China's whitefish exports – competitors of pangasius – to the US could be dampened by CoV-driven supply-side disruptions (e.g., workforce shortage and travel restrictions).

Collagen and gelatin (C&G) outlook remains bright, bolstered by its 75% capacity expansion that is slated to commence operation in mid-2020. In our view, VHC's C&G segment will not be materially affected by CoV as (1) its customers are mainly packaged food and pharma companies and (2) VHC's C&G exports to China are insignificant (~10% of VHC's C&G exports in 2018, per our estimate). We project C&G's revenue and net profit to surge 61% and 60%, respectively, in 2020F.

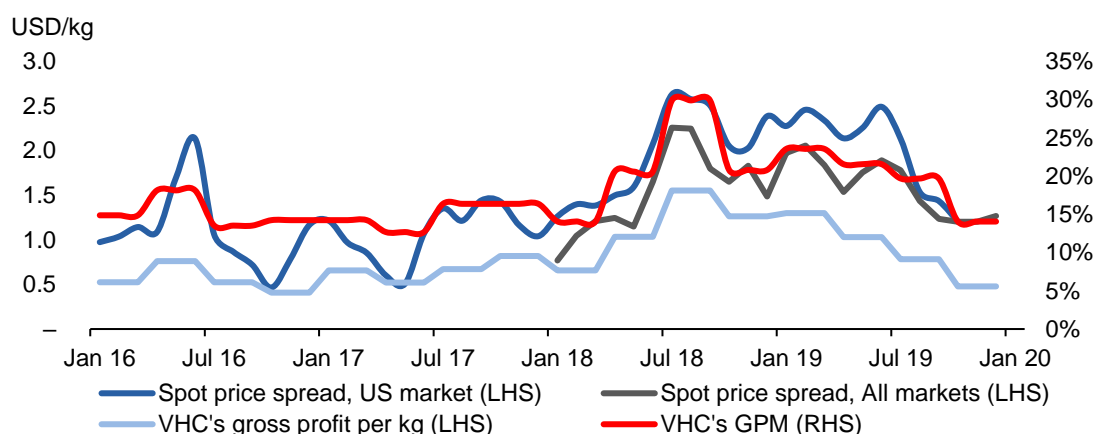
2019: Protracted US demand weakness dents earnings

Figure 1: VHC's 2019 results

VND bn	2018	2019	YoY	VCSC comments on 2019
Export value (USD mn)	378	332	-12%	Per Agromonitor data, we estimate VHC's pangasius export volume edged up 4% YoY on the back of strong demand from China, which more than offset a decline in the US due to the destocking of American buyers. Sluggish American demand weighed on VHC's pangasius ASP, which fell ~20% YoY, per our estimate. We estimate that C&G sales rocketed 89% YoY and contributed ~7% to VHC's revenue in 2019.
Revenue	9,271	7,867	-15%	
Gross profit	2,039	1,533	-25%	Due to softer export prices, GPM narrowed by 2.5 ppts YoY to 19.5% while the gross profit per kilogram of fillets slumped 29% YoY to USD0.8, per our estimate.
Selling expenses	-210	-252	20%	
G&A expenses	-144	-149	4%	
Operating profit	1,685	1,132	-33%	
Financial income	137	254	86%	VHC recorded VND105bn (USD4.5mn) in one-off profits in 2019 from its full divestment from associate company VDTG in June 2019. Prior to this transaction, VHC owned 35% of VDTG. 2018 expenses included VND69bn (USD3.0mn) in goodwill write-offs as a result of deconsolidating VDTG. In late Q1 2018, VHC sold down its stake in VDTG from 100% to 35%.
Financial expenses	-167	-93	-44%	
- o/w, interest expense	-56	-60	6%	
Associates	79	14	-82%	After entirely divesting from VDTG in June 2019, VHC will no longer recognize shared profits from VDTG.
Net other income/(loss)	-46	1	NM	
Profit before tax	1,688	1,309	-22%	
NPAT-MI	1,442	1,180	-18%	We estimate that C&G profit soared 166% YoY and accounted for 19% of NPAT-MI in 2019.
GPM	22.0%	19.5%		
SG&A as % of sales	3.8%	5.1%		
Operating margin	18.2%	14.4%		
NPAT-MI margin	15.6%	15.0%		
Effective tax rate	14.5%	9.8%		Thanks to tax incentives for the Thanh Binh Dong Thap (TBDT) factory (5% in 2019) and C&G business (0% in 2019).

Source: VHC, VCSC estimates

Figure 2: VHC's quarterly GPM vs monthly spot market spreads* during 2016-2019



Source: VHC, Agromonitor, VCSC. Data to December 2019. (*VCSC's estimated spreads between VHC's export prices and market raw fish prices, adjusted by conversion factors)

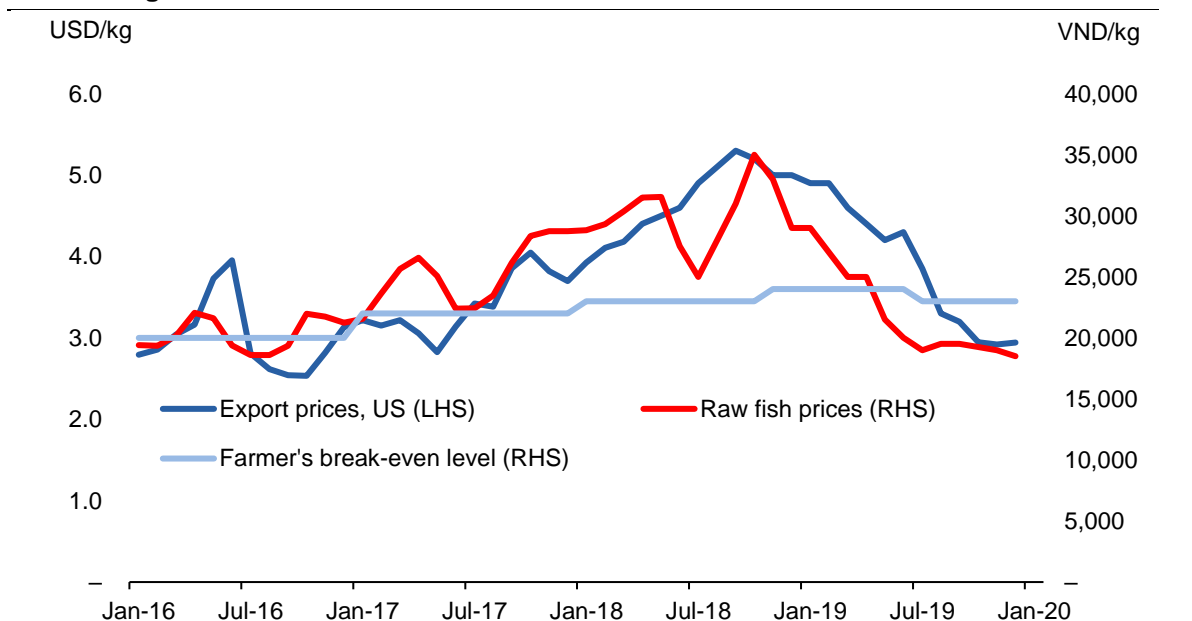
In 2019, Vietnam's pangasius exports sank 11% YoY to USD2bn with exports to the US nosediving 48% YoY to USD288mn, per the Vietnam Association of Seafood Exporters and Producers (VASEP). We attribute these sluggish results to the "wait-and-see" sentiment of American buyers ahead of the results of the US anti-dumping order review in late April 2019 as well as their destocking, per management. According to VHC, 2018's surge in pangasius export prices encouraged American buyers to load up on inventory while 2019's price correction prompted them to destock.

Due to softer prices in Q4 2019, exports to the EU slid 4% YoY to USD235mn in 2019 — although export volume has been recovering since late 2018.

Conversely, exports to China surged 25% YoY to USD663mn in 2019. We attribute this strong growth to China's rising preference for fish fillets amid the country's ongoing pork shortage due to the African swine fever outbreak.

Continued low export and raw fish prices point to a risk of a supply shortage once demand normalizes. In our view, the current low price environment should discourage production expansion among both farmers and fillet processing companies. Notably, raw fish prices are currently below the breakeven costs of farmers. Thus, we think the market could experience a supply deficit in late 2020 and 2021 if Chinese demand recovers, as per our expectation.

Figure 3: Monthly export prices to the US, raw pangasius prices* and farmers' break-even level during 2016-2019



Source: Agromonitor, VCSC. Data to December 2019. (*Raw fish is the main input material for VHC to make finished fillets)

2020 outlook: CoV to cripple pangasius exports to China

Figure 4: VCSC's 2020 forecasts

VND bn	2019	Old 2020F	New 2020F	New 2020F vs 2019	VCSC comments on new 2020F
Export Value*	332	342	303	-8%	
Fillet volume growth*	4.3%	15.2%	4.6%		<p>We cut our volume assumption by 7% as we expect CoV will dent Chinese demand for pangasius in 2020.</p> <p>We project VHC's export volume to China will slide 5% in 2020 (our previous forecast was for 34% growth) vs 50%+ growth in 2019. We expect VHC's long track record of product quality will continue to bolster its market share expansion in China.</p> <p>We forecast that VHC's export volume to the US will rise 10% in 2020 in accordance with our view that American demand for pangasius will strengthen in 2020 following their destocking in 2019.</p>
Fillet ASP growth*	-19.7%	-11.1%	-18.0%		<p>We curtail our ASP assumption by 7%. We assume 2020 ASP at USD2.8 per kilogram vs USD3.5 per kilogram in 2019.</p> <p>We expect VHC's ASP will fall to USD2.6 per kg in H1 2020 before rallying to USD3.4 in Q4 2020 as it is backed by high seasonal demand towards year-end, an expected recovery in Chinese demand as CoV issues wane, and a potential supply squeeze as we believe the current low raw fish prices will discourage farming activity.</p>
Revenue	7,867	8,545	7,270	-8%	
Frozen fillets*	7,333	7,711	6,409	-13%	<p>Volume +5%, ASP -18%.</p> <p>Per our estimates and forecasts, the US and China will account for 61% and 18% of VHC's fillet export revenue in 2020 vs 58% and 20% in 2019, respectively.</p>
C&G*	535	834	861	61%	<p>We assume new capacity will commence operation in mid-2020 and VHC's utilization of its total C&G capacity will reach 71% in 2020.</p>
Gross profit	1,533	1,651	1,147	-25%	
Frozen fillets*	1,285	1,281	750	-42%	GPM contraction amid a decrease in ASP.
C&G*	248	370	398	60%	We project C&G GPM will dwindle by 30 bps amid a widening contribution from gelatin, per management guidance.
Operating profit	1,132	1,215	777	-31%	
Financial income	254	149	141	-45%	2019 financial income includes VND105bn (USD4.5mn) in one-off profits from the VDTG divestment in June 2019.
Financial expenses	-93	-92	-74	-21%	
- o/w, interest expense	-60	-61	-47	-20%	
Associates	14	0	0	NM	After entirely divesting from VDTG in June 2019, VHC will no longer recognize shared profits from VDTG.
Net other income/(loss)	1	-5	0	NM	
Profit before tax	1,309	1,267	844	-36%	
NPAT-MI	1,180	1,140	780	-34%	
GPM	19.5%	19.3%	15.8%		
Frozen fillets*	17.5%	16.6%	11.7%		
C&G*	46.5%	44.4%	46.2%		
SG&A/revenue	5.1%	5.1%	5.1%		
Effective tax rate	9.8%	10.0%	7.7%		
NPM	15.0%	13.3%	10.7%		

Source: VHC, VCSC (*VCSC estimates)

Valuation

We maintain a 50/50 mix for DCF/PER to value VHC. As VHC's earnings growth could be volatile due to external factors, we believe a balanced mix between these two methods is reasonable.

For the PER method, we maintain a target PER of 8.5x. VHC's long trading history and a lack of valid comparable peers in the region are why we opt for VHC's historical PER instead of a peer-based PER.

Our DCF valuation yields a much higher fair value than the PER method as our PER valuation is based on 2020F EPS, which is a low base. Meanwhile, the DCF method captures our expectation of a recovery in both Chinese demand for pangasius and VHC's selling prices starting 2021.

Figure 5: Summary of VCSC's valuation for VHC

Method	Weighting	Fair value per share (VND)	Value contribution per share (VND)
DCF	50%	45,561	22,781
PER (8.5x 2020F EPS)	50%	35,523	17,762
Target price			40,500
2020F/2021F PER at TP			9.7x/ 5.9x

Source: VCSC

Figure 6: DCF valuation for VHC

Cost of capital	Current	Previous	FCFF (five years)	VND bn
Beta	1.2	1.2	PV of Free Cash Flows	2,399
Market risk premium	8.7%	8.7%	PV of Terminal Val (3% g)	5,179
Risk-free rate	4.5%	4.5%	PV of FCF and TV	7,577
Cost of Equity	15.3%	15.3%	+ Cash & ST investments	1,578
Cost of Debt	5%	5%	- Debt	-866
Debt %	20%	20%	- Minority Interest	0
Equity %	80%	80%	Equity Value	8,289
Corporate Tax%	15%	15%	Shares (millions)	181.9
WACC %	13.1%	13.1%	Value per share, VND	45,561

Source: VCSC

Figure 7: Cash flow projections for VHC

VND bn	2020F	2021F	2022F	2023F	2024F
Earnings before interest & tax	892	1,440	1,676	1,897	2,166
less: tax	-65	-119	-165	-190	-209
add: depreciation	204	245	293	345	395
less: net capex	-600	-728	-815	-906	-999
change in WC	-492	279	-280	-295	-302
Free cash flow	-61	1,116	709	851	1,050
PV of FCF	-54	873	490	521	568
Cumulative PV of FCF	-54	819	1,309	1,830	2,399

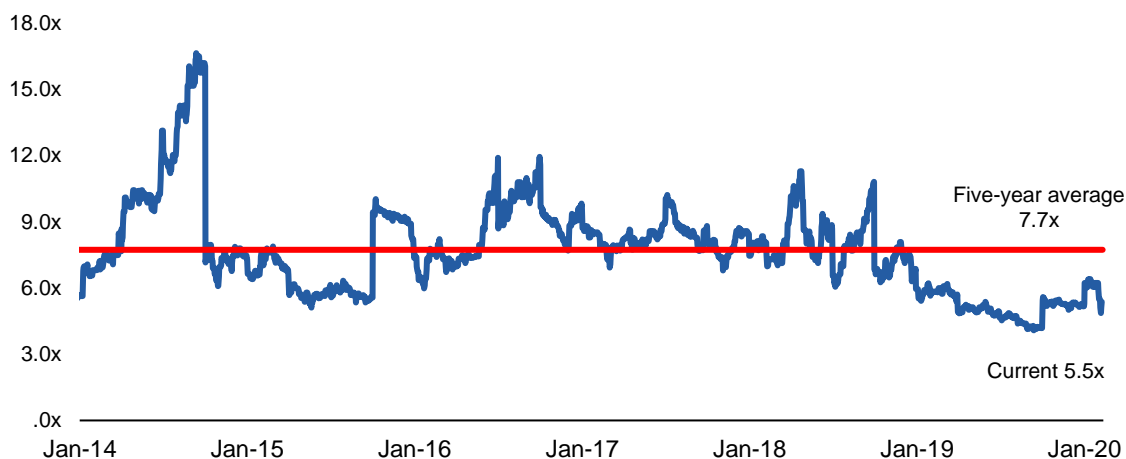
Source: VCSC

Figure 8: Sensitivity analysis of our target price for VHC in relation to DCF's WACC and terminal growth rate, ceteris paribus

TP (VND)	WACC				
	11.1%	12.1%	13.1%	14.1%	15.1%
Terminal growth (g)	1.0%	42,000	39,800	38,000	36,400
	2.0%	43,800	41,200	39,100	37,400
	3.0%	46,100	43,000	40,500	38,500
	4.0%	49,100	45,300	42,300	39,900
	5.0%	53,100	48,100	44,400	41,500

Source: VCSC

Figure 9: VHC's historical TTM PER (on a reported basis)



Source: Bloomberg

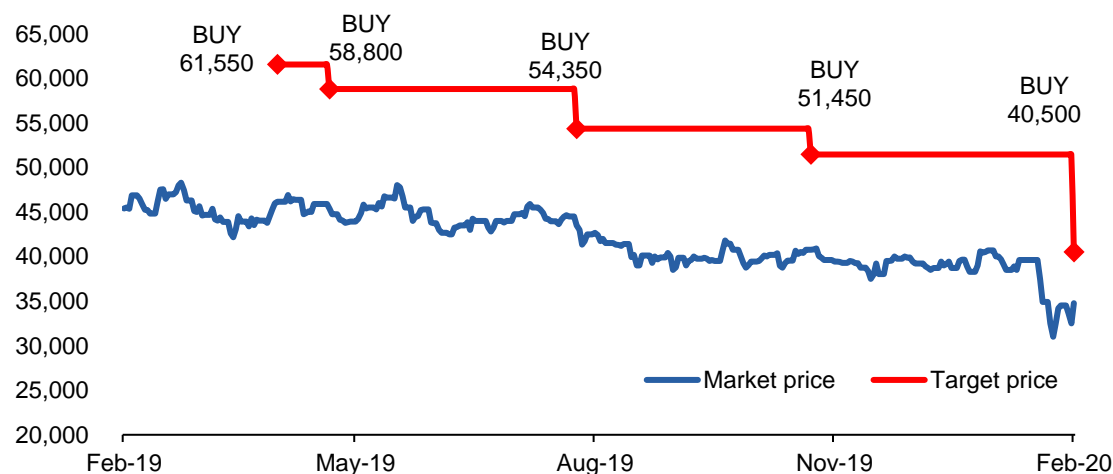
Figure 10: Vietnamese seafood companies

Company	Ticker	Market Cap (USD mn)	TTM Sales (USD mn)	YoY (%)	TTM NPAT (USD mn)	YoY (%)	Net D/E (x)	ROE (%)	ROA (%)	LQ PBR (x)	TTM PER (x)
Minh Phu Seafood	MPC	197.4	735.3	8.0	30.5	10.0	1.0	24.4	7.6	1.0	4.7
Nam Viet Corp	ANV	103.4	192.9	8.8	26.1	17.3	0.4	42.9	22.4	1.1	3.4
Hung Vuong Corp	HVG	79.2	169.9	-48.5	-20.5	NM	1.9	6.6	1.3	1.1	NA
Intl Dev & Inv	IDI	42.7	332.9	21.9	27.5	-50.8	0.9	17.0	6.7	0.4	3.2
Sao Ta Foods Jsc	FMC	52.3	159.7	-2.5	7.8	27.2	0.8	32.0	15.4	1.3	4.8
Cuulong Fish Jsc	ACL	21.0	56.3	-16.9	10.0	-39.3	1.0	35.5	16.4	0.7	3.5
Bentre Aqua Prod	ABT	18.0	15.5	-8.8	2.9	-27.0	0.0	13.9	11.1	1.0	8.6
Median		52.3	169.9	-2.5	10.0	-8.5	0.9	24.4	11.1	1.0	4.1
Mean		73.4	237.5	-5.4	12.1	-10.4	0.8	24.6	11.5	0.9	4.7
Vinh Hoan Corp	VHC	271.3	339.5	-15.1	50.7	-18.1	-0.1	26.5	18.3	1.3	5.5

Source: Bloomberg, VCSC

Recommendation history

Figure 11: Recommendation history; share prices (VND) adjusted for share splits



Source: Bloomberg, VCSC

Financial statements

P/L (VND bn)	2019	2020F	2021F	2022F
Revenue	7,867	7,270	8,825	9,878
COGS	-6,334	-6,123	-7,075	-7,886
Gross profit	1,533	1,147	1,751	1,992
Sales & Marketing exp	-252	-233	-282	-316
General & Admin exp	-149	-138	-167	-187
Operating Profit	1,132	777	1,301	1,489
Financial income	254	141	170	223
Financial expenses	-93	-74	-82	-92
- o/w, interest expense	-60	-47	-50	-57
Associates	14	0	0	0
Net other income/(loss)	1	0	0	0
Profit before Tax	1,309	844	1,389	1,619
Income Tax	-129	-65	-119	-165
NPAT before MI	1,180	780	1,270	1,455
Minority interests	0	0	0	0
NPAT less MI, reported	1,180	780	1,270	1,455
NPAT less MI, adjusted⁽¹⁾	1,072	780	1,270	1,455
EBITDA	1,298	981	1,546	1,781
EPS basic reported, VND	6,328	4,179	6,834	7,829
EPS basic adjusted ⁽¹⁾ , VND	5,744	4,196	6,834	7,829
EPS fully diluted ⁽¹⁾ , VND	5,744	4,196	6,834	7,829
DPS, VND	1,500	1,000	2,000	2,000
DPS/EPS (%)	26.1%	23.8%	29.3%	25.5%

(1) Adjusted for one-offs

Ratios	2019	2020F	2021F	2022F
Growth				
Revenue growth	-15.1%	-7.6%	21.4%	11.9%
Op profit growth	-32.8%	-31.4%	67.5%	14.4%
PBT growth	-22.4%	-35.5%	64.6%	16.5%
EPS growth, adjusted	-29.9%	-27.0%	62.9%	14.6%

Profitability ratios				
Gross Profit Margin	19.5%	15.8%	19.8%	20.2%
Op Profit, (EBIT) Margin	14.4%	10.7%	14.7%	15.1%
EBITDA Margin	16.5%	13.5%	17.5%	18.0%
NPAT-MI Margin, adj.	13.6%	10.7%	14.4%	14.7%
ROE	26.5%	15.2%	21.5%	20.9%
ROA	18.3%	11.4%	16.5%	16.1%

Efficiency ratios				
Days Inventory On Hand	81	90	81	76
Days Accts, Receivable	77	78	68	62
Days Accts, Payable	16	16	15	15
Cash Conversion Days	142	152	133	122

Liquidity/Solvency				
Current Ratio x	2.7	2.8	2.9	2.9
Quick Ratio x	1.9	1.9	2.1	2.1
Cash Ratio x	0.1	0.0	0.1	0.1
Debt / Assets	0.1	0.1	0.1	0.1
Debt / Capital	0.2	0.1	0.1	0.1
Net Debt / Equity	-0.1	-0.1	-0.2	-0.2
Interest Coverage x	19.0	16.4	25.9	26.1

Source: Company data, VCSC

B/S (VND bn)	2019	2020F	2021F	2022F
Cash & equivalents	86	63	117	137
ST investment	1,492	1,089	2,022	2,370
Accounts receivables	1,419	1,693	1,572	1,759
Inventories	1,414	1,594	1,551	1,728
Other current assets	201	186	226	252
Total Current Assets	4,612	4,624	5,487	6,247
Fix assets, gross	2,820	3,420	4,148	4,963
- Depreciation	-980	-1,174	-1,408	-1,690
Fix assets, net	1,840	2,246	2,740	3,273
LT investments	1	1	1	1
LT assets other	160	150	140	130
Total LT assets	2,001	2,398	2,881	3,404
Total Assets	6,613	7,022	8,368	9,651

Accounts payable	283	273	316	352
Short-term debt	866	837	967	1,078
Other ST liabilities	566	523	635	710
Total current liabilities	1,714	1,633	1,918	2,141
Long term debt	0	0	0	0
Other LT liabilities	20	20	20	20
Total liabilities	1,734	1,653	1,938	2,160

Preferred Equity	0	0	0	0
Share premium	224	224	224	224
Paid in capital	1,834	1,834	1,834	1,834
Retained earnings	2,819	3,309	4,371	5,431
Other equity	0	0	0	0
Minority interest	2	2	2	2
Total equity	4,879	5,369	6,430	7,491
Total liabilities & equity	6,613	7,022	8,368	9,651

Y/E shares out, mn	181.9	181.9	181.9	181.9
Y/E treasury shares, mn	1.4	1.4	1.4	1.4

Cash flow (VND bn)	2019	2020F	2021F	2022F
Beginning Cash Balance	43	86	63	117
Net Income	1,180	780	1,270	1,455
Dep, & amortization	165	204	245	293
Chge in Working Cap	323	-492	279	-280
Other adjustments	-180	-16	-26	-30
Cash from Operations	1,489	475	1,767	1,437

Capital Expenditures, net	-361	-600	-728	-815
Investments, net	-383	403	-933	-348
Cash from Investing	-743	-197	-1,661	-1,164

Dividends paid	-185	-273	-182	-364
Δ in Share Capital	-114	0	0	0
Δ in ST debt	-403	-29	130	111
Δ in LT debt	0	0	0	0
Other financing C/F	0	0	0	0
Cash from Financing	-703	-302	-52	-253

Net change in cash	43	-23	54	20
Ending Cash Balance	86	63	117	137

VCSC Rating System

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.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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